CARGOJET INCOME FUND

Management Discussion and
Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2009

The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three month and twelve month periods ended December 31, 2009. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 2008.

The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005. Reference should be made to the prospectus of the Fund dated June 1, 2005 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

The effective date of the MD&A is February 25, 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 month periods ended September 30, 2009 and 2008.

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 5 and 8, 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 5, 2009 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 5, 2009 with the regulatory authorities.

Corporate Overview

The Fund is Canada's leading provider of time sensitive overnight air cargo services. Its main air cargo business is comprised of the following:

- Operating a domestic overnight air cargo co-load network between thirteen major Canadian cities
- Providing dedicated aircraft to customers on an Aircraft, Crew, Maintenance & Insurance ("ACMI") basis, operating between points in Canada and the USA
- Operating a scheduled international route for multiple cargo customers between the USA and Bermuda
- Operating a regional air cargo network that services thirty-three smaller cities in Ontario, Quebec and Atlantic Canada.

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 forty 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 acquired Prince Edward Air Ltd. ("PEAL") on May 1, 2008 to extend the reach and coverage of its national air cargo network. The operations of PEAL were combined with the existing Cargojet Regional business that was launched in October 2007. In July 2009 the Fund completed the acquisition of the remaining 49% of PEAL for cash consideration of $1.0 million. Immediately following this transaction, PEAL entered into a partnership agreement with SkyLink Express Inc. ("SL") to consolidate their regional cargo businesses. The new partnership began operations under the name Cargojet Regional ("CJR") on August 1, 2009. PEAL acquired 55% of the partnership for $3.9 million by contributing all of its customer contracts to CJR. SL's contribution for the remaining 45% of CJR included all of its customer contracts, the lease of its aircraft to CJR, and an interest bearing promissory note. With twenty-seven turboprop aircraft, CJR operates a regional air cargo network that services thirty-three smaller cities in Ontario, Quebec and Atlantic Canada. CJR's annual revenues are approximately $23 million and it currently employs over 130 people.

Recent Events

Purchase of Cargojet Convertible Debentures

During the twelve month period ended December 31, 2009, the Fund purchased $3.5 million in face value of its outstanding 7.5% convertible unsecured subordinated debentures (the "Debentures") for $2.9 million at an average price of $811 per Debenture, ($798 per Debenture excluding accrued interest). The purchases were made under an approved normal course issuer bid authorized from March 17, 2009 to March 16, 2010 through the facilities of the Toronto Stock Exchange ("TSX"). Debentures purchased pursuant to the bid were cancelled.

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the "Purchase Price").

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

Purchase of Cargojet Trust Units

In November 2008 the Fund received approval for a normal course issuer bid to purchase up to 0.60 million trust units ("Units"), representing approximately 10% of the public float outstanding on November 19, 2008, through open market purchases on the TSX. The bid commenced on November 25, 2008 and expired on November 24, 2009. Under this bid, during the period from January 1, 2009 to November 25, 2009, the Fund purchased 0.6 million Units at $2.4 million at an average price of $4.06. All Units purchased pursuant to the bid were cancelled.

In December 2009 the Fund received approval for a normal course issuer bid to purchase up to 0.57 million of its Units, representing approximately 10% of the public float outstanding on November 27, 2009, through open market purchases on the TSX. In December 2009, the Fund purchased 0.34 million Units at a cost of $3.2 million or $9.35 per Unit. All Units purchased pursuant to the bid were cancelled.

For the year ended December 31, 2009 the Fund has purchased a total of 0.92 million Units for $5.5 million at an average price of $6.00. As at December 31, 2009, the Fund has purchased a total of 0.94 million Units for $5.6 million at an average price of $5.94 since the first normal course issuer bid commenced on November 25, 2008. No other purchases of Units have been made as of the date of this MD&A.

Recent Events (continued)

Foreign Exchange Contracts

In May 2009 the Fund entered into a series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by June 2011. In October 2009, the Fund entered into an additional series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by October 2011. As at December 31, 2009, the remaining forty contracts had a negative fair value of $0.5 million that was recorded as a liability on the balance sheet. These contracts were designated as hedges at December 31, 2009. On January 1, 2010 the Fund discontinued hedge accounting and will recognize the deferred loss of its remaining forty foreign exchange contracts in the same periods in which the hedged anticipated transactions will affect net income.

In January 2009 the Fund realized gains of approximately $2.8 million from the settlement and sale of all of the Fund's U.S. dollar forward purchase contracts held as at December 31, 2008. These gains were recognized throughout 2009 in net income in the same periods that the anticipated transactions to which the hedges related would have affected net income.

New Aircraft Charter Agreement

Cargojet entered into a strategic aircraft charter agreement with LOT Polish Airlines effective November 7, 2009. Cargojet operates a weekly trans-Atlantic flight between Hamilton International Airport and Poland every Saturday. The schedules have been designed to meet the increasing needs and requirements of air cargo shippers in North America and Eastern Europe and provide the only direct freighter service between North America and Poland. Annualized revenues for this flight are estimated to be $2.7 million and the initial contract term is to March 21, 2010. Cargojet is currently negotiating a new contract with the customer and continues to operate the flight.

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.

- Through CJR, the Fund generates revenue from its regional air cargo business that services thirty-three smaller cities in Ontario, Quebec and Atlantic Canada.

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 December 31		Twelve Month Period Ended December 31	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
			$	$
Cash inflow from operations before changes in non-cash working capital items [(1)]	**5,694**	9,446	**16,552**	16,164
Changes in non-cash working capital items [(1)]				
Accounts receivable	**884**	4,916	**(147)**	882
Materials and supplies	**(110)**	134	**55**	118
Prepaid expenses and deposits	**(1,870)**	(500)	**(10)**	(4,221)
Deferred charges	**-**	51	**-**	-
Due from related party	**-**	(15)	**-**	-
Accounts payable and accrued charges	**(900)**	(157)	**(4,445)**	1,982
Income taxes payable/recoverable	**219**	(896)	**3,215**	(3,058)
	3,917	12,979	**15,220**	11,867
Less:				
Maintenance capital expenditures [(2)]	**1,067**	94	**3,132**	3,485
Income taxes paid (recovered)	**1,550**	882	**-**	882
Transfer of gains on derivatives from other comprehensive income	**(709)**	-	**(2,600)**	-
Heavy maintenance deposits	**-**	1,000	**710**	1,331
Repayment of long-term debt obligation under capital lease	**46**	61	**192**	243
Minority interest in cash inflow from operations before changes in working capital items of PEAL and CJR	**(522)**	- (126)	**(1,481)**	- 48
Total changes in non-cash working capital items	**(1,778)**	3,533	**(1,332)**	(4,297)
Purchase of Cargojet Income Fund debentures	**-**	-	**2,808**	-
Purchase of Cargojet Income Fund units	**3,170**	53	**5,524**	53
Distributable cash [(B)]	**1,093**	7,482	**8,267**	10,122
Average number of trust units outstanding - basic (in thousands of units)	**6,063**	6,693	**6,367**	6,697
Average number of trust units outstanding - diluted (in thousands of units)	**8,296**	11,154	**8,600**	8,930
Distributable cash per unit - diluted [(3)]	**$ 0.13**	$ 0.73	**$ 0.96**	$ 1.13
Cash distributions	**3,910**	1,807	**7,099**	8,782
Cash distributions as a percentage of distributable cash	**358%**	24%	**86%**	87%

(1) Please refer to Statement of Cash Flows for the Fund.
(2) Maintenance capital expenditures for the twelve month period ended December 31, 2009 exclude the $0.04 million for equipment that was financed under a capital lease. Maintenance capital expenditures for the twelve month period ended December 31, 2008 exclude the $0.7 million for equipment that was financed under a capital lease and maintenance capital expenditures attributable to the minority interest in PEAL.
(3) For the purpose of calculating distributable cash per unit – diluted for the three month period ended December 31, 2009 and for the twelve month periods ended December 31, 2009 and December 31, 2008, 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 December 31, 2008, the weighted average number of Units, the weighted average number of Exchangeable LP units, and the effect of the conversion of the Fund's Debentures have been combined. The effect of the conversion of the Fund's Debentures are not factored into the calculation of distributable cash per unit – diluted when the effect would be anti-dilutive.

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 December 31		Twelve Month Period Ended December 31	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(audited)**	(audited)
		$		
Revenue	**43,474**	53,659	**166,164**	205,675
Direct expenses	**32,964**	42,230	**125,776**	173,654
	10,510	11,429	**40,388**	32,021
Selling, general and administrative expenses				
Sales and marketing	**181**	244	**595**	955
General and administrative	**5,153**	3,932	**21,016**	18,352
Gain on debenture redemption	**-**	-	**(401)**	-
Interest	**1,196**	1,021	**4,062**	3,174
Amortization of capital assets	**235**	163	**755**	607
Amortization of intangible assets	**245**	3,194	**5,886**	11,538
	7,010	8,554	**31,913**	34,626
Earnings (loss) before income taxes and non-controlling interest	**3,500**	2,875	**8,475**	(2,605)
Provision for (recovery of) income taxes				
Current	**(65)**	(915)	**1,436**	(894)
Future	**(1,488)**	1,114	**(2,295)**	(660)
Earnings before non-controlling interests	**5,053**	2,676	**9,334**	(1,051)
Non-controlling interests	**1,281**	278	**1,169**	(763)
Net earnings (loss)	**3,772**	2,398	**8,165**	(288)
Earnings (loss) per trust unit - basic	**$ 0.62**	$ 0.36	**$ 1.28**	$ (0.04)
Earnings (loss) per trust unit - diluted (1)	**$ 0.57**	$ 0.18	**$ 1.28**	$ (0.04)
Average number of trust units - basic (in thousands of units)	**6,063**	6,693	**6,367**	6,697
Average number of trust units - diluted (in thousands of units)	**10,304**	8,926	**8,600**	8,930
Total assets	**134,813**	136,859	**134,813**	136,859
Total long-term liabilities	**50,837**	45,879	**50,837**	45,879

(1) For the purpose of calculating earnings (loss) per trust unit – diluted for the three month period ended December 31, 2009, the weighted average number of Units, the weighted average number of Exchangeable LP units and the effect of the conversion of the Fund's convertible debentures have been combined. For the purpose of calculating earnings (loss) per trust unit – diluted for the three month period ended December 31, 2008 and for the twelve month periods ended December 31, 2009 and December 31, 2008 the weighted average number of Units and the weighted average number of Exchangeable LP units have been combined. The effect of the conversion of the Debentures has not been factored into the calculation of earnings (loss) per unit - diluted when the effect of the conversion of the Debentures would be anti-dilutive.

Selected Financial Information

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31 2009	September 30 2009	June 30 2009	March 31 2009	December 31 2008	September 30 2008	June 30 2008	March 31 2008
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	**$ 43,474**	$ 41,372	$ 39,114	$ 42,204	$ 53,659	$ 53,137	$ 52,080	$ 46,799
Net income (loss) (in thousands)	**$ 3,772**	$ 964	$ 2,210	$ 1,219	$ 2,398	$ (1,191)	$ (1,512)	$ 17
Earnings (loss) per trust unit - basic	**$ 0.62**	$ 0.16	$ 0.34	$ 0.18	$ 0.36	$ (0.18)	$ (0.23)	$ 0.00
Earnings (loss) per trust unit - diluted	**$ 0.57**	$ 0.16	$ 0.32	$ 0.18	$ 0.18	$ (0.18)	$ (0.23)	$ 0.00
Average number of trust units - basic (in thousands of units)	**6,063**	6,202	6,547	6,665	6,693	6,699	6,699	6,699
Average number of trust units - diluted [2] (in thousands of units)	**10,304**	8,435	11,005	8,898	8,926	8,932	8,932	8,932

[1] For the purpose of calculating earnings (loss) per trust unit – diluted for the three month periods ended December 31, 2009 and June 30, 2009, the weighted average number of Units, the weighted average number of Exchangeable LP units and the effect of the conversion of the Fund's convertible debentures has been combined. The Fund's convertible debentures are not factored into the calculation of earnings per trust unit – diluted when the effect of the conversion of the Debentures would be anti-dilutive.

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2009	2008	**2009**	2008
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA (A):				
Net earnings	**3,772**	2,398	**8,165**	(288)
Add:		-		
Interest	**1,196**	1,021	**4,062**	3,174
Non-controlling interests	**1,281**	278	**1,169**	(763)
Provision for (recovery of) current income taxes	**(65)**	(915)	**1,436**	(894)
Provision for (recovery of) future income taxes	**(1,488)**	1,114	**(2,295)**	(660)
Loss on disposal of capital assets	**67**	-	**70**	960
Gain on disposal of intangible assets	**-**	-	**(160)**	(1,149)
Gain on purchase of Cargojet Income Fund debentures	**-**	-	**(401)**	-
Amortization of capital assets	**1,748**	1,856	**6,293**	5,157
Amortization of intangible assets	**244**	3,194	**5,886**	11,538
Aircraft heavy maintenance amortization	**495**	494	**2,090**	2,813
Aircraft heavy maintenance expenditures	**(323)**	(74)	**(2,751)**	(2,098)
Heavy maintenance deposits (1)	**-**	(1,000)	**(710)**	(1,331)
Minority interest	**18**	(83)	**829**	(269)
EBITDA (A)	**6,945**	8,283	**23,683**	16,190
Reconciliation of EBITDA (A) to Distributable Cash (B):				
EBITDA (A)	**6,945**	8,283	**23,683**	16,190
Less:				
Maintenance capital expenditures (1)	**1,067**	94	**3,132**	3,485
Interest (3)	**1,083**	626	**3,323**	2,299
Provision (recovery) for current income taxes	**486**	(33)	**437**	(12)
Repayment of long-term debt obligation under capital lease	**46**	61	**192**	243
Purchase of Cargojet Income Fund debentures	**-**	-	**2,808**	-
Purchase of Cargojet Income Fund units	**3,170**	53	**5,524**	53
Distributable cash (B)	**1,093**	7,482	**8,267**	10,122

(1) Maintenance capital expenditures for the twelve month period ended December 31, 2009 exclude the $0.6 million for equipment that was financed under a capital lease. Maintenance capital expenditures for the twelve month period ended December 31, 2008 exclude the $0.7 million for equipment that was financed under a capital lease and maintenance capital expenditures attributable to the minority interest in PEAL.

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

(3) For the purpose of calculating Distributable Cash (B) for the three and twelve month periods ended December 31, 2009, interest excludes the accretion interest expense due to the Fund's convertible debentures. For the purpose of calculating Distributable Cash (B) for the twelve month period ended December 31, 2009, interest excludes the portion of interest expense attributable to the minority interest in PEAL. For the purpose of calculating Distributable Cash (B) for the three and twelve month periods ended December 31, 2008, interest excludes the unrealized loss (gain) on non-hedge derivatives of $0.07 million.

(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 December 31, 2009 and 2008

- Total revenue for the three month period ended December 31, 2009 was $43.5 million as compared to $53.7 million for the same period in 2008, representing a decrease of $10.2 million or 19.0%.
- Average core overnight daily cargo revenue excluding fuel surcharges, other cost pass-through revenues and revenues from the regional business operated by PEAL for the three month period ended December 31, 2009 was $0.62 million per operating day as compared to $0.78 million per operating day for same period in 2008, representing a decrease of 20.5%.
- EBITDA for the three month period ended December 31, 2009 was $6.9 million as compared to $8.3 million for the same period in 2008, a decrease of $1.4 million or 16.9%.
- Distributable Cash was $1.1 million for the three month period ended December 31, 2009 as compared to $7.5 million for the same period in 2008, a decrease of $6.4 million or 85.3%.

Review of Operations For the Three Month Period Ended December 31, 2009 and 2008

Revenue

Total revenue for the three month period ended December 31, 2009 was $43.5 million as compared to $53.7 million for the same period in 2008, representing a decrease of $10.2 million or 19.0%. The decrease in revenues was due primarily to lower fuel surcharges, the loss of an ACMI contract, the cancellation of a route to Western Canada, and a decline in other core overnight revenue.

Revenue related to the core overnight and ACMI cargo businesses excluding regional revenues, fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2009 was $31.2 million compared to $37.2 million for the same period in 2008, a decrease of $6.0 million or 16.1%. The decrease was due primarily to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008, and a decline in other core revenues. Revenues from these two flights were approximately $3.3 million in the fourth quarter of 2008 and nil for the same period in 2009. Cargojet continues to provide services to these same customers on other existing ACMI and overnight contracts. All other core revenues were lower by $2.7 million due primarily to lower overall customer volumes, lower customer yields due to competitive pricing pressures, the negative effect of foreign exchange rate variances on revenues billed in U.S. currency, and a decline in charter revenues offset by the new LOT Polish charter business.

Fuel surcharges and other cost pass-through revenues were $5.7 million for the three month period ended December 31, 2009 as compared to $9.7 million for the same period in 2008, a decrease of $4.0 million or 41.2%. The decrease was due primarily to lower fuel prices that resulted in a reduction of fuel surcharges billed to customers. Other pass-through costs such as navigation and landing fees were lower due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Review of Operations For the Three Month Period Ended December 31, 2009 and 2008 (continued)

Revenue (continued)

Total regional revenues were $6.2 million for the three month period ended December 31, 2009 as compared to $6.2 million for the same period in 2008. Lower fuel surcharges and lower customer demand were offset by an increase in revenues due to the formation of CJR as of August 1, 2009.

Revenues from the Fund’s FBO fueling business were $0.3 million for the three month period ended December 31, 2009 as compared to $0.3 million for the same period in 2008.

Direct Expenses

Total direct expenses were $33.0 million for the three month period ended December 31, 2009 as compared to $42.3 million for the same period in 2008, representing a decrease of $9.3 million or 22.0%. As a percentage of revenue, direct expenses decreased from 78.8% in 2008 to 75.8% for the same period in 2009. The overall decline in direct expenses was due primarily to lower fuel prices, fewer block hours flown and foreign exchange hedge gains.

Fuel costs were $9.0 million for the three month period ended December 31, 2009 as compared to $13.3 million for the same period in 2008. The $4.3 million or 32.3% decrease in fuel costs was due to lower fuel prices and a decrease in block hours. The cost savings realized by the Fund due to lower fuel prices were credited to customers as a decrease in their fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $4.3 million for the three month period ended December 31, 2009 as compared to $5.2 million for the same period in 2008. The $0.9 million or 17.3% decrease in costs was due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Maintenance costs were $2.2 million for the three month period ended December 31, 2009 as compared to $3.3 million for the same period in 2008, a decrease of $1.1 million or 33.3%. The decrease in maintenance costs was due primarily to the overall improvement in fleet performance attributable to the condition of the B767 and B757 aircraft, and a reduction in the number of B727 aircraft in operation compared to the same period in 2008.

Heavy maintenance amortization costs were $0.4 million for the three month period ended December 31, 2009 as compared to $0.5 million for the same period in 2008, a decrease of $0.1 million or 20.0%. The variance was due to the timing of service required by each aircraft in Cargojet’s fleet. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Review of Operations For the Three Month Period Ended December 31, 2009 and 2008 (continued)

Direct Expenses (continued)

Aircraft lease costs including non-refundable engine reserves, airframe reserves and sub-charter lease costs were $3.4 million for the three month period ended December 31, 2009 as compared to $4.9 million for the same period in 2008. The decrease of $1.5 million or 30.6% was due to the reduction in leased B727 aircraft related to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008. Aircraft lease costs were also lower due to the positive effect of foreign exchange variances on aircraft lease costs that are denominated in U.S. currency.

Total crew costs including salaries, training and positioning were $2.2 million for the three month period ended December 31, 2009 as compared to $3.0 million for the same period in 2008, a decrease of $0.8 million or 26.7%. The decrease in costs was due to the reduction in crews due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Total direct costs of the regional business including the operations of PEAL and CJR for the three month period ending September 30, 2009 were $6.2 million as compared to $6.2 million in the same period in 2008. Higher maintenance costs related to a general upgrade of the condition of PEAL's aircraft and the increase in operating costs due to the formation of CJR were offset by cost savings due to lower fuel prices. An additional 7 aircraft and approximately 20 employees were added to PEAL when CJR was formed.

Total direct costs of the FBO business were $0.3 million for the three month period ended December 31, 2009 as compared to $0.4 million for the same period in 2008. FBO costs were lower due to the decrease in fuel prices and lower customer volume.

Total foreign exchange gains recognized as credits to direct expenses in the fourth quarter of 2009 were $0.7 million as compared to $0.5 million in the same period in 2008. 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 recorded in direct costs for the three month period ended December 31, 2009 was $1.5 million as compared to $1.4 million for the same period in 2008. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in Q2 2009.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $4.2 million for the three month period ended December 31, 2009 as compared to $4.6 million for the same period in 2008. The decrease of $0.4 million or 8.7% was due primarily to lower linehaul costs associated with lower core overnight customer volumes on specific routes.

Review of Operations For the Three Month Period Ended December 31, 2009 and 2008 (continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $5.3 million for the three month period ended December 31, 2009 compared to $4.2 million for the same period in 2008, an increase of $1.1 million or 26.2%. The increase in SG&A was due to management incentive plans and other employee bonuses, higher SG&A costs related to CJR, non-hedge foreign exchange gains experienced in 2008 as compared to losses experienced in 2009, and the capitalization of $0.7 million of transaction costs associated with the formation and start-up of CJR. The CJR transaction costs had been expensed in the previous quarter ended September 30, 2009.

EBITDA

EBITDA for the three month period ended December 31, 2009 was $6.9 million or 15.9% of revenue, compared to $8.3 million or 15.5% of revenue for the same period in 2008. The decrease in EBITDA of $1.4 million or 16.9% was due primarily to the following:

- The decline in core overnight revenues of $6.0 million largely offset by lower operating costs achieved through a reduction in fleet capacity and headcount.
- The $1.1 million increase in SG&A costs.

Amortization of Intangible Assets

Amortization of intangible assets of the Fund are due to amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL. Amortization of intangible assets for the three month period ended December 31, 2009 was $0.2 million as compared to $3.2 million for the same period in 2008, a decrease of $3.0 million or 93.8%. The decrease in amortization is due to the full amortization of the intangible assets that were recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets were fully depreciated by the end of the second quarter of 2009. The Fund continues to amortize the net book value of intangible assets related to the acquisition of PEAL and the subsequent acquisition of CJR.

Interest

Interest expense was $1.2 million for the three month period ended December 31, 2009, compared to interest expense of $1.0 million for the three month period ended December 31, 2008. The increase in interest expense was due primarily to additional draws on the Fund's bank credit facility during the quarter and accrued interest adjustments arising from the purchase of the Fund's Debentures. This increase was offset partially by the decrease in interest on Debentures due to the Fund's purchase of Debentures.

Review of Operations For the Three Month Period Ended December 31, 2009 and 2008 (continued)

Current Income Taxes

Current income taxes for the three month period ended December 31, 2009 was $0.1 million as compared to a recovery of $0.9 million for the same period in 2008. Provisions for income taxes are due to certain subsidiaries of the Fund that are taxable.

Non-controlling Interests

Net non-controlling interests were a charge to earnings of $1.3 million for the three month period ended December 31, 2009, as compared to a charge to earnings of $0.3 million for the three month period ended December 31, 2008. 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, the non-controlling shareholders of PEAL prior to Cargojet's acquisition of the remaining 49% of its shares, and the non-controlling partner of CJR.

Distributable Cash

Distributable cash was $1.1 million for the three month period ended December 31, 2009, compared to $7.5 million for the three month period ended December 31, 2008. The decrease in distributable cash of $6.4 million was due primarily to the Fund's purchase of $3.2 million of its Units, the provision for current taxes payable net of income tax refunds received, increased expenditures on maintenance capital of $1.0 million, the increase in interest expense of $0.2 million, and the decrease in EBITDA of $1.4 million.

Distributions

Total distributions declared for the three month period ended December 31, 2009 were $3.9 million resulting in a payout ratio of 358%. In comparison, total distributions declared for the three month period ended December 31, 2008 were $1.8 million resulting in a payout ratio of 24%. The increase in distributions was due to the one-time distribution declared for all unitholders of record as at November 30, 2009 that resulted in an additional payment of $3.0 million, partially offset by the decrease in the monthly distribution rate and fewer outstanding Units.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2009 was $3.8 million as compared to $13.0 million for the same period in 2008. The $9.2 million decrease in cashflow for the fourth quarter of 2009 as compared to the same period in 2008 was due primarily to the collection of large receivable amounts in 2008, a decrease in EBITDA, and the variance in the timing of customer receipts and vendor payments at quarter-end.

Review of Operations For the Three Month Period Ended December 31, 2009 and 2008 (continued)

Liquidity and Capital Resources (continued)

Net cash received from financing activities during the three month period ended December 31, 2009 of $2.4 million was due primarily to the increase in long-term debt through the Fund's credit facility partially offset by distributions paid to unitholders of $3.8 million, and the purchase of Cargojet Income Fund Units of $3.2 million. Net cash used in financing activities during the three month period ended December 31, 2008 was $0.6 million due to distributions paid to unitholders of $1.8 million partially offset by the increase in long-term debt through the Fund's credit facility.

Cash used in investing activities during the three month period ended December 31, 2009 was $2.5 million comprised of net capital asset expenditures of $1.8 million and the capitalization of $0.7 million of transaction costs related to the acquisition of CJR. Cash used in investing activities during the three month period ended December 31, 2008 was $12.6 million due to the purchase of capital assets.

The Fund maintains a long-term credit facility that is to a maximum of $30.0 million. As at December 31, 2009 the Fund had drawn $11.1 million of its long-term credit facility. The credit facility will mature in July 2011. Through its subsidiary PEAL, the Fund also maintains fixed loans with another Canadian chartered bank. PEAL's fixed loans bear interest at rates ranging from 8.1% to 8.2%. In June 2009 PEAL cancelled its credit facility with another Canadian chartered bank that was to a maximum of $1.5 million and payable on demand.

In July 2009, the Fund re-negotiated terms and conditions of PEAL's fixed loans that totalled $5.6 million as at December 31, 2009. The amortization periods of the loans have been extended by 5 years and they will all have matured by January 2022. The loans are secured by the aircraft of PEAL and guaranteed by Cargojet Airways Ltd. for 10% of the outstanding amounts. Cargojet Airways Ltd. is a wholly owned subsidiary of the Fund and the sole shareholder of PEAL. The guarantees provided by Cargojet Airways Ltd. replace the guarantees provided by the previous minority shareholder of PEAL.

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 Three Month Period Ended December 31, 2009 and 2008 (continued)

Capital Expenditures

Net capital asset additions were $1.8 million for the three month period ended December 31, 2009 as compared to $12.5 million for the same period in 2008. Net capital additions for the three month period ended December 31, 2009 were comprised of $1.1 million of maintenance capital expenditures and $0.7 million of growth capital expenditures related to the new hangar.

Capital asset additions for the three month period ended December 31, 2008 of $12.5 million were comprised of growth capital expenditures of $12.2 million, maintenance capital expenditures of $0.2 million, and additions to leased assets of $0.1 million. Growth capital expenditures were comprised of $6.5 million for the new hangar, $1.0 million for the purchase of a warehouse and office facility at the Hamilton International Airport, and $4.5 million for the purchase of two B727 aircraft that had previously been leased, and $0.5 million of other assets related to the new B767 and B757 aircraft.

Highlights for the Twelve Month Period Ended December 31, 2009 and 2008

- Total revenue for the twelve month period ended December 31, 2009 was $166.2 million as compared to $205.7 million for the same period in 2008, representing a decrease of $39.5 million or 19.2%.

- Average core overnight daily cargo revenue excluding fuel surcharges, other cost pass-through revenues and revenues from CJR for the twelve month period ended December 31, 2009 was $0.62 million per operating day as compared to $0.78 million per operating day for same period in 2008, representing a decrease of 20.5%.

- EBITDA for the twelve month period ended December 31, 2009 was $23.7 million as compared to $16.2 million for the same period in 2008, an increase of $7.5 million or 46.3%.

- Distributable Cash was $8.3 million for the twelve month period ended December 31, 2009 as compared to $10.1 million for the same period in 2008, a decrease of $1.8 million or 17.8%.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008

Revenue

Total revenue for the twelve month period ended December 31, 2009 was $166.2 million as compared to $205.7 million for the same period in 2008, representing a decrease of $39.5 million or 19.2%. The decrease in revenues was due primarily to lower fuel surcharges, the loss of an ACMI contract, the discontinuation of a route to Western Canada and the effect of higher regional revenues due to the acquisition of PEAL in May 2008.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

Revenue (continued)

Revenue related to the core overnight and ACMI cargo businesses excluding CJR revenues, fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2009 was $123.1 million compared to $139.9 million for the same period in 2008, a decrease of $16.8 million or 12.0%. This decrease in core overnight revenues was due primarily to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008, offset by an increase in all other core revenues. The decline in revenues attributable to these two flights was approximately $16.7 million. Cargojet continues to provide service to these same customers on other existing contracts. Decreases in other charter revenues were partially offset by the new LOT Polish charter business. All other core revenues were $1.0 million higher for the year ended 2009 as compared to the same period in 2008, an increase of 0.9%.

Fuel surcharges and other cost pass-through revenues were $20.5 million for the twelve month period ended December 31, 2009 as compared to $44.0 million for the same period in 2008, a decrease of $23.5 million or 53.4%. Most of the decrease was due to lower fuel prices that resulted in a reduction of fuel surcharges billed to customers. Other pass-through costs such as navigation and landing fees were lower due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Total regional revenues were $21.5 million for the twelve month period ended December 31, 2009 as compared to $19.9 million for the same period in 2008, an increase of $1.6 million or 8.0%. Regional revenues were higher due to the acquisition of PEAL in May 2008 and the formation of CJR at the end of July 2009. The increase was partially offset by the decline in fuel surcharge revenues due to lower fuel prices.

Revenues from the Fund's FBO fueling business were $1.0 million for the twelve month period ended December 31, 2009 as compared to $1.6 million for the same period in 2008, a decrease of $0.6 million or 37.5%. The decline in revenues was due primarily to the decrease in fuel prices and lower sales volumes.

Direct Expenses

Total direct expenses were $125.8 million for the twelve month period ended December 31, 2009 as compared to $173.7 million for the same period in 2008, representing a decrease of $47.9 million or 27.6%. As a percentage of revenue, direct expenses decreased from 84.4% in 2008 to 75.7% for the same period in 2009. The overall decline in direct expenses was due primarily to lower fuel prices, fewer block hours flown, foreign exchange gains, and the absence of one-time costs incurred in the first half of 2008.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

Direct Expenses (continued)

Fuel costs were $31.7 million for the twelve month period ended December 31, 2009 as compared to $66.4 million for the same period in 2008. The $34.7 million or 52.3% decrease in fuel costs was due to lower fuel prices and a decrease in block hours. The cost savings realized by the Fund due to lower fuel prices were credited to customers as a decrease in their fuel surcharges.

Other pass-through costs including handling, navigation, landing and parking were $16.9 million for the twelve month period ended December 31, 2009 as compared to $19.7 million for the same period in 2008. The $2.8 million or 14.2% decrease in costs was due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Maintenance costs were $8.7 million for the twelve month period ended December 31, 2009 as compared to $10.8 million for the same period in 2008, a decrease of $2.1 million or 19.4%. $1.6 million of the decrease in maintenance costs was due primarily to the overall improvement in fleet performance attributable to the condition of the B767 and B757 aircraft, and a reduction in the number of B727 aircraft in operation compared to the same period in 2008. $0.5 million of the decrease in year over year maintenance costs was due to one-time costs incurred in 2008 due to unexpected aircraft repair expenditures.

Heavy maintenance amortization costs were $2.1 million for the twelve month period ended December 31, 2009 as compared to $2.8 million for the same period in 2008, a decrease of $0.7 million or 25.0%. The variance was due to the timing of service required by each aircraft in Cargojet's fleet. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Aircraft lease costs including non-refundable engine reserves, airframe reserves and sub-charter lease costs were $16.3 million for the twelve month period ended December 31, 2009 as compared to $18.2 million for the same period in 2008. The decrease of $1.9 million or 10.4% was due to a decrease in sub-charter costs of $4.0 million associated with the delay in the introduction of new aircraft in 2008, offset by the higher lease and engine reserve costs for the new B767 and B757 aircraft.

Total crew costs including salaries, training and positioning were $8.5 million for the twelve month period ended December 31, 2009 as compared to $13.9 million for the same period in 2008, a decrease of $5.4 million or 38.8%. The decrease in costs was due to the one-time startup and transition costs associated with the introduction of new aircraft in 2008 and the decrease in crews due to the cancellation of one of the routes to Western Canada and the cancellation of an ACMI contract at the end of 2008.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

Direct Expenses (continued)

Total direct costs of the regional business including the operations of PEAL for the twelve month period ending December 31, 2009 were $22.1 million as compared to $19.4 million in the same period in 2008, an increase of $2.7 million or 13.9%. The increase was due primarily to the acquisition of PEAL in May 2008 and the formation of CJR in July 2009. The regional business also experienced higher year over year maintenance costs related to a general upgrade of the condition of PEAL's aircraft.

Total direct costs of the FBO business were $0.7 million for the twelve month period ended December 31, 2009 as compared to $1.5 million for the same period in 2008. FBO costs were lower due to the decrease in fuel prices and lower customer volume.

Total foreign exchange gains recognized as credits to direct expenses in the twelve months ended 2009 was $2.8 million. Foreign exchange hedge gains in 2008 for the same period were $0.5 million. In January 2009 the Fund sold and settled all of its outstanding foreign exchange forward contracts held at that time and realized a gain of $2.6 million. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affect net income. Also in January 2009, prior to the sale of its remaining U.S. dollar forward purchase contracts, the Fund realized a gain of approximately $0.2 million from the settlement of a foreign exchange contract.

Depreciation recorded in direct costs for the twelve month period ended December 31, 2009 was $5.5 million as compared to $4.2 million for the same period in 2008. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in Q2 2009 and other assets purchased in 2008 required for the introduction of new aircraft.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $16.4 million for the twelve month period ended December 31, 2009 as compared to $17.3 million for the same period in 2008. The decrease of $0.9 million or 5.2% was due primarily to a reduction in linehaul costs and the effect of staff reductions made at the beginning of 2009 partially offset by higher insurance costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $21.2 million for the twelve month period ended December 31, 2009 compared to $19.4 million for the same period in 2008, an increase of $1.8 million or 9.3%. $2.1 million of the increase was due to management incentive plans and other employee bonuses accrued and paid in 2009. No incentive plans amounts or bonuses were accrued or paid to Cargojet employees in 2008. SG&A on account of the regional business was $1.0 million higher in the twelve month period ended December 31, 2009 as compared to the prior year due to the acquisition of PEAL and the formation of CJR. These costs were offset by gains on the repurchase of the Fund's debentures, lower legal expenses, training expenses, and cost savings achieved through a program of staff reductions and reduced discretionary spending implemented in the latter half of 2008 and early 2009.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

EBITDA

EBITDA for the twelve month period ended December 31, 2009 was $23.7 million or 14.3% of revenue, compared to $16.2 million or 7.9% of revenue for the same period in 2008. The improvement in EBITDA of $7.5 million or 46.3% was due to the following:

- The improved profitability of Cargojet's core operations due primarily to reduced block hours, staff reductions and other cost saving measures that were implemented in the latter half of 2008 and in early 2009.
- One-time costs incurred in 2008 of $6.0 million of crew, sub-charter and other expenses related to the introduction of the new B767 and B757 aircraft.
- The increase in year over year foreign exchange hedge gains of $2.1 million.
- The increase in SG&A costs due to $2.1 million of management incentive plans and employee bonuses.

Amortization of Capital Assets

The amortization of capital assets for the twelve month period ending December 31, 2009 was $0.8 million as compared to $0.6 million in 2008, an increase of 33.3%. The $0.2 million increase was due to the acquisition of computer hardware and software during the year, the acquisition of PEAL in May 2008, and the purchase of other assets in 2008 required for the introduction of new aircraft.

Amortization of Intangible Assets

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL. Amortization of intangible assets for the twelve month period ended December 31, 2009 was $5.9 million as compared to $11.5 million for the same period in 2008, a decrease of $5.6 million or 48.7%. The decrease in amortization was due to the full amortization of the intangible assets that were recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets were fully amortized by the end of the second quarter of 2009. The Fund continues to amortize the net book value of intangible assets related to the acquisition of PEAL and subsequent acquisition of CJR.

Interest

Interest expense was $4.1 million for the twelve month period ended December 31, 2009, compared to $3.2 million for the twelve month period ended December 31, 2008. The increase in interest expense of $0.9 million or 28.1% was due primarily to the issuance of convertible debentures in April 2008 and the long-term debt acquired through the purchase of a controlling interest in PEAL on May 1, 2008.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

Future Income Taxes

The future income tax recovery of $2.3 million for the twelve month period ended December 31, 2009 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period. The Fund recorded a future income tax recovery of $0.7 million in the same period in 2008.

Current Income Taxes

Current income taxes for the twelve month period ended December 31, 2009 was a provision of $1.4 million as compared to a recovery of $0.9 million for the twelve month period ended December 31, 2008. The provision for income taxes in 2009 includes the settlement of a tax issue with tax authorities resulting in a recovery of approximately $0.4 million. The provisions, payments and recoveries of income taxes are due to certain subsidiaries of the Fund that are taxable.

Non-controlling Interests

Non-controlling interests were a charge to earnings of $1.2 million for the twelve month period ended December 31, 2009, as compared to a credit to earnings of $0.8 million for the twelve month period ended December 31, 2008. 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 and the non-controlling partner of CJR.

Distributable Cash

Distributable cash was $8.3 million for the twelve month period ended December 31, 2009, compared to $10.1 million for the twelve month period ended December 31, 2008. The decrease in distributable cash of $1.8 million or 17.8% was due primarily to the Fund's purchase of $8.3 purchase of its own Units and Debentures offset partially by the increase in EBITDA.

Distributions

Total distributions declared for the twelve month period ended December 31, 2009 were $7.1 million resulting in a payout ratio of 86%. In comparison, total distributions declared for the twelve month period ended December 31, 2008 were $8.8 million resulting in a payout ratio of 87%.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

Distributions (continued)

The following table summarizes the cash distributions for the twelve month period ended December 31, 2009:

		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	177,267	177,267	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	164,685	60,290	60,290	224,975	0.0270	224,975
October 31, 2009	November 15, 2009	164,686	164,686	60,289	60,289	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,984	2,451,984	897,647	897,647	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		5,233,297	5,442,214	1,865,634	1,922,575	7,098,931	0.8273	7,364,789

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2009 was $15.2 million. Cash used by operating activities after net changes in non-cash working capital balances for the same period in 2008 was $11.9 million. The $3.3 million improvement in cash was due to primarily to the improved profitability in Cargojet's core overnight business, $2.8 million on the settlement of foreign exchange contracts in January 2009, the $6.0 million of one-time aircraft introduction and maintenance costs in 2008 and income taxes paid in 2008 that were refunded in 2009.

Cash used by financing activities during the twelve month period ended December 31, 2009 of $4.5 million was due primarily to distributions paid to unitholders of $7.4 million, the purchase of Cargojet Debentures and Units of $8.8 million partially offset by the proceeds from the settlement of a $2.6 million gain on the sale of foreign currency derivatives and an increase in Cargojet's long term debt through its credit facility.

Cash used in investing activities during the twelve month period ended December 31, 2009 was $8.2 million and was comprised primarily of capital asset spending of $6.7 million, the purchase of the remaining 49% of PEAL for the net amount of $0.8 million ($1.0 million paid in cash less PEAL's cash balance at the time of the Fund's acquisition of the remaining 49% of PEAL's shares), and the acquisition of CJR.

Review of Operations For the Twelve Month Period Ended December 31, 2009 and 2008 (continued)

Liquidity and Capital Resources (continued)

The Fund maintains a long-term credit facility that is to a maximum of $30.0 million. As at December 31, 2009 the Fund had drawn $11.1 million of its long-term credit facility. The renewed credit facility will mature in July 2011. Through its subsidiary PEAL, the Fund also maintains fixed loans with another Canadian chartered bank. PEAL's fixed loans bear interest at rates ranging from 8.1% to 8.2%. In June 2009 PEAL cancelled its credit facility with another Canadian chartered bank that was to a maximum of $1.5 million and payable on demand.

In July 2009, the Fund re-negotiated terms and conditions of PEAL's fixed loans that totalled $5.6 million as at December 31, 2009. The amortization periods of the loans have been extended by 5 years and they will all have matured by January 2022. The loans are secured by the aircraft of PEAL and guaranteed by Cargojet Airways Ltd. for 10% of the outstanding amounts. Cargojet Airways Ltd. is a wholly owned subsidiary of the Fund and the sole shareholder of PEAL. The guarantees provided by Cargojet Airways Ltd. replace the guarantees provided by the previous minority shareholder of PEAL.

Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

Capital Expenditures

Capital asset additions were $6.7 million for the twelve month period ended December 31, 2009 as compared to $21.2 million for the same period in 2008. Capital additions for the twelve month period ended December 31, 2009 were comprised of $3.2 million of maintenance capital expenditures and $3.5 million of growth capital expenditures. Growth capital expenditures included $3.0 million for the new hangar.

As a result of Cargojet's acquisition of the remaining 49% of PEAL during the twelve month period ended December 31, 2009, the net book value of PEAL's fixed assets was reduced by $0.7 million to account for the difference between the fair values and book values of the net assets acquired in the transaction.

Capital asset additions for the twelve month period ended December 31, 2008 were comprised of $3.7 million of maintenance capital expenditures, $16.7 million of growth capital expenditures and $0.7 million of leased assets. Growth capital expenditures included $7.5 million for the new hangar, $1.0 million for the purchase of existing warehouse and office space at the Hamilton International Airport from a related party, $4.5 million for two B727 aircraft that had previously been leased, and various aircraft leaseholds, rotables and support equipment related to the introduction of the new B757 and B767 aircraft.

Financial Condition

The following is a comparison of the financial position of the Fund as at September 30, 2009 to the financial position of the Fund as at December 31, 2008.

Accounts Receivable

Accounts receivable as at December 31, 2009 was $10.2 million as compared to $10.1 million as at December 31, 2008. The increase of $0.1 million was due to primarily 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, remains excellent.

Capital Assets

As at December 31, 2009 net capital assets were $56.8 million as compared to $57.3 million as at December 31, 2008. The $0.5 million net decrease in capital assets was due to $6.7 million of capital additions offset by the amortization of capital assets and a credit to the net book value of the capital assets of PEAL that resulted from Cargojet's acquisition of the remaining 49% of PEAL in July 2009. The net book value of PEAL's fixed assets was reduced by $0.7 million to account for the difference between the fair values and book values of the net assets acquired in the transaction.

Intangible Assets

Intangible assets as at December 31, 2009 were $4.5 million as compared to $9.6 million as at December 31, 2008. The decrease of $5.1 million was due to amortization of $5.9 million offset by a debit to the book value of the intangible assets of PEAL that resulted from Cargojet's acquisition of the remaining 49% of PEAL in July 2009. The net book value of PEAL's intangible assets was increased by $0.7 million to account for the difference between the fair values and book values of the net intangible assets acquired in the transaction.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges as at December 31, 2009 was $12.5 million as compared to $17.0 million as at December 31, 2008. The decrease of $4.5 million was due primarily to the timing of supplier payments, the payment of accrued construction costs for the new hangar, and the decrease 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 December 31, 2009 was $2.1 million as compared to $1.5 million as at December 31, 2008. The increase of $0.6 million is due to heavy maintenance expenditure additions of $2.8 million offset by amortization of $2.2 million. In comparison, total heavy maintenance expenditure additions for the twelve month period ended December 31, 2008 were $2.1 million and amortization of deferred heavy maintenance for this period was $2.8 million.

Financial Condition (continued)

Deferred Heavy Maintenance and Heavy Maintenance Deposits (continued)

The balance of total heavy maintenance deposits as at December 31, 2009 was $2.0 million compared to $1.3 million as at December 31, 2008. Heavy maintenance deposits are paid to aircraft lessors on a monthly basis. Cargojet receives a refund of these payments when it incurs actual heavy maintenance expenditures. During the year, Cargojet entered into an engine maintenance agreement with the lessor of its B767 aircraft that replaces engine reserve deposit payments with a monthly charge based on engine flight hours. As a result, during the twelve month period ended December 31, 2009, Cargojet expensed $0.9 million of heavy maintenance deposits related to engine reserves for its B767 aircraft.

Working Capital Position

The Fund had positive working capital as at December 31, 2009, representing the difference between total current assets and current liabilities, of $2.6 million, compared to a working capital deficit of $0.8 million as at December 31, 2008. The increase in working capital was due to the timing of loan repayments.

Long-Term Debt

Total long-term debt excluding the current portion was $16.5 million as at December 31, 2009 as compared to $6.8 million as at December 31, 2008. The long-term debt consists of Cargojet’s revolving credit facility and fixed loans related to PEAL. The increase in long term debt was due to the purchase of the Fund’s Units and Debentures and the timing of loan repayments.

Convertible Debentures

During the twelve month period ended December 31, 2009, the Fund purchased $3.5 million in face value of its outstanding 7.5% convertible unsecured subordinated debentures (the “Debentures”) for $2.9 million at an average price of $811 per Debenture, ($798 per Debenture excluding accrued interest). The purchases were made under an approved normal course issuer bid authorized from March 17, 2009 to March 16, 2010 through the facilities of the Toronto Stock Exchange (“TSX”). Debentures purchased pursuant to the bid were cancelled.

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the “Purchase Price”).

Financial Condition (continued)

Convertible Debentures (continued)

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

Summary of Contractual Obligations

	Payments due by Period						
As at December 31, 2009	Total	2010	2011	2012	2013	2014	Thereafter
(in thousands)	$	$	$	$	$	$	$
Long-term debt	5,578	429	438	448	459	470	3,334
Credit facility	11,131	-	11,131	-	-		-
Financing loan	29	29	-	-	-	-	-
Capital lease obligations	399	210	154	35	-	-	-
Operating leases	73,269	14,266	12,570	12,146	12,002	11,253	11,032
Total contractual obligations	90,406	14,934	24,293	12,629	12,461	11,723	14,366

Off-Balance Sheet Arrangements

The Fund does not have any off-balance sheet arrangements other than those disclosed under “Summary of Contractual Obligations”.

Transactions with Related Parties

During the twelve month period ended December 31, 2009 the Fund did not transact with any related companies.

During the twelve month period ended December 31, 2008 the Fund had transactions with its related company, Flagship Aviation. The company is controlled by one of the Fund's executive officers. Total transactions amounted to $0.3 million and were in the normal course of operations. These transactions were related to a warehouse lease agreement that the Fund had entered into with Flagship Aviation for a warehouse and office building at the Hamilton International Airport.

In October 2008 Fund entered into an agreement with Flagship Aviation to purchase the warehouse and office building at the Hamilton International Airport for approximately $1.0 million plus applicable taxes. Flagship Aviation is controlled by one of the Fund’s executive officers.

Segmented Information

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

In July 2009 the Fund completed the acquisition of the remaining 49% of PEAL. Immediately following this transaction, PEAL entered into a partnership agreement with SkyLink Express Inc. to consolidate their regional cargo businesses. The new partnership began operations under the name Cargojet Regional ("CJR") on August 1, 2009. CJR's annual revenues are approximately $23.0 million and it currently employs over 130 people. The Regional segment includes all of the operations of PEAL and CJR.

The performance of each operating segment is regularly evaluated by the Management of the Fund who assesses performance and decides on the allocation of resources. The performance of the Fund's operating segments is measured on earnings before income taxes and non-controlling interest. Inter-segment transactions are reflected at market value. The following pages provide a breakdown by reporting segment for the three and twelve month periods ended December 31, 2009 and December 31, 2008.

Segmented Information (continued)

Results of Operations and Capital Expenditures by Reporting Segment
For the Three Month Periods Ended December 31, 2009 and 2008
(in thousands)

	Three Month Period Ended December 31, 2009			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	37,233	6,711	(470)	43,474
Direct expenses	27,005	6,429	(470)	32,964
	10,228	282	-	10,510
Selling, general and administrative expenses				
Sales and marketing	178	3	-	181
General and administrative	4,548	605	-	5,153
Interest, net	1,127	69	-	1,196
Amortization of capital assets	210	26	-	236
Amortization of intangible assets	181	64	-	244
	6,244	767	-	7,010
Income (loss) before income taxes and non-controlling interest	3,984	(485)	-	3,500
Total Capital Expenditures	962	833	-	1,795

	Three Month Period Ended December 31, 2008			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	47,163	6,826	(330)	53,659
Direct expenses	36,117	6,443	(330)	42,230
	11,046	383	-	11,429
Selling, general and administrative expenses				
Sales and marketing	224	20	-	244
General and administrative	3,576	355	-	3,931
Interest, net	859	162	-	1,021
Amortization of capital assets	164	-	-	164
Amortization of intangible assets	2,573	620	-	3,194
	7,396	1,157	-	8,554
Income (loss) before income taxes and non-controlling interest	3,650	(774)	-	2,875
Total Capital Expenditures	12,506	114	-	12,620

Segmented Information (continued)

Results of Operations and Capital Expenditures by Reporting Segment
For the Twelve Month Periods Ended December 31, 2009 and 2008
(in thousands)

	Twelve Month Period Ended December 31, 2009			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	144,668	23,078	(1,582)	166,164
Direct expenses	104,215	23,143	(1,582)	125,776
	40,453	(65)	-	40,388
Selling, general and administrative expenses				
Sales and marketing	575	20	-	595
General and administrative	19,081	1,934	-	21,016
Gain on debenture redemption	(401)	-	-	(401)
Interest, net	3,606	455	-	4,061
Amortization of capital assets	726	29	-	756
Amortization of intangible assets	4,628	1,258	-	5,886
	28,215	3,696	-	31,913
Income (loss) before income taxes and non-controlling interest	12,238	(3,761)	-	8,475
Total Capital Expenditures	5,600	1,107	-	6,707

	Twelve Month Period Ended December 31, 2008			
	National	Regional	Inter-segment	Total
	$	$	$	$
Revenues	185,746	20,801	(872)	205,675
Direct expenses	154,577	19,949	(872)	173,654
	31,169	852	-	32,021
Selling, general and administrative expenses				
Sales and marketing	903	52	-	955
General and administrative	17,350	1,002	-	18,352
Interest, net	2,723	451	-	3,174
Amortization of capital assets	607	-	-	607
Amortization of intangible assets	10,209	1,329	-	11,538
	31,792	2,834	-	34,626
Income (loss) before income taxes and non-controlling interest	(623)	(1,982)	-	(2,605)
Total Capital Expenditures	21,363	12,254	-	33,617

Major Customers

During the three and twelve month periods ending December 31, 2009, the Fund had sales to three customers that represented 52% and 51% of the total revenues respectively and these customers were reported entirely in the National segment. During the three and twelve month periods ending December 31, 2008, the Fund had sales to three customers that represented 45% and 44% of the total revenues respectively. These sales are provided under service agreements that expire over various periods to September 2014. All three of these customers had sales in excess of 10% of total revenues during the three month period ended December 31, 2009 and during the three and twelve month periods ended December 31, 2008. Two of these customers each had sales in excess of 10% of total revenues during the twelve month period ended December 31, 2009.

Contingencies

The Fund has provided irrevocable standby letters of credit totalling approximately $1.0 million to a financial institution as security for its corporate credit cards and to a number of vendors as security for the Fund's ongoing purchases.

Financial Instruments

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions.

The Fund has entered into U.S. dollar forward purchase contracts to reduce uncertainty surrounding Canadian dollar value of anticipated cash flows where it has significant foreign exchange exposure to U.S. currency fluctuations. All contracts were executed according to the Fund's foreign exchange risk management policy. In May 2009 the Fund entered into a series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by June 2011. In October 2009, the Fund entered into an additional series of twenty-four U.S. dollar forward purchase contracts for an aggregate total of U.S. $12.0 million that expire monthly by October 2011. As at December 31, 2009, the remaining forty contracts had a negative fair value of $0.5 million that was recorded as a liability on the balance sheet. These contracts were designated as hedges at December 31, 2009. On January 1, 2010 the Fund discontinued hedge accounting and will recognize the deferred loss of its remaining forty foreign exchange contracts in the same periods in which the hedged anticipated transactions will affect net income.

In January 2009 the Fund realized gains of approximately $2.8 million from the settlement and sale of all of the Fund's U.S. dollar forward purchase contracts held as at December 31, 2008. These gains were recognized throughout 2009 in net income in the same periods that the anticipated transactions to which the hedges related would have affected net income.

Subsequent Events

On December 3, 2009 the Fund announced that it had authorized a substantial issuer bid (the "Offer") to purchase for cancellation up to $15,000,000 principal amount of Debentures at a purchase price of $1,010 in cash for each $1,000 principal amount of Debentures (the “Purchase Price”). Upon the expiry of the Offer on January 15, 2010, an aggregate of $7.5 million principal amount of its Debentures was deposited under the Offer. The Fund took up and accepted for purchase and cancellation all of 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.

Outlook

Cargojet continues to mitigate the effects of lower revenues and competitive pricing pressures through the pro-active management of its fleet capacity, control over its cost structure, and the pursuit of new customers and markets. These actions combined with the excellent performance of the new aircraft have resulted in strong earnings throughout the past five quarters ending December 31, 2009.

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, 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 December 31, 2009 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

Financial Reporting Update

Changes in Accounting: Adoption of New and Revised Accounting Standards

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, which establishes revised standards for recognition, measurement, presentation and disclosure of goodwill, intangible assets and deferred costs. CICA Handbook Section 1000, *Financial Statements Concepts*, was also amended to provide consistency with this new standard. The new and amended standards are effective for the Fund beginning January 1, 2009. Application of these standards had no impact on the Fund's financial statements.

Financial Reporting Update (continued)

Changes in Accounting: Adoption of New and Revised Accounting Standards (continued)

In June 2009, the CICA issued amendments to Handbook Section 3862, Financial Instruments — Disclosures, to include additional disclosure requirements around fair value measurement for financial instruments and liquidity risk associated with financial instruments. These amendments resulted in enhanced disclosures regarding the fair value measurement of financial assets and liabilities and liquidity management. The adoption of these amendments had no effect on the Fund's financial position, operations or cash flows.

The Fund adopted the CICA Emerging Issues Committee Abstract 173, *Credit Risk and Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). EIC-173 provides guidance on how to take into account the credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. The adoption of EIC-173 had no impact on the Fund's financial statements.

Future Accounting Changes

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

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

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

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board has confirmed that use of International Financial Reporting Standards ("IFRSs") will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for these enterprises. These new standards will be effective for the Fund on January 1, 2011 and the Fund has selected this date for the adoption of IFRS. The Fund expects that the transition to IFRS will impact its accounting and financial policies, processes and systems. The Fund has commenced its initial planning and analysis process to convert its consolidated financial statements to IFRS by January 1, 2011.

Financial Reporting Update (continued)

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

The Fund's IFRS implementation project consists of three phases. The objective of the first phase is to prepare an IFRS conversion plan based on a gap assessment between the current state and the required future state. To that end, the Fund has engaged its auditors to assist in completing the first phase by providing the following services:

- Completion of a diagnostic assessment, showing the differences between the Fund's current accounting policies under Canadian Generally Accepted Accounting Principles ("GAAP") and IFRS.
- Identification of the impact of IFRS on other business functions of the Fund.
- Preparation of the project plan.

The second phase of the Fund's IFRS implementation project 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.

During its initial planning and analysis process, the Fund identified potential significant differences between IFRS and GAAP as follows:

- First-time adoption of IFRS
- Business combinations
- Property, plant and equipment
- Impairment
- Financial presentation and disclosure

The Fund has not yet quantified the effects of the potential significant differences between IFRS and GAAP.

As part of the initial assessment to identify key areas that may be impacted by IFRS, Cargojet also identified the need to upgrade its existing financial system. The Fund has completed the financial system upgrade and the first phase of its IFRS implementation project as of the date of this MD&A.

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.

As at December 31, 2009, management assessed the effectiveness of the Fund's internal controls over financial reporting and concluded that the Fund's internal controls over financial reporting were effective. Management did not identify any material weaknesses in the Fund's internal controls over financial reporting.

There have been no changes in the Fund's internal controls over financial reporting during the twelve month period ended December 31, 2009 that have materially affected, or are likely to materially affect, the Fund's internal controls over financial reporting.

End Notes

(A) All references to "EBITDA" in the Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, future income tax recovery, provision for current income taxes, non-controlling interest, gain or loss on disposal of capital assets and amortization of aircraft heavy maintenance expenditures". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of amortization, gain or loss on disposal of capital assets, amortization of aircraft heavy maintenance expenditures and future income tax recovery), or non-operating (in the case of interest on long-term debt, provision for current income taxes and non-controlling interest). The underlying reasons for exclusion of each item are as follows:

Amortization - as a non-cash item, amortization has no impact on the determination of EBITDA and distributable cash.

Interest on long-term debt - interest on long-term debt is a function of the Fund's treasury/financing activities and represents a different class of expense than those included in EBITDA.

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

End Notes (continued)

(A) (continued)

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 PEAL. Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

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

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.

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.

(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.