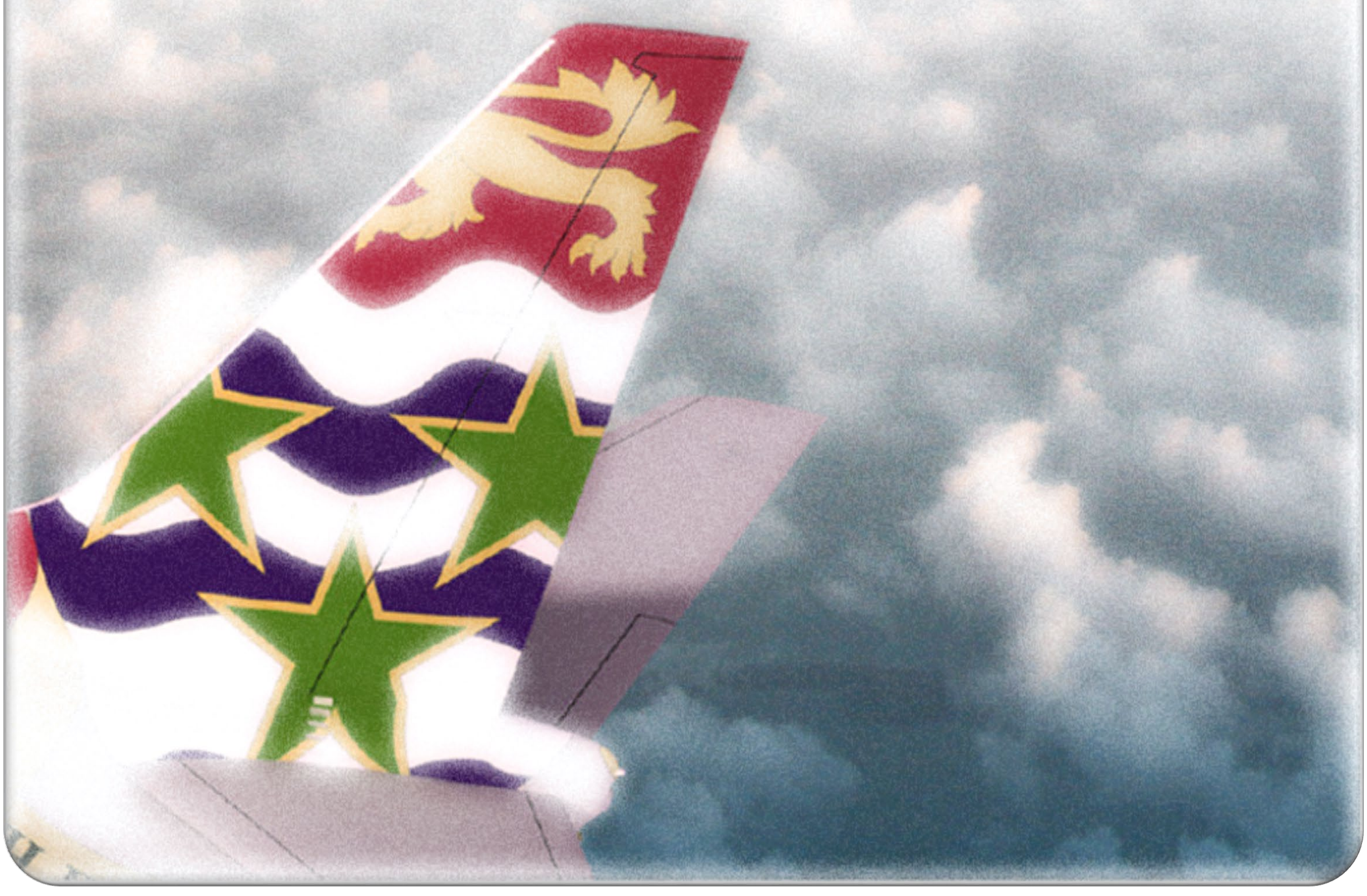
ANNUAL REPORT

For

Cayman Airways Limited

For the 2019

Financial Year



Cayman Airways Annual Report

31 December 2019

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	Director, Express Flight Operations
John Cunningham	Director, Express Maintenance & Engineering

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.

2019 Year in Review

The year 2019 was anticipated to have been one of progression with the program to replace the airline's B373-300 aircraft with Boeing 737-8Max aircraft. The year was off to a solid start with the introduction of the Airline's first Max and new service to Denver was commenced utilizing the longer range of the Max aircraft.

However, on March 10, 2019, the tragic accident loss of Ethiopian Airlines flight 302, only some six months after the tragic loss of Lion Air flight 610, both operated by Boeing 737-8Max aircraft, resulted in Cayman Airways taking the immediate decision to withdraw its Max fleet of two aircraft from service. This grounding affected aircraft VP-CIW which was delivered in November 2018 and aircraft VP-CIX which was delivered in March 2019.

Subsequent to the Cayman Airways grounding of the Max fleet, other airlines and airworthiness authorities throughout the world, commenced a process of grounding the Max 8 aircraft, leading to a worldwide grounding by March 15, 2019. As Cayman Airways anticipated that the aircraft would remain grounded for a prolonged period of time, the airline immediately started to develop and implement an alternate plan to operate the aircraft with a reduced fleet of three Boeing 737-300 aircraft, which including taking measures to retain two of the 737-300 aircraft in service for the entire year, rather than retire or repurpose them as planned for 2019.

This scenario of having the Max aircraft grounded and having to retain the B737-300 aircraft in service as the primary aircraft, dominated the airline's decisions making process for the year, as the projected return to service of the Max aircraft became a moving target, leading to continuous adjustments with respect to maintenance arrangements necessary to support the B737-300 fleet. The airline would also find itself, at times, with an inadequate amount of aircraft to support its planned schedule, in addition to largely operating for the most part, with no aircraft redundancy, should any of the B737-300 aircraft have to be removed from service for any substantial period to accomplish necessary maintenance. In order to cope as best as possible, Cayman airways had to engage the use of other (chartered-wet leased) airlines to operate many of its flights.

Given that the grounding of the Max aircraft presented a completely unanticipated, and therefore unbudgeted scenario, the airline found itself in 2019 facing a myriad of extraordinary expenses, whilst still being faced with the expenses arising from the lease obligations associated with the Max aircraft. With the preceding in mind, Cayman Airways quickly arranged the legal support necessary to seek and obtain relief from Boeing and the Max aircraft Lessor, leading to suitable arrangements with the Lessor and Boeing to negate the expenses associated the Max leases for the entire period of grounding and to address some of the new and unplanned expenses being incurred by the wet leases and by the measures necessary to keep the B737-300 fleet operational beyond expectations. Whilst the costs of the max aircraft were largely negated, the airline was however unable to benefit from the additional capacity, increased fuel efficiency and enhanced reliability in comparison to the 737-300 aircraft, which necessarily resulted in a higher cost of operation than would have been the case, if the airline was operating the Max aircraft.

Outside of the issues facing the airline with respect to the B737-8Max groundings, the airline was able to substantially maintain its commercial and operational objectives, including successful launch of the Denver route in keeping with the airline's business plan. This route has performed as well as could have been expected for a new route, despite suffering from reduced capacity, given that for the most part, the flights were all operated with B737-300 aircraft, with reduced payloads necessary to avoid fuel stops when possible.

Looking Ahead

At fiscal year-end, the B737-8Max aircraft were still grounded. The airline's 8-month forward bookings projected some downward movement. The Company determined that the majority of this movement was due to the removal of the Chicago route for the winter 2020 season, the reduction in New York frequency from daily to 5x per week and the reduction in capacity of Denver due to the continued utilization of the B737-300s. As such, the airline will continue to take steps to generate passenger volume and facilitate revenue growth.

Oil prices throughout 2019 were generally lower than 2018, but had rebounded somewhat at year-end to approximately US$61 per barrel. With no specific driver to move oil prices (even OPEC output cuts gain limited price movement), the future of oil prices is somewhat uncertain. Cayman Airways continues to watch oil prices very carefully and will take steps necessary to minimize its exposure to volatile oil prices when appropriate.

In late 2019 and early 2020, the United States Government indicated a much harder approach to their relationship with Cuba. While the future impact of this approach is uncertain, it may provide opportunities for the operations of Cayman Airways and is being monitored carefully.

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.

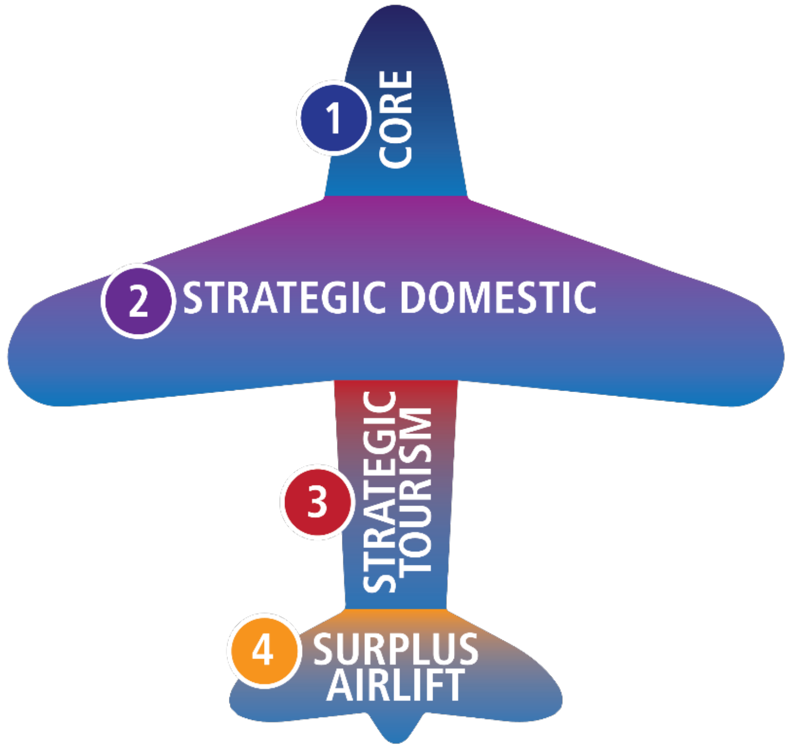
9. Contribute over US$200 million annually to the Cayman economy

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 each year 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 2019, 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 2018-19 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 two 737-8Max for its international service, as well as service to Cayman Brac. The Company provides fee-based passenger 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, Denver, 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

<u>Approved Strategic Goals and Objectives</u>

The key strategic goals and objectives (from an ownership perspective) for *Cayman Airways Limited* for the 2019 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 a 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 the 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 2019, 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 2019 achievements:

- Mission
    a. Cayman Airways continued to fulfil its mission, as National Airline, of seeking to be the premier choice of safe, reliable and enjoyable transportation to all markets it serves in the best interest of the Cayman Islands.
- Caymanian Employment
    a. 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.
- Cost Reductions and Increased Efficiencies
    a. The Airline took possession of its second Boeing 737-8 Max aircraft, as part of its jet fleet modernization plan aimed at increasing revenue while cutting costs. Due to the worldwide Max grounding, the Airline was unable to realize any of the benefits.
- Airline Framework to ensure adequate funding
    a. Due to the grounding of the Max aircraft, the Airline was unable to achieve its goal of adequate funding across its four categories of flight operations.
- Debt Refinancing
    a. In February 2019, the Airline restructured its existing bank debt with its sole lender (Royal Bank of Canada). This restructure allowed for a lower interest rate and savings to the Airline.
- CIG Supplementary Funding
    a. CIG worked to provide CAL with sufficient funding to manage its operation.
- Strategic Tool
    a. 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.

b. New service to Denver was launched in March 2019.

- Airline Partnerships

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

  b. 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.

- Stakeholder Partnerships

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

- Fuel

  a. Flight optimization and the "right-sizing" of domestic aircraft has resulted in optimized fuel consumption. The Max aircraft was set to deliver up to 25% fuel savings over the B737-300 jet service, but its grounding severely hampered that initiative. Continued utilization of B737-300 and subservice on routes such as Denver and daily service to New York (planned to utilize the Max aircraft) mean that the Airline saw an increase in fuel expense.

- IT System Efficiencies

  a. 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.

  b. 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.

  c. Cayman Airways introduced a new Revenue Accounting system in 2019 designed to significantly improve timeliness and reporting.

Ownership Performance Targets

The ownership performance targets achieved for *Cayman Airways Limited* for the 2019 financial year are as follows:

Financial Performance

Financial Performance Measure	2019 Actual CI$	2019 Budget CI$	Annual Variance CI$
Revenue from Cabinet	19,471,240	17,963,000	1,508,240
Revenue from ministries, portfolios, statutory authorities and government companies	1,400,000	1,381,000	19,000
Revenue from other persons or organisations	55,792,219	53,020,000	2,772,219
Surplus/deficit from outputs	76,663,459	72,364,000	4,299,459
Other expenses	83,213,659	71,425,000	11,788,659
Net Surplus/Deficit	(6,550,201)	939,000	(7,489,201)
Total Assets	47,867,208	39,205,000	8,662,208
Total Liabilities	(73,335,617)	(49,660,000)	(23,675,617)
Net Worth	(25,468,409)	(10,455,000)	(15,013,409)
Cash flows from operating activities	(1,496,089)	4,224,000	(5,720,089)
Cash flows from investing activities	(955,258)	(2,306,000)	1,350,742
Cash flows from financing activities	2,017,331	244,000	1,773,331
Change in cash balances	(434,016)	2,162,000	(2,596,016)

Explanation of Variances:

Performance Overview

The Airline ended the 2019 fiscal year with a Net Operating Profit of $469,584 (Budget: Net Operating Profit of $4,524,158), before Depreciation and Interest. This $4 million variation was largely due to a significant increase in the Airline's fuel ($2.95 million variation) and maintenance expenses ($2.5 million variation) as the airline coped with the grounding of the Max aircraft by flying its older and less efficient Boeing 737-300 aircraft along with purchasing subservice.

Passenger revenue grew 8% from the prior year, but fell $1.5 million short of budgeted expectations. Without having the Max aircraft in operation, the projected growth was unachievable as CAL was forced to operate its international service with a maximum of 122 seats instead of the anticipated 160 seats. To cover 2019 costs during the grounding, compensation of $3.4 million was obtained from the manufacturer and lessor, covering all fixed costs of the Max rental. Additionally, the excess from this compensation was able to partially offset fuel, subservice and maintenance costs incurred as a result of the grounding.

Other expenses grew as a result of increases in insurance, technical fees and passenger accommodation charges.

In addition to the variance in Net Operating performance, there was a variance from budget in both depreciation ($3.7 million variance) and interest ($1 million variance) as well, largely as a result of the Airline's adoption of the new lease standard. This was partially offset by an impairment reversal of $1.26 million.

Assets & Liabilities (and related cash flow)

Adoption of new lease treatment standard in 2019 resulted in significant swings to assets and liabilities as a new "right of use" asset had to be created along with lease commitments through to the end of the lease period.

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	2019 Actual CI$	2019 Budget CI$	Annual Variance CI$
Revenue (includes Government funding)	76,663,459	72,337,000	4,326,459
Total Expenses	83,213,659	71,425,000	11,788,659
Net Surplus/Deficit	(6,550,201)	939,000	(7,489,201)

Balance Sheet	2019 Actual CI$	2019 Budget CI$	Annual Variance CI$
Assets	47,867,208	39,205,000	8,662,208
Liabilities	(73,335,617)	(49,660,000)	(23,675,617)
Net Worth	(25,468,409)	(10,455,000)	(15,013,409)

Statement of Cash Flows	2019 Actual CI$	2019 Budget CI$	Annual Variance CI$
Net cash flows from operating activities	(1,496,089)	4,224,000	(5,720,089)
Net cash flows from investing activities	(955,258)	(2,306,000)	1,350,742
Net cash flows from financing activities	2,017,331	244,000	1,773,331

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.

Transaction	2019 Actual CI$	2019 Budget CI$	Annual Variance CI$
Equity Investments into *Cayman Airways Limited*	5,100,000	5,100,000	-
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:

2019 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.

CAYMAN AIRWAYS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

CAYMAN AIRWAYS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019

CONTENTS

Cayman Airways

STATEMENT OF RESPONSIBILITIES
31 December 2019

These 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 shareholders' equity, and cash flows of Cayman Airways Limited for the financial year ended 31 December 2019.

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 2019.
b) Fairly reflect the consolidated financial position as at 31 December 2019 and its comprehensive income for the year ended 31 December 2019.
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.

Mr. Philip Rankin Chairman Cayman Airways Limited	Mr. Paul Tibbetts Executive Vice President & CFO Cayman Airways Limited
Date: 4/6/21	Date: June 4, 2021

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AUDITOR GENERAL'S REPORT

To the Board of Directors of the Cayman Airways Ltd.

Opinion

I have audited the consolidated financial statements of the Cayman Airways Ltd (the "Company"), and its subsidiary (the "Group") which comprise the statement of financial position as at 31 December 2019 the statements of consolidated comprehensive income, changes in shareholder's equity and cash flows for the year ended 31 December 2019, and notes to the financial statements, comprising significant accounting policies and other explanatory information as set out on pages 8 to 30

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2019 and its financial performance and its cash flows for the year ended 31 December 2019 in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

I conducted my audit in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Company in accordance with the 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 it's 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$30,319,535 as at 31 December 2019, 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. Our 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 of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation and fair presentation 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.

AUDITOR GENERAL'S REPORT (continued)

Auditor's 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 auditor's 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 auditor's 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 my auditor's 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 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 Act (2020 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
Auditor General

4 June 2021
Cayman Islands

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	As at 31 December, 2019	2018
ASSETS		
Current assets		
Cash on hand and at bank	$ 2,598,945	$ 2,789,202
Trade and other receivables (Note 6)	3,220,176	3,531,531
Security deposits (Note 4)	72,679	500,000
Prepayments and other assets (Note 4)	968,858	931,441
Total current assets	6,860,658	7,752,174
Non-current assets		
Security deposits (Note 4)	5,031,976	3,875,875
Property, plant and equipment (Note 5)	45,092,137	25,620,311
Total non-current assets	50,124,113	29,496,186
TOTAL ASSETS	$ 56,984,771	$ 37,248,360
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Bank overdraft	$ 4,896,169	$ 4,569,740
Accounts payable and accrued expenses (Note 7)	28,272,653	26,480,180
Loans payable (Note 8)	2,551,667	5,527,325
Lease obligations (Note 15)	3,671,031	-
Unearned transportation revenue (Note 10)	7,033,147	9,440,931
Deferred income	-	236,000
Major maintenance provision (Note 9 and 21)	-	690,240
Frequent flyer programme (Notes 11 and 21)	2,940,000	3,340,000
Total current liabilities	49,364,667	50,284,416
Non-current liabilities		
Loans payable (Note 8)	19,877,823	15,557,050
Lease obligation (Note 15)	18,061,816	-
Total non-current liabilities	37,939,639	15,557,050
Total liabilities	87,304,306	65,841,466
Shareholder's deficit (Note 2)		
Share capital (Note 12)	38,376,215	38,376,215
Share subscriptions (Note 12)	110,887,175	104,815,746
Accumulated deficit	(179,582,925)	(171,785,067)
Total shareholder's deficit	(30,319,535)	(28,593,106)
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	$ 56,984,771	$ 37,248,360

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on June 4, 2021 by:

Chairman

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 2019	Year ended 31 December, 2018
Income		
Passenger revenue	$ 55,948,014	$ 51,850,014
Government output purchases (Note 16)	23,180,048	23,231,857
Cargo revenue	3,638,142	3,672,500
Handling revenue	1,897,963	1,949,530
Compensation (Note 15)	4,074,846	-
Other revenues	2,527,009	3,491,662
Total income	91,266,022	84,195,563
Expenses		
Salaries and wages (Note 13)	23,728,069	23,356,882
Other staff costs (Note 14)	6,933,661	6,259,984
Aircraft fuel	16,244,223	15,821,778
Aircraft lease expense (Note 15)	4,867,763	4,515,265
Commissions and related sales costs	3,925,519	3,694,849
Maintenance, materials and repairs	6,801,631	6,227,399
Landing and parking fees	2,250,387	2,173,492
Aircraft and passenger service	14,852,487	13,643,779
Advertising and promotion	308,455	306,482
Communications	883,701	810,173
Information technology	1,794,097	1,663,983
Professional expenses	948,048	739,021
General and administrative	2,444,489	2,404,380
Other operating expenses	4,724,464	4,078,221
Total expenses (excluding depreciation and interest)	90,706,994	85,695,688
NET INCOME/ (LOSS) BEFORE INTEREST AND DEPRECIATION	559,028	(1,500,125)
Interest expense (Notes 8 and 15)	1,788,993	909,394
Depreciation (Note 5 and 15)	8,067,893	7,611,721
Impairment (reversal)/ expense (Note 5)	(1,500,000)	3,851,517
NET LOSS FOR THE YEAR (NOTE 2)	$(7,797,858)	$(13,872,757)
TOTAL COMPREHENSIVE LOSS	$(7,797,858)	$(13,872,757)

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 12)	Share subscriptions (Note 12)	Accumulated deficit	Total
Balance at 31 December 2017	$ 38,376,215	$ 89,815,746	$(157,912,310)	$(29,720,350)
Net loss for the year	-	-	(13,872,757)	(13,872,757)
Share subscriptions (Notes 12 and 20)	-	15,000,000	-	15,000,000
Balance at 31 December 2018	38,376,215	104,815,746	(171,785,067)	(28,593,107)
Net loss for the year	-	-	(7,797,858)	(7,797,858)
Share subscriptions (Notes 12 and 20)	-	6,071,429	-	6,071,429
Balance at 31 December 2019	$ 38,376,215	$110,887,175	$(179,582,925)	$(30,319,535)

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, 2019	Year ended 31 December, 2018
Cash flows from operating activities		
Net loss for the year	$(7,797,858)	$(13,872,757)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	8,067,893	7,611,721
Interest expense	1,788,993	909,394
Impairment (reversal)/ expense	(1,500,000)	3,851,517
Loss on disposal of property, plant and equipment	56,307	419,592
Decrease in trade and other receivables	311,355	4,865,927
(Decrease)/ Increase in prepayments and security deposits	(766,197)	195,347
Decrease/ (Increase) in accounts payable and accrued expenses	1,792,473	(8,960,068)
Decrease in major maintenance provision	(690,240)	(5,451,171)
(Decrease)/ Increase in unearned transportation revenue	(2,407,784)	790,991
(Decrease)/ Increase in frequent flyer programme	(400,000)	500,000
Decrease in deferred income	(236,000)	(640,190)
Net cash used in operating activities	(1,781,058)	(9,779,697)
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 5)	(1,137,212)	(4,009,626)
Net cash used in investing activities	(1,137,212)	(4,009,626)
Cash flows from financing activities		
Share subscriptions (Note 12)	6,071,429	15,000,000
Repayment of loans (Note 8)	(2,154,884)	(2,715,625)
Proceeds from debt restructuring (Note 8)	3,500,000	-
Lease payments (Note 15)	(3,225,968)	-
Interest paid (Note 8 and 15)	(1,788,993)	(909,394)
Net cash provided by financing activities	2,401,584	11,374,981
Net decrease in cash and cash equivalents	(516,686)	(2,414,342)
Cash and cash equivalents - beginning of the year	(1,780,538)	633,804
Cash and cash equivalents - end of the year	$(2,297,224)	$(1,780,538)
Cash and cash equivalents comprise:		
Cash on hand and at bank	2,598,945	2,789,202
Bank overdraft	(4,896,169)	(4,569,740)
Cash and cash equivalents - end of year	$(2,297,224)	$(1,780,538)

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 25% (2018: 28%) of total revenue for the financial year.

Currently and historically, the Company has been structured in such a manner as to allow it to facilitate its requirements under 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 2019, the Company has realized a net loss of $7,797,858 (2018 net loss of $13,872,757). Cumulative shareholder's deficit as of 31 December 2019 was $30,319,535 (2018: $28,593,106).

Under the 2018-19 Ownership Agreement the Government agreed to provide equity injections amounting to $6.1 million (CI$5.1 million) (2018: $15m (CI$12.6 million) for the year ended 31 December 2019 (Note 12 and 20).

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

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

3. Summary of significant accounting policies

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

Basis of preparation: The 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 21. Actual results may differ from those estimates.

a) New standards and amendments adopted by the Company

The Company initially applied IFRS 16, Leases, from 1 January 2019 using the modified retrospective approach. Accordingly, the comparative information presented for 2018 has not been restated, as permitted under the specific transition provisions in the standard, and therefore continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies adopted by the Company under IFRS 16, IAS 17 and IFRIC 4 are disclosed below in Note 3 under "Leases". The adoption of this new standard resulted in the Company recognising right of use assets and related lease obligation liabilities in connection with former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application as well as those that do not meet the definition of a lease under the standard. Due to the timing of transition to IFRS 16 and contractual obligations at this time, no adjustment was required to the opening balance of retained earnings for the current period.

b) New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2019 and not early adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 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.

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.

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary (Note 1). These consolidated financial statements have been prepared in accordance with IFRS 10 – Consolidated Financial Statements.

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

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

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

Type of Property, plant and equipment	Estimated useful life
Owned aircraft airframe and related overhauls	
Airframe and related components*	12 months or 12,000 – 30,000 flight hours
Right-of-use assets	Lease term**
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
Other property, plant and equipment	3 – 15 years

Land is not depreciated.

* During the year ended 31 December 2019, management adjusted the useful economic life of each 737-300 in line with the fleet modernisation plan. This resulted in no additional depreciation being charged during the year (2018: $2,235,000).

** Right of use assets include aircraft and premises whose useful economic life is typically significantly longer than the lease terms entered into by the Company.

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

3. Summary of significant accounting policies (continued)

Depreciation (continued): 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.

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 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 the 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 capitalised 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.

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.

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.

3. Summary of significant accounting policies (continued)

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.

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.

3. Summary of significant accounting policies (continued)

Frequent flyer revenue (continued): 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.

Leases: A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Company assesses whether the contract meets three key evaluations, which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company;
- the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
- the Company has the right to direct the use of the identified asset throughout the period of use. The Company shall assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the Consolidated Statement of Financial Position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

3. Summary of significant accounting policies (continued)

Leases (continued): The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or Consolidated Statement of Comprehensive Income if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the Consolidated Statement of Comprehensive Income on a straight-line basis over the lease term. On the Consolidated Statement of Financial Position, right-of-use assets have been included in the *"Property, plant and equipment"* (Note 5) asset class. The lease obligation arising as a result of the right-of-use asset is disclosed as "*Lease Obligation*" on the Consolidated Statement of Financial Position.

Under IAS 17- comparative figures
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.

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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.

4. Security deposits & Prepayment and other assets

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

	As at 31 December, 2019			2018		
	Current	Non-current	Total	Current	Non-current	Total
Deposits for Aircraft & Engines	$ 70,000	4,211,450	$4,281,450	$ 500,000	3,061,450	$3,561,450
Deposits with Airports & Handlers	-	665,627	665,627	-	659,525	659,525
Other deposits and assets	2,679	154,899	157,578	-	154,900	154,900
Security Deposits	72,679	5,031,976	5,104,655	500,000	3,875,875	4,375,875
Prepayments and other assets	$ 968,858	-	$ 968,858	$2,366,788	-	$ 2,366,788

As at 31 December 2019, 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.

(Expressed in United States dollars)

4. Security deposits & Prepayment and other assets (continued)

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 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 2019 two (2018: one) lease arrangements were in existence and no maintenance reserve payments were expected to be recovered based on planned maintenance events during the remaining lease term.

5. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

	Aircraft & engines*	Rotables	Land & buildings*	Office & communications equipment	Other assets	Total
Cost						
Balance 1 January 2018	$32,579,678	$ 9,198,612	$ 8,945,214	$ 1,438,664	$ 2,030,318	$54,192,486
Additions	24,982,569	483,003	280,164	63,715	286,622	26,096,073
Disposals	(4,372,122)	(90,289)	-	-	-	(4,462,411)
Impairment reversal	1,500,000	-	-	-	-	1,500,000
Balance 31 December 2019	$54,690,125	$ 9,591,326	$ 9,225,378	$ 1,502,379	$ 2,316,940	$77,326,148
Depreciation						
Balance 1 January 2018	$17,730,060	$ 5,083,054	$ 3,296,231	$ 1,144,568	$ 1,318,263	$28,572,176
Charge for the year	6,812,822	570,312	279,906	136,523	268,330	8,067,893
Disposals	(4,372,122)	(33,937)	-	-	-	(4,406,059)
Balance 31 December 2019	$20,170,760	$ 5,619,429	$ 3,576,137	$ 1,281,091	$ 1,586,593	$32,234,010
At 31 December 2019	$34,519,365	$ 3,971,897	$ 5,649,241	$ 221,288	$ 730,347	$45,092,137

	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	(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 year	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)

*Included in the above are right-of-use assets over the following:

	At 31 December 2019
Aircraft & engines (Note 15)	$20,894,011
Land & buildings (Note 15)	129,274
At 31 December 2019	$21,023,285

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 2019 no impairment indicators were apparent in relation to the 737-300 fleet (2018: Impairment indicators apparent). An impairment reversal amounting to $1,500,000 arose as a result of market value assessments (2018: impairment loss amounting to $3,851,517 arose as a result of market value assessments).

6. Trade and other receivables

Trade and other receivables comprise:

	31 December, 2019	31 December, 2018
Trade receivables	1,610,125	1,901,223
Other receivables	1,677,970	1,730,741
Total, before provision for impairment	3,288,095	3,631,964
Less: provision for impairment	(67,919)	(100,433)
Net receivables	$ 3,220,176	$ 3,531,531

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 2019 trade receivables of $1,354,573 (2018: $1,433,240) were due from related parties, being other Government entities. Other receivables include amounts due from airline clearing houses and credit card companies in respect of tickets sold and unsettled credit card transactions, respectively.

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

	31 December, 2019	31 December, 2018
Balance, beginning of year	$ 100,433	$ 162,080
Increase/ (Decrease) in provision for impairment	65,000	(38,241)
Debts written off	(97,514)	(23,406)
Balance, end of year	$ 67,919	$ 100,433

During the year ended 31 December 2019, the Company wrote off $97,514 (2018: $23,406) relating to amounts due from customers.

(Expressed in United States dollars)

6. Trade and other receivables (continued)

The aging analysis of receivables and expected credit losses is as follows:

	31 December, 2019 Gross carrying amount	2019 Impairment	2018 Gross carrying amount	2018 Impairment
Current (not past due)	1,877,359	629	1,925,091	2,596
1-30 days past due	227,390	1,156	242,207	5,220
31- 60 days past due	52,895	823	132,579	6,057
61-150 days past due	55,962	1,581	62,382	4,244
151 -360 days past due	43,767	1,925	87,341	4,453
More than 360 days past due	1,030,722	61,805	1,182,364	77,863
		67,919		100,433
Total impaired		$ 67,919		$ 100,433
Total receivables	$3,288,095		$3,631,964	

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.

7. Accounts payable and accrued expenses

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

	31 December, 2019	2018
Trade accounts payable	$ 19,603,926	$ 16,194,058
Other accounts payable	6,913,251	7,402,327
Accruals	1,855,476	2,883,795
Total	$28,372,653	$ 26,480,180

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

	31 December, 2019	2018
Trade accounts payable	$11,982,083	$ 10,889,058
Other accounts payable	1,662,956	2,419,487
Accruals	586,418	707,918
Total	$14,231,457	$ 14,016,463

(Expressed in United States dollars)

7. Accounts payable and accrued expenses (continued)

At 31 December 2019 the Company was working with Government to address repayment of a component of the above debt owed to various related parties including $10.6 million (2018: $9.5 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 year 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 year end, the Company held the following loans, analysed by contractual maturity in effect as of 31 December, 2019 and 2018:

As at 31 December 2019:

	Within 1 year	Between 2 and 5 years	After more than 5 years	Total
Floating rate secured USD loans (i)	$ 2,551,667	$ 9,102,625	$ 10,775,198	$ 22,429,490
	$ 2,551,667	$ 9,102,625	$ 10,775,198	$ 22,429,490

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

(i) During the year ended 31 December 2019, the Company restructured its existing debt which resulted in $3m in proceeds being received. 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 2029. A promissory note in the amount of $500,000 was entered into during the year with the lessor due the worldwide MAX grounding. The note bears interest of 1% per annum.

During the year ended 31 December 2019, the Company incurred an interest expense of $822,181 (2018: $761,114).

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.

Letters of credit

A local bank has issued a number of letters of credit on behalf of the Company in the amount of $1,085,221 (2018: $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.

(Expressed in United States dollars)

9. Provisions

Major Maintenance Provision

During the period ended December 31, 2017 an incident occurred that resulted in a major maintenance event being necessary during the lease term of an operating lease. Therefore, a provision in the amount of $6,141,411 was made at period end for the major maintenance in respect of the operating lease agreement. At 31 December 2019 a provision in the amount of $Nil (2018: $690,240) remained as the Company made all contractual payments related to this event during the year.

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 2019, unearned transportation revenue recognised, that had been included in the contract liability balance at the beginning of the year, amounted to $9,440,931 (2018: $8,649,940).

11. Frequent flyer programme

Frequent Flyer Programme:

	31 December,	
	2019	2018
Current liability	$ 2,940,000	$ 3,340,000

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 2019, frequent flyer revenue recognised, that had been included in the contract liability balance at the beginning of the year, amounted to $1,740,906 (2018: $2,023,000).

(Expressed in United States dollars)

12. Share capital

	31 December, 2019	31 December, 2018
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 2019, the Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, contributed $6,071,429 (2018: $15,000,000) in equity injections (Note 20). Pursuant to these transactions, the Company intends, in the future, to issue 5,100 (2018: 12,600,000) 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 2019 and 2018, 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 2019, an amount of $110,887,175 (2018: $104,815,746) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

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 (2018: 10 positions). Total remuneration earned by key management during the year ended 31 December 2019 and 2018 is shown below. Total remuneration for the year includes medical and pension contributions, acting allowances and severance pay. There were no salary advances or loans issued to key management during the year (2018: $Nil).

	Year ended 31 December, 2019	Year ended 31 December, 2018
Salaries and other short-term employee benefits	$1,819,919	$1,771,524

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.

(Expressed in United States dollars)

13. Related party transactions and balances (continued)

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, 8, 13, 16 and 20). 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 2019, the Company made $1,103,197 (2018: $1,100,659) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Income.

15. Leases

The Company has leases for certain aircrafts and engines, premises and airport counter space. With the exception of short-term leases and leases of low-value underlying assets, leases recognised in the Consolidated Statement of Financial Position are those that meet the criteria of a lease under IFRS 16. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset. The Company classifies its right-of-use assets in a consistent manner to its property, plant and equipment (Note 5).

Leases of aircrafts and engines have a lease term ranging from 6 months to 6 years however most leases of property are now generally expected to be limited to 2 years or less except in special circumstances. Lease payments are generally fixed however the aircraft lease payments are subject to annual changes in an index (either RPI or CPI).

Each lease generally imposes a restriction that, unless there is a contractual right for the Company to sublet the asset to another party, the right-of-use asset can only be used by the Company. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Company is prohibited from selling or pledging the underlying leased assets as security. For leases over office buildings and premises the Company must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Company must insure items of property, plant and equipment and incur maintenance fees on such items in accordance with the lease contracts.

The table below describes the nature of the Company's leasing activities by type of right-of-use asset recognised on the Consolidated Statement of Financial Position:

Right-of-use Asset	No. of right-of-use assets leased	Range of remaining term	Average remaining lease term	No. of leases with extension periods	No. of leases with options to purchase	No. of leases with variable payments linked to an index	No. of leases with termination options
Aircraft and engines	2	4-5 years	4.5 years	2	Nil	Nil	2
Land and buildings	2	0.5-1 year	1 year	2	Nil	Nil	2

(Expressed in United States dollars)

15. Leases (continued)

No lease contracts contain a residual value guarantee. Return conditions included within lease contracts have been reflected in the related right-of-use asset and lease obligation calculation at inception, this amount is re-assessed if there is an indication that circumstances relating to those assets have changed since commencement of the leases.

Right-of-use assets

Additional information on the right-of use-assets by class of asset is as follows:

Asset	Carrying amount	Additions	Depreciation	Interest expense	Impairment
Aircraft and engines	$ 20,894,011	$ 24,693,537	$ 3,799,525	$ 693,975	$ Nil
Land and buildings	129,274	265,324	136,050	6,640	Nil
Total	$ 21,023,285	$ 24,958,861	$ 3,935,575	$ 700,615	$ Nil

The right-of-use assets are included in the same line item as where the corresponding underlying assets would be presented if they were owned.

Lease liabilities

Lease obligations are presented in the Consolidated Statement of Financial Position as follows:

	31 December, 2019	2018
Current	$ 3,671,031	$ Nil
Non-current	18,061,816	Nil
Total	$ 21,732,847	$ Nil

The following is a reconciliation of the financial statement line items from IAS 17 to IFRS 16 at 1 January 2019:

	As reported 31 December 2018	**IFRS 16 transition impact**	**After IFRS 16 adoption at 1 January 2019**
Aircraft & Engines	20,189,640	(8,050,829)	12,138,811
Land & Buildings	523,075	(268,574)	254,501
Total	20,712,715	(8,319,403)	12,543,006

	Aircraft & Engines	Land & Buildings
Operating lease commitments under IAS 17 at 31 December 2018	20,189,640	523,075
Assets not received*	(14,356,000	-
Lease term reassessed under IFRS 16	9,042,317	155,925
Effect of discounting the lease liability	(1,459,505)	(20,913)
Recognition exemption for leases with less than 12 months at transition	(1,277,640)	(403,586)
	12,138,811	254,501

*Effective 30 June 2016 the Company entered into various new lease arrangements in relation to multiple Boeing 737-8Max aircrafts. At 31 December 2019 the Company remained committed to two aircraft leases, which had not commenced. The total future cash outflows for leases that had not yet commenced amounted to approximately $24.7m.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using the incremental borrowing rate at 1 January 2019. The weighted-average rate applied was 3.25% as determined by the Cayman Islands Government.

(Expressed in United States dollars)

15. Leases (continued)

Minimum lease commitments outstanding at the end of the period pursuant to all lease agreements entered in are as follows as at 31 December 2019:

	Aircraft & Engines	Land & Buildings	Total
2020	$ 5,214,007	$ 265,009	$ 5,479,016
2021 to 2024	35,379,520	124,609	35,504,129
2025 and beyond	9,422,289	-	9,422,289
Total	$ 50,015,816	$ 389,618	$ 50,405,434

As at 31 December 2018:

	Aircraft & Engines	Land & Buildings	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

Lease payments not recognised as a liability
The Company has elected not to recognise a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

During the year ended 31 December 2019 the expense relating to payments not included in the measurement of the lease liability is as follows:

	Aircraft & Engines	Land & Buildings	Total
Short term leases	$ 4,643,981	$ 296,565	$ 4,940,545
Leases of low value	-	-	-
Variable lease payments (see below)	223,918	-	223,918
Total	$ 4,867,899	$ 296,565	$ 5,164,464

Variable lease payments not recognised in the related lease liability are expensed as incurred and include rentals based on the number of passengers transported from the use of the underlying asset. The variable lease payments are generally required by the lessor however such arrangements can be very cost effective where it is likely that the actual use of an asset will not exceed its anticipated use. During the year the variable lease payments in respect of the above leases were 2% of the total fixed lease payments.

As at 31 December 2019 the Company fleet included two leased Boeing 737-8Max aircrafts, which were grounded due to the Federal Aviation Administration grounding of all Boeing 737-8MAX aircrafts. 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 continues to closely monitor all developments with the 737-8Max aircrafts.

(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 2019, the Government paid Output Payments to the Company totalling $23,180,048 (2018: $23,231,857) 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 2019 and 2018, 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. 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, trade and other 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, 2019 and 2018, substantially all of the operating cash at bank is placed with two (2018: 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.

(Expressed in United States dollars)

17. Financial instruments risk (continued)

Credit risk (continued)

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% (2018: 75%). 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.

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 long-term debt:

	2019	2018
+ 1.00%	(224,295)	(210,844)
- 1.00%	224,295	210,844

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.

(Expressed in United States dollars)

17. Financial instruments risk (continued)

Liquidity risk (continued)

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

As at 31 December 2019:

	< 1 year	>1 < 5 Years	5 years +	Total
Cash outflows				
Bank overdraft	4,896,169	-	-	4,896,169
Accounts payable and accrued exp.	28,412,216	-	-	28,412,216
Loans payable	2,551,667	9,102,625	10,775,198	22,429,490
Interest payments on loans	642,906	1,877,412	703,383	3,223,701
Lease payments	5,479,016	35,504,129	9,422,289	50,405,434
Total cash outflows	$ 41,981,974	$ 46,484,166	$ 20,900,870	$109,367,010

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
Lease payments	5,824,217	14,888,498	-	20,712,715
Total cash outflows	$ 44,665,762	$ 31,265,053	$ -	$ 74,712,782

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.

18. Financial instruments - fair values

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

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

Financial instruments carried at other than fair value

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

19. Contingent liabilities

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

Section 47 of the Public Authorities Law (the "PAL") came into effect on 1 June 2019. The section requires public authorities to use the same salary scale as determined by the Cayman Islands' Cabinet and requires the remuneration of employees of a public authority to be adjusted to reduce any differences between the public authorities' and public service's pay grades.

The Cayman Islands Government's Portfolio of the Civil Service had not completed its evaluation of the Company's salary grade versus that of the public service. As such, management could not adjust for the impact of section 47 of the PAL in these financial statements. Management is also unable to derive an estimate of the potential impact of the evaluation on its financial statements. As such, no resultant provision has been made in these financial statements.

20. Capital management

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

The Financial Secretary of the Government has advised the Company, that pursuant to a Cabinet meeting of the Government on 20 April 2010, the Government has resolved to formally address the shareholder's deficiency by committing to make 120 monthly equity injections of $505,952 (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 2019, the Government paid to the Company an amount of $6,071,429 (2018: $15,000,000) in equity injections for the year.

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

21. Certain significant estimates

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

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.

Extension options to leases
When the Company has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

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.

22. Taxation

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

23. Subsequent Events

In March 2020, a worldwide pandemic resulted in significant travel restrictions across the world. Locally a directive by the Cayman Islands Government ("CIG") to stop all international flight operations and limit domestic flight operations to emergency/ essential use only occurred. The operational and financial impact to the Company has been significant however from April 2020 the fixed costs have been able to be covered through existing Purchase and Ownership agreements in place with the CIG. Output Payments arising from the Purchase agreement with CIG continued to be received by the Company throughout this period, to the reporting date, despite the enforced change in flight schedule arising due to the CIG enforced border closure.

In November 2020, the Federal Aviation Administration released a statement regarding the return to service of the 737 Max aircraft. The statement was accompanied by a notice to rescind the original grounding order provided specified design changes were made to all aircrafts of this type and approval sought and obtained for the pilot training program. The Civil Aviation Authority of the Cayman Islands rescinded the Cayman Islands grounding order in January 2021 and the Company began to operate the 737 Max aircraft as part of the fleet from February 2021.

In February 2021, the Company sold a 737 300, VP-CAY, in line with the Company fleet modernisation plan and in anticipation of the expected delivery of a third 737 Max aircraft. In March 2021, the Company received a third 737 Max aircraft in accordance with the lease contract entered into in 2016.

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