CARGOJET INCOME FUND

Management Discussion and
Analysis of Financial Condition and Results of Operations

For the Three Month and Six Month Periods Ended June 30, 2010

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 six month periods ended June 30, 2010. The following also includes a discussion of and comparative operating results for the three month and six month periods ended June 30, 2009.

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 August 5, 2010. 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 unaudited consolidated financial statements of the Fund as at and for the three and six month periods ended June 30, 2010 and 2009.

References to "EBITDA" (A) are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA (A) and Distributable Cash (B), are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA (A) and Distributable Cash (B) may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA (A) and Distributable Cash (B) should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Distributable Cash (B) and EBITDA (A) are shown on pages 6 and 9, respectively.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference should be made to the Annual Information Form ("AIF"), filed March 18, 2010 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 18, 2010 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, and Canada and Poland
- Operating a scheduled international route for multiple cargo customers between the USA and Bermuda

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 thirteen 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 one leased 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and ten Boeing 727-200 ("B727") series cargo aircraft, three of which are leased and seven owned. 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.

Recent Events

Sale of Cargojet Regional Partnership

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 ("Partnership"). The Partnership operates the Fund's regional air cargo business segment that provides service to thirty-three smaller cities in Ontario, Quebec and the Maritime provinces utilizing a fleet of twenty-eight smaller propeller engine aircraft. SL Express held the other 45% interest in the Partnership and will operate the Partnership under its own trade name. The net assets to be disposed of include intangible assets of $1,412,234, which is net of an impairment loss of $1,682,384.

The Fund sold its ownership interest in exchange for a $3.2 million non-interest bearing promissory note adjusted for the difference between the amounts due to the 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. This adjustment is expected to reduce the face value of the promissory note by approximately $0.7 million. The note is payable semi-annually over five years and is secured by a first charge on aircraft owned by SL Express.

Recent Events (continued)

Sale of Cargojet Regional Partnership (continued)

The sale agreement also entails the sale of 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 held for sale at June 30, 2010.

As the Fund had committed to the plan to dispose the regional air cargo business segment prior to June 30, 2010, the results of the regional air cargo business segment have been presented as discontinued operations in the current period and prior period figures have been restated.

Net losses from the Fund's discontinued operations are summarized as follows:

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	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 held for sale	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
	$	$
Assets of discontinued operations		
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
	7,707,495	10,559,123
Liabilities of discontinued operations		
Accounts payable and accrued liabilities	1,363,163	1,881,735
Future income taxes	-	739,722
	1,363,163	2,621,457

Recent Events (continued)

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 more than two-thirds (85.35%) of the votes cast by voting Unitholders as required on May 18, 2010, and the Ontario Superior Court of Justice has approved the plan of arrangement.

Purchase of Cargojet Convertible Debentures

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15.0 million principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the "Purchase Price").

Upon the expiry of the Offer on January 15, 2010, an aggregate of $7.5 million principal amount of the Fund's Debentures was deposited under the Offer. The Fund took up and accepted for purchase and cancellation all of the deposited Debentures at a Purchase Price of $1,010 per $1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on the Debentures up to January 15, 2010, for an aggregate purchase price of $7.7 million for all Debentures taken up. All Debentures purchased pursuant to the Offer were cancelled.

Sale of U.S. Dollar Forward Purchase Contracts

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 $0.7 million. 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.

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 generates revenue from a variety of other air cargo services:

- The Fund 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.

Revenues (continued)

- To further 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, to the Caribbean and to Europe.

- 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.

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 that include functions such as load scheduling, flight operations coordination, client relations, administration, accounting and information systems.

	June 30		June 30	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Cash inflow from continuing operations before changes in non-cash working capital items (1)	**3,351**	4,561	**6,187**	10,398
Changes in non-cash working capital items (1)				
Accounts receivable	**(2,149)**	1,352	**(1,773)**	1,982
Materials and supplies	**(4)**	(93)	**177**	226
Prepaid expenses and deposits	**(413)**	(529)	**(244)**	190
Accounts payable and accrued charges	**1,284**	(534)	**1,318**	(1,749)
Income taxes payable (recoverable)	**(1,736)**	45	**(1,454)**	(249)
	333	4,802	**4,211**	10,798
Less:				
Maintenance capital expenditures	**277**	684	**1,121**	1,392
Income taxes paid	**-**	(45)	**-**	249
Change in fair value on non-hedge derivatives	**(539)**	-	**(539)**	-
Transfer of loss (gain) on derivatives from other comprehensive income	**54**	(709)	**108**	(1,182)
Heavy maintenance deposits	**647**	495	**1,029**	628
Repayment of long-term debt obligation under capital lease	**52**	50	**104**	96
Total changes in non-cash working capital items	**(3,018)**	241	**(1,976)**	400
Purchase of Cargojet Income Fund debentures	**-**	33	**7,668**	33
Purchase of Cargojet Income Fund units	**-**	322	**-**	565
Distributable cash from continuing operations	**2,860**	3,731	**(3,304)**	8,617
Distributable cash from discontinued operations	**95**	(592)	**168**	(868)
Net distributable cash (B)	**2,955**	3,139	**(3,136)**	7,749
Average number of trust units outstanding - basic (in thousands of units)	**6,437**	6,547	**6,146**	6,606
Average number of trust units outstanding - diluted (in thousands of units) (2)	**9,534**	11,005	**9,534**	11,065
Distributable cash per unit - diluted (3)	**$ 0.31**	$ 0.29	**NM (3)**	$ 0.70
Cash distributions	**1,007**	710	**2,014**	2,508
Cash distributions as a percentage of net distributable cash	**34%**	23%	**NM (3)**	32%

(1) Please refer to the consolidated Statement of Cash Flows for the three and six month periods ended June 30, 2010 and 2009.

(2) For the purpose of calculating distributable cash per unit – diluted for the three and six month periods ended June 30, 2010 and 2009, the weighted average number of Units, the weighted average number of Exchangeable LP units and the Fund's convertible debentures have been combined.

(3) Cash distributions as a percentage of distributable cash is not meaningful ("NM") for the six month period ended June 30, 2010 due to the fact that there was a distributable cash deficit in the six month period ended June 30, 2010.

(B) Please refer to end note (B) included at the end of this MD&A.

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$		
Revenue	**37,751**	33,999	**74,517**	70,731
Direct expenses	**29,225**	24,372	**58,674**	50,860
	8,526	9,627	**15,843**	19,871
Selling, general and administrative expenses				
Sales and marketing	**180**	116	**378**	275
General and administrative	**4,603**	4,013	**9,097**	8,228
Loss on debenture redemption	**-**	-	**273**	-
Interest, net	**851**	842	**1,720**	1,699
Gain on derivative contracts	**(732)**	-	**(257)**	-
Amortization of capital assets	**173**	172	**318**	328
Amortization of intangible assets	**-**	2,037	**-**	4,447
	5,075	7,180	**11,529**	14,977
Earnings before income taxes, non-controlling interests and discontinued operations	**3,451**	2,447	**4,314**	4,894
Provision for (recovery of) income taxes				
Current	**275**	(4)	**555**	(298)
Future	**966**	(1,261)	**849**	(746)
	1,241	(1,265)	**1,404**	(1,044)
Earnings from continuing operations before non-controlling interests	**2,210**	3,712	**2,910**	5,938
Non-controlling interests	**430**	928	**566**	1,485
Net income from continuing operations	**1,780**	2,784	**2,344**	4,453
Loss from discontinued operations	**(1,494)**	(574)	**(1,720)**	(1,024)
Net income	**286**	2,210	**624**	3,429
Basic earnings (loss) per trust unit				
Continuing operations	**0.28**	0.43	**0.38**	0.67
Discontinued operations	**(0.24)**	(0.09)	**(0.28)**	(0.15)
	$ 0.04	**$ 0.34**	**$ 0.10**	**$ 0.52**
Diluted earnings (loss) per trust unit (1)				
Continuing operations	**0.28**	0.41	**0.36**	0.67
Discontinued operations	**(0.24)**	(0.09)	**(0.28)**	(0.15)
	$ 0.04	**$ 0.32**	**$ 0.08**	**$ 0.52**
Average number of trust units - basic (in thousands of units)	**6,437**	6,547	**6,146**	6,606
Average number of trust units - diluted (in thousands of units) (1)	**7,993**	11,005	**7,993**	8,839
Total assets	**129,291**	130,608	**129,291**	130,608
Total long-term liabilities	**46,472**	44,281	**46,472**	44,281

(1) For the purpose of calculating earnings per trust unit – diluted for the three month period ended June 30, 2010 and the six month periods ended June 30, 2010 and 2009, the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating earnings per trust unit – diluted for the three month period ended June 30, 2009 the weighted average number of Units, the weighted average number of Exchangeable LP units, and the effect of the conversion of the Debentures have been combined. The effect of the conversion of the Debentures has not been factored into the calculation of earnings per unit - diluted when the conversion of these Debentures would be anti-dilutive.

Selected Financial Information

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	June 30 2010 (unaudited)	March 31 2010 (unaudited)	December 31 2009 (unaudited)	September 30 2009 (unaudited)	June 30 2009 (unaudited)	March 31 2009 (unaudited)	December 31 2008 (unaudited)	September 30 2008 (unaudited)
Revenue (in thousands)	$ 37,751	$ 36,766	$ 36,763	$ 35,593	$ 33,999	$ 36,732	$ 46,833	$ 46,516
Net income (loss) from continuing operations (in thousands)	$ 1,780	$ 564	$ 4,082	$ 1,252	$ 2,784	$ 1,669	$ 2,806	$ (1,144)
Net loss from discontinued operations (in thousands)	$ (1,494)	$ (226)	$ (310)	$ (288)	$ (574)	$ (450)	$ (408)	$ (47)
Basic earnings (loss) per trust unit								
- Continuing operations	0.28	0.10	0.67	0.20	0.43	0.25	0.42	(0.17)
- Discontinued operations	(0.24)	(0.04)	(0.05)	(0.04)	(0.09)	(0.07)	(0.06)	(0.01)
	$ 0.04	$ 0.06	$ 0.62	$ 0.16	$ 0.34	$ 0.18	$ 0.36	$ (0.18)
Diluted earnings (loss) per trust unit (1)								
- Continuing operations	0.28	0.09	0.67	0.20	0.41	0.25	0.42	(0.17)
- Discontinued operations	(0.24)	(0.04)	(0.05)	(0.04)	(0.09)	(0.07)	(0.06)	(0.01)
	$ 0.04	$ 0.05	$ 0.62	$ 0.16	$ 0.32	$ 0.18	$ 0.36	$ (0.18)
Average number of trust units - basic (in thousands of units)	6,437	5,851	6,063	6,202	6,547	6,665	6,693	6,699
Average number of trust units - diluted (1) (in thousands of units)	7,993	7,993	10,304	8,435	11,005	8,898	8,926	8,932

(1) For the purpose of calculating earnings per trust unit – diluted for the three month periods ended June 30, 2010, the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. The Fund's convertible debentures are not factored into the calculation of earnings per trust unit – diluted when the effect of the conversion of the Debentures would be anti-dilutive.

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

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA (A):				
Net income from continuing operations	**1,780**	2,784	**2,345**	4,453
Add:				
Interest	**851**	842	**1,720**	1,699
Non-controlling interests	**430**	928	**566**	1,485
Provision for (recovery of) current income taxes	**275**	(4)	**555**	(298)
Provision for (recovery of) future income taxes	**966**	(1,261)	**849**	(746)
Loss on disposal of capital assets	**-**	-	**-**	3
Change in fair value on non-hedge derivatives	**(475)**	-	**-**	-
Loss on debenture redemption	**-**	-	**273**	-
Amortization of capital assets	**1,546**	1,124	**3,096**	2,192
Amortization of intangible assets	**-**	2,037	**-**	4,447
Aircraft heavy maintenance amortization	**514**	523	**1,178**	972
Aircraft heavy maintenance expenditures	**(1,064)**	(1,026)	**(1,964)**	(1,555)
Heavy maintenance deposits (1)	**(647)**	(495)	**(1,029)**	(628)
EBITDA from continuing operations	**4,176**	5,452	**7,589**	12,024
EBITDA from discontinued operations	**55**	(526)	**87**	(717)
TOTAL EBITDA (A)	**4,231**	4,926	**7,676**	11,307
Reconciliation of EBITDA (A) to Distributable Cash (B):				
TOTAL EBITDA (A)	**4,176**	5,452	**7,589**	12,024
Less:				
Maintenance capital expenditures (1)	**277**	685	**1,121**	1,392
Interest (2)	**712**	680	**1,445**	1,370
Provision (recovery) for current income taxes	**275**	(49)	**555**	(49)
Repayment of long-term debt obligation under capital lease	**52**	50	**104**	96
Purchase of Cargojet Income Fund debentures	**-**	33	**7,668**	33
Purchase of Cargojet Income Fund units	**-**	322	**-**	565
Distributable cash from continuing operations	**2,860**	3,731	**(3,304)**	8,617
Distributable cash from discontinued operations	**95**	(592)	**168**	(868)
Total distributable cash (B)	**2,955**	3,139	**(3,136)**	7,749

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

(2) For the purpose of calculating Distributable Cash (B) for the three and six month periods ended June 30, 2010 and 2009, interest excludes the accretion interest expense due to the Fund's convertible debentures.

(A) Please refer to End Note (A) included at the end of this MD&A.
(B) Please refer to End Note (B) included at the end of this MD&A.

Highlights for the Three month periods ended June 30, 2010 and 2009

- Total revenue for the three month period ended June 30, 2010 was $37.8 million as compared to $34.0 million for the same period in 2009, representing an increase of $3.8 million or 11.2%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2010 was $0.63 million per operating day as compared to $0.59 million per operating day for same period in 2009, representing an increase of 6.8%.

- EBITDA for the three month period ended June 30, 2010 was $4.2 million as compared to $5.5 million for the same period in 2009, a decrease of $1.3 million or 23.6%.

- Distributable Cash was $2.9 million for the three month period ended June 30, 2010 as compared to $3.7 million for the same period in 2009, a decrease of $0.8 million or 21.6%.

Review of Operations For the Three month periods ended June 30, 2010 and 2009

Revenue

Total revenue for the three month period ended June 30, 2010 was $37.8 million as compared to $34.0 million for the same period in 2009, representing an increase of $3.8 million or 11.2%. The increase in revenues was due to increased charter and ACMI revenues, and an increase in cost pass-through revenues.

Revenue related to the core overnight and ACMI cargo businesses excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2010 was $31.6 million compared to $29.4 million for the same period in 2009, an increase of $2.2 million or 7.5%. The increase was due primarily to increased charter revenues. Core overnight revenues were higher by $0.3 million compared to the same period in 2009.

Fuel surcharges and other cost pass-through revenues were $6.0 million for the three month period ended June 30, 2010 as compared to $4.4 million for the same period in 2009, an increase of $1.6 million or 36.4%. The increase was due primarily to revenues from pass-through costs related to increased charter revenues.

Revenues from the Fund's FBO fuelling business were $0.1 million for the three month period ended June 30, 2010 as compared to $0.2 million for the same period in 2009.

Review of Operations For the Three month periods ended June 30, 2010 and 2009 (continued)

Direct Expenses

Total direct expenses were $29.2 million for the three month period ended June 30, 2010 as compared to $24.4 million for the same period in 2009, representing an increase of $4.8 million or 19.7%. As a percentage of revenue, direct expenses increased from 71.8% in 2009 to 77.2% for the same period in 2010. The overall increase in direct expenses was due primarily to an increase in charter and ACMI block hours and foreign exchange hedge gains recorded during Q2 2009.

Fuel costs were $9.6 million for the three month period ended June 30, 2010 as compared to $7.2 million for the same period in 2009. The $2.4 million or 33.3% increase in fuel costs was due to higher fuel prices and an increase in charter flying. The cost increase from higher fuel prices was billed to customers as an increase in their fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $4.3 million for the three month period ended June 30, 2010 as compared to $4.1 million for the same period in 2009. The $0.2 million or 4.9% increase in costs was due to the increase in charter and ACMI block hours.

Maintenance costs were $2.9 million for the three month period ended June 30, 2010 as compared to $2.0 million for the same period in 2009, an increase of $0.9 million or 45.0%. The increase in maintenance costs was due primarily to the additional charter and ACMI block hours flown.

Heavy maintenance amortization costs were $0.4 million for the three month period ended June 30, 2010 as compared to $0.7 million for the same period in 2009, a decrease of $0.3 million or 42.9%. 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 non-refundable engine reserves, airframe reserves and sub-charter lease costs were $4.0 million for the three month period ended June 30, 2010 as compared to $4.1 million for the same period in 2009. The decrease of $0.1 million or 2.4% was due primarily to the effect of foreign exchange variances on aircraft lease costs that are denominated in U.S. currency, partially offset by increased reserves due to increased hours flown.

Total crew costs including salaries, training and positioning were $2.3 million for the three month period ended June 30, 2010 as compared to $2.1 million for the same period in 2009, an increase of $0.2 million or 9.5%. The increase in costs was due to additional crew costs incurred for the increased ACMI and charter block hours.

Total direct costs of the FBO business were $0.2 million for the three month period ended June 30, 2010 as compared to $0.1 million for the same period in 2009.

Review of Operations For the Three month periods ended June 30, 2010 and 2009 (continued)

Direct Expenses (continued)

Foreign exchange gains of $0.7 million were recognized as credits to direct expenses in the second quarter of 2009. In January 2009 the Fund ended its foreign exchange hedging program and realized a gain of $2.6 million from the sale of all of the Fund's remaining U.S. dollar forward purchase contracts. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affected net income.

Depreciation recorded in direct costs for the three month period ended June 30, 2010 was $1.4 million as compared to $1.2 million for the same period in 2009. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in the second quarter of 2009.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $4.2 million for the three month period ended June 30, 2010 as compared to $3.7 million for the same period in 2009. The increase of $0.5 million or 13.5% was due primarily to increased block hours flown.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $4.8 million for the three month period ended June 30, 2010 compared to $4.1 million for the same period in 2009, an increase of $0.7 million or 17.1%. The increase was due to an increase in consulting costs and volume rebate expense compared to the same period in 2009.

In May 2010 the Fund ended its foreign exchange hedging program and recognized a gain of $0.7 million in the second quarter of 2010 as credit to general and administration expense.

EBITDA

EBITDA for the three month period ended June 30, 2010 was $4.2 million or 11.1% of revenue, compared to $5.5 million or 16.2% of revenue for the same period in 2009. The decrease in EBITDA as a percentage of revenue was due primarily to the increase in direct costs related to increased charter revenue, the negative effect of foreign exchange on revenues billed in U.S. dollars, and lower customer yields on core overnight revenues.

Review of Operations For the Three month period ended June 30, 2010 and 2009 (continued)

Amortization of Intangible Assets

Amortization of intangible assets of the Fund is due to amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Amortization of intangible assets for the three month period ended June 30, 2010 was nil as compared to $2.0 million for the same period in 2009. The decrease in amortization is due to the full amortization of the intangible assets that were recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets were fully depreciated by the end of the second quarter of 2009.

Interest

Interest expense was $0.9 million for the three month period ended June 30, 2010, compared to interest expense of $0.8 million for the three month period ended June 30, 2009. The increase in interest expense was due primarily to additional draws on the Fund's bank credit facility. This increase was offset partially by the decrease in interest on Debentures due to the Fund's purchase of Debentures.

Current Income Taxes

Current income taxes for the three month period ended June 30, 2010 were $0.3 million as compared to a recovery of $0.004 million for the same period in 2009. Provisions for income taxes are due to certain subsidiaries of the Fund that are taxable.

Non-controlling Interests

Net non-controlling interests were a charge to earnings of $0.4 million for the three month period ended June 30, 2010, as compared to a charge to earnings of $0.9 million for the three month period ended June 30, 2009. Non-controlling interests represent the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders.

Distributable Cash

Distributable cash was $2.9 million for the three month period ended June 30, 2010, compared to $3.7 million for the three month period ended June 30, 2009. The decrease in distributable cash of $0.8 million was due primarily to the timing of income tax payments and maintenance capital expenditures, and the $0.3 million purchase of Cargojet Income Fund units during the three month period ended June 30, 2009.

Review of Operations For the Three month periods ended June 30, 2010 and 2009 (continued)

Distributions

Total distributions declared for the three month period ended June 30, 2010 were $1.0 million resulting in a payout ratio of 34%. In comparison, total distributions declared for the three month period ended June 30, 2009 were $0.7 million resulting in a payout ratio of 23%. The increase in distributions was due to the increase in the monthly distribution rate that came into effect in November 2009 partially offset by fewer outstanding Units.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended June 30, 2010 was $0.3 million as compared to $4.8 million for the same period in 2009. The $4.5 million decrease in cash flow was due primarily to the variance in the timing of customer receipts and vendor payments at quarter-end, and the decrease in net income.

Net cash used for financing activities during the three month period ended June 30, 2010 of $2.1 million was due primarily to the $1.1 million decrease in long-term debt through the Fund's credit facility and the distributions paid to unitholders of $1.0 million. Net cash used in financing activities during the three month period ended June 30, 2009 was $4.7 million due to distributions paid to unitholders of $1.1 million, the purchase of the Fund's Debentures and Units of $0.4 million and a $3.2 million reduction in long-term debt related to the Fund's revolving credit facility.

Cash used in investing activities during the three month period ended June 30, 2010 was $0.2 million comprised of net capital asset expenditures. Cash used in investing activities during the three month period ended June 30, 2009 was $1.2 million and was comprised of net capital asset spending.

The Fund maintains a long-term credit facility that is to a maximum of $30.0 million. As at June 30, 2010 the Fund had drawn $13.9 million of its long-term credit facility. The credit facility will mature in July 2011. Through its subsidiary Prince Edward Air Ltd. ("PEAL"), the Fund also maintains fixed loans with another chartered bank that totalled to $5.4 million as at June 30, 2010. PEAL's fixed loans bear interest at rates ranging from 8.1% to 8.2%. The loans are repayable in monthly instalments plus interest and will mature by January 2022. The loans are secured by the aircraft of PEAL and guaranteed by Cargojet Airways Ltd. for 10% of the outstanding amounts. Cargojet Airways Ltd. is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL.

Review of Operations For the Three month periods ended June 30, 2010 and 2009 (continued)

Liquidity and Capital Resources (continued)

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. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

Capital Expenditures

Capital asset additions were $0.3 million for the three month period ended June 30, 2010 as compared to $1.3 million for the same period in 2009. Net capital additions for the three month period ended June 30, 2010 were comprised of maintenance capital expenditures. Capital asset additions for the three month period ended June 30, 2009 were comprised of $0.8 million of maintenance capital expenditures and $0.5 million of growth expenditures due primarily to the new hangar at the Hamilton Airport that was completed in the second quarter of 2009.

Highlights for the Six month periods ended June 30, 2010 and 2009

- Total revenue for the six month period ended June 30, 2010 was $74.5 million as compared to $70.7 million for the same period in 2009, representing an increase of $3.8 million or 5.4%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2010 was $0.62 million per operating day as compared to $0.61 million per operating day for same period in 2009, representing an increase of 1.6%.

- EBITDA for the six month period ended June 30, 2010 was $7.6 million as compared to $12.0 million for the same period in 2009, a decrease of $4.4 million or 36.7%.

- Distributable Cash was a deficit of $3.3 million for the six month period ended June 30, 2010 as compared to distributable cash of $8.6 million for the same period in 2009, a decrease of $11.9 million.

Review of Operations For the Six month period ended June 30, 2010 and 2009

Revenue

Total revenue for the six month period ended June 30, 2010 was $74.5 million as compared to $70.7 million for the same period in 2009, representing an increase of $3.8 million or 5.4%. The increase in revenues was due primarily to increased charter revenues and cost-pass through revenues.

Revenue related to the core overnight and ACMI cargo businesses excluding fuel surcharges and other cost pass-through revenues, for the six month period ended June 30, 2010 was $62.2 million compared to $60.6 million for the same period in 2009, an increase of $1.6 million or 2.6%. This increase in revenues was due to higher charter and ACMI revenues partially offset by a decline in core overnight revenues of $1.7 million.

Fuel surcharges and other cost pass-through revenues were $11.8 million for the six month period ended June 30, 2010 as compared to $9.6 million for the same period in 2009, an increase of $2.2 million or 22.9%. The increase was due primarily to higher fuel prices that resulted in an increase of fuel surcharges billed to customers. Other pass-through costs were higher due to an increase in charter revenues.

Revenues from the Fund’s FBO fuelling business were $0.5 million for the six month periods ended June 30, 2010 and 2009.

Direct Expenses

Total direct expenses were $58.7 million for the six month period ended June 30, 2010 as compared to $50.9 million for the same period in 2009, representing an increase of $7.8 million or 15.3%. As a percentage of revenue, direct expenses increased to 78.8% in 2010 from 72.0% for the same period in 2009. The overall increase in direct expenses was due primarily to higher fuel prices and increased charter block hours flown as well as foreign exchange losses recorded during the six month period ended June 30, 2010 as compared to foreign exchange gains recorded for the same period in 2009.

Fuel costs were $19.0 million for the six month period ended June 30, 2010 as compared to $14.6 million for the same period in 2009. The $4.4 million or 30.1% increase in fuel costs was due to higher fuel prices and an increase in block hours. The increased costs incurred by the Fund due to higher fuel prices were charged to customers as an increase in their fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $8.6 million for the six month period ended June 30, 2010 as compared to $8.4 million for the same period in 2009. The $0.2 million or 2.4% increase in costs was due to the increased block hours flown.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Direct Expenses (continued)

Maintenance costs were $5.6 million for the six month period ended June 30, 2010 as compared to $4.3 million for the same period in 2009, an increase of $1.3 million or 30.2%. The increase in maintenance costs was due primarily to higher block hours flown and charges for consignment inventory on the wide body aircraft that started at the end of the first quarter of 2009.

Heavy maintenance amortization costs were $0.9 million for the six month period ended June 30, 2010 as compared to $1.1 million for the same period in 2009, a decrease of $0.2 million or 18.2%. 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 non-refundable engine and airframe reserves were $8.2 million for the six month period ended June 30, 2010 as compared to $8.6 million for the same period in 2009. The decrease of $0.4 million or 4.7% was due primarily to the change in foreign exchange rates.

Total crew costs including salaries, training and positioning were $4.6 million for the six month period ended June 30, 2010 as compared to $4.2 million for the same period in 2009, an increase of $0.4 million or 9.5%. The increase in crew costs was due to the increase in charter activity.

Total direct costs of the FBO business were $0.4 million for the six month period ended June 30, 2010 as compared to $0.3 million for the same period in 2009. FBO costs were higher due to the increase in fuel prices.

Total foreign exchange losses recognized in direct expenses in the six month period ended June 30, 2010 were $0.1 million as compared to foreign exchange gains of $1.4 million in the same period in 2009. In January 2009 the Fund sold and settled all of its outstanding foreign exchange forward contracts held at that time and realized a gain of $2.6 million. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affected net income.

Depreciation recorded in direct costs for the six month period ended June 30, 2010 was $2.8 million as compared to $2.4 million for the same period in 2009. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in Q2 2009.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Direct Expenses (continued)

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $8.5 million for the six month period ended June 30, 2010 as compared to $8.4 million for the same period in 2009. The increase of $0.1 million or 1.2% was due primarily to increased insurance expenses partially offset by a reduction in linehaul costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $9.5 million for the six month period ended June 30, 2010 compared to $8.5 million for the same period in 2009, an increase of $1.0 million or 11.8%. The increase was due primarily to foreign exchange losses and an increase in volume rebate expense and higher consulting and legal expenses related to the Fund's plan of arrangement.

EBITDA

EBITDA for the six month period ended June 30, 2010 was $7.6 million or 10.2% of revenue, compared to $12.0 million or 17.0% of revenue for the same period in 2009. The decline in EBITDA of $4.4 million or 36.7% was due primarily to the decrease in core overnight revenues of $3.7 million, foreign exchange gains in the previous year, and the increase in direct costs related to charter activity.

Amortization of Capital Assets

The amortization of capital assets for the six month period ended June 30, 2010 was $2.8 million as compared to $2.4 million for the same period in 2009.

Amortization of Intangible Assets

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. Amortization of intangible assets for the six month period ended June 30, 2010 was nil as compared to $4.4 million for the same period in 2009. The decrease in amortization was due to the full amortization of the intangible assets that were recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets were fully amortized by the end of the second quarter of 2009.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Interest

Interest expense was $1.7 million for each of the six month periods ended June 30, 2010 and 2009.

Future Income Taxes

The future income tax provision of $0.8 million for the six month period ended June 30, 2010 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period. The Fund recorded a future income tax recovery of $0.7 million in the same period in 2009.

Current Income Taxes

Current income taxes for the six month period ended June 30, 2010 was a provision of $0.6 million as compared to a recovery of $0.3 million for the six month period ended June 30, 2009. The net recovery of income taxes in 2009 includes the settlement of a tax issue with tax authorities resulting in a recovery of approximately $0.4 million. The provisions, payments and recoveries of 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 $0.6 million for the six month period ended June 30, 2010, as compared to a charge to earnings of $1.5 million for the six month period ended June 30, 2009. Non-controlling interests represent the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders.

Distributable Cash

Distributable cash was a deficit of $3.3 million for the six month period ended June 30, 2010, compared to distributable cash of $8.8 million for the six month period ended June 30, 2009. The decrease in distributable cash of $12.1 million or 138% was due primarily to the Fund’s purchase of $7.7 million of its Debentures and the decrease in EBITDA.

Distributions

Total distributions declared for the six month period ended June 30, 2010 were $2.0 million or $0.2520 per trust unit. In comparison, total distributions declared for the six month period ended June 30, 2009 were $2.5 million or $0.2835 per trust unit.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Distributions (continued)

The following table summarizes the cash distributions for the six month period ended June 30, 2010:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	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

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the six month period ended June 30, 2010 was $4.2 million as compared to $10.8 million for the same period in 2009. The $6.6 million decrease in cash flow for the first two quarters of 2010 was due primarily to the variance in timing of customer receipts and vendor payments at quarter-end, and decrease in net income.

Cash used by financing activities during the six month period ended June 30, 2010 of $7.3 million was due primarily to distributions paid to unitholders of $2.0 million, and the purchase of Cargojet Income Fund Debentures of $7.7 million, partially offset by the increase in long-term debt through the Fund's credit facility.

Cash used in investing activities during the six month period ended June 30, 2010 was $0.9 million comprised of net capital asset expenditure of $1.1 million, partially offset by the $0.2 million in proceeds from the sale of capital assets.

The Fund maintains a long-term credit facility that is to a maximum of $30.0 million. As at June 30, 2010 the Fund had drawn $13.9 million of its long-term credit facility. The credit facility will mature in July 2011. Through its subsidiary PEAL, the Fund also maintains fixed loans with another chartered bank that totalled to $5.4 million as at June 30, 2010. PEAL's fixed loans bear interest at rates ranging from 8.1% to 8.2%. The loans are repayable in monthly instalments plus interest and will mature by January 2022. The loans are secured by the aircraft of PEAL and guaranteed by Cargojet Airways Ltd. for 10% of the outstanding amounts. Cargojet Airways Ltd. is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Liquidity and Capital Resources (continued)

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. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

Capital Expenditures

Capital asset additions were $1.1 million for the six month period ended June 30, 2010 as compared to $3.9 million for the same period in 2009. Capital additions for the six month period ended June 30, 2010 were comprised of $1.1 million of maintenance capital expenditures.

Capital asset additions of $3.9 million for the six month period ended June 30, 2009 were comprised of $1.6 million of maintenance capital expenditures and $2.3 million of growth capital expenditures. Growth capital expenditures for the six month period ended June 30, 2009 included $2.2 million for the new hangar.

Financial Condition

The following is a comparison of the financial position of the Fund as at June 30, 2010 to the financial position of the Fund as at December 31, 2009.

Accounts Receivable

Accounts receivable as at June 30, 2010 were $9.8 million as compared to $8.0 million as at December 31, 2009. The increase of $1.8 million was primarily due to the difference in the timing of weekly customer billings and cash receipts. In management's opinion, the quality of the Fund's net receivable balances and its current collections remain excellent.

Capital Assets

As at June 30, 2010 net capital assets were $53.3 million as compared to $55.5 million as at December 31, 2009. The $2.2 million net decrease in capital assets was due to $1.1 million of capital additions offset by the amortization of capital assets and $0.2 million in capital asset disposals.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Intangible Assets

Intangible assets as at June 30, 2010 and December 31, 2009 were $1.0 million.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at June 30, 2010 were $12.0 million as compared to $10.6 million as at December 31, 2009.

Deferred Heavy Maintenance and Heavy Maintenance Deposits

The balance of deferred heavy maintenance expenditures as at June 30, 2010 was $2.9 million as compared to $2.1 million as at December 31, 2009. The increase of $0.8 million was due to heavy maintenance expenditure additions of $2.0 million offset by amortization of $1.2 million during the six month period ended June 30, 2010. In comparison, total heavy maintenance expenditure additions for the six month period ended June 30, 2009 were $2.0 million and amortization of deferred heavy maintenance for this period was $1.2 million.

The balance of heavy maintenance deposits as at June 30, 2010 was $3.1 million compared to $2.0 million as at December 31, 2009. Heavy maintenance deposits are paid to aircraft lessors on a monthly basis. Cargojet receives a refund of these payments when it incurs actual heavy maintenance expenditures.

Working Capital Position

The Fund had a working capital surplus as at June 30, 2010, representing the difference between total current assets and current liabilities, of $4.5 million, compared to a positive working capital of $8.1 million as at December 31, 2009. The decrease in working capital was due to the use of cash on hand to purchase Cargojet Income Fund's debentures in the first quarter of 2010.

Long-Term Debt

Total long-term debt excluding the current portion was $19.0 million as at June 30, 2010 as compared to $16.5 million as at December 31, 2009. The long-term debt consists of Cargojet's revolving credit facility and fixed loans related to PEAL. The increase in long-term debt was due primarily to the Fund's purchase of its Debentures resulting in an increase in revolving credit facility.

Review of Operations For the Six month periods ended June 30, 2010 and 2009 (continued)

Convertible Debentures

On December 3, 2009, the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15.0 million principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the “Purchase Price”).

Upon the expiry of the Offer on January 15, 2010, an aggregate of $7.5 million principal amount of its Debentures was deposited under the Offer. The Fund took up and accepted for purchase and cancellation all of the deposited Debentures at a purchase price of $1,010 per $1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on the Debentures up to January 15, 2010, for an aggregate purchase price of $7.7 million for all Debentures taken up. All Debentures purchased pursuant to the Offer were cancelled.

Summary of Contractual Obligations

	Payments due by Period						
As at June 30, 2010	Total	2010	2011	2012	2013	2014	Thereafter
(in thousands)	$	$	$	$	$	$	$
Long-term debt	5,364	252	439	449	460	471	3,293
Credit facility	13,862	-	13,862	-	-		-
Capital lease obligations	296	105	156	35	-	-	-
Operating leases	68,045	7,479	13,007	12,505	12,331	11,570	11,153
Total contractual obligations	87,567	7,836	27,464	12,989	12,791	12,041	14,446

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 six month period ended June 30, 2010 the Fund did not transact with any related companies.

Major Customers

During each of the six month periods ended June 30, 2010 and 2009, the Fund had sales to three customers that represented 54% and 55% of the total revenues, 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 during the six month period ended June 30, 2010 and three during the six month period ended June 30, 2009.

Contingencies

The Fund has provided irrevocable standby letters of credit totalling approximately $1.0 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 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. 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 $0.7 million. As of the date of this MD&A, the Fund has no outstanding U.S. dollar forward purchase contracts.

Outlook

Cargojet continues to manage the business in a conservative and prudent manner while faced with the challenges of an economy still struggling to recover from recession. The Fund continues to feel the effects of pricing pressures but customer demand appears to be more stable compared to the previous year. Cargojet's management takes a pro-active approach to managing its fleet capacity and has implemented cost reduction programs to improve margins. Cargojet continues to pursue new customers and markets.

The Fund continues to recover fuel price increases through fuel surcharges. Any fuel cost increases due to higher fuel prices are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Similarly, any cost savings due to lower fuel prices are passed on to customers as a decrease in fuel surcharge. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

Management's principal objective is to maximize 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 improve 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, Outlook (continued)

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, and 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 and 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 June 30, 2010 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

Future Accounting Changes

In January 2009, the Canadian Accounting Standards Board ("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 adoption of these standards is not expected to have any material impact on historical amounts previously reported.

International Financial Reporting Standards ("IFRS")

The AcSB will require all Canadian publicly accountable enterprises to adopt International Financial Reporting Standards ("IFRSs") for interim and annual financial statements relating to fiscals years beginning on or after January 1, 2011. These new standards will be effective for the Fund as of January 1, 2011 with a transition date of January 1, 2010 to allow for comparative financial information. While IFRS is based on a conceptual framework similar to Canadian GAAP, there are significant differences in certain accounting policies.
The Fund has established an IFRS steering committee with a mandate to oversee the IFRS conversion process, including any impacts that the conversion may have on financial reporting, business processes, internal controls and information systems.

IFRS Conversion Project

The Fund's IFRS implementation project consists of three phases:

(1) preliminary planning and scoping,
(2) detailed impact assessment, and
(3) implementation.

The preliminary planning and scoping phase, which involved a high-level review of the significant differences between Canadian GAAP and IFRS applicable to the Fund, has been completed.

Financial Reporting Update (continued)

The objective of the first phase was to prepare an IFRS conversion plan based on a gap assessment between the current state and the required future state and included the following:

- 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 began 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 will 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.

Significant GAAP differences

Outlined below are the significant differences between Canadian GAAP and IFRS applicable to the Fund. This is not a comprehensive list of changes that will result from transition to IFRS but rather highlights areas of accounting differences the Fund currently views as having a high potential impact to the Fund. Further changes may be identified during the conversion to IFRS and as the International Accounting Standards Board continues to issue new accounting standards during the period of conversion. The Fund is currently analyzing the impact of these differences.

IFRS 1: First-Time Adoption of International Financial Reporting Standards
IFRS 1 provides the framework for the first time adoption of IFRS and specifies that, in general, the Fund shall apply the principles under IFRS retrospectively. However, IFRS 1 does provide certain elective exemptions and mandatory exceptions to retrospective application.

Financial Reporting Update (continued)

International Financial Reporting Standards ("IFRS") (continued)

IAS 16: Property Plant and Equipment
The Fund has an elective exemption to reset the cost of property, plant and equipment based on fair value on transition to IFRS. The Fund also may elect to value property, plant and equipment using either the cost model or revaluation model for subsequent measurement. Under the revaluation model, an entire class of PP&E is revalued at fair value regularly, if fair value can be measured reliably. The revalued amount is the fair value of the asset at the revaluation date less any accumulated depreciation and accumulated impairment charges.

IAS 16 also requires a component approach for depreciation where assets must be separated into individual components and depreciated over their useful lives. This method of componentizing property, plant and equipment may result in an increase in the number of component parts that are recorded and depreciated and, as a result, may impact the calculation of depreciation expense.

IAS 36: Impairment of Assets
IFRS differs from Canadian GAAP in the method and valuation for calculating impairment, and allows for reversal of impairment with the exception of goodwill. Long-lived asset impairment is a one-step approach under IFRS and is assessed on the basis of recoverable amount, which is calculated as the higher of fair value less costs to sell or value in use (e.g., discounted cash flows). IFRS also requires impairment testing at the "cash-generating unit" (CGU) level, which is generally similar to the Canadian GAAP "asset group" level, but may result in a lower level of testing.

IFRS 3: Business Combinations
For the fiscal 2011 financial statements, the Canadian GAAP and IFRS standards with respect to business combinations will be converged. IFRS differs from the current Canadian GAAP standard in its treatment for transaction costs; contingent consideration and share consideration and future income taxes on loss carry forwards. However, IFRS 1 permits the Fund to apply the IFRS standard on a prospective basis without restating any previous business combinations.

The Fund has not yet quantified the effects of any differences between IFRS and Canadian GAAP applicable to the Fund.

The Fund is currently in the detailed impact assessment phase, which is in line with the IFRS conversion project plan of the Fund.

Financial Reporting Update (continued)

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.

There have been no changes in the Fund's internal controls over financial reporting during the three month period ended June 30, 2010 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.

End Notes (continued)

(A) (continued)

Future income tax recovery - the calculation of future income tax recoveries is a function of temporary differences between the financial reporting and the tax basis of balance sheet items for calculating tax expense and are separate from the daily operations of the Fund.

Provision for current income taxes – the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

Non-controlling interests - non-controlling interests represent a direct non-controlling interest in Cargojet Holdings Limited Partnership through Exchangeable LP units and the non-controlling shareholders of Cargojet Regional Partnership and PEAL (2009 only). 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.

Gain or loss on disposal of intangible assets - the gain or loss arising from the disposal of capital assets. As a non-cash item, the gain or loss on disposal of intangible assets has no impact on the determination of EBITDA and distributable cash.

Gain or loss on repurchase of debentures - the gain or loss arising from repurchase of debentures. As a non-cash item, the gain or loss on repurchase of debentures has no impact on the determination of EBITDA and distributable cash.

Non-cash lease expense - promissory note from SkyLink Express Inc. applied to lease aircraft payments. As a non-cash item, non-cash lease expense has no impact on the determination of EBITDA and distributable cash.

Change in fair value on non-hedge derivative - the gain or loss arising from mark to market adjustment on foreign exchange contracts. As a non-cash item, the fair value gain or loss on derivative contracts 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 and deposits incurred in the period; accordingly, this expense represents a different class of expense than those included in EBITDA.

End Notes (continued)

(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 Units of the Fund. The PEAL and CJR non-controlling interests are 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.