CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Nine Month Periods Ended September 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 and nine month periods ended September 30, 2010. The following also includes a discussion of and comparative operating results for the three and nine month periods ended September 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 November 4th, 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 nine month periods ended September 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 7 and 10, 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
- 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.

The Fund also leases its regional aircraft. The Fund owns twelve regional aircraft as at September 30, 2010 that are held for sale and lease. Five of the aircraft have been leased to third parties.

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 (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.

Recent Events (Continued)

Sale of Cargojet Regional Partnership (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 from discontinued operations	317,320	206,628	2,037,088	1,230,784

Recent Events (Continued)

Sale of Cargojet Regional Partnership (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:

	September 30, 2010	December 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 of the tweleve aircraft that were held for sale and lease 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.

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.

Recent Events (Continued)

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. 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.

Purchase of U.S. Dollar Forward Purchase Contracts

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.

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.

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.

- 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.

Reconciliation of Cash from Operating Activities to Distributable Cash [B]
(in thousands)

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
			$	$
Cash inflow from operations before changes in non-cash working capital items [1]	**4,515**	2,353	**10,983**	12,751
Changes in non-cash working capital items [1]				
Accounts receivable	**841**	(2,540)	**(932)**	(683)
Materials and supplies	**(135)**	(61)	**42**	165
Prepaid expenses and deposits	**452**	1,135	**208**	1,497
Accounts payable and accrued charges	**(793)**	(831)	**526**	(2,583)
Income taxes payable (recoverable)	**898**	3,246	**(557)**	2,997
	5,778	3,302	**10,270**	14,144
Less:				
Maintenance capital expenditures	**308**	673	**1,429**	1,866
Income taxes paid (refunded)	**(4)**	(1,799)	**(4)**	(1,550)
Change in fair value on non-hedge derivatives	**-**	-	**(258)**	-
Transfer of loss (gain) on derivatives from other comprehensive income	**54**	(709)	**162**	(1,891)
Heavy maintenance deposits	**360**	82	**1,389**	710
Repayment of long-term debt obligation under capital lease	**52**	50	**156**	146
Total changes in non-cash working capital items	**1,263**	950	**(713)**	1,394
Repurchase of Cargojet Income Fund debentures	**-**	2,775	**7,668**	2,808
Repurchase of Cargojet Income Fund units	**-**	1,789	**-**	2,354
Distributable cash from continuing operations	**3,745**	(509)	**441**	8,307
Distributable cash from discontinued operations	**(254)**	(68)	**(86)**	(1,133)
Total distributable cash	**3,491**	(577)	**355**	7,174
Average number of trust units outstanding - basic (in thousands of units)	**6,437**	6,202	**6,244**	6,470
Average number of trust units outstanding - diluted (in thousands of units) [2]	**9,534**	8,435	**7,993**	8,703
Distributable cash per unit - diluted [3]	**$ 0.37**	NM	**$ 0.04**	$ 0.82
Cash distributions	**1,007**	681	**3,021**	3,189
Cash distributions as a percentage of distributable cash [3]	**29%**	NM	**851%**	44%

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

(2) For the purpose of calculating distributable cash per unit – diluted for the nine month period ended September 30, 2010 and the three and nine months periods ended September 30, 2009, the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating distributable cash per unit – diluted for the three month period ended September 30, 2010, 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 and distributable cash per unit is not meaningful ("NM") for the three month period ended September 30, 2009 due to the fact that there was a distributable cash deficit in the three month period ended September 30, 2009.

(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 September 30,		Nine Month Period Ended September 30,	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	$	$
Revenue	**38,765**	35,662	**113,282**	106,392
Direct expenses	**29,409**	25,207	**88,083**	76,067
	9,356	10,455	**25,199**	30,325
Selling, general and administrative expenses				
Sales and marketing	**185**	122	**564**	397
General and administrative	**4,260**	6,138	**13,356**	14,365
Loss (gain) on debenture repurchase	**-**	(401)	**273**	(401)
Interest, net	**846**	861	**2,567**	2,560
Gain on derivative contracts	**(103)**	-	**(361)**	-
Amortization of capital assets	**191**	191	**509**	519
Amortization of intangible assets	**-**	-	**-**	4,447
	5,379	6,911	**16,908**	21,887
Earnings before income taxes and non-controlling interest	**3,977**	3,544	**8,291**	8,438
Provision for (recovery of) income taxes				
Current	**832**	1,799	**1,387**	1,501
Future	**410**	111	**1,259**	(635)
	1,242	1,910	**2,646**	866
Earnings from continuing operation before non-controlling interests	**2,735**	1,634	**5,645**	7,572
Non-controlling interests	**533**	463	**1,099**	1,947
Net income from continuing operations	**2,202**	1,171	**4,546**	5,625
Loss from discontinued operations	**(317)**	(207)	**(2,037)**	(1,231)
Net income	**1,885**	964	**2,509**	4,394
Basic earnings (loss) per trust unit				
Continuing operations	**0.34**	0.19	**0.73**	0.87
Discontinued operations	**(0.05)**	(0.03)	**(0.33)**	(0.19)
	$ 0.29	$ 0.16	**$ 0.40**	$ 0.68
Diluted earnings (loss) per trust unit [(1)]				
Continuing operations	**0.33**	0.19	**0.71**	0.87
Discontinued operations	**(0.05)**	(0.03)	**(0.33)**	(0.19)
	$ 0.28	$ 0.16	**$ 0.38**	$ 0.68
Average number of trust units - basic (in thousands of units)	**6,437**	6,202	**6,244**	6,470
Average number of trust units - diluted (in thousands of units) [(1)]	**9,534**	8,435	**7,993**	8,703
Total assets	**122,688**	130,607	**122,688**	130,607
Total long-term liabilities	**44,567**	42,888	**44,567**	42,888

(1) For the purpose of calculating diluted earnings per unit for the nine month period ended September 30, 2010 and the three and nine months periods ended September 30, 2009, the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating diluted earnings per unit for the three month period ended September 30, 2010, the weighted average number of Units, the weighted average number of Exchangeable LP units, and the fund's convertible debentures have been combined.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	September 30 2010 (unaudited)	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)
Revenue (in thousands)	$ 38,765	$ 37,751	$ 36,766	$ 36,763	$ 35,662	$ 33,999	$ 36,732	$ 46,833
Net income (loss) from continuing operations (in thousands)	$ 2,202	$ 1,780	$ 564	$ 4,082	$ 1,170	$ 2,784	$ 1,669	$ 2,806
Net loss from discontinued operations (in thousands)	$ (317)	$ (1,494)	$ (226)	$ (310)	$ (206)	$ (574)	$ (450)	$ (408)
Basic earnings (loss) per trust unit								
- Continuing operations	0.34	0.28	0.10	0.67	0.19	0.43	0.25	0.42
- Discontinued operations	(0.05)	(0.23)	(0.04)	(0.05)	(0.03)	(0.09)	(0.07)	(0.06)
	$ 0.29	$ 0.05	$ 0.06	$ 0.62	$ 0.16	$ 0.34	$ 0.18	$ 0.36
Diluted earnings (loss) per trust unit [1]								
- Continuing operations	0.33	0.28	0.09	0.67	0.20	0.41	0.25	0.42
- Discontinued operations	(0.05)	(0.24)	(0.04)	(0.05)	(0.04)	(0.09)	(0.07)	(0.06)
	$ 0.28	$ 0.04	$ 0.05	$ 0.62	$ 0.16	$ 0.32	$ 0.18	$ 0.36
Average number of trust units - basic (in thousands of units)	6,437	6,437	5,851	6,063	6,202	6,547	6,665	6,693
Average number of trust units - diluted [1] **(in thousands of units)**	9,534	7,993	7,993	10,304	8,435	11,005	8,898	8,926

(1) For the purpose of calculating diluted earnings per unit for the three month periods ended September 30, 2009, the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating diluted earnings per unit for the three month period ended September 30, 2010, the weighted average number of Units, the weighted average number of Exchangeable LP units, and the fund’s convertible debentures have been combined.

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

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA [(A)]:				
Net income from continuing operations	**2,202**	1,171	**4,546**	5,625
Add:				
Interest	**846**	861	**2,567**	2,560
Non-controlling interests	**532**	463	**1,099**	1,947
Provision for (recovery of) current income taxes	**833**	1,799	**1,387**	1,501
Provision for (recovery of) future income taxes	**410**	111	**1,259**	(635)
(Gain) loss on disposal of capital assets	**-**	(3)	**-**	-
Gain on disposal of intangible assets	**-**	(160)	**-**	(160)
Change in fair value on non-hedge derivatives	**(103)**	-	**(103)**	-
Loss (gain) on debenture repurchase	**-**	(401)	**273**	(401)
Amortization of capital assets	**1,548**	1,722	**4,644**	3,914
Amortization of intangible assets	**-**	-	**-**	4,447
Aircraft heavy maintenance amortization	**792**	416	**1,970**	1,388
Aircraft heavy maintenance expenditures	**(1,041)**	(408)	**(3,005)**	(1,963)
Heavy maintenance deposits [(1)]	**(360)**	(82)	**(1,389)**	(710)
EBITDA from continuing operations	**5,659**	5,489	**13,248**	17,513
EBITDA from discontinued operations	**(218)**	(61)	**(131)**	(775)
Total EBITDA [(A)]	**5,441**	5,428	**13,117**	16,738
Reconciliation of EBITDA [(A)] to Distributable Cash [(B)]:				
EBITDA from continuing operations	**5,659**	5,489	**13,248**	17,513
Less:				
Maintenance capital expenditures	**308**	673	**1,429**	1,866
Interest [(2)]	**718**	711	**2,163**	2,081
Provision (recovery) for current income taxes	**836**	-	**1,391**	(49)
Repayment of long-term debt obligation under capital lease	**52**	50	**156**	146
Repurchase of Cargojet Income Fund debentures	**-**	2,775	**7,668**	2,808
Repurchase of Cargojet Income Fund units	**-**	1,789	**-**	2,354
Distributable cash from continued operations	**3,745**	(509)	**441**	8,307
Distributable cash from discontinued operations	**(254)**	(68)	**(86)**	(1,133)
Total distributable cash [(B)]	**3,491**	(577)	**355**	7,174

(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 nine month periods ended September 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 Period Ended September 30, 2010 and 2009

- Total revenue for the three month period ended September 30, 2010 was $38.8 million as compared to $35.7 million for the same period in 2009, representing an increase of $3.1 million or 8.7%

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2010 was $0.638 million per operating day as compared to $0.604 million per operating day for same period in 2009, representing an increase of 5.6%.

- EBITDA for the three month period ended September 30, 2010 was $5.7 million as compared to $5.5 million for the same period in 2009, an increase of $0.2 million or 3.6%.

- Distributable Cash was $3.7 million for the three month period ended September 30, 2010 as compared to a deficit of ($0.5) million for the same period in 2009, an increase of $4.2 million.

Total revenue for the three month period ended September 30, 2010 was $38.8 million as compared to $35.7 million for the same period in 2009, representing an increase of $3.1 million or 8.7%. The increase in revenues was due primarily to higher revenues from overnight contracts, an increase in ACMI revenue, and an increase in leasing 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 September 30, 2010 was $31.9 million compared to $30.2 million for the same period in 2009, an increase of $1.7 million or 5.6%. The increase was due to $1.3 million increase in revenues from overnight contracts and $0.4 million increase in revenues from ACMI contracts.

Fuel surcharges and other cost pass-through revenues were $6.1 million for the three month period ended September 30, 2010 as compared to $5.2 million for the same period in 2009, representing an increase of $0.9 million or 17.3%. The increase was due primarily to higher fuel prices that were passed onto customers.

Other revenues were $0.7 million for the three month period ended September 30, 2010 as compared to $0.4 million for the same period in 2009, an increase of $0.3 million or 75%. The increase was due primarily to an increase in aircraft leasing revenue related to the Fund's regional aircraft.

Direct Expenses

Total direct expenses were $29.4 million for the three month period ended September 30, 2010 as compared to $25.2 million for the same period in 2009, representing an increase of $4.2 million or 16.7%. As a percentage of revenue, direct expenses increased from 70.6% in 2009 to 75.8% for the same period in 2010. The overall increase in direct expenses was due primarily to higher fuel prices, absence of foreign exchange gains in 2010, increases in depreciation, heavy maintenance amortization, aircraft costs, other pass-through costs, and crew costs.

Highlights for the Three Month Period Ended September 30, 2010 and 2009 (Continued)

Direct Expenses (Continued)

Fuel costs were $9.9 million for the three month period ended September 30, 2010 as compared to $7.9 million for the same period in 2009. The $2.0 million or 25.3% increase in fuel costs were due to higher fuel prices and increase in block hours. The cost incurred by the Fund due to higher fuel prices was passed on to customers as an increase in their fuel surcharges.

Foreign exchange gains and losses decreased from a gain of $0.7 million in 2009 to a charge of $0.1 million in 2010. 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 expense increased from $1.0 million in 2009 to $1.4 million in 2010, an increase of $0.4 million or 40%. The increase was due primarily to the reclassification of depreciation expense in the prior year related to the operations of Prince Edward Air Ltd. ("PEAL") as discontinued operations. For the period from January 1, 2009 to July 31, 2009, all of the depreciation expense recorded under PEAL has been reclassified as loss from discontinued operations. Upon the formation of Cargojet Regional Partnership ("CJR"), beginning August 1, 2009 all depreciation expense recorded under PEAL has been classified as expenses from continuing operations. Depreciation expense recorded in the three month period ended September 30, 2010 includes depreciation of regional aircraft that are currently under lease to third parties.

Aircraft costs increased from $4.3 million in 2009 to $4.4 million in 2010, an increase of $0.1 million or 2.3%. The increase was due primarily to higher aircraft insurance premiums, offset by the effect of the foreign exchange variance of the lease payments that are denominated in U.S. dollars.

Heavy maintenance amortization costs were $0.8 million for the three month period ended September 30, 2010 as compared to $0.4 million for the same period in 2009, an increase of $0.4 million or 100%. The variance was due to timing of the maintenance required by each aircraft. Heavy maintenance of aircraft occur at regular and predetermined intervals and costs related to these are deferred by Fund and amortized over a period of 18 to 24 months until the next scheduled maintenance.

Other pass-through costs including handling, navigation, landing and parking were $4.4 million for the three month period ended September 30, 2010 as compared to $4.2 million for the same period in 2009. The $0.2 million or 4.8% increase in costs was due to increased block hours in 2010.

Maintenance costs were $2.2 million for the three month period ended September 30, 2010 as compared to $2.2 million for the same period in 2009. The reduction in maintenance staff headcount was offset by higher wage rates.

Highlights for the Three Month Period Ended September 30, 2010 and 2009 (Continued)

Direct Expenses (Continued)

Total crew costs including salaries, training and positioning were $2.3 million for the three month period ended September 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 was due to the additional crew related to the increase in ACMI and charter activity.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $3.7 million for the three month period ended September 30, 2010 as compared to $3.8 million for the same period in 2009. The decrease of $0.1 million or 2.6% was due primarily to lower linehaul costs associated with lower core overnight customer volumes on certain routes

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $4.5 million for the three month period ended September 30, 2010 compared to $6.3 million for the same period in 2009, a decrease of $1.8 million or 28.6%. The decrease was due primarily to a $0.8 million decrease in management and employee bonuses, a $0.7 million decrease in transaction costs for the formation of CJR in the prior year, and a $0.3 million decrease in salary and other costs achieved through staff reductions and reduced discretionary spending.

EBITDA

EBITDA for the three months period ended September 30, 2010 was $5.7 million or 14.7% of revenue, compared to $5.5 million or 15.4% of revenue for the same period in 2009. The increase in EBITDA of $0.2 million or 3.6% was due primarily to the following:

- A decrease in gross margin due primarily to lower yields partly offset by increase in core overnight revenue
- An increase in heavy maintenance deposits and expenditures
- A decrease in administrative costs due to the decrease in management and employee bonuses and transaction costs for the formation for CJR in the prior year

Amortization

Amortization expense of the Fund includes 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 as well as a result of the acquisition of PEAL. There was no amortization expense recognized for quarter due to discontinued regional operations. As well, all the intangibles related to the initial public offering were fully amortized in the prior year.

Highlights for the Three Month Period Ended September 30, 2010 and 2009 (Continued)

Interest

Interest expense was $0.8 million for the three month period ended September 30, 2010, compared to interest expense of $0.9 million for the three month period ended September 30, 2009. The decrease of $0.1 million or 11.1% was due to decrease in long-term debt and debentures.

Current Income Taxes

The current income taxes for the three month periods ended September 30, 2010 and September 30, 2009 were $0.8 million and $1.8 million respectively, a decrease of $1.0 million or 55.5%.

Future Income Taxes

The future income tax expense of $0.4 million for the three month period ended September 30, 2010 compared to future income tax recovery of $0.1 million in the same period in 2009 and represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Non-controlling Interests

Net non-controlling interests were a charge to earnings of $0.5 million for the three month period ended September 30, 2010, as compared to a charge to earnings of $0.5 million for the three month period ended September 30, 2009. Non-controlling interests represent the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders.

Distributable Cash

Distributable cash was a surplus of $3.7 million for the three month period ended September 30, 2010, compared to a deficit of ($0.5) for the three month period ended September 30, 2009. The increase in distributable cash of $4.2 million was due primarily to the Fund's purchase of $4.6 million of its own debentures and units in 2009, offset by timing differences of income tax expenses.

Highlights for the Three Month Period Ended September 30, 2010 and 2009 (Continued)

Distributions

Total distributions declared for the three month period ended September 30, 2010 were $1.0 million or $0.126 per unit. In comparison, total distributions declared for the three month period ended September 30, 2009 were $0.7 million or $0.081 per unit. The monthly distributions per unit were $0.042 per unit in 2010.

Record Date	Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	LP Unitholders Declared	LP Unitholders Paid	Total Declared	Total Per Unit	Total 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

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended September 30, 2010 was $6.6 million as compared to $3.8 million for the same period in 2009. The $2.8 million improvement in cash for the third quarter of 2010 as compared to the same period in 2009 was due primarily to an increase in net operating income, the reduction in accounts receivable due to timing of customer payments and the reduction of prepayments.

Cash used in financing activities during the three month period ended September 30, 2010 of $3.5 million was due primarily to the repayment of long-term debt of $2.5 million and distributions paid to unitholders of $1.0 million.

Cash used in investing activities during the three month period ended September 30, 2010 was $0.3 million and was comprised of net capital asset additions of $0.4 million offset by proceeds from disposal of capital assets of $0.1 million.

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, 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.

Highlights for the Three Month Period Ended September 30, 2010 and 2009 (Continued)

Liquidity and Capital Resources (Continued)

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 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.

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

Net capital asset additions were $0.4 million for the three month period ended September 30, 2010 as compared to $1.0 million for the same period in 2009. Net capital additions for the three month period ended September 30, 2010 were comprised of $0.4 million of maintenance capital expenditures. In comparison, net capital additions for the three months ended September 30, 2009 were comprised of $0.5 million of maintenance capital expenditures, $0.6 million of growth capital expenditures, and a disposal of aircraft spare parts inventory of $0.1 million.

Highlights for the Nine Month Period Ended September 30, 2010 and 2009

- Total revenue for the nine month period ended September 30, 2010 was $113.3 million as compared to $106.4 million for the same period in 2009, representing an increase of $6.9 million or 6.5%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2010 was $0.617 million per operating day as compared to $0.601 million per operating day for same period in 2009, representing an increase of 2.6%.

- EBITDA for the nine month period ended September 30, 2010 was $13.2 million as compared to $17.5 million for the same period in 2009, a decrease of $4.3 million or 24.6%.

- Distributable Cash was $0.4 million for the nine month period ended September 30, 2010 as compared to $7.2 million for the same period in 2009, a decrease of $6.8 million or 94.4%.

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009

Revenue

Total revenue for the nine month period ended September 30, 2010 was $113.3 million as compared to $106.4 million for the same period in 2009, representing an increase of $6.9 million or 6.5%. The increase in revenues was due to increased core overnight revenues, ACMI revenues, fuel pass-through revenues, charter revenue, and aircraft leasing revenues. .

Revenue related to the core overnight and ACMI cargo businesses, excluding fuel surcharges and other cost pass-through revenues, for the nine month period ended September 30, 2010, was $93.2 million compared to $90.8 million for the same period in 2009, an increase of $2.4 million or 2.6%. This increase in core overnight revenues was due to higher volumes from the core overnight business, increased charter activity and higher ACMI revenues.

Fuel surcharges and other cost pass-through revenues were $18.0 million for the nine month period ended September 30, 2010 as compared to $14.8 million for the same period in 2009, an increase of $3.2 million or 21.6%. The increase is due to increased block hours and higher fuel prices that resulted in an increase in fuel surcharges billed to customers.

Other revenues were $2.1 million for the nine month period ended September 30, 2010 as compared to $0.9 million for the same period in 2009, an increase of $1.2 million or 133.3%. The increase was due primarily to the lease of the Fund's regional aircraft.

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009 (Continued)

Direct Expenses

Total direct expenses were $88.1 million for the nine month period ended September 30, 2010 as compared to $76.1 million for the same period in 2009, representing an increase of $12.0 million or 15.8%. As a percentage of revenue, direct expenses increased from 71.5% in 2009 to 77.8% for the same period in 2010. The overall increase in direct expenses was due primarily to higher fuel prices, the absence of foreign exchange gains, higher depreciation and maintenance expenses.

Fuel costs were $28.5 million for the nine month period ended September 30, 2010 as compared to $22.5 million for the same period in 2009. The $6.0 million or 26.7% increase in fuel costs were due to higher fuel prices and an increase in block hours. The increased costs incurred by the Fund due to higher fuel prices were passed onto customers as an increase in their fuel surcharges.

Foreign exchange gains decreased from a gain of $2.1 million in the nine months ended September 30, 2009 compared to a charge of $0.2 million for the same period in 2010. 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 affect net income.

Depreciation expense increased from $3.4 million in 2009 to $4.1 million in 2010, an increase of $0.7 million or 20.6%. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in the second quarter of 2009 and reclassification of depreciation to losses from discontinued operations for part of 2009 related to Prince Edward Air Limited ("PEAL") operations. For the period from January 1, 2009 to July 31, 2009, all of the depreciation expense recorded under PEAL has been reclassified as loss from discontinued operations. Upon the formation of Cargojet Regional Partnership ("CJR"), beginning August 1, 2009 all depreciation expense recorded under PEAL has been classified as expenses from continuing operations. Depreciation expense recorded in the nine month period ended September 30, 2010 includes depreciation of regional aircraft that are currently under lease to third parties.

Other pass-through costs including handling, navigation, landing and parking were $13.1 million for the nine month period ended September 30, 2010 as compared to $12.6 million for the same period in 2009. The $0.5 million or 4.0% increase in costs was due to the addition of an ACMI contract in the fourth quarter of 2009.

Maintenance costs were $7.6 million for the nine month period ended September 30, 2010 as compared to $6.7 million for the same period in 2009, an increase of $0.9 million or 13.4%. The increase in maintenance costs was due primarily to the additional charter and ACMI block hours flown.

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009 (Continued)

Direct Expenses (Continued)

Heavy maintenance amortization costs were $2.0 million for the nine month period ended September 30, 2010 as compared to $1.4 million for the same period in 2009, an increase of $0.6 million or 42.9%. The variance was due to timing of the maintenance required by each aircraft. Heavy maintenance of aircraft occur at regular and predetermined intervals and costs related to these are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled maintenance.

Aircraft costs including engine reserves, airframe reserves and sub-charter lease costs were $13.1 million for the nine month period ended September 30, 2010 as compared to $12.9 million for the same period in 2009. The increase of $0.2 million or 1.6% was due primarily to higher aircraft insurance premiums and increased reserves as a result of increased hours flown. This was partially offset by the effect of the foreign exchange variance of the lease payments that are denominated in U.S. dollars.

Total crew costs including salaries, training and positioning were $6.9 million for the nine month period ended September 30, 2010 as compared to $6.3 million for the same period in 2009, an increase of $0.6 million or 9.5%. The increase in costs was due to additional crew costs incurred for the increased ACMI and charter activities, as well as higher salaries compared to 2009.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $12.2 million for the nine month period ended September 30, 2010 as compared to $12.2 million for the same period in 2009.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $13.9 million for the nine month period ended September 30, 2010 compared to $14.8 million for the same period in 2009. The decrease of $0.9 million or 6.1% was due primarily to reduction of Management incentive plans and other employee bonuses of $0.8 million.

EBITDA

EBITDA for the nine month period ended September 30, 2010 was $13.2 million or 11.7% of revenue, compared to $17.5 million or 16.4% of revenue for the same period in 2009. The reduction in EBITDA of $4.3 million or 24.6% was due primarily to the following:

- A decrease in gross margin due primarily to lower yields, partly offset by an increase in core overnight revenue
- An increase in heavy maintenance deposits and expenditures
- A decrease in administrative costs due primarily to the decrease in management and employee bonuses and transaction costs for the formation for CJR in the prior year

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009 (Continued)

Amortization

Amortization expense of the Fund includes 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 as well as a result of the acquisition of PEAL. There was no amortization expense recognized for 2010 due to discontinued regional operations. As well, all the intangibles related to the initial public offering were fully amortized in the prior year.

Interest

Interest expense was $2.6 million for the nine month period ended September 30, 2010, compared to interest expense of $2.6 million for the nine month period ended September 30, 2009.

Current Income Taxes

Current income taxes for the nine month period ended September 30, 2010 was $1.4 million as compared to $1.5 million for the nine month period ended September 30, 2009. The decrease in current income tax expenses is due to lower earnings in 2010 compared to 2009. The payment and recovery of income taxes are due to certain subsidiaries of the Fund that are taxable.

Future Income Taxes

The future income tax expense of $1.3 million for the nine month period ended September 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 $0.6 million in the same period in 2009.

Non-controlling Interests

Net non-controlling interests were a charge to earnings of $1.1 million for the nine month period ended September 30, 2010, as compared to a charge to earnings of $1.9 million for the nine month period ended September 30, 2009. Non-controlling interests represent the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders.

Distributable Cash

Distributable cash was $0.4 million for the nine month period ended September 30, 2010, compared to $8.3 million for the nine month period ended September 30, 2009. The decrease in distributable cash of $7.9 million or 95.2% was due primarily to increase in purchases of convertible debentures and decrease in EBITDA.

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009 (Continued)

Distributions

Total distributions declared for the nine month period ended September 30, 2010 were $3.0 million or $0.378 per unit. In comparison, total distributions declared for the nine month period ended September 30, 2009 were $3.2 million or $0.3672 per unit.

The following tables summarize the cash distributions for the nine month period ended September 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	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	65,365	65,365	335,724	0.0420	335,724
September 30, 2010	October 15, 2010	270,359	-	65,365	-	335,724	0.0420	-
		2,376,391	2,347,971	645,123	673,542	3,021,514	0.3780	3,021,513

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	444,486	150,725	150,725	595,211	0.0675	595,211
April 30, 2009	May 15, 2009	177,268	177,268	60,290	60,290	237,557	0.0270	237,557
May 31, 2009	June 15, 2009	176,638	176,638	60,290	60,290	236,928	0.0270	236,928
June 30, 2009	July 15, 2009	175,461	175,461	60,290	60,290	235,751	0.0270	235,751
July 31, 2009	August 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
August 31, 2009	September 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
September 30, 2009	October 15, 2009	164,685	-	60,290	-	224,975	0.0270	-
		2,374,690	2,660,860	813,913	904,348	3,188,602	0.3672	3,565,208

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the nine month period ended September 30, 2010 was $9.2 million. Cash provided by operating activities after net changes in non-cash working capital balances for the same period in 2009 was $11.1 million. The $1.9 million decrease in cash for the first nine months of 2010 as compared to the same period in 2009 was due primarily to timing of vendor payments.

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009 (Continued)

Liquidity and Capital Resources (Continued)

Cash used by financing activities during the nine month period ended September 30, 2010 of $11.1 million comprised of $7.7 million repurchase of convertible debentures and $3.0 million distributed to unitholders and non-controlling interest.

Cash used in investing activities during the nine month period ended September 30, 2010 was $1.2 million and was comprised of $1.5 million in capital asset spending and $0.3 million of proceeds from disposals of capital assets.

The Fund renewed its credit facility with a Canadian chartered bank on September 30, 2010. The credit facility is to a maximum of $25.0 million. The facility 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 facilities are also subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

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

The Fund also maintains fixed loans with another Canadian chartered bank through its subsidiary Prince Edward Air Ltd. (“PEAL”). The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the aircraft of PEAL and 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 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.

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.

Review of Operations for the Nine Month Period Ended September 30, 2010 and 2009 (Continued)

Capital Expenditures

Capital asset additions were $1.5 million for the nine month period ended September 30, 2010 as compared to $4.9 million for the same period in 2009. Capital additions for the nine month period ended September 30, 2010 were comprised of $1.6 million of maintenance capital expenditures and a reduction of $0.1 million in spare parts inventories.

Financial Condition

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

Accounts Receivable

Accounts receivable as at September 30, 2010 amounted to $9.0 million as compared to $8.0 million as at December 31, 2009. The increase of $1.0 million was due to the difference in the timing of weekly customer billing and cash receipts at quarter and year end. The quality of the Fund's net receivable balances and its current collections, in management's opinion, remain excellent.

Capital Assets

As at September 30, 2010 net capital assets were $47.7 million as compared to $52.1 million as at December 31, 2009. The $4.4 million net decrease in capital assets was due to $4.4 million amortization of capital assets, $1.2 million impairment charges on PEAL's rotables and engines, offset by net capital asset additions of $1.2 million.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at September 30, 2010 were $11.2 million as compared to $10.6 million as at December 31, 2009. The increase of $0.6 million was due primarily to the timing of supplier payments and the increase in overall operating expenses including fuel and payroll.

Deferred Heavy Maintenance and Heavy Maintenance Deposits

The balance of total deferred heavy maintenance expenditures as at September 30, 2010 was $3.2 million as compared to $2.1 million as at December 31, 2009. The increase of $1.1 million is due to heavy maintenance expenditure additions of $3.0 million offset by amortization of $1.9 million. In comparison, total heavy maintenance expenditure additions for the nine month period ended September 30, 2009 were $2.0 million and amortization of deferred heavy maintenance for this period was $1.4 million. Heavy maintenance deposits are paid to aircraft lessors on a monthly basis.

Financial Condition (Continued)

Working Capital Position

The Fund had a working capital surplus as at September 30, 2010, representing the difference between total current assets and current liabilities, of $3.6 million, compared to a working capital surplus of $10.6 million as at December 31, 2009. The decrease in net working capital was due primarily to the use of cash on hand to purchase fund's debentures in the first quarter of 2010.

Long-Term Debt

Total long-term debt excluding the current portion was $16.4 million as at September 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.

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%.

Financial Condition (Continued)

Convertible Debentures (Continued0

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

Under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expired on March 16, 2010, 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 $2,808,202, or $811 per debenture, resulting in a gain of $400,853 that has been netted against general and administrative expenses in the statement of operations and deficit, and the transfer within unitholders' equity of $233,939 from conversion option to contributed surplus.

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 $1,797,857, respectively. Interest expense on the debentures for the three and nine month periods ended September 30, 2009 totaled $655,238 and $2,318,113, respectively.

Financial Condition (Continued)

Summary of Contractual Obligations

As at September 30, 2010 (in thousands)	Total	2010	2011	2012	2013	2014	Thereafter
Fixed Loans – PEAL	5,221	108	439	449	460	471	3,294
Credit Facility	11,574	-	-	-	11,574	-	-
Capital Lease Obligations	243	47	160	36	-	-	-
Operating Leases	58,254	3,271	11,487	10,940	10,757	10,646	11,153
	75,292	3,426	12,086	11,425	22,791	11,117	14,447

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 nine month period ended September 30, 2010 the Fund had no transactions with any related companies.

Major Customers

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.

Contingencies

The Fund has provided irrevocable standby letters of credit totaling approximately $1.1 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 at fixed rates in future periods.

Financial Instruments (Continued)

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 million. These forward exchange purchase contracts have not been designated as hedges for accounting purposes. As at September 30, 2010, these contracts had a fair value of $103,093. During the three month period ended September 30, 2010, one U.S. dollar forward contract matured resulting in a gain of $7,200.

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.

Outlook

Cargojet continues to improve its margins through pro-active management of its fleet capacity, control over its cost structure, and the pursuit of new customers and markets. Customer demand has increased over the previous year and has helped to offset the effects of lower yields.

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, 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 September 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 fiscal 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. The Fund has selected the exemptions that will be applied upon conversion to IFRS.

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 ("PP&E) 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. The Fund has elected to record PP&E at amortized cost. No revaluation to fair value will be needed

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 will segregate aircraft into hull and engine. As a result of this change, depreciation expense will be accelerated on fixed assets relating to aircraft components. Retained earnings at January 1, 2010 is expected to decrease by $1.2 million. Retained earnings at December 31, 2010 is expected to decrease by $1.3 million.

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. The Fund does not expect any financial impact as a result of this IFRS difference.

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. Accordingly, the Fund does not expect any financial impact as a result of this IFRS difference.

The Fund is currently in the process of finalizing the IFRS compliant mock financial statements. The Fund is currently assessing the impact on MD&A as a result of the conversion to IFRS. This 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 September 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.