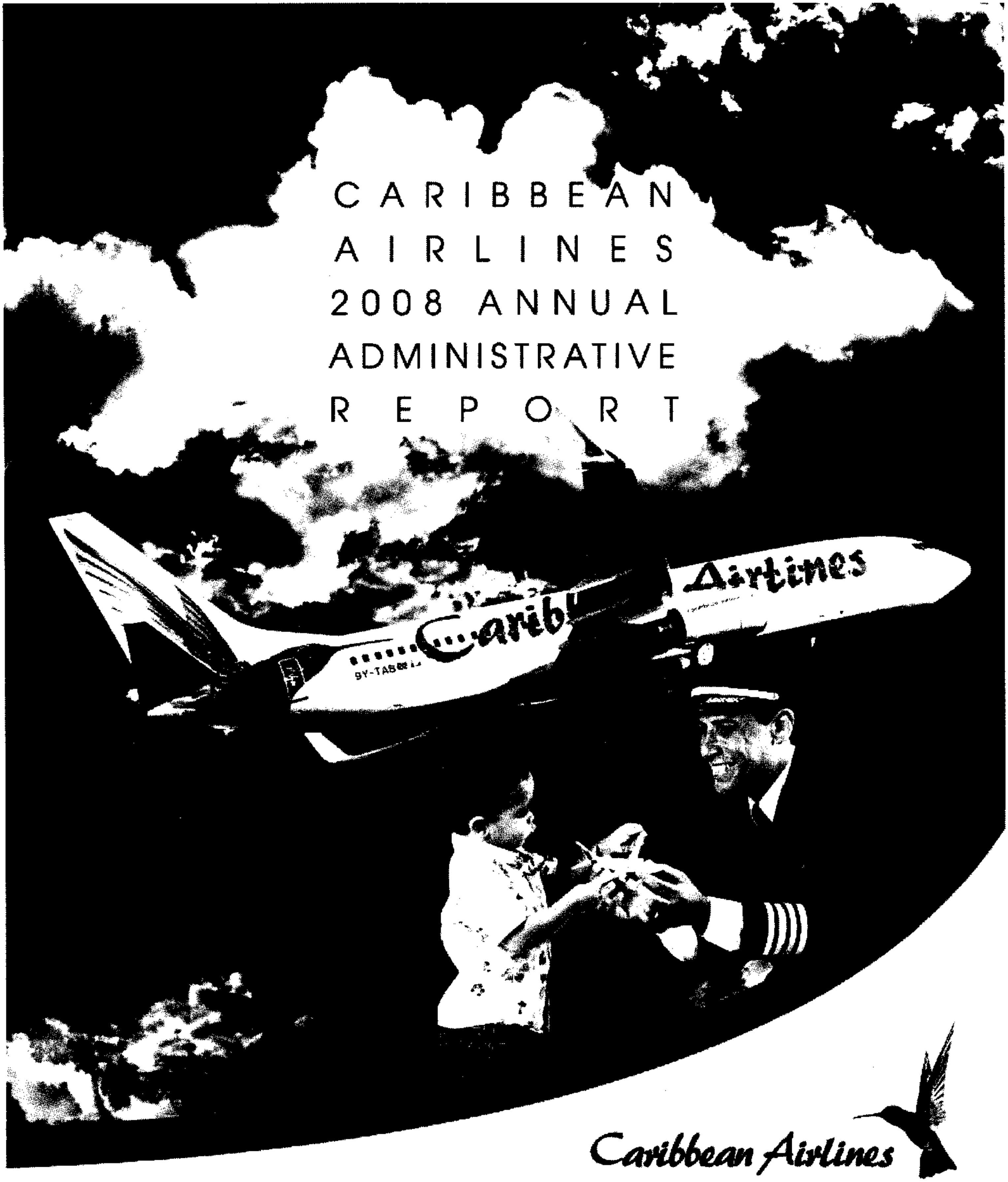
CARIBBEAN AIRLINES 2008 ANNUAL ADMINISTRATIVE REPORT



Caribbean Airlines
the warmth of the islands

SUBMITTED TO
THE GOVERNMENT OF THE REPUBLIC OF TRINIDAD AND TOBAGO
09 DECEMBER 2009

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Aon Aviation Aon Risk Services Southwest, Inc.
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Local office:
Aon Energy Caribbean Limited
1 Murray Street
Woodbrook, Port of Spain,
Trinidad and Tobago, W.I.

Incorporation Date:	27 September 2006	
Operational Launch:	01 January 2007	
Board of Directors:	Mr. Arthur Lok Jack (Chairman) Mr. Gervase Warner	Mr. Shafeek Sultan-Khan Mr. Robert Riley
Corporate Headquarters:	Iere House, Golden Grove Road, Piarco, Trinidad, West Indies + 868.669.3000	
Airline Code:	BW	
Operational Hub:	Piarco International Airport, Trinidad, West Indies	

MISSION AND VISION OF CARIBBEAN AIRLINES

THE **MISSION** OF CARIBBEAN AIRLINES IS:

"To raise customer satisfaction by delivering our promises in providing the highest standards of service and reliability marked by genuine Caribbean hospitality, commitment to safety, and consistent value delivered by passionate people."

CARIBBEAN AIRLINES WILL ACHIEVE THIS **MISSION** BY:

Managing sustainable profitable growth, and establishing a position of leadership as the first choice carrier to, from, and within the Caribbean. The airline's skills at containing costs enables it to provide flexible travel solutions at an affordable price with a relentless focus on improving service.

THE **VISION** FOR THE PEOPLE OF CARIBBEAN AIRLINES IS THAT:

We are committed to providing a safe, stable working environment with high levels of productivity, empowerment and personal accountability with opportunity for personal and professional growth.

Our employees' commitment, skills, creativity and pride will be the cornerstone of our success."

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1. GOALS AND OBJECTIVES IN 2008

Caribbean Airlines continues to base its leadership on an unparalleled offer with levels of flexibility, choice, service reliability and value-for-money.The airline builds on strong foundations which were established in its first year of operation.This enables the airline to continue along a path of accelerated change and transformation.

With the industry standard for On Time Performance (OTP) is 85%, in 2008 Caribbean Airlines superseded this benchmark and delivered strong operational performance which was demonstrated by a system-wide OTP performance of 88%. This excellent trend continues and the airline is well on its way to achieving in excess of 90% overall OTP for 2009.

The level of Customer Service consistently delivered in 2008 exceeds industry standards. For instance, although the industry standard is 8 mishandled bags in every 1000, the airline average is approximately 0.7 mishandled bags per 1000.

1.1 COMMERCIAL STRATEGY

Caribbean Airlines continued its commitment to the development of Piarco International Airport as the leading regional transfer hub connecting the Caribbean to North and South America has been already established in Trinidad and Tobago was widened to encompass Guyana and Suriname.

In 2008 the airline community lost approximately USD10.4 billion. It has been suggested that the aviation industry will remain in survival mode for the foreseeable future[1]. However, Caribbean Airlines has clearly demonstrated its potential to develop a position of regional leadership, irrespective of the adverse economic conditions that presented themselves in 2008. This performance is based on a clearly defined and well executed strategy which makes travel across the airline's route network more convenient and affordable, as well as being marked by a determination to develop network and capacity on a robust and responsible basis. The airline's budget and business plans continue to project sustainable growth on international routes, thereby reinforcing the attractiveness of its product and capability to win in the struggle with competitors.

The commercial strategy continues to ensure that it make its environment ever more challenging for competitors and the airline will raise the barriers of entry for any carrier seeking either to enter the market or grow service to the region.

Trinidad and Tobago Air Bridge – The air bridge is an integral social service which cannot allow any interruption to its operations. Caribbean Airlines continues to demonstrate its commitment to this goal by implementing systematic changes to improve fleet reliability.

Distribution – Caribbean Airlines continued to focus on a comprehensive overhaul of its product distribution capabilities, which will simplify processes, provide customers with greater control and more choice in their relationship with the airline, and reduce costs. The project was divided into two phases, initially focusing on domestic services and, once successfully established, turned to international operations. In parallel, Caribbean Airlines focused on all areas of costs of sale to improve efficiency and manage costs, including commissions, call centre activities, management of sales channels and the further development of online sales and customer servicing.

Ancillary Revenues – Caribbean Airlines continues to enhance its ancillary revenue streams in various areas of the company.

1 Source IATA

1.2 Transform Cost Performance

Caribbean Airlines continued its efforts to reduce its operational costs in 2008 and the airline measured its performance against all its unit cost KPIs. Improved delivery at all levels of the organisation was a main objective across the organisation and relationships with outsourced partners were consistently managed in a robust manner. Detailed analysis of external providers' work streams was constantly undertaken to ensure that value for money is delivered

Strategic cost initiatives, including Information Systems (IS) infrastructure and distribution, will achieve a step change, whilst a review of all activities, suppliers and contracts will secure significant cost savings, as well as a stronger sense of accountability across all functional areas. This cost base was managed aggressively whilst continuing to deliver a high-quality service experience.

2. Achievements in 2008

During 2008, 40 services were provided daily between Trinidad and Tobago, and additional capacity was deployed to meet demand for the annual Jazz Festival and the traditional "Summer Peak", thereby achieving new levels of choice and reliability never before experienced on the 'air-bridge' service.

This growth was further consolidated throughout 2008. An additional B737-800 was added in April via a long-term dry lease. During the peak Christmas season, the airline offered up to 25 flights per week to New York, 14 flights per week to Toronto, daily service to both Miami and Fort Lauderdale, up to 21 flights per week to Georgetown, up to 9 flights per week to Kingston and, for the first time, daily service to Paramaribo in Suriname.

In addition to expanding the jet fleet from six to 7 Boeing 737-800 aircraft in a seamless manner, the airline produced more than 1,723,075,000 Available Seat Miles (ASMs) across the network. As a result total traffic for Caribbean Airlines grew by 93% to over 1.6 million customers.

The first full year of operation on the Trinidad-Tobago Air Bridge provided an unprecedented level of reliability with an average On Time Performance of over 90%.

Caribbean Airlines' cabin crew delivered award-winning service with recognition from Skytrax, the leading consumer website for commercial airlines. In addition, Caribbean Airlines was able to provide competitive prices with all-inclusive fares and no hidden extras.

2.1 Return of Aircraft Heavy Maintenance to Piarco

After a hiatus of some seven years, heavy maintenance of jet aircraft was finally brought back to the hangars at Piarco in April 2008. Not only does this initiative have positive implications for the technological development of the airline's employees, but it represented significant cost savings.

The Boeing 737-800 Heavy Maintenance C Check is performed approximately every eighteen months and, due to the mature age of the aircraft, lasts some 5 weeks. This maintenance event is heavily labour-intensive. Consequently, due to Caribbean Airlines' marked advantage in labour rates, a saving of some US$ 400,000 per C Check was realised. Since April 2008, the airline has performed C Checks on the entire fleet of eight jet aircraft.

2.2 Fleet Renewal

In 2008 it was understood that an intensive and expeditious analysis must be undertaken by Caribbean Airlines to pick the right aircraft type from the various offerings to best match its air lift missions. Replacement of the two aging fleet in the shortest possible time must be a priority.

Caribbean Airlines recognises the advantages and economics of scale of a much wider fleet change scenario involving a consolidated regional entity. This expedient should add impetus to the road map for consolidation in the Caribbean region.

3. INITIATIVES FOR 2008

3.1 CUSTOMER SERVICE REQUIREMENTS

More customers than ever are using the airline's online services via its corporate website (www.caribbean-airlines.com) to find out all they need to know relating to the airline's services like buying tickets and to check-in online. During 2008 the airline experienced a strong increase in the use of online check-in. This service represents a convenient and smart way to cut waiting times at the airport thanks to dedicated baggage check-in desks for customers selecting online check-in. Caribbean Airlines is working on a complete overhaul of its reservations and distribution platform to increase customer satisfaction in this area. During 2010 Caribbean Airlines shall offer a much improved online booking engine providing transparency and ease of access to low fares, as well as the facility to manage bookings online. Customers can make changes to reservations and even cancel flights on the website. The airline will use this platform to provide a new, reliable portal for travel agencies which will support the delivery of tailored distribution solutions for our partners in the travel industry. Caribbean Airlines has strengthened its payment processing for credit and debit cards resulting in faster, secure transactions for customers.

3.2 REGIONAL STRATEGY

Caribbean Airlines continues to grow by focusing on its core model, whilst considering all opportunities to expand and reinforce its position of regional leadership.

3.3 HUMAN CAPITAL

Commitment to its people is also reflected in our focus on Health and Safety. In 2009 the objective is to ensure 75% compliance with OSH Act.

In 2009 Caribbean Airlines will be completing a comprehensive survey of the developmental needs of all staff so that appropriate training can be planned and provided.

3.4 SUSTAINABILITY PROJECTS

a. Carbon Neutral

Travellers continue to have the option of off-setting their carbon emissions when travelling with Caribbean Airlines by subscribing to the CarbonNeutral® Project. The airline continues to view this activity as significant potential in gaining greater loyalty from its customers.

b. Greater Operational Efficiency

Caribbean Airlines continues to examine its operations for any opportunities to increase the efficiency of our aircraft and thereby reduce the CO_2 produced.

c. ISO Voluntary Standards

Caribbean Airlines is aware that the International Standards Organisation (ISO) has launched the development of the future ISO 26000 standard which seeks to provide voluntary guidance on social responsibility (SR). This standard will be published towards the end of 2010 and includes 7 core subjects:

1. Organizational governance
2. Fair operating practices
3. The environment
4. Human rights
5. Labour practices
6. Consumer issues
7. Community involvement and development.

Once published, Caribbean Airlines is of the belief that voluntary adoption of this standard will provide practical guidance on implementing sustainability throughout the organisation. This enables the airline's communicators to be able to use the standard to develop airline specific practices in sustainability communication and stakeholder engagement.

4. 2008 Financial Performance

2008 marked a significant year for the airline industry. By the end of June 2008, 24 international airlines had already gone out of business. The key questions surrounding the sector focused on survival in one of the worst economic periods of aviation history.

Fuel prices sky rocketed to almost 140USD per barrel in July 2008 with fuel representing nearly 50% of direct operating costs of airline companies. Only those well hedged could see the future positively or even survive. Then in an unprecedented move the fuel price dropped to less than 50USD per barrel by December 2008.

Despite these circumstances, Caribbean Airlines delivered some notable accomplishments (See Appendix 1 – Caribbean Airlines Consolidated Financial Results 2008). This meant that the airline realised a profit before tax of USD7.5 million in the second year of operation producing more than 1,723,075,000 Available Seat Miles (ASMs) across the network and a growth in total traffic by 93% to over 1.6 million customers with an expansion of the jet fleet from 6 to 8 Boeing 737-800 aircraft.

APPENDIX 1
CARIBBEAN AIRLINES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS OF
DECEMBER 31, 2008

Independent Auditor's Report

To the Shareholders of Caribbean Airlines Limited

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Caribbean Airlines Limited and its subsidiary (the Group), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated statement of income, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 whether the 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 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2008, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG

Chartered Accountants

July 15, 2009
Port of Spain
Trinidad, W.I.

CARIBBEAN AIRLINES LIMITED
CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2008
(Expressed in thousands of Trinidad and Tobago dollars)

	Notes		2008	2007
ASSETS				
Non-Current Assets				
Property, plant and equipment	1	$	173,306	139,828
Investment in associated companies	2		21,325	20,332
Prepaid maintenance reserves			294,636	374,077
Aircraft and other deposits	3		128,076	128,806
			617,343	663,043
Current Assets				
Inventories	4		64,267	43,369
Trade receivables			127,849	103,051
Due from related parties	5		269,248	589,702
Other receivables and prepayments	6		81,974	72,145
Cash and cash equivalents			781,396	484,784
			1,324,734	1,293,051
Total Assets		$	1,942,077	1,956,094
EQUITY AND LIABILITIES				
Capital and Reserves				
Stated capital	7	$	726,606	726,606
Accumulated deficit			(83,214)	(117,592)
			643,392	609,014
Non-Current Liabilities				
Provisions	9		536,738	648,124
Long-term borrowings	10		-	41,803
Deferred tax	14		11,971	-
			548,709	689,927
Current Liabilities				
Accounts payable			43,385	127,304
Accrued expenses and other payables	8		35,984	70,516
Due to related parties	5		108,747	3,587
Provisions	9		7,880	56,172
Short term borrowings	10		7,421	10,891
Unearned transportation revenue			546,559	388,683
			749,976	657,153
Total Equity and Liabilities		$	1,942,077	1,956,094

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

Director

Director

CARIBBEAN AIRLINES LIMITED
CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2008

(Expressed in thousands of Trinidad and Tobago dollars)

	Notes		2008	2007
Operating Revenues				
Scheduled passengers		$	1,247,467	945,263
Cargo and mail			42,710	47,444
Other income	11		166,342	117,237
			1,456,519	1,109,944
Operating Expenses				
Staff costs	12		244,599	186,312
Fuel			242,530	211,997
Lease of aircraft and engines			178,218	148,666
Maintenance costs			123,750	111,383
Passenger expenses			115,797	75,710
Selling and marketing			56,981	51,398
Commissions			55,156	39,059
Aircraft ground handling and navigation			161,582	119,303
Crew expenses			16,413	16,543
Rental of property, plant and equipment			-	7,058
Depreciation			24,185	1,258
Other expenses	13		204,555	165,052
			1,423,766	1,133,739
Profit (loss) from operations			32,753	(23,795)
Other (Expenses) Income				
Interest income			31,887	24,712
Interest expense			(3,894)	(2,262)
Foreign currency loss			(13,981)	(7,553)
Share of associated company profits			993	-
Negative goodwill			-	53,280
Restructuring and transition costs			-	(160,984)
			15,005	(92,807)
Profit (loss) before Taxation			47,758	(116,602)
Taxation	14		(13,380)	(990)
Profit (loss) for the year		$	34,378	(117,592)

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

CARIBBEAN AIRLINES LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED DECEMBER 31, 2008

(Expressed in thousands of Trinidad and Tobago dollars)

		Stated Capital	Accumulated Deficit	Total
Year ended December 31, 2007				
Issue of stated capital	$	726,606	-	726,606
Loss for the year		-	(117,592)	(117,592)
Balance at December 31, 2007	$	726,606	(117,592)	609,014
Year ended December 31, 2008				
Balance at December 31, 2007	$	726,606	(117,592)	609,014
Profit for the year		-	34,378	34,378
Balance at December 31, 2008	$	726,606	(83,214)	643,392

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

CARIBBEAN AIRLINES LIMITED
CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2008
(Expressed in thousands of Trinidad and Tobago dollars)

	Notes		2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before taxation		$	47,758	(116,602)
Adjustment to reconcile profit (loss) before taxation to net cash from (used in) operating activities:				
Unearned transportation revenue recognised in the year			157,876	102,560
Share of associated company profits			(993)	-
Negative goodwill			-	(53,280)
Depreciation charged			24,185	1,258
Provisions			59,580	-
Interest income			(31,887)	(24,712)
			256,519	(90,776)
Net change in operating assets and liabilities	15		112,921	(153,264)
Tax paid			(1,779)	(803)
Net cash from (used in) operating activities			367,661	(244,843)
CASH FLOWS FROM INVESTING ACTIVITIES				
Property plant and equipment			(57,663)	-
Investments in subsidiary and associated companies			-	(20,784)
Interest received			31,887	24,712
Net cash (used in) from investing activities			(25,776)	3,928
CASH FLOWS FROM FINANCING ACTIVITIES				
Loan repayment			(45,273)	(907)
Net proceeds from issue of shares			-	726,606
Net cash (used in) from financing activities			(45,273)	725,699
Increase in cash and cash equivalents			296,612	484,784
CASH AND CASH EQUIVALENTS AT START OF YEAR			484,784	-
CASH AND CASH EQUIVALENTS AT END OF YEAR		$	781,396	484,784

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

Incorporation and Principal Activity

Caribbean Airlines Limited (CAL) was incorporated in the Republic of Trinidad and Tobago on September 27, 2006 and commenced commercial operations on January 1, 2007. CAL is the national airline of Trinidad and Tobago with its main hub at the Piarco International Airport in Trinidad and Tobago. It operates international services in the Caribbean and to the United States, United Kingdom, Canada and South America. The airline is wholly owned by the Government of the Republic of Trinidad and Tobago (GORTT). On October 1, 2007, CAL acquired all of the issued share capital of Tobago Express Limited and assumed all responsibilities for the operation of the domestic route, previously undertaken by Tobago Express Limited. CAL's registered office is located at 17-19 Pembroke Street, Port of Spain. The consolidated financial statements of CAL as at and for the year ended December 31, 2008 comprise CAL and its subsidiary (together referred to as the "Group" and individually as "Group entities") and the Group's interest in associated companies.

	Shareholding	**Country of Incorporation**
Tobago Express Limited	100%	Trinidad and Tobago
Katerserv Limited	40%	Trinidad and Tobago
Allied Caterers Limited	36%	Trinidad and Tobago

Up to October 1, 2007, Tobago Express Limited's principal activity was the provision of air transportation services between Trinidad and Tobago. Subsequent to that date, it became dormant and all operations were absorbed by CAL.

CAL acquired the shares in Katerserv Limited on December 20, 2007. The principal activities of Katerserv Limited are the catering of food, beverage and other airport services for the airline industry, and the operation of a restaurant

CAL acquired the shares in Allied Caterers Limited on December 20, 2007. The principal activities of Allied Caterers Limited are the catering of food and beverage for offshore and non-airline operations and the rental of its facilities and delivery equipment to Katerserv Limited.

On July 15, 2009, the Board of Directors of CAL authorised these consolidated financial statements for issue.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) *Statement of compliance*

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board.

(b) *Basis of preparation*

The consolidated financial statements are prepared on the historical cost basis.

(c) *Functional and presentation currency*

Items in the consolidated financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Group. The consolidated financial statements are presented in Trinidad and Tobago dollars which is the Group's functional currency.

(d) *Critical accounting estimates and judgements*

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 19 - Use of Accounting Estimates and Judgements.

(e) *Foreign currency transactions*

Foreign currency transactions are translated to Trinidad and Tobago currency at the rates of exchange prevailing at the date of each transaction. At the balance sheet date, amounts receivable and payable in foreign currencies are translated at the rates of exchange prevailing at that date. Resulting translation differences between the amounts at which transactions are originally recorded and those at which they are paid, or to which they are adjusted at the balance sheet date are brought to account as translation gains or losses in the consolidated statement of income in the year in which the translation rates change.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the translation rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Trinidad and Tobago dollars at foreign currency translation rates prevailing at the dates the fair value was determined.

(f) *Financial Instruments*

Financial instruments in the consolidated balance sheet include aircraft and other deposits, trade receivables, due from related parties, other receivables, cash and cash equivalents, borrowings, accounts payable, accrued expenses and other payables. The particular recognition methods adopted are disclosed in the policy statements associated with each item.

(g) *Basis of consolidation*

(i) Subsidiary

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of the subsidiary have been changed when necessary to align it with the policies adopted by the Group.

(ii) Associated companies

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity.

(g) ***Basis of consolidation*** (continued)

(ii) *Associated companies* (continued)

Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(h) ***Property, plant and equipment***

(i) *Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy *(j)*). Items of property, plant and equipment are initially recorded at cost, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition. The cost of acquired assets includes the initial estimate at the time of installation and during the period of use, when relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

(h) ***Property, plant and equipment*** (continued)

(ii) *Subsequent expenditure*

Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the statement of income during the financial period as an expense as incurred.

(iii) *Depreciation*

Depreciation and amortisation are provided on a straight line basis on all items of property, plant and equipment. The depreciation and amortization rates of owned assets are calculated so as to allocate the cost or valuation of an asset, less any estimated residual value, over the assets' estimated useful lives to the Group. Assets are depreciated or amortised from the date of acquisition or, with respect to internally constructed assets, from the time an asset is completed and available for use. The costs of improvements to assets are amortised over the remaining useful life of the asset or the estimated useful life of the improvement, whichever is shorter.

The depreciation and amortisation periods are as follows:

Ground equipment	-	10 years
Leasehold improvements	-	30 years
Furniture and office equipment	-	5 years
Motor vehicles	-	5 years
Computer equipment	-	3 years
Aircraft and aircraft parts and spares	-	10 to 20 years.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted, if appropriate, at each balance sheet date.

(iv) *Disposal*

Gains and losses on the disposal of property, plant and equipment are determined by reference to their carrying amounts and are taken into account in determining the net income for the year.

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the statement of income.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(j) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses, if any, are recognised in the statement of income. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Non-Financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

(j) *Impairment* (continued)

(ii) Non-Financial assets (continued)

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the statement of income. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(k) Prepaid maintenance reserves

Prepaid maintenance reserves are deposits held by the lessors of aircraft to fund future major overhaul requirements for engine, APU, airframe and landing gear related expenses that meet the criteria of the lease agreement.

(l) Aircraft and other deposits

Aircraft deposits are cash deposits paid primarily to lessors of aircraft under operating leases. The aircraft deposits are refundable to the Group at the end of the lease term once the leased aircraft are returned to the lessors in the conditions stipulated in the respective lease agreements. Miscellaneous deposits consist primarily of cash security deposits paid to certain credit card institutions. These are refundable.

(m) Inventories

Inventories are stated at the lower of cost and net replacement cost, cost being determined on the first in, first out method.

(n) Receivables

Current receivables are recognised and carried at original invoice amount less impairment losses. A provision of impairment for receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the consolidated statement of income. Bad debts are written off as incurred.

(o) Cash and cash equivalents

Cash and cash equivalents includes cash at bank and on hand, cash at call and short-term money market securities and term deposits with an original maturity of three months or less.

(p) Stated capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares are recognised as a deduction from equity.

(q) Payables

Liabilities for trade creditors and other amounts are carried at cost.

(r) Provisions

A provision is recognised 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 benefits will be required to settle the obligation, the timing or amount of which is uncertain. If the effect is material, a provision is determined by discounting the expected future cash flows required to settle the obligation at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is treated as a finance charge.

(i) Re-delivery and engine repair

A provision for re-delivery (including engine repairs upon re-delivery) is expensed during the lease term when the Group is required to return the aircraft to the lessor in certain contractually pre-determined conditions.

(r) ***Provisions*** (continued)

(ii) *C-check maintenance*
A provision for C-check related maintenance expenses is recognised when the Group is required to perform C-checks.

(iii) *Prepaid reserve*
A provision for overhaul expenses is recognised when the Group is required to adhere to certain maintenance conditions during the lease term. (See accounting policy (t)).

(iv) *Frequent flyer*
A provision for frequent flyer is recognised as points are accumulated, net of redemption and expiration points. (See Note 9 and accounting policy (y)).

(v) *Other provisions*
Other provisions include provisions for leave arising from employees' entitlement to annual leave which is recognised when it accrues to employees.

(s) ***Revenue recognition***

Passengers, cargo and mail and other revenue
Passengers, cargo and mail and other revenue are recognised in the consolidated statement of income at the fair value of the consideration receivable net of passenger and freight interline/IATA commission and applicable taxes. Passenger recoveries (including fuel surcharge on passenger tickets) are recognised as part of other revenue.

Freight fuel surcharge is recognised as part of cargo and mail revenues. Other sales commissions paid by the Group are included in expenditure. Passengers, cargo and mail and other revenue are credited to revenue received in advance i.e. unearned transportation revenue and subsequently transferred to revenue when passengers or cargo are uplifted. Changes in these estimation methods could have a material impact on these consolidated financial statements.

(s) ***Revenue recognition*** (continued)

Other income

Additionally, revenue from aircraft charter and leases, property income, Club Caribbean membership fees, income from the partners in the frequent flyer programme, freight terminal and service fees, commission revenue, age availed surplus revenue and other miscellaneous income are recognised as other income at the time the services are provided.

Finance income

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

Asset disposals

The gain or loss on the disposal of assets is recognised at the date the significant risks and rewards of ownership of the asset passes to the buyer, usually when the purchaser takes delivery of the asset. The gain or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

(t) ***Maintenance and overhaul costs***

Maintenance and repair costs for owned and leased aircraft and engines, including the overhaul of aircraft components, are charged to operating expenses as incurred. Component/engine overhaul costs covered by CSP/PBH arrangements are paid and expensed as incurred, on the basis of hours flown per the contract. Under the terms these agreements, a set dollar amount per engine hour flown on a monthly basis is paid to a third-party vendor who assumes the obligation to repair the engines, subject to certain specified exclusions.

Additionally, under the terms of the 737 lease agreements, the Group pays maintenance reserves to aircraft and engine lessors that are to be applied towards the cost of future maintenance events. These reserves are calculated based on flight hours, and are specifically to be used to reimburse third-party providers that furnish services in connection with maintenance of these leased aircraft. If there are sufficient funds on deposit to pay the invoices submitted, they are paid. However, if amounts on deposit are insufficient to cover the invoices, the Group must cover the shortfall as it is legally responsible for maintaining the lease aircraft. If there are excess amounts on deposit at the expiration of the lease, the lessor is entitled to retain any excess amounts.

(t) *Maintenance and overhaul costs* (continued)

The maintenance reserves paid under lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, the Group maintains the right to select any third-party maintenance providers. Therefore, it records these amounts as prepaid maintenance reserves in the non-consolidated balance sheet and then recognises maintenance expense when the underlying maintenance is performed, in accordance with the maintenance accounting policy.

(u) *Employee benefits*

Employee benefits are all forms of consideration given by the Group in exchange for service rendered by employees. These include current or short-term benefits such as salaries, bonuses, NIS contributions, annual leave and non-monetary benefits such as medical care and loans.

Liabilities in respect of employee benefits for wages, salaries and annual leave expected to be settled within 12 months of the year-end, represent present obligations resulting from employees' services provided to consolidated balance sheet date. The calculation of these liabilities is based on remuneration wage and salary rates that the Group expects to pay as at consolidated balance sheet date.

(v) *Lease*

Leases of assets under which a significant portion of the risks and benefits of ownership are retained by the lessors are classified as operating leases. Payments made under operating leases are charged to the consolidated statement of income as incurred over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place. Leases of property, plant and equipment, where the Group has substantially all the risks and rewards of ownership, are classified as finance leases.

(w) *Taxation*

Tax on income comprises current tax and the change in deferred tax. Current tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate enacted by the balance sheet date and green fund levy.

(w) ***Taxation*** (continued)

Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable income (loss). Net deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rate that is expected to apply to the period when the asset is realised or the liability is settled. The effect on the deferred tax of any changes in the tax rate is charged to the consolidated statement of income.

(x) ***Retirement plans***

On December 31, 2008, the Group established a defined contribution pension plan for its employees in Trinidad and Tobago. The assets of this plan are held in a separate trustee administered fund. In 2008 the Group contributed to the pension plan at the rate of 9% of its Trinidad and Tobago employees.

(y) ***New standards and interpretations not yet adopted***

At the date of authorisation of the consolidated financial statements there were new standards, amendments to standards and interpretations and the related effective dates which were in issue but were not yet effective for the year ended December 31, 2008, and have not been applied in preparing these consolidated financial statements and are as follows:

IFRS 1	First-time Adoption of International Financial Reporting Standards— Amendment relating to cost of an investment on first-time adoption	January 1, 2009
IFRS 2	Share-based Payment — Amendment relating to vesting conditions and cancellations	January 1, 2009
IFRS 3	Business Combinations — Comprehensive revision on applying the acquisition method	July 1, 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations - Amendments resulting from May 2008 Annual Improvements to IFRSs	July 1, 2009

(y) ***New standards and interpretations not yet adopted*** (continued)

IAS 1	Presentation of consolidated financial statements — Amendments relating to disclosure of puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 1	Presentation of consolidated financial statements — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 16	Property, Plant and Equipment — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 19	Employee Benefits — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 20	Government Grants and Disclosure of Government Assistance — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 23	Borrowing Costs — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 27	Consolidated and Separate Financial Statements — Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 27	Consolidated and Separate Financial Statements — Amendment relating to cost of an investment on first-time adoption	January 1, 2009
IAS 27	Consolidated and Separate Financial Statements — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 28	Investments in Associates — Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 28	Investments in Associates — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009

(y) ***New standards and interpretations not yet adopted*** (continued)

IAS 29	Financial Reporting in Hyperinflationary Economies — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 31	Interests in Joint Ventures — Consequential amendments arising from amendments to IFRS 3	July 1, 2009
IAS 31	Interests in Joint Ventures — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 32	Financial Instruments: Presentation — Amendments relating to puttable instruments and obligations arising on liquidation	January 1, 2009
IAS 36	Impairment of Assets — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 38	Intangible Assets — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 39	Financial Instruments: Recognition and Measurement — Amendments for eligible hedged items	July 1, 2009
IAS 40	Investment Property — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IAS 41	Agriculture — Amendments resulting from May 2008 Annual Improvements to IFRSs	January 1, 2009
IFRIC 12	Service Concessions Arrangements	January 1, 2008
IFRIC 13	Customer Loyalty Programmes	July 1, 2008
IFRIC 14	The limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction	January 1, 2008

(y) *New standards and interpretations not yet adopted* (continued)

IFRIC 15	Agreements for the Construction of Real Estate	January 1, 2009
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	October 1, 2008

The adoption of IFRIC 13 is expected to change the way the Group accounts for its frequent flyer program. On adoption of IFRIC 13, revenue received in relation to flight eligible to earn points will be split, based on the fair value between the flight and value of the points awarded. The value attributable to the eligible flight will be recognised on passenger uplift whilst the value attributable to the awarded points will be deferred as a liability until the points are ultimately utilised. The impact of the adoption of IFRIC 13 will have an effect in the results from operations and shareholders' equity.

Except for the impact of the adoption of IFRIC 13 described in the preceding paragraph and additional disclosures required by the adoption of other standards and interpretations, the adoption of these standards and interpretations are not expected to have a material impact on the consolidated financial statements.

(z) *Borrowings*

The Group's borrowing transactions are recognised in the balance sheet at the time the funds are transferred to the Group. The borrowing transactions are recognised at amortised cost less transaction costs.

1. Property, Plant and Equipment

		Aircraft Spares and parts	Computer Equipment	Motor Vehicles	Machine & Equipment	Leasehold Improvements	Total
Year ended December 31, 2008							
Opening net book amount	$	131,735	1,867	384	3,519	2,323	139,828
Additions		50,716	3,242	-	1,796	1,909	57,663
Depreciation		(21,301)	(1,173)	(77)	(1,162)	(472)	(24,185)
Closing net book amount	$	161,150	3,936	307	4,153	3,760	173,306
At December 31, 2008							
Cost	$	227,923	5,540	384	8,105	4,865	246,817
Accumulated depreciation		(66,773)	(1,604)	(77)	(3,952)	(1,105)	(73,511)
Net book amount	$	161,150	3,936	307	4,153	3,760	173,306
Year ended December 31, 2007							
Opening net book amount	$	-	-	-	-	-	-
Additions		177,207	2,298	384	6,309	2,956	189,154
Depreciation		(45,472)	(431)	-	(2,790)	(633)	(49,326)
Closing net book amount	$	131,735	1,867	384	3,519	2,323	139,828
At December 31, 2007							
Cost	$	177,207	2,298	384	6,309	2,956	189,154
Accumulated depreciation		(45,472)	(431)	-	(2,790)	(633)	(49,326)
Net book amount	$	131,735	1,867	384	3,519	2,323	139,828

2. Investments in Associated Companies

		2008	2007
Katerserv Limited	$	12,708	13,600
Allied Caterers Limited		8,617	6,732
	$	21,325	20,332

3. Aircraft and Other Deposits

		2008	2007
Deposits on aircraft	$	65,064	63,824
Other deposits		63,012	64,982
	$	128,076	128,806

		2008	2007

4. INVENTORIES

		2008	2007
Expendable aircraft spares - at cost	$	63,052	43,174
Duty free items		1,215	195
	$	64,267	43,369

5. RELATED PARTY TRANSACTIONS

(a) *Identity of related party*

The Group has related party relationships with its shareholder, subsidiaries, associated companies, affiliates, directors and executive officers.

(b) *Related party transactions and balances*

(i) *Balances*

		2008	2007
Due from related parties			
BWIA West Indies Airways Limited (BWIA)	$	-	353,335
GORTT		269,248	236,367
	$	269,248	589,702

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within twelve months of the reporting date. None of the balances are secured.

CAL has a fuel hedge rebate arrangement with the GORTT, which effectively hedges CAL against the downside risk of rising jet fuel prices. This arrangement allows CAL to recover the difference between the actual cost per gallon and the hedged price per gallon of US$1.50 as calculated from the base price of US$50.00 per West Texas Intermediate (WTI) barrel of oil (before taxes and delivery charges). This arrangement is for a four year period.

5. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) *Related party transactions and balances* (continued)

(i) *Balances* (continued)

		2008	2007
Due to related parties			
Katerserv Limited	$	1,674	3,587
BWIA		107,073	-
	$	108,747	3,587

(ii) *Transactions*

A number of transactions have been entered into with the shareholder in the normal course of business. These transactions are included in the respective captions in the consolidated statement of income as follows:

		2008	2007
GORTT - Operating expenses – Fuel	$	229,501	79,312
Katerserv Limited – Operating expenses – Passenger expenses	$	18,159	14,178
BWIA – Operating expenses – Rental of fixed assets	$	-	7,058

(c) *Transactions with key management personnel*

In addition to their salaries, the Group also provides non-cash benefits to executive officers. The key management personnel compensation is as follows:

		2008	2007
Short-term employee benefits	$	8,170	9,642
Directors' fees	$	176	182

6. OTHER RECEIVABLES AND PREPAYMENTS

Recoverable claims on maintenance reserves	$	-	23,454
Prepayments		81,974	48,691
	$	81,974	72,145

		2008	2007

7. STATED CAPITAL

Authorised

An unlimited number of ordinary shares of no par value

		2008	2007
Issued and fully paid			
115,400,000 Ordinary shares of no par value	$	726,606	726,606

8. ACCRUED EXPENSES AND OTHER PAYABLES

		2008	2007
Accrued expenses:			
- Passenger	$	652	27,824
- Personnel		13,253	7,929
- Other		21,779	34,575
Taxation		300	188
	$	35,984	70,516

9. PROVISIONS

		Re-delivery and Engine Repair	C-check Maintenance	Prepaid Reserve	Frequent Flyer	Employment Leave Entitlement	Restructuring	Other	Total
Balance at December 31, 2007	$	115,484	24,386	375,705	156,935	2,287	28,876	623	704,296
Provisions made		34,900	10,320	-	55,993	-	-	-	101,213
Payments made		-	-	45,396	-	-	-	-	45,396
Provisions used		(51,096)	(23,023)	-	(28,537)	(2,155)	(28,876)	(623)	(134,310)
Other adjustments		(20,079)	(3,935)	(76,533)	(25,889)	-	-	-	(126,436)
Provisions recovered		-	-	(45,541)	-	-	-	-	(45,541)
Balance at December 31, 2008	$	79,209	7,748	299,027	158,502	132	-	-	544,618
Non-current	$	79,209	-	299,027	158,502	-	-	-	536,738
Current		-	7,748	-	-	132	-	-	7,880
	$	79,209	7,748	299,027	158,502	132	-	-	544,618

9. PROVISIONS (CONTINUED)

		Re-delivery and Engine Repair	C-check Maintenance	Prepaid Reserve	Frequent Flyer	Employment Leave Entitlement	Restructuring	Other	Total
Balances acquired from BWIA	$	126,869	22,270	366,172	156,935	-	-	-	672,246
Provisions made during the period		12,827	30,381	43,465	-	2,287	28,876	1,451	119,287
Provisions used during the period		(24,212)	(28,265)	-	-	-	-	(828)	(53,305)
Provisions recovered during the period		-	-	(33,932)	-	-	-	-	(33,932)
Balance at December 31, 2007	$	115,484	24,386	375,705	156,935	2,287	28,876	623	704,296
Non-current	$	115,484	-	375,705	156,935	-	-	-	648,124
Current		-	24,386	-	-	2,287	28,876	623	56,172
	$	115,484	24,386	375,705	156,935	2,287	28,876	623	704,296

Re-delivery and engine repair

This provision is based on the present value of the expected future cost of meeting the maintenance return condition having regard to the current fleet plan and long-term maintenance schedules. The present value of non-maintenance return conditions is provided for at the inception of the lease.

C-check maintenance

The Group provides for aircraft C-check related maintenance expenses based on the expected costs to be incurred on aircraft C-checks during the terms of their leases.

Prepaid reserve

The Group provides for maintenance obligations on leased aircraft, based on the contractual requirements of the individual lease contracts. These provisions are estimated by the lessors with reference to current costs as agreed with management.

9. PROVISIONS (CONTINUED)

Frequent flyer

A provision has been made for the obligation to provide travel rewards to members for points accumulated from travelling on CAL and partner airline services.

Members of the CAL frequent flyer program accumulate points by travelling on qualifying CAL and partner airline services. The obligation to provide travel rewards to members arising from these points is provided as points are accumulated, net of estimated points that will expire and be redeemed. The provision is based on management's estimate of the incremental direct cost (being the cost of meals and passenger expenses) of providing the travel rewards.

Changes in cost estimates, breakage assumptions and passenger recoveries could have a material impact on these consolidated financial statements.

Other provisions

Other provisions include the estimated liability for annual leave as a result of services rendered by employees up to the consolidated balance sheet date

10. BORROWINGS

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see Note 18.

		2008	2007
Non-current liabilities			
Secured bank loans	$	-	26,027
Finance lease liabilities		-	15,776
	$	-	41,803
Current liabilities			
Current portion of secured bank loans	$	-	2,804
Current portion of finance lease liabilities		-	666
Tobago House of Assembly (THA) Loan		7,421	7,421
	$	7,421	10,891

10. BORROWINGS (CONTINUED)

Terms and conditions of the outstanding loan is as follows:
The loan from THA was issued in two tranches of US$216 (TT$1,366) and TT$6,355. Subsequent to this receipt, a loan repayment of TT$300 was made by Tobago Express. The loan is non-interest bearing and has no specific repayment terms.

11. OTHER INCOME

		2008	2007
Charter	$	3,569	5,868
Insurance surcharge		54,946	31,032
Fuel surcharge		38,305	23,385
Net income from the frequent flyer programme		20,987	22,888
Net income from sale of duty free items		10,931	10,247
Other		37,604	23,817
	$	166,342	117,237

12. STAFF COSTS

		2008	2007
Salaries and wages	$	161,209	147,460
Crew allowances		14,650	11,666
National insurance and health surcharge		6,206	3,199
Other personnel expenses		62,534	23,987
	$	244,599	186,312

Total number of employees as at December 31, 2008 was 954 (2007: 984).

13. OTHER OPERATING EXPENSES

		2008	2007
Security and other direct expenses	$	68,550	60,410
Administrative charges		37,638	29,895
Professional fees		36,048	19,645
Building and utilities		29,652	21,567
Provision for bad debts		5,020	1,883
Computer, telephone and communication charges		27,647	31,652
	$	204,555	165,052

14. TAXATION

		2008	2007
(a) Green fund levy	$	1,409	990
Deferred tax		11,971	-
	$	13,380	990

(b) The Group's effective tax rate differs from the statutory rate as a result of the differences shown below:

		2008	2007
Profit (loss) before taxation	$	47,758	(116,602)
Corporation tax at the statutory rate of 25%	$	11,940	(29,150)
Tax effect of non-deductible items		(26,914)	471
Tax losses not recognised		14,974	28,679
Green fund levy		1,409	990
Deferred tax		11,971	-
	$	13,380	990

The Group has unutilised tax losses of $176,592 (2007: $136,150) which has not yet been assessed and agreed to by the Board of Inland Revenue.

15. NET CHANGE IN OPERATING ASSETS AND LIABILITIES

		2008	2007
Trade receivables	$	(6,737)	(137,288)
Due from related parties		403,310	72,804
Miscellaneous receivables and prepayments		(10,337)	(68,795)
Accounts payable		(84,676)	(23,766)
Accrued expenses and other payables		(34,162)	60,930
Inventory		(20,898)	(43,369)
Deposits on aircraft		6,228	3,766
Other deposits		(5,498)	(41,437)
Provisions		(134,309)	23,893
	$	112,921	(153,264)

16. Contingent Liabilities, Commitments and Guarantees

a) Operating lease cammltments

The Group has eleven aircraft leases in force (eight Boeing 737s and three Dash 8s).

The Group also leases the majority of its ground facilities including executive and administrative offices, overhaul and maintenance bases and ticket and reservation offices. Public airports are utilised for flight operations under lease arrangements with the governments or agencies owning or controlling such airports.

All leases provide that the lessee shall pay taxes, maintenance, insurance and certain other operating expenses applicable to the leased property. All leases also include renewal options.

Minimum material operating lease commitments excluding maintenance provisions as at December 31, 2008 comprise:

		2008	2007
2008	$	-	160,000
2009	$	179,000	160,000
2010	$	84,000	160,000

b) Other

The Group has established Letters of Credit with RBTT Bank Limited amounting to US$2,498 and CAD$150 (totalling TT$16,624) (2007: US$330 (TT$2,079)).

The Group also has Customs Bonds amounting to $4,420 (2007: $4,420).

17. Financial Risk Management

The Group has exposure to the following risks from its use of financial instruments:

credit risk
liquidity risk
market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

17. FINANCIAL RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group's overall risk management programme seeks to minimise potential adverse effects on financial performance of the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment balances.

The Group seeks to manage credit risk by limiting the aggregate exposure to any individual counterparty, customer or financial institution.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. There is no significant concentration of credit risk.

The Board of Directors has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment terms and conditions are offered. Customers that fail to meet the Group's benchmark creditworthiness may transact with the Group only on a prepayment basis.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main component of this allowance is a specific loss component that relates to individually significant exposures.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Liquidity risk (continued)

The Group uses budgets which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in currencies other than its functional currency. These other currencies are, primarily U.S. Dollars (USD), and also the euro ( ) and Sterling (GBP).

In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

The Group does business in approximately 15 currencies and generates surpluses in most of these currencies after paying local expenses. Surpluses are converted mainly to United States dollars or local currency to meet payments for fuel, lease costs, major overhaul, payments to other carriers, local salaries and expenses. The Group manages its foreign currency exposure arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for United States dollars. Balances held in soft currencies are constantly reviewed and managed to reduce the Group's exposure.

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Neither the Group nor any of its subsidiary nor associated companies is subject to externally imposed capital requirements.

18. FINANCIAL INSTRUMENTS

Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

		2008	2007
Trade receivables	$	127,849	103,051
Due from related parties		-	353,335
Other receivables (excluding prepayments)		-	23,454
Aircraft and other deposits		128,076	128,806
	$	255,925	608,646

The maximum exposure to credit risk from trade and other receivables at the reporting date by geographic region was:

		2008	2007
Domestic	$	77,247	103,051
United States		50,602	23,454
	$	127,849	126,505

The aging of trade receivables at the reporting date was:

Not past due	$	81,051	38,161
Past due 0-30 days		2,094	60,804
Past due 31-90 days		2,200	2,028
More than 90 days		42,504	2,058
	$	127,849	103,051

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

Balance at January 1	$	3,083	-
Provision purchased from Tobago Express		-	1,200
Impairment loss recognised		(1,790)	-
Provisions		7,299	1,883
Balance at December 31	$	8,592	3,083

During 2008 the Group did not renegotiate any of the terms of its trade receivables (2007 – NIL).

18. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

Impairment losses

The allowance accounts in respect of trade and other receivables are used to record impairment losses unless the Group is satisfied that no recovery of the amount owing is possible; at that point the amounts considered irrecoverable and is written off against the financial asset directly.

Liquidity risk

The contractual maturities of the accounts payable, accrued expenses and other payables are due within 6-12 months.

Foreign currency risk

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

2008

Details		USD	TTD	Other	Total
Assets					
Current assets	$	173,904	1,125,031	25,799	1,324,734
Non current assets		379,866	195,280	42,197	617,343
Total assets	$	**553,770**	**1,320,311**	**67,996**	**1,942,077**
Liabilities and equity					
Equity		-	643,392	-	643,392
Current liabilities		57,319	692,297	360	749,976
Non current liabilities		378,237	170,472	-	548,709
Total liabilities and equity	$	**435,556**	**1,506,161**	**360**	**1,942,077**
Net Gap	$	**118,214**	**(185,850)**	**67,636**	**-**

18. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign currency risk (continued)

Exposure to currency risk (continued)

2007 Details		USD	TTD	Other	Total
Assets					
Current assets	$	71,464	1,209,730	11,857	1,293,051
Non current assets		502,800	160,243	-	663,043
Total assets	$	**574,264**	**1,369,973**	**11,857**	**1,956,094**
Liabilities and equity					
Equity		-	609,014	-	609,014
Current liabilities		139,900	510,898	-	650,798
Non current liabilities		532,992	163,290	-	696,282
Total liabilities and equity	$	**672,892**	**1,283,202**	**-**	**1,956,094**
Net Gap	$	**(98,628)**	**86,771**	**11,857**	**-**

The Group does not perform sensitivity analyses with regard to the strengthening or weakening of the TTD against other currencies, as the historical movement of the TTD against the USD has not exceeded 1%.

Fair values

The carrying amount of the financial assets and liabilities shown on the consolidated balance sheet represents their fair values due to the short-term nature of these financial instruments.

19. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, contingent assets and contingent liabilities at the date of the consolidated financial statements and income and expenses during the reporting period. Actual results could differ from these estimates.

19. USE OF ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following accounting policies and notes:

Accounting Policy (i) and Note 17	Impairment
Accounting Policy (q) and Note 9	Provisions
Accounting Policy (r)	Revenue recognition – Unearned Transportation Revenue
Accounting Policy (f)	Valuation of Financial Instruments

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Notes

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