CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 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 twelve month periods ended December 31, 2008. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 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 February 27, 2009. 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 audited consolidated financial statements of the Fund as at and for the years ended December 31, 2008 and 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 6 and 9, 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 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 750,000 pounds of time sensitive air cargo each business night utilizing its fleet of thirty-four 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 ten Boeing 727-200 ("B727") series cargo aircraft, three of which are leased and seven owned. One 757-200ER ("B757") series and two 767-200ER ("B767") series aircraft were introduced into operations during the third quarter of fiscal 2008. The Fund also periodically contracts other airlines on an ACMI or sub-charter 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 none of Cargojet's 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.

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 and will facilitate the integration of PEAL's business with Cargojet's existing infrastructure to improve PEAL's operational and financial performance.

Recent Events

The introduction of the new B767 and B757 aircraft at the end of the third quarter of 2008 marked the completion of Cargojet's fleet renewal plan and the end of the related one-time expenditures of bringing the new aircraft into service. The new aircraft have performed well in the fourth quarter of 2008 and Cargojet achieved record levels of earnings and cashflow.

Despite Cargojet's strong earnings in the fourth quarter of 2008, shipping volumes from several key customers were lower than for the same period in 2007 and overall shipping volumes in 2009 are expected to be lower than 2008. The significant slowdown in the global economy, instability in financial markets and record high fuel prices during the third quarter of 2008 have negatively affected customer demand for higher priced time-sensitive overnight air cargo services. The recent decline in shipping volumes has required Cargojet and its customers to adjust their capacity accordingly. Cargojet continues to deal with the impact of a worldwide economic slowdown and is adjusting its current operations and future business plans.

In December 2008, the Fund received confirmation from one of its ACMI customers that they were cancelling their contract effective January 2009. The customer had indicated that the downturn in the economy had negatively impacted their own volumes to the extent that the contract was no longer financially viable. This contract started in October 2007. Annual revenues from this contract are approximately $8.5 million including cost pass-through revenues for navigation and landing fees of approximately $1.3 million. The same ACMI customer continues to ship significant volumes on Cargojet's core overnight network under an existing contract.

In October 2008, one other ACMI customer notified the Fund that they would cancel their block space agreement to Western Canada at the end of 2008. This contract provided the revenue base for the new additional route to Western Canada that was launched in October 2007. Consequently the Fund discontinued this route at the end of 2008. Annual revenues from this route from all customers were approximately $13.9 million including fuel surcharges and other cost pass-through revenues of approximately $4.7 million. Cargojet continues to provide service to this customer on its existing ACMI contract.

In October 2008, the Fund entered into an agreement with Flagship Aviation Holdings Ltd. ("Flagship Aviation") to purchase the warehouse and office building at the Hamilton International Airport for approximately $1.0 million plus applicable taxes. Flagship Aviation is controlled by one of the Fund's executive officers.

The Fund continues to adjust aircraft capacity to meet customer demand on a daily basis. Lower volume demands have been somewhat offset by lower operating costs, as the Fund adjusts flight schedules and minimizes block hours flown wherever possible. The Fund also continuously reviews its total aircraft fleet requirements and will adjust the number of aircraft required to meet overall future customer demand. Accordingly, the Fund reduced its fleet by two leased B727 aircraft in 2008.

In November 2008 the Company received approval for a normal course issuer bid to purchase up to 599,402 Units, representing approximately 10% of the public float outstanding on November 19, 2008 through open market purchases on the Toronto Stock Exchange ("TSX").

Recent Events (continued)

The bid commenced on November 25, 2008 and will expire on November 24, 2009. Daily purchases will be limited to 6,506 up to and including March 31, 2009 and 3,253 Units thereafter, other than block purchase exemptions. Units purchased pursuant to the bid will be cancelled. The TSX recently announced a temporary exemption that increases the amount of daily purchases an issuer is permitted to make under a normal course issuer bid. Subject to certain exceptions for block purchases, this exemption increases to 6,506 the maximum number of Units that can be purchased per day on the TSX from the start of the bid up to and including March 31, 2009. As at December 31, 2008, the Company has purchased 19,518 Units for $0.05 million at an average price of $2.687 per Unit. As of the date of this MD&A, the Company has purchased 28,924 Units for $0.08 million at an average price of $2.845 per Unit.

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.

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

Expenses (continued)

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 December 31		Twelve Month Period Ended December 31	
	2008	2007	**2008**	2007
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Cash inflow from operations before changes in non-cash working capital items [(1)]	**$ 9,446**	$ 5,363	**$ 16,164**	$ 18,616
Changes in non-cash working capital items [(1)]				
Accounts receivable	**4,916**	(2,086)	**882**	(3,723)
Materials and supplies	**134**	551	**118**	91
Prepaid expenses and deposits	**(500)**	(1,158)	**(4,221)**	(1,749)
Deferred charges	**51**	-	**-**	-
Due from related party	**(15)**	597	**-**	597
Accounts payable and accrued charges	**(157)**	3,692	**1,982**	2,166
Income taxes payable / recoverable	**(896)**	1,160	**(3,058)**	1,790
	12,979	8,119	**11,867**	17,788
Less:				
Maintenance capital expenditures [(2)]	**94**	1,121	**3,485**	4,071
Current taxes and taxes recoverable	**882**	-	**882**	-
Heavy maintenance deposits	**1,000**	-	**1,331**	-
Repayment of long-term debt obligation under capital lease	**61**	32	**243**	129
Minority interest in cash inflow from operations before changes in working capital items of PEAL	**(126)**	-	**48**	-
Total changes in non-cash working capital items	**3,533**	2,756	**(4,297)**	(828)
Purchase of Cargojet Income Fund units	**53**	-	**53**	-
Distributable cash [(B)]	**$ 7,482**	$ 4,210	**$ 10,122**	$ 14,416
Average number of trust units outstanding - basic (in thousands of units)	**6,693**	6,699	**6,697**	6,699
Average number of trust units outstanding - diluted (in thousands of units)	**11,154**	8,932	**8,930**	8,932
Distributable cash per unit - diluted [(3)]	**$ 0.73**	$ 0.47	**$ 1.13**	$ 1.61
Cash distributions	**$ 1,807**	$ 2,583	**$ 8,782**	$ 10,315
Cash distributions as a percentage of distributable cash	**24%**	61%	**87%**	72%

(1) Please refer to Statement of Cash Flows for the Fund.
(2) Maintenance capital expenditures for the twelve month period ended December 31, 2008 exclude the $0.7 million for equipment that was financed under a capital lease and capital expenditures attributed to the minority interest in PEAL.
(3) For the purpose of calculating distributable cash per unit – diluted for the three month period ended December 31, 2008, the weighted average number of trust units, the weighted average number of Exchangeable LP units, and the effect of the Fund's convertible debentures have been combined. The Fund's convertible debentures have not been factored into the calculation for the twelve month period ended December 31, 2008 since conversion of these debentures would be anti-dilutive.

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2008	2007	**2008**	2007
	(unaudited)	(unaudited)	**(audited)**	(audited)
Revenue	**$ 53,659**	$ 48,439	**$ 205,675**	$ 151,105
Direct expenses	**42,230**	36,803	**173,654**	113,460
	11,429	11,636	**32,021**	37,645
Selling, general and administrative expenses				
Sales and marketing	**244**	373	**955**	831
General and administrative	**3,932**	5,858	**18,352**	17,914
Interest	**1,021**	362	**3,174**	1,089
Amortization of capital assets	**163**	151	**607**	515
Amortization of intangible assets	**3,194**	2,686	**11,538**	10,322
	8,554	9,430	**34,626**	30,671
Earnings (loss) before income taxes and non-controlling interest	**2,875**	2,206	**(2,605)**	6,974
Provision for (recovery of) income taxes				
Current	**(915)**	1,196	**(894)**	1,826
Future	**1,114**	(992)	**(660)**	(1,928)
Earnings (loss) before non-controlling interests	**2,676**	2,002	**(1,051)**	7,076
Non-controlling interests	**278**	500	**(763)**	1,769
Net earnings	**$ 2,398**	$ 1,502	**$ (288)**	$ 5,307
Earnings (loss) per trust unit - basic	**$ 0.36**	$ 0.22	**$ (0.04)**	$ 0.79
Earnings (loss) per trust unit - diluted (1)	**$ 0.18**	$ 0.22	**$ (0.04)**	$ 0.79
Average number of trust units - basic (in thousands of units)	**6,693**	6,699	**6,697**	6,699
Average number of trust units - diluted (in thousands of units)	**8,926**	8,932	**8,930**	8,932
Total assets	**$ 136,859**	$ 112,641	**$ 136,859**	$ 112,641
Total long-term liabilities	**$ 45,879**	$ 22,346	**$ 45,879**	$ 22,346

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

Selected Financial Information

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

	Three Month Periods Ended							
	December 31 2008 (unaudited)	September 30 2008 (unaudited)	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)
Revenue	**$ 53,659**	$ 53,137	$ 52,080	$ 46,799	$ 48,439	$ 35,002	$ 33,839	$ 33,825
Net income (loss)	**$ 2,398**	$ (1,191)	$ (1,512)	$ 17	$ 1,502	$ 1,193	$ 1,469	$ 1,143
Earnings (loss) per trust unit - basic	**$ 0.36**	$ (0.18)	$ (0.23)	$ 0.00	$ 0.22	$ 0.18	$ 0.22	$ 0.17
Earnings (loss) per trust unit - diluted	**$ 0.18**	$ (0.18)	$ (0.23)	$ 0.00	$ 0.22	$ 0.18	$ 0.22	$ 0.17
Average number of trust units - basic (in thousands of units)	**6,693**	6,699	6,699	6,699	6,699	6,699	6,699	6,699
Average number of trust units - diluted (2) (in thousands of units)	**8,926**	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.

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

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2008	2007	**2008**	2007
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Calculation of EBITDA [(A)]:				
Net earnings (loss)	**$ 2,398**	$ 1,502	**$ (288)**	$ 5,307
Add:				
Interest	**1,021**	362	**3,174**	1,089
Non-controlling interests	**278**	501	**(763)**	1,769
Provision for (recovery of) future income taxes	**1,114**	(992)	**(660)**	(1,928)
Provision for (recovery of) current income taxes	**(915)**	1,196	**(894)**	1,826
Loss (gain) on disposal of capital assets	**-**	-	**960**	22
Loss (gain) on disposal of intangible assets	**-**	-	**(1,149)**	-
Amortization of capital assets	**1,856**	1,012	**5,157**	3,593
Amortization of intangible assets	**3,194**	2,686	**11,538**	10,322
Aircraft heavy maintenance amortization	**494**	565	**2,813**	2,107
Less:				
Aircraft heavy maintenance expenditures	**(74)**	39	**(2,098)**	(2,510)
Heavy maintenance deposits [(2)]	**(1,000)**	-	**(1,331)**	-
PEAL EBITDA - minority interest	**(83)**	-	**(269)**	-
EBITDA [(A)]	**$ 8,283**	$ 6,871	**$ 16,190**	$ 21,597
Reconciliation of EBITDA [(A)] to Distributable Cash [(B)]:				
EBITDA [(A)]	**$ 8,283**	$ 6,871	**$ 16,190**	$ 21,597
Less:				
Maintenance capital expenditures [(1)]	**94**	1,121	**3,485**	4,071
Interest [(3)]	**626**	312	**2,299**	1,155
Provision for current income taxes	**(33)**	1,196	**(12)**	1,826
Repayment of long-term debt obligation under capital lease	**61**	32	**243**	129
Purchase of Cargojet Income Fund units	**53**	-	**53**	-
Distributable cash [(B)]	**$ 7,482**	$ 4,210	**$ 10,122**	$ 14,416

(1) Maintenance capital expenditures for the twelve month period ended December 31, 2008 exclude the $0.7 million for equipment that was financed under a capital lease and maintenance capital expenditures attributable to the minority interest in PEAL.

(2) Heavy maintenance deposits are paid to the aircraft lessors on a monthly basis. Cargojet receives a refund of these payments when it incurs actual heavy maintenance expenditures.

(3) For the purpose of calculating Distributable Cash [(B)], interest excludes losses (gains) in fair value on non-hedge derivatives of $0.05 million for the three month period ended December 31, 2007 as well as $0.07 million and ($0.07) million for the twelve month periods ended December 31, 2008 and 2007 respectively. For the purpose of calculating Distributable Cash [(B)] interest also excludes the accretion of the Fund's convertible debentures and the portion of interest expense attributable to the minority interest in PEAL.

Highlights for the Three Month Periods Ended December 31, 2008 and 2007

- Total revenue for the three month period ended December 31, 2008 was $53.7 million as compared to $48.4 million for the same period in 2007, representing an increase of $5.3 million or 11.0%.

- 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 December 31, 2008 was $0.78 million per operating day as compared to $0.74 million per operating day for same period in 2007, representing an increase of 5.4%.

- EBITDA [(A)] for the three month period ended December 31, 2008 was $8.3 million as compared to $6.9 million for the same period in 2007, representing an increase of $1.4 million or 20.3%.

- Distributable Cash [(B)] was $7.5 million for the three month period ended December 31, 2008 as compared to $4.2 million for the same period in 2007, representing an increase of $3.3 million or 78.6%.

Review of Operations For the Three Month Periods Ended December 31, 2008 and 2007

Revenue

Total revenue for the three month period ended December 31, 2008 was $53.7 million as compared to $48.4 million for the same period in 2007, an increase of 11.0%. The $5.3 million increase in revenues was primarily due to the $3.8 million increase in regional revenues arising from the acquisition of the Georgian Air and PEAL regional businesses, increases in fuel surcharges and higher core overnight revenues.

Core overnight air cargo and ACMI revenues excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2008 were $37.2 million compared to $36.2 million for the same period in 2007, an increase of 2.8%. The $1.0 million increase in core overnight revenues over the same period in 2007 was due to primarily increased charter volume and higher revenues from the Bermuda route due mostly to the change in year-over-year exchange rates for the U.S. dollar. Revenues earned on the Bermuda route are billed primarily in U.S. dollars.

Total regional revenues from PEAL were $6.2 million for the three month period ended December 31, 2008. A 51% controlling interest in PEAL was acquired by the Fund on May 1, 2008. In comparison, revenues from Cargojet's regional business for the three month period ended December 31, 2007 were $2.4 million and related to the business of Georgian Express Ltd. that was acquired by Cargojet in October 2007. All assets and contracts originally purchased from Georgian Express Ltd. were transferred to PEAL on May 1, 2008.

Fuel surcharges and other cost pass-through revenues were $9.7 million in the fourth quarter of 2008 as compared to $9.0 million for the same period in 2007, an increase of $0.7 million or 7.8%. The increase was due primarily to higher fuel prices that were passed on to the Fund's customers.

Review of Operations For the Three Month Periods Ended December 31, 2008 and 2007 (continued)

Revenue (continued)

Revenues from the Fund's Fixed Base Operations ("FBO") fuelling business were $0.3 million for the three month period ended December 31, 2008. These operations started at the end of September 2007. Revenues for the three month period ended December 31, 2007 were $0.3 million.

Direct Expenses

Direct expenses were $42.3 million for the fourth quarter of 2008 as compared to $36.8 million for the same period in 2007, representing an increase of $5.5 million or 14.9%. As a percentage of revenue, direct expenses increased from 76.0% in the fourth quarter of 2007 to 78.8% for the same period in 2008.

Aircraft lease costs including engine reserves, airframe reserves and sub-charter lease costs were $4.9 million for the fourth quarter of 2008 as compared to $4.0 million for the same period in 2007, an increase of 22.5%. The increase is due to the higher lease costs of the new B767 and B757 aircraft offset by a reduction in the number of leased and sub-chartered B727 aircraft.

Fuel costs were $13.3 million as compared to $14.7 million for the same period in 2007. The $1.4 million or 9.5% decrease in fuel costs was due primarily to the reduction in block hours. The savings in fuel costs were offset partially by the increase in average fuel price in the three month period ending December 31, 2008 as compared to the same period in 2007.

Other pass-through costs including handling, navigation, landing and parking were $8.2 million for the three month period ended December 31, 2008 as compared to $7.9 million for the same period in 2007. The $0.3 million or 3.8% increase in costs was due primarily to the additional flights on the new route to Western Canada and the increase in ACMI business that began during the month of October 2007.

Total maintenance costs were $3.3 million for the three month period ended December 31, 2008 as compared to $2.1 million for the same period in 2007, an increase of $1.2 million or 57.1%. The increase in costs was due primarily to higher per block hour maintenance and spare parts inventory charges for the new aircraft. Maintenance direct labour costs were also 27.5% higher for the three month period ended December 31, 2008 than for the same period in 2007. Additional maintenance employees were hired at the end of 2007 and in early 2008 due to the increase in aircraft and block hours. Maintenance staff positions were significantly reduced during the fourth quarter of 2008 and at the beginning of 2009 in line with the reduction of aircraft and routes.

Heavy maintenance amortization costs were $0.4 million for the fourth quarter of 2008 as compared to $0.6 million for the same period in 2007, an increase of $0.2 million or 33.3%. 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 18 to 24 months until the next scheduled heavy maintenance.

Review of Operations For the Three Month Periods Ended December 31, 2008 and 2007 (continued)

Direct Expenses (continued)

Total crew costs including salaries, training and positioning were $3.0 million for the third quarter of 2008 and $2.6 million for the same period in 2007, an increase of 15.4%. The increase was due to the hiring of additional crews to facilitate training of crews on the B767 and B757 aircraft. Crew positions were significantly reduced during the latter half of 2008 and at the beginning of 2009 in line with the reduction of aircraft and routes.

Total direct costs of the regional business in PEAL were $6.2 million for the fourth quarter of 2008. Direct expenses of Cargojet's regional business in the fourth quarter of 2007 were $2.6 million. The increase of $3.6 million or 138% reflects the additional operating expenses of PEAL whose business was combined with Cargojet's regional business in May 2008.

Total direct costs of the FBO business were $0.4 million for the three month period ended December 31, 2008 as compared to $0.3 million for the same period in 2007. The increase of $0.1 or 33.3% million was due primarily to an increase in the price of fuel.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $2.6 million for the three month period ended December 31, 2008 as compared to $2.0 million for the same period in 2007. The increase of $0.6 million or 30% was due to a $0.3 million increase in de-icing expenses and higher ground handling costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $4.2 million for the three month period ended December 31, 2008 as compared to $6.2 million for the same period in 2007, a decrease of $2.0 million or 32.3%. The decrease in SG&A expenses was due primarily to elimination of 2008 management bonuses, lower discretionary spending on sales and marketing and non-hedge foreign exchange gains realized during the period offset by higher SG&A expenses of $0.2 million related to PEAL.

EBITDA [(A)]

EBITDA [(A)] for the three month period ended December 31, 2008 was $8.3 million or 15.5% of revenue compared to $6.9 million or 14.3% of revenue for the same period in 2007. Net of the variance in SG&A expenses, EBITDA [(A)] for the three month periods ended December 31, 2008 and 2007 was $6.3 million and $6.9 million respectively. With the absence of one-time costs related to the introduction of new aircraft, Cargojet's profitability in the fourth quarter of 2008 returned to historical levels.

Review of Operations For the Three Month Periods Ended December 31, 2008 and 2007 (continued)

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 December 31, 2008, was $3.2 million as compared to $2.7 million for the same period in 2007, an increase of $0.5 million or 18.5%. Amortization of capital assets for the three month period ended December 31, 2008 was $1.9 million, of which $1.7 million was included in direct expenses. Amortization of capital assets for the three month period ended December 31, 2007 was $1.0 million, of which $0.9 million was included in direct expenses.

Interest

Interest expense was $1.0 million for the three month period ended December 31, 2008, compared to interest expense of $0.4 million for the three month period ended December 31, 2007. The increase in interest expense of $0.6 million or 150% was due to the issuance of $35.7 million of subordinated unsecured convertible debentures on April 1, 2008 and interest on PEAL's debt. 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 expense was $1.1 million for the three month period ended December 31, 2008 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items. The net future income tax recovery for the three month period ended December 31, 2007 was $1.0 million.

Income Tax Provision

The recovery of current income taxes for the three month period ended December 31, 2008 was $0.9 million, compared to provision for current income taxes of $1.2 million for the three month period ended December 31, 2007. The recovery of current income taxes and the provision for current income taxes are due to certain subsidiaries of the Fund that are taxable.

Non-controlling Interests

Non-controlling interests were a charge to earnings of $0.3 million for the three month period ended December 31, 2008, compared to a charge to earnings of $0.5 million for the three month period ended December 31, 2007. Non-controlling interests represent 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.

Review of Operations For the Three Month Periods Ended December 31, 2008 and 2007 (continued)

Distributable Cash

Distributable cash was $7.5 million for the three month period ended December 31, 2008, compared to $4.2 million for the three month period ended December 31, 2007. The increase in distributable cash of $3.3 million or 78.6% was primarily due to lower SG&A expenses, the timing of maintenance capital expenditures and current income taxes incurred by the Fund in 2007.

Distributions

Total distributions declared for the three month period ended December 31, 2008 were $1.8 million, or $0.2025 per trust unit. The payout ratio for the three month period ended December 31, 2008 was 24%. In comparison, the total distributions declared for the three month period ended December 31, 2007 were $2.6 million, or $0.2892 per trust unit. The payout ratio for the three month period ended December 31, 2007 was 61%.

A distribution of $0.0675 per trust unit, equal to $0.45 million, for the period December 1, 2008 to December 31, 2008 was declared to unitholders of record on December 31, 2008, payable on or before January 15, 2008. Also, a distribution of $0.0675 per Exchangeable LP unit, equal to $0.15 million, for the period December 1 to December 31, 2008 was declared to Exchangeable LP unitholders of record on December 31, 2008, payable on or before January 15, 2008.

On July 22, 2008 the Fund announced a reduction in its monthly distribution rate from $0.0964 per unit to $0.0675 per unit to unitholders of record on July 31, 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.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2008 was $13.0 million. Cash provided by operating activities after net changes in non-cash working capital balances for the same period in 2007 was $8.1 million. The net increase in cashflow of $4.9 million was due primarily to the difference in cash earnings before taxes on account of the $2.0 million decrease in year-over-year SG&A expenses and the timing of customer receipts and vendor payments.

Net cash used in financing activities during the three month period ended December 31, 2008 was $0.6 million due to distributions paid to unitholders of $1.8 million partially offset by increased borrowing by Cargojet on its credit facility.

Review of Operations For the Three Month Periods Ended December 31, 2008 and 2007 (continued)

Liquidity and Capital Resources (continued)

Cash used in investing activities during the three month period ended December 31, 2008 was $12.6 million due to the purchase of capital assets. Cash used in investing activities during the three month period ended December 31, 2007 was $3.5 million due to the purchase of capital assets of $1.7 million and the acquisition of the net assets of Georgian Express for $1.8 million.

In July 2008, the Fund renewed its long-term credit facility that is to a maximum of $30 million. As at December 31, 2008 the Fund has drawn $1.9 million of its long-term credit facility. The renewed credit facility will mature in July 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 $1.5 million and is payable on demand. The credit facility bears interest at prime + 1.0%. Fixed loans bear interest at rates ranging from prime + 1.5% to 8.2% and are secured by the aircraft of PEAL. 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.

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

Capital asset additions totalled $12.5 million for the three month period ended December 31, 2008, and was comprised of growth capital expenditures of $12.2 million, maintenance capital expenditures of $0.2 million, and additions to leased assets of $0.1 million. Growth capital expenditures were comprised of $6.5 million for the new hangar, $1.0 million for the purchase of a warehouse and office facility at the Hamilton International Airport, and $4.5 million for the purchase of two B727 aircraft that had previously been leased, and $0.5 million of other assets related to the new B767 and B757 aircraft.

Capital additions for the three month period ended December 31, 2007 were comprised of $1.1 million of maintenance capital expenditures and $0.6 million of growth capital expenditures.

Highlights for the Twelve Month Periods Ended December 31, 2008 and 2007

- Total revenue for the twelve month period ended December 31, 2008 was $205.7 million as compared to $151.1 million for the same period in 2007, representing an increase of $54.6 million or 36.1%.

- 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 twelve month period ended December 31, 2008 was $0.71 million per operating day as compared to $0.62 million per operating day for same period in 2007, representing an increase of 14.5%.

- EBITDA (A) for the twelve month period ended December 31, 2008 was $16.2 million as compared to $21.6 million for the same period in 2007.

- Distributable Cash (B) was $10.1 million for the twelve month period ended December 31, 2008 as compared to $14.4 million for the same period in 2007.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007

Revenue

Total revenue for the twelve month period ended December 31, 2008 was $205.7 million as compared to $151.1 million for the same period in 2007, representing an increase of $54.6 million or 36.1%. The increase in revenues was due primarily to growth in the core overnight air cargo network, an increase in ACMI business, the acquisition of the Georgian Air and PEAL regional businesses, 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 twelve month period ended December 31, 2008 was $139.9 million compared to $123.4 million for the same period in 2007, an increase of $16.5 million or 13.4%. The $16.5 million increase in core overnight revenues over the same period in 2007 was due primarily to the revenues from the new route to Western Canada and a new ACMI contract that both started in the fourth quarter of the prior year. This Western route and the ACMI contract will be discontinued at the end of 2008. Core revenues from all other customers increased by $3.5 million in 2008 over the previous year.

Fuel surcharges and other cost pass-through revenues were $44.0 million for the twelve month period ended December 31, 2008 as compared to $24.2 million for the same period in 2007, an increase of $19.8 million or 81.8%. Most of the $19.8 million increase was due to the cost of higher fuel prices that were passed on to the Fund’s customers. Other 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.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

Revenue (continued)

Total regional revenues were $19.9 million for the twelve month period ended December 31, 2008. The Fund's regional revenues for the twelve month period ended December 31, 2008 are comprised of the total revenues of PEAL for the eight month period May 1, 2008 to December 31, 2008 and the year to date revenues of Cargojet's regional business that was transferred to PEAL on May 1, 2008. Regional revenues in 2007 were $2.4 million and were due to the regional business acquired from Georgian Express in October 2007.

Revenues from the Fund's FBO fueling business were $1.5 million for the twelve month period ended December 31, 2008. These operations started at the end of September 2007 and revenues for the period ended December 31, 2007 were $0.4 million.

Direct Expenses

Direct expenses were $173.7 million for the twelve month period ended December 31, 2008 as compared to $113.5 million for the same period in 2007, representing an increase of $60.2 million or 53.0%. As a percentage of revenue, direct expenses increased from 75.1% in 2007 to 84.4% for the same period in 2008.

Fuel costs were $66.4 million for the twelve month period ended December 31, 2008 as compared to $45.4 million for the same period in 2007. The $21.0 million or 46.3% 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 $23.3 million for the twelve month period ended December 31, 2008 as compared to $19.6 million for the same period in 2007. The $3.7 million or 18.9% increase in costs was due to the growth in the Fund's ACMI business and the additional flights resulting from the new route to Western Canada.

The additional flights also resulted in higher aircraft maintenance costs. Maintenance costs were $10.8 million for the twelve month period ended December 31, 2008 as compared to $8.3 million for the same period in 2007, an increase of $2.5 million or 30.1%. Average maintenance expenses per block hour have generally increased due to the new B767 and B757 aircraft. Maintenance expenses for these aircraft include charges for 3rd party consignment spare parts inventory and 3rd party engine maintenance agreements. Approximately $0.5 million of the increase was attributable to unexpected aircraft repair expenditures incurred in the first quarter of 2008.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

Direct Expenses (continued)

Heavy maintenance amortization costs were $2.8 million for the twelve month period ended December 31, 2008 as compared to $2.1 million for the same period in 2007, an increase of $0.7 million or 33.3%. Part of the increase was due to the termination of one B727 lease in July 2008 that resulted in $0.2 million of additional heavy maintenance amortization during the twelve month period ended December 31, 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 18 to 24 months until the next scheduled heavy maintenance.

Aircraft lease costs including engine reserves, airframe reserves and sub-charter lease costs were $18.2 million for the twelve month period ended December 31, 2008 as compared to $11.2 million for the same period in 2007. The increase of $7.0 million or 62.5% was due to an increase of sub-charter lease costs, the lease of an additional B727 aircraft that started in December 2007, higher lease renewal rates on two existing B727 aircraft, and the lease costs for the new B767 and B757 aircraft. These higher lease costs were partially offset by the termination of a B727 lease in July 2008 and the purchase of two leased B727 aircraft in November 2008.

Total crew costs including salaries, training and positioning were $13.9 million for the twelve month period ended December 31, 2008 as compared to $9.1 million for the same period in 2007, an increase of $4.8 million or 52.7%. Approximately $3.7 million of 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, and the hiring of crews related to the new route to Western Canada and a new ACMI contract that began in October 2007. 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 in the second quarter of 2008.

Total direct costs of the regional business including the operations of PEAL for the twelve month period ending December 31, 2008 were $19.4 million as compared to $2.6 million in the same period in 2007. The 2007 direct costs reflect the operating costs of the regional business acquired by the Fund in October 2008 that was subsequently combined with the operations of PEAL in May 2008.

Total direct costs of the FBO business were $1.5 million for the twelve month period ended December 31, 2008. The FBO business started at the end of September 2007 and direct costs for the period ended December 31, 2007 were $0.4 million.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $17.5 million for the twelve month period ended December 31, 2008 as compared to $14.8 million for the same period in 2007. The increase of $2.7 million or 18.2% was due to the increase in customer volumes arising from the new route to Western Canada and the increase ACMI business.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $19.3 million for the twelve month period ended December 31, 2008 compared to $18.7 million for the same period in 2007, an increase of $0.6 million or 3.2%. The net increase in SG&A was due primarily to costs related to the introduction of the new B767 and B757 aircraft, the acquisition of the Georgian Express and PEAL regional businesses, and non-cash gains and losses offset partially by the elimination of management bonuses in 2008 and non-hedge foreign exchange gains.

Of the $0.6 million increase in SG&A expenses, $2.3 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 $0.9 million were due to the Fund's regional business. Management bonus expenses were $1.8 million in 2007 and nil in 2008. Non-hedge foreign exchange gains in 2008 were $0.7 million and nil in 2007.

Net non-cash gains of $0.1 million were recorded during the year 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.

One B727 lease expired in July of 2008 and another B727 lease expired 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 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.

During the second quarter of 2008, Cargojet removed its passenger B727 aircraft from service on a permanent basis. Cargojet is using this 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 are being held for sale. 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 second quarter of 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 second quarter of 2008 under general and administrative expenses. 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 and will facilitate the further integration of PEAL's business with Cargojet's existing infrastructure to improve PEAL's operational and financial performance.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

EBITDA [(A)]

EBITDA [(A)] for the twelve month period ended December 31, 2008 was $16.2 million or 7.9% of revenue, compared to $21.6 million or 14.3% of revenue for the same period in 2007. The decline in EBITDA of $5.4 million for the twelve month period ended December 31, 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.

EBITDA [(A)] as a percentage of revenue was affected 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.

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 twelve month period ended December 31, 2008 was $11.5 million as compared to $10.3 million for the same period in 2007, an increase of $1.2 million or 11.7%. Amortization of capital assets including the amount included in direct expenses for the twelve month period ended December 31, 2008 was $5.2 million as compared to $3.6 million for the same period in 2007, an increase of $1.6 million or 44.4%. Amortization of capital assets that was included in direct expenses for the twelve month period ended December 31, 2008 was $4.6 million as compared to $3.1 million for the same period in 2007, an increase of $1.5 million or 48.4%.

Interest

Interest expense was $3.2 million for the twelve month period ended December 31, 2008, compared to interest expense of $1.1 million for the twelve month period ended December 31, 2007. The increase in interest expense of $2.1 million or 190.9% was due to the issuance of long-term debt required to finance the start-up costs related to the new B767 and B757 aircraft, to fund the acquisition of PEAL and for other general corporate purposes.

Future Income Tax Recovery

The future income tax recovery of $0.7 million for the twelve month period ended December 31, 2008 represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

Income Tax Provision

The recovery of current income taxes for the twelve month period ended December 31, 2008 was $0.9 million as compared to a provision for current income taxes of $1.8 million for the twelve month period ended December 31, 2007. The recovery of current income taxes and the provision for current income taxes are due to certain subsidiaries of the Fund that are taxable.

Non-controlling Interests

Non-controlling interests were a credit to earnings of $0.8 million for the twelve month period ended December 31, 2008, as compared to a charge to earnings of $1.8 million for the twelve month period ended December 31, 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 $10.1 million for the twelve month period ended December 31, 2008, compared to $14.4 million for the twelve month period ended December 31, 2007. The decrease in distributable cash of $4.3 million for the twelve month period ended December 31, 2008 compared to the same period in 2007 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, one-time aircraft repair expenditures, higher heavy maintenance expenditures and deposits of $0.9 million, and higher interest payments of $1.1 million. The increases in direct costs and heavy maintenance expenditures and deposits were partially offset by a reduction in maintenance capital expenditures of $0.5 million and the reduction in current income tax expense of $1.8 million.

Distributions

Total distributions declared for the twelve month period ended December 31, 2008 were $8.8 million, or an average of $0.9834 per trust unit. The payout ratio for the twelve month period ended December 31, 2008 was 87%. In comparison, total distributions declared for the twelve month period ended December 31, 2007 were $10.3 million, or $1.1549 per trust unit. The payout ratio for the twelve month period ended December 31, 2007 was 72%.

A distribution of $0.0675 per trust unit, equal to $0.45 million, for the period December 1, 2008 to December 31, 2008 was declared to unitholders of record on December 31, 2008, payable on or before January 15, 2008. Also, a distribution of $0.0675 per Exchangeable LP unit, equal to $0.15 million, for the period December 1 to December 31, 2008 was declared to Exchangeable LP unitholders of record on December 31, 2008, payable on or before January 15, 2008.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

Distributions (continued)

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.

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 twelve month period ended December 31, 2008:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	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 29, 2008	March 14, 2008	645,770	645,770	215,256	215,256	861,026	0.0964	861,026
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	645,770	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 15, 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

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2008 was $11.9 million. Cash provided by operating activities after net changes in non-cash working capital balances for the same period in 2007 was $17.8 million. The change in cash provided by operating activities was primarily due 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. Net cash outflows due to changes in non-cash working capital were $3.8 million higher for the twelve month period ended December 31, 2008 than for the same period in 2007 due primarily to the $2.5 million increase in deposits and prepaid amounts related to fuel purchases, the construction of the new hangar, the new B767 and B757 aircraft leases and insurance.

Review of Operations For the Twelve Month Periods Ended December 31, 2008 and 2007 (continued)

Liquidity and Capital Resources

Cash provided by financing activities during the twelve month period ended December 31, 2008 of $7.9 million was due primarily to the net proceeds from the issue of convertible debentures of $33.9 million, the repayment of the long-term debt of $16.9 million and distributions paid to unitholders of $9.0 million.

Cash used in investing activities during the twelve month period ended December 31, 2008 was $22.4 million, comprised of capital asset spending of $21.2 million and cash used in the acquisition of PEAL of $1.2 million.

In July 2008, the Fund renewed its long-term credit facility that is to a maximum of $30 million. As at December 31, 2008 the Fund has drawn $0.7 million of its long-term credit facility. The renewed credit facility will mature in July 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 $1.5 million and is payable on demand. The credit facility bears interest at prime + 1.0%. Fixed loans bear interest at rates ranging from prime + 1.5% to 8.2% and are secured by the aircraft of PEAL. 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. As at December 31, 2008 PEAL has drawn $1.1 million of its credit facility.

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

Capital asset additions were $21.2 million for the twelve month period ended December 31, 2008 as compared to $5.1 million for the same period in 2007. Capital additions for the twelve month period ended December 31, 2008 were comprised of $3.7 million of maintenance capital expenditures, $16.7 million of growth capital expenditures and $0.7 million of leased assets. Growth capital expenditures included $7.5 million for the new hangar, $1.0 million for the purchase of existing warehouse and office space at the Hamilton International Airport from a related party, $4.5 million for two B727 aircraft that had previously been leased, and various aircraft leaseholds, rotables and support equipment related to the introduction of the new B757 and B767 aircraft. Capital additions for the twelve month period ended December 31, 2007 were comprised of $4.1 million of maintenance capital expenditures and $0.9 million of growth capital expenditures.

Financial Condition

The following is a comparison of the financial position of the Fund as at December 31, 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 December 31, 2008 to the financial position of the Fund as at September 30, 2008.

Accounts Receivable

Accounts receivable as at December 31, 2008 amounted to $10.1 million as compared to $9.7 million as at December 31, 2007. The increase of $0.4 million was due to the overall increase in revenues related to the regional business and the timing of customer receipts at year-end. Accounts receivable as at September 30, 2008 was $15.1 million. The decrease of $5.0 million was due to the difference in the timing of weekly customer billing and cash receipts at quarter and year end. The quality of the Fund's receivable balances and its current collections, in management's opinion, remain excellent.

Capital Assets

As at December 31, 2008 net capital assets were $57.3 million as compared to $30.6 million as at December 31, 2007. The $26.7 million net increase in capital assets was due to $21.9 of capital additions including leased assets, the net acquisition of approximately $10.9 million of assets related to the PEAL transaction at May 1, 2008, the amortization of capital assets of $5.2 million, and the write-down of assets related to the retired passenger aircraft and returned leased aircraft of $0.9 million. Capital additions for the twelve month period ended December 31, 2008 were comprised of $3.7 million of maintenance capital expenditures, $17.5 million of growth capital expenditures and $0.7 million of leased assets. Growth capital expenditures included $7.5 million for the new hangar, $1.0 million for the purchase of existing warehouse and office space at the Hamilton International Airport from a related party, $4.5 million for two B727 aircraft that had previously been leased, and various aircraft leaseholds, rotables and support equipment related to the introduction of the new B757 and B767 aircraft. Capital additions for the twelve month period ended December 31, 2007 were comprised of $4.1 million of maintenance capital expenditures and $0.9 million of growth capital expenditures.

During the three month period ended December 31, 2008, net capital assets increased by $10.6 million. The net increase in capital assets was due to capital additions of $12.5 million offset by the amortization of capital assets of $1.9 million. Capital additions of $12.5 million for the three month period ended December 31, 2008 was comprised of growth capital expenditures of $12.2 million, maintenance capital expenditures of $0.2 million, and additions to leased assets. Growth capital expenditures included $6.5 million for the new hangar, $1.0 million for the purchase of a warehouse and office facility at the Hamilton International Airport, and $4.5 million for the purchase of two B727 aircraft that had previously been leased. Capital additions for the three month period ended December 31, 2007 were comprised of $1.1 million of maintenance capital expenditures and $0.6 million of growth capital expenditures.

Financial Condition (continued)

Intangible Assets

Intangible assets decreased by $7.3 million from December 31, 2007 and decreased by $3.0 million from September 30, 2008 to $9.6 million as at December 31, 2008. The change in intangible assets for the twelve month period ended December 31, 2008 was due to the amortization of intangible assets of $11.5 million offset by the increase in net intangible assets related to the acquisition of PEAL of $4.2 million.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges increased by $3.4 million from December 31, 2007 and decreased by $0.5 million from September 30, 2008 to $16.9 million as at December 31, 2008. The increase in accounts payable and accrued charges for the twelve month period ended December 31, 2008 was due primarily to the acquisition of PEAL, the timing of supplier payments and the timing of payroll disbursements. The decrease in accounts payable and accrued charges for the three month period ended December 31, 2008 was due primarily to the timing of supplier payments and payroll disbursements.

Deferred Heavy Maintenance

Deferred heavy maintenance expenditures decreased by $0.7 million from December 31, 2007 and decreased by $0.4 million from September 30, 2008 to $1.5 million as at December 31, 2008. Total heavy maintenance expenditure additions for the twelve month period ended December 31, 2008 were $2.1 million offset by amortization of $2.8 million. In comparison, total heavy maintenance expenditure additions for the twelve month period ended December 31, 2007 were $2.5 million offset by amortization of $2.1 million.

Heavy maintenance deposits increased by $1.3 million from December 31, 2007 and increased by $1.0 million from September 30, 2008 to $1.3 million as at December 31, 2008. There were no refunds of heavy maintenance deposits in 2008.

Working Capital Position

The Fund had a working capital deficit as at December 31, 2008, representing the difference between total current assets and current liabilities, of $0.8 million, compared to a working capital deficit of $0.5 million as at December 31, 2007 and a working capital surplus of $3.4 million as at September 30, 2008. The net change in working capital for the twelve month period ended December 31, 2008 was due primarily to a $3.1 million increase in working capital related to current income taxes, a $2.4 million increase in deposits and prepaid expenses related to fuel purchases, the construction of the new hangar, the B767 and B757 aircraft leases and insurance, $2.1 million increase in the value of derivatives contracts, a decrease in cash of $2.6 million, the increase in the current portion of long term debt of $1.7 million and the timing of vendor payments at year-end.

Financial Condition (continued)

Long-Term Debt

Effective July 2008 the Fund renewed its long-term revolving credit facility to a maximum of $30.0 million. As at December 31, 2008 the amount drawn on this credit facility was $0.7 million compared to $17.0 million as at December 31, 2007 and nil as at September 30, 2008. The credit facility will mature in July 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 $1.5 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 a fixed rate of 8.2% and are secured by the aircraft of PEAL. As at December 31, 2008 the amount drawn on this credit facility was $1.1 million

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 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 a December 31, 2008 (in thousands)	Total	2009	2010	2011	2012	2013	Thereafter
Long-term debt	$ 6,071	$ 444	$ 828	$ 826	$ 801	$ 822	$ 2,350
Credit Facility	1,860	1,117	-	743	-	-	-
Financing loan	112	83	29	-	-	-	-
Capital Lease Obligations	546	186	191	138	31	-	-
Operating leases	86,638	14,923	13,238	12,068	11,702	11,626	23,081
Total contractual obligations	$ 95,227	$ 16,753	$ 14,286	$ 13,775	$ 12,534	$ 12,448	$ 25,431

Capital Resources

The Fund made capital expenditures of approximately $21.2 million over the course of the 2008 fiscal year that include $16.7 million in growth capital expenditures related to the deployment of the new B767 and B757 aircraft, the purchase of two B727 aircraft, construction of a new hangar and the purchase of existing warehouse and office space at the Hamilton International Airport. In April 2008, the Fund closed a $35.7 million offering of subordinated unsecured convertible debentures that included $4.7 million of over-allotment proceeds. Net proceeds from the offering of $33.9 million were used to finance growth capital expenditures, other start-up costs related to the deployment of the new B767 and B757 aircraft, the acquisition of PEAL, the repayment of current indebtedness under the credit facility and for other general corporate purposes.

Financial Condition (continued)

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 twelve month period ended December 31, 2008 the Fund had transactions with its related company, Flagship Aviation. The company is controlled by one of the Fund's executive officers. Total transactions amounted to $0.3 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 warehouse and office building at the Hamilton International Airport.

In October 2008 Fund entered into an agreement with Flagship Aviation to purchase the warehouse and office building at the Hamilton International Airport for approximately $1.0 million plus applicable taxes. Flagship Aviation is controlled by one of the Fund's executive officers.

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.

Financial Condition (continued)

Segmented Information (continued)

The following is a breakdown by reporting segment for the three and twelve month periods ended December 31, 2008 (comparative figures for the prior year are not applicable):

Results of Operation by Reporting Segment For the Three Month Period Ended December 31, 2008
(in thousands of dollars)

	Three Month Period Ended December 31, 2008			
	National	Regional	Inter-segment	Total
Revenues	$ 47,163	$ 6,826	$ (330)	$ 53,659
Direct expenses	36,117	6,443	(330)	42,230
	11,046	383	-	11,429
Selling, general and administrative expenses				
Sales and marketing	224	20	-	244
General and administrative	3,576	355	-	3,931
Interest, net	859	163	-	1,022
Amortization of capital assets	163	-	-	163
Amortization of intangible assets	2,574	620	-	3,194
	7,396	1,158	-	8,554
Income (loss) before income taxes and non-controlling interest	$ 3,650	$ (775)	$ -	$ 2,875

Results of Operation by Reporting Segment For the Twelve Month Period Ended December 31, 2008
(in thousands of dollars)

	Twelve Month Period Ended December 31, 2008			
	National	Regional	Inter-segment	Total
Revenues	$ 185,746	$ 20,801	$ (872)	$ 205,675
Direct expenses	154,577	19,949	(872)	173,654
	31,169	852	-	32,021
Selling, general and administrative expenses				
Sales and marketing	903	52	-	955
General and administrative	17,350	1,002	-	18,352
Interest, net	2,723	451	-	3,174
Amortization of capital assets	607	-	-	607
Amortization of intangible assets	10,209	1,329	-	11,538
	31,792	2,834	-	34,626
Loss before income taxes and non-controlling interest	$ (623)	$ (1,982)	$ -	$ (2,605)
	As at December 31, 2008			
Total net capital assets	$ 45,811	$ 11,504	$ -	$ 57,315

Economic Dependence

During the twelve month period 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 2013. Each of these customers had sales in excess of 10% of total revenues during all periods and they are reported entirely in the National segment.

During the three month period ended December 31, 2008, the Fund had sales to three customers that represented 45% of the total revenues (December 31, 2007 – 45%). Two of these customers had sales in excess of 10% of total revenues during all periods, and one customer had sales in excess of 10% of total revenues during the three month period ended December 31, 2007 and sales in excess of 9% of total revenues during the three month period ended December 31, 2008. All three of these customers are reported entirely in the National segment.

Contingencies

The Fund has provided irrevocable standby letters of credit totalling approximately $0.8 million to a financial institution as security for its corporate credit cards and to a number of vendors as security for the Fund's ongoing purchases.

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.

In 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 had monthly settlement dates from March 2008 to December 2009, and were consistent with the Fund's foreign exchange risk management policy. As part of this policy, the Fund had entered into U.S. dollar forward purchase contracts settled in Canadian funds to reduce the uncertainty surrounding the value of its anticipated cash flows that are denominated in U.S. currency. As at December 31, 2008, these contracts had a positive fair value of $2.1 million and are recorded on the balance sheet as derivatives contracts.

In January 2009 the Fund ended its foreign exchange hedging program and realized a gain of approximately $2.8 million from the settlement and sale of all of the Fund's U.S. dollar forward purchase contracts 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.

Subsequent Events

In January 2009 the Fund ended its foreign exchange hedging program and realized a gain of approximately $2.8 million from the settlement and sale of all of the Fund's U.S. dollar forward purchase contracts 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 and will facilitate the integration of PEAL's business with Cargojet's existing infrastructure to improve PEAL's operational and financial performance.

Outlook

Although recent concerns over the economy and the volatility of fuel prices are expected to dampen customer demand for the foreseeable future, the Fund expects to retain all of its major customers and maintain profitability on its core overnight network. Cargojet plans to mitigate the effects of lower revenues through pro-active management of its fleet capacity and cost structure.

With the arrival of the final B767 aircraft and the completion of crew and other staff training at the end of the third quarter in 2008, Cargojet completed the start-up phase of its fleet renewal program. The aircraft have performed very well as evidenced by Cargojet's strong earnings in the fourth quarter of 2008.

The Fund continues to recover fuel price increases through fuel surcharges. The Fund fixes the price it pays for jet fuel on a monthly basis with most of 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'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
Financial instruments	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.
Capital assets	An impairment loss is recognized when events or circumstances indicate that the carrying amount of the capital asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.
Goodwill	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 and deficit before income taxes and non-controlling interest.
Valuation of intangible assets that have a finite life	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.

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, 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.

Financial Reporting Update

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 relating to 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.

Financial Reporting Update (continued)

Changes in Accounting: Adoption of New and Revised Accounting Standards (continued)

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 $3.1 million 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 $1.2 million of inventories to capital assets.

Future Accounting Policy Changes and International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that use of International Financial Reporting Standards ("IFRSs") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for these enterprises. These new standards will be effective for the Fund on January 1, 2011 and has selected this date for the adoption of IFRS. The Fund expects that the transition to IFRS will impact its accounting and financial policies, processes and systems. The Fund has commenced its initial planning and analysis process to convert its consolidated financial statements to IFRS by January 1, 2011.

The Fund's IFRS implementation project consists of three phases. The objective of the first phase is to prepare an IFRS conversion plan based on a gap assessment between the current state and the required future state. To that end, the Fund has engaged its auditors to assist in completing the first phase by providing the following services:

- Completion of a diagnostic assessment, showing the differences between the Fund's current accounting policies under Canadian Generally Accepted Accounting Principles ("GAAP") and IFRS;
- Identification of the impact of IFRS on other business functions of the Fund;
- Preparation of the project plan.

Financial Reporting Update (continued)

Future Accounting Policy Changes and IFRS (continued)

The second phase of the Fund's IFRS implementation project is expected to begin immediately following the first phase and involves the execution of the project plan. During the second phase, Cargojet will:

- Make policy and disclosure choices required under IFRS
- Design and implement business and accounting processes that facilitate the collection of data required under IFRS in a timely and accurate manner
- Design and implement internal controls required by the new business and accounting processes
- Design and implement new financial reports and tax calculations

The second phase of the Fund's IFRS implementation project is expected to be completed in 2010 and will result in the comprehensive conversion of the Fund to IFRS and completion of IFRS financial statements for the 2010 fiscal year. The last phase of the Fund's IFRS implementation project begins with the adoption of IFRS on January 1, 2011. All new processes, controls and reports will be implemented and monitored to ensure that they are effective and sustainable.

During its initial planning and analysis process, the Fund identified potential significant differences between IFRS and GAAP as follows:

- First-time adoption of IFRS
- Business combinations
- Property, plant and equipment
- Impairment
- Financial presentation and disclosure

The Fund has not yet quantified the effects of the potential significant differences between IFRS and GAAP.

As part of the initial assessment to identify key areas that may be impacted by IFRS, Cargojet also identified the need to upgrade its existing financial system. The Fund plans on completing the financial system upgrade and the first phase of its IFRS implementation project by the end of the 3rd quarter of 2009.

Internal Controls over Financial Reporting

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and the Chief Financial Officer have evaluated the design and effectiveness of the Fund's internal controls over financial reporting based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

As at December 31, 2008, management assessed the effectiveness of the Fund's internal controls over financial reporting and concluded that the Fund's internal controls over financial reporting were effective. Management did not identify any material weaknesses in the Fund's internal controls over financial reporting.

Financial Reporting Update (continued)

Internal Controls over Financial Reporting (continued)

There have been no changes in the Fund's internal controls over financial reporting during the year ended December 31, 2008 that have materially affected, or are likely to materially affect, the Fund's internal controls over financial reporting.

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 interests - non-controlling interests represent 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.

End Notes (continued)

(A) (continued)

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.

(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.