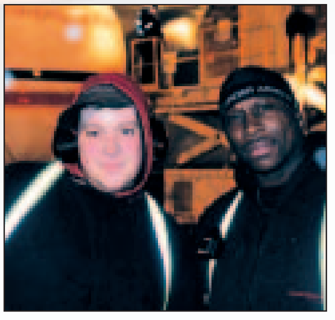
CARGOJET

2008 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 50% of Canada's domestic overnight air cargo capacity. Cargojet's network consolidates cargo received from over 400 customers and carries over 750,000 pounds of cargo each business night across its North American network. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. In 2008, Cargojet operated 11,445 flights of which more that 98% arrived at destination within 15 minutes of scheduled arrival. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.



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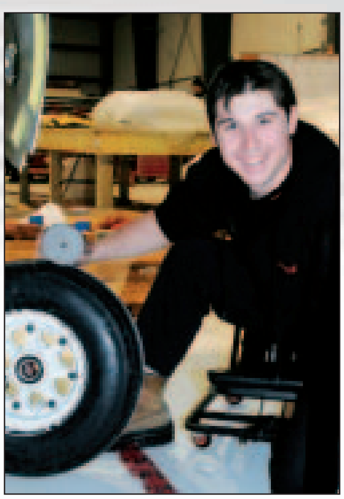
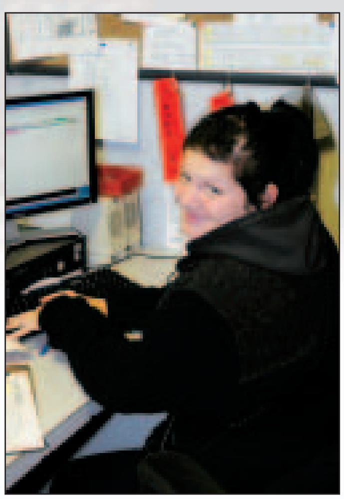
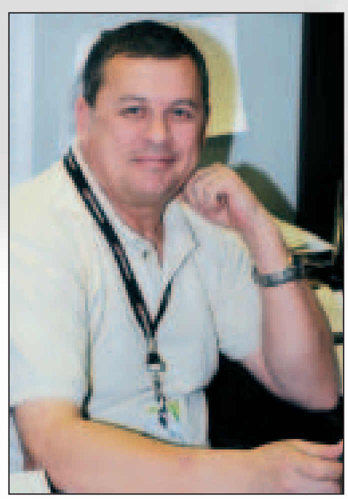
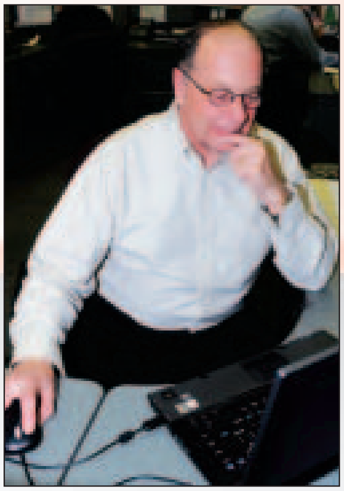
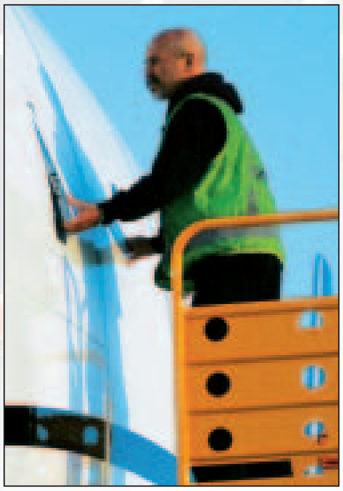





Financial Highlights

Supplementary Financial Information (in thousands of dollars)	Year Ended December 31 2007	Three Month Period Ended March 31 2008	June 30 2008	September 30 2008	December 31 2008	Year Ended December 31 2008
Revenues	151,105	46,799	52,080	53,137	53,659	205,675
Direct expenses	113,460	39,531	46,318	45,575	42,230	173,654
EBITDA	21,597	3,738	1,115	3,054	8,283	16,190
Distributable cash	14,416	2,345	(1,273)	1,568	7,482	10,122
Cash distributions	10,315	2,583	2,583	1,809	1,807	8,782
Direct expenses/Revenues	75%	84%	89%	86%	79%	84%
EBITDA/Revenues	14%	8%	2%	6%	15%	8%
Cash distributions as a percentage of distributable cash	72%	110%	NM [1]	115%	24%	87%

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



Message To Unitholders

Dear Unitholders,

Despite the economic and operational challenges that faced our business, we are very pleased to report another year of successful financial and operating results for the Cargojet Income Fund for 2008. The global economic slowdown continues to have a negative effect on overall air cargo volumes, to which Canada is not immune. Cargojet completed the first phase of its fleet renewal program in 2008. One time costs related to the start up and late delivery of the B757-200ER and two B767-200ER freighter aircraft impacted our financial results beginning in the Second Quarter however the aircraft were fully operational from September onwards. These new aircraft were a key component to the improvement in the operating results of the Fund during the Fourth Quarter. Record high fuel prices during the year also affected air cargo volumes, as shippers moved to alternative transportation modes or cutback on their more expensive air cargo requirements. These newer generation and more fuel-efficient aircraft will allow Cargojet to continue to establish itself as the most dominant provider of time-sensitive and value added overnight air cargo services in Canada today.

Cargojet continues to react to fluctuating volumes and business by adjusting capacity to meet customer demand on a daily basis. We continually monitor both revenue and operating costs and make adjustments where necessary to keep our operating margins at a level acceptable to Management, our Board and to our Unitholders. While the global economy has experienced a significant decline starting in the later part of 2008 we have taken the necessary steps to ensure that we do not become a victim of this circumstance and market conditions. We have implemented effective cost control measures to ensure the future viability and profitability of our business while preserving our core operations. We have always managed the business in a conservative and responsible manner and will continue to do so going forward, especially in these current economic conditions.

Despite the depressed economy, we are very pleased with our financial results for 2008. We have continued to invest in our business with the building of our new aircraft hangar at Hamilton Airport and the expansion of our Cargojet Regional brand to secondary and tertiary markets across Canada. With the recent acquisition of Prince Edward Air Ltd., Cargojet is now the largest regional air cargo carrier in Canada.

We are very proud of our consistent and reliable service levels and once again operated our network at a 98% on-time performance level. Cargojet is also very pleased to be the only Canadian air cargo carrier to receive the 2008 Shipper's Choice Award from the trade publication *Canadian Transportation & Logistics* for the fifth consecutive year. We have also successfully maintained our ISO 9001:2000 Quality accreditation for the eighth consecutive year.

Our excellent operational results, impeccable safety record and on-time reliability are a testament to the hard work, dedication and team work of industry professionals working for Cargojet across the country who provide an outstanding service to our customers every day.

This Annual Report and the Management Discussion & Analysis highlight the company's financial performance for the 2008 fiscal year. Major highlights will include:

- Year over year revenue increase of 36.1%
- EBITDA decrease of 25% to $16.2 million for the year
- Total cash distributions of $8.8 million or $0.9834

The Trustees of the Cargojet Income Fund have set the Fund's distribution policy to ensure the stability and sustainability of payments to Unitholders. The business is managed on a conservative basis with a payout ratio consistent with the Fund's underlying ability to meet monthly fluctuations resulting from seasonality, unforeseen additional expenses and/or maintenance capital expenditures. We adjusted our cash distributions in July 2008 and the Trustee's will continue to monitor and adjust distributions as required going forward.

The continued global economic slowdown, especially in the USA and Canada may impact future demand as we move into 2009, although historically air cargo carriers have benefited somewhat when manufacturers and distributors maintain lower inventory levels and ship on a more "just-in-time" basis. Management believes that overall volumes will continue to fluctuate and capacity will be adjusted as required. Cargojet continues to offer the most cost-effective overnight air cargo network operating in the market and we are very confident that we have positioned the company well for future growth when economic conditions improve.

In conclusion and on behalf of the Board of Trustees, I would like to thank both our investors for their confidence in the Cargojet Income Fund and our team of professional employees for their hard work and dedication throughout the past year.

Dr. Ajay Virmani
President and Chief Executive Officer

Ajay Virmani

March 2009

Corporate Governance

The Fund and the Board recognize the importance of corporate governance to the effective management of the Fund and to the protection as defined below of its employees and unitholders. The Fund's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Fund are effectively managed so as to enhance unitholder value. The Fund has adopted National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices to ensure it meets its disclosure requirements.

Code of Ethics

To ensure we meet the highest standards of governance, the Trustees have adopted and are guided by the principles outlined in Cargojet's Code of Ethics.

The Code applies to all employees and parties related to Cargojet. It incorporates all of our guiding principles and provides a frame of reference for dealing with complex and sensitive issues. Any non-compliance with the Code is to be reported to Cargojet's Human Resources. The Trustees monitor compliance of the code by obtaining reports from Cargojet's Human Resources Manager as to any matters reported under the Code.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to trustees, directors, officers and employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

Board and Committees

Cargojet is governed by its Trustees, which is elected annually by the unitholders with the assistance of the Board of Directors, (the "board") of a wholly owned subsidiary of the fund. The Board currently has five members, the majority of who are independent and two which are members of management.

The Board has established three committees to assist with the analysis of certain issues and to allow more time for the full Board to discuss and debate matters of business.

Audit Committee

The funds Audit Committee was established to assist the Board by reviewing, with its auditors, the financial reports and other financial information provided to the public, internal controls regarding finance and accounting, and general oversight of the Fund's auditing, accounting and financial reporting.

The committee is made up of three independant Trustees. Its responsibilities include:

- Review annual and quarterly financial statements with management and independent auditors prior to the release or filing of reports
- Review and discuss with management all significant issues regarding corporate risk
- Recommend independent auditors to the Board, ensure independence, and review the performance of the independent auditors
- Review and discuss results and significant findings by the independent auditors and recommend audited statements for inclusion in the Fund's Annual report.

Corporate Governance Committee

The Corporate Governance Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Overseeing the Fund's Code of Ethics and Disclosure Policy
- Implementation of Corporate Governance Policies

Compensation and Nominating Committee

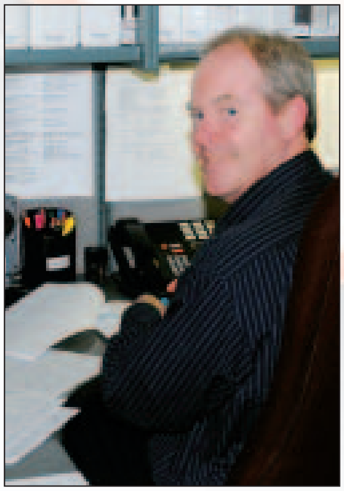
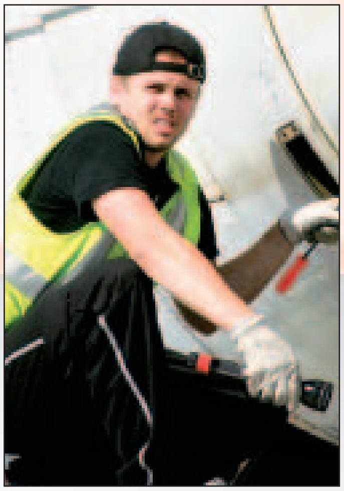
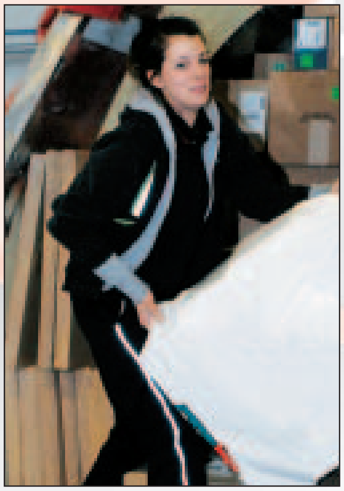
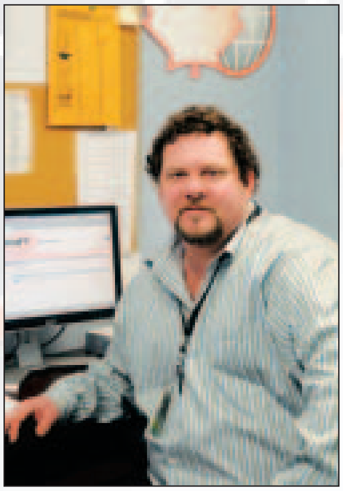
The Compensation and Nominating Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Assess Board membership needs and recommend board nominees
- Ongoing orientation and education of trustees and directors
- Assess the Fund’s management succession plan
- Assess the Fund’s compensation plan for officers and senior management

Disclosure Policy

To ensure transparency and quality disclosure to our Unitholders, we have a policy that outlines the principles of disclosure of material information as well as identifying designated spokespersons and maintaining confidentiality. The policy also outlines how we manage media relations, rumours, contacts with analysts, investors and the media, quiet periods, posting of information on Cargojet’s website, and communication and enforcement. The Disclosure Policy applies to all employees and parties related to Cargojet and is the responsibility of the Board's Corporate Governance committee.

More information on Cargojet corporate governance practices can be found in our Information circular for our annual meeting of unitholders.

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 13 and 16, 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").

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 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	**$ 13,859**	$ 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	September 30 2008	June 30 2008	March 31 2008	December 31 2007	September 30 2007 [1]	June 30 2007 [1]	March 31 2007 [1]
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(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.

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.

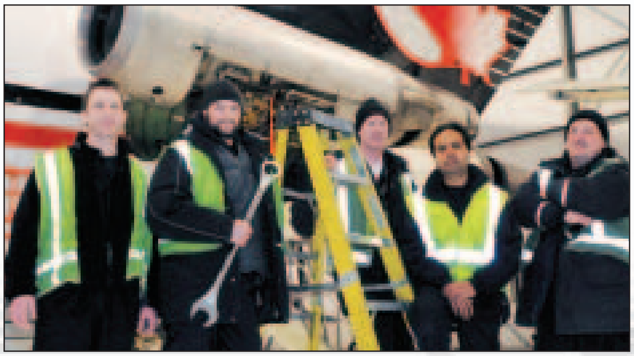
Heavy maintenance amortization costs were $0.4 million for the fourth quarter of 2008 as compared to $0.6 million for the same period in 2007, an increase of $0.2 million or 33.3%. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

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.

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.

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.

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.

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.

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.

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.

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.

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 INTEREST

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.

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	-	602,581	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.

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.

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.

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 overallotment 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.

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.

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)

	Year 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)

	Year 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.

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.

FINANCIAL REPORTING UPDATE

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.

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.

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 Interest - 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.

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.

Management's Report to the Unitholders

The consolidated financial statements of the Cargojet Income Fund and all information in this annual report are the responsibility of management and have been approved by the Board of Trustees.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of Cargojet Income Fund has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The board of Trustees carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees.

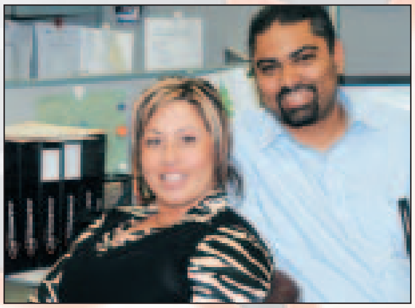
These financial statements have been audited by the external auditors, Deloitte & Touche LLP, Chartered Accountants, whose report follows.

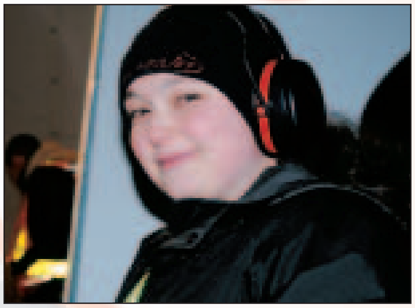
Dr. Ajay Virmani

Ajay Virmani

President and Chief Executive Officer
March 2009

Auditors' Report to the Unitholders





Deloitte.

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

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

To the Unitholders of
Cargojet Income Fund

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

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

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

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants
Toronto, Ontario
February 27, 2009

Member of
Deloitte Touche Tohmatsu

Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2008 and 2007

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

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

John P. Webster
Trustee

Dr. Ajay Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND

Consolidated Statements of Operations and Deficit

Years ended December 31, 2008 and 2007

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

CARGOJET INCOME FUND

Consolidated Statements of Comprehensive Income (Loss)

Years ended December 31, 2008 and 2007

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

CARGOJET INCOME FUND

Consolidated Statements of Cash Flows

Years ended December 31, 2008 and 2007

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

1. NATURE OF THE BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

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

Materials and supplies

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

Capital assets

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

Aircraft	-	7-1/2%
Spare parts	-	actual usage
Engines	-	engine cycles
Ground equipment	-	20%
Rotable spares	-	7-1/2%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	lease term
Vehicles	-	30%
Hangar facility	-	10%

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and intangible assets

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

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

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

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

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

Impairment of long-lived assets

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

Income taxes

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

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.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interests

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

Revenue recognition

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

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

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

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

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

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.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

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

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

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

Derivative financial instruments and hedges

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

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

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible debentures

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

Management s use of estimates

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

Comparative amounts

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

3. CHANGES IN ACCOUNTING

Adoption of new and revised accounting standards

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

Also effective January 1, 2008, the Fund adopted retrospectively the recommendations of CICA Handbook Section 3031, *Inventories*, which establishes standards for measuring and disclosing information related to inventories and provides specific guidance as to conversion costs to be included and excluded in inventories and accounting for impairment adjustments. The adoption of this new standard resulted in the reclassification of $3,169,285 as at December 31, 2008 of spare parts inventories used in connection with capital assets. The comparative balance sheet as at December 31, 2007 was similarly adjusted resulting in a reclassification of $1,185,305 of inventories to capital assets.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2008 and 2007

3. CHANGES IN ACCOUNTING (continued)

Future accounting changes

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

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

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

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

4. ACQUISITIONS

Prince Edward Air Ltd.

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

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

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

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

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4. ACQUISITIONS (continued)

Georgian Express Ltd.

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

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

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

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

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

5. CAPITAL ASSETS

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

CARGOJET INCOME FUND
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5. CAPITAL ASSETS (continued)

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

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

Amortization expense consists of amounts charged under the following classifications:

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

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

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

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6. INTANGIBLE ASSETS

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

				December 31, 2007
	Rate	Cost	Accumulated amortization	Net book value
		$	$	$
Licenses	n/a	1,000,000	-	1,000,000
Customer relationships	3-4 years	38,915,744	24,501,319	14,414,455
Non-compete agreements	3-4 years	3,270,226	1,790,972	1,479,254
		43,186,000	26,292,291	16,893,709

7. DEFERRED HEAVY MAINTENANCE

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

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

9. LONG-TERM DEBT

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

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

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

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

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9. LONG-TERM DEBT (continued)

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

Long-term debt consists of the following:

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

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

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

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

10. CONVERTIBLE DEBENTURES

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

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

CARGOJET INCOME FUND
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10. CONVERTIBLE DEBENTURES (continued)

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

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

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

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

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

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

11. INCOME TAXES

The tax effect of significant temporary differences is as follows:

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

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11. INCOME TAXES (continued)

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

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

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

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

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

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

CARGOJET INCOME FUND

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

(a) Trust Units

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

b) Non-controlling interests

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

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

(c) Earnings per Trust Unit

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

(d) Normal course issuer bid

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

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

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13. CAPITAL MANAGEMENT

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

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

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

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

14. RELATED PARTY TRANSACTIONS

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

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

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

CARGOJET INCOME FUND
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15. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

Contingencies

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

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

16. FINANCIAL INSTRUMENTS

Risk management policies

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

Fair values

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

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16. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

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

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

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

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

Liquidity risk

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

Foreign exchange risk

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

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

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

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16. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

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

Commodity risk

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

Market risk

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

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

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

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

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

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

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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, 2008 were $6,586,344 (2007 – $7,736,518), to unitholders and $2,195,888 (2007 – $2,578,840) to Exchangeable LP unitholders.

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. Effective July 1, 2008, the Fund reduced the monthly distribution rates for the Unitholders and exchangeable LP Unitholders by 30% from $0.0964 to $0.0675. The following table summarizes the cash distributions for the year ended December 31, 2008.

CARGOJET INCOME FUND
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18. DISTRIBUTIONS (continued)

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 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	-	602,581	0.0675	-
		6,586,344	6,781,259	2,195,888	2,260,420	8,782,232	0.9834	9,041,679

Distributions payable at December 31, 2008 were as follows:

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

Distributions payable at December 31, 2007 were as follows:

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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19. SEGMENTED INFORMATION

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

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

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

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

CARGOJET INCOME FUND
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December 31, 2008 and 2007

20. ECONOMIC DEPENDENCE

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

21. SUBSEQUENT EVENTS

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

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

Officers of the GP

Dr. Ajay Virmani, MBA
President,
Chief Executive Officer

Dan Mills, CA
Chief Financial Officer,
Corporate Secretary,
Executive Vice-President

Jamie Porteous
Executive Vice-President,
Sales and Service

Officers of the GP

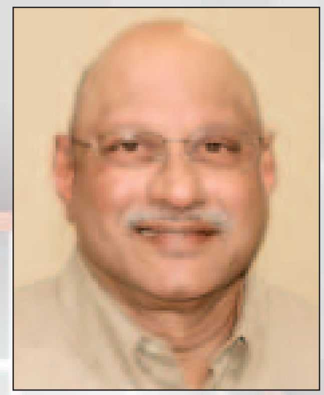
Alan Pidgeon
Senior Vice President,
Fleet & Special Projects

George Sugar
Senior Vice President,
Flight Operations

John Kim, CA
Vice President, Finance

Trustees of the Fund & Directors of the GP

John P. Webster
Trustee (Lead Director)



Terence M. Francis
Trustee

Paul V. Godfrey
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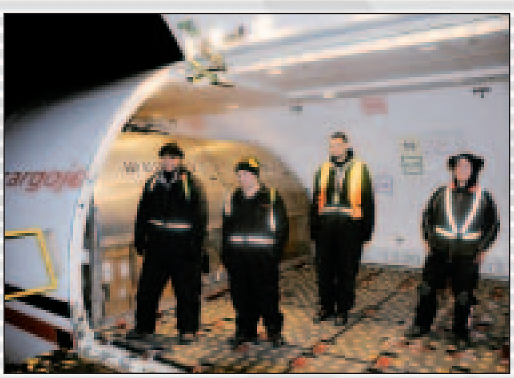
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350 Britannia Road East, Units 5 & 6, Mississauga, Ontario L4Z 1X9
Tel: (905) 501-7373 ¥ Toll Free: (800) 753-1051 ¥ Fax: (905) 501-7447