Consolidated financial statements of

CARGOJET INCOME FUND

For the three and nine month periods ended September 30, 2010 and 2009

(unaudited)

CARGOJET INCOME FUND
Consolidated Balance Sheets
(unaudited)

	September 30, 2010	December 31, 2009
	$	$
ASSETS		(Note 10)
CURRENT		
Cash	1,194,165	3,031,764
Accounts receivable	8,951,823	8,019,395
Materials and supplies	766,614	808,907
Prepaid expenses and deposits	2,269,638	3,558,439
Future income taxes (Note 5)	66,055	177,118
Note receivable (Note 10)	480,165	-
Derivative contracts (Note 12)	103,093	-
Assets of discontinued operations (Note 10)	3,269,584	11,747,036
	17,101,137	27,342,659
CAPITAL ASSETS	47,747,281	52,076,716
NOTE RECEIVABLE (NOTE 10)	1,694,636	-
INTANGIBLE ASSETS	1,000,000	1,000,000
DEPOSITS	4,940,059	3,859,283
DEFERRED HEAVY MAINTENANCE	3,167,767	2,132,212
GOODWILL	46,169,976	46,169,976
ASSETS HELD FOR SALE (NOTE 10)	867,156	2,231,962
	122,688,012	134,812,808
LIABILITIES		
CURRENT		
Accounts payable and accrued charges	11,160,996	10,635,422
Income taxes payable	1,390,282	1,946,834
Derivative contracts (Note 12)	-	538,713
Distributions payable (Note 7)	335,724	335,723
Current portion of long-term debt (Note 3)	622,965	666,150
Liabilities of discontinued operations (Note 10)	-	2,621,457
	13,509,967	16,744,299
LONG-TERM DEBT (NOTE 3)	16,415,157	16,470,022
CONVERTIBLE DEBENTURES (NOTE 4)	23,222,149	29,723,081
FUTURE INCOME TAXES (NOTE 5)	4,513,752	3,115,977
FUTURE INCOME TAXES ON ASSETS HELD FOR SALE (NOTE 10)	415,642	788,259
	58,076,667	66,841,638
NON-CONTROLLING INTERESTS (NOTE 6(b))	12,505,340	21,270,060
UNITHOLDERS' EQUITY		
ACCUMULATED OTHER COMPREHENSIVE LOSS	(198,378)	(360,691)
DEFICIT	(9,858,639)	(9,991,256)
	(10,057,017)	(10,351,947)
UNITHOLDERS' CAPITAL (NOTE 6(a))	59,106,288	53,517,349
CONTRIBUTED SURPLUS (NOTE 4)	1,487,759	1,490,981
CONVERSION OPTION (NOTE 4)	1,568,975	2,044,727
	52,106,005	46,701,110
	122,688,012	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 September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	$	$	$	$
		(Note 10)		(Note 10)
REVENUES	38,765,111	35,661,879	113,282,338	106,392,591
DIRECT EXPENSES	29,408,787	25,206,832	88,083,404	76,067,211
	9,356,324	10,455,047	25,198,934	30,325,380
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Sales and marketing	185,161	121,355	563,570	396,604
General and administrative	4,259,531	6,137,832	13,356,352	14,365,554
Loss (gain) on debenture redemption	-	(400,853)	273,265	(400,853)
Interest, net	846,439	861,319	2,566,604	2,560,295
Gain on derivative contracts (Note 12)	(103,093)	-	(360,806)	-
Amortization of capital assets	191,068	190,804	508,475	518,521
Amortization of intangible assets	-	-	-	4,447,209
	5,379,106	6,910,457	16,907,460	21,887,330
EARNINGS BEFORE INCOME TAXES, NON-CONTROLLING INTERESTS AND DISCONTINUED OPERATIONS	3,977,218	3,544,590	8,291,474	8,438,050
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 5)				
Current	832,682	1,799,118	1,387,420	1,501,028
Future	409,552	111,719	1,258,838	(634,692)
	1,242,234	1,910,837	2,646,258	866,336
EARNINGS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTERESTS	2,734,984	1,633,753	5,645,216	7,571,714
NON-CONTROLLING INTERESTS (NOTE 6(b))	532,501	462,823	1,099,120	1,947,313
NET EARNINGS FROM CONTINUING OPERATIONS	2,202,483	1,170,930	4,546,096	5,624,401
LOSS FROM DISCONTINUED OPERATIONS (NOTE 10)	(317,320)	(206,628)	(2,037,088)	(1,230,784)
NET INCOME	1,885,163	964,302	2,509,008	4,393,617
DEFICIT, BEGINNING OF PERIOD	(10,932,725)	(12,796,547)	(9,991,256)	(14,751,848)
REPURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 6(e))	-	785,902	-	1,186,818
DISTRIBUTIONS DECLARED IN THE PERIOD (NOTE 7)	(811,077)	(499,759)	(2,376,391)	(2,374,689)
DEFICIT, END OF PERIOD	(9,858,639)	(11,546,102)	(9,858,639)	(11,546,102)
BASIC EARNINGS (LOSS) PER TRUST UNIT				
- Continuing operations (Note 6(c))	0.34	0.19	0.73	0.87
- Discontinued operations (Note 6(c))	(0.05)	(0.03)	(0.33)	(0.19)
	0.29	0.16	0.40	0.68
DILUTED EARNINGS (LOSS) PER TRUST UNIT				
- Continuing operations (Note 6(c))	0.33	0.19	0.71	0.87
- Discontinued operations (Note 6(c))	(0.05)	(0.03)	(0.33)	(0.19)
	0.28	0.16	0.38	0.68

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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	$	$	$	$
NET INCOME	1,885,163	964,302	2,509,008	4,393,617
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency gains (losses) from hedging activities net of income taxes	-	(667,827)	-	243,130
Transfer of losses (gains) on foreign exchange contracts, net of income taxes, to net income	54,105	(488,208)	162,313	(1,412,083)
COMPREHENSIVE INCOME (LOSS)	1,939,268	(191,733)	2,671,321	3,224,664
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)				
Balance, beginning of period	(252,483)	1,429,194	(360,691)	1,442,112
Other comprehensive income (loss) for the period	54,105	(1,156,035)	162,313	(1,168,953)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), END OF PERIOD	(198,378)	273,159	(198,378)	273,159

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

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
	$	$	$	$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		(Note 10)		(Note 10)
OPERATING				
Income from continuing operations	2,202,483	1,170,930	4,546,096	5,624,401
Items not affecting cash				
Amortization of capital assets	1,548,436	1,722,216	4,644,400	3,914,187
Amortization of intangible assets	-	-	-	4,447,209
Accretion of convertible debentures	139,790	150,257	414,364	479,920
Loss (gain) on purchase of debenture	-	(400,853)	273,265	(400,853)
Gain on disposal of capital assets	-	(2,624)	-	-
Gain on disposal of intangibles	-	(160,399)	-	(160,399)
Non-cash interest on note receivable	(18,718)	-	(18,718)	-
Future income taxes	409,552	111,719	1,258,838	(634,692)
Transfer of (gains) losses on derivatives from other comprehensive income	54,105	(709,093)	162,313	(1,890,909)
Change in fair value on non-hedge derivatives	(103,093)	-	(360,806)	-
Non-controlling interests	532,501	462,823	1,099,120	1,947,313
Aircraft heavy maintenance amortization	791,707	415,999	1,969,660	1,387,672
Aircraft heavy maintenance expenditures	(1,041,384)	(407,854)	(3,005,215)	(1,962,881)
	4,515,379	2,353,121	10,983,317	12,750,968
Changes in non-cash working capital items and deposits				
Accounts receivable	840,686	(2,539,680)	(932,428)	(682,627)
Materials and supplies	(135,040)	(60,725)	42,293	164,914
Prepaid expenses and deposits	451,768	1,134,916	208,025	1,497,194
Accounts payable and accrued charges	(793,081)	(831,076)	525,574	(2,582,728)
Income taxes payable (recoverable)	897,746	3,245,521	(556,552)	2,996,566
Net inflow of cash from continuing operations	5,777,458	3,302,077	10,270,229	14,144,287
Net inflow (outflow) of cash from discontinued operations	813,359	535,171	(1,096,037)	(3,060,030)
NET INFLOW OF CASH FROM OPERATING ACTIVITIES	6,590,817	3,837,248	9,174,192	11,084,257
FINANCING				
Repayment of long-term debt	(2,483,559)	(65,406)	(3,730,019)	(3,124,767)
Increase in long-term debt	-	1,593,232	3,631,969	2,679,163
Proceeds from (payments on) disposition of derivatives	-	-	(281,000)	2,600,000
Purchase of Trust units (Note 6(e))	-	(1,789,199)	-	(2,354,400)
Repurchase of convertible debentures (Note 4)	-	(2,759,202)	(7,667,535)	(2,808,202)
Distributions paid to unitholders and non-controlling interest (Note 7)	(1,007,173)	(691,405)	(3,021,514)	(3,565,208)
NET OUTFLOW OF CASH FROM FINANCING ACTIVITIES	(3,490,732)	(3,711,980)	(11,068,099)	(6,573,414)
INVESTING				
Additions to capital assets	(390,269)	(1,032,848)	(1,511,438)	(4,912,288)
Proceeds from disposal of capital assets	81,472	-	272,949	55,410
Acquisition of business	-	(832,586)	-	(832,586)
Net outflow of cash from continuing operations	(308,797)	(1,865,434)	(1,238,489)	(5,689,464)
Net inflow of cash from discontinued operations	-	-	1,294,797	-
NET INFLOW (OUTFLOW) OF CASH FROM INVESTING ACTIVITIES	(308,797)	(1,865,434)	56,308	(5,689,464)
NET CHANGE IN CASH	2,791,288	(1,740,166)	(1,837,599)	(1,178,621)
CASH POSITION, BEGINNING OF PERIOD	(1,597,123)	1,130,739	3,031,764	569,194
CASH (OVERDRAFT) POSITION, END OF PERIOD	1,194,165	(609,427)	1,194,165	(609,427)
Supplementary financial information				
Interest paid	1,698,913	163,454	3,138,862	537,493
Income taxes paid (refunded)	(4,248)	(1,445,422)	2,006,353	(1,494,772)
Equipment purchased under capital lease	-	-	-	38,474

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

1. NATURE OF THE BUSINESS

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

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

2. 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 nine month periods ended September 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 renewed its revolving credit facility with a Canadian chartered bank on September 30, 2010. The credit facility is to a maximum of $25.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. 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 facility is 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 assets of PEAL and a guarantee 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

3. LONG-TERM DEBT (CONTINUED)

to heavy maintenance reserve requirements of the aircraft assets secured by the loans. These cash deposits in the amount of $476,901 as at September 30, 2010 and $454,144 as at December 31, 2009 are included in cash in the consolidated balance sheets.

Long-term debt consists of the following:

	September 30, 2010	December 31, 2009
	$	$
Revolving credit facility	11,573,992	11,130,589
Fixed loans - Prince Edward Air Ltd.	5,220,823	5,577,496
Financing loan	-	29,043
Obligations under capital leases	243,307	399,044
	17,038,122	17,136,172
Less current portion	622,965	666,150
	16,415,157	16,470,022

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

	$
2010 (remainder of the year)	108,207
2011	438,719
2012	448,742
2013	459,617
2014	471,418
>2014	3,294,120
	5,220,823
Less current portion	435,557
	4,785,266

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)	54,739
2011	160,445
2012	35,876
	251,060
Less interest	7,753
Obligations under capital leases	243,307
Less current portion	187,408
	55,899

Interest on long-term debt for the three and nine month periods ended September 30, 2010 totaled $261,167 and $766,011, respectively (September 30, 2009 - $163,454 and $537,442, respectively).

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.

4. CONVERTIBLE DEBENTURES (CONTINUED)

In the three and nine month periods ended on September 30, 2009, under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expired on March 16, 2010, the Fund repurchased $3,519,000 principal amount of the Debentures ($3,209,180 net of related unamortized issuance costs and the portion allocated to the conversion option) at a cost of $811 per Debenture for an aggregate purchase price of $2,808,202. The repurchase of the debentures resulted in a gain of $400,853, relating to the debt component and the transfer within unitholders' equity of $233,939 from conversion option to contributed surplus relating to the equity component.

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

	September 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	1,373,591	1,249,504
Balance	23,222,149	29,723,081

Interest expense on the debentures for the three and nine month periods ended September 30, 2010 totaled $605,871 and $1,820,899, respectively (September 30, 2009 - $655,238 and $2,318,113, respectively).

5. INCOME TAXES

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

	September 30, 2010	December 31, 2009
	$	$
Capital assets	5,067,182	4,574,658
Intangible assets	(668,908)	(702,830)
Operating loss carryforward	(1,650,424)	(1,537,755)
Note receivable	(121,393)	-
Financing costs	(99,257)	(478,832)
Derivative contracts	(66,055)	(177,118)
Deferred heavy maintenance	1,986,552	1,260,736
Net future income tax liability	4,447,697	2,938,859
Future income tax asset - current portion	(66,055)	(177,118)
Future income tax liability - long-term	4,513,752	3,115,977

5. INCOME TAXES (CONTINUED)

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	$	$	$	$
Earnings before income taxes, non-controlling interest and discontinued operations	3,977,218	3,544,590	8,291,474	8,438,050
Income tax provision at the combined basic rate	1,332,368	1,187,438	2,777,644	2,826,747
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	-	2,128,393	-	1,290,032
Non-deductible portion of amortization of intangible assets	-	-	-	577,297
Settlement on dispute with tax authorities	-	-	-	(383,090)
Permanent and other differences	(90,134)	(1,404,994)	(131,386)	(3,444,650)
Income tax provision	1,242,234	1,910,837	2,646,258	866,336

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

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

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.

(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 September 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 (September 30, 2010 – 1,556,307; December 31, 2009 - 2,232,955). There is no longer a non-controlling equity interest in the Cargojet Regional Partnership as at September 30, 2010 (December 31, 2009 – 45%) as the Fund disposed of its regional business (refer to Note 10 for details). The following provides details of the changes in the non-controlling interests during the period for each of these components:

Non-controlling interests – CHLP

	Nine months ended	
	Sept 30, 2010	Sept 30, 2009
	$	$
Non-controlling interests, beginning of period	18,443,275	17,396,507
Share of income of CHLP in continuing operations	1,099,120	1,947,313
Share of loss of CHLP in discontinued operations	(802,992)	(445,368)
Distributions declared in the period (Note 7)	(645,124)	(813,913)
Units converted (Note 6(d))	(5,588,939)	-
Non-controlling interests, end of period	12,505,340	18,084,539

Non-controlling interests – Cargojet Regional Partnership

	Nine months ended	
	September 30, 2010	September 30, 2009
	$	$
Non-controlling interests, beginning of period	2,826,785	-
Formation of partnership on July 29, 2009	-	3,200,001
Share of loss of Cargojet Regional Partnership	(292,357)	(244,508)
Sale of Cargojet Regional Partnership	(2,534,428)	-
Non-controlling interests, end of period	-	2,955,493

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

Non-controlling interests – PEAL

	Nine months ended	
	September 30, 2010	September 30, 2009
	$	$
Non-controlling interests, beginning of period	-	2,387,099
Share of loss of PEAL	-	(1,369,857)
Purchase of non-controlling interest	-	(1,017,242)
Non-controlling interests, end of period	-	-

(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 6,243,781 for the three and nine month periods ended September 30, 2010, respectively (three and nine month periods ended September 30, 2009 – 6,202,274 and 6,469,813, respectively). For the purpose of determining diluted earnings per Trust Unit for the three and nine month periods ended September 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 nine month period ended September 30, 2009, the weighted average number of Trust Units and the Exchangeable LP Units have been combined totaling 8,702,768. The Fund's convertible debentures are factored into the calculation of diluted earnings per Trust Unit for the three month period ended September 30, 2010 as the conversion of these debentures would be dilutive. The Fund's convertible debentures were not factored into the calculation of diluted earnings per Trust Unit for the nine month period ended September 30, 2010 as the 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 nine month period ended September 30, 2010.

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

Under the terms of a normal course issuer bid that expired on November 25, 2009, during the three and nine month periods ended September 30, 2009, the Fund repurchased 399,111 and 579,884 Trust Units at a cost of $1,789,199 and $2,354,400, or $4.48 and $4.06 per Trust Unit, respectively. For the three and nine month periods ended September 30, 2009, the difference of $1,132,884 and $1,845,374, respectively, between the stated capital of Trust Units repurchased (allocated $3,707,986 and $5,386,594, respectively, as a reduction of Unitholders' capital and $785,902 and $1,186,818, respectively, as a reduction of the deficit) and the cost of redemption was credited to contributed surplus.

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 nine month periods ended September 30, 2010 were $811,077 and $2,376,391, respectively, to unitholders and $196,096 and $645,124, respectively, to Exchangeable LP unitholders (three and nine month periods ended September 30, 2009 – $499,759 and $2,660,860, respectively, to unitholders and $180,870 and $813,913, 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 nine months ended September 30, 2010.

	Distribution	Unitholders		LP Unitholders		Total		
Record Date	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	270,359	65,365	65,365	335,724	0.0420	335,724
July 31, 2010	August 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
August 31, 2010	September 15, 2010	270,359	270,359	65,366	65,366	335,725	0.0420	335,725
September 30, 2010	October 15, 2010	270,359	-	65,365	-	335,724	0.0420	-
		2,376,391	2,347,971	645,124	673,543	3,021,515	0.3780	3,021,514

7. DISTRIBUTIONS (CONTINUED)

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

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

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

8. ECONOMIC DEPENDENCE

During the three and nine month periods ended September 30, 2010, the Fund had sales to three customers that represented 56% and 56%, respectively, of the total revenues (September 30, 2009 – 58% and 54%, respectively). These sales are provided under service agreements that expire over various periods to September 2018. Two of these customers had sales in excess of 10% of total revenues in the first three quarters of 2010 (two 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 provided 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, that was reduced by approximately $0.7 million that accounts for the difference between the amounts due to Cargojet 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.

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

The note receivable due from SL Express is secured by a first charge on certain aircraft owned by SL Express.

The balance of the note receivable is comprised of the following:

	September 30 2010
	$
Note receivable	2,174,801
Less: Note receivable - current portion	480,165
Note receivable - long-term portion	1,694,636

The note receivable is discounted at an annual rate of 6%.

The results of operations of the Partnership have been classified as 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. The assets and liabilities have been classified on the consolidated balance sheets as assets and liabilities from 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 nine month periods ended September 30, 2009 have been restated for purposes of comparability.

The loss of $317,320 on discontinued operations for the three month period ended September 30, 2010 includes the write down of assets of $1,616,035, a corresponding future tax liability recovery of $1,160,031 and a loss of $218,500 for severances and other expenses partially offset by non-controlling interest of $357,184 in the loss. The loss of $2,037,088 on discontinued operations for the nine month period ended on September 30, 2010 includes goodwill impairment of $695,391, the write down of assets of $3,218,617, a corresponding future tax liability recovery of $1,649,753 and a loss of $868,182 for operating activities partially offset by non-controlling interest of $1,095,349.

The net loss from discontinued operations is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
	$	$	$	$
Total revenue from discontinued operations	-	5,899,196	12,019,600	16,486,747
Loss from operating activities	218,500	612,991	868,182	3,290,518
Loss on impairment of goodwill	-	-	695,391	-
Loss on write down of assets of discontinued operations	1,616,035	-	3,218,617	-
Less: taxes on above	(1,160,031)	-	(1,649,753)	-
Less: Non-controlling interest	(357,184)	(406,363)	(1,095,349)	(2,059,734)
Loss on discontinued operations	317,320	206,628	2,037,088	1,230,784

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

The sale agreement also included the sale 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 September 30, 2010. The assets and liabilities of discontinued operations at September 30, 2010 and December 31, 2009 are as follows:

	Sept 30, 2010	Dec 31, 2009
Assets of discontinued operations	$	$
Accounts receivable	-	2,198,563
Notes receivable	-	2,866,667
Inventory of rotables, consumables, and other fixed assets	2,482,170	2,482,170
Future income taxes	787,414	-
Contracts	-	3,503,705
Goodwill	-	695,931
	3,269,584	11,747,036
Liabilities of discontinued operations		
Accounts payable and accrued liabilities	-	1,881,735
Future income taxes	-	739,722
	-	2,621,457

Assets held for sale

Following the sale of the regional business, three aircraft that were used in the regional operations but not sold as part of the sale of the Partnership were approved for disposal. Accordingly, these assets were valued at the lower of their carrying value and estimated fair value. An amount of $1,100,000 has been written off as loss from discontinued operations in the three month period ended September 30, 2010. The estimated fair value of $867,156 of the aircraft has been presented as assets held for sale, as well as the related future income tax liability balance of $415,642.

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.

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.

As at December 31, 2009, the Fund recorded outstanding U.S. dollar forward contracts with a negative fair value of $538,713 as a liability. These forward exchange purchase contracts had been designated as cash flow hedges and, accordingly, the fair value of the contracts, net of a future income tax asset of $178,022, had been recorded in accumulated other comprehensive loss.

On January 1, 2010 the Fund discontinued hedge accounting and is recognizing the deferred loss on the outstanding foreign exchange contracts as at January 1, 2010 over the period to October 2011 in the same periods in which the hedged anticipated transactions would affect net income. During the three and nine month periods ended September 30, 2010, a loss of $54,105 (net of taxes of $26,703) and $162,313 (net of taxes of $80,108), respectively, was recognized and transferred from other comprehensive income to net income.

In May 2010, the Fund sold all of its outstanding U.S. dollar forward purchase contracts. A pre-tax gain of $257,713 was realized in May 2010 from the sale of these contracts.

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. These contracts had a fair value of $103,093 as at September 30, 2010. This unrealized gain was recorded in income for the three and nine month periods ended September 30, 2010.

13. SUBSEQUENT EVENTS

In October 2010, the Fund entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from October 2010 to December 2011 for an aggregate total of USD $7.5 million.