

CAYMAN AIRWAYS LIMITED
Consolidated Financial Statements

For the year ended
30 June 2012

CAYMAN AIRWAYS LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
30 JUNE 2012

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STATEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements have been prepared by Cayman Airways Limited in accordance with the provisions of the *Public Management and Finance Law (2012 Revision)*.

We accept responsibility for the accuracy and integrity of the financial information in these financial statements and their compliance with the *Public Management and Finance Law (2012 Revision)* – a variance is noted for the use of International Financial Reporting Standards (IFRS), versus the expected International Public Sector Accounting Standards (IPSAS), due to the international reporting requirements of the company.

As Chairman and Executive Vice President, we are responsible for establishing; and have established and maintained a system of internal controls designed to provide reasonable assurance that the transactions recorded in the financial statements are authorised by law, and properly record the financial transactions of Cayman Airways Limited.

As Chairman and Executive Vice President, we are responsible for the preparation of Cayman Airways Limited financial statements and for the judgements made in them.

The financial statements fairly present the consolidated statements of financial position, financial performance, changes in shareholder's equity, and cash flows for the financial year ended June 30, 2012.

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

- (a) are complete and reliably reflect the financial transactions of Cayman Airways Limited for the year ended June 30, 2012;
- (b) fairly reflect the financial position as at June 30, 2012 and the performance for the year ended June 30, 2012;
- (c) comply with International Financial Reporting Standards under the responsibility of the International Accounting Standards Board.

The Office of the Auditor General conducts an independent audit and expresses an opinion on the accompanying financial statements. The Office of the Auditor General and its agent has been provided access to all the information necessary to conduct an audit in accordance with International Standards on Auditing.

Mr. Phillip Rankin
Chairman
Cayman Airways Limited

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

Date: MAY 17, 2013

Date: May 17, 2013



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AUDITOR GENERAL'S REPORT

To the Shareholder & Board of Directors of Cayman Airways Limited

I have audited the accompanying consolidated financial statements of Cayman Airways Limited, and its subsidiary (together, the "Company"), which comprise the consolidated statement of financial position as of 30 June 2012, and the consolidated statements of comprehensive loss, changes in shareholder's equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 29 in accordance with the Section 61(a)(i) of the *Public Management and Finance Law (2012 Revision)*.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cayman Airways Limited and its subsidiary as at 30 June 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

AUDITOR GENERAL'S REPORT (continued)

Emphasis of Matter

We draw attention to the fact that as discussed in Notes 2 and 13, which state that the Company is dependent upon the financial support of the Government of the Cayman Islands to enable it to continue as a going concern and to meet its obligations as they fall due. My opinion is not qualified in respect of this matter.

A handwritten signature in black ink, appearing to read 'A Swarbrick', with a long horizontal flourish extending to the right.

Alastair Swarbrick, MA(Hons), CPFA
Auditor General

17 May 2013
Cayman Islands

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in United States dollars)

	<u>2012</u>	<u>30 June,</u> <u>2011</u>
ASSETS		
Non-current assets		
Security deposits (Note 4)	2,098,476	1,927,302
Property, plant and equipment (Note 5)	<u>17,633,093</u>	<u>15,908,529</u>
Total non-current assets	<u>19,731,569</u>	<u>17,835,831</u>
Current assets		
Cash on hand and at bank	-	-
Accounts receivable (Notes 6 and 21)	2,817,765	2,995,989
Prepayments and other assets (Note 4)	402,501	637,800
Aircraft and flight equipment held for sale (Notes 7 and 21)	<u>-</u>	<u>700,000</u>
Total current assets	<u>3,220,266</u>	<u>4,333,789</u>
TOTAL ASSETS	<u>\$ 22,951,835</u>	<u>\$ 22,169,620</u>
LIABILITIES AND SHAREHOLDER'S DEFICIT		
Current liabilities		
Bank overdraft (Note 8)	8,679,448	1,247,179
Accounts payable and accrued expenses (Note 9)	32,055,651	34,321,510
Loans payable (Note 10)	9,979,155	11,197,350
Unearned transportation liability	9,132,310	9,590,344
Deferred revenue (Notes 11 and 21)	<u>2,611,499</u>	<u>2,611,499</u>
Total current liabilities	<u>62,458,063</u>	<u>58,967,882</u>
Long-term liabilities		
Loans payable (Note 10)	<u>29,201,487</u>	<u>32,803,892</u>
Total long-term liabilities	<u>29,201,487</u>	<u>32,803,892</u>
Total liabilities	<u>91,659,550</u>	<u>91,771,774</u>
Shareholder's deficit (Note 2)		
Share capital (Note 12)	38,376,215	38,376,215
Share subscriptions (Note 12)	35,983,021	29,911,592
Accumulated deficit	<u>(143,066,951)</u>	<u>(137,889,961)</u>
Total shareholder's deficit	<u>(68,707,715)</u>	<u>(69,602,154)</u>
TOTAL LIABILITIES AND SHAREHOLDER'S DEFICIT	<u>\$ 22,951,835</u>	<u>\$ 22,169,620</u>

Approved for issuance on behalf of the Cayman Airways Limited Board of Directors on 17 May 2013 by:

Mr. Phillip Rankin
.....
Director

Mr. Nathaniel Tibbetts
.....
Director

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

(Expressed in United States dollars)

	Year ended	
	<u>30 June,</u>	
	<u>2012</u>	<u>2011</u>
Income		
Passenger revenue	54,031,710	49,858,236
Cargo revenue	3,467,598	2,642,184
Handling revenue	3,150,266	3,011,267
Other revenues	1,500,426	1,395,864
Net Gain on sale of Aircraft and flight equipment held for sale	<u>86,243</u>	<u>-</u>
Total income (excluding Government output payments (Note 16))	<u>62,236,243</u>	<u>56,907,551</u>
Expenses		
Salaries and wages (Note 13)	19,746,724	19,229,476
Other staff costs (Note 14)	4,835,911	4,306,198
Aircraft fuel	21,174,613	18,588,311
Aircraft lease expense (Note 15)	6,280,191	5,572,904
Commissions and related sales costs	3,727,249	3,536,472
Maintenance, materials and repairs	6,508,806	5,945,822
Landing and parking fees	1,978,064	2,038,236
Aircraft and passenger service	10,589,281	10,399,452
Advertising and promotion	241,574	234,394
Communications	693,162	769,317
General and administrative	2,756,161	2,211,565
Depreciation (Note 5)	1,797,491	1,672,291
Interest expense (Notes 8 and 10)	789,327	1,192,901
Impairment loss (Note 7)	375,080	108,210
Other operating expenses	<u>4,693,409</u>	<u>4,751,699</u>
Total expenses	<u>86,187,043</u>	<u>80,557,248</u>
NET LOSS, BEFORE GOVERNMENT OUTPUT PAYMENTS	(23,950,800)	(23,649,697)
Government output payments (Note 16)	<u>18,773,810</u>	<u>17,857,143</u>
NET LOSS FOR THE YEAR (NOTE 2)	<u>\$ (5,176,990)</u>	<u>\$ (5,792,554)</u>
TOTAL COMPREHENSIVE LOSS	<u>\$ (5,176,990)</u>	<u>\$ (5,792,554)</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>(Note 12)</u>	<u>Share</u> <u>subscriptions</u> <u>(Note 12)</u>	<u>Accumulated</u> <u>deficit</u>	<u>Total</u>
Balance at 30 June 2010	38,376,215	23,840,163	(132,097,407)	(69,881,029)
Net loss for the year	-	-	(5,792,554)	(5,792,554)
Share subscriptions	<u>-</u>	<u>6,071,429</u>	<u>-</u>	<u>6,071,429</u>
Balance at 30 June 2011	38,376,215	29,911,592	(137,889,961)	(69,602,154)
Net loss for the year	-	-	(5,176,990)	(5,176,990)
Share subscriptions	<u>-</u>	<u>6,071,429</u>	<u>-</u>	<u>6,071,429</u>
Balance at 30 June 2012	<u>\$ 38,376,215</u>	<u>\$ 35,983,021</u>	<u>\$(143,066,951)</u>	<u>\$ (68,707,715)</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)

	Year ended	
	<u>30 June,</u>	
	<u>2012</u>	<u>2011</u>
Cash flows from operating activities		
Net loss for the year	(5,176,990)	(5,792,554)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	1,797,491	1,672,291
Decrease/(Increase) in accounts receivable	178,223	(222,347)
Decrease in prepayments, security deposits and other assets	64,125	482,394
Decrease in accounts payable and accrued expenses	(2,265,859)	(1,382,180)
(Decrease)/Increase in unearned transportation liability	(458,034)	2,114,734
Impairment of equipment held for resale	375,080	108,210
Gain on sale of PP&E	(86,243)	-
Loan amortisation	(182,901)	-
Increase in deferred revenue	<u>-</u>	<u>50,000</u>
Net cash used in operating activities	<u>(5,755,108)</u>	<u>(2,969,452)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,582,075)	(2,787,930)
Proceeds from sale of aircraft and flight equipment held for sale	<u>470,738</u>	<u>650,000</u>
Net cash used in investing activities	<u>(3,111,337)</u>	<u>(2,137,930)</u>
Cash flows from financing activities		
Share Subscriptions	6,071,428	6,071,429
Repayment of loans	<u>(4,637,252)</u>	<u>(5,181,914)</u>
Net cash provided by financing activities	<u>1,434,176</u>	<u>889,515</u>
Net decrease in cash and cash equivalents	(7,432,269)	(4,217,867)
Cash and cash equivalents - beginning of year	<u>(1,247,179)</u>	<u>2,970,688</u>
Cash and cash equivalents - end of year	<u>\$ (8,679,448)</u>	<u>\$ (1,247,179)</u>
Cash and cash equivalents comprise:		
Cash on hand and at bank	-	-
Bank overdraft	<u>(8,679,448)</u>	<u>(1,247,179)</u>
	<u>\$ (8,679,448)</u>	<u>\$ (1,247,179)</u>
Supplementary disclosure of cash flow information:		
Interest paid	<u>\$ 1,340,957</u>	<u>\$ 1,192,901</u>

The accompanying notes are an integral part of these financial statements

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(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, & 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 Robert's Drive, George Town, Grand Cayman, Cayman Islands.

At 30 June 2012 the Company had 373 employees (2011: 368).

2. Going concern

Currently and historically, the Company is/has been dependent upon the financial support of Government to allow it to continue as a going concern. The Company has incurred a loss, after Government output payments, of \$5,176,990 (2011: \$5,792,554) for the year ended 30 June 2012, and has a total shareholder's deficit of \$68,707,715 (2011: \$69,602,154) as at that date. The Company's ability to continue as a going concern is dependent on the continuing financial support of the Government in order to ensure its continued operations and to meet its obligations as they fall due. The Government has undertaken to provide financial support to the Company to enable it to meet its liabilities as they fall due, and to enable the Company to continue to operate certain domestic and international routes. Funding received is based on a Purchase Agreement with Government (see Note 16). 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 to amounts and classification of liabilities that may be necessary should the Company be unable to continue as a going concern.

Furthermore, the Government has also issued a number of guarantees with respect to the Company's obligations under the aircraft lease agreements (Note 15) and in respect of the amounts borrowed from local financial institutions (Note 10).

In the event that the Government is unable to provide such financial support, as noted above, the Company would likely be unable to continue as a going concern, and it would be unable to realize its assets and discharge its liabilities in the normal course of business.

3. Summary of significant accounting policies

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

Basis of preparation: The 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 modified by the revaluation of financial assets and liabilities at fair value through profit or loss. 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.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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 recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if these are also affected. Principle sources of estimation uncertainty are outlined in Note 21. Actual results may differ from those estimates.

There are no new standards or amendments to existing standards which are effective from July 1, 2012 that have a material impact on the Company's financial statements.

The following standards or amendments to existing standards that are relevant to the Company's financial statements, but not effective until future dates are as follows:

- IFRS 9, 'Financial instruments', effective for annual periods beginning on or after January 1, 2015, specifies how an entity should classify and measure financial assets and liabilities, including some hybrid contracts. The standard improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged. The standard applies a consistent approach to classifying financial assets and replaces the numerous categories of financial assets in IAS 39, each of which had its own classification criteria. The standard is not expected to have a significant impact on the Company's financial position or performance.
- IFRS 10, 'Consolidated financial statements', effective for annual periods beginning on or after January 1, 2013, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The new standard is not expected to have any impact on the Company's financial position or performance.
- IFRS 12, 'Disclosures of interests in other entities', effective for annual periods beginning on or after January 1, 2013, includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The new standard is not expected to have any impact on the Company's financial position or performance.
- IFRS 13, 'Fair value measurement', effective for annual periods beginning on or after January 1, 2013. The standard improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. If an asset or a liability measured at fair value has a bid price and an ask price, the standard requires valuation to be based on a price within the bid-ask spread that is most representative of fair value and allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurement within a bid-ask spread. The new standard is not expected to have any impact on the Company's financial position or performance.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

- The IAS 32, 'Financial instruments: Presentation' amendments clarify some of the requirements for offsetting financial assets and financial liabilities in the statement of financial position. In connection therewith, IFRS 7, 'Financial instruments: Disclosures' amendments were also issued. These new IFRS 7 disclosures are intended to facilitate comparison between IFRS and US GAAP preparers. The converged offsetting disclosures in IFRS 7 are to be retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2013. The IAS 32 changes are retrospectively applied, with an effective date of annual periods beginning on or after January 1, 2014. Master netting agreements where the legal right of offset is only enforceable on the occurrence of some future event, such as default of the counterparty, continue not to meet the offsetting requirements. The disclosures focus on quantitative information about recognized financial instruments that are offset in the statement of financial position, as well as those recognized financial instruments that are subject to master netting or similar arrangements irrespective of whether they are offset. The new amendments are not expected to have any impact on the Company's financial position or performance.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that would be expected to have a significant impact on 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). All significant intercompany accounts and transactions have been eliminated on consolidation.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred.

Aircraft and flight equipment held for sale: Aircraft and flight equipment held for sale is carried at the lower of their carrying amount and management's estimate of fair value less costs to sell. No depreciation is taken on the assets held for sale (Note 7).

The Company periodically evaluates its aircraft and flight equipment held for sale for impairment. Factors that would indicate potential impairment would include, but are not limited to, significant decreases in the market value of an aircraft, or a significant change in an aircraft's physical condition.

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 and other long lived, non-current assets, 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 market value 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 recognized 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

30 JUNE 2012

(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>
Aircraft airframe and related overhauls	
Airframe and related components	25,000 – 30,000 flight hours or 250 - 300 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
Rotables	12 years
Flight equipment	10 years
Ground Equipment	7 years
Other property, plant and equipment	3 - 5 years

Leasehold improvements to aircraft are depreciated over the remainder of the lease. Land is not depreciated.

The residual value for the aircraft engines is \$50,000 (2011: \$50,000) per engine. The residual value for flight equipment is 5%. All other property, plant and equipment have no salvage value.

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.

Leased aircraft maintenance: With respect to the Company's operating lease arrangements, where the Company has a commitment to maintain the aircraft, which is considered to constitute a material obligation, a provision is made during the lease term for the obligation based on the present value of the estimated future costs of major airframe and certain engine maintenance checks by making appropriate charges to the Consolidated Statement of Comprehensive Loss.

Aircraft maintenance:

(a) Routine maintenance and annual periodic 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

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

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Accounts receivable: Accounts receivable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the Consolidated Statement of Comprehensive Loss. 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.

Security deposits: Security deposits, which are refundable, are initially recognized and subsequently carried at the fair value. 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 (or in the normal operating cycle of the business if longer). Accounts payable are recognized initially at fair value and subsequently measured at amortized 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 recognized initially at fair value, net of transaction costs incurred, and are subsequently carried at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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, but pending issuance of shares at a future date, those funds are presented as Share subscriptions and classified as equity on the Consolidated Statement of Financial Position. When the formalities associated with the issuance of these new shares takes place, the amount shown in the Share subscription caption will be transferred to Share capital.

Foreign currency translation: The accounting records of the Company are maintained in United States dollars. 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\$1.00: CI\$0.84.

Revenues: Scheduled passenger and cargo revenues are recognized in the period in which transportation is provided, net of government taxes. Unearned revenue represents flight seats sold but not yet flown and is included as a current liability in an unearned transportation liability account. Passengers are only able to make reservations up to a twelve month period in advance of booking date. Consequently, all unearned transportation revenue is due within twelve months of the reporting date. It is released as income to the Consolidated Statement of Comprehensive Loss as passengers fly. Unused tickets are recognized as revenue on a systematic basis after an inactive period of 13 months has elapsed. Miscellaneous fees charged for any changes to flight tickets are recognized in revenue immediately.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

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 recognized 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 refund penalties, in-flight sales and other product revenue. Other revenue is recognized in the Consolidated Statement of Comprehensive Loss at the time the sale occurs or the service is provided.

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 provision for deferred revenue 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 four years; and
- ii) The ratio of the level of redemption for the program since its inception.

Revenue received against the issuance of Sir Turtle Rewards points is deferred as a liability and shown as deferred revenue on the Consolidated Statement of Financial Position until the points are redeemed or the passenger is uplifted in the case of flight redemptions. Deferred revenue is measured based on managements' estimates of the fair value of the expected awards for which the points will be redeemed. The fair value of the awards is reduced to take into account the proportion of points which are expected to expire.

Government output payments: Financial support from the Government in the form of output payments are non-refundable and are recognized in the Consolidated Statement of Comprehensive Loss during the year to which the payments relate. Output payments are calculated according to the Purchase Agreement in place with Government (see Note 16).

Pension plan: In accordance with the Cayman Islands National Pensions Law, 1996 (the "Law") those of Company's employees that are located in the Cayman Islands participate in a defined contribution pension plan. Employees are required to contribute an amount up to 5% of their annual salaries to the plan during the year and the Company matches such contributions up to 5%. Employees based in the United States of America are eligible to participate in a 401K defined contribution pension plan. Contributions are matched by the Company, to a maximum of 3% of the employee's basic salary. Independent trustees administer both of these plans. The pension contributions paid by the Company under these plans are expensed as incurred in the Consolidated Statement of Comprehensive Loss.

Expenses: Expenses are recognized in the Consolidated Statement of Comprehensive Loss on an accrual basis.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

3. Summary of significant accounting policies (continued)

Leases: Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating leases and the associated leased assets are not recognized in the Company's Consolidated Statement of Financial Position. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Consolidated Statement of Comprehensive Loss on a straight-line basis over the period of the lease. In connection with the lease of the aircraft (Note 15), the Company makes supplemental rental payments to the lessor based on usage of the aircraft. An eligible portion of these supplemental rental payments is refunded to the Company to meet the expense of significant overhauls when major maintenance is performed. Supplemental rent can also be used against future qualifying events as agreed with the lessor, but are otherwise non-refundable. Therefore, the Company recognizes these supplemental rental payments as an expense when incurred. All aircraft leases are considered to be operating leases, the Company does not currently have any finance leases in place.

Provisions and contingencies: A provision is recognized 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 liability 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.

4. Prepayments, security deposits and other assets

At year end, prepayments, security deposits and other assets are comprised of the following:

	<u>30 June 2012</u>			<u>30 June 2011</u>		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Prepayments and other assets	402,501	-	402,501	637,800	-	637,800
Security deposits	<u>-</u>	<u>2,098,476</u>	<u>2,098,476</u>	<u>-</u>	<u>1,927,302</u>	<u>1,927,302</u>
	<u>\$ 402,501</u>	<u>\$2,098,476</u>	<u>\$2,500,977</u>	<u>\$ 637,800</u>	<u>\$1,927,302</u>	<u>\$2,565,102</u>

As at 30 June 2012, in connection with the Company's leased aircraft arrangements (Note 15), the Company had placed deposits with a value of \$1,400,000 (2011: \$1,400,000) with the leasing agent as security in respect of its leasing obligations. These security deposits are available to the Company on the expiry the respective lease agreements.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

5. Property, plant and equipment

At 30 June 2012:

	<u>Aircraft airframe and engines</u>	<u>Aircraft leasehold improvements</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost							
Balance							
1 July 2011	\$ 5,278,280	\$ 6,044,437	\$ 8,537,703	\$ 8,655,284	\$ 2,335,905	\$ 3,453,720	\$ 34,305,329
Additions	264,706	2,823,219	398,101	7,875	57,788	30,386	3,582,075
Disposals	-	-	(94,960)	-	-	-	(94,960)
Reclassification of Asset	424,842	(424,842)	-	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance							
30 June 2012	\$ <u>5,967,828</u>	\$ <u>8,442,814</u>	\$ <u>8,840,844</u>	\$ <u>8,663,159</u>	\$ <u>2,393,693</u>	\$ <u>3,484,106</u>	\$ <u>37,792,444</u>
Depreciation							
Balance							
1 July 2011	\$ 1,485,784	\$ 4,211,689	\$ 6,486,465	\$ 2,269,404	\$ 1,694,281	\$ 2,249,177	\$ 18,396,800
Charge for The year	308,070	475,906	151,904	136,526	146,188	578,897	1,797,491
Disposals	-	-	(34,940)	-	-	-	(34,940)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance							
30 June 2012	\$ <u>1,793,854</u>	\$ <u>4,687,595</u>	\$ <u>6,603,429</u>	\$ <u>2,405,930</u>	\$ <u>1,840,469</u>	\$ <u>2,828,074</u>	\$ <u>20,159,351</u>
At 30 June 2012	\$ <u><u>4,173,974</u></u>	\$ <u><u>3,755,219</u></u>	\$ <u><u>2,237,415</u></u>	\$ <u><u>6,257,229</u></u>	\$ <u><u>553,224</u></u>	\$ <u><u>656,032</u></u>	\$ <u><u>17,633,093</u></u>
At 30 June 2011	\$ <u><u>3,792,496</u></u>	\$ <u><u>1,832,748</u></u>	\$ <u><u>2,051,238</u></u>	\$ <u><u>6,385,880</u></u>	\$ <u><u>641,624</u></u>	\$ <u><u>1,204,543</u></u>	\$ <u><u>15,908,529</u></u>

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

5. Property, plant and equipment (continued)

At 30 June 2011:

	<u>Aircraft airframe and engines</u>	<u>Aircraft leasehold improvements</u>	<u>Rotables</u>	<u>Land & Buildings</u>	<u>Office & communications equipment</u>	<u>Other assets</u>	<u>Total</u>
Cost							
Balance							
1 July 2010	\$ 5,684,961	\$ 4,822,940	\$ 8,204,158	\$ 8,655,284	\$ 2,261,336	\$ 2,770,928	\$ 32,399,607
Additions	475,527	1,221,497	333,545	-	74,569	682,792	2,787,930
Disposals	-	-	-	-	-	-	-
Transfer to Held for Sale	(882,208)	-	-	-	-	-	(882,208)
Balance							
30 June 2011	<u>\$ 5,278,280</u>	<u>\$ 6,044,437</u>	<u>\$ 8,537,703</u>	<u>\$ 8,655,284</u>	<u>\$ 2,335,905</u>	<u>\$ 3,453,720</u>	<u>\$ 34,305,329</u>
Depreciation							
Balance							
1 July 2010	\$ 1,750,998	\$ 3,801,188	\$ 6,154,335	\$ 1,955,811	\$ 1,553,437	\$ 2,082,738	\$ 17,298,507
Charge for The year	308,784	410,501	332,130	313,593	140,844	166,439	1,672,291
Disposals	-	-	-	-	-	-	-
Transfer to Held for Sale	(573,998)	-	-	-	-	-	(573,998)
Balance							
30 June 2011	<u>\$ 1,485,784</u>	<u>\$ 4,211,689</u>	<u>\$ 6,486,465</u>	<u>\$ 2,269,404</u>	<u>\$ 1,694,281</u>	<u>\$ 2,249,177</u>	<u>\$ 18,396,800</u>
At 30 June 2011	<u>\$ 3,792,496</u>	<u>\$ 1,832,748</u>	<u>\$ 2,051,238</u>	<u>\$ 6,385,880</u>	<u>\$ 641,624</u>	<u>\$ 1,204,543</u>	<u>\$ 15,908,529</u>
At 30 June 2010	<u>\$ 3,933,963</u>	<u>\$ 1,021,752</u>	<u>\$ 2,049,823</u>	<u>\$ 6,699,473</u>	<u>\$ 707,899</u>	<u>\$ 688,190</u>	<u>\$ 15,101,100</u>

The Company reviews its property, plant and equipment, as well as any other non-current assets, for impairment losses, if any impairment indicators exist, or at least on an annual basis.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

6. Accounts receivable

Accounts receivable comprise:

	<u>2012</u>	<u>30 June,</u> <u>2011</u>
Trade receivables	2,133,006	2,043,085
Other	<u>1,196,059</u>	<u>1,454,151</u>
Total, before provision for impairment	3,329,065	3,497,236
Less: provision for impairment	(511,300)	(501,247)
Net accounts receivable	<u>\$ 2,817,765</u>	<u>\$ 2,995,989</u>

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

	<u>2012</u>	<u>30 June,</u> <u>2011</u>
Balance, beginning of year	501,247	1,327,816
Increase in provision for impairment	38,224	-
Debts written off	(28,171)	(826,569)
Balance, end of year	<u>\$ 511,300</u>	<u>\$ 501,247</u>

During the year ended 30 June 2012, the Company wrote off \$28,171 (2011: \$826,569) relating to amounts due from customers.

As of 30 June 2012, the aging analysis of receivables is as follows:

	<u>2012</u>	<u>30 June,</u> <u>2011</u>
Neither past due nor impaired	<u>\$1,190,666</u>	<u>\$1,260,706</u>
Total past due but not impaired:	1,627,099	1,735,283
Impaired:		
31 – 365 days	108,599	98,546
+365 days	<u>402,701</u>	<u>402,701</u>
Total impaired	<u>511,300</u>	<u>501,247</u>
Total accounts receivables	<u>\$3,329,065</u>	<u>\$3,497,236</u>

Receivables at 30 June 2012 included \$1,384,205 due from related parties (2011: \$1,349,338).

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

7. Aircraft and flight equipment held for sale

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 used by the Company, 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.

During the years ended 30 June 2008 and 2009, the Company ceased using two aircraft for its operations and these aircraft were placed in storage for sale. Consequently, the value associated with these aircraft has been classified as held for sale on the Consolidated Statement of Financial Position. Management determined that a valuation adjustment was required for aircraft and flight equipment held for sale at 30 June 2009 as the estimated net realizable value of the aircraft and flight equipment had decreased significantly. As a result, the aircraft and flight equipment held for sale value was reduced as at 30 June 2009 as a result of examining offers received and considering comparative aircraft prices in the market.

The remaining assets held for sale were sold during the year ended 30 June 2012. Using the criteria established by IAS 36, *Impairment of Assets*, the Company determined that an impairment loss was required for the Aircraft held for sale of \$375,080 during the year ended 30 June 2012 (2011: \$108,210).

8. Bank overdraft

As at 30 June 2012, the Company has an overdraft facility with Royal Bank of Canada (located in the Cayman Islands) ("RBC") for a total value of \$8,000,000 (2011: \$3,000,000). The overdraft facility was obtained to supplement the working capital requirements of the Company and bears a floating rate of interest priced at RBP Prime Rate plus 1% per annum. The overdraft facility is secured by way of guarantee from the Government.

The overdraft facility is subject to the same covenants as those relating to the long-term loans (Note 10). Notwithstanding compliance with applicable covenants and other terms and conditions as per the overdraft agreement, the Bank may terminate this facility at any time, without notice or demand.

9. Accounts payable and accrued expenses

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

	<u>30 June 2012</u>			<u>30 June 2011</u>		
	<u>Current</u>	<u>Non-current</u>	<u>Total</u>	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Accounts payable	30,047,122	-	30,047,122	31,733,226	-	31,733,226
Accrued expenses	<u>2,008,529</u>	<u>-</u>	<u>2,008,529</u>	<u>2,588,284</u>	<u>-</u>	<u>2,588,284</u>
	<u>\$32,055,651</u>	<u>\$ -</u>	<u>\$32,055,651</u>	<u>\$34,321,510</u>	<u>\$ -</u>	<u>\$34,321,510</u>

Due to the shortage in available funds, in recent years the Company has experienced difficulties in its ability to pay its creditors. Consequently, the amounts recorded as accounts payable and accrued expenses has increased significantly in recent years. In April 2010, the Government approved plans for the Company to borrow \$22.6 million (CI\$19.0 million) in order to settle all existing overdue payables to creditors. However, at the date of approval of these financial statements, the Company has not secured the additional funding.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

9. Accounts payable and accrued expenses (continued)

During 2009, the Company entered into an agreement (which was subsequently amended through mutual agreement) with the Cayman Islands Airport Authority (a related party) for the scheduled repayment of debts owing by the Company over a period through to 30 June 2010. During that period however, the Company was unable to comply with this agreement. In July 2010, the Company entered into a new agreement whereby existing overdue debts of approximately \$16 million would be repaid in twenty-four monthly instalments of \$179,000 together with a lump sum payment of \$12 million on June 2012. The amounts outstanding under this agreement are non-interest bearing. As at June 30, 2012 the Company was in the process of renegotiating the terms of the debt repayment with the Cayman Islands Airport Authority.

10. Loans

At year end, the Company held the following loans:

As at 30 June 2012:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Royal Bank of Canada				
Loan (i)	1,464,688	5,859,696	2,685,671	10,010,055
Loan (ii)	670,320	2,681,280	1,196,960	4,548,560
First Caribbean International Bank (Cayman) Ltd.				
Loan (iii)	670,320	2,681,280	1,196,960	4,548,560
Loan (iv)	456,937	1,521,968	-	1,978,905
Loan (v)	947,410	4,165,062	7,212,610	12,325,082
Government (vi)	<u>5,769,480</u>	-	-	<u>5,769,480</u>
	<u>\$ 9,979,155</u>	<u>\$ 16,909,286</u>	<u>\$ 12,292,201</u>	<u>\$ 39,180,642</u>

As at 30 June 2011:

	<u>Within 1 year</u>	<u>Between 2 and 5 years</u>	<u>After more than 5 years</u>	<u>Total</u>
Royal Bank of Canada				
Loan (i)	2,086,240	8,656,989	987,099	11,730,328
Loan (ii)	923,809	3,833,403	596,522	5,353,734
First Caribbean International Bank (Cayman) Ltd.				
Loan (iii)	923,809	3,833,403	596,522	5,353,734
Loan (iv)	458,201	1,877,597	135,392	2,471,190
Loan (v)	852,910	4,026,241	8,260,724	13,139,875
Government (vi)	<u>5,952,381</u>	-	-	<u>5,952,381</u>
	<u>\$11,197,350</u>	<u>\$22,227,633</u>	<u>\$10,576,259</u>	<u>\$44,001,242</u>

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2012

(Expressed in United States dollars)

10. Loans (continued)

- i) During the year ended 30 June 2004, the Company entered into a loan agreement with Royal Bank of Canada (Cayman Islands) (“RBC”) to obtain funds to a total value of \$23,602,333, which was to be repaid over a fifteen year period. This funding was obtained in order to provide funds for operational needs. In November 2011, the Company entered in new agreement with RBC covering all existing credit facilities (“Credit Facilities”) with RBC at that time, the terms of which supersede all previous borrowing agreements. Under the terms of the new agreement the Company is required to pay monthly principal payments of \$122,077 plus accrued interest on the outstanding balance. The loan bears a floating rate of interest priced at one month Libor plus 2.50% per annum (2011: one month Libor plus 1.25%). The loan is secured by way of guarantee from the Government. The loan now expires on May 30, 2019. During the year ended 30 June 2012, the Company incurred an interest expense of \$229,899 (2011: \$195,802) in relation to this loan. As at 30 June 2012, the principal amount outstanding on this loan is \$10,010,055 (2011: \$11,730,328).

- ii) During the year ended 30 June 2004, the Company entered into a loan agreement with RBC to obtain funds to a total value of \$21,055,000, which was to be repaid over a fifteen year period. The agreement required a local bank in the Cayman Islands to provide 50% of the required funds (see (iii) below). This funding was obtained in order to provide funds for operational needs. In November 2011, the Company entered in new agreement with RBC covering all existing credit facilities (“Credit Facilities”) with RBC at that time, the terms of which supersede all previous borrowing agreements. Under the terms of the new agreement, the Company is required to pay monthly principal payments of \$55,860 plus accrued interest on the outstanding balance. The loan bears a floating rate of interest priced at one month Libor plus 2.50% per annum (2011: one month Libor plus 1.25%). The loan now expires on May 30, 2019. The loan is secured by way of guarantee from the Government. During the year ended 30 June 2012, the Company incurred an interest expense of \$105,531 (2011: \$89,797) in relation to this loan. As at 30 June 2012, the principal amount outstanding on this loan is \$4,548,560 (2011: \$5,353,734).

In connection with the funds advanced under the Credit Facilities agreement with RBC, a right of set-off exists with respect to funds held in current or call accounts against any obligations owed by the Company to RBC.

- iii) Consequent to the agreement as described in (ii) above, RBC entered into a loan agreement with First Caribbean International Bank (Cayman) Ltd. (“FCIB”) to provide funding to a total value of \$10,527,500, which will be repaid over a fifteen year period (collectively, the “Club Loan”). Pursuant to this agreement, the Company must comply with the covenants contained in (ii) above. In the event of default, FCIB may, by written notice to the Company through RBC, declare all borrowings under the Club Loan agreement to be immediately due and payable. As at 30 June 2012, FCIB had not provided such written notice. The Company is required to pay monthly principal payments of \$55,860 plus accrued interest on the outstanding balance. The loan bears a floating rate of interest priced at one month Libor plus 2.50% per annum (2011: one month Libor plus 1.25%) and expires on May 30, 2019. The loan is secured by way of guarantee from the Government. During the year ended 30 June 2012, the Company incurred an interest expense of \$105,531 (2011: \$89,797) in relation to this loan. As at 30 June 2012, the principal amount outstanding on this loan is \$4,548,560 (2011: \$5,353,734).

- iv) During the year ended 30 June 2007, the Company entered into a loan agreement with FCIB to obtain funds to a total value of \$4,200,000, which will be repaid over a ten year period. This funding was obtained in order to provide funds for capital expenditure. The Company is required to pay an amount of \$40,000 monthly relating to both principle and interest. The loan bears a floating rate of interest priced at one month Libor plus 0.75% per annum. The loan is secured by way of guarantee from the Government. During the year ended 30 June 2012, the Company incurred an interest expense of \$876 (2011: \$29,490) in relation to this loan. As at 30 June 2012, the principal amount outstanding on this loan is \$1,978,905 (2011: \$2,471,190).

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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(Expressed in United States dollars)

10. Loans (continued)

- v) During the year ended 30 June 2009, the Company entered into a loan agreement with FCIB to obtain funds to a total value of \$15,000,000, which will be repaid over a fifteen year period. This funding was obtained in order to provide funds for operational needs. The Company is required to pay an amount of \$116,000 monthly relating to both principle and interest. The loan bears a floating rate of interest priced at one month Libor plus 3.5% per annum. The loan is secured by way of guarantee from the Government. During the year ended 30 June 2012, the Company incurred an interest expense of \$500,673 (2011: \$521,200) in relation to this loan. As at 30 June 2012, the principal amount outstanding on this loan is \$12,325,082 (2011: \$13,139,875).

Pursuant to these agreements with RBC (i), (ii) and (iii), and FCIB (iv) and (v), the Company must comply with certain covenants, namely ensuring that all scheduled repayments are current and the provision of audited financial statements and other financial data of both the Company and the Government (as guarantor). In the event of default, RBC and FCIB may, by written notice to the Company, declare all borrowings under the agreements to be immediately due and payable. During the years ending 30 June 2012 and 2011, the Company had failed to comply with certain of those covenants. However, as at 30 June 2012 and 2011, neither RBC nor FCIB had provided such written notice to the Company.

- vi) During the year ended 30 June 2010, the Company obtained a loan facility of \$5,952,381 (CI\$5,000,000) from the Government, which is unsecured and non-interest bearing. The amortised carrying value of the loan at 30 June 2012 was \$5,769,480. The funding from this loan was to allow the Company to pay any outstanding and past due third party payables. The Company is currently in the process of trying to secure new debt financing up to a value of CI\$19 million from third party financial institutions. Upon successful completion of these negotiations, it is the intention that this short term loan from Government will be repaid. Notwithstanding the foregoing, the amounts drawn down under this loan are due on demand at the request of Government. The loan is being amortised, to the ultimate principal amount payable, over the expected loan term.

Letters of credit

Royal Bank of Canada has issued a number of letters of credit on behalf of the Company in the amount of \$634,549 (2011: Royal Bank of Canada and Citi National Bank, \$493,431). These are used as collateral for United States Customs bonds and credit account support.

11. Deferred revenue

At year end, deferred revenue constitutes the following:

	<u>30 June 2012</u>	<u>30 June 2011</u>
	<u>Frequent flyer</u>	<u>Frequent Flyer</u>
	<u>programme</u>	<u>programme</u>
Liability analysed as:		
Current	2,611,499	2,611,499
Non-current	-	-
	<u>\$2,611,499</u>	<u>\$2,611,499</u>

CAYMAN AIRWAYS LIMITED

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30 JUNE 2012

(Expressed in United States dollars)

11. Deferred revenue (continued)

Frequent flyer programme

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

12. Share capital

	<u>2012</u>	<u>30 June,</u> <u>2011</u>
Authorised:		
50,000,000 ordinary shares of CI\$1 each	<u>\$60,000,000</u>	<u>\$60,000,000</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 years prior to 30 June 2009, the Government assumed the obligations to repay certain debts owing to certain creditors to a total value of \$20,990,163 of the Company and the Government subscribed a further \$2,850,000 in additional paid-in capital. Pursuant to these transactions, the Company was to issue 20,025,738 ordinary shares of CI\$1 each to the Government. During the year ended 30 June 2012, the CI Government, as part of its addressing of the Shareholder deficiency in Cayman Airways, paid US\$6,071,429 (2011: US\$6,071,429) in equity injections (Note 20). Pursuant to these transactions, the Company was to issue 5,100,000 ordinary shares of CI\$1 each to the Government.

In January 2010, the Board of Directors of the Company resolved to increase the authorized share capital of the Company from 50,000,000 units of shares to 100,000,000. However, as of 30 June 2012 and 2011, the Government, as Shareholder, had not given effect to those resolutions as passed by the Board of Directors, nor had the formalities for the issuance of the outstanding shares to the Shareholder been fully executed. Consequently, as at 30 June 2012, an amount of \$35,983,021 (2011: \$29,911,592) is shown on the Consolidated Statement of Financial Position, which represents subscriptions for shares not yet issued.

13. Related party transactions and balances

As outlined in Note 1, the Company is wholly owned by the Government. The Company engages with other entities and bodies which are related to the Government in the ordinary course of business.

As outlined in Note 2, the Company is dependent upon the financial support of Government to allow it to continue as a going concern. The Government also provided guarantees to the banks (Notes 8 and 10) in relation to its overdraft facility and long term debt, and to the leasing agent in relation to its lease obligations (Note 15). Consequently, it is probable that the terms obtained by the Company under these arrangements would likely be less favorable than without the guarantees provided by Government, or indeed, whether the Company would have been able to avail of those facilities without the Government guarantee in first instance.

CAYMAN AIRWAYS LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. Related party transactions and balances (continued)

The Government has undertaken to provide financial support to the Company to enable it to meet its liabilities as they fall due (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.

Consequently, because of the significant impact of the ongoing financial assistance provided by the Government, as Shareholder, these financial statements are significantly impacted by the assertion that this assistance will continue to be forthcoming.

During the year ended 30 June 2010, the Government issued a directive to all Ministries and other Government controlled entities that employees of those Ministries and other Government controlled entities ensure that, to the extent possible, all air travel be done with the Company. It is not possible to ascertain what impact this directive had on the Company's revenue.

During the year ended 30 June 2007, in connection with the Company's acquisition of its new corporate headquarters, the Company was granted a waiver from the Government in connection with the stamp duty which would have been payable by the Company on the acquisition cost of the property. The value of the stamp duty waived was estimated to be worth about \$314,625; however, the benefit has not been recognised as contributed capital in the Consolidated Statement of Financial Position.

The key management of the airline is comprised of 8 positions (2011: 8 positions), which are the President and Chief Executive Officer (along with 1 support staff function), one Executive Vice President, three Vice Presidents and two Director level positions. Total remuneration earned by key management during the year ended 30 June 2012 was \$1,334,715 (2011: \$1,158,691). Total remuneration for the period includes medical and pension contribution, housing allowances, acting allowances and severance pay. There were no salary advances or loans issued to key management during the period (2011: \$Nil).

All of the members of the Board of Directors are voluntary and do not receive any remuneration for services rendered. Directors are entitled to utilize certain flight benefits.

Furthermore, current and former staff and their family members received discounted travel with the Company. As this benefit is 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.

Other significant related party transactions and balances are as disclosed in Notes 2, 6, 8, 9, 10, 12, 15, 16 and 20 of these financial statements.

14. Pension plan

The Company and its employees make contributions to a defined contribution pension plan regulated in the Cayman Islands. These employees contributed 5% of their annual salaries to the plan during the year and the Company matched such contributions. During the year ended 30 June 2012, the Company made \$911,159 (2011: \$572,722) in pension contributions which is included in other staff costs in the Consolidated Statement of Comprehensive Loss.

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15. Lease commitments

The Company has entered into a number of operating lease agreements for its operations, including leases for rentals of four aircraft and premises. During the year ended 30 June 2012, the Company made payments under these leases of \$6,627,767 (2011: \$4,647,363) which are included within the aircraft rentals and other operating expenses. A number of the leases have an option for renewal at the end of their primary lease term at the option of the Company.

Year ended 30 June 2012:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
Lease payments	\$ <u>6,280,191</u>	\$ <u>345,565</u>	\$ <u>6,625,756</u>

Year ended 30 June 2011:

	<u>Aircraft</u>	<u>Premises</u>	<u>Total</u>
Lease payments	\$ <u>4,647,000</u>	\$ <u>100,363</u>	\$ <u>4,747,363</u>

Minimum lease commitments outstanding at the end of the year pursuant to these leases and to rights of renewal that the Company expects to exercise are as follows as at 30 June 2012:

	<u>Aircraft & Engines</u>	<u>Premises</u>	<u>Total</u>
2013	\$ 5,569,500	\$ 170,773	\$ 5,740,273
2014	3,698,000	124,445	3,822,445
2015 and beyond	<u>641,000</u>	<u>-</u>	<u>641,000</u>
Total	\$ <u>9,908,500</u>	\$ <u>295,218</u>	\$ <u>10,203,718</u>

As at 30 June 2011:

	<u>Aircraft</u>	<u>Premises</u>	<u>Total</u>
2012	\$ 4,488,000	\$ 70,240	\$4,558,240
2013	4,488,000	71,028	4,559,028
2014	3,698,000	53,270	3,751,270
2015 and beyond	<u>641,000</u>	<u>-</u>	<u>641,000</u>
Total	\$ <u>13,315,000</u>	\$ <u>194,538</u>	\$ <u>13,509,538</u>

Aircraft leases

The Company has entered into lease agreements with International Lease Finance Corporation (“ILFC”) and Castle 2003 1A LLC (“Castle”) (the “lessors”) in connection with the leasing of Boeing 737-300 aircraft. Both ILFC and Castle have the same ultimate parent company. Pursuant to the lease agreements, the Company advanced a number of refundable security deposits to a total value of \$1,400,000 for the term of the lease. These deposits (Note 4) are refundable at the end of the lease term. Lease payments are due monthly in advance, and all balances overdue are subject to an interest charge of 8% per annum. There are no balances overdue as at 30 June 2012 (2011: nil). As at 30 June 2012, included within accounts payable is an amount of \$2,464,804 (2011: \$403,446) owing to ILFC and Castle in respect of lease rental obligations.

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15. Lease commitments (continued)

Under the terms of the lease agreements, the Government has issued guarantees to the lessor in respect certain lease obligations up to a maximum value of 24 months worth of lease payments (i.e. 6 months against each of the 4 individual aircraft leases in place) of approximately \$2,240,000 (2011: \$2,240,000) as at 30 June 2012. During the year ended 30 June 2012, the Company renegotiated the leases with the lessor in connection with the renewal of one of the aircraft. The end result of the renegotiations is that the aircraft up for renewal was retained and the leases were extended to expire sequentially in late 2013 through late 2014.

16. Government output payments

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

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

Strategic Domestic and Strategic Tourism are operations which are considered critical for the Cayman Islands, but do not provide sufficient economic justification themselves for an airline to operate. Accordingly, the Government purchases these operations from the Company (these purchases are referred to as "Output Payments"). During periods of economic slow-down, the Government may also purchase certain of the Core operations from the Company as well. During the year ended 30 June 2012, the Government paid Output Payments to the Company totalling \$18.8 million (2011: \$17.8 million) for it to provide these services as part of a defined Purchase Agreement. The Purchase Agreement is a formal contract which is agreed and executed between the Company and the Government prior to the start of any subsequent fiscal year as part of the Government Budget process. The Agreement requires the Company to provide defined services within a range relating to both a quantity of flights and number of passengers. For both 2012 and 2011, the Company provided the defined services within the specified ranges. Additionally, the Company is required to file quarterly reports with the Government indicating its compliance with these provision requirements. Output payments are paid quarterly in four equal instalments.

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 minimize 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 30 June 2012 and 2011, significantly all of the cash at bank is placed with 2 financial institutions, being RBC and Bank of America (located in the United States), which in the opinion of management are stable financial institutions. Management does not anticipate any material losses as a result of this concentration.

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

For trade customers, the Company performs adequate due diligence (including, but not limited to, independent credit ratings, assessment of credit quality, taking into account its financial position, past experience and other factors) on the stability of the customer and their repayment capabilities prior to extending credit. On an on-going basis, management regularly monitor the level debts outstanding from customers to ensure that the risk of loss arising from default is minimized. 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 (65% (2011: 68%)). 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 Company has not established any credit limits for its customers.

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

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

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 and 10, the Company has an overdraft facility and long term debt which are priced at a floating rate of interest, which is reset monthly as market rate changes. The Company is exposed to cash flow interest rate risk should market rates change. As outlined in Note 10, the loan from Government is non-interest bearing and due on demand. Management does not consider the Company to be exposed to interest rate risk on cash at bank, since this cash is held on call.

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17. Financial instruments risk (continued)

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

	<u>2012</u>	<u>2011</u>
+ 1.00%	(421,549)	(392,960)
- 1.00%	421,549	392,960

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 (in the form of bank overdraft) to sustain operations of the Company. The Company maintains liquidity for its operations and payment of its debt through retaining sufficient available funds in the form of cash at bank and making use of the bank overdraft facility (Note 8), 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 30 June 2012:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Bank overdraft	8,679,448	-	-	8,679,448
Accounts payable and acc. expenses	32,424,380	-	-	32,424,380
Loans	9,979,155	16,909,286	12,292,201	39,180,642
Interest payments on loans	<u>957,522</u>	<u>2,628,280</u>	<u>951,122</u>	<u>4,536,924</u>
Total cash outflows	<u>\$52,040,505</u>	<u>\$19,537,566</u>	<u>\$13,243,323</u>	<u>\$ 84,821,394</u>

As at 30 June 2011:

	<u>< 1 year</u>	<u>>1 < 5 Years</u>	<u>5 years +</u>	<u>Total</u>
Cash outflows				
Bank overdraft	1,247,179	-	-	1,247,179
Accounts payable and acc. expenses	22,940,939	11,380,571	-	34,321,510
Loans	11,526,195	24,433,191	8,041,856	44,001,242
Interest payments on loans	<u>811,088</u>	<u>2,246,665</u>	<u>1,046,274</u>	<u>4,104,027</u>
Total cash outflows	<u>\$36,525,401</u>	<u>\$38,060,427</u>	<u>\$ 9,088,130</u>	<u>\$ 83,673,958</u>

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17. Financial instruments risk (continued)

Commodity price risk

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

18. Financial instruments - fair values

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

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

The fair value of cash and cash equivalents, accounts receivable (net of provisions), security deposits, bank overdraft, accounts payable and accrued expenses and due to related parties approximates carrying value due to their short-term nature. The fair value of the Government loan approximates carrying value, as this loan is due on demand. The fair value of the on demand loan which is at a floating rate of interest (Note 10) approximates the carrying value as in the opinion of management the current rate approximates the interest rate which the Company expects similar financing for similar term to be raised at, at the statement of financial position dates, and additionally, the rate is reset in response to market changes.

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 (CI\$425,000) (or an amount as per the principal debt service agreement(s) then in effect) commencing 1 July 2010 until 30 June 2020. During the year ended 30 June 2012, the Government has paid 12 monthly equity injections of CI\$425,000 to the Company.

The Company is not subject to any externally imposed capital requirements.

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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 are detailed below.

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 market value 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 and 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.

Aircraft and flight equipment held for sale

As of 30 June 2012, the Company had \$Nil (2011: \$700,000) of aircraft and flight equipment held for sale assets. In accounting for aircraft and flight equipment held for sale, the Company must make estimates about the expected residual value of the assets, and the potential for impairment based on the fair value of the assets.

In estimating the expected residual values of its aircraft, the Company has primarily relied on its own and industry experience, and other available marketplace information. Subsequent revisions to these estimates, which can be significant, could be caused by changes to governmental regulations on aging of aircraft and changing market prices for new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions in each reporting period, and, when warranted, adjusts these assumptions.

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21. Certain significant estimates (continued)

Heavy maintenance

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

No provision has been made in either 2012 or 2011 for heavy maintenance checks. For all but one of the leased aircraft, the heavy maintenance check falls outside of the lease return date. For the remaining aircraft, reserves paid over to the lessor are expected to be sufficient to cover any liability to which the Company falls subject.

Frequent flyer provision

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

Provision for impairment of trade receivables (Note 6)

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will reject charges and default or delinquencies in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account and the amount of the loss is recognized within the consolidated statement of comprehensive loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against the same account in the consolidated statement of comprehensive loss.

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 impose 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

Subsequent to the year end and as of the date of authorization of these financial statements the Company has received from the Cayman Islands Government US\$5.0 (CI\$4.25) million in equity injections in compliance with its financial commitment in April 2010.