

CAYMAN AIRWAYS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

CAYMAN AIRWAYS LIMITED
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STATEMENT OF RESPONSIBILITIES
31 December 2020

These financial statements have been prepared by Cayman Airways Limited in accordance with the provisions of the Public Management and Finance Act (2020 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 Act (2020 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 2020.

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 2020.
- b) Fairly reflect the consolidated financial position as at 31 December 2020 and its comprehensive income for the year ended 31 December 2020.
- 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.

JUDE SCOTT

Mr. Jude Scott
Chairman
Cayman Airways Limited

Date: 14 March 2022

PAUL TIBBETTS

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

Date: 14 March 2022



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 2020 the statements of consolidated comprehensive income, changes in shareholder's equity and cash flows for the year ended 31 December 2020, 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 2020 and its financial performance and its cash flows for the year ended 31 December 2020 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 its work in accordance with International Standards on Auditing.

Emphasis of Matter

I draw attention to Note 2 of the consolidated financial statements, which indicates that the Group has a shareholder's deficit of US\$26,834,130 as at 31 December 2020, 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, CPFA
Auditor General

14 March 2022
Cayman Islands

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

(Expressed in United States dollars)

	As at 31 December,	
	<u>2020</u>	<u>2019</u>
ASSETS		
Current assets		
Cash on hand and at bank	\$ 1,263,107	\$ 2,598,945
Trade and other receivables (Note 6)	3,294,556	3,220,176
Security deposits (Note 4)	72,679	72,679
Prepayments and other assets (Note 4)	<u>661,379</u>	<u>968,858</u>
Total current assets	<u>5,291,721</u>	<u>6,860,658</u>
Non-current assets		
Security deposits (Note 4)	5,191,906	5,031,976
Property, plant and equipment (Note 5)	<u>35,234,355</u>	<u>45,092,137</u>
Total non-current assets	<u>40,426,261</u>	<u>50,124,113</u>
TOTAL ASSETS	<u>\$ 45,717,982</u>	<u>\$ 56,984,771</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Bank overdraft	\$ 2,662,465	\$ 4,896,169
Accounts payable and accrued expenses (Note 7)	18,813,364	28,272,653
Loans payable (Note 8)	2,590,623	2,551,667
Lease obligations (Note 15)	4,141,601	3,671,031
Unearned transportation revenue (Note 10)	4,753,497	7,033,147
Frequent flyer programme (Notes 11 and 21)	3,152,880	2,940,000
Major maintenance provision (Note 9 and 15)	<u>1,000,000</u>	<u>-</u>
Total current liabilities	<u>37,114,430</u>	<u>49,364,667</u>
Non-current liabilities		
Loans payable (Note 8)	22,594,941	19,877,823
Lease obligation (Note 15)	<u>12,842,741</u>	<u>18,061,816</u>
Total non-current liabilities	<u>35,437,682</u>	<u>37,939,639</u>
Total liabilities	<u>72,552,112</u>	<u>87,304,306</u>
Shareholder's deficit (Note 2)		
Share capital (Note 12)	38,376,215	38,376,215
Share subscriptions (Note 12)	114,925,265	110,887,175
Accumulated deficit	<u>(180,135,610)</u>	<u>(179,582,925)</u>
Total shareholder's deficit	<u>(26,834,130)</u>	<u>(30,319,535)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	<u>\$ 45,717,982</u>	<u>\$ 56,984,771</u>

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on 14 March 2022 by:

JUDE SCOTT

.....
Chairman

KENNETH JEFFERSON

.....
Director

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

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

(Expressed in United States dollars)

	Year ended	
	31 December <u>2020</u>	31 December, <u>2019</u>
Income		
Passenger revenue	\$ 17,104,843	\$ 55,948,014
Government output purchases (Note 16 and 21)	43,334,118	23,180,048
Cargo revenue	4,015,650	3,638,142
Handling revenue	903,313	1,897,963
Compensation (Note 15)	5,924,265	4,074,846
Other revenues	<u>1,280,003</u>	<u>2,527,009</u>
Total income	<u>72,562,192</u>	<u>91,266,022</u>
Expenses		
Salaries and wages (Note 13)	25,551,486	23,728,069
Other staff costs (Note 14)	4,768,823	6,933,661
Aircraft fuel	4,863,659	16,244,223
Aircraft lease expense (Note 15)	3,376,318	4,867,763
Commissions and related sales costs	994,069	3,925,519
Maintenance, materials and repairs	5,319,223	6,801,631
Landing and parking fees	549,467	2,250,387
Aircraft and passenger service	5,511,150	14,852,487
Advertising and promotion	43,624	308,455
Communications	761,624	883,701
Information technology	1,854,410	1,794,097
Professional expenses	586,896	948,048
General and administrative	2,061,325	2,444,489
Other operating expenses	<u>3,005,850</u>	<u>4,724,464</u>
Total expenses (excluding depreciation and interest)	<u>59,247,924</u>	<u>90,706,994</u>
NET INCOME/ (LOSS) BEFORE INTEREST AND DEPRECIATION	13,314,268	(559,028)
Interest expense (Notes 8 and 15)	1,181,156	1,788,993
Depreciation (Note 5 and 15)	11,109,093	8,067,893
Impairment (Note 5)	<u>1,576,704</u>	<u>(1,500,000)</u>
NET LOSS FOR THE YEAR (NOTE 2)	<u>\$ (552,685)</u>	<u>\$ (7,797,858)</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (552,685)</u>	<u>\$ (7,797,858)</u>

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

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S DEFICIT

(Expressed in United States dollars)

	<u>Share capital</u> <u>(Note 12)</u>	<u>Share</u> <u>subscriptions</u> <u>(Note 12)</u>	<u>Accumulated</u> <u>deficit</u>	<u>Total</u>
Balance at 31 December 2018	\$ 38,376,215	\$ 104,815,746	\$(171,785,067)	\$(28,593,106)
Net loss for the year	-	-	(7,797,858)	(7,797,858)
Share subscriptions (Notes 12 and 20)	<u>-</u>	<u>6,071,429</u>	<u>-</u>	<u>6,071,429</u>
Balance at 31 December 2019	38,376,215	110,887,175	(179,582,925)	(30,319,535)
Net loss for the year	-	-	(552,685)	(552,685)
Share subscriptions (Notes 12 and 20)	<u>-</u>	<u>4,038,090</u>	<u>-</u>	<u>4,038,090</u>
Balance at 31 December 2020	<u>\$ 38,376,215</u>	<u>\$ 114,925,265</u>	<u>\$(180,135,610)</u>	<u>\$(26,834,130)</u>

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

CAYMAN AIRWAYS LIMITED**CONSOLIDATED STATEMENT OF CASH FLOWS**

(Expressed in United States dollars)

	Year ended	
	31 December, <u>2020</u>	31 December, <u>2019</u>
Cash flows from operating activities		
Net loss for the year	\$(552,685)	\$(7,797,858)
Adjustments to reconcile net profit/(loss) to net cash used in operating activities:		
Depreciation	11,109,093	8,067,893
Interest expense	1,181,156	1,788,993
Impairment	1,576,704	(1,500,000)
Loss on disposal of property, plant and equipment	180,663	56,307
Decrease in trade and other receivables	(74,380)	311,355
Increase/(Decrease) in prepayments and security deposits	147,549	(766,197)
(Increase)/ Decrease in accounts payable and accrued expenses	(9,459,289)	1,792,473
Increase/(Decrease) in major maintenance provision	1,000,000	(690,240)
(Decrease)/ Increase in unearned transportation revenue	(2,279,650)	(2,407,784)
Increase/(Decrease) in frequent flyer programme	212,880	(400,000)
Decrease in deferred income	<u>-</u>	<u>(236,000)</u>
Net cash provided by/ (used in) operating activities	<u>3,042,041</u>	<u>(1,781,059)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment (Note 5)	<u>(3,008,679)</u>	<u>(1,137,212)</u>
Net cash used in investing activities	<u>(3,008,679)</u>	<u>(1,137,212)</u>
Cash flows from financing activities		
Share subscriptions (Note 12)	4,038,090	6,071,429
Repayment of loans (Note 8)	(644,265)	(2,154,884)
Proceeds from debt restructuring (Note 8)	3,000,000	3,500,000
Lease payments (Note 15)	(4,348,165)	(3,225,968)
Interest paid (Note 8 and 15)	<u>(1,181,156)</u>	<u>(1,788,993)</u>
Net cash provided by financing activities	<u>864,504</u>	<u>2,401,584</u>
Net increase/ (decrease) in cash and cash equivalents	897,866	(516,686)
Cash and cash equivalents - beginning of the year	<u>(2,297,224)</u>	<u>(1,780,538)</u>
Cash and cash equivalents - end of the year	<u>\$(1,399,358)</u>	<u>\$(2,297,224)</u>
Cash and cash equivalents comprise:		
Cash on hand and at bank	1,263,107	2,598,945
Bank overdraft	<u>(2,662,465)</u>	<u>(4,896,169)</u>
Cash and cash equivalents - end of year	<u>\$(1,399,358)</u>	<u>\$(2,297,224)</u>

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

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

(Expressed in United States dollars)

1. Incorporation and activity

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

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

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

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

2. Going concern

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 60% (2019: 25%) 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 2020, the Company has realized a net loss of \$552,685 (2019 net loss of \$7,797,858). Cumulative shareholder's deficit as of 31 December 2020 was \$180,135,610 (2019: \$179,582,925).

Under the 2020-21 Ownership Agreement the Government agreed to provide equity injections amounting to \$4 million (CI\$3.4 million) (2019: \$6.1m (CI\$5.1 million) for the year ended 31 December 2020 (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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

(Expressed in United States dollars)

3. Summary of significant accounting policies

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

Basis of preparation: The 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, amendments and interpretations issued but not effective for the financial year beginning January 1, 2020 and not early adopted

Certain new standards, amendments and interpretations to existing standards issued to date are not yet effective for the consolidated financial statements of the Company for the year ended December 31, 2020 and have neither been applied nor early adopted in preparing these consolidated financial statements. The standards and interpretations currently in issue are not expected to be relevant to or impact the results of the Company.

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

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary (Note 1). 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 Loss. 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 Loss.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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

<u>Type of Property, plant and equipment</u>	<u>Estimated useful life</u>
Owned aircraft airframe and related overhauls	
Airframe and related components	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.

* 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.

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 Consolidated Statement of Comprehensive Loss 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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Aircraft maintenance (continued):

(b) Periodic major maintenance and overhauls (continued)

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

Trade and other receivables: Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost. At each reporting date, the Company shall measure the loss allowance on amounts due from trade and other receivables equal to the lifetime expected credit losses applying the simplified approach permitted by IFRS 9 of measuring credit losses of trade receivables and contract assets on lifetime basis from initial recognition. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to the Consolidated Statement of Comprehensive Loss.

Other assets: Where the Company expects a provision, recognised in accordance with IAS 37 “Provisions, contingent liabilities and contingent assets”, to be reimbursed under a contractual arrangement with a third party, the reimbursement is recognised as a separate asset but only when it is virtually certain that reimbursement will be received. Expenditure and the related reimbursement under such arrangement are netted in the Consolidated Statement of Comprehensive Loss.

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 Loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

Share capital and share subscriptions: Ordinary shares are classified as equity. Where funds are received from the Shareholder in respect of the issuance of shares, but where those shares are not yet issued to the Shareholder 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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2020

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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 Loss 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 Loss 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 Loss 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 Loss.

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

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

The frequent flyer programme in respect of the redemption under this programme is determined using various assumptions concerning the future behaviour of the participants. Those include the following assumptions:

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

Revenue received against the issuance of Sir Turtle Rewards points is deferred as a liability on the Consolidated Statement of Financial Position until the points are redeemed through a passenger being uplifted or expired due to inactivity. The frequent flyer programme is measured based on management’s estimates of the fair value of the expected awards for which the points will be redeemed. The fair value of the awards is reduced to take into account the proportion of points which are expected to expire.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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 Loss 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 Loss.

Expenses: Expenses are recognised in the Consolidated Statement of Comprehensive Loss 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).

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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Leases (continued): 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 Loss 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 Loss on a straight-line basis over the lease term. On the Consolidated Statement of Financial Position, right-of-use assets have been included in “*Aircraft & engines*” and “*Land and buildings*” asset classes. 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.

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

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

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

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

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

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

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Fair valuation (continued): 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,					
	2020			2019		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Deposits for Aircraft & Engines	\$ 70,000	4,336,450	\$4,406,450	\$ 70,000	4,211,450	\$4,281,450
Deposits with Airports & Handlers	-	700,556	700,556	-	665,627	665,627
Other deposits and assets	<u>2,679</u>	<u>154,900</u>	<u>157,579</u>	<u>2,679</u>	<u>154,899</u>	<u>157,578</u>
Security Deposits	<u>72,679</u>	<u>5,191,906</u>	<u>5,264,585</u>	<u>72,679</u>	<u>5,031,976</u>	<u>5,104,655</u>
Prepayments and other assets	\$ <u>661,379</u>	<u>-</u>	\$ <u>661,379</u>	\$ <u>968,858</u>	<u>-</u>	\$ <u>968,858</u>

At 31 December 2020, in connection with the Company’s leased aircraft arrangements (Note 15), the Company had placed deposits with the leasing agent as security in respect of its leasing obligations. The remainder of the security deposits represent various airport and ground handling deposits held by the airport handling agencies used by the Company to carry on its operations. These security deposits are available to the Company on the expiry the respective agreements.

Prepayments and other assets include prepayments for maintenance reserve payments only to the extent that they were expected to be recovered based on planned maintenance events during the lease term. The Company makes monthly payments to a maintenance reserve to the lessor as part of its 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 2020 three (2019: two) lease arrangements were in existence and limited maintenance reserve payments were expected to be recovered based on planned maintenance events during the remaining lease term.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

5. Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

	<u>Aircraft & engines*</u>	<u>Rotables</u>	<u>Land & buildings*</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost						
Balance 1 January 2020	\$54,690,125	\$ 9,591,326	\$ 9,225,378	\$ 1,502,379	\$ 2,316,940	\$77,326,148
Additions	2,622,439	225,000	-	48,349	112,891	3,008,679
Disposals	(14,194)	(2,411,655)	(97,034)	-	-	(2,522,883)
Impairment	(1,576,704)	-	-	-	-	(1,576,704)
Balance 31 December 2020	<u>\$55,721,666</u>	<u>\$ 7,404,671</u>	<u>\$ 9,128,344</u>	<u>\$ 1,550,728</u>	<u>\$ 2,429,831</u>	<u>\$76,235,240</u>
Depreciation						
Balance 1 January 2020	\$20,170,760	\$ 5,619,429	\$ 3,576,137	\$ 1,281,091	\$ 1,586,594	\$32,234,010
Charge for the year	8,546,573	1,963,692	254,399	115,828	228,600	11,109,093
Disposals	-	(2,245,273)	(96,945)	-	-	(2,342,218)
Balance 31 December 2020	<u>\$28,717,333</u>	<u>\$ 5,337,848</u>	<u>\$ 3,733,591</u>	<u>\$ 1,396,919</u>	<u>\$ 1,815,194</u>	<u>\$41,000,885</u>
At 31 December 2020	<u>\$27,004,333</u>	<u>\$ 2,066,823</u>	<u>\$ 5,394,753</u>	<u>\$ 153,809</u>	<u>\$ 614,637</u>	<u>\$35,234,355</u>
	<u>Aircraft & engines*</u>	<u>Rotables</u>	<u>Land & buildings*</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost						
Balance 1 January 2019	\$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	1,500,000	-	-	-	-	1,500,000
Balance 31 December 2019	<u>\$54,690,125</u>	<u>\$ 9,591,326</u>	<u>\$ 9,225,378</u>	<u>\$ 1,502,379</u>	<u>\$ 2,316,940</u>	<u>\$77,326,148</u>
Depreciation						
Balance 1 January 2019	\$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	<u>\$20,170,760</u>	<u>\$ 5,619,429</u>	<u>\$ 3,576,137</u>	<u>\$ 1,281,091</u>	<u>\$ 1,586,593</u>	<u>\$32,234,010</u>
At 31 December 2019	<u>\$34,519,365</u>	<u>\$ 3,971,897</u>	<u>\$ 5,649,241</u>	<u>\$ 221,288</u>	<u>\$ 730,347</u>	<u>\$45,092,137</u>

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

	At 31 December 2020	At 31 December 2019
Aircraft & engines (Note 15)	\$16,853,421	\$20,894,011
Land & buildings (Note 15)	18,699	129,274
Total	<u>\$16,872,120</u>	<u>\$21,023,285</u>

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 2020 impairment indicators were apparent in relation to the Twin Otter fleet (2019: No impairment indicators apparent). An impairment amounting to \$1,576,704 (2019: impairment reversal of \$1,500,000) arose as a result of market value assessments performed. The amount wholly relates to significant maintenance events previously capitalised in accordance with Company policy.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. Trade and other receivables

Trade and other receivables comprise:

	31 December, <u>2020</u>	<u>2019</u>
Trade receivables	2,093,580	1,610,125
Other receivables	<u>1,347,333</u>	<u>1,677,970</u>
Total, before provision for impairment	3,440,913	3,288,095
Less: provision for impairment	(<u>146,357</u>)	(<u>67,919</u>)
Net receivables	\$ <u>3,294,556</u>	\$ <u>3,220,176</u>

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 2020 trade receivables of \$1,277,828 (2019: \$1,354,573) 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, <u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 67,919	\$ 100,433
Increase in provision for impairment	78,438	65,000
Debts written off	(<u>-</u>)	(<u>97,514</u>)
Balance, end of year	\$ <u>146,357</u>	\$ <u>67,919</u>

During the year ended 31 December 2020, the Company wrote off \$Nil (2019: \$97,514) relating to amounts due from customers.

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

	31 December, <u>2020</u>		31 December, <u>2019</u>	
	Gross carrying amount	Impairment	Gross carrying amount	Impairment
Current (not past due)	1,619,007	-	1,877,359	629
1-30 days past due	230,615	2,237	227,390	1,156
31- 60 days past due	153,776	2,323	52,895	823
61- 150 days past due	114,180	3,334	55,962	1,581
151 -360 days past due	51,045	12,907	43,767	1,925
More than 360 days past due	1,272,290	125,556	1,030,722	61,805
		<u>146,357</u>		<u>67,919</u>
Total impaired		\$ <u>146,357</u>		\$ <u>67,919</u>
Total receivables	<u>\$3,440,913</u>		<u>\$3,288,095</u>	

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. Trade and other receivables (continued)

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,	
	<u>2020</u>	<u>2019</u>
Trade accounts payable	\$ 13,869,376	\$ 19,603,926
Other accounts payable	3,172,762	6,913,251
Accruals	<u>1,771,225</u>	<u>1,855,476</u>
Total	<u>\$18,813,364</u>	<u>\$ 28,372,653</u>

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

	31 December,	
	<u>2020</u>	<u>2019</u>
Trade accounts payable	\$10,833,784	\$ 11,982,083
Other accounts payable	-	1,662,956
Accruals	<u>818,769</u>	<u>586,418</u>
Total	<u>\$11,652,553</u>	<u>\$ 14,231,457</u>

At 31 December 2020 the Company was working with Government to address repayment of a component of the above debt owed to various related parties including \$9.4 million (2019: \$10.6 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 Loss.

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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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8. Loans payable

At year end, the Company held the following loans, analysed by contractual maturity in effect as of 31 December, 2020 and 2019:

As at 31 December 2020:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Floating rate secured USD loans (i)	\$ <u>2,590,623</u>	\$ <u>9,389,782</u>	\$ <u>13,205,159</u>	\$ <u>25,185,564</u>
	\$ <u>2,590,623</u>	\$ <u>9,389,782</u>	\$ <u>13,205,159</u>	\$ <u>25,185,564</u>

As at 31 December 2019:

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

(i) During the year ended 31 December 2020, the Company restructured its' existing debt which resulted in \$3m (2019: \$3.5m) 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 2031.

During the year ended 31 December 2020, the Company incurred an interest expense of \$373,986 (2019: \$822,181).

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 (2019: \$1,085,221). These are used as collateral for United States Customs bonds and credit account support. The letters of credit bear interest at a rate of 1% per annum.

9. Provisions

Major Maintenance Provision

Return conditions included within lease contracts (Note 15) have been reflected in the related right-of-use asset and a provision calculated at inception. This amount is re-assessed if there is an indication that circumstances relating to the return condition costs have changed since commencement of the leases.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

10. Unearned transportation revenue

Unearned revenue represents flight seats sold but not yet flown, a contract liability, and is included as a current liability in an unearned transportation liability account. Passengers are only able to make reservations up to a twelve-month period in advance of booking date. Consequently, all unearned transportation revenue is due within twelve months of the reporting date. It is released as income to the Consolidated Statement of Comprehensive Loss 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 2020, unearned transportation revenue recognised, that had been included in the contract liability balance at the beginning of the year, amounted to \$7,033,147 (2019: \$9,440,931).

11. Frequent flyer programme

Frequent Flyer Programme:

	<u>31 December,</u> <u>2020</u>	<u>2019</u>
Current liability	\$ <u>3,152,880</u>	\$ <u>2,940,000</u>

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 2020, frequent flyer revenue recognised, that had been included in the contract liability balance at the beginning of the year, amounted to \$269,368 (2019: \$1,740,906).

12. Share capital

	<u>31 December,</u> <u>2020</u>	<u>2019</u>
Authorised:		
50,000,000 Ordinary shares of CI\$1 each	CI\$ <u>50,000,000</u>	CI\$ <u>50,000,000</u>
Issued and fully paid:		
31,980,179 Ordinary shares of CI\$1 each	\$ <u>38,376,215</u>	\$ <u>38,376,215</u>

During the year ended 31 December 2020, the Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, contributed \$4,038,090 (2019: \$6,071,429) in equity injections (Note 20). Pursuant to these transactions, the Company intends, in the future, to issue 3,392 (2019: 5,100) 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 2020, 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 2020, an amount of \$114,925,265 (2019: \$110,887,175) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

CAYMAN AIRWAYS LIMITED

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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 11 positions (2019: 10 positions). Total remuneration earned by key management during the year ended 31 December 2020 and 2019 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 (2019: \$Nil).

	Year ended	
	31 December, 2020	31 December, 2019
Salaries and other short-term employee benefits	\$2,005,222	\$1,819,919

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

Due to the nature of the Company's purpose and its ownership by the Government, related party transactions occur throughout its entire operations. Other significant related party transactions and balances are disclosed throughout these financial statements (Notes 6, 7, 8, 12, 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 2020, the Company made \$1,077,829 (2019: \$1,103,197) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Loss.

CAYMAN AIRWAYS LIMITED

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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, each lease is reflected on the Consolidated Statement of Financial Position as a right-of-use asset and a lease liability. 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 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 purchase the underlying leased asset outright at the end of the lease, or 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:

At 31 December 2020:

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 years	4 years	2	Nil	Nil	2
Land and buildings	1	< 6months	3 months	1	Nil	Nil	1

At 31 December 2019:

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

Return conditions included within lease contracts have been reflected in the related right-of-use asset and a provision calculated 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.

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15. Leases (continued)

Right-of-use assets

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

For the year ended 31 December 2020:

Asset	Carrying amount	Additions	Depreciation	Interest expense	Impairment
Aircraft and engines	\$ 16,853,421	\$ -	\$ 4,195,198	\$ 622,321	\$ -
Land and buildings	<u>18,699</u>	<u>-</u>	<u>110,486</u>	<u>2,367</u>	<u>-</u>
Total	<u>\$ 16,872,120</u>	<u>\$ -</u>	<u>\$ 4,305,684</u>	<u>\$ 624,688</u>	<u>\$ -</u>

For the year ended 31 December 2019:

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

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,	
	2020	2019
Current	\$4,141,601	\$ 3,671,031
Non-current	<u>12,842,742</u>	<u>18,061,816</u>
Total	<u>\$ 16,984,343</u>	<u>\$ 21,732,847</u>

Effective 30 June 2016 the Company entered into various new lease arrangements in relation to multiple Boeing 737-8Max aircrafts. At 31 December 2020 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 \$26.1m.

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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 2020:

	<u>Aircraft & Engines</u>	<u>Land & Buildings</u>	<u>Total</u>
2021	\$ 6,695,166	\$ 19,497	\$ 6,714,663
2022 to 2025	31,134,074	-	31,134,074
2026 and beyond	<u>6,718,000</u>	<u>-</u>	<u>6,718,000</u>
Total	<u>\$ 44,547,240</u>	<u>\$ 19,497</u>	<u>\$ 44,566,737</u>

As at 31 December 2019:

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

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 2020 the expense relating to payments not included in the measurement of the lease liability is as follows:

	<u>Aircraft & Engines</u>	<u>Land & Buildings</u>	<u>Total</u>
Short term leases	\$ 1,881,883	\$ 248,282	\$ 2,130,165
Leases of low value	-	-	-
Variable lease payments (see below)	<u>1,494,435</u>	<u>-</u>	<u>1,494,435</u>
Total	<u>\$ 3,376,318</u>	<u>\$ 248,282</u>	<u>\$ 3,624,601</u>

During the year ended 31 December 2019:

	<u>Aircraft & Engines</u>	<u>Land & Buildings</u>	<u>Total</u>
Short term leases	\$ 4,643,981	\$ 296,565	\$ 4,940,546
Leases of low value	-	-	-
Variable lease payments (see below)	<u>223,918</u>	<u>-</u>	<u>223,918</u>
Total	<u>\$ 4,867,899</u>	<u>\$ 296,565</u>	<u>\$ 5,164,464</u>

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 less than 1% of the total fixed lease payments.

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15. Leases (continued)

As at 31 December 2020 the Company fleet included two (2019: two) leased Boeing 737-8Max aircrafts, which were grounded due to the Federal Aviation Administration grounding of all Boeing 737-8MAX aircrafts (Note 23). 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.

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
Strategic Domestic	Routes/Flights/Operations that provide good economic return or at least break-even
Strategic Tourism	Domestic Routes/Flights that are purchased by, and operated on behalf of, the Government
	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 2020, the Government paid Output Payments to the Company totalling \$43,334,118 (2019: \$23,180,048) 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. Additionally, the Company is required to file monthly 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.

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17. Financial instruments risk (continued)

Credit risk

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

The Company seeks to mitigate its credit risk on cash at bank by placing its cash and cash equivalents with reputable financial institutions. At 31 December, 2020 and 2019, substantially all of the operating cash at bank is placed with two (2019: two) financial institutions, being RBC Royal Bank (Cayman) Limited and Butterfield Bank (Cayman) Limited, which in the opinion of management are stable financial institutions. Management does not anticipate any material losses as a result of this concentration.

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

For trade customers, the Company performs adequate due diligence (including, but not limited to, independent credit ratings, assessment of credit quality, taking into account its financial position, past experience and other factors) on the stability of the customer and their repayment capabilities prior to extending credit. On an on-going basis, management regularly monitor the level of debts outstanding from customers to ensure that the risk of loss arising from default is minimised. All customers are generally granted contractual credit terms of 30 days; however, in practice, the level of credit days by customers is significantly greater. The majority of the customers making up the trade customer balance are various government agencies 79% (2019: 84%). 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:

	<u>2020</u>	<u>2019</u>
+ 1.00%	(251,856)	(224,295)
- 1.00%	251,856	224,295

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17. Financial instruments risk (continued)

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 meet its obligations as they fall due (Note 2).

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

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

As at 31 December 2020:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Bank overdraft	2,662,465	-	-	2,662,465
Accounts payable and accrued exp.	18,813,364	-	-	18,813,364
Loans payable	2,590,623	9,389,782	13,205,159	25,185,564
Interest payments on loans	309,690	893,217	276,414	1,479,321
Short term lease payments	6,714,663	31,134,074	6,718,000	44,566,737
Total cash outflows	\$ <u>31,090,805</u>	\$ <u>41,417,073</u>	\$ <u>20,199,573</u>	\$ <u>92,707,451</u>

As at 31 December 2019:

	<u>1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
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
Short term lease payments	5,479,016	35,504,129	9,422,289	50,405,434
Total cash outflows	\$ <u>41,981,974</u>	\$ <u>46,484,166</u>	\$ <u>20,900,870</u>	\$ <u>109,367,010</u>

Commodity price risk

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

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18. Financial instruments - fair values

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

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

Financial instruments carried at other than fair value

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

19. Contingent liabilities

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

20. Capital management

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

The Financial Secretary of the Government has advised the Company, that pursuant to a Cabinet meeting of the Government on 20 April 2010, the Government has resolved to formally address the shareholder's deficiency by committing to make 120 monthly equity injections of \$505,952 (CIS\$425,000) (or an amount as per the principal debt service agreement(s) then in effect) commencing 1 July 2010 until 30 June 2020. During the year ended 31 December 2020, the Government paid to the Company an amount of \$4,038,090 (2019: \$6,071,429) 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.

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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.

Government output purchases and grant income

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

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.

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23. Subsequent Events

Local directives by the Cayman Islands Government (“CIG”) to reduce all international flight operations and limit domestic flight operations to emergency/ essential use only continued through to September 2021. The operational and financial impact to the Company has been significant, however, 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 March 2021 and January 2022, respectively the Company received the third and fourth outstanding 737 Max aircrafts in accordance with the lease contracts entered into in 2016.

During 2021, the Company sold the 737 300 fleet VP-CAY and VP-CKW in line with the Company fleet modernisation plan. The VP-CKZ is currently in its final stage for transfer of ownership to complete the sale.

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