Consolidated financial statements of

CARGOJET INCOME FUND

December 31, 2010 and 2009

Deloitte.

Independent Auditor's Report

To the Unitholders of
Cargojet Income Fund

We have audited the accompanying consolidated financial statements of Cargojet Income Fund, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009, and the consolidated statements of operations and deficit, comprehensive income and accumulated other comprehensive income (loss) and cash flows for the years then ended, and a summary of significant accounting policies and to the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Income Fund as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

February 23, 2011
Toronto, Canada

CARGOJET INCOME FUND

Consolidated Balance Sheets

As at December 31, 2010 and 2009

	2010	2009
	$	$
ASSETS		(Note 4)
CURRENT		
Cash	-	2,577,620
Restricted cash (Note 9)	629,930	454,144
Accounts receivable	11,290,717	8,361,204
Materials and supplies	1,074,658	808,907
Prepaid expenses and deposits	3,142,979	3,558,439
Current portion of notes receivable (Note 4)	820,582	-
Future income taxes (Note 11)	212,513	177,118
Assets held for sale (Note 4)	455,489	-
Assets of discontinued operations (Note 4)	-	9,264,866
	17,626,868	25,202,298
CAPITAL ASSETS (NOTE 5)	45,389,522	49,657,908
NOTES RECEIVABLE (NOTE 4)	2,883,636	-
INTANGIBLE ASSETS (NOTE 6)	1,000,000	1,000,000
DEPOSITS	4,826,513	3,859,283
DEFERRED HEAVY MAINTENANCE (NOTE 7)	2,630,328	2,132,212
GOODWILL	46,169,976	46,169,976
ASSETS HELD FOR SALE (NOTE 4)	290,000	7,132,940
	120,816,843	135,154,617
LIABILITIES		
CURRENT		
Overdraft	8,408	-
Accounts payable and accrued charges (Note 8)	11,086,280	10,977,231
Income taxes payable	1,652,117	1,946,834
Derivative contracts (Note 15)	465,699	538,713
Distributions payable (Note 17)	335,723	335,723
Current portion of long-term debt (Note 9)	1,615,840	666,150
Future income taxes on assets held for sale (Note 4)	68,810	-
Liabilities of discontinued operations (Note 4)	-	2,621,457
	15,232,877	17,086,108
LONG-TERM DEBT (NOTE 9)	12,238,582	16,470,022
CONVERTIBLE DEBENTURES (NOTE 10)	23,361,940	29,723,081
FUTURE INCOME TAXES (NOTE 11)	4,031,822	3,356,960
FUTURE INCOME TAXES ON ASSETS HELD FOR SALE (NOTE 4)	43,810	547,276
	54,909,031	67,183,447
NON-CONTROLLING INTERESTS (NOTE 12(b))	13,028,031	21,270,060
UNITHOLDERS' EQUITY		
ACCUMULATED OTHER COMPREHENSIVE LOSS	(144,274)	(360,691)
DEFICIT	(9,138,967)	(9,991,256)
	(9,283,241)	(10,351,947)
UNITHOLDERS' CAPITAL (NOTE 12(a))	59,106,288	53,517,349
CONTRIBUTED SURPLUS (NOTE 10)	1,487,759	1,490,981
CONVERSION OPTION (NOTE 10)	1,568,975	2,044,727
	52,879,781	46,701,110
	120,816,843	135,154,617

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

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
Years ended December 31, 2010 and 2009

	2010	2009
	$	$
		(Note 4)
REVENUES	156,205,320	143,584,980
DIRECT EXPENSES	120,596,783	103,231,003
	35,608,537	40,353,977
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	815,088	574,731
General and administrative	18,525,191	18,954,226
Loss (gain) on debenture redemption (Note 10)	273,265	(400,853)
Interest, net	3,431,363	3,800,371
Loss on derivative contracts (Note 15)	207,986	-
Amortization of capital assets (Note 5)	643,453	754,289
Amortization of intangible assets (Note 6)	-	4,447,209
	23,896,346	28,129,973
EARNINGS BEFORE INCOME TAXES, NON-CONTROLLING INTERESTS AND DISCONTINUED OPERATIONS	11,712,191	12,224,004
PROVISION FOR (RECOVERY OF) INCOME TAXES (NOTE 11)		
Current	1,636,030	1,435,810
Future	1,375,181	(1,912,121)
	3,011,211	(476,311)
EARNINGS FROM CONTINUING OPERATIONS BEFORE NON-CONTROLLING INTERESTS	8,700,980	12,700,315
NON-CONTROLLING INTERESTS (NOTE 12(b))	1,745,471	3,400,114
NET EARNINGS FROM CONTINUING OPERATIONS	6,955,509	9,300,201
LOSS FROM DISCONTINUED OPERATIONS (NOTE 4)	(2,915,755)	(1,134,848)
NET INCOME	4,039,754	8,165,353
DEFICIT, BEGINNING OF YEAR	(9,991,256)	(14,751,848)
REPURCHASE OF CARGOJET INCOME FUND UNITS (NOTE 12(e))	-	1,828,536
DISTRIBUTIONS DECLARED IN THE YEAR (NOTE 17)	(3,187,465)	(5,233,297)
DEFICIT, END OF YEAR	(9,138,967)	(9,991,256)
BASIC EARNINGS (LOSS) PER TRUST UNIT		
- Continuing operations (Note 12(c))	1.11	1.46
- Discontinued operations (Note 12(c))	(0.46)	(0.18)
	0.65	1.28
DILUTED EARNINGS (LOSS) PER TRUST UNIT		
- Continuing operations (Note 12(c))	1.09	1.44
- Discontinued operations (Note 12(c))	(0.46)	(0.19)
	0.63	1.25

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

CARGOJET INCOME FUND

Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)

Years ended December 31, 2010 and 2009

	2010	2009
	$	$
NET INCOME	4,039,754	8,165,353
OTHER COMPREHENSIVE INCOME		
Foreign currency gains from hedging activities net of income taxes	-	118,380
Transfer of losses (gains) on foreign exchange contracts, net of income taxes, to net income (Note 15)	216,417	(1,921,183)
COMPREHENSIVE INCOME	4,256,171	6,362,550
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)		
Balance, beginning of year	(360,691)	1,442,112
Other comprehensive income (loss) for the year	216,417	(1,802,803)
ACCUMULATED OTHER COMPREHENSIVE LOSS, END OF YEAR	(144,274)	(360,691)

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

CARGOJET INCOME FUND

Consolidated Statements of Cash Flows

Years ended December 31, 2010 and 2009

	2010	2009
	$	$
NET INFLOW (OUTFLOW) OF CASH		(Note 4)
RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Income from continuing operations	6,955,509	9,300,201
Items not affecting cash		
Amortization of capital assets (Note 5)	6,438,065	5,662,764
Amortization of intangible assets (Note 6)	-	4,447,209
Accretion of convertible debentures	554,155	751,763
Loss (gain) on purchase of debenture (Note 10)	273,265	(400,853)
Loss on disposal of capital assets	-	67,118
Gain on disposal of intangible assets	-	(160,401)
Non-cash interest on notes receivable	(46,081)	-
Future income taxes	1,375,181	(1,912,121)
Transfer of (gains) losses on derivatives from other comprehensive income	216,417	(2,599,095)
Change in fair value on non-hedge derivatives	207,986	-
Non-controlling interests	1,745,471	3,400,114
Aircraft heavy maintenance amortization	2,712,424	1,853,334
Aircraft heavy maintenance expenditures	(3,210,540)	(2,255,882)
	17,221,852	18,154,151
Changes in non-cash working capital items and deposits		
Accounts receivable	(2,929,513)	413,404
Materials and supplies	(265,751)	54,652
Prepaid expenses and deposits	(551,770)	(372,487)
Accounts payable and accrued charges	109,049	(3,752,882)
Income taxes payable	(294,717)	3,214,830
NET INFLOW OF CASH FROM OPERATING ACTIVITIES	13,289,150	17,711,668
FINANCING		
Repayment of long-term debt	(6,913,719)	(722,822)
Increase in long-term debt	3,631,969	10,387,608
Proceeds from (payments on) disposition of derivatives	(281,000)	2,600,000
Purchase of Trust Units (Note 12(e))	-	(5,524,133)
Repurchase of convertible debentures (Note 10)	(7,667,535)	(2,808,202)
Distributions paid to unitholders and non-controlling interest (Note 17)	(4,028,684)	(7,364,789)
NET OUTFLOW OF CASH FROM FINANCING ACTIVITIES	(15,258,969)	(3,432,338)
INVESTING		
Additions to capital assets	(1,693,104)	(6,707,254)
Increase in restricted cash	(175,786)	(88,934)
Proceeds from disposal of capital assets	257,151	212,667
Acquisition of business (Note 4)	-	(1,713,173)
Net outflow of cash from continuing operations	(1,611,739)	(8,296,694)
Net inflow (outflow) of cash from discontinued operations	995,530	(3,609,000)
NET OUTFLOW OF CASH FROM INVESTING ACTIVITIES	(616,209)	(11,905,694)
NET CHANGE IN CASH	(2,586,028)	2,373,636
CASH POSITION, BEGINNING OF PERIOD	2,577,620	203,984
CASH (OVERDRAFT) POSITION, END OF PERIOD	(8,408)	2,577,620
Supplementary financial information		
Interest paid	3,018,347	3,290,692
Income taxes paid (refunded)	1,943,730	(1,720,867)
Equipment purchased under capital lease	-	38,474

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

1. NATURE OF THE BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, Cargojet Operating Trust, and its 80% (2009 – 72%) owned subsidiary Cargojet Holdings Limited Partnership ("CHLP"), and CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd., Cargojet Partnership, Cargojet Airways Ltd. and Prince Edward Air Ltd.

Materials and supplies

Materials and supplies are valued at average cost less provision for obsolescence.

Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance basis, except for leasehold improvements, propeller aircraft and engines which are amortized on the straight-line basis, at the following rates per annum:

Jet aircraft	-	7-½%
Propeller aircraft	-	20 years
Spare parts	-	actual usage
Engines	-	engine cycles and 20 years
Ground equipment	-	20% to 40%
Rotable spares	-	7-½%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	shorter of useful life and lease term
Vehicles	-	30%
Hangar facility	-	10%

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill and intangible assets

Goodwill represents the excess, at the dates of acquisition, of the cost of an acquired business over the fair value of the net identifiable assets acquired.

Goodwill and intangible asset with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the asset 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 before income taxes and non-controlling interest.

Intangible assets, such as licenses, that have an indefinite useful life, are also tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in the statement of operations for the excess, if any.

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.

Impairment of long-lived assets

An impairment loss is recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

Heavy maintenance

The Fund recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months).

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

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

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 substantive enactment date. Future income tax assets are recorded in the financial statements to the extent that realization of such benefit is more likely than not.

Non-controlling interests

Non-controlling interests represent direct non-controlling equity interests through exchangeable limited partnership units in CHLP and the non-controlling equity interest in Cargojet Regional Partnership prior to the disposition of the regional business (Note 4). Exchangeable units are entitled to earnings that are economically equivalent to distributions of the Fund. The exchangeable units were recorded at the value at which the Fund's Trust Units were issued to the public through the initial public offering. Exchanges of exchangeable units are recorded at the carrying value of the exchangeable units at issuance net of net earnings and distributions attributable to participating exchangeable units to the date of exchange.

Revenue recognition

Revenue is recognized when delivery occurs and the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from ACMI (aircraft, crew, maintenance and insurance) cargo services is recorded when the cargo service has been provided at a fixed daily rate to operate a specific route. The customer is otherwise responsible for all commercial activities and any costs incurred in excess of the ACMI services are invoiced to the customer at cost. Revenue from ACMI passenger services is billed on the basis of a contracted ACMI rate and recorded when the services have been provided.

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental becomes due.

Revenue from fuelling services is billed on the basis of prevailing rates at the time of sale and recorded when the sale is completed.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at rates of exchange prevailing at the period end. Gains or losses resulting from such translations are included in income. Transactions in foreign currencies throughout the period have been converted at the exchange rate prevailing at the date of the transaction.

Financial instruments

All financial assets are classified as either held for trading, held to maturity investments, loans and receivables or available-for-sale. All financial liabilities are classified as either held for trading or other financial liabilities. 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.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable, note receivable, and deposits	Loans and receivables	Amortized cost
Accounts payable and accrued charges, distributions payable, convertible debentures and long-term debt	Other financial liabilities	Amortized cost
Derivative contracts	Held for trading	Fair value

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest method.

Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair value of the financial instrument in the period.

Derivative financial instruments and hedges

Derivative financial instruments are utilized by the Fund in the management of its interest rate and foreign currency exposures. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative financial instruments are recorded at their fair values.

The Fund periodically enters into interest rate swaps in order to manage its exposure to fluctuations in interest rates on its floating rate debt. These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

The Fund periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedges (continued)

Derivatives designated as hedges are measured at fair value. Changes in the fair value of a derivative which hedges the Fund's exposure to changes in the fair value of an asset or liability (a fair value hedge) are recognized in net income together with those of the respective offsetting hedged items. Changes in the fair vale of a derivative which effectively hedges the Fund's exposure to changing cash flows (a cash flow hedge) are accumulated in other comprehensive income until the transactions being hedged affect net income.

If a hedge item is sold or otherwise ceases to exist and is not replaced, any gains, losses, revenue or expenses associated with the hedging item that had previously been recognized in other comprehensive income as a result of applying hedge accounting are carried forward and recognized in net income in the same period or periods during which the hedged anticipated transaction affects net income.

Derivatives not designated as hedges are also measured at fair value with changes in the fair value of these derivatives recognized in income during the period.

Convertible debentures

The component parts of compound instruments issued by the Fund are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability and equity components are measured separately, and to the extent necessary, are adjusted on a pro rata basis so that the sum of the components equals the amount of the instrument as a whole. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, and is not subsequently re-measured.

On the early redemption or repurchase of convertible debentures, the Fund allocates the consideration paid on extinguishment to the liability and equity elements of the convertible debentures based on their relative fair values at the date of the transaction. Any resulting gain or loss relating to the liability element is credited or charged to income and the difference between the carrying amount and the amount considered to be settled relating to the holder option elements is treated as a capital transaction.

Management's use of 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 significant items requiring the use of management estimates are the obsolescence of spare parts, materials, supplies and rotable spares, the valuation of capital and intangible assets and their related amortization, the valuation of goodwill and the allocation of fair values to assets acquired and liabilities assumed on business acquisitions.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the year ended December 31, 2010.

3. CHANGES IN ACCOUNTING POLICIES

Future accounting changes

The Canadian Accounting Standards Board has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian generally accepted accounting principles effective January 1, 2011, including comparatives for 2010, for Canadian publicly accountable enterprises. The Fund will be preparing its first interim financial statements in accordance with IFRS for the three month period ending March 31, 2011.

4. DISPOSITION OF THE FUND'S REGIONAL BUSINESS

Effective August 1, 2009, the Fund acquired the remaining 49% common share interest in Prince Edward Air Ltd. ("PEAL ") that it did not already own. Consideration for the purchase was $832,586, comprised of a cash payment of $1,000,000, transaction costs of $17,241 and net of cash acquired of $184,656.

Effective August 1, 2009, the Fund entered into a partnership with SkyLink Express Inc. ("SL Express") to combine their regional air cargo feeder aircraft network. The new partnership, Cargojet Regional Partnership (the "Partnership"), was owned 55% by the Fund's subsidiary, PEAL, and 45% by SL Express. PEAL contributed customer contracts to the Partnership valued at $3,911,112, while SL Express contributed a promissory note, payable to the Fund, of $3,200,001 bearing an annual interest rate of 6.5% (outstanding balance of $2,866,667 as at December 31, 2009) which was repaid as payments were made on the leased aircraft. The Fund also incurred $695,931 of transaction costs which was recognized as goodwill.

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

The results of operations of the Partnership have been classified as discontinued operations in the consolidated statements of operations and deficit. The net cash flows are classified as investing activities from discontinued operations in the consolidated statements of cash flows. The assets and liabilities have been classified on the consolidated balance sheets as assets and liabilities from discontinued operations.

4. DISPOSITION OF THE FUND'S REGIONAL BUSINESS (CONTINUED)

The consolidated balance sheet and the consolidated statements of operations and deficit and cash flows as at and for the year ended December 31, 2009 have been restated for purposes of comparability.

The sale agreement also included the sale of the Fund's aircraft spare parts and other operating assets that are required by SL Express in the operation of the Partnership, which were sold to SL Express on December 20, 2010 in exchange for a separate non-interest bearing note receivable ("Second Note Receivable") of $1.8 million receivable over five years.

Both notes receivable due from SL Express are secured by a first charge on aircraft owned by SL Express. They are discounted at an annual rate of 6%.

The net loss from discontinued operations is summarized as follows:

	2010	2009
	$	$
Total revenue from discontinued operations	12,019,600	22,578,817
Loss from operating activities	868,182	3,701,925
Loss on impairment of goodwill	695,391	-
Loss on write down of assets	4,285,188	-
Less: income taxes	(1,910,091)	(336,290)
Less: non-controlling interest	(1,022,915)	(2,230,787)
Loss on discontinued operations	2,915,755	1,134,848

The discounted balance of the notes receivable is comprised of the following as at December 31, 2010:

December 31, 2010	First Note Receivable	Second Note Receivable	Total
	$	$	$
Notes receivable	2,193,519	1,510,699	3,704,218
Less: notes receivable - current portion	483,647	336,935	820,582
Notes receivable - long-term portion	1,709,872	1,173,764	2,883,636

4. DISPOSITION OF THE FUND'S REGIONAL BUSINESS (CONTINUED)

The assets and liabilities of discontinued operations at December 31, 2010 and 2009 are as follows:

	Dec 31, 2010	Dec 31, 2009
Assets of discontinued operations	$	$
Accounts receivable	-	2,198,563
Notes receivable	-	2,866,667
Customer relationships	-	3,503,705
Goodwill	-	695,931
	-	9,264,866
Liabilities of discontinued operations		
Accounts payable and accrued charges	-	1,881,735
Future income taxes	-	739,722
	-	2,621,457

Assets held for sale

Following the sale of the regional business, seven of PEAL's aircraft that are not leased to third parties were approved for disposal. Accordingly, these assets were valued at the lower of their carrying value and estimated fair value. An amount of $2,776,654 has been written off as loss from discontinued operations in the year ended December 31, 2010. The estimated fair value of $745,489 of the aircraft has been presented as assets held for sale, as well as the related future income tax liability of $112,620.

Subsequent to December 31, 2010, three of the above noted aircraft with a fair value of $455,489 have been sold to third parties. These assets have been presented as current assets held for sale, as well as the related future income tax liability of $68,810.

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

5. CAPITAL ASSETS

	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	26,749,915	8,468,180	18,281,735
Spare parts	1,138,350	-	1,138,350
Ground equipment	7,254,333	3,418,846	3,835,487
Rotable spares	9,563,624	2,554,051	7,009,573
Computer hardware and software	2,673,332	1,528,939	1,144,393
Leased computer hardware and software	830,156	563,229	266,927
Furniture and fixtures	938,970	484,188	454,782
Leasehold improvements	4,325,319	2,909,465	1,415,854
Vehicles	353,494	244,838	108,656
Leased vehicles	230,309	150,039	80,270
Hangar facilities	14,880,402	3,226,907	11,653,495
	68,938,204	23,548,682	45,389,522

5. CAPITAL ASSETS (CONTINUED)

	December 31, 2009		
	Cost	Accumulated amortization	Net book value
	$	$	$
Aircraft and engines	26,762,228	6,380,364	20,381,864
Spare parts	1,148,015	-	1,148,015
Ground equipment	6,621,274	2,508,059	4,113,215
Rotable spares	9,174,270	2,029,857	7,144,413
Computer hardware and software	2,163,280	1,167,270	996,010
Leased computer hardware and software	830,156	426,385	403,771
Furniture and fixtures	821,000	393,830	427,170
Leasehold improvements	4,246,549	2,375,161	1,871,388
Vehicles	321,064	205,195	115,869
Leased vehicles	230,309	125,030	105,279
Hangar facility	14,878,351	1,927,437	12,950,914
	67,196,496	17,538,588	49,657,908

Amortization expense consists of amounts charged under the following classifications:

	2010	2009
	$	$
Direct expenses	5,794,612	4,908,475
Selling, general and administrative expenses	643,453	754,289
	6,438,065	5,662,764

6. INTANGIBLE ASSETS

Intangible assets as at December 31, 2010 and 2009 consist of licenses with indefinite lives. Amortization expense of intangible assets of $4,447,209 for the year ended December 31, 2009 related to customer relationships and non-compete agreements that were fully amortized as at December 31, 2009.

7. DEFERRED HEAVY MAINTENANCE

	December 31, 2010	December 31, 2009
	$	$
Cost	10,234,557	7,024,017
Accumulated amortization	7,604,229	4,891,805
	2,630,328	2,132,212

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	December 31, 2010	December 31, 2009
	$	$
Trade payables and accrued charges	9,991,790	9,120,967
Payroll and benefits	1,094,490	1,856,264
	11,086,280	10,977,231

9. LONG-TERM DEBT

The Fund renewed its revolving credit facility with a Canadian chartered bank on September 30, 2010. The credit facility is to a maximum of $25.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

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

The Fund also maintains fixed loans with another Canadian chartered bank through its subsidiary PEAL. The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the assets of PEAL and a guarantee provided by Cargojet Airways Ltd. (“CJA”) for 20% of the outstanding amounts. CJA is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL. The loans are repayable in monthly installments plus interest and will mature by January 2019. The Fund also maintains cash deposits with the chartered bank related to heavy maintenance reserve requirements of the aircraft assets secured by the loans. These cash deposits in the amount of $629,930 as at December 31, 2010 and $454,144 as at December 31, 2009 have been classified as restricted cash in the consolidated balance sheets.

Long-term debt consists of the following:

	December 31, 2010	December 31, 2009
	$	$
Revolving credit facility	8,514,989	11,130,589
Fixed loans - Prince Edward Air Ltd.	5,148,748	5,577,496
Financing loan	-	29,043
Obligations under capital leases	190,685	399,044
	13,854,422	17,136,172
Less current portion	1,615,840	666,150
	12,238,582	16,470,022

9. LONG-TERM DEBT (CONTINUED)

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

	$
2011	1,460,290
2012	794,994
2013	825,136
2014	857,844
2015	550,661
Thereafter	659,823
	5,148,748
Less current portion	1,460,290
	3,688,458

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

	$
2011	160,445
2012	35,876
	196,321
Less interest	5,636
Obligations under capital leases	190,685
Less current portion	155,550
	35,135

Interest on long-term debt for the years ended December 31, 2010 and 2009 totaled $1,034,667 and $722,009, respectively.

10. CONVERTIBLE DEBENTURES

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

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

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

10. CONVERTIBLE DEBENTURES (continued)

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

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

Substantial and normal course issuer bids

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

During the year ended December 31, 2009, under the terms of a normal course issuer bid approved by the Toronto Stock Exchange that expired on March 16, 2010, the Fund repurchased $3,519,000 principal amount of the debentures ($3,209,180 net of related unamortized issuance costs and the portion allocated to the conversion option) at a cost of $811 per debenture for an aggregate purchase price of $2,808,202. The repurchase of the debentures resulted in a gain of $400,853 relating to the debt component and the transfer within unitholders' equity of $233,939 from conversion option to contributed surplus relating to the equity component.

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

	2010	2009
	$	$
Principal balance	24,655,000	32,131,000
Less:		
Issuance costs	(1,237,467)	(1,612,696)
Conversion option to Unitholders' equity	(1,568,975)	(2,044,727)
Accretion	1,513,382	1,249,504
Balance	23,361,940	29,723,081

Interest expense on the debentures for the years ended December 31, 2010 and 2009 totaled $2,426,770 and $3,454,492, respectively.

11. INCOME TAXES

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

	December 31, 2010	December 31, 2009
	$	$
Capital assets	4,454,575	4,815,641
Intangible assets	(653,632)	(702,830)
Operating loss carryforward	(1,541,289)	(1,537,755)
Notes receivable	(153,749)	-
Financing costs	(2,516)	(478,832)
Derivative contracts	(212,513)	(177,118)
Deferred heavy maintenance	1,928,433	1,260,736
Net future income tax liability	3,819,309	3,179,842
Future income tax asset - current portion	(212,513)	(177,118)
Future income tax liability - long-term	4,031,822	3,356,960

The carry forward balance of operating losses consists of $348,435 expiring in the year 2026, $113,832 expiring in the year 2027, $180,567 expiring in the year 2028, $894,921 expiring in the year 2029, and $3,534 expiring in the year 2030.

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

	2010	2009
	$	$
Earnings before income taxes, non-controlling interest and discontinued operations	11,712,191	12,224,004
Income tax provision at the combined basic rate of 31% (2009 - 33%)	3,630,779	4,033,921
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(2,646,534)	(2,350,081)
Non-deductible portion of amortization of intangible assets	-	462,247
Rate reduction	(234,244)	(660,468)
Permanent and other differences	2,261,210	(1,961,930)
Income tax expense (recovery)	3,011,211	(476,311)

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "Trust Units" and "Special Voting Units", respectively. An unlimited number of Trust Units and Special Voting Units may be authorized and issued pursuant to the Declaration of Trust.

Each Trust Unit represents an equal voting, fractional, and undivided beneficial interest in the Fund. All Trust Units are transferable and share equally in all distributions from the Fund whether of net earnings, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. The Trust Units are redeemable at any time on demand by the holders at fair value as determined by and subject to the conditions of the Declaration of Trust to a maximum of $50,000 per calendar quarter.

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net earnings, net realized gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Special Voting Units will only be issued to the holders of Class A limited partnership units of the CHLP ("Exchangeable LP Units"), for the purpose of providing voting rights to these Special Voting Unitholders, with respect to the Fund. Each Special Voting Unit will entitle the holder to that number of votes at any meeting of Voting Unitholders that is equal to the number of Trust Units that may be obtained upon the exchange of the Exchangeable LP Unit to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit for Trust Units, the related Special Voting Unit will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any further rights.

(a) Trust Units

	Units	Amount
		$
Unitholders' capital as at December 31, 2008	6,679,345	62,054,322
Units purchased and cancelled	(918,884)	(8,536,973)
Unitholders' capital as at December 31, 2009	5,760,461	53,517,349
Exchangeable LP Units converted (Note 12(d))	676,648	5,588,939
Unitholders' capital as at December 31, 2010	6,437,109	59,106,288

(b) Non-controlling interests

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

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

Non-controlling interests – CHLP

	2010	2009
	$	$
Non-controlling interests, beginning of the year	18,443,275	17,396,507
Share of income of CHLP in continuing operations	1,745,471	3,400,114
Share of loss of CHLP in discontinued operations	(730,557)	(487,712)
Distributions declared in the year (Note 17)	(841,219)	(1,865,634)
Units converted (Note 12(d))	(5,588,939)	-
Non-controlling interests, end of the year	13,028,031	18,443,275

Non-controlling interests – PEAL

	2010	2009
	$	$
Non-controlling interests, beginning of the year	-	2,387,099
Share of loss of PEAL	-	(1,369,858)
Purchase of non-controlling interests in PEAL	-	(1,017,241)
Non-controlling interests, end of the year	-	-

Non-controlling interests – Cargojet Regional Partnership

	2010	2009
	$	$
Non-controlling interests, beginning of the year	2,826,785	-
Formation of partnership on July 29, 2009	-	3,200,001
Share of loss of Cargojet Regional Partnership	(292,356)	(373,216)
Sale of Cargojet Regional Partnership (Note 4)	(2,534,429)	-
Non-controlling interests, end of the year	-	2,826,785

(c) Earnings per Trust Unit

The following table provides a reconciliation between basic and diluted income per unit for continuing operations:

	2010	2009
Net earnings from continuing operations	$6,955,509	$9,300,201
Average number of Trust Units - basic	6,292,510	6,367,176
Basic earnings per Trust Unit - continuing operations	1.11	1.46
Net earnings from continuing operations	$6,955,509	$9,300,201
Non-controlling interests	$1,745,471	$3,400,114
Convertible debentures interest expense	-	$2,616,646
Total Diluted earnings - continuing operations	$8,700,980	$15,316,961
Average number of Trust Units	6,292,510	6,367,176
Average number of Exchangable LP Units	1,700,906	2,232,955
Assumed conversion of convertible debentures	-	2,008,188
Average number of Trust Units - diluted	7,993,416	10,608,319
Diluted earnings per Trust Unit - continuing operations	$1.09	$1.44

The Fund's convertible debentures have not been factored into the calculation of diluted earnings per Trust Unit for the year ended December 31, 2010 since conversion of these debentures would be anti-dilutive.

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

(d) Exchange of LP Units

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

(e) Normal course issuer bid

Under the terms of a normal course issuer bid that expired on November 24, 2009, the Fund repurchased 579,884 Trust Units at a cost of $2,354,483 or $4.06 per Trust Unit. The difference of $1,846,348 between the stated capital of Trust Units repurchased (allocated $5,387,453 as a reduction of Unitholders' capital and $1,186,819 as a reduction of the deficit) and the cost of redemption was credited to contributed surplus.

Under the terms of a normal course issuer bid that expired on December 7, 2010, the Fund could repurchase up to 573,620 of its Trust Units. Daily purchases were limited to 3,311 Trust Units other than block purchase exemptions. In December 2009, the Fund purchased 339,000 Trust Units at a cost of $3,169,650 or $9.35 per Trust Unit. The difference of $661,849 between the stated capital of Trust Units repurchased (allocated $3,149,520 as a reduction in Unitholders' capital and $641,717 as a reduction of the deficit) and the cost of redemption was debited to contributed surplus.

13. CAPITAL MANAGEMENT

The Fund's objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the Unitholders and debt holders.

The Fund defines capital as the sum of Unitholders' equity, non-controlling interest, long-term debt, including the current portion, obligations under capital leases, convertible debentures, net bank overdraft positions, cash, and the present value of the future operating lease payments.

The Fund manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Fund may adjust the amount of distributions paid to Unitholders, purchase Trust Units for cancellation pursuant to normal course issuer bids, issue new Trust Units, issue new debt, issue new debt to replace existing debt (with different characteristics), repurchase debt instruments for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Fund's approach to capital management during the year.

The Fund is subject to financial covenants related to its credit facility (Note 9). As at December 31, 2010 and 2009, the Fund was in compliance with all financial covenants.

14. COMMITMENTS AND CONTINGENCIES

Commitments

The Fund is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

	$
2011	10,940,057
2012	10,047,358
2013	10,265,671
2014	10,092,786
2015	8,668,871
Thereafter	1,878,319
	51,893,062

Contingencies

The Fund has provided irrevocable standby letters of credit totalling $684,100 to a financial institution as security for its corporate credit cards and to several vendors as security for the Fund's ongoing purchases. The letters of credit expire as follows:

	$
March 20, 2011	20,000
July 6, 2011	119,400
July 28, 2011	344,700
December 31, 2011	200,000
	684,100

15. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Fund is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2010.

Fair values

The fair value of the convertible debentures, based on quoted market prices as at December 31, 2010, was approximately $24,901,550 (December 31, 2009 – $32,180,000). The fair value of the long-term debt based on an estimate of market interest rates as at December 31, 2010 and 2009, was approximately equal to its carrying value. The fair value of the notes receivables as at December 31, 2010 was approximately equal to its carrying value. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

15. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

Foreign exchange forward contracts are categorized in Level 2, as they are primarily derived from observable market inputs, that is, foreign exchange rates.

The Fund does not have any Level 3 fair value measurements and thus no continuity schedule has been presented. In addition, there have been no significant transfers between levels.

Total assets and liabilities at fair value as at December 31, 2010:

	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Financial Assets				
Restricted cash	629,930	-	-	629,930
Assets held for sale	-	745,489	-	745,489
Financial Liabilities				
Overdraft	8,408			8,408
Foreign exchange contracts	-	465,699	-	465,699

Total assets and liabilities at fair value as at December 31, 2009:

	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Financial Assets				
Cash	2,577,620			2,577,620
Restricted cash	454,144	-	-	454,144
Financial Liabilities				
Foreign exchange contracts	-	538,713	-	538,713

15. FINANCIAL INSTRUMENTS (continued)

Credit risk

The Fund's principal financial assets that expose it to credit risk are accounts receivable, notes receivable, and foreign exchange derivative instruments.

The Fund is subject to risk of non-payment of accounts receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Fund's prior experience and its assessment of the current economic environment. The Fund's receivables are concentrated among several of its largest customers with approximately 58% (December 31, 2009 – 50%) of total receivables on account of the Fund's ten largest customers. However, the Fund believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (2%) of trade receivables is outstanding for more than sixty days and is considered past due. The Fund considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Fund to be fully collectible. Consistent with its past collection history, the Fund has not recognized any significant provisions for bad debts.

(b) The Fund mitigates credit risk by monitoring the creditworthiness of its customers.

(c) A majority of the Fund's major customers are large public corporations with positive credit ratings and history.

The notes receivable due from SL Express are secured by a first charge on SL Express aircraft.

The credit risk on the foreign exchange forward purchase contracts is limited. All of the Fund's counterparties are with a Canadian chartered bank.

Liquidity risk

The Fund monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Fund believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Fund's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $25.0 million.

15. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The Fund has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2010 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Long-term debt and convertible debentures	1,615,840	830,129	35,403,630	659,823	38,509,422
Interest on long-term debt (at current rates)	345,245	271,792	415,175	42,309	1,074,521
Derivative contracts	465,699	-	-	-	465,699
Accounts payable and accrued charges	11,086,280	-	-	-	11,086,280
Distributions payable	335,723	-	-	-	335,723
	13,848,787	1,101,921	35,818,805	702,132	51,471,645

Foreign exchange risk

The Fund earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods.

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

On January 1, 2010 the Fund discontinued hedge accounting and is recognizing the deferred loss on the outstanding foreign exchange contracts as at January 1, 2010 over the period to October 2011 in the same periods in which the hedged anticipated transactions would affect net income. During the year ended December 31, 2010, a loss of $216,417 (net of taxes of $106,813) was recognized and transferred from accumulated other comprehensive income to net income.

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

In August and October of 2010, the Fund entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from September 2010 to December 2011 for an aggregate total of USD $23.5 million. These contracts had a negative fair value of $465,699 as at December 31, 2010. The unrealized loss from the changes in fair value of the contracts was recorded in income for the year ended December 31, 2010.

15. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk (continued)

Total foreign exchange losses during the year ended December 31, 2010 were approximately $684,000 (December 31, 2009 – foreign exchange gains of $2,303,000).

Commodity risk

The Fund is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Fund does not use derivative instruments to mitigate this risk.

Market risk

In the normal course of business, the financial position of the Fund is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-Canadian dollar denominated assets and liabilities, other examples of risk include collectibility of accounts receivable.

The Fund regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Fund does not anticipate any material losses from these risks.

To meet disclosure requirements, the Fund performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Fund's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Fund's cash and cash equivalents, long-term and short-term debt, convertible debentures and all derivative financial instruments. To perform the sensitivity analysis, the Fund assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

At December 31, 2010, movements in interest rates would not have any significant impact on the fair value of the Fund's financial assets and liabilities.

At December 31, 2010, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would decrease the mark to market value of forward contracts by approximately $0.05 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would increase the mark to market value of forward contracts by approximately the same amount.

At December 31, 2010, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Fund's other net financial assets and liabilities denominated in US dollars by approximately $0.4 million. An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount.

16. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees are as follows:

(a) The Fund has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all trustees, directors and officers of the Fund for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Fund. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Fund has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Fund to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

17. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the year ended December 31, 2010 were $3,187,465 (2009 – $5,233,297) to unitholders and $841,219 (2009 – $1,865,634) to Exchangeable LP unitholders.

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. Effective November 1, 2009, the Fund increased the monthly distribution rates for the unitholders and Exchangeable LP unitholders by 56% from $0.0270 to $0.0420. A special distribution of $0.3600 was declared for all unitholders of record as at November 30, 2009. The following table summarizes the cash distributions for the years ended December 31, 2010 and 2009.

17. DISTRIBUTIONS (continued)

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 2009	January 15, 2010	-	241,939	-	93,784	-	-	335,723
January 31, 2010	February 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
February 28, 2010	March 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
March 31, 2010	April 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
April 30, 2010	May 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
May 31, 2010	June 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
June 30, 2010	July 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
July 31, 2010	August 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
August 31, 2010	September 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
September 30, 2010	October 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
October 31, 2010	November 15, 2010	270,358	270,358	65,365	65,365	335,723	0.0420	335,723
November 30, 2010	December 15, 2010	270,358	270,358	65,366	65,366	335,724	0.0420	335,724
December 31, 2010	January 15, 2011	270,358	-	65,365	-	335,723	0.0420	-
		3,187,465	3,159,046	841,219	869,638	4,028,684	0.5040	4,028,684

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total 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	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,985	2,451,985	897,646	897,646	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	0.8355	7,364,789

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

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
					$
Income Fund Trust Units	December 1, 2010 to December 31, 2010	December 31, 2010	January 15, 2011	$ 0.0420	270,358
Exchangeable LP Units	December 1, 2010 to December 31, 2010	December 31, 2010	January 15, 2011	$ 0.0420	65,365
					335,723

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

18. SEGMENTED INFORMATION

Following the disposition of the regional air cargo business (Note 4), the Fund operates in one business segment that provides domestic and trans-border air cargo services. Operations are conducted primarily in Canada.

19. ECONOMIC DEPENDENCE

During the year ended December 31, 2010, the Fund had sales to three customers that represented 55% of the total revenues (December 31, 2009 – 51%). These sales are provided under service agreements that expire over various periods to September 2018. Two of these customers had sales in excess of 10% of total revenues in 2010 (two in 2009). The sales to individual customers represented 36.1%, 13.8% and 5.3% of the total revenue (December 31, 2009 – 29.5%, 13.1% and 7.9%).

20. INCOME TRUST CONVERSION

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

On January 1, 2011, the Fund was converted from an income trust structure to a corporation structure. All current Unitholders of the Fund had their Trust Units automatically converted into shares in the new corporate entity, Cargojet Inc., on a one-for-one basis. The Trust Units of the Fund were delisted from the Toronto Stock Exchange ("TSX") and the common voting shares and variable voting shares of Cargojet Inc. began trading on the TSX under the symbols "CJT" and "CJT.A", respectively, on January 6, 2011.

The common voting shares are held only by shareholders who are Canadian residents. The variable voting shares are held only by shareholders who are non-Canadian residents. Under the articles of incorporation and bylaws of Cargojet Inc., any common voting share that is sold to a non-Canadian resident is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian resident is automatically converted to a common voting share.

Variable voting shares carry one vote per share held, except where (i) the number of outstanding variable voting shares exceeds 25% of the total number of all issued and outstanding common and variable voting shares, or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes that may be cast at such meeting.

20. INCOME TRUST CONVERSION (CONTINUED)

If either of the above-noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act or formality. Under the circumstances described in (i) above, the variable voting shares as a class cannot carry more than 25% of the total voting rights attached to the aggregate number of issued and outstanding common and variable voting shares. Under the circumstances described in (ii) above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% of the total number of votes that may be cast at the meeting.

Effective January 1, 2011, the outstanding 6,437,109 Trust Units and 1,556,307 Exchangeable LP Units were converted into 7,755,271 common voting shares and 238,145 variable voting shares.

21. SUBSEQUENT EVENTS

In January 2011, the Fund entered into a series of US dollar forward purchase contracts maturing on a monthly basis from January 2011 to December 2012 for an aggregate total of US $15 million.