Consolidated financial statements of

CARGOJET INCOME FUND

December 31, 2009 and 2008

Deloitte.

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Auditors' Report

To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheets of Cargojet Income Fund as at December 31, 2009 and 2008 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 25, 2010

CARGOJET INCOME FUND
Consolidated Balance Sheets
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
ASSETS		
CURRENT		
Cash	3,031,764	569,194
Accounts receivable	10,217,959	10,070,944
Materials and supplies	808,907	863,559
Prepaid expenses and deposits	3,558,439	4,337,814
Note receivable (Note 4)	800,000	-
Income taxes recoverable	-	1,267,996
Future income taxes (Note 11)	177,118	-
Derivatives contracts (Note 16)	-	2,148,558
	18,594,187	19,258,065
CAPITAL ASSETS (NOTE 5)	56,790,848	57,314,869
NOTE RECEIVABLE (NOTE 4)	2,066,667	-
INTANGIBLE ASSETS (NOTE 6)	4,503,704	9,573,776
DEPOSITS	3,859,283	3,070,255
DEFERRED HEAVY MAINTENANCE (NOTE 7)	2,132,212	1,471,773
GOODWILL	46,865,907	46,169,976
	134,812,808	136,858,714
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 8)	12,517,157	16,962,594
Income taxes payable	1,946,834	-
Derivatives contracts (Note 16)	538,713	-
Distributions payable (Note 18)	335,723	601,581
Current portion of long-term debt (Note 9)	666,150	1,829,372
Future income taxes (Note 11)	-	706,445
	16,004,577	20,099,992
LONG-TERM DEBT (NOTE 9)	16,470,022	6,759,015
CONVERTIBLE DEBENTURES (NOTE 10)	29,723,081	32,180,372
FUTURE INCOME TAXES (NOTE 11)	4,643,958	6,939,739
	66,841,638	65,979,118
NON-CONTROLLING INTERESTS (NOTE 12(b))	21,270,060	19,783,606
UNITHOLDERS' EQUITY		
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	(360,691)	1,442,112
DEFICIT	(9,991,256)	(14,751,848)
	(10,351,947)	(13,309,736)
UNITHOLDERS' CAPITAL (NOTE 12(a))	53,517,349	62,054,322
CONTRIBUTED SURPLUS (NOTES 10, 12(d))	1,490,981	82,738
CONVERSION OPTION (NOTE 10)	2,044,727	2,268,666
	46,701,110	51,095,990
	134,812,808	136,858,714

The accompanying notes are an integral component of the financial statements.

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
REVENUES	166,163,797	205,675,100
DIRECT EXPENSES	125,776,250	173,654,562
	40,387,547	32,020,538
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	594,764	954,535
General and administrative (Note 5)	21,015,313	18,351,779
Gain on debenture redemption	(400,853)	-
Interest, net	4,061,873	3,173,753
Amortization of capital assets (Note 5)	755,481	607,489
Amortization of intangible assets	5,886,260	11,538,019
	31,912,838	34,625,575
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTERESTS	8,474,709	(2,605,037)
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 11)		
Current	1,435,809	(893,676)
Future	(2,295,781)	(660,094)
	(859,972)	(1,553,770)
EARNINGS (LOSS) BEFORE NON-CONTROLLING INTERESTS	9,334,681	(1,051,267)
NON-CONTROLLING INTERESTS (NOTE 12(b))	(1,169,328)	763,581
NET INCOME (LOSS)	8,165,353	(287,686)
DEFICIT, BEGINNING OF YEAR	(14,751,848)	(7,923,776)
REPURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 12(d))	1,828,536	45,958
DISTRIBUTIONS DECLARED IN THE YEAR (NOTE 18)	(5,233,297)	(6,586,344)
DEFICIT, END OF YEAR	(9,991,256)	(14,751,848)
EARNINGS (LOSS) PER TRUST UNIT - BASIC (Note 12(c))	1.28	(0.04)
EARNINGS (LOSS) PER TRUST UNIT - DILUTED (Note 12(c))	1.28	(0.04)

The accompanying notes are an integral component of the financial statements.

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
NET INCOME (LOSS)	8,165,353	(287,686)
OTHER COMPREHENSIVE INCOME (LOSS)		
Foreign currency gains (losses) from hedging activities net of income taxes (Note 16)	118,380	1,870,389
Transfer of gains on foreign exchange contracts, net of income taxes, to net income (Note 16)	(1,921,183)	(428,277)
COMPREHENSIVE INCOME	6,362,550	1,154,426
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	1,442,112	-
Other comprehensive income (loss) for the year	(1,802,803)	1,442,112
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF YEAR	(360,691)	1,442,112

The accompanying notes are an integral component of the financial statements.

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
Years ended December 31, 2009 and 2008

	2009	2008
	$	$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income (loss)	8,165,353	(287,686)
Items not affecting cash		
Amortization of capital assets (Note 5)	6,293,079	5,156,688
Amortization of intangible assets	5,886,260	11,538,019
Amortization of note receivable (Note 4)	333,333	-
Accretion of convertible debentures	751,763	588,358
Loss on disposal of capital assets	69,742	960,187
Gain on disposal of intangible assets	(160,401)	(1,149,352)
Gain on purchase of debentures	(400,853)	-
Future income taxes	(2,295,781)	(660,094)
Transfer of gains on derivatives from other comprehensive income	(2,599,095)	-
Change in fair value on non-hedge derivatives	-	66,009
Non-controlling interests	1,169,328	(763,581)
Aircraft heavy maintenance amortization	2,090,471	2,813,214
Aircraft heavy maintenance expenditures	(2,750,910)	(2,097,755)
	16,552,289	16,164,006
Changes in non-cash working capital items and deposits		
Accounts receivable	(147,015)	881,501
Materials and supplies	54,652	117,841
Prepaid expenses and deposits	(9,653)	(4,221,415)
Accounts payable and accrued charges	(4,445,434)	1,982,041
Income taxes payable/recoverable	3,214,830	(3,057,996)
	15,219,669	11,865,979
FINANCING		
Repayment of long-term debt	(722,824)	(16,886,083)
Increase in long-term debt	9,270,609	-
Proceeds from disposition of derivatives	2,600,000	-
Purchase of Trust units (Note 12(d))	(5,524,133)	(52,636)
Purchase of convertible debentures (Note 10)	(2,808,202)	-
Distributions paid to unitholders and non-controlling interest	(7,364,789)	(9,041,679)
Proceeds from convertible debentures	-	33,860,680
	(4,549,339)	7,880,282
INVESTING		
Additions to capital assets	(6,707,254)	(21,204,930)
Proceeds from disposal of capital assets	212,667	-
Acquisition of businesses (Note 4)	(1,713,173)	(1,170,082)
	(8,207,760)	(22,375,012)
NET CHANGE IN CASH	2,462,570	(2,628,752)
CASH POSITION, BEGINNING OF YEAR	569,194	3,197,946
CASH POSITION, END OF YEAR	3,031,764	569,194
Supplementary financial information		
Interest paid	3,290,692	2,391,781
Income taxes paid (refunded)	(1,720,867)	(11,976)
Equipment purchased under capital lease	38,474	658,810

The accompanying notes are an integral component of the financial statements.

1. NATURE OF THE BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

These consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, Cargojet Operating Trust, and its 72% (2008 – 75%) owned subsidiary Cargojet Holdings Limited Partnership ("CHLP"), CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd., Cargojet Partnership, Cargojet Airways Ltd. and Prince Edward Air Ltd., and Prince Edward Air Ltd.'s 55% interest in Cargojet Regional Partnership.

Materials and supplies

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

Capital assets

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

Jet aircraft	-	7-½%
Propeller aircraft	-	20 years
Spare parts	-	actual usage
Engines	-	engine cycles and 20 years
Ground equipment	-	20% to 40%
Rotable spares	-	7-½%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	short of useful life and lease term
Vehicles	-	30%
Hangar facility	-	10%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and intangible assets

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

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

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

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

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

Impairment of long-lived assets

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

Heavy maintenance

The Fund recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months).

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund's subsidiaries are taxable.

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

Non-controlling interests

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

Revenue recognition

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

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

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation of foreign currencies

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

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

Financial instruments

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

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

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

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

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

Derivative financial instruments and hedges

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedges (continued)

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

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

Convertible debentures

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

On the early redemption or repurchase of convertible debentures, the Fund allocates the consideration paid on extinguishment to the liability and equity elements of the convertible debentures based on their relative fair values at the date of the transaction. Any resulting gain or loss relating to the liability element is credited or charged to income and the difference between the carrying amount and the amount considered to be settled relating to the holder option elements is treated as a capital transaction.

Management's use of estimates

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

3. CHANGES IN ACCOUNTING POLICIES

Adoption of new and revised accounting standards

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

In June 2009, the CICA issued amendments to Handbook Section 3862, Financial Instruments — Disclosures, to include additional disclosure requirements around fair value measurement for financial instruments and liquidity risk associated with financial instruments. These amendments resulted in enhanced disclosures regarding the fair value measurement of financial assets and liabilities and liquidity management. The adoption of these amendments had no effect on the Fund's financial position, operations or cash flows. The Fund has included these additional disclosures in Note 16.

The Fund adopted the CICA Emerging Issues Committee Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. Application of this pronouncement had no impact on the Fund's financial results.

Future accounting changes

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

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

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Fund has established a preliminary timeline for the execution and completion of its IFRS conversion project. The impact of IFRS on the Fund's financial statements is not reasonably determinable at this time.

4. BUSINESS COMBINATIONS AND FORMATION OF PARTNERSHIP

(a) Acquisition of Prince Edward Air Ltd.

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

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

The following table summarizes the allocation of the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

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

Effective August 1, 2009, the Fund acquired the remaining 49% common share interest in PEAL that it did not already own. Consideration for the purchase was $832,586, comprised of a cash payment of $1,000,000, transaction costs of $17,241 and net of cash acquired of $184,656.

The acquisition has been accounted for under the purchase method of accounting. Accordingly, the Fund allocated the purchase price to the identifiable assets and liabilities acquired based on their estimated fair value at the time of acquisition.

4. ACQUISITIONS (continued)

The operations of PEAL have been consolidated on a 100% basis in the consolidated statements of operations and comprehensive income and cash flows from August 1, 2009. The purchase price is considered preliminary until the Fund has obtained the necessary information to complete its allocation. As a result, the purchase price allocation may be adjusted in 2009. The preliminary estimated fair values of the assets acquired and liabilities assumed are as follows:

	$
Accounts receivable	1,420,763
Inventories	19,416
Prepaid expenses	151,015
Capital assets	4,034,606
Intangible assets	1,916,444
Accounts payable and accrued charges	(3,113,064)
Long-term debt	(2,492,117)
Future tax liability	(1,104,477)
Total consideration	832,586

(b) Formation of Cargojet Regional Partnership

Effective August 1, 2009, the Fund entered into a partnership with SkyLink Express Inc. (“SL Express”) to combine their regional air cargo feeder aircraft network. The new partnership, Cargojet Regional Partnership (the “Partnership”), is owned 55% by the Fund’s subsidiary, PEAL, and 45% by SL Express. PEAL contributed customer contracts to the Partnership valued at $3,911,112, while SL Express contributed a promissory note, payable to the Fund, of $3,200,001 bearing an annual interest rate of 6.5% (outstanding balance of $2,866,667 as at December 31, 2009) which will be repaid as payments are made on the leased aircraft. The Fund also incurred $695,931 of transaction costs which was recognized as goodwill.

The acquisition has been accounted for under the purchase method of accounting. Accordingly, the Fund allocated the purchase price to the identifiable assets and liabilities acquired based on their estimated fair value at the time of acquisition.

The operations of the Partnership have been included in the consolidated statements of operations and comprehensive income and cash flows from August 1, 2009.

5. CAPITAL ASSETS

			December 31, 2009
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	30,700,883	7,125,341	23,575,542
Spare parts	2,830,263	-	2,830,263
Ground equipment	7,020,919	2,706,759	4,314,160
Rotable spares	11,257,571	2,147,166	9,110,405
Computer hardware and software	2,245,681	1,176,253	1,069,428
Leased computer hardware and software	791,681	426,386	365,295
Furniture and fixtures	847,363	411,046	436,317
Leasehold improvements	4,376,153	2,472,527	1,903,626
Vehicles	344,942	215,649	129,293
Leased vehicles	230,309	124,705	105,604
Hangar facility	14,878,351	1,927,436	12,950,915
	75,524,116	18,733,268	56,790,848

			December 31, 2008
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	31,674,288	5,232,116	26,442,172
Spare parts	3,169,285	-	3,169,285
Ground equipment	5,931,974	1,658,283	4,273,691
Rotable spares	9,705,314	1,507,819	8,197,495
Computer hardware and software	1,661,045	840,585	820,460
Leased computer hardware and software	791,681	292,929	498,752
Furniture and fixtures	753,076	310,930	442,146
Leasehold improvements	3,997,223	1,724,811	2,272,412
Vehicles	344,941	160,072	184,869
Leased vehicles	230,309	75,863	154,446
Hangar facility	11,952,009	1,092,868	10,859,141
	70,211,145	12,896,276	57,314,869

5. CAPITAL ASSETS (CONTINUED)

Amortization expense consists of amounts charged under the following classifications:

	2009	2008
	$	$
Direct expenses	5,537,598	4,549,199
Selling, general and administrative expenses	755,481	607,489
	6,293,079	5,156,688

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

In the second quarter of 2008, the Fund permanently removed its passenger aircraft from service. The Fund is using the aircraft as a source for spare parts to maintain its existing fleet of aircraft. The Fund reviewed the carrying value of this aircraft at June 30, 2008 and estimated that the recoverable value of the aircraft was less than the book value. The Fund reduced the net book value of this aircraft to fair value by $603,412 at June 30, 2008 and recorded the write-down in general and administrative expenses. The balance of $1,178,783, being the value of usable parts, was transferred to rotables spares.

6. INTANGIBLE ASSETS

				December 31, 2009
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3 - 4 years	42,024,712	38,521,008	3,503,704
Non-compete agreements	3 - 4 years	2,722,400	2,722,400	-
		45,747,112	41,243,408	4,503,704

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

7. DEFERRED HEAVY MAINTENANCE

	December 31, 2009	December 31, 2008
	$	$
Cost	7,024,017	7,763,834
Accumulated amortization	4,891,805	6,292,061
	2,132,212	1,471,773

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	December 31, 2009	December 31, 2008
	$	$
Trade payables and accrued charges	10,362,366	14,975,831
Payroll and benefits	2,154,791	1,986,763
	12,517,157	16,962,594

9. LONG-TERM DEBT

The Fund maintains a revolving credit facility with a Canadian chartered bank that is to a maximum of $30.0 million. The facility bears interest at bank prime plus 1.3% and is repayable on maturity, July 27, 2011. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

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

The Fund also maintains fixed loans with another Canadian chartered bank through its subsidiary PEAL. The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the aircraft of PEAL and guarantees provided by Cargojet Airways Ltd. (“CJA”) for 10% of the outstanding amounts. CJA is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL. The loans are repayable in monthly installments plus interest and will mature by January 2022. The Fund also maintains cash deposits with the chartered bank related to heavy maintenance reserve requirements of the aircraft assets secured by the loans. These cash deposits were included in cash per the consolidated financial statements and were in the amount of $454,144 as at December 31, 2009 and $365,210 as at December 31, 2008.

9. LONG-TERM DEBT (CONTINUED)

Long-term debt consists of the following:

	December 31, 2009	December 31, 2008
	$	$
Revolving credit facility	11,130,589	1,859,980
Fixed loans - Prince Edward Air Ltd.	5,577,496	6,070,975
Financing loan	29,043	111,682
Obligations under capital leases	399,044	545,750
	17,136,172	8,588,387
Less current portion	666,150	1,829,372
	16,470,022	6,759,015

The financing loan is repayable in 2010.

The following is a schedule of future minimum repayment schedule for the fixed loans related to PEAL:

	$
2010	428,747
2011	437,920
2012	447,874
2013	458,675
>2013	3,804,280
	5,577,496
Less current portion	428,747
	5,148,749

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

	$
2010	218,957
2011	160,445
2012	35,876
	415,278
Less interest	16,234
Obligations under capital leases	399,044
Less current portion	208,360
	190,684

Interest on long-term debt for the years ended December 31, 2009 and 2008 totalled $722,009 and $956,143, respectively.

10. CONVERTIBLE DEBENTURES

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

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

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

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

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

Normal course issuer bid

Under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expires on March 16, 2010, the Fund may repurchase up to $3,530,400 principal amount of the debentures, or approximately 10% of the public float outstanding on March 11, 2009. Daily purchases were limited to $4,310 principal amount of the debentures until March 31, 2009, and $2,155 principal amount of the debentures thereafter, other than block purchase exemptions.

10. CONVERTIBLE DEBENTURES (continued)

During the year ended December 31, 2009, the Fund repurchased $3,519,000 principal amount of the debentures ($3,118,147 net of the related unamortized issuance costs and the portion allocated to the conversion option) at a cost of $2,808,202, or $798 per debenture, resulting in a gain of $400,853. The repurchase of the debentures also resulted in a transfer within unitholders' equity of $223,939 from the conversion option to contributed surplus.

The balance of the Fund's convertible debentures at December 31, 2009 and December 31, 2008 consisted of the following amounts:

	December 31, 2009	December 31, 2008
	$	$
Principal balance	32,131,000	35,650,000
Less:		
Issuance costs	(1,612,696)	(1,789,320)
Conversion option to Unitholders' equity	(2,044,727)	(2,268,666)
Accretion	1,249,504	588,358
Balance	29,723,081	32,180,372

Interest expense on the Debentures for the years ended December 31, 2009 and 2008 totalled $3,454,492 and $2,378,183, respectively.

11. INCOME TAXES

The tax effect of significant temporary differences and loss carry forwards is as follows:

	December 31, 2009	December 31, 2008
	$	$
Capital assets	5,362,917	7,292,226
Intangible assets	36,892	485,831
Operating loss carryforward	(1,537,755)	(459,098)
Financing costs	(478,832)	(1,192,541)
Derivative contracts	(177,118)	706,445
Deferred heavy maintenance	1,260,736	813,321
Future income tax liability	4,466,840	7,646,184
Less current portion	(177,118)	706,445
Future income tax liability - long-term	4,643,958	6,939,739

The carry forward balance of operating loss consists of $348,435 expiring in the year 2026, $113,832 expiring in the year 2027, $180,567 expiring in the year 2028 and $894,921 expiring in year 2029.

11. INCOME TAXES (CONTINUED)

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

	2009	2008
	$	$
Earnings (loss) before income taxes and non-controlling interest	8,474,709	(2,605,037)
Income tax provision (recovery) at the combined basic rate of 33.00% (2008 - 36.12%)	2,796,654	(940,939)
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(2,350,081)	(3,100,513)
Non-deductible portion of amortization of intangible assets	462,247	978,491
Rate reduction	(660,468)	-
Permanent and other differences	(1,108,324)	1,509,191
Income tax recovery	(859,972)	(1,553,770)

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

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

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

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

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

(a) Trust Units

	Units	Amount
		$
Unitholders' capital as at December 31, 2007	6,698,863	62,235,654
Units purchased and cancelled (Note 12(d))	(19,518)	(181,332)
Unitholders' capital as at December 31, 2008	6,679,345	62,054,322
Units purchased and cancelled (Note 12(d))	(918,884)	(8,536,973)
Unitholders' capital as at December 31, 2009	5,760,461	53,517,349

(b) Non-controlling interests

The non-controlling interests represent a 27.9% (December 31, 2008 – 25.0%) non-controlling equity interest through exchangeable limited partnership units in CHLP (December 31, 2009 - 2,232,955; December 31, 2008 - 2,232,955), a 45% non-controlling equity interest in the Cargojet Regional Partnership (December 31, 2008 – nil) and a nil non-controlling interest in PEAL (December 31, 2008 – 49%) (refer to Note 4). The following provides details of the changes in the non-controlling interests during the year for each of these components:

Non-controlling interests – CHLP

	2009	2008
	$	$
Non-controlling interests, beginning of year	17,396,507	19,688,291
Share of income (loss) of CHLP	2,912,402	(95,896)
Distributions declared in the year (Note 18)	(1,865,634)	(2,195,888)
Non-controlling interests, end of year	18,443,275	17,396,507

Non-controlling interests – PEAL

	2009	2008
	$	$
Non-controlling interests, beginning of year	2,387,099	-
Non-controlling interests in PEAL on acquisition	-	3,054,784
Share of loss of PEAL	(1,369,858)	(667,685)
Purchase of non-controlling interests in PEAL	(1,017,241)	-
Non-controlling interests, end of year	-	2,387,099

Non-controlling interests – Cargojet Regional Partnership

	2009	2008
	$	$
Non-controlling interests, beginning of year	-	-
Formation of partnership on August 1, 2009 (Note 4)	3,200,001	-
Share of loss of Cargojet Regional Partnership	(373,216)	-
Non-controlling interests, end of year	2,826,785	-

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

(c) Earnings per Trust Unit

Basic earnings per Trust Unit has been calculated based on the average number of Trust Units outstanding of 6,367,176 for the year ended December 31, 2009 and 6,697,312 for the year ended December 31, 2008. For the purpose of determining diluted earnings per Trust Unit, the weighted average number of Trust Units and Exchangeable LP Units have been combined totalling 8,600,131 in 2009 and 8,930,267 in 2008, and net income has been increased by the share of income allocated to CHLP (Note 12(b)). The Fund's convertible debentures have not been factored into the calculation since conversion of these debentures would be anti-dilutive.

(d) Normal course issuer bid

Under the terms of a normal course issuer bid that expired on November 24, 2009, the Fund repurchased 579,884 Trust Units at a cost of $2,354,287 or $4.06 per Trust Unit. The difference of $1,846,348 between the stated capital of Trust Units repurchased (allocated $5,387,453 as a reduction of Unitholders' capital and $1,186,819 as a reduction of the deficit) and the cost of redemption was credited to contributed surplus.

Under the terms of a normal course issuer bid that expires on December 7, 2010, the Fund may repurchase up to 573,620 if its Trust Units. Daily purchases are limited to 3,311 other than block purchase exemptions. In December 2009, the Fund purchased 339,000 Trust Units at a cost of $3,169,650 or $9.35 per Trust Unit. The difference of $661,849 between the stated capital of Trust Units repurchased (allocated $3,149,520 as a reduction in Unitholders' capital and $641,717 as a reduction of the deficit) and the cost of redemption was debited to contributed surplus.

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

13. CAPITAL MANAGEMENT

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

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

The Fund manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may adjust the amount of distributions paid to Unitholders, purchase Trust Units for cancellation pursuant to normal course issuer bids, issue new Trust Units, issue new debt, issue new debt to replace existing debt (with different characteristics),

13. CAPITAL MANAGEMENT (continued)

repurchase debt instrument for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Fund's approach to capital management during the period. The Fund is subject to financial covenants related to its credit facility (Note 9). As at December 31, 2009 and 2008, the Fund was in compliance with all financial covenants.

14. RELATED PARTY TRANSACTIONS

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

	2009	2008
	$	$
Acquisition of capital assets - hangar	-	1,010,551
Direct expenses - warehouse rent and utilities	-	273,803
Selling, general and administrative expenses	-	7,186

The direct expense transactions with Flagship Aviation were related to a warehouse lease agreement. These transactions were in the normal course of operations and measured at the exchange amounts, which are the amounts of consideration established and agreed to by the related parties.

15. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
2010	14,266,137
2011	12,569,614
2012	12,145,614
2013	12,001,922
2014	11,252,778
Thereafter	11,032,586
	73,268,651

Contingencies

The Fund has provided irrevocable standby letters of credit totalling $960,000 to a financial institution as security for its corporate credit cards and to several vendors as security for the Fund's ongoing purchases. The letters of credit expire as follows:

15. COMMITMENTS AND CONTINGENCIES (continued)

Contingencies (continued)

	$
March 20, 2010	20,000
July 6, 2010	126,000
July 31, 2010	208,000
October 18, 2010	156,000
December 16, 2010	250,000
December 31, 2010	200,000
	960,000

16. FINANCIAL INSTRUMENTS

Risk management policies

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

Fair values

The fair value of the convertible debentures, based on quoted market prices as at December 31, 2009, was approximately $32,180,000 (December 31, 2008 – $17,800,000). The fair value of the long-term debt based on an estimate of market interest rates as at December 31, 2009, was approximately equal to its carrying value (December 31, 2008 - $6,448,000). The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

Foreign exchange forward contracts are categorized in Level 2, as they are primarily derived from observable market inputs, that is, foreign exchange rates.

16. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

The Fund does not have any Level 3 fair value measurements and thus no continuity schedule has been presented. In addition, there have been no significant transfers between levels.

Total financial assets and financial liabilities at fair value
As at December 31, 2009

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial Assets				
Cash	3,031,764	-	-	3,031,764
Financial Liabilities				
Foreign exchange contracts	-	538,713	-	538,713

Credit risk

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

The Fund is subject to risk of non-payment of accounts receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Fund's prior experience and its assessment of the current economic environment. The Fund's receivables are concentrated among several of its largest customers with approximately 50% (December 31, 2008 – 51%) of total receivables on account of the Fund's ten largest customers. However, the Fund believes that the credit risk associated with these receivables is limited for the following reasons:

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

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

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

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

16. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

The Fund has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2009 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Long-term debt and convertible debentures	666,150	11,724,058	33,543,085	3,333,880	49,267,173
Interest on long-term debt (at current rates)	3,253,599	3,042,271	4,131,345	916,230	11,343,445
Derivative financial instruments	538,713	-	-	-	538,713
Accounts payable and accrued liabilities	12,517,155	-	-	-	12,517,155
Other liabilities	335,723	-	-	-	335,723
	17,311,340	14,766,329	37,674,430	4,250,110	74,002,209

Foreign exchange risk

The Fund earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars ("USD") at fixed rates in future periods. As at December 31, 2009, the Fund held forty foreign exchange forward purchase agreements maturing on a monthly basis to October 2011 for a total of USD $20.0 million. These agreements fix the amount of Canadian dollars that the Fund will pay to buy USD to offset its purchases in USD.

These forward exchange purchase contracts have been designated as cash flow hedges. As at December 31, 2009, the outstanding contracts had a negative fair value of $538,713 that is recorded as a liability on the balance sheet. For the year ended December 31, 2009, the change in the unrealized fair value of these contracts was $173,734 ($118,380 net of tax) and was recorded in other comprehensive income during the year. In addition, eight contracts matured during the year ended December 31, 2009 resulting in the transfer from comprehensive income to net income of $219,266 ($150,648 net of tax).

In January 2009, the Fund terminated twelve foreign exchange forward purchase contracts, realizing a pre-tax gain of $2,600,000. The Fund recognized these gains during the year ended December 31,

16. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk (continued)

2009 in the same periods in which the hedged anticipated transactions affected net income. The total amount recognized and transferred from accumulated other comprehensive income to net income for the year ended December 31, 2009 was $2,600,000 ($1,770,535 net of tax).

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

On January 1, 2010 the Fund discontinued hedge accounting and will recognize the deferred loss of its remaining forty foreign exchange contracts in the same periods in which the hedged anticipated transactions will affect net income.

Total foreign exchange gains during the year ended December 31, 2009 were approximately $2,303,000 (December 31, 2008 – foreign exchange gains of $1,520,000).

Commodity risk

The Fund is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Fund does not use derivative instruments to mitigate this risk.

Market risk

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

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

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

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

At December 31, 2009, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would decrease the mark to market value of

16. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

forward contracts by approximately $2.1 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would increase in the mark to market value of forward contracts by the same amount.

At December 31, 2009, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Fund's other net financial assets and liabilities denominated in US dollars by approximately $0.8 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount.

17. GUARANTEES

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

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

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

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

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

18. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the year ended December 31, 2009 were $5,233,297 (2008 – $6,586,344), to unitholders and $1,865,634 (2008 – $2,195,888) to Exchangeable LP unitholders.

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. Effective November 1, 2009, the Fund increased the monthly distribution rates for the unitholders and Exchangeable LP unitholders by 56% from $0.0270 to $0.0420. A special distribution of $0.3600 was declared for all unitholders of record as at November 30, 2009. The following table summarizes the cash distributions for the year ended December 31, 2009.

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		$	$	$	$	$	$	$
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	444,486	150,725	150,725	595,211	0.0675	595,211
April 30, 2009	May 15, 2009	177,267	177,267	60,290	60,290	237,557	0.0270	237,557
May 31, 2009	June 15, 2009	176,638	176,638	60,290	60,290	236,928	0.0270	236,928
June 30, 2009	July 15, 2009	175,461	175,461	60,290	60,290	235,751	0.0270	235,751
July 31, 2009	August 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
August 31, 2009	September 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
September 30, 2009	October 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
October 31, 2009	November 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,985	2,451,985	897,646	897,646	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		5,233,297	5,442,214	1,865,634	1,922,575	7,098,931	0.8273	7,364,789

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

Distributions payable at December 31, 2009 were as follows:

18. DISTRIBUTIONS (continued)

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	December 1, 2009 to December 31, 2009	December 31, 2009	January 15, 2010	$ 0.0420	241,939
Exchangeable LP Units	December 1, 2009 to December 31, 2009	December 31, 2009	January 15, 2010	$ 0.0420	93,784
					335,723

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

19. SEGMENTED INFORMATION

The Fund's business falls under one dominant industry segment, the air cargo transportation industry in Canada. The Fund operates its business as two distinct operating segments: the National Overnight Air Cargo ("National") segment that provides service to 13 major cities across Canada utilizing a fleet of large jet engine aircraft, and the Regional Overnight Air Cargo ("Regional") segment that provides service to twenty-one smaller cities in Ontario, Quebec and the Maritime provinces utilizing a fleet of twenty-eight smaller propeller engine aircraft. The Fund's regional air cargo business started in October 2007.

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

The performance of each operating segment is regularly evaluated by the chief operating decision maker and chief decision making group who assess performance and decide on the allocation of resources. The performance of the Fund's operating segments is measured on earnings before income taxes and non-controlling interest. Inter-segment transactions are reflected at market value. The following is a breakdown by reporting segment for the years ended December 31, 2009 and 2008:

19. SEGMENTED INFORMATION (CONTINUED)

	Year Ended December 31, 2009			
	National	Regional	Inter-segment	Total
	$	$	$	$
REVENUES	144,667,772	23,077,588	(1,581,563)	166,163,797
DIRECT EXPENSES	104,214,789	23,143,024	(1,581,563)	125,776,250
	40,452,983	(65,436)	-	40,387,547
SELLING AND ADMINISTRATIVE				
Sales and marketing	574,761	20,003	-	594,764
General and administrative	19,081,027	1,934,286	-	21,015,313
Gain on debenture redemption	(400,853)	-	-	(400,853)
Interest, net	3,607,077	454,796	-	4,061,873
Amortization of capital assets	726,161	29,320	-	755,481
Amortization of intangible assets	4,627,780	1,258,480	-	5,886,260
	28,215,953	3,696,885	-	31,912,838
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	12,237,030	(3,762,321)	-	8,474,709
	As at December 31, 2009			
TOTAL NET CAPITAL ASSETS	44,243,163	12,547,685	-	56,790,848
TOTAL CAPITAL EXPENDITURES	5,593,601	1,113,653	-	6,707,254

	Year Ended December 31, 2008			
	National	Regional	Inter-segment	Total
	$	$	$	$
REVENUES	185,745,745	20,801,063	(871,708)	205,675,100
DIRECT EXPENSES	154,576,799	19,949,471	(871,708)	173,654,562
	31,168,946	851,592	-	32,020,538
SELLING AND ADMINISTRATIVE				
Sales and marketing	902,949	51,586		954,535
General and administrative	17,349,563	1,002,216		18,351,779
Interest, net	2,723,015	450,738		3,173,753
Amortization of capital assets	607,489	-		607,489
Amortization of intangible assets	10,209,000	1,329,019		11,538,019
	31,792,016	2,833,559	-	34,625,575
LOSS BEFORE INCOME TAXES AND AND NON-CONTROLLING INTEREST	(623,070)	(1,981,967)	-	(2,605,037)
	As at December 31, 2008			
TOTAL NET CAPITAL ASSETS	45,810,848	11,504,021	-	57,314,869
TOTAL CAPITAL EXPENDITURES	21,362,538	12,254,437	-	33,616,975

20. ECONOMIC DEPENDENCE

During the year ended December 31, 2009, the Fund had sales to three customers that represented 51% of the total revenues (December 31, 2008 – 44%). These sales are provided under service agreements that expire over various periods to September 2014. Two of these customers had sales in excess of 10% of total revenues in 2009 (two in 2008). The sales to individual customers represented 29.5%, 13.1% and 7.9% of the total revenue (December 31, 2008 – 22.4%, 11.5% and 9.9%). These customers are reported under the National segment. (Note 19)

21. SUBSEQUENT EVENTS

On December 3, 2009, the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of its outstanding convertible debentures due April 30, 2013 at a purchase price of $1,010 in cash for each $1,000 principal amount of debentures (the “Purchase Price”).

As at January 15, 2010, an aggregate of $7,476,000 principal amount of its debentures was deposited under the Offer. The Fund has taken up and accepted for purchase and cancellation all of such deposited debentures at a purchase price of $1,010 per $1,000 principal amount of debentures, plus a payment in respect of all accrued and unpaid interest outstanding on such debentures for an aggregate purchase price of $7,667,535 for all debentures taken up.