CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Six Month Periods Ended June 30, 2008

The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three month and six month periods ended June 30, 2008. The following also includes a discussion of and comparative operating results for the three month and six month periods ended June 30, 2007.

The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005. Reference should be made to the prospectus of the Fund dated June 1, 2005 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

The effective date of the MD&A is August 7, 2008. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we" and "our" mean Cargojet Income Fund. This MD&A should be read in conjunction with the unaudited interim financial statements of the Fund for the three month and six month periods ended June 30, 2008 and 2007 as well as the audited financial statements and MD&A for the year ended December 31, 2007.

References to "EBITDA" (A) are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA (A) and Distributable Cash (B), are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA (A) and Distributable Cash (B) may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA (A) and Distributable Cash (B) should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Distributable Cash (B) and EBITDA (A) are shown on pages 5 and 8, respectively.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference should be made to the Annual Information Form ("AIF"), filed March 17, 2008 with the regulatory authorities.

Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan" "estimate", "expect", "intend" and similar expressions to the extent they relate to the Fund or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in our AIF, filed March 17, 2008 with the regulatory authorities.

Corporate Overview

The Fund is Canada's leading provider of time sensitive overnight air cargo services. Its main air cargo business is comprised of the following:

- Operating a domestic overnight air cargo co-load network between thirteen major Canadian cities
- Providing dedicated aircraft to various customers on an Aircraft, Crew, Maintenance & Insurance ("ACMI") basis, operating between points in Canada and the USA
- Operating a scheduled international route for multiple cargo customers between the USA and Bermuda
- Operating a regional air cargo network that services nineteen smaller cities in Ontario, Quebec and the Maritimes

The Fund operates its business across North America transporting over 885,000 pounds (over 401 metric tonnes) of time sensitive air cargo each business night utilizing its fleet of all-cargo aircraft. The Fund's domestic overnight air cargo co-load network consolidates cargo received from customers and transports such cargo to the appropriate destination in a timely and safe manner. The Fund continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

The Fund currently operates eleven Boeing 727-200 ("B727") series cargo aircraft, six of which are leased and five owned. One 757-200ER ("B757") series and two 767-200ER ("B767") series aircraft will be introduced to operations during the third and fourth quarters of fiscal 2008. The Fund also periodically contracts other airlines on an ACMI basis to temporarily operate aircraft on the Fund's behalf. This provides added capacity to its overall network to meet new business and/or peak period demands. Currently two B727 aircraft are operated on this basis.

The Fund acquired a 51% interest in Prince Edward Air Ltd. ("PEAL") on May 1, 2008 to extend the reach and coverage of its national air cargo network. The operations of PEAL were combined with the existing Cargojet Regional business that was launched in October 2007. The combined regional businesses operate 21 aircraft in Ontario, Quebec and Eastern Canada.

Recent Events

On July 22, 2008 the Fund announced a reduction in its monthly distribution rate from $0.0964 per unit to $0.0675 per unit effective July 1, 2008. The reduction was due to the unforeseen increase in expenses related to the delay in introduction of its two B767 and one B757 freighter aircraft from the supplier and lower customer demand as a result of a slowing economy. The new aircraft are scheduled to begin revenue service in the third and fourth quarters of 2008.

The delay in the introduction of these aircraft impacted crew training, scheduling and positioning in the second quarter of 2008. Crews originally scheduled to fly the new aircraft at the beginning of the third quarter were re-deployed and re-trained to operate B727 aircraft. The same crews must be re-certified to operate the new aircraft as they are brought into service. Unexpected crew costs for overtime, training and positioning in the second quarter of 2008 were approximately $1.1 million.

Recent Events (continued)

The delay in the introduction of these aircraft has also required the extension of sub-charter costs to the end of the third quarter of 2008. Total sub-charter costs for the second quarter of 2008 were $1.6 million.

The Fund also considered the softening of customer demand in the second quarter of 2008 and revised its revenue forecast for the remainder of the year. Although total core overnight revenues excluding fuel surcharges and other pass-through cost revenues were 20.6% higher in the second quarter of 2008 as compared to the same period in 2007, the Fund's expectations for incremental volume growth from new and existing customers was not met. The Fund attributes the lower than expected growth in customer demand to record fuel prices and a slowing economy. Moving forward the Trustees will assess future distributions upon review of Cargojet's customer volumes and financial performance.

In light of its expectations of lower growth in customer volumes the Fund is reducing its fleet by two B727 aircraft in 2008. One B727 lease expired in July 2008 and another B727 lease will expire in December 2008. Improvements and modifications of $0.4 million related to the aircraft with the July 2008 lease expiry date have been expensed in the quarter ended June 30, 2008 in general and administrative expenses. The remaining balance of deferred heavy maintenance costs for this aircraft of $0.2 million have been expensed in heavy maintenance amortization expenses in the quarter ended June 30, 2008. There are no deferred costs recorded in Cargojet's financial statements related to the B727 aircraft with the lease expiry date in December 2008.

During the three month period ended June 30, 2008 Cargojet permanently removed its passenger B727 aircraft from service. Cargojet intends to use the aircraft as a source for spare parts to maintain its existing fleet of B727 cargo aircraft. Any saleable parts and components of the aircraft that are not required by Cargojet will be held for sale. Accordingly, Cargojet reviewed the carrying value of this aircraft and estimated that the recoverable value of the aircraft was below the book value. Cargojet reduced the net book value of this aircraft by $0.6 million to fair value during the second quarter ended June 30, 2008 and recorded the amount as a non-cash loss in general and administrative expenses.

In April 2008, the Fund closed a $35.7 million offering of subordinated unsecured convertible debentures, including the $4.7 million over-allotment option. The Fund has used the net proceeds of the offering to finance a portion of the estimated $21.0 million in start-up costs for the addition of the B767 and B757 aircraft and the related new hangar, finance the acquisition of PEAL, temporarily repay current indebtedness under the credit facility, and for general corporate purposes.

The Fund acquired 51% of PEAL on May 1, 2008. The Fund received shares in PEAL in exchange for customer contracts and assets valued at $4.2 million, and cash consideration of $1.0 million. The transaction resulted in a non-cash gain of $1.1 million that was recognized in the three month period ended June 30, 2008 under general and administrative expenses. The operating results of PEAL from May 1, 2008 have been consolidated in the Fund's financial statements and reported as a reportable segment in accordance with GAAP. As a result of this acquisition, all of the Fund's existing regional business that was originally purchased from Georgian Express Ltd. in 2007 has been transferred to PEAL. The transaction is part of Cargojet's strategic plan to expand its regional air cargo business. Total annual revenues of Cargojet and PEAL's regional air cargo businesses are expected to be approximately $22.0 million.

Revenues

The Fund's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Fund's network and a corresponding guaranteed daily revenue amount is paid to the Fund for this space and weight allocation. Remaining capacity is sold on an *ad hoc* basis to contract and non-contract customers. The Fund also provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This revenue helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules. To enhance its revenues, the Fund offers a specialty charter service, typically, in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America and the Caribbean.

In addition, the Fund operates an international route operating between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

The Fund provides and operates dedicated aircraft on an ACMI basis. On these contracts, the customer is responsible for all commercial activities and the Fund is paid a fixed amount to operate the routes.

Through its subsidiary PEAL, the Fund generates revenue from its regional air cargo business that services nineteen smaller cities in Ontario, Quebec and the Maritimes.

With the September 2007 addition of the Fixed Base Operations ("FBO") at the Hamilton International Airport, the Fund also derives revenue from the sale of aviation related fuel products and provision of related aircraft and ground handling services.

Expenses

Direct expenses consist of fixed and variable expenses including aircraft and ground support, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter and ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment and building leases.

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Fund's business, which includes functions such as load scheduling, flight operations coordination, client relations, administration and information systems. The Fund's administrative costs primarily consist of salaries and benefits including incentive plan expenses, occupancy costs and professional fees (such as audit and legal fees). The Fund's administrative staffing and associated costs are maintained at a level that the Fund deems appropriate to manage and support the size and nature of its current business activities.

Reconciliation of Cash from Operating Activities to Distributable Cash[B]
(in thousands of dollars)

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2008 (unaudited)	2007[4] (unaudited)	2008 (unaudited)	2007[4] (unaudited)
Cash inflow from operations before changes in non-cash working capital items[1]	$ 543	$ 4,707	$ 3,985	$ 8,583
Changes in non-cash working capital items[1]				
Accounts receivable	486	1,269	(78)	(646)
Materials and supplies	18	51	9	89
Prepaid expenses and deposits	(4,410)	93	(4,812)	(202)
Due from related company	15	-	15	-
Income taxes payable	(778)	410	(2,234)	410
Accounts payable and accrued charges	2,771	(1,243)	1,675	(1,814)
	$ (1,355)	$ 5,287	$ (1,440)	$ 6,420
Less:				
Maintenance capital expenditures[2]	1,567	1,240	2,630	1,959
Repayment of long-term debt obligation under capital lease	51	30	86	67
Accretion of convertible debentures	173	-	173	-
Less: Minority interest in cash inflow from operations before changes in non-cash working capital items of PEAL	$ 25	$ -	$ 25	$ -
Total changes in non-cash working capital items	(1,898)	580	(5,425)	(2,163)
Distributable cash[B]	$ (1,273)	$ 3,437	$ 1,071	$ 6,557
Average number of trust units outstanding - basic (in thousands of units)	6,699	6,699	6,699	6,699
Average number of trust units outstanding - diluted (in thousands of units)	8,932	8,932	8,932	8,932
Distributable cash per unit - diluted[3]	$ (0.143)	$ 0.385	$ 0.120	$ 0.734
Cash distributions	$ 2,583	$ 2,583	$ 5,166	$ 5,149
Cash distributions as a percentage of distributable cash	NM[5]	75%	482%	79%

[1] Please refer to Statement of Cash Flows for the Fund.

[2] Maintenance capital expenditures for the six month period ended June 30, 2008 exclude the $0.06 million for equipment that was financed under a capital lease.

[3] For the purpose of calculating distributable cash per unit – diluted the weighted average number of Trust units and Exchangeable LP units have been combined. The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

[4] The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2007 have been restated. Please refer to Note 4 in the Notes to the Consolidated Financial Statements.

[5] Cash distributions as a percentage of distributable is not meaningful ("NM") for the three month period ended June 30, 2008 due to the fact that there was a distributable cash deficit for this period.

Results of Operations and Supplementary Financial Information
(in thousands of dollars)

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2008	2007 [1]	**2008**	2007 [1]
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue	**$ 52,080**	$ 33,839	**$ 98,879**	$ 67,664
Direct expense	**46,318**	25,146	**85,849**	50,346
	5,762	8,693	**13,030**	17,318
Selling, general and administrative expenses				
Sales and marketing	**287**	65	**477**	263
General and administrative	**4,810**	3,785	**9,173**	8,104
Interest	**813**	217	**1,165**	372
Amortization of capital assets	**136**	122	**252**	228
Amortization of intangible assets	**2,904**	2,545	**5,534**	5,063
	8,950	6,734	**16,601**	14,030
Earnings (loss) before income taxes and non-controlling interest	**(3,188)**	1,959	**(3,571)**	3,288
Provision for (recovery of) income taxes				
Current	**-**	410	**21**	410
Future	**(1,086)**	(410)	**(1,513)**	(605)
Earnings (loss) before non-controlling interest	**(2,102)**	1,959	**(2,079)**	3,483
Non-controlling interest PEAL	**(85)**	-	**(85)**	-
Non-controlling interest Exchangeable LP Units	**(504)**	490	**(498)**	871
Net earnings (loss)	**$ (1,513)**	$ 1,469	**$ (1,496)**	$ 2,612
Earnings (loss) per trust unit - basic	$ (0.23)	$ 0.22	$ (0.22)	$ 0.39
Earnings (loss) per trust unit - diluted [2]	$ (0.23)	$ 0.22	$ (0.22)	$ 0.39
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	**6,699**	6,699
Average number of trust units - diluted (in thousands of units)	**8,932**	8,932	**8,932**	8,932
Total assets	**$ 135,719**	$ 107,708	**$ 135,719**	$ 107,708
Total long-term liabilities	**$ 44,617**	$ 20,604	**$ 44,617**	$ 20,604

(1) The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2007 have been restated. Please refer to Note 4 in the Notes to the Consolidated Financial Statements.

(2) For the purpose of earnings (loss) per unit – diluted, the weighted average number of Trust units and Exchangeable LP units have been combined. The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

Selected Financial Information

Summary of Most Recently Completed Consolidated Quarterly Results
(in thousands of dollars)

	Three Month Periods Ended							
	June 30 2008 (unaudited)	March 31 2008 (unaudited)	December 31 2007 (unaudited)	September 30 2007 [1] (unaudited)	June 30 2007 [1] (unaudited)	March 31 2007 [1] (unaudited)	December 31 2006 [1] (unaudited)	September 30 2006 [1] (unaudited)
Revenue	$ **52,080**	$ 46,799	$ 48,439	$ 35,002	$ 33,839	$ 33,825	$ 35,102	$ 33,983
Net income (loss)	$ **(1,513)**	$ 17	$ 1,502	$ 1,193	$ 1,469	$ 1,143	$ 1,650	$ 1,252
Earnings (loss) per trust unit - basic	$ (0.23)	$ 0.00	$ 0.22	$ 0.18	$ 0.22	$ 0.17	$ 0.25	$ 0.19
Earnings (loss) per trust unit - diluted	$ (0.23)	$ 0.00	$ 0.22	$ 0.18	$ 0.22	$ 0.17	$ 0.25	$ 0.19
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	6,699	6,699	6,699	6,699	6,699	6,699
Average number of trust units - diluted [2]	**8,932**	8,932	8,932	8,932	8,932	8,932	8,932	8,932

(1) The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial information for the noted periods has been restated. Please refer to Note 4 in the Notes to the Consolidated Financial Statements.

(2) For the purpose of earnings (loss) per unit – diluted, the weighted average number of Trust units and Exchangeable LP units have been combined. The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

Reconciliation of EBITDA(A) to Distributable Cash(B)
(in thousands of dollars)

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2008	2007 (2)	**2008**	2007 (2)
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Calculation of EBITDA (A):				
Net earnings (loss)	**$ (1,513)**	$ 1,469	**$ (1,496)**	$ 2,612
Add:				
Interest	**813**	217	**1,165**	372
Non-controlling interest	**(589)**	490	**(583)**	871
Provision for (recovery of) future income taxes	**(1,086)**	(410)	**(1,513)**	(605)
Provision for current income taxes	**-**	410	**21**	410
Gain on disposal of intangible assets	**(1,149)**	-	**(1,149)**	-
Loss on disposal of capital assets	**960**	22	**960**	22
Amortization of capital assets	**1,069**	849	**1,993**	1,666
Amortization of intangible assets	**2,904**	2,545	**5,534**	5,063
Aircraft heavy maintenance amortization	**1,063**	487	**1,692**	898
Less:				
Aircraft heavy maintenance expenditures	**(1,277)**	(686)	**(1,692)**	(1,769)
Non-controlling interest in EBITDA (A) of PEAL	**(80)**	-	**(80)**	-
EBITDA (A)	**$ 1,115**	$ 5,393	**$ 4,852**	$ 9,540
Reconciliation of EBITDA (A) to Distributable Cash (B):				
EBITDA (A)	**$ 1,115**	$ 5,393	**$ 4,852**	$ 9,540
Less:				
Maintenance capital expenditures (1)	**1,567**	1,240	**2,630**	1,959
Interest (3)	**770**	276	**1,044**	547
Provision for current income taxes	**-**	410	**21**	410
Repayment of long-term debt obligation under capital lease	**51**	30	**86**	67
Distributable cash (B)	**$ (1,273)**	$ 3,437	**$ 1,071**	$ 6,557

(1) Maintenance capital expenditures for the six month period ended June 30, 2008 exclude the $0.06 million for equipment that was financed under a capital lease.

(2) The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial information for the noted periods has been restated. Please refer to Note 4 in the Notes to the Consolidated Financial Statements.

(3) For the purpose of calculating Distributable Cash (B),interest excludes the loss (gain) in fair value on non-hedge derivatives of ($0.012) million and ($0.06) million for the three month periods ended June 30, 2008 and 2007 respectively as well as $0.07 million and ($0.17) million for the six month periods ended June 30, 2008 and 2007 respectively. It also excludes the portion of the interest expense attributable to the non-controlling interest in PEAL.

Highlights for the Three Month Periods Ended June 30, 2008 and 2007

- Total revenue for the three month period ended June 30, 2008 was $52.1 million as compared to $33.8 million for the same period in 2007, representing an increase of $18.3 million or 54.1%.
- Average core overnight daily cargo revenue excluding fuel surcharges, other cost pass-through revenues and revenues from the regional business operated by PEAL for the three month period ended June 30, 2008 was $0.69 million per operating day as compared to $0.57 million per operating day for same period in 2007, representing an increase of 21.1%.
- EBITDA (A) for the three month period ended June 30, 2008 was $1.2 million as compared to $5.4 million for the same period in 2007.
- Distributable Cash (B) was a deficit of $1.3 million for the three month period ended June 30, 2008 as compared to $3.4 million for the same period in 2007.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007

Revenue

Total revenue for the three month period ended June 30, 2008 was $52.1 million as compared to $33.8 million for the same period in 2007, an increase of 54.1%. The $18.3 million increase in revenues was primarily due to continued growth of the core overnight air cargo network and ACMI businesses, the new regional business, the new FBO fueling business, and higher fuel and other pass-through costs that were passed on to customers.

Core overnight air cargo and ACMI revenues excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2008 were $34.6 million compared to $28.7 million for the same period in 2007, an increase of 20.6%. While the $5.9 million increase in core overnight revenues indicates higher demand of the Fund's core overnight and ACMI cargo services compared to the prior year, incremental growth in overall customer volumes for the quarter fell short of the Fund's expectations.

Total regional revenues were $5.0 million for the three month period ended June 30, 2008. The Fund's regional revenues for the second quarter of 2008 are comprised of the total revenues of PEAL for the two month period May 1, 2008 to June 30, 2008 and Cargojet's regional business that was transferred to PEAL on May 1, 2008. Comparable revenues did not exist in the second quarter of 2007.

Revenues from the Fund's Fixed Base Operations ("FBO") fueling business were $0.4 million for the three month period ended June 30, 2008. These operations started in September 2007. Comparable revenues did not exist in the second quarter of 2007.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007 (continued)

Revenue (continued)

Fuel surcharges and other cost pass-through revenues were $12.1 million in the second quarter of 2008 as compared to $5.1 million for the same period in 2007, an increase of $7.0 million or 137.3%. The increase was due mainly to the increase in year over year fuel costs resulting from higher fuel prices that were passed on to the Fund's customers. Other revenues on account of pass-through costs such as navigation and landing fees were higher due to the growth in the Fund's ACMI cargo business and the new route to Western Canada.

Direct Expenses

Direct expenses were $46.3 million for the second quarter of 2008 as compared to $25.1 million for the same period in 2007, representing an increase of $21.2 million or 84.5%. As a percentage of revenue, direct expenses increased from 74.3% in the second quarter of 2007 to 88.9% for the same period in 2008.

Fuel costs were $19.0 million as compared to $10.4 million for the same period in 2007. The $8.6 million or 82.7% increase in fuel costs was due to higher fuel prices and an increase in overall customer volume and block hours. Increased costs incurred by the Fund due to higher fuel prices were billed to customers on a cost recovery basis as fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $5.1 million for the three month period ended June 30, 2008 as compared to $3.7 million for the same period in 2007. The $1.4 million or 37.8% increase in costs was due primarily to the additional flights on the new routes to Western Canada and the increase in ACMI business.

The additional flights also resulted in higher aircraft maintenance costs. Total maintenance costs were $2.5 million for the three month period ended June 30, 2008 as compared to $2.0 million for the same period in 2007, an increase of $0.5 million or 25.0%.

Heavy maintenance amortization costs were $1.1 million for the second quarter of 2008 as compared to $0.5 million for the same period in 2007, an increase of $0.6 million or 120%. Part of the increase was due to the termination of one B727 aircraft lease during the period that resulted in $0.2 million of additional heavy maintenance amortization during the quarter ended June 30, 2008. The remainder of the variance was due to the timing of service required by each aircraft in Cargojet's fleet. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

Aircraft lease costs including engine reserves, airframe reserves and sub-charter lease costs were $4.4 million for the second quarter of 2008 and $2.3 million for the same period in 2007, and increase of 91.3%. The increase of $2.1 million was due to sub-charter lease costs of $1.6 million that will terminate once the new aircraft are brought into service, the lease of an additional B727 aircraft that started in December 2007, and higher lease renewal rates on two existing B727 aircraft.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007 (continued)

Direct Expenses (continued)

Total crew costs including salaries, training and positioning were $4.4 million for the second quarter of 2008 and $2.1 million for the same period in 2007, an increase of 109.5%. $1.2 million of the increase was due to the hiring of new crew, training and positioning that were anticipated with the introduction of the new aircraft. The remaining $1.1 million of the increase was due to crew shortages and the unforeseen delay in the delivery of the new aircraft that resulted in higher training costs, overtime and crew positioning costs. Crew training for the new aircraft is expected to be complete by the end of the third quarter of 2008.

Total direct costs of the regional business including the operations of PEAL for the two month period from May 1, 2008 to June 30, 2008 were $4.7 million for the second quarter of 2008. Comparable direct expenses did not exist in the second quarter of 2007.

Total direct costs of the FBO business were $0.3 million for the three month period ended June 30, 2008. Comparable direct costs did not exist for the same period in 2007.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $4.9 million for the three month period ended June 30, 2008 as compared to $4.2 million for the same period in 2007. The increase of $0.7 million or 16.7% is due to the increase in customer volumes arising from growth in the core overnight and ACMI businesses.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $5.1 million for the three month period ended June 30, 2008 as compared to $3.8 million for the same period in 2007, an increase of $1.3 million or 34.2%. Increased SG&A expenses of $0.9 million were due to higher administrative support, training and marketing costs related to the new B767 and B757 aircraft and an increase in legal and consulting fees. Higher SG&A expenses of $0.3 million were due to the Fund's regional business that includes the operations of PEAL for the two month period May 1, 2008 to June 30, 2008. Comparable expenses did not exist for the same period in 2007.

The remainder of the net year over year increases in SG&A expenses for the three month period ended June 30, 2008 were due to non-cash gains and losses. Non-cash gains and losses were recognized during the period due to the cancellation of a B727 aircraft lease, the permanent removal of Cargojet's passenger aircraft from service, and the transfer of assets to PEAL on May 1, 2008.

Non-cash gains and losses were recorded in the three month period ended June 30, 2008 due to the cancellation of a B727 aircraft lease, the permanent removal of Cargojet's passenger aircraft from service, and the transfer of assets to PEAL on May 1, 2008.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007 (continued)

Selling, General and Administrative Expenses (continued)

In light of its expectations of lower growth in customer volumes the Fund is reducing its fleet by two B727 aircraft in 2008. One B727 lease expired in July 2008 and another B727 lease will expire in December 2008. Improvements and modifications of $0.4 million related to the aircraft with the July 2008 lease expiry date have been expensed in the quarter ended June 30, 2008 in SG&A expenses. The remaining balance of deferred heavy maintenance costs for this aircraft of $0.2 million have been expensed in heavy maintenance amortization expenses in the quarter ended June 30, 2008. There are no deferred costs recorded in Cargojet's financial statements related to the B727 aircraft with the lease expiry date in December 2008.

During the three month period ended June 30, 2008 Cargojet removed its passenger B727 aircraft from service on a permanent basis. Cargojet intends to use the aircraft as a source for spare parts to maintain its existing fleet of B727 cargo aircraft. Any saleable parts and components of the aircraft that are not required by Cargojet will be held for sale. Accordingly, Cargojet reviewed the carrying value of this aircraft and estimated that the recoverable value of the aircraft was below the book value. Cargojet reduced the net book value of this aircraft by $0.6 million to fair value during the second quarter ended June 30, 2008 and recorded the amount as a non-cash loss in SG&A expenses.

The Fund acquired 51% of PEAL on May 1, 2008. The Fund received shares in PEAL in exchange for customer contracts and assets valued at $4.2 million, and cash consideration of $1.0 million. The transaction resulted in a non-cash gain of approximately $1.1 million that was recognized in the three month period ended June 30, 2008 under SG&A expenses.

EBITDA [(A)]

EBITDA [(A)] for the three month period ended June 30, 2008 was $1.1 million or 2.1% of revenue compared to $5.4 million or 16.0% of revenue for the three month period ended June 30, 2007. The $4.3 million decrease in EBITDA was due to startup costs related to the introduction of the new B767 and B757 aircraft, the increase in SG&A expenses, and unexpected crew and other costs associated with the delay in the introduction of the new B767 and B757 aircraft. The B767 and B757 aircraft are scheduled to begin revenue service in the third and fourth quarters of 2008.

Aside from the costs associated with the new aircraft and sub-charter expenses described above, EBITDA [(A)] as a percentage of revenue was also impacted by the increase in fuel and pass-through costs, lower margins on the new route to Western Canada and lower margins on the regional business including the results of PEAL. The new route to Western Canada has been profitable but customer volumes have been lower than anticipated. Margins are expected to improve after changes were made in June 2008 to increase the efficiency of the route by eliminating certain flight legs. Notwithstanding these improvements, Management has reduced its expectations of customer demand in light of the struggling economy and lower than expected volume and revenue growth.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007 (continued)

EBITDA [(A)] (continued)

For the purpose of calculating EBITDA [(A)] for the three month period ended June 30, 2008, the aircraft heavy maintenance amortization of $1.1 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $1.3 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the three month period ended June 30, 2007, the aircraft heavy maintenance amortization of $0.5 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.7 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL on May 1, 2008. Amortization of intangible assets for the three month period ended June 30, 2008 was $2.9 million as compared to $2.5 million for the same period in 2007. Amortization of capital assets for the three month period ended June 30, 2008 was $1.1 million, of which $0.9 million was included in direct expenses. Amortization of capital assets for the three month period ended June 30, 2007 was $0.8 million, of which $0.7 million was included in direct expenses.

Interest

Interest expense was $0.8 million for the three month period ended June 30, 2008, compared to interest expense of $0.2 million for the three month period ended June 30, 2007. The increase in interest expense is due to the issuance of $35.7 million of subordinated unsecured convertible debentures in April 2008. The Fund is using the net proceeds of the offering to finance a portion of the estimated $21.0 million in start-up costs for the addition of the B767 and B757 aircraft and the related new hangar, finance the acquisition of PEAL, temporarily repay current indebtedness under the credit facility, and for general corporate purposes.

Future Income Tax Recovery

The net future income tax recovery was $1.1 million for the three month period ended June 30, 2008 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007 (continued)

Income Tax Provision

The provision for current income tax expense for the three month period ended June 30, 2008 was nil, compared to $0.4 million for the three month period ended June 30, 2007 for the taxes payable by certain of the Fund's taxable subsidiaries.

Non-controlling Interest

Non-controlling interest was a credit to earnings of $0.6 million for the three month period ended June 30, 2008, compared to a charge to earnings of $0.5 million for the three month period ended June 30, 2007. Non-controlling interest represents the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held and the non-controlling shareholders of PEAL.

Distributable Cash

Distributable cash was a deficit of $1.3 million for the three month period ended June 30, 2008, compared to $3.4 million for the three month period ended June 30, 2007. The decrease in distributable cash of $4.7 million for the three month period ended June 30, 2008 compared to the same period in 2007 was primarily due to startup costs related to the introduction of the new B767 and B757 aircraft, the increase in selling, general and administrative expenses, and unexpected crew and other costs associated with the delay in the introduction of the new B767 and B757 aircraft.

Distributions

Total distributions declared for the three month period ended June 30, 2008 were $2.6 million, or $0.2892 per trust unit. A distribution of $0.0964 per trust unit, equal to $0.6 million, for the period June 1, 2008 to June 30, 2008 was declared to unitholders of record on June 30, 2008, payable on or before July 15, 2008. Also, a distribution of $0.0964 per Exchangeable LP unit, equal to $0.2 million, for the period June 1 to June 30, 2008 was declared to Exchangeable LP unitholders of record on June 30, 2008, payable on or before July 15, 2008. The total distributions declared for the three month period ended June 30, 2007 were $2.6 million, or $0.2892 per trust unit. Distributable cash was a deficit of $1.2 million for the three month period ended June 30, 2008. The payout ratio for the three month period ended June 30, 2007 was 75%.

On July 22, 2008 the Fund announced a reduction in its monthly distribution rate from $0.0964 per unit to $0.0675 per unit effective July 1, 2008. The reduction was due to the unforeseen increase in expenses related to the delay in introduction of its two B767 and one B757 freighter aircraft from the supplier and lower growth in customer demand as a result of a slowing economy. 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.

Review of Operations For the Three Month Periods Ended June 30, 2008 and 2007 (continued)

Liquidity and Capital Resources

Cash used by operating activities after net changes in non-cash working capital balances for the three month period ended June 30, 2008 was $1.5 million. Cash provided by operating activities after net changes in non-cash working capital balances for the same period in 2007 was $5.3 million. The change in cash provided by operating activities was primarily due to prepaid expense and deposits as well as startup costs related to the introduction of the new B767 and B757 aircraft, the increase in SG&A expenses, and unexpected crew and other costs associated with the delay in the introduction of the new B767 and B757 aircraft.

Cash provided by financing activities during the three month period ended June 30, 2008 was $12.8 million due to the net proceeds from the issue of convertible debentures of $34.0 million, the repayment of the long-term debt of $18.6 million and distributions paid to unitholders of $2.6 million.

Cash used in investing activities during the three month period ended June 30, 2008 was $4.0 million, represented by capital asset spending of $2.9 million and cash used in the acquisition of PEAL of $1.1 million.

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results. The Fund's revolving credit facility will mature on April 1, 2009. The Fund has completed negotiations with its bank to renew its long-term credit facility to a maximum of $30.0 million. The renewed credit facility will mature in the year 2011. Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

Capital Expenditures

Net capital asset additions totaled $2.9 million for the three month period ended June 30, 2008 as compared to $1.2 million for the same period in 2007. Capital additions for the three month period ended June 30, 2008 were comprised of $1.6 million of maintenance capital expenditures, $1.3 million for growth capital expenditures. All growth capital expenditures related to the introduction of the new B757 and B767 aircraft. There were no growth capital expenditures in the three month period ended June 30, 2007.

Highlights for the Six Month Periods Ended June 30, 2008 and 2007

- Total revenue for the six month period ended June 30, 2008 was $98.9 million as compared to $67.7 million for the same period in 2007, representing an increase of $31.2 million or 46.1%.
- Average core overnight daily cargo revenue excluding fuel surcharges, other cost pass-through revenues and revenues from the regional business operated by PEAL for the six month period ended June 30, 2008 was $0.69 million per operating day as compared to $0.57 million per operating day for same period in 2007, representing an increase of 21.0%.
- EBITDA [A] for the six month period ended June 30, 2008 was $4.9 million as compared to $9.5 million for the same period in 2007.
- Distributable Cash [B] was $1.1 million for the six month period ended June 30, 2008 as compared to $6.6 million for the same period in 2007.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007

Revenue

Total revenue for the six month period ended June 30, 2008 was $98.9 million as compared to $67.7 million for the same period in 2007, representing an increase of $31.2 million or 46.1%. The $31.2 million increase in revenues was primarily due to continued growth of the core overnight air cargo network revenues, the new regional business, the new FBO fueling business, and higher fuel and other pass-through costs that were passed on to customers.

Revenue related to the core overnight and ACMI cargo businesses excluding regional revenues, fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2008 was $69.0 million compared to $57.6 million for the same period in 2007, an increase of $11.4 million or 19.8%. While the increase of $11.4 million in core overnight and ACMI revenues indicates significantly higher customer demand compared to the prior year, incremental growth in overall customer volumes for the six month period ended June 30, 2008 fell short of the Fund's expectations.

Fuel surcharges and other cost pass-through revenues were $21.6 million for the six month period ended June 30, 2008 as compared to $9.8 million for the same period in 2007, an increase of $11.8 million or 120.4%. Most of the $11.8 million increase was due to the higher fuel costs resulting from higher fuel prices that were passed on to the Fund's customers. Other revenues on account of pass-through costs such as navigation and landing fees were higher due to the growth in the Fund's ACMI cargo business and the new route to Western Canada.

Total regional revenues were $7.4 million for the six month period ended June 30, 2008. The Fund's regional revenues for the six month period ending June 30, 2008 are comprised of the total revenues of PEAL for the two month period May 1, 2008 to June 30, 2008 and the year to date revenues of Cargojet's regional business that was transferred to PEAL on May 1, 2008. Comparable revenues did not exist in the six month period ended June 30, 2007.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

Revenue (continued)

Revenues from the Fund's FBO fueling business were $0.8 million for the six month period ended June 30, 2008. These operations started in September 2007. Comparable revenues did not exist for the six month period ended June 30, 2007.

Direct Expenses

Direct expenses were $85.8 million for the six month period ending June 30, 2008 as compared to $50.3 million for the same period in 2007, representing an increase of $35.5 million or 70.5%. As a percentage of revenue, direct expenses increased from 74.4% in the first six month period of 2007 to 86.8% for the same period in 2008.

Fuel costs were $34.7 million for the six month period ended June 30, 2008 as compared to $20.1 million for the same period in 2007. The $14.6 million or 72.6% increase in fuel costs was due to higher fuel prices and an increase in overall customer volume and block hours. Increased costs incurred by the Fund due to higher fuel prices were billed to customers on a cost recovery basis as fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $10.5 million for the six month period ended June 30, 2008 as compared to $8.0 million for the same period in 2007. The $2.5 million or 31.3% increase in costs was due to the growth in the Fund's ACMI business and the additional flights resulting from the new routes to Western Canada.

The additional flights also resulted in higher aircraft maintenance costs. Maintenance costs were $5.0 million for the six month period ended June 30, 2008 as compared to $4.1 million for the same period in 2007, an increase of $0.9 million or 22.0%. Approximately $0.5 million of the increase was attributable to unexpected aircraft repair expenditures incurred in the first quarter of 2008.

Heavy maintenance amortization costs were $1.7 million for the six month period ended June 30, 2008 as compared to $0.9 million for the same period in 2007, an increase of $0.8 million or 88.9%. Part of the increase was due to the termination of one B727 lease during the period that resulted in $0.2 million of additional heavy maintenance amortization during the six month period ended June 30, 2008. The remainder of the variance was due to the timing of service required by each aircraft in Cargojet's fleet. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

Aircraft lease costs including engine reserves, airframe reserves and sub-charter lease costs were $8.5 million for the six month period ended June 30, 2008 and $4.6 million for the same period in 2007. The increase of $3.9 million or 84.8% was due to sub-charter lease costs of $3.0 million that will terminate once the new aircraft are brought into service, the lease of an additional B727 that started in December 2007, and higher lease renewal rates on two existing B727 aircraft.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

Direct Expenses (continued)

Total crew costs including salaries, training and positioning were $7.5 million for the six month period ending June 30, 2008 and $4.2 million for the same period in 2007, an increase of $3.3 million or 78.6%. The increase was due to the hiring of new crew, training and positioning that had been planned as startup and transition costs associated with the introduction of the new aircraft. Approximately $1.1 million of the increase was due to crew shortages and the unforeseen delay in the delivery of the new aircraft that resulted in higher re-training costs, overtime and crew positioning. Crew training for the new aircraft is expected to be complete by the end of the third quarter of 2008.

Total direct costs of the regional business including the operations of PEAL for the two-month period from May 1, 2008 to June 30, 2008 were $7.3 million for the six month period ended June 30, 2008. Comparable direct expenses did not exist in the first six months of 2007.

Total direct costs of the FBO business were $0.7 million for the six month period ended June 30, 2008. Comparable direct costs did not exist in the first six months of 2007.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $9.9 million for the six month period ended June 30, 2008 as compared to $8.5 million for the same period in 2007. The increase of $1.4 million or 16.5% is due to the increase in customer volume arising from growth in the core overnight and ACMI businesses.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $9.7 million for the six month period ended June 30, 2008 compared to $8.4 million for the same period in 2007, an increase of $1.3 million or 15.5%. Of this total increase, $0.9 million was primarily due to higher administrative support, training and marketing costs related to the new B767 and B757 aircraft and an increase in legal and consulting fees. Increased SG&A expenses of $0.3 million were due to the Fund's regional business that includes the operations of PEAL for the two month period May 1, 2008 to June 30, 2008. Comparable expenses did not exist for the same period in 2007.

The remainder of the net year over year increases in SG&A expenses for the six month period ended June 30, 2008 was due to non-cash gains and losses. Non-cash gains and losses were recorded in the six-month period ended June 30, 2008 due to the cancellation of a B727 aircraft lease, the permanent removal of Cargojet's B727 passenger aircraft from service, and the transfer of assets to PEAL on May 1, 2008.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

Selling, General and Administrative Expenses (continued)

In light of its expectations of lower growth in customer volumes, the Fund is reducing its fleet by two B727 aircraft in 2008. One B727 lease expired in July of 2008 and another B727 lease will expire in December 2008. Improvements and modifications of $0.4 million related to the aircraft with the July 2008 lease expiry date have been expensed in the six month ended June 30, 2008 in general and administrative expenses. The remaining balance of deferred heavy maintenance costs for this aircraft of $0.2 million have been expensed in heavy maintenance amortization expenses in the six month period ended June 30, 2008. There are no deferred costs recorded in Cargojet's financial statements related to the B727 aircraft with the lease expiry date in December 2008.

During the six month period ended June 30, 2008 the Cargojet removed its passenger B727 aircraft from service on a permanent basis. Cargojet intends to use the aircraft as a source for spare parts to maintain its existing fleet of B727 cargo aircraft. Any saleable parts and components of the aircraft that are not required by Cargojet will be held for sale. Accordingly, Cargojet reviewed the carrying value this aircraft and estimated that the recoverable value of the aircraft was below its net book value. Cargojet reduced the net book value of this aircraft by $0.6 million to fair value in the six month period ended June 30, 2008 and recorded the amount as a non-cash loss in SG&A expenses.

The Fund acquired 51% of PEAL on May 1, 2008. The Fund received shares in PEAL in exchange for customer contracts and assets valued at $4.2 million, and cash consideration of $1.0 million. The transaction resulted in a non-cash gain of approximately $1.0 million that was recognized in the six month period ended June 30, 2008 under general and administrative expenses.

EBITDA [A]

EBITDA [A] for the six month period ended June 30, 2008 was $4.9 million or 5.0% of revenue, compared to $9.5 million or 14.0% of revenue for the same period in 2007. The decline in EBITDA of $4.6 million for the six month period ended June 30, 2008 as compared to the same period in the prior year was due primarily to one-time costs related to the introduction of the new B767 and B757 aircraft, the temporary use of sub-charter aircraft, unexpected crew and other costs associated with the delay in the introduction of the new aircraft, and one-time aircraft repair expenditures. The B767 and the B757 aircraft are scheduled to begin revenue service in the third and fourth quarters of 2008.

Aside from the costs associated with the new aircraft and sub-charter expenses described above, EBITDA [A] as a percentage of revenue was also impacted by the increase in fuel and pass-through costs, lower margins on the new route to Western Canada and lower margins on the regional business including the results of PEAL. The new route to Western Canada has been profitable but customer volumes have been lower than anticipated. Margins are expected to improve after changes were made in June 2008 to increase the efficiency of the route by eliminating certain flight legs. Notwithstanding these improvements, Management has reduced its expectations of growth in customer demand in light of the struggling economy.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

EBITDA [(A)] (continued)

For the purpose of calculating EBITDA [(A)] for the six month period ended June 30, 2008, the aircraft heavy maintenance amortization of $1.7 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $1.7 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the six month period ended June 30, 2007, the aircraft heavy maintenance amortization of $0.9 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $1.8 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL on May 1, 2008. Amortization of intangible assets for the six month period ended June 30, 2008 was $5.5 million as compared to $5.1 million for the same period in 2007. Amortization of capital assets for the six month period ended June 30, 2008 was $2.0 million, of which $1.7 million was included in direct expenses. Amortization of capital assets for the six month period ended June 30, 2007 was $1.7 million, of which $1.4 million was included in direct expenses.

Interest

Interest expense was $1.2 million for the six month period ended June 30, 2008, compared to interest expense of $0.4 million for the six month period ended June 30, 2007. The increase in interest expense is due to the issuance of $35.7 million of subordinated unsecured convertible debentures in April 2008. The Fund is using the net proceeds of the offering to finance a portion of the estimated $21.0 million in start-up costs for the addition of the B767 and B757 aircraft and the related new hangar, finance the acquisition of PEAL, temporarily repay current indebtedness under the credit facility, and for general corporate purposes.

Future Income Tax Recovery

The future income tax recovery of $1.5 million for the six month period ended June 30, 2008 represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items.

Income Tax Provision

The provision for current income tax expense for the six month period ended June 30, 2008 was $0.02 million, compared to $0.4 million for the six month period ended June 30, 2007, for the taxes payable by certain of the Fund's taxable subsidiaries.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

Non-controlling Interest

Non-controlling interest was a credit to earnings of $0.6 million for the six month period ended June 30, 2008, as compared to a charge to earnings of $0.9 million for the six month period ended June 30, 2007. Non-controlling interest represents the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders and the non-controlling shareholders of PEAL.

Distributable Cash

Distributable cash was $1.1 million for the six month period ended June 30, 2008, compared to $6.6 million for the six month period ended June 30, 2007. The decrease in distributable cash of $5.5 million for the six month period ended June 30, 2008 compared to the same period in 2007 was primarily due to startup costs related to the introduction of the new B767 and B757 aircraft, the increase in selling, general and administrative expenses, one-time aircraft repair expenses, and unexpected crew and other costs associated with the delay in the introduction of the new B767 and B757 aircraft.

Distributions

Total distributions declared for the six month period ended June 30, 2008 were $5.2 million, or $0.5784 per trust unit. A distribution of $0.0964 per trust unit, equal to $0.6 million, for the period June 1, 2008 to June 30, 2008 was declared to unitholders of record on June 30, 2008, payable on or before July 15, 2008. Also, a distribution of $0.0964 per Exchangeable LP unit, equal to $0.2 million, for the period June 1 to June 30, 2008 was declared to Exchangeable LP unitholders of record on June 30, 2008, payable on or before July 15, 2008. Total distributions declared for the six month period ended June 30, 2007 were $5.1 million, or $0.5765 per trust unit. The payout ratio for the six month period ended June 30, 2008 was 482% compared to 79% for the six month period ended June 30, 2007.

On July 22, 2008 the Fund announced a reduction in its monthly distribution rate from $0.0964 per unit to $0.0675 per unit effective July 1, 2008. The reduction was due to the unforeseen increase in expenses related to the delay in introduction of its two B767 and one B757 freighter aircraft from the supplier and lower growth in customer demand as a result of a slowing economy. Future distributions will be assessed by the Trustees moving forward, upon review of Cargojet's customer volumes and financial performance.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

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. The following table summarizes the cash distributions for the six month period ended June 30, 2008:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
January 31, 2008	February 15, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
February 29, 2008	March 14, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
March 31, 2008	April 15, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
April 30, 2008	May 15, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
May 31, 2008	June 13, 2008	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
June 30, 2008	July 15, 2008	645,771		215,257		861,028	0.0964	-
		3,874,625	3,228,854	1,291,542	1,076,285	5,166,167	0.5784	4,305,139

Liquidity and Capital Resources

Cash used by operating activities after net changes in non-cash working capital balances for the six month period ended June 30, 2008 was $1.6 million. Cash provided by operating activities after net changes in non-cash working capital balances for the same period in 2007 was $6.4 million. The change cash provided by operating activities was primarily due to an increase in prepaid expenses and deposits as well one-time costs related to the introduction of the new B767 and B757 aircraft, the temporary use of sub-charter aircraft, unexpected crew and other costs associated with the delay in the introduction of the new aircraft, and one-time aircraft repair expenditures.

Cash provided by financing activities during the six month period ended June 30, 2008 of $10.9 million was due primarily to the net proceeds from the issue of convertible debentures of $34.0 million, accretion of convertible debentures of $0.2 million, the repayment of the long-term debt of $18.1 million and distributions paid to unitholders of $5.2 million.

Cash used in investing activities during the six month period ended June 30, 2008 was $6.1 million, represented by capital asset spending of $5.0 million and cash used in the acquisition of PEAL of $1.1 million.

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results. The Fund has recently completed negotiations with its bank to renew its long-term credit facility to a maximum of $30.0 million. The renewed credit facility will mature in the year 2011. Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

Review of Operations For the Six Month Periods Ended June 30, 2008 and 2007 (continued)

Capital Expenditures

Capital asset additions totaled $5.0 million for the six month period ended June 30, 2008 as compared to $2.0 million for the same period in 2007. Capital additions for the six month period ended June 30, 2008 were comprised of $2.6 million of maintenance capital expenditures and $2.4 million of growth capital expenditures. All growth capital expenditures related to the introduction of the new B757 and B767 aircraft. There were no growth capital expenditures in the six month period ended June 30, 2007.

Financial Condition

The following is a comparison of the financial position of the Fund as at June 30, 2008 to the financial position of the Fund as at December 31, 2007. Also included is a comparison of the financial position of the Fund as at June 30, 2008 to the financial position of the Fund as at March 31, 2008

Accounts Receivable

Accounts receivable as at June 30, 2008 amounted to $11.1 million, an increase of $1.3 million compared to the balance of $9.8 million as at December 31, 2007 and an increase of $0.7 million compared to the balance of $10.4 million as at March 31, 2008. The fluctuation in the accounts receivable balance is primarily due to the acquisition of PEAL and the consolidation of its financial results. The quality of the Fund's consolidated receivable balances and its current collections, in management's opinion, remain excellent.

Capital Assets

Capital assets increased by $13.0 million from December 31, 2007 and increased by $12.9 million from March 31, 2008 to $43.6 million as at June 30, 2008. The increase in capital assets during the six month period ended June 30, 2008 was due to the acquisition of PEAL and the consolidation of its assets, maintenance capital expenditures of $2.6 million and growth capital expenditures of $2.4 million offset by the amortization of capital assets recorded of $2.0 million.

Intangible Assets

Intangible assets decreased by $1.5 million from December 31, 2007 and increased by $1.1 million from March 31, 2008 to $15.4 million as at June 30, 2008. The change in intangible assets for the six month period ended June 30, 2008 was due to the amortization of intangible assets of $5.5 million offset by the addition of intangible assets related to the acquisition of PEAL of $4.6 million.

Financial Condition (continued)

Accounts Payable and Accrued Charges

Accounts payable and accrued charges increased by $3.3 million from December 31, 2007 and increased by $4.4 million from March 31, 2008 to $16.9 million as at June 30, 2008. The increase in accounts payable and accrued charges for the six month period ended June 30, 2008 was due primarily to the acquisition of PEAL and the consolidation of its liabilities, the timing of supplier payments and the timing of payroll disbursements.

Deferred Heavy Maintenance

Deferred heavy maintenance expenditures remained at the same level from December 31, 2007 and increased by $0.2 million from March 31, 2008 to $2.2 million as at June 30, 2008. Total heavy maintenance expenditure additions for the six month period ended June 30, 2008 were $1.3 million offset by amortization of $1.1 million.

Working Capital Position

The Fund had a working capital surplus as at June 30, 2008, representing the difference between total current assets and current liabilities, of $8.0 million, compared to a working capital deficit of $0.4 million as at December 31, 2007 and a working capital deficit of $0.3 million as at March 31, 2008. The increase in working capital compared to December 31, 2007 and compared to March 31, 2008 is primarily due to an increase in cash from the proceeds of the Fund's offering of Subordinated Unsecured Convertible Debentures that closed in April 2008.

Long-Term Debt

The Fund has a long-term revolving credit facility to a maximum of $26.0 million. The maximum authorized limit will be reduced to $25.0 million on July 1, 2008. As at June 30, 2008 the amount draw on this credit facility was nil compared to $17.0 million as at December 31, 2007 and $17.5 million as at March 31, 2008. The maturity date of the credit facility is April 1, 2009.

The Fund has completed negotiations with its bank to renew its long-term credit facility to a maximum of $30.0 million. The credit facility will mature in the year 2011.

Through its subsidiary PEAL, the Fund also maintains a credit facility and fixed loans with other Canadian chartered banks. The credit facility is to a maximum of $1.0 million and is payable on demand. The credit facility bears interest at prime + 0.75%. Fixed loans bear interest at rates ranging from prime + 1.5% to 8.2% and are secured by the aircraft of PEAL.

Financial Condition (continued)

Convertible Debentures

In April 2008, the Fund closed a $35.7 million offering of subordinated unsecured convertible debentures, including $4.7 million in over-allotment proceeds. The Fund is has used the net proceeds of the offering to finance a portion of the estimated $21.0 million in start-up costs for the addition of the B767 and B757 aircraft and the related new hangar, finance the acquisition of PEAL, temporarily repay current indebtedness under the credit facility, and for general corporate purposes.

Summary of Contractual Obligations

	Payments due by Period					
As at June 30, 2008 (in thousands)	Total	2008	2009	2010	2011	2012
Long-term debt	$ 5,486	$ 707	$ 1,271	$ 1,226	$ 1,209	$ 1,073
Capital Lease Obligations	278	152	92	17	17	-
Operating leases	17,179	7,614	5,385	2,894	970	316
Total contractual obligations	$ 22,943	$ 8,473	$ 6,748	$ 4,137	$ 2,196	$ 1,389

Capital Resources

The Fund expects to make capital expenditures of approximately $18.0 million over the course of the 2008 fiscal year in connection with the deployment of the new aircraft required to meet the Fund's increase in capacity demand. The new aircraft are scheduled to enter service in the third and fourth quarters of 2008. Capital expenditures will consist of a new hangar, new aircraft tooling equipment, ground handling equipment, aircraft spare parts inventories and new airfreight containers and. In April 2008, the Fund closed a $35.7 million offering of subordinated unsecured convertible debentures, including the $4.7 million over-allotment proceeds. The Fund intends to use some of the proceeds of this offering for these capital expenditures.

Off-Balance Sheet Arrangements

The Fund does not have any off-balance sheet arrangements other than those disclosed under "Summary of Contractual Obligations".

Transactions with Related Parties

During the six month period ended June 30, 2008 the Fund had transactions with its related company, Flagship Aviation Holdings Ltd. ("Flagship Aviation"). The company is controlled by one of the Fund's executive officers. Total transactions amounted to $0.2 million and were in the normal course of operations. These transactions were related to a warehouse lease agreement that the Fund had entered into with Flagship Aviation for a new warehouse and office building at the Hamilton International Airport.

Financial Condition (continued)

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 PEAL that were acquired by the Fund on May 1, 2008 and the Fund's own regional air cargo business that was transferred to PEAL 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 Management of the Fund who assesses performance and decides 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 and six month periods ended June 30, 2008 (comparative figures for the prior year are not applicable):

Results of Operation by Reporting Segment For the Three Month Period Ended June 30, 2008 (in thousands of dollars)

	Three Month Period Ended June 30, 2008 (unaudited)			
	National	Regional	Inter-segment	Total
Revenues	$ 47,335	$ 4,974	$ (229)	$ 52,080
Direct Expenses	41,866	4,680	(229)	46,317
	5,469	294	-	5,763
Selling, general and administrative expenses				
Sales and marketing	269	18	-	287
General and administrative	4,527	283	-	4,810
Interest, net	701	112	-	813
Amortization of capital assets	136	-	-	136
Amortization of intangible assets	2,545	359	-	2,904
	8,178	772	-	8,950
Loss before income taxes and non-controlling interest	$ (2,709)	$ (478)	$ -	$ (3,187)

Segmented Information (continued)

Results of Operation by Reporting Segment For the Six Month Period Ended June 30, 2008
(in thousands of dollars)

	Six Month Period Ended June 30, 2008 (unaudited)			
	National	Regional	Inter-segment	Total
Revenues	$ 91,753	$ 7,354	$ (229)	$ 98,878
Direct expenses	78,759	7,318	(229)	85,848
	12,994	36	-	13,030
Selling, general and administrative expenses				
Sales and marketing	460	18	-	478
General and administrative	8,859	314	-	9,173
Interest, net	1,052	112	-	1,164
Amortization of capital assets	252		-	252
Amortization of intangible assets	5,063	471	-	5,534
	15,686	915	-	16,601
Loss before income taxes and non-controlling interest	$ (2,692)	$ (879)	$ -	$ (3,571)
	As at June 30, 2008 (unaudited)			
Total net capital assets	$ 31,878	$ 11,757	$ -	$ 43,634

Economic Dependence

During the three and six month periods ended June 30, 2008, the Fund had sales to three customers that represented 48% and 45%, respectively, of the total revenues. For the three and six month periods ended June 30, 2007, the Fund had sales to three customers that represented 53% and 54%, respectively, of the total revenues. These sales are provided under service agreements that expire over various periods to June 2010. Each of these customers had sales in excess of 10% of total revenues during all periods.

Contingencies

The Fund has provided irrevocable standby letters of credit totaling $0.34 million to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. One of the letters of credit for $0.2 million expires on December 31, 2008, one for $0.12 million expired on July 6, 2009 and the third for $0.02 million expires March 20, 2009.

Financial Instruments

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions.

The Fund entered into a hedging transaction with a major Canadian financial institution to manage most of its interest rate exposure in respect of its floating rate debt. The hedge was effective until the January 15, 2007 repayment of $4.0 million of the loan balance, after which the hedge no longer met the accounting requirements for hedge accounting and accordingly, hedge accounting was discontinued. This financial instrument was unwound on April 15, 2008.

During February 2008, the Fund entered into a series of U.S. dollar forward purchase contracts for an aggregate total of U.S. $21.0 million. These U.S. dollar forward contracts began in March 2008 and expire in December 2009, and are consistent with the Fund's foreign exchange risk management policy. As part of this policy, the Fund has entered into U.S. dollar forward purchase contracts to reduce uncertainty surrounding Canadian dollar value of anticipated cash flows where it has significant foreign exchange exposure to U.S. currency fluctuations. As at June 30, 2008, the contracts had a positive fair value of $0.5 million that is recorded in the derivatives contract on the balance sheet.

Subsequent Events

On July 22, 2008 the Fund announced a reduction in its monthly distribution rate from $0.0964 per unit to $0.0675 per unit effective July 1, 2008. The reduction was due to the unforeseen increase in expenses related to the delay in the introduction of its two B767 and one B757 freighter aircraft from the supplier and lower growth in customer demand as a result of a slowing economy. The new aircraft are scheduled to begin revenue service in the third and fourth quarters of 2008.

The delay in the introduction of these aircraft impacted crew training, scheduling and positioning in the second quarter. Crews originally scheduled to fly the new aircraft at the beginning of third quarter of 2008 were re-deployed and re-trained to operate B727 aircraft. These same crews must be re-certified to operate the new aircraft when they are brought into service. Unexpected crew costs for overtime, training and positioning in the second quarter of 2008 were approximately $1.1 million. The delay in the introduction of these aircraft has also required the extension of sub-charter costs to the end of the third quarter of 2008. Total sub-charter costs for the second quarter of $1.4 million.

The Fund also considered the softening of customer demand in the second quarter of 2008 and revised its forecasted revenues accordingly. Although total core revenues and volumes for the three month period ended June 30, 2008 are 21.0% higher than for the same quarter in the previous year, the Fund's expectations for incremental volume growth from new and existing customers were not met. The Fund attributes lower than expected customer demand to record fuel prices and a slowing economy. Moving forward the Trustees will assess future distributions upon review of Cargojet's customer volumes and financial performance.

Subsequent Events (continued)

In light of its expectations of lower growth in customer volumes the Fund is reducing its fleet by two B727 aircraft. One B727 lease expired in July of 2008 and another B727 lease will expire in December 2008. Improvements and modifications of $0.4 million related to the aircraft with the July 2008 lease expiry date have been expensed in the quarter ended June 30, 2008 in general and administrative expenses. The remaining balance of deferred heavy maintenance costs for this aircraft of $0.2 million have been expensed in heavy maintenance amortization expenses in the quarter ended June 30, 2008. There are no deferred costs recorded in Cargojet's financial statements related to the B727 aircraft with the lease expiry date in December 2008.

Outlook

While the core overnight network and Cargojet's fundamental business remains strong, the Fund's targets for organic growth and profitability in the first two quarters of 2008 were not fully met. Management attributes the softening of customer demand primarily to record high fuel prices and a slowing economy. Lower than expected revenue growth, the one-time costs of introducing new aircraft, and the additional costs due to the uncontrollable delays in delivery of the aircraft from the supplier have tempered the Fund's expectations of profitability and growth for the remainder of 2008.

Although the delivery of the new aircraft on the agreed upon schedules are not guaranteed by the supplier, the first B767 and the B757 aircraft are in the final stages of modification and testing. The remainder of crew and other staff training will be complete by the end of the third quarter of 2008 and Cargojet will be well positioned to meet customer demands in the high volume peak period in the fourth quarter of 2008.

The Fund continues to recover fuel price increases through fuel surcharge. The Fund fixes the price it pays for jet fuel on a monthly basis with all its fuel suppliers. Any fuel cost increases on a month over month basis are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

Management expects to maintain its existing customer base for both its domestic and international routes and will continue to build on its competitive market position. Management believes that opportunities from its core customer base will grow as cargo capacity on scheduled passenger aircraft continues to decrease. Cargo capacity currently made available by passenger airlines would be considerably constrained by the implementation of enhanced security regulations for air cargo carried in the belly of passenger aircraft. Management will also continue to explore opportunities to acquire complementary or competing businesses within the limits set by tax legislation. These opportunities include those within the regional air cargo markets both in Eastern and Western Canada as well as trans-border route operations.

Outlook (continued)

Management's principal objective is to increase free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls, and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives especially those that can increase cash flow. Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of additional units. Any decisions regarding the above, including further increases or decreases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

Critical 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 more significant items requiring the use of management estimates are the determinations of the allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies, rotables and the valuation of intangible assets. The table below discloses the methodology used by management in the assessment of these accounting estimates.

Critical Accounting Estimate	Methodology, Assumptions
Accounts Receivable: allowance for doubtful accounts	The allowance is based on specific analysis of the accounts receivable aging reports, and review of past efforts to collect the overdue invoices. The allowance is specific to the invoices not certain to be collected.
Obsolescence of spare parts, materials, supplies and rotables	The reserve for obsolescence of spare parts, materials, supplies and rotables is based on examination of the spare parts, materials and supplies by tracking repair and usage history. Provision is made based on these estimates.
Valuation of intangible assets	The valuation is based on expected future cash flows, with factors that may affect future cash flows taken into account. Intangible assets with an indefinite life are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Any resulting impairment loss is recorded in the period in which the impairment occurs, as dictated by Canadian generally accepted accounting principles. Intangible assets that have a definite life are capitalized and are amortized over their estimated useful life and are further tested for impairment if events or circumstances indicate that the asset might be impaired.

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 enactment date. Future income tax assets would be recorded in the financial statements to the extent that realization of such benefit is more likely than not.

Information Disclosure Controls and Procedures

Disclosure controls and procedures within the Fund and the General Partner ("GP") are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Trustees of the Fund and the Directors of the GP. An evaluation of the effectiveness of the Fund's and the GP's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2007 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

Financial Reporting Update

Changes To Existing Accounting Policies

In 2007, the Fund changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months). The previous accrual (accrue-in-advance) method involved estimating the cost of the overhaul and accruing that cost to the overhaul. The actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy was accounted for retrospectively, and the comparative financial statements for 2007 were restated.

Changes in Accounting: Adoption of New and Revised Accounting Standards

On January 1, 2008, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosures (Section 1535), Financial Instruments – Disclosures (Section 3862), and Financial Instruments – Presentation (Section 3863). These new standards became effective for the Fund on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements.

These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

The CICA also amended Section 1400, General Standards of Financial Statement Presentation, to include a requirement that management make an assessment of an entity's ability to continue as a going concern when preparing financial statements. This change came into effect on January 1, 2008.

Also effective January 1, 2008, the Fund adopted the recommendations of CICA Handbook Section 3031, *Inventories*, which establishes standards for measuring and disclosing information related to inventories and provides specific guidance as to conversion costs to be included and excluded in inventories and accounting for impairment adjustments. The adoption of this new standard resulted in the reclassification of $4.3 million as at June 30, 2008 of spare parts inventories used in connection with capital assets. The comparative balance sheet as at December 31, 2007 was similarly adjusted resulting in a reclassification of $1.2 million of inventories to capital assets.

Internal Controls over Financial Reporting

Disclosure controls and procedures within the Fund and the General Partner ("GP") are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Trustees of the Fund and the Directors of the GP.

An evaluation of the effectiveness of the Fund's and the GP's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at June 30, 2008 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

End Notes

(A) All references to "EBITDA" in the Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, future income tax recovery, provision for current income taxes, non-controlling interest, gain or loss on disposal of capital assets and amortization of aircraft heavy maintenance expenditures". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of amortization, gain or loss on disposal of capital assets, amortization of aircraft heavy maintenance expenditures and future income tax recovery), or non-operating (in the case of interest on long-term debt, provision for current income taxes and non-controlling interest). The underlying reasons for exclusion of each item are as follows:

Amortization - as a non-cash item, amortization has no impact on the determination of EBITDA and distributable cash.

Interest on long-term debt - interest on long-term debt is a function of the Fund's treasury/financing activities and represents a different class of expense than those included in EBITDA.

Future income tax recovery - the calculation of future income tax recoveries is a function of temporary differences between the financial reporting and the tax basis of balance sheet items for calculating tax expense and are separate from the daily operations of the Fund.

Provision for current income taxes – the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

Non-controlling Interest - non-controlling interest represents a direct non-controlling interest in Cargojet Holdings Limited Partnership through exchangeable LP units and the non-controlling shareholders of PEAL. Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

Gain or loss on disposal of capital assets - the gain or loss arising from the disposal of capital assets. As a non-cash item, the gain or loss on disposal of capital assets has no impact on the determination of EBITDA and distributable cash.

Amortization of aircraft heavy maintenance expenditures - amortization of aircraft heavy maintenance expenditures represents a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance expenditures incurred in the period; accordingly, this expense represents a different class of expense than those included in EBITDA.

End Notes (continued)

(A) (continued)

Non-controlling interest in EBITDA (A) of PEAL - Non-controlling interest in EBITDA (A) of PEAL represents the portion of the PEAL EBITDA attributable to the non-controlling shareholders of PEAL.

(B) The Fund has adopted a measurement called distributable cash to supplement net earnings as a measure of operating performance. Distributable cash is a term, which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other Funds. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unitholders and exchangeable LP unitholders. Exchangeable LP unitholders are presented as non-controlling interest in the consolidated financial statements of the Fund, however, management of the Fund has elected to include the holdings of the exchangeable LP unitholders in the calculation of distributable cash as exchangeable LP unitholders' distributions are economically equivalent to those received by trust unitholders and exchangeable LP unitholders are exchangeable on a one-to-one basis for trust units of the Fund. The PEAL non-controlling interest is excluded from the calculation of distributable cash. Distributable cash is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "distributable cash" have the meaning set out in this note.