

CAYMAN AIRWAYS LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

CAYMAN AIRWAYS LIMITED
CONSOLIDATED BALANCE SHEET

(Expressed in United States dollars)

	<u>30 June 2008</u>	<u>30 June 2007</u>
ASSETS		
Current assets		
Cash and cash equivalents	4,895,851	3,585,263
Accounts receivable (Note 4)	4,358,770	4,618,921
Prepaid expenses	<u>4,131,971</u>	<u>2,245,235</u>
Total current assets	13,386,592	10,449,418
Property, plant and equipment, net (Note 6)	<u>19,654,515</u>	<u>19,015,880</u>
Total assets	<u>\$33,041,107</u>	<u>\$29,465,296</u>
 LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Bank overdraft	4,377,302	2,400,269
Accounts payable and accrued expenses (Note 5)	25,213,424	17,365,885
Unearned transportation liability	13,495,514	11,668,896
Current portion of long-term liabilities (Note 7)	<u>6,705,129</u>	<u>2,638,334</u>
Total current liabilities	<u>49,791,369</u>	<u>34,073,384</u>
Long-term liabilities (Note 7)	<u>33,390,716</u>	<u>37,102,114</u>
Total liabilities	<u>83,182,085</u>	<u>71,175,498</u>
Shareholder's deficit (Note 2)		
Share capital (Note 8)	38,376,215	38,376,215
Share subscriptions (Note 8)	23,840,163	23,840,163
Accumulated deficit	<u>(112,357,356)</u>	<u>(103,926,580)</u>
Total shareholder's deficit	<u>(50,140,978)</u>	<u>(41,710,202)</u>
Total liabilities and shareholder's deficit	<u>\$33,041,107</u>	<u>\$ 29,465,296</u>

Approved for issuance on behalf of Cayman Airways Limited Board of Directors by:

Director

Date

Director

Date

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED
CONSOLIDATED STATEMENT OF LOSS

(Expressed in United States dollars)

	<u>Year ended</u> <u>30 June 2008</u>	<u>Year ended</u> <u>30 June 2007</u>
Operating revenues		
Passenger	56,618,546	51,182,513
Cargo	4,143,687	4,342,677
Handling	2,534,684	2,381,151
Other	1,215,375	981,834
Gain on disposal of property, plant and equipment	<u>618,867</u>	<u>-</u>
Total operating revenues	<u>65,131,159</u>	<u>58,888,175</u>
Operating expenses		
Salaries and wages	19,043,060	17,996,270
Other staff costs	6,068,400	5,237,944
Aircraft fuel	23,125,685	15,019,176
Aircraft rentals	4,804,542	2,973,785
Commissions and related sales costs	4,794,199	4,205,729
Maintenance, materials and repairs	6,264,014	6,795,388
Landing and parking fees	2,381,205	1,988,305
Aircraft and passenger service	10,593,710	8,436,550
Advertising and promotion	1,048,324	654,707
Communications	808,401	1,584,966
General and administrative (Note 13)	2,602,470	3,964,294
Depreciation (Note 6)	2,353,932	2,499,708
Other operating expenses	<u>7,239,477</u>	<u>6,396,558</u>
Total operating expenses	<u>91,127,419</u>	<u>77,754,380</u>
Operating loss before non-operating items and Government subsidy	(25,996,260)	(18,866,205)
Non operating items		
Interest expense	(2,289,800)	(2,472,871)
Other (Note 9)	<u>-</u>	<u>(22,852)</u>
Loss before Government subsidy	(28,286,060)	(21,361,928)
Government subsidy (Note 2)	<u>19,855,284</u>	<u>11,727,384</u>
Net loss for the year	<u>\$(8,430,776)</u>	<u>\$(9,634,544)</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY

(Expressed in United States dollars)

	<u>Share capital</u>	<u>Share subscriptions</u>	<u>Accumulated deficit</u>	<u>Total</u>
Balance at 30 June 2006	38,376,215	20,990,163	(94,292,036)	(34,925,658)
Share subscriptions for the year	-	2,850,000	-	2,850,000
Net loss for the year	-	-	(9,634,544)	(9,634,544)
Balance at 30 June 2007	38,376,215	23,840,163	(103,926,580)	(41,710,202)
Share subscriptions for the year	-	-	-	-
Net loss for the year	-	-	(8,430,776)	(8,430,776)
Balance at 30 June 2008	<u>\$38,376,215</u>	<u>\$23,840,163</u>	<u>\$(112,357,356)</u>	<u>\$(50,140,978)</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS

(Expressed in United States dollars)

	<u>Year ended 30 June 2008</u>	<u>Year ended 30 June 2007</u>
Cash flows from operating activities		
Net loss for the year	(8,430,776)	(9,634,544)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	2,353,932	2,499,708
Gain on sale of property, plant and equipment	(618,867)	-
Loss on disposal of property, plant and equipment, net	-	22,852
(Increase)/decrease in accounts receivable	268,933	(1,143,206)
Increase in prepaid expenses	(1,886,736)	(229,949)
Increase in accounts payable and accrued expenses	7,847,539	1,785,501
Increase in unearned transportation liability	<u>1,826,618</u>	<u>1,777,279</u>
Net cash (used in)/ provided by operating activities	<u>1,360,643</u>	<u>(4,922,359)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,535,201)	(7,868,037)
Proceeds on disposal of property, plant and equipment	<u>1,152,097</u>	<u>9,500</u>
Net cash (used in)/provided by investing activities	<u>(2,383,104)</u>	<u>(7,858,537)</u>
Cash flows from financing activities		
Repayment of loans	(2,643,984)	(2,063,680)
Loan advance	3,000,000	8,255,000
Issuance of ordinary shares	<u>-</u>	<u>2,850,000</u>
Net cash provided by financing activities	<u>356,016</u>	<u>9,041,320</u>
Net decrease in cash and cash equivalents	(666,445)	(3,739,576)
Net cash, cash equivalents and bank overdraft at beginning of year	<u>1,184,994</u>	<u>4,924,570</u>
Net cash, cash equivalents and bank overdraft at end of year (Note 12)	<u>\$ 518,549</u>	<u>\$ 1,184,994</u>
Cash and cash equivalents comprise:		
Cash on hand and at bank	4,895,851	3,585,263
Bank overdraft	<u>(4,377,302)</u>	<u>(2,400,269)</u>
	<u>\$518,549</u>	<u>\$1,184,994</u>
Supplementary disclosure of cash flow information:		
Interest paid	<u>\$2,289,800</u>	<u>\$2,472,871</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

1. Incorporation and activity

Cayman Airways Limited (the "Company") is incorporated in the Cayman Islands and is wholly-owned by the Government of the Cayman Islands ("Government"). The Company's main activity is the provision of scheduled passenger and cargo air transportation to, from and within the Cayman Islands. The Company's registered office is 233 Owen Robert's Drive, George Town, Grand Cayman, B.W.I.

At 30 June 2008 the Company had 402 employees (2007: 359).

2. Going concern

Historically, the Company has been dependent upon the financial support of Government to allow it to continue as a going concern. At 30 June 2008 the Company's total liabilities exceeded total assets by US\$50,140,978 (30 June 2007: US\$41,710,202) and current liabilities exceeded its current assets by US\$36,404,777 (30 June 2007: US\$23,623,966), and the Company remains dependent on an annual subsidy and other financial support from Government to allow it to continue as a going concern. Government has indicated that its current policy is to continue to support the Company in the foreseeable future by the provision of an annual subsidy. For the year ended 30 June 2008, Government provided a general subsidy of US\$19.9 million (30 June 2007: US\$11.7 million) to Cayman Airways Limited and no additional subsidy for advertising and marketing. Government has also issued guarantees to the Company's principal bankers to secure borrowings aggregating up to US\$47.5 million (2007: US\$47.5 million), which at 30 June 2008 comprised of four facilities: three Libor loans (2007: three) which have a five year term and an amortization period of 15 years (see Note 7); an overdraft facility of up to US\$2.2 million (2007: US\$2.2 million); and a letter of credit facility of US\$625,000 (2007: US\$625,000). The Government has also issued two guarantees of US\$1.3 million each with respect to Cayman Airways' lease of two aircrafts from International Lease Finance Corporation.

These consolidated financial statements 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.

3. Accounting policies

The Company's financial statements have been prepared under the historical cost convention and in accordance with International Financial Reporting Standards ("IFRS"). The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant accounting policies are:

Principles of consolidation: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cayman Airways Express, a company incorporated in the Cayman Islands. All significant intercompany accounts and transactions have been eliminated on consolidation.

Passenger revenue: Passenger ticket sales are initially recorded as a current liability in an unearned transportation liability account until transportation is provided. This current liability is released as revenue is earned, sales are refunded, or billings from other airlines are received.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

3. Accounting policies (continued)

Government subsidy: The Government subsidy is a non-refundable operating subsidy and is recognised in the statement of loss during the year to which it relates.

Aircraft maintenance:

(a) Routine maintenance and annual periodic maintenance

All routine aircraft maintenance is expensed as incurred. These estimated costs are recorded as maintenance, materials and repairs in the statement of loss.

(b) Periodic major maintenance and overhauls

Liability for overhauls and periodic major maintenance is recognised at the time the Company becomes obligated for such costs. The actual cost of periodic major maintenance and overhauls is capitalized and depreciated over the estimated useful life (which will normally be the expected interval to the next scheduled major maintenance or overhaul).

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. The Company capitalises borrowing costs which are directly attributable to the acquisition of an asset and which are incurred in respect of the period of time before an asset is introduced in to use or service.

Property, plant and equipment and other long lived, non-current assets, are reviewed annually at each balance sheet date for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets whose carrying values exceed their recoverable amount are written down to the recoverable amount, being the higher of market value or value in use (on a discounted cash flow basis), and the resulting impairment loss recorded in the statement of operations. 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 statement of operations.

Depreciation: Property, plant and equipment are depreciated to estimated residual value using the straight-line method over their estimated useful lives as follows:

<u>Type of Property, plant and equipment</u>	<u>Estimated useful life</u>
Aircraft airframe and related overhauls	
Airframe and related components	113 - 250 months
D checks and landing gear	21,000 flight hours or 105 months
Aircraft engines and related overhauls	
Engine shop visit 1	9,000 flight hours
Engine shop visit 2	4,500 flight hours
Limited life parts	20,000 cycles
Other property, plant and equipment:	
Buildings	20 - 50 years
Flight equipment	10 years
Other property, plant and equipment	3 - 5 years

The estimated residual value for the airframes is US\$250,000 per aircraft. The residual value for the aircraft engines is US\$50,000 (2007: US\$50,000) per engine. The residual value for flight equipment is 5%. All other property, plant and equipment have no salvage value.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

3. Accounting policies (continued)

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

Flight equipment held for sale: Flight equipment held for sale is carried at the lower of cost and management's estimate of net realisable value. No depreciation is taken on the flight equipment held for sale.

Cash and cash equivalents: For the purpose of the statement of cash flows, cash and cash equivalents includes balances with bankers, all of which are on demand or at short notice, net of short-term overdrafts.

Foreign currency translation: The accounting records of the Company are maintained in United States dollars. Monetary assets and liabilities in a foreign currency are translated into United States dollars at the prevailing rates of exchange at year end. 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\$1.00: CI\$0.84.

Employee benefits: In accordance with the Cayman Islands National Pensions Law, 1996 (the "Law") those of Company's employees that are located in the Cayman Islands participate in a defined contribution pension plan. Employees are required to contribute an amount up to 5% of their annual salaries to the plan during the year and the Company matches such contributions up to 5%. The Company's US based employees 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 in the statement of loss.

In addition, the Company's employees participate in a private health insurance plan. The Company contributes part of the cost and such contributions paid by the Company are expensed in the statement of loss.

4. Accounts receivable

Accounts receivable comprise:

	<u>30 June</u> <u>2008</u>	<u>30 June</u> <u>2007</u>
Trade receivables	5,087,829	5,526,090
Other- interline clearing accounts	-	173,019
Less: allowance for doubtful debts	<u>(729,059)</u>	<u>(1,080,188)</u>
Net accounts receivable	US\$ <u>4,358,770</u>	US\$ <u>4,627,703</u>

5. Accounts payable and accrued expenses

Accounts payable comprise:

	<u>30 June</u> <u>2008</u>	<u>30 June</u> <u>2007</u>
Trade payables	23,139,174	15,285,789
Accrued expenses	<u>2,074,250</u>	<u>2,080,096</u>
	US\$ <u>25,213,424</u>	US\$ <u>17,365,885</u>

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

6. Property, plant and equipment:

At June 30 2008:

	<u>Aircraft airframe, D Checks and related overhauls</u>	<u>Aircraft engines and related overhauls</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & Comm. equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost							
Balance 1 July 2007	\$ 16,101,205	\$ 7,052,105	\$ 6,865,902	\$ 8,206,022	\$1,654,647	\$ 2,369,835	\$ 42,249,716
Additions	2,900	1,709,088	606,610	449,264	566,158	201,181	3,535,201
* Disposals	<u>(3,878,304)</u>	<u>(1,724,440)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(5,602,744)</u>
Balance June 30, 2008	<u>12,227,201</u>	<u>7,035,350</u>	<u>7,472,512</u>	<u>8,655,286</u>	<u>2,220,805</u>	<u>2,571,016</u>	<u>40,182,173</u>
Depreciation							
Balance 1 July 2007	10,143,336	4,159,382	4,654,575	1,349,695	1,116,552	1,810,297	23,233,837
Charge for the year	584,334	820,921	499,920	118,116	173,093	157,548	2,353,932
* Disposals	<u>(3,742,064)</u>	<u>(1,318,047)</u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>(5,060,111)</u>
Balance June 30, 2008	<u>6,985,606</u>	<u>3,662,257</u>	<u>5,154,495</u>	<u>1,467,811</u>	<u>1,289,645</u>	<u>1,967,845</u>	<u>20,527,659</u>
Net book Value at June 30, 2008	<u>5,240,203</u>	<u>3,373,093</u>	<u>2,318,017</u>	<u>7,211,241</u>	<u>138,095</u>	<u>604,626</u>	<u>19,654,515</u>
Net book Value at June 30, 2007	<u>5,957,867</u>	<u>2,892,723</u>	<u>2,211,327</u>	<u>7,211,241</u>	<u>138,095</u>	<u>604,626</u>	<u>19,015,878</u>

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

6. Property, plant and equipment (continued):

At June 30, 2007:

	<u>Aircraft airframe, D Checks and related overhauls</u>	<u>Aircraft engines and related overhauls</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & Comm. equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost							
Balance 1 July 2006	15,964,074	6,775,274	\$ 6,007,598	\$ 2,526,272	\$1,050,781	\$ 2,135,938	\$ 34,459,937
Additions	138,531	276,831	858,304	5,679,750	603,866	310,755	7,868,037
* Disposals	(1,400)	-	-	-	-	(76,858)	(66,734)
Balance June 30, 2007	<u>16,101,205</u>	<u>7,052,105</u>	<u>6,865,902</u>	<u>8,206,022</u>	<u>1,654,647</u>	<u>2,369,835</u>	<u>42,249,716</u>
Depreciation							
Balance 1 July 2006	9,054,124	3,679,170	4,154,655	1,231,579	963,252	1,697,254	20,780,036
Charge for the year	1,090,612	480,212	499,920	118,116	153,300	157,548	2,499,708
* Disposals	(1,400)	-	-	-	-	(44,507)	(45,907)
Balance June 30, 2007	<u>10,143,336</u>	<u>4,159,382</u>	<u>4,654,575</u>	<u>1,349,695</u>	<u>1,116,552</u>	<u>1,810,297</u>	<u>23,233,837</u>
Net book Value at June 30, 2007	<u>5,957,869</u>	<u>2,892,723</u>	<u>2,211,327</u>	<u>6,856,327</u>	<u>538,095</u>	<u>559,538</u>	<u>19,015,878</u>
Net book Value at June 30, 2006	<u>6,909,948</u>	<u>3,096,104</u>	<u>1,852,943</u>	<u>1,249,607</u>	<u>87,529</u>	<u>483,770</u>	<u>13,679,901</u>

* In the foregoing table, dispositions includes the gross cost and accumulated depreciation/amortization of periodic major maintenance and overhauls which reach the end of their useful lives (as defined in Note 3) in the reporting period.

In accordance with its accounting policy, the Company annually reviews its property, plant and equipment, as well as any other non-current assets, for impairment losses. Over the past few years many airlines have expanded their fleet by acquiring new generation aircraft and, as the aviation industry began to slow in 2000, many of these airlines began to offer their older aircraft, such as the Boeing 737-200, for sale. The excess supply of older aircraft was increased significantly as a result of the decrease in air travel immediately following September 11, 2001. As a result of the dramatic increase in supply of Boeing 737-200's for sale combined with limited demand, the estimate fair market value of the aircraft (as well as for other similar aircraft) has decreased significantly.

CAYMAN AIRWAYS LIMITED

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6. Property, plant and equipment (continued):

The results of the 2007 annual impairment review indicated that there has been no further decline in the market for the aircraft owned by the Company during the period ended 30 June 2008. Using the criteria established by IAS 36 ("Impairment of Assets"), effective for periods beginning on or after July 1, 1999, the Company determined that the carrying value of its aircraft was not higher than the recoverable amount (being the higher of market value or value in use on a discounted cash flow basis). Accordingly, the Company has not recorded an impairment loss for the year ended June 30, 2008 (30 June 2007: Nil).

Management have estimated the carrying value of the Company's aircraft based on advice from an external aviation consulting firm. However, given the current market for these types of aircraft, there remains significant uncertainty over the value attributed to the aircraft and ultimately any selling price obtained could be lower than the current carrying value.

7. Long-term liabilities

Future principle repayments of long-term liabilities for years ending 30 June are as follows:

	<u>2008</u>	<u>2007</u>
No later than 1 year	7,704,455	2,638,333
Later than 1 year and no later than 5 years	17,403,880	16,653,865
Later than 5 years	<u>14,987,510</u>	<u>20,448,250</u>
	US\$ <u>40,095,845</u>	US\$ <u>39,740,448</u>

All long-term liabilities relate to term loans held with the Royal Bank of Canada and First Caribbean International Bank.

In February 2004, the Royal Bank of Canada agreed to refinance the then existing debts and made additional funding available to the Company. The total credit facility is US\$47,502,333 and is comprised of three facilities. Facility one is an overdraft of US\$2,220,000 with interest payable at a floating rate equal to Royal Bank Prime per annum. This facility is repayable on demand. Facility two is available for letters of credit of US\$625,000 with interest payable at 1% per annum. Facility three comprises two Libor loans of (a) US\$23,602,333 and (b) US\$21,055,000 which have a five year term and an amortization period of fifteen years. A local bank is to participate for 50% (US\$10,527,500) for part (b) of the third facility. The interest rate on the term loans is floating at Libor + 1.25% per annum. In addition there is a standby fee of 1/8% on any drawdown portion of the second portion of facility three. The balance of the term loan will be drawn as required.

In July 2006, First Caribbean International Bank the Company agreed to fund the acquisition and modification two Twin Otter aircrafts previously leased. The total credit facility available is US\$4.2 million and is repayable in 10 years. The interest rate on the loan is floating at Libor + 75 basis points per annum. The loan is supported by an unconditional guarantee of the Cayman Islands Government.

During the year ended 30 June 2008, the Company entered into an agreement with Royal Bank of Canada (Cayman Islands) to obtain a temporary loan facility to a total value of US\$4,000,000 to be repaid in full by August 2008. This funding was obtained to provide funds for the payment of sundry payables. The loan was drawn down in two instalments, the first in February 2008 for US\$3,000,000 and the remainder of the facility taken subsequent to the year end in October 2008. The loan bore floating rate of interest priced at one month Libor plus 1.25% per annum. The loan was secured by way of guarantee from the Government.

Undrawn funding from lines of credit and committed loans amounted to approximately US\$1,000,000 at 30 June 2008 (2007: US\$25,000).

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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7. Long-term liabilities (continued)

The Royal Bank of Canada and City National Bank has issued letters of credit on behalf of the Company totaling US\$593,431 (2007: US\$800,000). These are used by an overseas bank as collateral for letters of credit issued by that bank on behalf of the Company in the same amount.

Government has issued guarantees to the Royal Bank of Canada to secure the Company's borrowings under the above facilities.

8. Share capital

	<u>30 June 2008</u>	<u>30 June 2007</u>
Authorised:		
50,000,000 ordinary shares of CI\$1 each	US\$ <u>60,000,000</u>	US\$ <u>60,000,000</u>
Issued and fully paid:		
31,980,179 ordinary shares of CI\$1 each	US\$ <u>38,376,215</u>	US\$ <u>38,376,215</u>

Share subscriptions represent amounts received from the Company's shareholder in respect of the future issue of shares. Share subscriptions are comprised of:

	<u>30 June 2008</u>	<u>30 June 2007</u>
451,000 (2007: 451,000) ordinary shares of CI\$1 each to be issued in exchange for assumption of Company's obligation to the Legal Department of the Cayman Islands Government	536,905	536,905
3,594,000 (2007: 3,594,000) ordinary shares of CI\$1 each to be issued in exchange for cash	4,040,476	4,040,476
12,884,803 (2007: 12,884,803) ordinary shares of CI\$1 each to be issued in exchange for assumption of Company's obligation to Civil Aviation Authority of the Cayman Islands.	15,339,052	15,339,052
1,844,525 (2007: 1,844,525) ordinary shares of CI\$1 each to be issued in exchange for assumption of Company's obligations to Customs Department of Cayman Islands Government.	2,195,863	2,195,863
80,085 (2007: 80,085) ordinary shares of CI\$1 each to be issued in exchange for assumption of Company's obligation to the Mosquito Research Control Unit.	<u>95,339</u>	<u>95,339</u>
Total	US\$ <u>22,207,635</u>	US\$ <u>22,207,635</u>

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2008

9. Other non-operating items

Other non-operating items comprise:

	30 June <u>2008</u>	30 June <u>2007</u>
Profit/(loss) on disposal of property, plant and equipment	-	<u>(22,852)</u>
	\$ -	\$ <u>(22,852)</u>

10. Lease commitments

(a) Premises

At 30 June 2008, future minimum lease payments under operating leases of office space were payable as follows:

	<u>Offices</u>
<u>2009</u>	94,670
2010	149,568
2011	<u>100,363</u>
	US\$ <u>344,601</u>

In addition to the above schedule of future minimum lease payments, the Company pays monthly rent expense to the Civil Aviation Authority of the Cayman Islands. The monthly rent of US\$35,000 is not reflected in the above schedule because there is not a formal operating lease agreement. The expense covers such rentals as airport ticket counters, office space and guest services areas; hangar and administration building land rental; and cargo office space.

(b) Aircraft

In October 2003, the Company entered into an aircraft lease agreement for a Boeing B737-300 aircraft and accepted delivery in November 2003. The term of the lease is for 36 months and the Company will pay US\$105,000 per month and supplemental rent based on the Company's use of the aircraft during the lease term. The lease is supported by a guarantee of the Government of the Cayman Islands equal to the amount due and payable under the lease up to a maximum of US\$1,260,000. The original lease, scheduled to mature in November 2006, was extended to September 2007 and the monthly lease rate was increased from US\$105,000 per month to US\$113,000 per month. A second lease extension agreement was executed and due to expire in October 2009 at an increased monthly lease rate of US\$135,000 per month. A third lease extension agreement was executed and due to expire in November 2011 at a reduced monthly lease rate of US\$75,000 per month.

In November 2003, the Company signed a month-to-month lease that included two twin Otter aircraft, crew, maintenance and insurance to facilitate its service between Grand Cayman, Cayman Brac and Little Cayman. During March 2004, the Company signed a replacement lease agreement for two Twin Otter aircraft at a rate of US\$19,500 per month for each aircraft for a period of 24 months. In May 2006, the Company purchased two twin Otter aircraft to replace aircraft that had previously been leased. The cost to bring the aircraft into service, including purchase price was approximately US\$4.5 million and is included in property, plant and equipment.

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10. Lease commitments (continued)

In June 2004, the Company entered into an aircraft lease agreement for a further Boeing B737-300 aircraft and accepted delivery in November 2004. The term of the lease is for 38 months and the Company will pay US\$110,000 per month and supplemental rent based on the Company's use of the aircraft during the lease term. The lease is supported by a guarantee of the Government of the Cayman Islands equal to the amount due and payable under the lease up to a maximum of US\$1,320,000. The original lease, scheduled to mature in December 2007, was extended to October 2010 and the monthly lease rate was increased from US\$110,000 per month to US\$135,000 per month. This extension was subsequently amended in September 2009 to reflect a reduction in the monthly lease rate. The amendment reduced the monthly lease rate from US\$135,000 per month to US\$115,000 per month from September 2009 to June 2010 and from US\$135,000 per month to US\$122,000 per month from July 2010 to the expiration of the amended lease agreement in October 2010.

In May 2007 the Company signed an aircraft lease agreement for a Boeing 737-300 aircraft (VP-CKW) and accepted delivery in April 2008. The lease commenced in April 2008 for four years at a monthly lease rate of US\$144,000 per month. The original lease agreement was subsequently amended in September 2009 before its maturity to reflect a reduction in the monthly lease rate. The amendment reduced the monthly lease rate from US\$144,000 per month to US\$124,000 per month for the period of September 2009 to June 2010; and from US\$144,000 per month to US\$122,000 per month for the period of July 2010 to November 2010; and from US\$144,000 per month to US\$135,000 per month for the period of December 2010 until the expiration of the lease agreement in March 2012

At 30 June 2008, future minimum lease payments under operating leases of aircraft were payable as follows:

	<u>Aircraft</u>
2009	4,968,000
2010	3,968,000
2011	2,943,000
2012	<u>1,440,000</u>
	US\$ <u>13,319,000</u>

12. Cash and cash equivalents

Cash and cash equivalents included in the statement of cash flows comprise the following balance sheet amounts:

	<u>30 June</u> <u>2008</u>	<u>30 June</u> <u>2007</u>
Cash on hand and balances with banks	4,895,851	3,585,263
Short-term overdrafts	<u>(4,377,302)</u>	<u>(2,400,269)</u>
Cash and cash equivalents	US\$ <u>518,549</u>	US\$ <u>1,184,994</u>

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12. Financial instruments

Credit risk

Financial assets which potentially subject the Company to concentrations of credit risk consist principally of cash and trade receivables. The Company's cash is placed with high credit quality financial institutions. Trade receivables are presented net of the allowance for doubtful receivables. Credit risk with respect to trade receivables is limited due to the large number of customers comprising the Company's credit base and the fact that almost half of all receivables are credit card or interline clearing house receivables, collection of which is virtually certain.

Interest rate risk

The floating interest rate on the Company's debt is presented in Note 7.

Fair Values

At 30 June 2008 and 30 June 2007 the carrying amounts of cash, accounts receivables, accounts payables and accrued expenses approximated their fair values due to the short-term maturities of these assets and liabilities. The fair value of the borrowings approximates their carrying value because of the terms attaching to such borrowings (see Note 7).

13. Related party transactions

The Company uses the legal services of the Legal Department of Government. No formal agreement between the Company and the Legal Department exists and prior to 1993, no charge for legal services had been levied and no expense had been accrued at 30 June 2008 (30 June 2007: Nil). The Company had no obligation to the Legal Department of the Cayman Islands Government for legal services (30 June 2007: Nil). No expenses were incurred in 30 June 2008 (30 June 2007: Nil).

14. Contingent liabilities

The Company is routinely involved in a number of claims or potential claims arising from daily operations.

Management is actively contesting all such claims of which they are aware. At 30 June 2007, accounts payable and accrued expenses included US\$130,656 (30 June 2007: US\$130,656) for these claims. The outcome and potential liability to the Company, if any, in excess of the accrued amount cannot presently be determined. In the opinion of management, except as noted in the paragraph above, it is unlikely that any such liability would be material to the Company's financial position.

15. 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.

16. Employee benefit costs

The pension plan expense for the period was \$782,278 (2007: \$868,251)

The health insurance expense for the period was US\$1,188,835 (2007: US\$1,111,138). The health insurance expense and pension plan expense are included in other staff costs in the statement of loss.

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17. Certain significant estimates

The Company is subject to a number of specific and industry-wide factors which impact management's estimates of the useful life and residual value of the Company's aircraft, and may also impact any management decisions taken with respect to the timing of overhauls (as defined in Note 3) and the amortization of the related costs. Such factors include, amongst others:

- regulatory requirements which vary depending upon the country in which the aircraft are operated;
- volatility in demand for aircraft and, therefore, prevailing values;
- uncertainty over the cost of overhauls and upgrades to airframes, engines and aircraft components.

Because of the age of the Company's aircraft, the effect of these factors on the estimates made by management and the potential impact on the operations of the Company as a whole may be more significant than with a newer aircraft.

19. Subsequent events

In July 2008 the Company settled a claim filed by Aircraft Parts Support International, Inc. of US\$130,656 for the reduced amount of US\$111,250. The original claim amount of US\$130,656 was included in accounts payable and accrued expenses at 30 June 2007 and at 30 June 2008.

In September 2008 the Company committed to selling two 737-200 aircrafts (VP-CKX and VP-CYB). Aircraft VP-CKX was in operation until April 2008 and aircraft VP-CYB was in operation until February 2009. Aircraft VP-CKX remains under Company ownership and on the fixed asset register as of the date of Financial Statement issuance. Aircraft VP-CYB remained under Company ownership and on the fixed asset register until the sale of it in November 2010.

18. Subsequent events

In October 2008 the Company signed an aircraft lease agreement for a Boeing 737-300 aircraft (VP-CKZ) and accepted delivery in November 2008. The lease commenced in December 2008 for three years at a monthly lease rate of US\$123,000 per month. The original lease agreement was subsequently amended in September 2009 before its maturity to reflect a reduction in the monthly lease rate for a portion of the lease term and an extension of the expiration date. The amendment reduced the monthly lease rate from US\$123,000 per month to US\$103,000 per month for the period of September 2009 to June 2010 and from US\$123,000 per month to US\$122,000 per month for the period of July 2010 to November 2010. The amendment manifests an increase in the monthly lease rate from US\$123,000 per month to US\$135,000 per month for the period of December 2010 until the new expiration of the lease agreement in June 2012.

In March 2009 the Company signed a credit agreement with First Caribbean International Bank who is a syndicate party of the initial credit agreement which provided a total facility of US\$47,502,333 (see Note 8). The new agreement provides for a loan facility in the amount of US\$15,000,000 for the purpose of funding the Company's operations. The entire amount of the facility was subsequently drawn down. The total borrowings will be amortized over fifteen years and the interest rate will be LIBOR plus 3.50% per annum. The loan is supported by an unconditional guarantee of the Government of the Cayman Islands.

In April 2010 the Company received written communication of Government's future financial commitments and support of the Company in an effort to address the Shareholder's deficit. Beginning in July 2010 through June 2020, the Government will provide monthly funding for the Company's principal debt payments and the corresponding interest. Other details of the commitment include provisions for Government guarantees, repayment of debt owed by the Company to other Government Agencies, and annual funding in the form of output payments as agreed upon yearly. In return, the Company is expected to prove sustainable operating costs reductions and explore revenue enhancement measures.

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18. Subsequent events (continued)

In August 2010 the Company signed an amendment to the lease for the 737-300 (VP-CKZ) aircraft. This is the second amendment to this aircraft's lease and extends the expiration date to October 2, 2014. The amendment decreases the lease rate from US\$122,000 per month to US\$115,000 per month commencing on August 3, 2010 until the amended lease expiration on October 2, 2014.

In August 2010 the Company signed an amendment to the lease for the 737-300 (VP-CKW) aircraft. This is the second amendment to this aircraft's lease and extends the expiration date to April 21, 2014. The amendment decreases the lease rate from US\$122,000 per month to US\$115,000 per month commencing on August 22, 2010 until the amended lease expiration on April 21, 2014.

In August 2010 the Company signed an amendment to the lease for the 737-300 (VP-CAY) aircraft. This is the third amendment to this aircraft's lease and extends the expiration date to November 3, 2014. The amendment decreases the lease rate from US\$122,000 per month to US\$74,000 per month commencing on August 19, 2010 until the amended lease expiration on November 3, 2014.

In August 2010 the Company signed an amendment to the lease for the 737-300 (VP-CKY) aircraft. This is the fourth amendment to this aircraft's lease and extends the expiration date to November 13, 2013. The amendment decreases the lease rate from US\$75,000 per month to US\$70,000 per month commencing on August 14, 2010 until the amended lease expiration on November 13, 2013.

In November 2010 the Company sold a Boeing 737-200 aircraft (VP-CYB) to a foreign purchaser for a total purchase price of US\$650,000.