Consolidated financial statements of

CARGOJET INCOME FUND

December 31, 2008 and 2007

Deloitte.

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Auditors' Report

To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheets of Cargojet Income Fund as at December 31, 2008 and 2007 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 27, 2009

CARGOJET INCOME FUND
Consolidated Balance Sheets
December 31, 2008 and 2007

	2008	2007
	$	$
ASSETS		
CURRENT		
Cash	569,194	3,197,946
Accounts receivable	10,070,944	9,693,019
Materials and supplies	863,559	945,396
Prepaid expenses and deposits	4,337,814	1,940,515
Income taxes recoverable	1,267,996	-
Derivatives contracts (Note 16)	2,148,558	66,009
	19,258,065	15,842,885
CAPITAL ASSETS (NOTE 5)	57,314,869	30,634,242
INTANGIBLE ASSETS (NOTE 6)	9,573,776	16,893,709
DEPOSITS	3,070,255	913,201
DEFERRED HEAVY MAINTENANCE (NOTE 7)	1,471,773	2,187,232
GOODWILL	46,169,976	46,169,976
	136,858,714	112,641,245
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 8)	16,962,594	13,514,120
Income taxes payable	-	1,790,000
Distributions payable (Note 18)	601,581	861,028
Current portion of long-term debt (Note 9)	1,829,372	130,132
Future income taxes (Note 11)	706,445	-
	20,099,992	16,295,280
LONG-TERM DEBT (NOTE 9)	6,759,015	17,000,000
CONVERTIBLE DEBENTURES (NOTE 10)	32,180,372	-
FUTURE INCOME TAXES (NOTE 11)	6,939,739	5,345,796
	65,979,118	38,641,076
NON-CONTROLLING INTERESTS (NOTE 12(b))	19,783,606	19,688,291
UNITHOLDERS' EQUITY		
ACCUMULATED OTHER COMPREHENSIVE INCOME	1,442,112	-
DEFICIT	(14,751,848)	(7,923,776)
	(13,309,736)	(7,923,776)
UNITHOLDER'S CAPITAL (NOTE 12(a))	62,054,322	62,235,654
CONTRIBUTED SURPLUS (NOTE 12(d))	82,738	-
CONVERSION OPTION (NOTE 10)	2,268,666	-
	51,095,990	54,311,878
	136,858,714	112,641,245

s// John P. Webster
Trustee

s// Ajay Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
Years ended December 31, 2008 and 2007

	2008	2007
	$	$
REVENUES	205,675,100	151,105,124
DIRECT EXPENSES	173,654,562	113,459,659
	32,020,538	37,645,465
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	954,535	831,186
General and administrative (Notes 4 and 5)	18,351,779	17,914,770
Interest, net	3,173,753	1,089,215
Amortization of capital assets (Note 5)	607,489	514,909
Amortization of intangible assets	11,538,019	10,321,500
	34,625,575	30,671,580
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	(2,605,037)	6,973,885
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 11)		
Current	(893,676)	1,826,222
Future	(660,094)	(1,927,684)
	(1,553,770)	(101,462)
EARNINGS (LOSS) BEFORE NON-CONTROLLING INTERESTS	(1,051,267)	7,075,347
NON-CONTROLLING INTERESTS (NOTE 12(b))	763,581	(1,768,837)
NET INCOME (LOSS)	(287,686)	5,306,510
DEFICIT, BEGINNING OF YEAR	(7,923,776)	(5,493,768)
PURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 12(d))	45,958	-
DISTRIBUTIONS DECLARED IN THE YEAR (NOTE 18)	(6,586,344)	(7,736,518)
DEFICIT, END OF YEAR	(14,751,848)	(7,923,776)
EARNINGS (LOSS) PER TRUST UNIT - BASIC (Note 12(c))	(0.04)	0.79
EARNINGS (LOSS) PER TRUST UNIT - DILUTED (Note 12(c))	(0.04)	0.79

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income (Loss)
Years ended December 31, 2008 and 2007

	2008	2007
	$	$
NET INCOME (LOSS)	(287,686)	5,306,510
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency gains from hedging activities net of income taxes (Note 16)	1,870,389	-
Transfer of gains on foreign contracts, net of income taxes, to net income (Note 16)	(428,277)	-
Transfer of gains on interest swap designated as a cash flow hedge, net of income taxes	-	(114,030)
COMPREHENSIVE INCOME	1,154,426	5,192,480
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance, beginning of year	-	114,030
Other comprehensive income (loss) for the year	1,442,112	(114,030)
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF YEAR	1,442,112	-

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
Years ended December 31, 2008 and 2007

	2008	2007
	$	$
NET INFLOW (OUTFLOW) OF CASH RELATED RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss)	(287,686)	5,306,510
Items not affecting cash		
Amortization of capital assets	5,156,688	3,593,593
Amortization of intangible assets	11,538,019	10,321,500
Accretion of convertible debentures	588,358	-
Loss on disposal and write-down of capital assets	960,187	21,936
Gain on disposal of intangible assets	(1,149,352)	-
Future income taxes	(660,094)	(1,927,684)
Change in fair value on non-hedge derivatives	66,009	(66,009)
Non-controlling interests	(763,581)	1,768,837
Aircraft heavy maintenance amortization	2,813,214	2,107,469
Aircraft heavy maintenance expenditures	(2,097,755)	(2,509,736)
	16,164,006	18,616,416
Changes in non-cash working capital items		
Accounts receivable	881,501	(3,723,099)
Materials and supplies	117,841	91,056
Prepaid expenses and deposits	(4,221,415)	(1,749,912)
Due from related party	-	597,381
Accounts payable and accrued charges	1,982,041	2,166,216
Income taxes payable/recoverable	(3,057,996)	1,790,000
	11,865,978	17,788,058
FINANCING		
Repayment of long-term debt	(16,886,083)	(4,128,632)
Purchase of Cargojet Income Fund units (Note 12(d))	(52,636)	-
Distributions paid to unitholders and	-	-
non-controlling interest	(9,041,679)	(10,720,416)
Net proceeds from convertible debentures	33,860,680	-
	7,880,282	(14,849,048)
INVESTING		
Acquisition of net assets of Georgian Express Ltd.	-	(1,781,171)
Additions to capital assets	(21,204,930)	(5,084,942)
Proceeds from disposal of capital assets	-	31,738
Acquisition of business (Note 4)	(1,170,082)	-
	(22,375,012)	(6,834,375)
NET CHANGE IN CASH	(2,628,752)	(3,895,365)
CASH POSITION, BEGINNING OF YEAR	3,197,946	7,093,311
CASH POSITION, END OF YEAR	569,194	3,197,946
Supplementary financial information		
Interest paid	2,391,781	1,221,718
Income taxes paid (refunded)	(11,976)	36,222
Equipment purchased under capital lease	658,810	-

1. NATURE OF THE BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

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

Materials and supplies

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

Capital assets

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

Aircraft	-	7-½%
Spare parts	-	actual usage
Engines	-	engine cycles
Ground equipment	-	20%
Rotable spares	-	7-½%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	lease term
Vehicles	-	30%
Hangar facility	-	10%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and intangible assets

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

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

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

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

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

Impairment of long-lived assets

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

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

Non-controlling interests

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

Revenue recognition

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation of foreign currencies

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

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

Financial instruments

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

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

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

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

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

Derivative financial instruments and hedges

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedges (continued)

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

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

Convertible debentures

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

Management's use of estimates

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

Comparative amounts

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the year ended December 31, 2008.

3. 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 3862, *Financial Instruments – Disclosures*; Section 3863, *Financial Instruments – Presentation*; Section 1535, *Capital Disclosures*; and amended Section 1400, *General Standards of Financial Statement Presentation*. The standards require prospective application and are effective for the Fund from January 1, 2008. These standards relate to presentation and disclosure only and do not have an impact on the Fund's financial results. Refer to Notes 13 and 16 for additional disclosures.

Also effective January 1, 2008, the Fund adopted retrospectively 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 $3,169,285 as at December 31, 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 $1,185,305 of inventories to capital assets.

Future accounting changes

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets,* which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill, intangible assets and deferred costs. CICA Handbook Section 1000, *Financial Statements Concepts*, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Fund beginning January 1, 2009.

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

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

The Fund is currently assessing the impact of these standards on its financial reporting.

4. ACQUISITIONS

Prince Edward Air Ltd.

Effective May 1, 2008, the Fund acquired 51% of the outstanding common shares of Prince Edward Air Ltd. ("PEAL"), a privately-owned regional operator of cargo aircraft in Eastern Canada. The acquired operations have been included in the consolidated financial statements of the Fund from that date.

Consideration for the purchase was $5,370,082, comprised of a cash payment of $1,000,000, the transfer of the Fund's existing regional business and related assets valued at $4,200,000, and transaction costs of $170,082. The transfer of the Fund's assets resulted in a gain of $1,149,352, that has been recorded in the statement of operations of the Fund under general and administrative expenses.

The initial accounting for the acquisition of PEAL had been provisionally determined at the time of the acquisition and was subsequently adjusted resulting in reallocations between goodwill and intangible assets. The following table summarizes the final allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	$
Accounts receivable	642,308
Inventories	18,362
Prepaid expenses	169,798
Capital assets	5,994,149
Intangible assets	
Customer contracts	3,773,785
Non-compete agreements	1,043,777
Bank overdraft	(582,655)
Accounts payable and accrued charges	(747,882)
Long-term debt	(3,336,964)
Future tax liability	(1,604,596)
Total consideration	5,370,082

Georgian Express Ltd.

Effective October 1, 2007, the Fund completed the acquisition of selected assets (the "purchased assets") of Georgian Express Ltd. ("Georgian Express"), including the inventory, a non-compete agreement, aircraft operations manuals and certain customer and lease contracts.

Georgian Express is a specialized air cargo operator serving numerous Canadian markets providing dedicated cargo lift to major couriers and transportation companies. The integration of the purchased assets of Georgian Express allowed the Fund to bring quality air cargo services to small and medium sized markets and extend connectivity to the Fund's national overnight air cargo network.

4. ACQUISITIONS (CONTINUED)

Georgian Express Ltd. (continued)

The aggregate purchase price of the purchased assets was $1,781,171. The acquired operations have been included in the consolidated financial statements of the Fund from October 1, 2007. The purchase price was allocated to identifiable tangible and intangible assets acquired based on their estimated fair values as follows:

	$
Inventory	381,171
Aircraft operations manuals	50,000
Intangible assets	
Customer contracts	802,174
Non-compete agreement	547,826
Total consideration	1,781,171

The intangible assets are being amortized on a straight-line basis over their estimated useful lives of three years.

5. CAPITAL ASSETS

			December 31, 2008
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	31,674,288	5,232,116	26,442,172
Spare parts	3,169,285	-	3,169,285
Ground equipment	5,931,974	1,658,283	4,273,691
Rotable spares	9,705,314	1,507,819	8,197,495
Computer hardware and software	2,452,726	1,133,514	1,319,212
Furniture and fixtures	753,076	310,930	442,146
Leasehold improvements	3,997,223	1,724,811	2,272,412
Vehicles	575,250	235,935	339,315
Hangar facility	11,952,009	1,092,868	10,859,141
	70,211,145	12,896,276	57,314,869

			December 31, 2007
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	19,004,241	3,500,575	15,503,666
Spares parts	1,185,305	-	1,185,305
Ground equipment	2,896,411	923,891	1,972,520
Rotable spares	7,337,138	1,042,398	6,294,740
Computer hardware and software	1,738,460	719,652	1,018,808
Furniture and fixtures	604,168	206,183	397,985
Leasehold improvements	2,696,455	1,154,722	1,541,733
Vehicles	312,505	146,109	166,396
Hangar facility	3,340,121	787,032	2,553,089
	39,114,804	8,480,562	30,634,242

5. CAPITAL ASSETS (CONTINUED)

As at December 31, 2008, $791,681 (December 31, 2007 - $403,461) of the computer hardware and software, $292,538 (December 31, 2007 - $73,693) of the vehicles and $51,745 (December 31, 2007 - Nil) of the ground equipment, at cost, less accumulated amortization of $292,929 (December 31, 2007 - $163,402), $85,523 (December 31, 2007 - $43,698) and $5,174 (December 31, 2007 - Nil), respectively, were subject to capital lease.

Amortization expense consists of amounts charged under the following classifications:

	2008	2007
	$	$
Direct expenses	4,549,199	3,078,684
Selling, general and administrative expenses	607,489	514,909
	5,156,688	3,593,593

Capital assets of $356,894 related to an aircraft lease that expired in July 2008 have been written off and included in the Fund's statement of operations under general and administrative expenses for the year ended December 31, 2008.

In the second quarter of 2008, the Fund permanently removed its passenger aircraft from service. The Fund is using the aircraft as a source for spare parts to maintain its existing fleet of aircraft. Any saleable parts and components of the aircraft that are not required by the Fund are held for sale. The Fund reviewed the carrying value of this aircraft at June 30, 2008 and estimated that the recoverable value of the aircraft was less than the book value. The Fund reduced the net book value of this aircraft to fair value by $603,412 at June 30, 2008 and recorded the write-down in general and administrative expenses. The balance of $1,178,783, being the value of usable parts, was transferred to rotables spares.

6. INTANGIBLE ASSETS

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

				December 31, 2007
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3 - 4 years	38,915,774	24,501,319	14,414,455
Non-compete agreements	3 - 4 years	3,270,226	1,790,972	1,479,254
		43,186,000	26,292,291	16,893,709

7. DEFERRED HEAVY MAINTENANCE

	December 31, 2008	December 31, 2007
	$	$
Cost	7,763,834	5,666,079
Accumulated amortization	6,292,061	3,478,847
	1,471,773	2,187,232

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	December 31, 2008	December 31, 2007
	$	$
Trade payables and accrued charges	14,975,831	10,302,965
Payroll and benefits	1,986,763	3,211,155
	16,962,594	13,514,120

9. LONG-TERM DEBT

The Fund renegotiated its revolving credit facility with a Canadian chartered bank on July 28, 2008. The revised facility is to a maximum of $30.0 million. The facility bears interest at bank prime plus 1.3% and is repayable on maturity, July 27, 2011. The previous facility was to a maximum of $26.0 million and bore interest at prime plus 1.3%.

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

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

The credit facility is secured by the following:

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

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

9. LONG-TERM DEBT (CONTINUED)

Long-term debt consists of the following:

	December 31, 2008	December 31, 2007
	$	$
Revolving credit facility	1,859,980	17,000,000
Fixed loans - Prince Edward Air Ltd.	6,070,975	-
Financing loan	111,682	-
Obligations under capital leases	545,750	130,132
	8,588,387	17,130,132
Less current portion	1,829,372	130,132
	6,759,015	17,000,000

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

	$
2009	201,734
2010	201,734
2011	143,222
2012	30,890
	577,580
Less interest	31,830
Obligations under capital leases	545,750
Less current portion	185,894
	359,856

Interest on long-term debt for the year ended December 31, 2008 totalled $956,143 (December 31, 2007 - $1,236,832).

10. CONVERTIBLE DEBENTURES

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

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

10. CONVERTIBLE DEBENTURES (CONTINUED)

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

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

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

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

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

Interest expense on the debentures for the year ended December 31, 2008 totalled $2,378,183.

11. INCOME TAXES

The tax effect of significant temporary differences is as follows:

	December 31, 2008	December 31, 2007
	$	$
Capital assets	7,292,226	3,166,578
Intangible assets	485,831	2,811,161
Operating loss carryforward	(459,098)	-
Financing costs	(1,192,541)	(1,197,020)
Derivative contracts	706,445	-
Deferred heavy maintenance	813,321	565,077
Future income tax liability	7,646,184	5,345,796
Less current portion	706,445	-
Future income tax liability - long-term	6,939,739	5,345,796

11. INCOME TAXES (CONTINUED)

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

	2008	2007
	$	$
Earnings (loss) before income taxes and non-controlling interest	(2,605,037)	6,973,885
Income tax provision (recovery) at the combined basic rate of 36.12%	(940,939)	2,518,967
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(3,100,513)	(3,652,896)
Non-deductible portion of amortization of intangible assets	978,491	978,491
Permanent and other differences	1,509,191	217,793
Future income tax rate adjustment	-	(163,817)
Income tax recovery	(1,553,770)	(101,462)

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

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

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

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

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

(a) Trust Units

	Number	Amount
		$
Unitholders' capital as at December 31, 2007	6,698,863	62,235,654
Units purchased and cancelled (Note 12(d))	(19,518)	(181,332)
Unitholders' capital as at December 31, 2008	6,679,345	62,054,322

(b) Non-controlling interests

	2008	2007
	$	$
Non-controlling interests, beginning of year	19,688,291	20,498,294
Share of income (loss) of CHLP	(95,896)	1,768,837
Distributions declared in the year (Note 18)	(2,195,888)	(2,578,840)
Non-controlling interests in PEAL on acquisition	3,054,784	-
Share of loss of PEAL	(667,685)	-
Non-controlling interests, end of year	19,783,606	19,688,291

The non-controlling interests represent a 25% non-controlling equity interest through exchangeable limited partnership units in CHLP (December 31, 2008 - 2,232,955; December 31, 2007 - 2,232,955), and a 49% non-controlling equity interest in Price Edward Air Ltd.

(c) Earnings per Trust Unit

Basic earnings per Trust Unit has been calculated based on the average number of Trust Units outstanding of 6,697,312 for the year ended December 31, 2008 and 6,698,863 for the year ended December 31, 2007. For the purpose of determining diluted earnings per Trust Unit, the weighted average number of Trust Units and Exchangeable LP Units have been combined totalling 8,930,267 in 2008 and 8,931,818 in 2007. The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

(d) Normal course issuer bid

Under the terms of a normal course issuer bid that expires on November 24, 2009, the Fund may repurchase up to 599,402 of its Trust Units. Daily purchases are limited to 6,506 Trust Units until March 31, 2009 and 3,253 Trust Units thereafter, other than block purchase exemptions.

In the fourth quarter of 2008, the Fund repurchased 19,518 Trust Units at a cost of $52,636 or $2.69 per Trust Unit. The difference of $82,738 between the stated capital of Trust Units repurchased (allocated $181,332 as a reduction of Unitholders' capital and $45,958 as a reduction of the deficit) and the cost of redemption was credited to contributed surplus.

13. CAPITAL MANAGEMENT

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

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

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

The Fund is subject to financial covenants related to its credit facility (Note 9). As at December 31, 2008, the Fund is in compliance with all financial covenants.

14. RELATED PARTY TRANSACTIONS

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

	2008	2007
	$	$
Acquisition of capital assets		
Hanger	1,010,551	-
Ground equipment, vehicles and furniture & fixture	-	200,000
Deposits	-	26,325
Direct expenses - fuel for ground equipment	-	101,048
Direct expenses - warehouse rent and utilities	273,803	105,300
Selling, general and administrative expenses	7,186	2,873

The direct expense transactions with Flagship Aviation are related to a warehouse lease agreement. The accounts payable balance owing to Flagship Aviation as at December 31, 2008 was Nil (December 31, 2007 - Nil) and with FIAL was $159 (December 31, 2007 - $3,046) and are included in the balance sheet under accounts payable and accrued charges. These transactions were in the normal course of operations and measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

15. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
2009	14,923,457
2010	13,238,311
2011	12,067,683
2012	11,702,197
2013	11,625,521
Thereafter	23,081,100
	86,638,269

Contingencies

The Fund has provided irrevocable standby letters of credit totalling approximately $807,700 to a financial institution as security for its corporate credit cards and to several vendors as security for the Fund's ongoing purchases. The letters of credit expire as follows:

	$
February 26, 2009	57,000
March 20, 2009	20,000
June 26, 2009	24,700
June 30, 2009	10,000
July 6, 2009	146,000
September 10, 2009	100,000
December 2, 2009	250,000
December 31, 2009	200,000
	807,700

16. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Fund is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2008.

Fair values

The fair value of the convertible debentures, based on quoted market prices as at December 31, 2008, was approximately $17,800,000. The fair value of the long-term debt based on an estimate of market interest rates as at December 31, 2008, was approximately $6,448,000. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

16. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk

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

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

(a) Only a small portion (3%) of trade receivables are outstanding for more than sixty days and are considered past due. The Fund considers that all of these amounts are fully collectible. Trade receivables that are not past due are also considered by the Fund to be fully collectible. Consistent with its past collection history, the Fund has not recognized any significant provisions for bad debts.

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

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

The credit risk on the foreign exchange derivative instruments is limited. All of the Fund's counterparties are with Canadian chartered banks.

Liquidity risk

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

16. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk

The Fund earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars ("USD") at fixed rates in future periods. As at December 31, 2008, the Fund held twelve foreign exchange forward purchase agreements maturing on a monthly basis to December 2009 for a total of USD $12.0 million. These agreements fix the amount of Canadian dollars that the Fund will pay to buy USD to offset its purchases in USD.

These forward exchange purchase contracts have been designated as cash flow hedges. As at December 31, 2008, the contracts had a positive fair value of $2,148,558 that is recorded as a derivatives contract asset on the balance sheet. During the year ended December 31, 2008, the change in the unrealized fair value of these contracts was a gain of $2,786,635 ($1,870,389 net of tax). This gain, net of tax, was recorded in other comprehensive income during the year. In addition, nine contracts matured during the year ended December 31, 2008 resulting in the transfer from comprehensive income to net income of $638,077 ($428,277 net of tax).

Total foreign exchange gains during the year ended December 31, 2008 were approximately $1,520,000 (December 31, 2007 – foreign exchange losses of $228,261).

Interest rate risk

The Fund has long-term floating rate debt that creates an exposure to fluctuations in interest rates (Note 9). The Fund periodically uses interest rate swaps to manage its exposure to interest rate fluctuations. The Fund repaid its indebtedness under its credit facility on April 15, 2008 and unwound a related interest rate swap. At December 31, 2007, the interest rate swap had a positive fair value of $66,009. At December 31, 2008, the Fund had no swap contracts in place.

Commodity risk

The Fund is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Fund does not use derivative instruments to mitigate this risk. As at December 31, 2008, the Fund has been successful in recovering substantially all increases in fuel costs from its customers.

Market risk

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

16. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

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

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

At December 31, 2008, movements in interest rates would not have any significant impact on the fair value of the Fund's financial assets and liabilities.

At December 31, 2008, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would decrease the mark to market value of forward contracts by approximately $1.2 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would increase in the mark to market value of forward contracts by the same amount.

At December 31, 2008, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Fund's other net financial assets and liabilities denominated in US dollars by approximately $0.2 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount.

17. GUARANTEES

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

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

17. GUARANTEES (CONTINUED)

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

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

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

18. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the year ended December 31, 2008 were \$6,586,344 (2007 – \$7,736,518), to unitholders and \$2,195,888 (2007 – \$2,578,840) to Exchangeable LP unitholders.

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. Effective July 1, 2008, the Fund reduced the monthly distribution rates for the Unitholders and exchangeable LP Unitholders by 30% from \$0.0964 to \$0.0675. The following table summarizes the cash distributions for the year ended December 31, 2008.

18. DISTRIBUTIONS (CONTINUED)

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		$	$	$	$	$	$	$
December 31, 2007	January 15, 2008	-	645,771	-	215,257	-	-	861,028
January 31, 2008	February 15, 2008	645,771	645,771	215,256	215,256	861,027	0.0964	861,027
February 28, 2008	March 15, 2008	645,770	645,770	215,256	215,256	861,026	0.0964	861,026
March 31, 2008	April 13, 2008	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
April 30, 2008	May 15, 2008	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
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	645,771	215,257	215,257	861,028	0.0964	861,028
July 31, 2008	August 15, 2008	452,173	452,173	150,724	150,724	602,897	0.0675	602,897
August 31, 2008	September 15, 2008	452,173	452,173	150,725	150,725	602,898	0.0675	602,898
September 30, 2008	October 15, 2008	452,173	452,173	150,725	150,725	602,898	0.0675	602,898
October 31, 2008	November 14, 2008	452,173	452,173	150,725	150,725	602,898	0.0675	602,898
November 30, 2008	December 15, 2008	452,173	452,173	150,724	150,724	602,897	0.0675	602,897
December 31, 2008	January 15, 2009	450,856	-	150,725	-	601,581	0.0675	-
		6,586,344	6,781,259	2,195,888	2,260,420	8,782,232	0.9834	9,041,679

Distributions payable at December 31, 2008 were as follows:

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

Distributions payable at December 31, 2007 were as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	December 1 to December 31, 2007	December 31, 2007	January 15, 2008	$ 0.0964	645,771
Exchangeable LP Units	October 1 to December 31, 2007	December 31, 2007	January 15, 2008	$ 0.0964	215,257
					861,028

19. SEGMENTED INFORMATION

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

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

The performance of each operating segment is regularly evaluated by the chief operating decision maker and chief decision making group who assess performance and decide on the allocation of resources. The performance of the Fund's operating segments is measured on earnings before income taxes and non-controlling interest. Inter-segment transactions are reflected at market value. The following is a breakdown by reporting segment for the year ended December 31, 2008 (comparative figures for the prior year are not applicable):

	Year Ended December 31, 2008			
	National	**Regional**	**Inter-segment**	**Total**
	$	$	$	$
REVENUES	185,745,745	20,801,063	(871,708)	205,675,100
DIRECT EXPENSES	154,576,799	19,949,471	(871,708)	173,654,562
	31,168,946	851,592	-	32,020,538
SELLING AND ADMINISTRATIVE				
Sales and marketing	902,949	51,586	-	954,535
General and administrative	17,349,563	1,002,216	-	18,351,779
Interest, net	2,723,015	450,738	-	3,173,753
Amortization of capital assets	607,489	-	-	607,489
Amortization of intangible assets	10,209,000	1,329,019	-	11,538,019
	31,792,016	2,833,559	-	34,625,575
LOSS BEFORE INCOME TAXES AND AND NON-CONTROLLING INTEREST	(623,070)	(1,981,967)	-	(2,605,037)
	As at December 31, 2008			
TOTAL NET CAPITAL ASSETS	45,810,848	11,504,021	-	57,314,869
TOTAL CAPITAL EXPENDITURES	21,362,538	12,254,436	-	33,616,974

20. ECONOMIC DEPENDENCE

During the year ended December 31, 2008, the Fund had sales to three customers that represented 44% of the total revenues (December 31, 2007 – 51%). These sales are provided under service agreements that expire over various periods to September 2010. Two of these customers had sales in excess of 10% of total revenues in 2008 (three in 2007). The sales to individual customers represented 22.4%, 11.5% and 9.9% of the total revenue (December 31, 2007 – 23.9%, 14.6%, and 12.1%). These customers are reported under the National segment.

21. SUBSEQUENT EVENTS

In January 2009, the Fund ended its foreign exchange hedging program and realized a pre-tax gain of approximately $2.8 million from the settlement and sale of all of the Fund's foreign exchange purchase agreements held as at December 31, 2008. This gain will be recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affect net income.

In February 2009, the Fund entered into an agreement to acquire the remaining 49% interest in PEAL. This transaction is expected to close on March 31, 2009.