

Consolidated financial statements of

## **CARGOJET INCOME FUND**

For the three and six month periods ended June 30, 2010 and  
2009

(unaudited)

# CARGOJET INCOME FUND

## Consolidated Balance Sheets

(unaudited)

	June 30, 2010	December 31, 2009
	\$	\$
<b>ASSETS</b>		(Note 10)
<b>CURRENT</b>		
Cash	-	3,031,764
Accounts receivable	9,792,509	8,019,395
Materials and supplies	631,574	808,907
Prepaid expenses and deposits	2,562,159	3,558,439
Future income taxes (Note 5)	79,415	177,118
Assets of discontinued operations (Note 10)	7,707,495	10,559,123
	20,773,152	26,154,746
<b>CAPITAL ASSETS</b>	53,329,779	55,496,051
<b>INTANGIBLE ASSETS</b>	1,000,000	1,000,000
<b>DEPOSITS</b>	5,099,306	3,859,283
<b>DEFERRED HEAVY MAINTENANCE</b>	2,918,090	2,132,212
<b>GOODWILL</b>	46,170,516	46,170,516
	129,290,843	134,812,808
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Overdraft	1,597,123	-
Accounts payable and accrued charges	11,954,077	10,635,422
Income taxes payable	492,536	1,946,834
Derivatives contracts (Note 12)	-	538,713
Distributions payable (Note 7)	335,724	335,723
Current portion of long-term debt (Note 3)	538,126	666,150
Liabilities of discontinued operations (Note 10)	1,363,163	2,621,457
	16,280,749	16,744,299
<b>LONG-TERM DEBT (NOTE 3)</b>	18,983,555	16,470,022
<b>CONVERTIBLE DEBENTURES (NOTE 4)</b>	23,082,359	29,723,081
<b>FUTURE INCOME TAXES (NOTE 5)</b>	4,905,819	3,904,236
	63,252,482	66,841,638
<b>NON-CONTROLLING INTERESTS (NOTE 6(b))</b>	15,060,547	21,270,060
<b>UNITHOLDERS' EQUITY</b>		
ACCUMULATED OTHER COMPREHENSIVE LOSS	(252,483)	(360,691)
DEFICIT	(10,932,725)	(9,991,256)
	(11,185,208)	(10,351,947)
<b>UNITHOLDERS' CAPITAL (NOTE 6(a))</b>	59,106,288	53,517,349
<b>CONTRIBUTED SURPLUS (NOTE 4)</b>	1,487,759	1,490,981
<b>CONVERSION OPTION (NOTE 4)</b>	1,568,975	2,044,727
	50,977,814	46,701,110
	129,290,843	134,812,808

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

**CARGOJET INCOME FUND**  
**Consolidated Statements of Operations and Deficit**  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
		(Note 10)		(Note 10)
REVENUES	37,751,162	33,999,024	74,517,228	70,730,712
DIRECT EXPENSES	29,225,366	24,371,604	58,674,618	50,860,379
	8,525,796	9,627,420	15,842,610	19,870,333
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Sales and marketing	180,214	115,945	378,409	275,249
General and administrative	4,603,087	4,013,484	9,096,821	8,227,722
Loss on debenture redemption	-	-	273,265	-
Interest, net	850,952	841,982	1,720,165	1,698,976
Gain on derivative contracts (Note 12)	(732,654)	-	(257,713)	-
Amortization of capital assets	173,003	172,170	317,407	327,717
Amortization of intangible assets	-	2,036,859	-	4,447,209
	5,074,602	7,180,440	11,528,354	14,976,873
EARNINGS BEFORE INCOME TAXES, NON-CONTROLLING INTERESTS AND DISCONTINUED OPERATIONS	3,451,194	2,446,980	4,314,256	4,893,460
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 5)				
Current	275,337	(4,350)	554,738	(298,090)
Future	965,800	(1,261,396)	849,286	(746,411)
	1,241,137	(1,265,746)	1,404,024	(1,044,501)
EARNINGS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTERESTS	2,210,057	3,712,726	2,910,232	5,937,961
NON-CONTROLLING INTERESTS (NOTE 6(b))	430,295	928,182	566,619	1,484,490
NET EARNINGS FROM CONTINUING OPERATIONS	1,779,762	2,784,544	2,343,613	4,453,471
LOSS FROM DISCONTINUED OPERATIONS (Note 10)	(1,493,558)	(573,893)	(1,719,768)	(1,024,156)
NET INCOME	286,204	2,210,651	623,845	3,429,315
DEFICIT, BEGINNING OF PERIOD	(10,407,852)	(14,670,332)	(9,991,256)	(14,751,848)
REPURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 6(e))	-	192,501	-	400,916
DISTRIBUTIONS DECLARED IN THE PERIOD (NOTE 7)	(811,077)	(529,367)	(1,565,314)	(1,874,930)
DEFICIT, END OF PERIOD	(10,932,725)	(12,796,547)	(10,932,725)	(12,796,547)
BASIC EARNINGS (LOSS) PER TRUST UNIT				
- Continuing operations (Note 6(c))	0.28	0.43	0.38	0.67
- Discontinued operations (Note 6(c))	(0.24)	(0.09)	(0.28)	(0.15)
	0.04	0.34	0.10	0.52
DILUTED EARNINGS (LOSS) PER TRUST UNIT				
- Continuing operations (Note 6(c))	0.28	0.41	0.36	0.67
- Discontinued operations (Note 6(c))	(0.24)	(0.09)	(0.28)	(0.15)
	0.04	0.32	0.08	0.52

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

**CARGOJET INCOME FUND**  
**Consolidated Statements of Comprehensive Income and**  
**Accumulated Other Comprehensive Income (Loss)**  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NET INCOME</b>	286,204	2,210,651	623,845	3,429,315
<b>OTHER COMPREHENSIVE INCOME</b>				
Foreign currency gains from hedging activities net of income taxes	-	487,072	-	910,957
Transfer of losses (gain) on foreign exchange contracts, net of income taxes, to net income	53,962	(472,515)	108,208	(923,875)
<b>COMPREHENSIVE INCOME</b>	<b>340,166</b>	<b>2,225,208</b>	<b>732,053</b>	<b>3,416,397</b>
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Balance, beginning of period	(306,445)	1,414,637	(360,691)	1,442,112
Other comprehensive income (loss) for the period	53,962	14,557	108,208	(12,918)
<b>ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF PERIOD</b>	<b>(252,483)</b>	<b>1,429,194</b>	<b>(252,483)</b>	<b>1,429,194</b>

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

**CARGOJET INCOME FUND**  
**Consolidated Statements of Cash Flows**  
(unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
<b>NET INFLOW (OUTFLOW) OF CASH</b>				
<b>RELATED TO THE FOLLOWING ACTIVITIES</b>		(Note 10)		(Note 10)
<b>OPERATING</b>				
Net income from continuing operations	1,779,762	2,784,544	2,343,613	4,453,471
Items not affecting cash				
Amortization of capital assets	1,545,912	1,124,971	3,095,964	2,191,971
Amortization of intangible assets	-	2,036,859	-	4,447,209
Accretion of convertible debentures	138,272	160,555	274,574	329,663
Loss on purchase of debenture	-	-	273,265	-
Loss on disposal of capital assets	-	(601)	-	2,624
Future income taxes	965,800	(1,261,396)	849,286	(746,411)
Transfer of (gain) loss on derivatives from other comprehensive income	53,962	(709,091)	108,208	(1,181,816)
Change in fair value on non-hedge derivatives	(1,013,654)	-	(538,713)	-
Non-controlling interests	430,295	928,182	566,619	1,484,490
Aircraft heavy maintenance amortization	513,756	523,136	1,177,953	971,673
Aircraft heavy maintenance expenditures	(1,063,568)	(1,025,847)	(1,963,831)	(1,555,027)
	3,350,537	4,561,312	6,186,938	10,397,847
Changes in non-cash working capital items and deposits				
Accounts receivable	(2,149,127)	1,352,368	(1,773,114)	1,982,478
Materials and supplies	(4,021)	(92,883)	177,333	225,639
Prepaid expenses and deposits	(412,928)	(528,805)	(243,743)	189,844
Accounts payable and accrued charges	1,284,275	(534,079)	1,318,655	(1,749,056)
Income taxes payable (recoverable)	(1,735,601)	44,785	(1,454,298)	(248,955)
Net inflow of cash from continuing operations	333,135	4,802,698	4,211,771	10,797,797
Net outflow of cash from discontinued operations	(1,643,014)	(3,028,710)	(1,909,396)	(3,233,420)
<b>NET INFLOW (OUTFLOW) OF CASH FROM OPERATING ACTIVITIES</b>	<b>(1,309,879)</b>	<b>1,773,988</b>	<b>2,302,375</b>	<b>7,564,377</b>
<b>FINANCING</b>				
Repayment of long-term debt	(1,066,820)	(3,230,792)	(1,246,460)	(2,290,798)
Increase in long-term debt	-	-	3,631,969	-
Proceeds from disposition of derivatives	-	-	-	2,600,000
Purchase of Trust units (Note 6(e))	-	(322,075)	-	(565,201)
Repurchase of convertible debentures (Note 4)	-	(49,000)	(7,667,535)	(49,000)
Distributions paid to unitholders and non-controlling interest (Note 7)	(1,007,172)	(1,069,696)	(2,014,341)	(2,873,803)
<b>NET OUTFLOW OF CASH FROM FINANCING ACTIVITIES</b>	<b>(2,073,992)</b>	<b>(4,671,563)</b>	<b>(7,296,367)</b>	<b>(3,178,802)</b>
<b>INVESTING</b>				
Additions to capital assets	(257,764)	(1,272,149)	(1,121,169)	(3,879,440)
Proceeds from disposal of capital assets	14,507	55,410	191,477	55,410
Net outflow of cash from continuing operations	(243,257)	(1,216,739)	(929,692)	(3,824,030)
Net inflow of cash from discontinued operations	1,294,797	-	1,294,797	-
<b>NET INFLOW (OUTFLOW) OF CASH FROM INVESTING ACTIVITIES</b>	<b>1,051,540</b>	<b>(1,216,739)</b>	<b>365,105</b>	<b>(3,824,030)</b>
<b>NET CHANGE IN CASH</b>	<b>(2,332,331)</b>	<b>(4,114,314)</b>	<b>(4,628,887)</b>	<b>561,545</b>
<b>CASH POSITION, BEGINNING OF PERIOD</b>	<b>735,208</b>	<b>5,245,053</b>	<b>3,031,764</b>	<b>569,194</b>
<b>CASH (OVERDRAFT) POSITION, END OF PERIOD</b>	<b>(1,597,123)</b>	<b>1,130,739</b>	<b>(1,597,123)</b>	<b>1,130,739</b>
<b>Supplementary financial information</b>				
Interest paid	1,178,758	162,091	1,439,949	374,039
Income taxes paid (refunded)	2,010,601	(49,350)	2,010,601	(49,350)
Equipment purchased under capital lease	-	38,474	-	38,474

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

# **CARGOJET INCOME FUND**

## **Notes to the Consolidated Financial Statements**

**June 30, 2010 and 2009**

**(unaudited)**

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### **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. BASIS OF PRESENTATION**

The interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These financial statements should be read in conjunction with the annual financial statements and notes thereto. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in Canada for annual financial statements. The financial information included herein reflects all adjustments which in the opinion of management are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and six month periods ended June 30, 2010 and 2009 are not necessarily indicative of the results to be expected for the full year. The accounting policies used in the preparation of these unaudited interim consolidated financial statements are consistent with those described in the audited consolidated financial statements of the Fund for the year ended December 31, 2009. The business of the Fund is not affected by any significant seasonal or cyclical factors.

### **3. LONG-TERM DEBT**

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

The credit facility is secured by the following:

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

The Fund also maintains fixed loans with another Canadian chartered bank through its subsidiary Prince Edward Air Ltd. (“PEAL”). The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the aircraft of PEAL and guarantees provided by Cargojet Airways Ltd. (“CJA”) for 10% of the outstanding amounts. CJA is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL. The loans are repayable in monthly installments plus interest and will mature by January 2022. The Fund also maintains cash deposits with the chartered bank related to heavy maintenance reserve requirements of the aircraft assets secured by the loans. These cash

# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

June 30, 2010 and 2009  
(unaudited)

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### 3. LONG-TERM DEBT (CONTINUED)

deposits in the amount of \$326,901 as at June 30, 2010 and \$454,144 as at December 31, 2009 are included in overdraft and cash in the consolidated balance sheets.

Long-term debt consists of the following:

	June 30, 2010	December 31, 2009
	\$	\$
Revolving credit facility	13,861,888	11,130,589
Fixed loans - Prince Edward Air Ltd.	5,364,222	5,577,496
Financing loan	-	29,043
Obligations under capital leases	295,571	399,044
	<u>19,521,681</u>	<u>17,136,172</u>
Less current portion	538,126	666,150
	<u>18,983,555</u>	<u>16,470,022</u>

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

	\$
2010 (remainder of the year)	251,606
2011	438,719
2012	448,742
2013	459,617
2014	471,418
>2014	3,294,120
	<u>5,364,222</u>
Less current portion	433,240
	<u>4,930,982</u>

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

	\$
2010 (remainder of the year)	109,479
2011	160,445
2012	35,876
	<u>305,800</u>
Less interest	10,229
Obligations under capital leases	295,571
Less current portion	104,886
	<u>190,685</u>

Interest on long-term debt for the three and six month periods ended June 30, 2010 totaled \$249,826 and \$511,016, respectively (June 30, 2009 - \$162,090 and \$373,988, respectively).

# **CARGOJET INCOME FUND**

## **Notes to the Consolidated Financial Statements**

**June 30, 2010 and 2009**  
**(unaudited)**

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#### **4. CONVERTIBLE DEBENTURES**

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

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

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

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

The principal amount of the debentures has been allocated between its liability and equity elements and classified separately on the balance sheet. Factoring in the value of the conversion option and transaction costs, the convertible debentures bear interest at an effective rate of 10.04%.

#### **Substantial and normal course issuer bids**

In January 2010, under the terms of a substantial issuer bid, the Fund repurchased \$7,476,000 principal amount of the debentures (\$6,625,018 net of the related unamortized issuance costs and the \$475,752 portion allocated to the conversion option) at a cost of \$1,010 per debenture plus a payment in respect of all accrued interest and unpaid interest on these debentures for an aggregate purchase price of \$7,667,535; representing \$7,550,760 on account of principal (allocated \$7,071,785 to the liability component repurchased and \$478,974 to the equity component) and \$116,775 on account of accrued interest. The repurchase of the debentures resulted in a loss of \$273,265 relating to the debt component and a reduction of \$3,222 in contributed surplus relating to the equity component.

Under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expired on March 16, 2010, in the three and six month periods ended on June 30, 2009, the Fund



# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

June 30, 2010 and 2009  
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### 4. CONVERTIBLE DEBENTURES (CONTINUED)

repurchased \$49,000 principal amount of debentures at a cost of \$33,385, or \$681.33 per debenture. The difference of \$15,615 between the principal amount of the debentures repurchased and the cost of redemption was recorded as income.

The balance of the Fund's convertible debentures at June 30, 2010 and December 31, 2009 consisted of the following amounts:

	June 30, 2010	December 31, 2009
	\$	\$
Principal balance	24,655,000	32,131,000
Less:		
Issuance costs	(1,237,467)	(1,612,696)
Conversion option to Unitholders' equity	(1,568,975)	(2,044,727)
Accretion	1,233,801	1,249,504
Balance	23,082,359	29,723,081

Interest expense on the Debentures for the three and six month periods ended June 30, 2010 totalled \$599,286 and \$1,212,321, respectively (June 30, 2009 - \$830,824 and \$1,662,875, respectively).

### 5. INCOME TAXES

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

	June 30, 2010	December 31, 2009
	\$	\$
Capital assets	5,398,572	5,362,917
Intangible assets	(684,185)	(702,830)
Operating loss carryforward	(1,430,755)	(1,537,755)
Financing costs	(136,926)	(478,832)
Derivative contracts	(79,415)	(177,118)
Deferred heavy maintenance	1,759,113	1,260,736
Net future income tax liability	4,826,404	3,727,118
Future income tax asset - current	(79,415)	(177,118)
Future income tax liability - long-term	4,905,819	3,904,236

# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

June 30, 2010 and 2009  
(unaudited)

### 5. INCOME TAXES (CONTINUED)

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2010	2009	2010	2009
	\$	\$	\$	\$
Earnings before income taxes, non-controlling interest and discontinued operations	3,451,194	2,446,980	4,314,256	4,893,460
Income tax provision at the combined basic rate of 33.5% (2009-33.5%)	1,156,150	819,738	1,445,276	1,639,309
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	-	(2,392)	-	(838,361)
Non-deductible portion of amortization of intangible assets	-	152,057	-	393,329
Settlement on dispute with tax authorities	-	(4,350)	-	(383,090)
Permanent and other differences	84,987	(2,230,799)	(41,252)	(1,855,688)
Income tax provision (recovery)	1,241,137	(1,265,746)	1,404,024	(1,044,501)

### 6. 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 Cargojet Holdings Limited Partnership ("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

## Notes to the Consolidated Financial Statements

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

#### (a) Trust Units

	Units	Amount
		\$
Unitholders' capital as at December 31, 2008	6,679,345	62,054,322
Units purchased and cancelled	(918,884)	(8,536,973)
Unitholders' capital as at December 31, 2009	5,760,461	53,517,349
Units converted (Note 6(d))	676,648	5,588,939
Unitholders' capital as at June 30, 2010	6,437,109	59,106,288

#### (b) Non-controlling interests

The non-controlling interests represent a 19.5% (December 31, 2009 – 27.9%) non-controlling equity interest through exchangeable limited partnership units in CHLP (June 30, 2010 – 1,556,307; December 31, 2009 - 2,232,955) and a 45% non-controlling equity interest in the Cargojet Regional Partnership (December 31, 2009 – 45%). The following provides details of the changes in the non-controlling interests during the year for each of these components:

#### Non-controlling interests – CHLP

	Six months ended	
	June 30, 2010	June 30, 2009
	\$	\$
Non-controlling interests, beginning of period	18,443,275	17,396,507
Share of income of CHLP in continuing operations	566,619	1,484,490
Share of loss of CHLP in discontinued operations	(445,808)	(341,384)
Distributions declared in the period (Note 7)	(449,028)	(633,043)
Units converted (Note 6(d))	(5,588,939)	-
Non-controlling interests, end of period	12,526,119	17,906,570

#### Non-controlling interests – Cargojet Regional Partnership

	Six months ended	
	June 30, 2010	June 30, 2009
	\$	\$
Non-controlling interests, beginning of period	2,826,785	-
Share of loss of Cargojet Regional Partnership	(292,357)	-
Non-controlling interests, end of period	2,534,428	-

# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

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

Non-controlling interests – PEAL

	Six months ended	
	June 30, 2010	June 30, 2009
	\$	\$
Non-controlling interests, beginning of period	-	2,387,099
Share of loss of PEAL	-	(1,311,987)
Non-controlling interests, end of period	-	1,075,112

#### (c) Earnings per Trust Unit

Basic earnings per Trust Unit have been calculated based on the average number of Trust Units outstanding of 6,437,109 and 6,145,515 for the three and six month periods ended June 30, 2010, respectively (three and six month periods ended June 30, 2009 – 6,547,398 and 6,605,799, respectively). For the purpose of determining diluted earnings per Trust Unit for the three and six month periods ended June 30, 2010, the weighted average number of Trust Units and Exchangeable LP Units have been combined totaling 7,993,416 and 7,993,416, respectively, and net income has been increased by the share of income allocated to CHLP (Note 6(b)). For the purpose of determining diluted earnings per Trust Unit for the three month period ended June 30, 2009, the weighted average number of Trust Units, the Exchangeable LP Units, and the effect of the Fund's convertible debentures have been combined totaling 11,005,415. For the purpose of determining diluted earnings per Trust Unit for the six month period ended June 30, 2009, the weighted average number of Trust Units and the Exchangeable LP Units have been combined totaling 8,838,754. The Fund's convertible debentures are not factored into the calculation of diluted earnings per Trust Unit when conversion of these debentures would be anti-dilutive.

#### (d) Exchange of LP Units

In March 2010, 676,648 Exchangeable LP units were exchanged for 676,648 Trust Units of the Fund. The exchange was accounted for on a rollover basis since the Exchangeable LP units were originally recorded at their exchange amount. This resulted in a decrease in non-controlling interest of \$5,588,939 with corresponding increase in Unitholders' capital.

#### (e) Normal course issuer bid

Under the terms of a normal course issuer bid that expires on December 7, 2010, the Fund may repurchase up to 573,620 of its Trust Units. Daily purchases are limited to 3,311 other than block purchase exemptions. No Trust Units were repurchased in the six month period ended June 30, 2010.

Under the terms of a normal course issuer bid that expired on November 25, 2009, in the three and six month periods ended June 30, 2009, the Fund repurchased 86,407 and 180,773 Trust Units at a cost of \$322,075 and \$565,201 or \$3.73 and \$3.13 per Trust Unit, respectively. For the three and six month periods ended June 30, 2009, the difference of \$287,323 and \$712,490, respectively, between the stated capital of Trust Units repurchased (allocated \$801,900 and \$1,678,608, respectively, as a reduction of Unitholders' capital and \$192,501 and \$400,916, respectively, as a reduction of the deficit) and the cost of redemption was added to contributed surplus.

# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

### June 30, 2010 and 2009

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#### 7. 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 three and six month periods ended June 30, 2010 were \$811,077 and \$1,565,314, respectively, to unitholders and \$196,095 and \$449,028, respectively, to Exchangeable LP unitholders (three and six month periods ended June 30, 2009 – \$529,367 and \$1,874,930, respectively, to unitholders and \$180,869 and \$633,043, respectively, to Exchangeable LP unitholders).

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. Effective November 1, 2009, the Fund increased the monthly distribution rates for the unitholders and Exchangeable LP unitholders by 56% from \$0.0270 to \$0.0420. The following table summarizes the cash distributions for the six months ended June 30, 2010.

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		\$	\$	\$	\$	\$	\$	\$
December 31, 2009	January 15, 2010	-	241,939	-	93,784	-	0.0420	335,723
January 31, 2010	February 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
February 28, 2010	March 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
March 31, 2010	April 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
April 30, 2010	May 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
May 31, 2010	June 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
June 30, 2010	July 15, 2010	270,359	-	65,365	-	335,724	0.0420	-
		1,565,314	1,536,894	449,028	477,447	2,014,342	0.2520	2,014,341

Distributions payable at June 30, 2010 and December 31, 2009 were as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					\$
Income Fund Trust Units	June 1, 2010 to June 30, 2010	June 30, 2010	July 15, 2010	\$ 0.0420	270,359
Exchangeable LP Units	June 1, 2010 to June 30, 2010	June 30, 2010	July 15, 2010	\$ 0.0420	65,365
					335,724

# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

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### 7. DISTRIBUTIONS continued

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

### 8. ECONOMIC DEPENDENCE

During the three-month and six month period ended June 30, 2010, the Fund had sales to three customers that represented 54% and 55% respectively of the total revenues (June 30, 2009 – 59% and 58% respectively). These sales are provided under service agreements that expire over various periods to September 2014. Two of these customers had sales in excess of 10% of total revenues in the first two quarters of 2010 (three in 2009). These customers are included in earnings from continuing operations in the consolidated statements of operations and deficit of the Fund.

### 9. SEGMENTED INFORMATION

Following the disposition of the regional air cargo business (Note 10), the Fund operates in one business segment that provides domestic and trans-border air cargo services. Operations are conducted primarily in Canada.

### 10. DISPOSITION OF FUND'S REGIONAL BUSINESS

On July 14, 2010, the Fund entered into an agreement with SkyLink Express Inc. ("SL Express") to sell its 55% interest in Cargojet Regional Partnership (the "Partnership"). The Partnership operated the Fund's regional air cargo business segment that provides service to thirty-three smaller cities in Ontario, Quebec and the Maritime provinces. SL Express held the other 45% interest in the Partnership. Proceeds for the sale included a \$3.2 million non-interest bearing note receivable over five years, reduced by approximately \$0.7 million for the difference between the amounts due to Fund and SL Express from the Partnership, net of the total cash losses of the Partnership since its inception relative to the proportionate ownership of the Fund and SL Express. The note receivable from SL Express is secured by a first charge on certain aircraft owned by SL Express.

As the Fund had committed to the plan to dispose the Partnership prior to June 30, 2010, the results of operations of the Partnership have been classified as loss from discontinued operations in the consolidated statements of operations and deficit, the net cash flows are classified as operating, investing and financing activities from discontinued operations in the consolidated statements of cash flows and the assets and liabilities have been classified on the consolidated balance sheets as assets and liabilities of discontinued operations.

The consolidated balance sheet as at December 31, 2009 and the consolidated statements of operations and deficit and cash flows for the three and six month periods ended June 30, 2009 have been restated for purposes of comparability.

# CARGOJET INCOME FUND

## Notes to the Consolidated Financial Statements

June 30, 2010 and 2009  
(unaudited)

### 10. DISPOSITION OF FUND'S REGIONAL BUSINESS (CONTINUED)

A pre-tax impairment charge of \$2,377,775, including goodwill impairment of \$695,391 and a write-down of intangibles assets of \$1,682,384, was recorded in the three month period ended June 30, 2010, to adjust the assets of the discontinued operations to fair value based on the proceeds from sale of the operations less costs to sell.

The sale agreement also entails the sale of certain of the Fund's aircraft spare parts and other operating assets that are required by SL Express in the operation of the Partnership. The identifiable assets to be sold to SL Express have been included in the assets of discontinued operations at June 30, 2010.

Prior to the classification as a discontinued operation, the results of the Partnership represented all of the regional air cargo segment of the Fund. As the operations of the Partnership comprised all of the results of the Regional segment, the Fund now has only one segment.

Net loss from discontinued operations is summarized as follows:

	Three months ended		Six months ended	
	2010	June 30, 2009	2010	June 30, 2009
	\$	\$	\$	\$
Total revenue from discontinued operations	6,138,967	5,115,061	12,019,600	10,587,551
Loss from operating activities	138,953	1,500,374	649,682	2,677,527
Loss on write down of assets of discontinued operations	1,808,251	-	1,808,251	-
Less: Non-controlling interest	(453,646)	(926,481)	(738,165)	(1,653,371)
Loss on discontinued operations	1,493,558	573,893	1,719,768	1,024,156

Included in assets and liabilities held for sale at June 30, 2010 and December 31, 2009 are:

	June 30, 2010	December 31, 2009
	\$	\$
<b>Assets of discontinued operations</b>		
Accounts receivable	2,533,797	2,198,563
Notes receivable	2,466,667	2,866,667
Inventory of rotables and consumables	1,294,797	1,294,797
Contracts	1,412,234	3,503,705
Goodwill	-	695,391
	<u>7,707,495</u>	<u>10,559,123</u>
<b>Liabilities of discontinued operations</b>		
Accounts payable and accrued liabilities	1,363,163	1,881,735
Future income taxes	-	739,722
	<u>1,363,163</u>	<u>2,621,457</u>

# **CARGOJET INCOME FUND**

## **Notes to the Consolidated Financial Statements**

**June 30, 2010 and 2009**  
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### **11. PLAN OF ARRANGEMENT**

On February 26, 2010, the Fund announced its intention to seek Unitholders' approval for the reorganization of the Fund into a corporate structure that is expected to occur on or about December 31, 2010. The current Unitholders of the Fund and Class B limited partnership units of Cargojet Holdings Limited Partnership will exchange their units for shares in the proposed corporate entity on a one-for-one, tax-free basis. The conversion was approved by the required votes cast by Voting Unitholders' on May 18, 2010. The Fund also obtained the required approval of the Ontario Superior Court of Justice.

### **12. U.S. DOLLAR FORWARD PURCHASE CONTRACTS**

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 at fixed rates in future periods. In May 2010, the Fund sold all of its outstanding U.S. dollar forward purchase contracts. The sale of these contracts resulted in a gain of \$732,654.

### **13. SUBSEQUENT EVENTS**

In August 2010, the Fund entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from September 2010 to December 2011 for an aggregate total of USD \$16.0 million.