Consolidated financial statements of

CARGOJET INCOME FUND

For the three-month periods ended March 31, 2009 and 2008

(unaudited)

CARGOJET INCOME FUND
Consolidated Balance Sheets
(unaudited)

	March 31, 2009	December 31, 2008
	$	$
ASSETS		
CURRENT		
Cash	5,245,053	569,194
Accounts receivable	9,256,416	10,070,944
Materials and supplies	545,037	863,559
Prepaid expenses and deposits	3,266,457	4,337,814
Income taxes recoverable	1,561,736	1,267,996
Derivatives contracts (Note 16)	-	2,148,558
	19,874,699	19,258,065
CAPITAL ASSETS (NOTE 5)	58,580,792	57,314,869
INTANGIBLE ASSETS (NOTE 6)	6,614,355	9,573,776
DEPOSITS	3,340,699	3,070,255
DEFERRED HEAVY MAINTENANCE (NOTE 7)	1,570,685	1,471,773
GOODWILL	46,169,976	46,169,976
	136,151,206	136,858,714
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 8)	15,758,370	16,962,594
Distributions payable (Note 18)	595,211	601,581
Current portion of long-term debt (Note 9)	1,798,179	1,829,372
Future income taxes (Note 11)	712,636	706,445
	18,864,396	20,099,992
LONG-TERM DEBT (NOTE 9)	7,730,202	6,759,015
CONVERTIBLE DEBENTURES (NOTE 10)	32,349,480	32,180,372
FUTURE INCOME TAXES (NOTE 11)	7,347,788	6,939,739
	66,291,866	65,979,118
NON-CONTROLLING INTERESTS (NOTE 12(b))	19,160,850	19,783,606
UNITHOLDERS' EQUITY		
ACCUMULATED OTHER COMPREHENSIVE INCOME	1,414,637	1,442,112
DEFICIT	(14,670,332)	(14,751,848)
	(13,255,695)	(13,309,736)
UNITHOLDERS' CAPITAL (NOTE 12(a))	61,177,614	62,054,322
CONTRIBUTED SURPLUS (NOTE 12(d))	507,905	82,738
CONVERSION OPTION (NOTE 10)	2,268,666	2,268,666
	50,698,490	51,095,990
	136,151,206	136,858,714

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
(unaudited)

	Three months ended March 31, 2009	2008
	$	$
REVENUES	42,204,178	46,798,619
DIRECT EXPENSES	32,178,620	39,530,534
	10,025,558	7,268,085
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	170,495	190,910
General and administrative	4,550,707	4,362,850
Interest, net	1,026,997	351,742
Amortization of capital assets (Note 5)	155,547	116,503
Amortization of intangible assets	2,959,421	2,629,788
	8,863,167	7,651,793
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	1,162,391	(383,708)
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 11)		
Current	(293,740)	20,500
Future	408,049	(426,699)
	114,309	(406,199)
EARNINGS BEFORE NON-CONTROLLING INTERESTS	1,048,082	22,491
NON-CONTROLLING INTERESTS (NOTE 12(b))	170,582	(5,623)
NET INCOME	1,218,664	16,868
DEFICIT, BEGINNING OF PERIOD	(14,751,848)	(7,923,776)
REPURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 12(d))	208,415	-
DISTRIBUTIONS DECLARED IN THE PERIOD (NOTE 18)	(1,345,563)	(1,937,312)
DEFICIT, END OF PERIOD	(14,670,332)	(9,844,220)
EARNINGS PER TRUST UNIT - BASIC (Note 12(c))	0.18	0.00
EARNINGS PER TRUST UNIT - DILUTED (Note 12(c))	0.18	0.00

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income
(unaudited)

	Three months ended March 31,	
	2009	2008
	$	$
NET INCOME	1,218,664	16,868
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency gains from hedging activities net of income taxes (Note 16)	423,885	515,406
Transfer of gains on foreign contracts, net of income taxes, to net income (Note 16)	(451,360)	-
COMPREHENSIVE INCOME	1,191,189	532,274
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of period	1,442,112	-
Other comprehensive income (loss) for the period	(27,475)	515,406
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF PERIOD	1,414,637	515,406

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended March 31, 2009	2008
	$	$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	1,218,664	16,868
Items not affecting cash		
Amortization of capital assets	1,338,143	925,200
Amortization of intangible assets	2,959,421	2,629,788
Accretion of convertible debentures	169,108	-
Loss on disposal of capital assets	3,225	-
Future income taxes	408,049	(426,699)
Transfer of gains on derivatives from other comprehensive income	(472,725)	-
Change in fair value on non-hedge derivatives	-	78,144
Non-controlling interests	(170,582)	5,623
Aircraft heavy maintenance amortization	487,692	628,421
Aircraft heavy maintenance expenditures	(586,604)	(414,709)
	5,354,390	3,442,636
Changes in non-cash working capital items		
Accounts receivable	814,528	(563,804)
Materials and supplies	318,522	(18,100)
Prepaid expenses and deposits	800,913	(394,106)
Accounts payable and accrued charges	(1,204,224)	(1,095,633)
Income taxes recoverable	(293,740)	(1,456,611)
	5,790,389	(85,618)
FINANCING		
Increase in long-term debt	1,065,875	500,000
Proceeds from disposition of derivatives	2,600,000	-
Repayment of long-term debt	(125,881)	(34,837)
Purchase of Cargojet Income Fund units (Note 12(d))	(243,126)	-
Distributions paid to unitholders and	-	-
non-controlling interest	(1,804,107)	(2,583,081)
	1,492,762	(2,117,918)
INVESTING		
Additions to capital assets	(2,607,291)	(2,087,092)
NET CHANGE IN CASH	4,675,859	(4,290,628)
CASH POSITION, BEGINNING OF PERIOD	569,194	3,197,946
CASH POSITION, END OF PERIOD	5,245,053	(1,092,682)

Supplementary financial information

	2009	2008
Interest paid	$ 211,948	$ 283,103
Income taxes paid	$ -	$ 1,477,236
Equipment purchased under capital lease	$ -	$ 57,677

1. NATURE OF THE BUSINESS

Cargojet Income Fund (the "Fund") is an unincorporated opened-ended limited purpose trust established under the laws of Ontario pursuant to a Declaration of Trust dated April 25, 2005. The Fund was created to invest in Cargojet Holdings Ltd. (the "Company" or "Cargojet"). The Fund acquired all of the shares of Cargojet on June 9, 2005.

The Fund provides domestic and trans-border air cargo services in addition to aircraft handling and aircraft and airport equipment fueling services through its Fixed Base Operations ("FBO") business at the Hamilton International Airport.

2. BASIS OF PRESENTATION

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial information included herein reflects all adjustments which in the opinion of management are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three-month periods ended March 31, 2009 and 2008 are not necessarily indicative of the results to be expected for the full year. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with those described in the audited consolidated financial statements of the Fund for the year ended December 31, 2008, except as disclosed in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, Cargojet Operating Trust, and its 75% owned subsidiary Cargojet Holdings Limited Partnership ("CHLP"), CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd., Cargojet Partnership and Cargojet Airways Ltd., and Cargojet Airways Ltd.'s 51% owned subsidiary Prince Edward Air Ltd.

Materials and supplies

Materials and supplies are valued at average cost less provision for obsolescence.

Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance basis, except for leasehold improvements and engines which are amortized on the straight-line basis, at the following rates per annum:

Aircraft	-	7-½%
Spare parts	-	actual usage
Engines	-	engine cycles

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets (continued)

Ground equipment	-	20%
Rotable spares	-	7-½%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	lease term
Vehicles	-	30%
Hangar facility	-	10%

Goodwill and intangible assets

Goodwill represents the excess, at the dates of acquisition, of the cost of an acquired business over the fair value of the net identifiable assets acquired.

Goodwill and intangible assets with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the statement of operations before income taxes and non-controlling interest.

Intangible assets, such as licenses, that have an indefinite useful life, are also tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in the statement of operations for the excess, if any.

Intangible assets that have a finite life, such as customer relationships and non-compete agreements, are capitalized and are amortized on a straight-line basis over a three or four-year period or the term of the non-compete agreement, respectively, and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

Impairment of long-lived assets

An impairment loss is recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

The Fund is taxed as a "mutual fund trust" for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund's subsidiaries are taxable.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recorded in the financial statements to the extent that realization of such benefit is more likely than not.

Non-controlling interests

Non-controlling interests represent direct non-controlling equity interests through exchangeable limited partnership units in CHLP and the non-controlling equity interest in Prince Edward Air Ltd. Exchangeable unitholders are entitled to earnings that are economically equivalent to distributions of the Fund. The exchangeable units were recorded at the value at which the Fund's Trust Units were issued to the public through the initial public offering. Exchanges of exchangeable units are recorded at the carrying value of the exchangeable units at issuance net of net earnings and distributions attributable to participating exchangeable units to the date of exchange.

Revenue recognition

Revenue is recognized when delivery occurs and the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from ACMI (aircraft, crew, maintenance and insurance) cargo services is recorded when the cargo service has been provided at a fixed daily rate to operate a specific route. The customer is otherwise responsible for all commercial activities and any costs incurred in excess of the ACMI services are invoiced to the customer at cost.

Revenue from ACMI passenger services is billed on the basis of a contracted ACMI rate and recorded when the services have been provided. Any costs incurred in excess of ACMI services are invoiced to the customer at cost.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental becomes due.

Revenue from fuelling services is billed on the basis of prevailing rates at the time of sale and recorded when the sale is completed.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at rates of exchange prevailing at the period end. Gains or losses resulting from such translations are included in income.

Transactions in foreign currencies throughout the period have been converted at the exchange rate prevailing at the date of the transaction.

Financial instruments

All financial assets are classified as either held for trading, held to maturity investments, loans and receivables or available-for-sale. Also, all financial liabilities are classified as either held for trading or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held to maturity investments, loans and receivables, and other liabilities, which are measured at amortized cost.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable and deposits	Loans and receivables	Amortized cost
Accounts payable and accrued charges, distributions payable, convertible debentures and long-term debt	Other financial liabilities	Amortized cost
Derivative contracts	Held for trading	Fair value

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest method.

Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair market value of the financial instrument in the period.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedges

Derivative financial instruments are utilized by the Fund in the management of its interest rate and foreign currency exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative financial instruments are recorded at their fair values.

The Fund periodically enters into interest rate swaps in order to manage its exposure to fluctuations in interest rates on its floating rate debt. These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Fund periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts.

Derivatives designated as hedges are measured at fair value. Changes in the fair value of a derivative which hedges the Fund’s exposure to changes in the fair value of an asset or liability (a fair value hedge) are recognized in net income together with those of the respective offsetting hedged items. Changes in the fair value of a derivative which effectively hedges the Fund’s exposure to changing cash flows (a cash flow hedge) are accumulated in other comprehensive income until the transactions being hedged affect net income.

If a hedge item is sold or otherwise ceases to exist and is not replaced, any gains, losses, revenue or expenses associated with the hedging item that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward and recognized in net income in the same period or periods during which the hedged anticipated transaction affects net income.

Convertible debentures

The component parts of compound instruments issued by the Fund are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability and equity components are measured separately, and to the extent necessary, are adjusted on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date. The equity component is recognized and included in equity, and is not subsequently remeasured.

Management’s use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant items requiring the use of management estimates are the obsolescence of spare parts, materials, supplies and rotable spares, the valuation of capital and intangible assets and their related amortization, the valuation of goodwill and the allocation of fair values to assets acquired and liabilities assumed on business acquisitions.

4. CHANGES IN ACCOUNTING

Adoption of new and revised accounting standards

On January 1, 2009, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets,* which establishes standards for recognition, measurement, presentation and disclosure of goodwill, intangible assets and deferred costs. Application of this pronouncement had no impact on the Fund's financial results.

Future accounting changes

In January 2009, the CICA issued Section 1582, *Business Combinations*, which replaces former guidance on business combinations. Section 1582 establishes principles and requirements of the acquisition method for business combinations and related disclosures. The standard applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier applications permitted.

In January 2009, the CICA issued Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests*, which replaces existing guidance. Section 1602 provides guidance on accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period on or after January 2011 with earlier application permitted.

5. CAPITAL ASSETS

			March 31, 2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	31,619,478	5,799,534	25,819,944
Spare parts	3,183,042	-	3,183,042
Ground equipment	6,297,050	1,896,757	4,400,293
Ground equipment - capital lease	51,745	7,471	44,274
Rotable spares	9,928,830	1,658,878	8,269,952
Computer hardware and software	1,826,030	905,124	920,906
Computer hardware and software - capital laese	791,681	329,823	461,858
Furniture and fixtures	753,076	335,501	417,575
Leasehold improvements	4,115,879	1,866,809	2,249,070
Vehicles	276,962	155,862	121,100
Vehicles - capital lease	292,538	100,836	191,702
Hangar facility	13,674,463	1,173,387	12,501,076
	72,810,774	14,229,982	58,580,792

			December 31, 2008
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	31,674,288	5,232,116	26,442,172
Spare parts	3,169,285	-	3,169,285
Ground equipment	5,639,436	1,572,760	4,066,676
Ground equipment - capital lease	292,538	85,523	207,015
Rotable spares	9,705,314	1,507,819	8,197,495
Computer hardware and software	1,661,045	840,585	820,460
Computer hardware and software - capital lease	791,681	292,929	498,752
Furniture and fixtures	753,076	310,930	442,146
Leasehold improvements	3,997,223	1,724,811	2,272,412
Vehicles	523,505	230,761	292,744
Vehicles - capital lease	51,745	5,174	46,571
Hangar facility	11,952,009	1,092,868	10,859,141
	70,211,145	12,896,276	57,314,869

5. CAPITAL ASSETS (CONTINUED)

Amortization expense consists of amounts charged under the following classifications:

	Three months ended March 31	
	2009	2008
	$	$
Direct expenses	1,182,596	808,697
Selling, general and administrative expenses	155,547	116,503
	1,338,143	925,200

6. INTANGIBLE ASSETS

				March 31, 2009
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3 - 4 years	41,779,715	37,432,543	4,347,172
Non-compete agreements	3 - 4 years	4,361,871	3,094,688	1,267,183
		47,141,586	40,527,231	6,614,355

				December 31, 2008
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3 - 4 years	41,779,715	34,777,564	7,002,151
Non-compete agreements	3 - 4 years	4,361,871	2,790,246	1,571,625
		47,141,586	37,567,810	9,573,776

7. DEFERRED HEAVY MAINTENANCE

	March 31, 2009	December 31, 2008
	$	$
Cost	8,350,438	7,763,834
Accumulated amortization	6,779,753	6,292,061
	1,570,685	1,471,773

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	March 31, 2009	December 31, 2008
	$	$
Trade payables and accrued charges	13,517,356	14,975,831
Payroll and benefits	2,241,014	1,986,763
	15,758,370	16,962,594

9. LONG-TERM DEBT

The Fund maintains a revolving credit facility with a Canadian chartered bank. The facility is to a maximum of $30.0 million. The facility bears interest at bank prime plus 1.3% and is repayable on maturity, July 27, 2011.

The costs incurred on revision of the credit facility have been deferred and are being amortized over three years, the period of the facility.

The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

- general security agreement over all assets of the Fund;
- guarantee and postponement of claim to a maximum of $35.0 million in favour of Cargojet Partnership and certain other entities of the Fund; and
- assignment of insurance proceeds, payable to the bank.

Through its subsidiary Prince Edward Air Ltd., the Fund also maintains a credit facility and fixed loans with other Canadian chartered banks. The credit facility is to a maximum of $1.5 million and is payable on demand. The credit facility bears interest at prime plus 1.0%. Fixed loans bear interest at rates ranging from prime plus 1.5% to 8.2% and are secured by aircraft of Prince Edward Air Ltd. The loans are repayable in monthly installments plus interest and will mature by October 2016.

9. LONG-TERM DEBT (CONTINUED)

Long-term debt consists of the following:

	March 31, 2009	December 31, 2008
	$	$
Revolving credit facility	2,945,911	1,859,980
Fixed loans - Prince Edward Air Ltd.	5,991,077	6,070,975
Financing loan	91,636	111,682
Obligations under capital leases	499,757	545,750
	9,528,381	8,588,387
Less current portion	1,798,179	1,829,372
	7,730,202	6,759,015

The following is a schedule of future minimum repayment schedule for fixed loans related to Prince Edward Air Ltd.:

	$
2009 (remainder of the year)	363,941
2010	827,726
2011	826,184
2012	801,467
2013	822,480
>2013	2,349,279
	5,991,077
Less current portion	568,962
	5,422,115

The following is a schedule of future minimum annual lease payments for computer hardware and software under capital leases together with the balances of the obligations:

	$
2009 (remainder of the year)	151,301
2010	201,734
2011	143,222
2012	30,879
	527,136
Less interest	27,379
Obligations under capital leases	499,757
Less current portion	187,218
	312,539

Interest on long-term debt for the three-month period ended March 31, 2009 totalled $211,882, (March 31, 2008 - $289,301).

10. CONVERTIBLE DEBENTURES

In April 2008, $35.7 million of unsecured subordinated debentures were issued with a term of five years. These debentures bear a fixed interest rate of 7.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2008.

The debentures may not be redeemed by the Fund prior to April 30, 2011. On or after May 1, 2011, but prior to April 30, 2012, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Fund at a price equal to at least $1,000 per debenture provided that the current market price (as defined below) of the Trust Units of the Fund on the date on which the notice of redemption is given is at least 125% of the conversion price of $16.00 per Trust Unit. After May 1, 2012, but prior to the maturity date of April 30, 2013, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. The term "current market price" is defined in the indenture to mean the weighted average trading price of the Trust Units on the Toronto Stock Exchange for the twenty (20) consecutive days ending on the fifth trading day preceding the date of redemption or maturity.

On redemption or at maturity on April 30, 2013, the Fund has the option to repay the debentures in either cash or equivalent Trust Units of the Fund. The number of Trust Units to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the Trust Units.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $16.00 per Trust Unit at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Fund for redemption of the debentures. The Fund also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Fund or any of its affiliates will not have the right to purchase the debentures by private contract.

The principal amount of the debentures has been allocated between its liability and equity elements and classified separately on the balance sheet. Factoring in the value of the conversion option and transaction costs, the convertible debenture bear interest at an effective rate of 10.34%.

The balance of convertible debentures at March 31, 2009 and December 31, 2008 consists of:

	March 31, 2009	December 31, 2008
	$	$
Principal balance	35,650,000	35,650,000
Less:		
Issuance costs	(1,789,320)	(1,789,320)
Coversion option to Unitholder's equity	(2,268,666)	(2,268,666)
Accretion	757,466	588,358
Balance	32,349,480	32,180,372

10. CONVERTIBLE DEBENTURES (CONTINUED)

Interest expense on the debentures for the three-month period ended March 31, 2009, totalled $832,051 (March 31, 2008 – Nil).

Normal course issuer bid

Under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expires on March 16, 2010, the Fund may repurchase up to $3,530,400 principal amount of debentures, or approximately 10% of the public float outstanding on March 11, 2009. Daily purchases are limited to $4,310 principal amount of debentures until March 31, 2009, and $2,155 principal amount of debentures thereafter, other than block purchase exemptions. No purchases were made during the three-month period ended on March 31, 2009.

11. INCOME TAXES

The tax effect of significant temporary differences is as follows:

	March 31, 2009	December 31, 2008
	$	$
Capital assets	7,845,846	7,292,226
Intangible assets	348,564	485,831
Operating loss carryforward	(642,834)	(459,098)
Financing costs	(1,061,307)	(1,192,541)
Derivative contracts	712,636	706,445
Deferred heavy maintenance	857,519	813,321
Future income tax liability	8,060,424	7,646,184
Less current portion	712,636	706,445
Future income tax liability - long-term	7,347,788	6,939,739

11. INCOME TAXES (CONTINUED)

A reconciliation between the Fund's statutory and effective tax rates is as follows:

	Three months ended March 31, 2009	2008
	$	$
Earnings (loss) before income taxes and non-controlling interest	1,162,391	(383,708)
Income tax provision (recovery) at the combined basic rate of 33.50% (March 31, 2008 - 36.12%)	389,401	(138,595)
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(835,969)	(751,544)
Non-deductible portion of amortization of intangible assets	241,272	241,272
Settlement of dispute with tax authorities	(378,740)	-
Permanent and other differences	698,345	242,668
Income tax provision (recovery)	114,309	(406,199)

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "Trust Units" and "Special Voting Units", respectively. An unlimited number of Trust Units and Special Voting Units may be authorized and issued pursuant to the Declaration of Trust.

Each Trust Unit represents an equal voting, fractional, and undivided beneficial interest in the Fund. All Trust Units are transferable and share equally in all distributions from the Fund whether of net earnings, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. The Trust Units are redeemable at any time on demand by the holders at fair value as determined by and subject to the conditions of the Declaration of Trust to a maximum of $50,000 per calendar quarter.

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net earnings, net realized gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Special Voting Units will only be issued to the holders of Class A limited partnership units of the CHLP ("Exchangeable LP Units"), for the purpose of providing voting rights to these Special Voting Unitholders, with respect to the Fund. Each Special Voting Unit will entitle the holder to that number of votes at any meeting of Voting Unitholders that is equal to the number of Units that may be obtained upon the exchange of the Exchangeable LP Unit to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit for Units, the related Special Voting Unit will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any further rights.

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS (CONTINUED)

(a) Trust Units

	Number	Amount
		$
Unitholders' capital as at December 31, 2007	6,698,863	62,235,654
Units purchased and cancelled	(19,518)	(181,332)
Unitholders' capital as at December 31, 2008	6,679,345	62,054,322
Units purchased and cancelled (Note 12(d))	(94,366)	(876,708)
Unitholders' capital as at March 31, 2009	6,584,979	61,177,614

(b) The non-controlling interests represent a 25% non-controlling equity interest through exchangeable limited partnership units in CHLP (March 31, 2009 - 2,232,955; December 31, 2008 - 2,232,955), and a 49% non-controlling equity interest in Price Edward Air Ltd. The following provides details of the changes in the non-controlling interests during the period for each of these components:

Non-controlling interests - CHLP

	March 31, 2009	March 31, 2008
	$	$
Non-controlling interests, beginning of period	17,396,507	19,688,291
Share of income of CHLP	406,222	5,623
Distributions declared in the period (Note 18)	(452,174)	(645,769)
Non-controlling interests, end of period	17,350,555	19,048,145

Non-controlling interests – PEAL

	March 31, 2009	March 31, 2008
	$	$
Non-controlling interests, beginning of period	2,387,099	-
Share of loss of PEAL	(576,804)	-
Non-controlling interests, end of period	1,810,295	-

(c) Earnings per Trust Unit

Basic earnings per Trust Unit has been calculated based on the average number of Trust Units outstanding of 6,664,850 for the three month period ended March 31, 2009 (March 31, 2008 - 6,698,863). For the purpose of determining diluted earnings per Trust Unit, the weighted average number of Trust Units and Exchangeable LP Units have been combined totalling 8,897,805 for the three month period ended March 31, 2009 (March 31, 2008 - 8,931,818). The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS (CONTINUED)

(d) Normal course issuer bid

Under the terms of a normal course issuer bid that expires on November 25, 2009, the Fund may repurchase up to 599,402 of its Trust Units. Daily purchases are limited to 6,506 Trust Units until March 31, 2009 and 3,253 Trust Units thereafter, other than block purchase exemptions.

In the three-month period ended March 31, 2009, the Fund repurchased 94,366 Trust Units at a cost of $243,126 or $2.57 per Trust Unit. The difference of $425,167 between the stated capital of Trust Units repurchased (allocated $876,708 as a reduction of Unitholders' capital and $208,415 as a reduction of the deficit) and the cost of redemption was credited to contributed surplus.

13. CAPITAL MANAGEMENT

The Fund's objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the Unitholders and debt holders.

The Fund defines capital as the sum of Unitholders' equity, non-controlling interest, long-term debt, including the current portion, obligations under capital leases, convertible debentures, net bank overdraft positions, cash and cash equivalents, and the present value of the future operating lease payments.

The Fund manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may adjust the amount of distributions paid to Unitholders, purchase Trust Units for cancellation pursuant to normal course issuer bids, issue new Trust Units, issue new debt, issue new debt to replace existing debt (with different characteristics) or reduce the amount of existing debt. There were no changes in the Fund's approach to capital management during the period.

The Fund is subject to financial covenants related to its credit facility (Note 9). As at March 31, 2009, the Fund is in compliance with all financial covenants.

14. RELATED PARTY TRANSACTIONS

The Fund had the following transactions with two related companies, Flagship International Aviation Ltd. ("FIAL") and Flagship Aviation Holdings Ltd. ("Flagship Aviation"). Each of these companies is controlled by one of the Fund's executive officers.

	Three months ended March 31,	
	2009	2008
	$	$
Prepaid expense & deposits	-	1,758
Direct expenses - warehouse rent and utilities	-	79,885
Selling, general and administrative expenses	-	6,031

The direct expense transactions with Flagship Aviation are related to a warehouse lease agreement. There was no amount payable to Flagship Aviation as at March 31, 2009 or December 31, 2008.

Transactions were in the normal course of operations and measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

15. COMMITMENTS AND CONTINGENCIES

Commitments

The Fund is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

	$
2009 (remainder of the year)	12,152,868
2010	13,090,507
2011	11,927,614
2012	11,643,429
2013	11,625,521
Thereafter	23,081,100
	83,521,039

15. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The Fund has provided irrevocable standby letters of credit totalling approximately $1,052,700 to a financial institution as security for its corporate credit cards and to several vendors as security for the Fund's ongoing purchases. The letters of credit expire as follows:

	$
June 26, 2009	24,700
June 30, 2009	10,000
July 6, 2009	150,000
September 10, 2009	100,000
December 2, 2009	250,000
December 31, 2009	200,000
February 6, 2010	241,000
February 26, 2010	50,000
February 26, 2010	7,000
March 20, 2010	20,000
	1,052,700

16. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Fund is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at March 31, 2009.

Fair values

The fair value of the convertible debentures, based on quoted market prices as at March 31, 2009, was approximately $23.0 million. The fair values of all other financial assets and liabilities, excluding debt, approximate their carrying values given the short-term nature of these items.

Credit risk

The Fund's principal financial assets that expose it to credit risk are accounts receivable and foreign exchange derivative instruments.

The Fund is subject to risk of non-payment of accounts receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Fund's prior experience and its assessment of the current economic environment. The Fund's receivables are concentrated among several of its largest customers with approximately 51% of total receivables on account of the Fund's ten largest customers. However, the Fund believes that the credit risk associated with these receivables is limited for the following reasons:

16. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

(a) Only a small portion (2%) of trade receivables is outstanding for more than sixty days and are considered past due. The Fund considers that all of these amounts are fully collectible. Trade receivables that are not past due are also considered by the Fund to be fully collectible.

(b) The Fund mitigates credit risk by monitoring the creditworthiness of its customers.

(c) The majority of the Fund's major customers are large public corporations with positive credit ratings and history.

Liquidity risk

The Fund monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Fund believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Fund's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $30.0 million.

Foreign exchange risk

The Fund earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by periodically buying forward U.S. dollars ("USD") at fixed rates in future periods.

As at December 31, 2008, the Fund held twelve foreign exchange forward purchase agreements maturing on a monthly basis to December 2009 for a total of USD $12.0 million. These agreements fix the amount of Canadian dollars that the Fund will pay to buy USD to offset its purchases in USD. As at December 31, 2008, the contracts had a positive fair value of $2,148,558 that was recorded as a derivatives contract asset on the balance sheet.

In January 2009, the Fund ended its foreign exchange hedging program and realized a pre-tax gain of $2.6 million from the settlement and sale of all of the Fund's remaining foreign exchange purchase agreements. The Fund will recognize the gains during the same periods in which the hedged anticipated transaction affects net income. During the period ended March 31, 2009, $658,195 of the gain ($451,360 net of taxes) was recognized and transferred from comprehensive income to net income.

The Fund had no outstanding foreign exchange forward purchase agreements outstanding as at March 31, 2009.

Total net foreign exchange gains during the three-month period ended March 31, 2009 were approximately $740,000 (March 31, 2008 – net foreign exchange gains of $17,260).

16. FINANCIAL INSTRUMENTS (CONTINUED)

Interest rate risk

The Fund has long-term floating rate debt that creates an exposure to fluctuations in interest rates (Note 9). The Fund periodically uses interest rate swaps to manage its exposure to interest rate fluctuations. At March 31, 2008, the Fund held an interest rate swap that had a negative fair value of $12,135. At March 31, 2009, the Fund had no swap contracts in place.

Commodity risk

The Fund is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Fund does not use derivative instruments to mitigate this risk. As at March 31, 2009, the Fund has been successful in recovering substantially all increases in fuel costs from its customers.

Market risk

In the normal course of business, the financial position of the Fund is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-Canadian dollar denominated assets and liabilities, other examples of risk include collectibility of accounts receivable.

The Fund regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Fund does not anticipate any material losses from these risks.

To meet disclosure requirements, the Fund performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Fund's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Fund's cash and cash equivalents, long-term and short-term debt, convertible debentures and all derivative financial instruments. To perform the sensitivity analysis, the Fund assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

At March 31, 2009, movements in interest rates would not have any significant impact on the fair value of the Fund's financial assets and liabilities.

At March 31, 2009, a weakening of the Canadian dollar that results in a 10% decrease in the exchange rate for the purchase of US dollars would increase the value of the Fund's other net financial assets and liabilities denominated in US dollars by approximately $0.2 million. An increase in the exchange rate for the purchase of US dollars of 10% would decrease the value of these net financial assets and liabilities by the same amount.

17. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees are as follows:

(a) The Fund has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all trustees, directors and officers of the Fund for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Fund. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Fund has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Fund to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

18. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the three-month period ended March 31, 2009 were $1,345,563 to unitholders and $452,174 to Exchangeable LP unitholders (three month period ended March 31, 2008 - $1,937,212 to unitholders and $645,769 to Exchangeable LP unitholders).

18. DISTRIBUTIONS (CONTINUED)

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. On March 5, 2009 the Fund announced a reduction in its monthly distribution rate from $0.0675 per unit to $0.0270 per unit effective April 1, 2009. The following table summarizes the cash distributions for the period ended March 31, 2009:

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	-	150,725	-	595,211	0.0675	-
		1,345,563	1,351,933	452,174	452,174	1,797,737	0.2025	1,804,107

Distributions payable at March 31, 2009 were as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	March 1, 2009 to March 31, 2009	March 31, 2009	April 15, 2009	$ 0.0675	444,486
Exchangeable LP Units	March 1, 2009 to March 31, 2009	March 31, 2009	April 15, 2009	$ 0.0675	150,725
					595,211

Distributions payable at December 31, 2008 were as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	December 1, 2008 to December 31, 2008	December 31, 2008	January 15, 2009	$ 0.0675	450,856
Exchangeable LP Units	December 1, 2008 to December 31, 2008	December 31, 2008	January 15, 2009	$ 0.0675	150,725
					601,581

19. SEGMENTED INFORMATION

The Fund's business falls under one dominant industry segment, the air cargo transportation industry in Canada. The Fund operates its business as two distinct operating segments: the National Overnight Air Cargo ("National") segment that provides service to 13 major cities across Canada utilizing a fleet of large jet engine aircraft, and the Regional Overnight Air Cargo ("Regional") segment that provides service to 19 smaller cities in Ontario, Quebec and the Maritime provinces utilizing a fleet of 21 smaller propeller engine aircraft.

The Regional segment includes the operations of Prince Edward Air Ltd. that was acquired by the Fund on May 1, 2008 and the Fund's own regional air cargo business that was transferred to Prince Edward Air Ltd. on May 1, 2008. The Fund's regional air cargo business started in October 2007.

The performance of each operating segment is regularly evaluated by the chief operating decision maker and chief decision making group who assess performance and decide on the allocation of resources. The performance of the Fund's operating segments is measured on earnings before income taxes and non-controlling interest. Inter-segment transactions are reflected at market value. The following is a breakdown by reporting segment for the three-month period ended March 31, 2009:

	Three months ended March 31, 2009			
	National	**Regional**	**Inter-segment**	**Total**
	$	$	$	$
REVENUES	37,118,200	5,472,490	(386,512)	42,204,178
DIRECT EXPENSES	26,875,287	5,689,845	(386,512)	32,178,620
	10,242,913	(217,355)	-	10,025,558
SELLING AND ADMINISTRATIVE				
Sales and marketing	159,304	11,191	-	170,495
General and administrative	4,214,238	336,469	-	4,550,707
Interest, net	856,994	170,003	-	1,026,997
Amortization of capital assets	155,547	-	-	155,547
Amortization of intangible assets	2,624,226	335,195	-	2,959,421
	8,010,309	852,858	-	8,863,167
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	2,232,604	(1,070,213)	-	1,162,391
	As at March 31, 2009			
TOTAL NET CAPITAL ASSETS	49,160,870	9,419,922	-	58,580,792
TOTAL CAPITAL EXPENDITURES	2,553,569	53,722	-	2,607,291

19. SEGMENTED INFORMATION (CONTINUED)

	Three months ended March 31, 2008			
	National	Regional	Inter-segment	Total
	$	$	$	$
REVENUES	44,418,535	2,380,084	-	46,798,619
DIRECT EXPENSES	36,892,471	2,638,063	-	39,530,534
	7,526,064	(257,979)	-	7,268,085
SELLING AND ADMINISTRATIVE				
Sales and marketing	190,910	-	-	190,910
General and administrative	4,332,102	30,748	-	4,362,850
Interest, net	351,742	-	-	351,742
Amortization of capital assets	116,503	-	-	116,503
Amortization of intangible assets	2,517,288	112,500	-	2,629,788
	7,508,545	143,248	-	7,651,793
INCOME (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	17,519	(401,227)	-	(383,708)
	As at March 31, 2008			
TOTAL NET CAPITAL ASSETS	30,668,506	-	-	30,668,506
TOTAL CAPITAL EXPENDITURES	2,144,769	-	-	2,144,769

20. MAJOR CUSTOMERS

During the three month period ended March 31, 2009, the Fund had sales to three customers that represented 50% of the total revenues (March 31, 2008 – 44%). These sales are provided under service agreements that expire over various periods to September 2013. Two of these customers had sales in excess of 10% of total revenues in first quarter of 2009 (three in 2008). The sales to individual customers represented 27.4%, 12.9% and 9.7% of the total revenue (March 31, 2008 – 21.1%, 11.9%, and 10.5%). These customers are reported under the National segment.