



Cargojet Income Fund

ANNUAL INFORMATION FORM

for the year ended December 31, 2009

March 11, 2010

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CURRENCY OF INFORMATION

The information set forth in this annual information form is stated as at March 11, 2010 unless otherwise indicated. Capitalized terms used herein but not otherwise defined in the text are defined in the Glossary of Terms.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This annual information form contains “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995 and “forward-looking information” within the meaning of applicable Canadian securities legislation (together “forward-looking information”). Forward-looking information includes, but is not limited to, statements with respect to the products and services offered by the Company, the business strengths of the Company, its relations with suppliers, customers and expected future EBITDA. In certain cases, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”. Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Fund to be materially different from those expressed or implied by such forward-looking information, including but not limited to: the proposed conversion of the Fund from an income trust to a corporation; the risks related to the public financial market for the Fund’s securities; the general risks associated with the airline and cargo transportation industry, including the relationship of the Company with its suppliers, customers, key personnel and employees and the operation of commercial aircraft; the ability of the Company to maintain profitability and manage growth; liquidity risks; debt financing risk; credit risk; competition; general uninsured losses; interest rate fluctuations; lack of availability of growth opportunities; potential conflicts of interest; the availability of sufficient cash flow; fluctuations in cash distributions; the failure to obtain additional financing; dilution; reliance on key personnel; changes in legislation; failure to maintain mutual fund trust status; and delays in obtaining regulatory approvals or financing as well as those factors discussed in the section entitled “Risk Factors” herein. Although the Fund has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. Forward-looking information is provided as of the date of this annual information form, and the Fund assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances.

STRUCTURE OF THE FUND

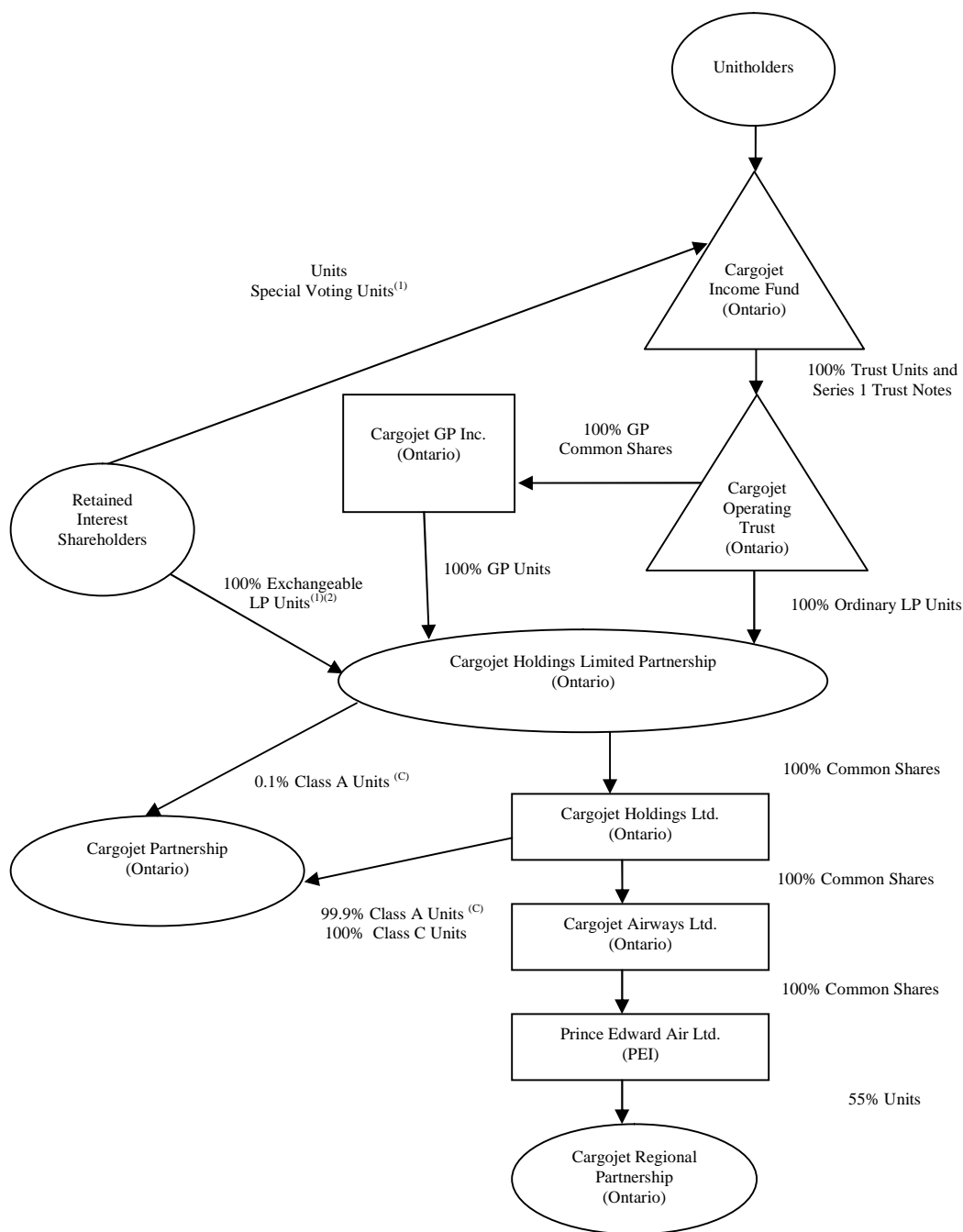
Cargojet Income Fund (the “Fund”) is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario as of April 25, 2005 by a declaration of trust, as amended (the “Fund Declaration of Trust”). The Fund was established to acquire and hold the Trust Units and the Trust Notes issued by Cargojet Operating Trust (the “Trust”) and to acquire and hold, indirectly through the Trust, limited partnership units of Cargojet Holdings Limited Partnership (the “Partnership”), which, in turn, was formed to acquire all of the outstanding common shares of the Company.

Cargojet Holdings Ltd. (together with its subsidiaries, “Cargojet” or the “Company”) is a corporation amalgamated under the laws of the Province of Ontario on June 9, 2005. Cargojet carries on business as a provider of time sensitive overnight air cargo service. See “Business of Cargojet”.

The head and registered office address of each of the Fund and the Company is 350 Britannia Road East, Units 5 and 6 Mississauga, Ontario L4Z 1X9.

ORGANIZATIONAL STRUCTURE

The following chart illustrates the structure of the Fund (including jurisdiction of establishment or incorporation of the various entities and percentage ownership of voting securities).



Notes:

- (1) One Exchangeable LP Unit and one Special Voting Unit are collectively indirectly exchangeable for one Unit, subject to adjustment in certain circumstances.
- (2) The Units issuable upon exchange of the Exchangeable LP Units represent 27.9% of the Units on a fully diluted basis excluding the effect of the Convertible Debentures.
- (3) On June 30, 2009, 2.1 million Class A Units were transferred from Cargojet Holdings Limited Partnership to Cargojet Holdings Ltd. in consideration for a \$14.0 million non-interest bearing promissory note.

GENERAL DEVELOPMENT OF THE BUSINESS OF THE FUND

Initial Public Offering and Acquisition

On June 9, 2005, the Fund completed its initial public offering (the "Offering") of 5,954,545 units of the Fund (the "Units") at a price of \$10.00 per Unit for aggregate gross proceeds of \$59,545,450. On that date, the Units commenced trading on the Toronto Stock Exchange (the "TSX") under the symbol "CJT.UN". Upon the full exercise of the Over-Allotment Option by the Underwriters on June 30, 2005, the total size of the Offering was increased to 6,252,272 Units for total aggregate proceeds of \$62,522,720.

The Fund indirectly used the net proceeds of the Offering to acquire all of the issued and outstanding securities of the Company.

The Credit Facility

A Canadian chartered bank provides the Partnership with a senior secured revolving credit facility of up to \$30 million (the "Credit Facility"). The Partnership utilizes amounts drawn from the Credit Facility to provide funds to the Operating Partnership by way of loans. The Operating Partnership uses such funds for working capital requirements and capital expenditures. The Credit Facility was renewed on July 28, 2008 for a committed term of three years with no scheduled repayments of principal required prior to maturity.

Loans under the Credit Facility are repayable without any prepayment penalties and bear interest based on the prevailing prime rate, U.S. base rate or at a banker's acceptance rate, as applicable, plus an applicable margin to those rates. The Credit Facility is guaranteed by each of the Trust, the Company, the GP, Cargojet Airways Ltd. and the Operating Partnership. The Credit Facility is secured by a first priority security interest in the present and after acquired property of the Partnership, the Company, the Trust, the GP, Cargojet Airways Ltd. and the Operating Partnership, subject to certain permitted encumbrances.

The Credit Facility is subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The Credit Facility is also subject to the maintenance of a minimum fixed charge coverage ratio. The Credit Facility may in certain circumstances restrict the Partnership's ability to pay distributions on its units, including limiting distributions to the amount of distributable cash generated over a specified period.

Other Developments

Cargojet Regional

On October 3, 2007, the Fund acquired the cargo assets of Georgian Express Ltd. ("Georgian") for approximately \$1.4 million plus the cost of certain aircraft inventories. In connection with this acquisition, Cargojet leased four Cessna Caravan turbo prop aircraft and two B1900 turbo prop aircraft to support the two airfreight service agreements acquired from Georgian.

The Fund acquired a 51% interest in Prince Edward Air on May 1, 2008 for assets valued at \$4.2 million and cash of \$1.0 million to extend the reach and coverage of its national air cargo network. The operations of Prince Edward Air were combined with the existing Cargojet regional business that was launched in October 2007. The combined regional businesses operated 21 aircraft in Ontario, Québec and Eastern Canada. In July 2009 the Fund acquired the remaining 49% interest in Prince Edward Air for cash consideration of \$1.0 million. This transaction facilitated the further integration of Prince Edward Air's business with Cargojet's existing infrastructure to improve Prince Edward Air's operational and financial performance.

Also in July 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 (the "SL Partnership") now operates under the trade name "Cargojet Regional" and is owned 55% by Prince Edward Air and 45% by SL Express. Consideration for Cargojet's interest in the SL Partnership included the transfer of Cargojet's existing regional contracts valued at \$3.9

million. Cargojet Regional currently operates twenty-seven aircraft and employs over 130 people primarily in Central and Eastern Canada.

Cargojet Fleet

In 2008, the Fund completed its fleet renewal program with the introduction of two B767 and one B757 aircraft. The Fund also purchased two B727 aircraft that had previously been leased. The Fund continues to adjust aircraft capacity to meet customer demand on a daily basis. The Fund also continuously reviews its total aircraft fleet requirements and will adjust the number of aircraft required to meet overall future customer demand.

In 2008, Cargojet also removed its passenger B727 aircraft from service on a permanent basis. Cargojet is using this aircraft as a source for spare parts to maintain its existing fleet of B727 cargo aircraft. Any saleable parts and components of the aircraft that are not required by Cargojet are being held for sale.

Foreign Exchange Contracts

In February 2008, the Fund entered into a series of U.S. dollar forward purchase contracts for an aggregate total of U.S.\$21.0 million. These U.S. dollar forward contracts had monthly settlement dates from March 2008 to December 2009, and were consistent with the Fund's foreign exchange risk management policy. As part of this policy, the Fund had entered into U.S. dollar forward purchase contracts settled in Canadian funds to reduce the uncertainty surrounding the value of its anticipated cash flows that are denominated in U.S. currency.

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.

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, with the last contract expiring in 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, with the last contract expiring in 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.

Debenture Offering

On April 9, 2008, the Fund closed an offering of \$31,000,000 aggregate principal amount of Subordinated Unsecured Convertible Debentures due April 30, 2013 (the "Debentures") and on April 16, 2008, the Fund announced that the underwriters had exercised in full their Over-Allotment Option, resulting in the issue of an additional \$4,650,000 aggregate principal amount of Debentures. The Fund used the net proceeds of the offering (including the over-allotment proceeds) to finance the start-up costs for its previously announced wide body aircrafts program, finance the acquisition of Prince Edward Air, temporarily repay current indebtedness under the Credit Facility and for general corporate purposes. The Debentures are governed by an indenture (the "Debenture Indenture") dated April 9, 2008 between the Fund and Computershare Trust Company of Canada and are subordinated, unsecured obligations of the Fund and bear interest at a rate of 7.50% per annum, payable semi-annually in arrears on April 30 and October 31 of each year. The Debentures are convertible at any time at the option of the holders into Units at a conversion price of \$16.00 per Unit. The Debentures will mature on April 30, 2013 and are listed on the TSX under the symbol "CJT.DB".

Normal Course Issuer Bids

On November 21, 2008, the Fund received approval from the TSX of its notice of intention to make a normal course issuer bid for its Units through the facilities of the TSX from November 25, 2008 to November 24, 2009, in accordance with applicable rules of the TSX. Under its normal course issuer bid, the Fund was authorized to purchase for cancellation up to 599,402 Units, representing approximately 10% of the public float of Units issued and

outstanding as at November 19, 2008. During the course of its normal course issuer bid, the Fund purchased for cancellation 599,402 Units at an average price of \$4.01 per Unit.

On March 13, 2009, the Fund announced its intention to make a normal course issuer bid to purchase the Debentures through the facilities of the TSX. The principal amount of Debentures to be purchased during the period of the normal course issuer bid (the “Debenture Bid”) from March 17, 2009 to March 16, 2010 will not exceed \$3,530,400 principal amount of Debentures, or approximately 10% of the public float outstanding on March 11, 2009. As at the date hereof, the Fund has purchased and subsequently cancelled an aggregate of \$3,519,000 principal amount of Debentures for an aggregate purchase price of \$2,854,652.

On December 4, 2009, the Fund announced its intention to make a normal course issuer bid to purchase Units through the facilities of the TSX, in accordance with applicable rules of the TSX. The number of Units to be purchased during the period of the normal course issuer bid (the “2009/2010 Unit Bid”) from December 8, 2009 to December 7, 2010 will not exceed 573,620 Units, or approximately 10% of the public float outstanding on November 27, 2009. Daily purchases are limited to 3,311, other than in instances where block purchase exemptions are relied upon. All purchases made pursuant to the 2009/2010 Unit Bid will be made through the facilities of the TSX, Alpha Trading Systems, Chi-X Canada or Pure Trading. Units purchased pursuant to the 2009/2010 Unit Bid will be cancelled. As at the date hereof, the Fund has purchased and subsequently cancelled a total of 339,000 Units at an average price of \$9.34 per Unit.

A copy of the Fund’s Notice of Intention to Make a Normal Course Issuer Bid may be obtained on request from the Chief Financial Officer at 350 Britannia Road East, Units 5 and 6, Mississauga, Ontario L4Z 1X9, telephone 905 501-7373, fax 905 501-8228 or on SEDAR at www.sedar.com.

Substantial Issuer Bid

On December 3, 2009, the Fund announced that it authorized a substantial issuer bid (the “Substantial Issuer Bid”) to purchase for cancellation up to \$15,000,000 principal amount of its outstanding Debentures at a purchase price of \$1,010 in cash for every \$1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on such Debentures in the amount of \$15.62 per \$1,000 principal amount of Debentures. An aggregate of \$7,476,000 principal amount of Debentures were deposited under the Substantial Issuer Bid for an aggregate purchase price of \$7,667,535.12 and subsequently cancelled.

Conversion to a Corporation

On February 26, 2010, the Fund announced its intention to proceed with a conversion from an income trust to a growth-oriented, dividend paying corporation (“New Cargojet”), which will continue the business of the Fund and its subsidiaries and affiliates as a leading Canadian provider of time sensitive overnight air cargo services. It is contemplated that the proposed conversion be completed by way of a statutory plan of arrangement under Section 182 of the *Business Corporations Act* (Ontario). It is anticipated that a management information circular will be mailed to voting unitholders and filed on SEDAR at www.sedar.com in mid-April 2010, in connection with the conversion and other matters to be considered at the annual and special meeting of holders of trust units and special voting units of the Fund to be held on May 18, 2010. The conversion is currently expected to be completed on or about December 31, 2010.

BUSINESS OF CARGOJET

Overview

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

- Operating a domestic overnight air cargo co-load network between thirteen (13) major Canadian cities each business day.

- 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 (33) smaller cities in Ontario, Québec and Eastern Canada.

The Fund operates its business across North America transporting over 750,000 pounds of time sensitive air cargo each business night utilizing a total 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 ten Boeing 727-200 (“B727”) series cargo aircraft, three of which are leased and seven owned. One Boeing 757-200ER (“B757”) series and two Boeing 767-200ER (“B767”) series aircraft were introduced into operations during the third quarter of fiscal 2008. 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 Boeing aircraft are operated on this basis.

The Fund acquired Prince Edward Air to extend the reach and coverage of its national air cargo network. The operations of Prince Edward Air 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 Prince Edward Air for cash consideration of \$1.0 million. Immediately following this transaction, Prince Edward Air entered into a partnership agreement with SL Express to consolidate their regional cargo businesses. The new partnership began operations under the name Cargojet Regional on August 1, 2009. Prince Edward Air acquired 55% of the partnership for \$3.9 million by contributing all of its customer contracts to Cargojet Regional. SL’s contribution for the remaining 45% of Cargojet Regional included all of its customer contracts, the lease of its aircraft to Cargojet Regional, and an interest bearing promissory note. With 27 turboprop aircraft, Cargojet Regional operates a regional air cargo network that services thirty-three smaller cities in Ontario, Québec and the Maritimes.

The following tables sets out details relating to the ownership, leasing and operation of the freighter aircraft used by Cargojet and Prince Edward Air in providing its time sensitive overnight air cargo services:

Ownership Status	Total Number of Aircraft	Number / Model Type
Owned and operated by Cargojet	7	7 x B727-200
Leased and operated by Cargojet	6	3 x Boeing 727-200 2 x Boeing 767-200ER 1 x Boeing 757-200ER
Owned and operated by Prince Edward Air (sub-lease to Cargojet Regional Partnership)	10	1 x Beech King Air 200 1 x Beech 1900 1 x Beech 99 7 x Navajo Chieftain
Owned by Prince Edward Air and leased or held for lease	2	1 x SAAB 340 1 x Beech 99
Leased and operated by Prince Edward Air (sub-lease to Cargojet Regional Partnership)	15	8 x Beech 1900 7 x Cessna Caravan

Cash distributions to unit holders of the Fund are based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of Units payable in cash. The Fund Declaration of Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

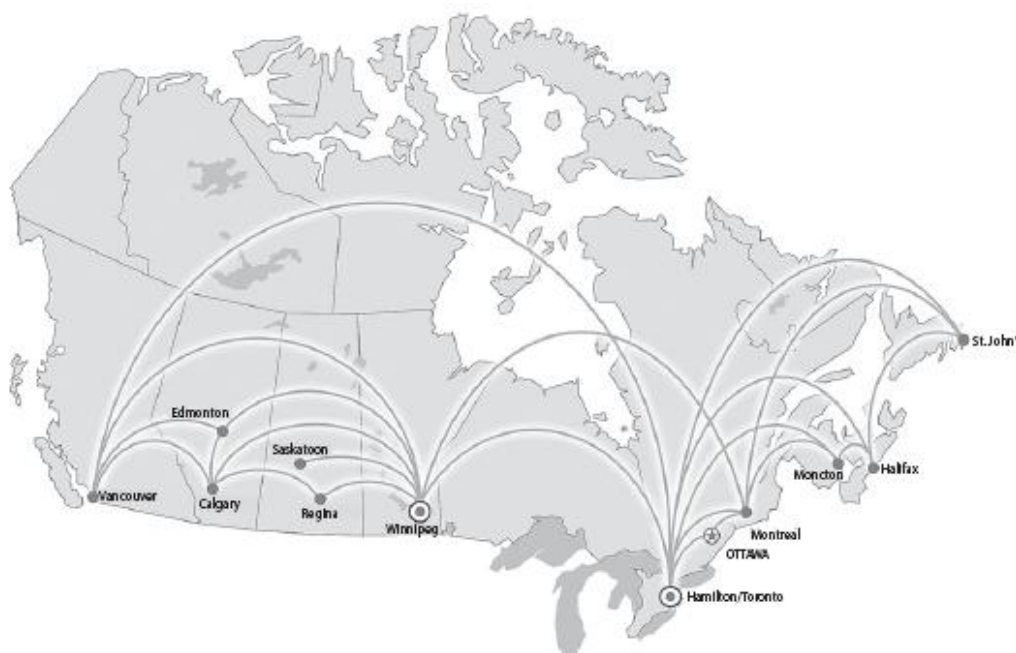
Services

Overnight Network

Cargojet offers its overnight air cargo service between thirteen major cities across Canada 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. Overflow/oversell traffic is regularly sold to ensure maximum space and revenue capture.

Within its overnight network, the Company also 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 incremental cost, as Cargojet provides domestic capacity to these international airlines through its existing, regularly scheduled flight network.

The following map illustrates the major cities within Canada serviced by the Company's overnight network.



International Air Cargo Services

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 also provides aircraft charter services for LOT Polish Airlines for its weekly trans-Atlantic flight between Hamilton, Ontario and Poland.

Dedicated Aircraft Charter

To further enhance its revenues, the Company offers a specialty charter service typically in the daytime and on weekends. The charter business targets livestock shipments, military equipment movements, emergency relief supplies and virtually any large shipments requiring immediate delivery across North America, Mexico and the Caribbean. During pre-Christmas peak volume seasons, the Company also offers dedicated aircraft to its major courier customers to handle increased United States-Canada premium overnight traffic.

Dedicated ACMI Contracts

The Fund provides and operates dedicated aircraft on an ACMI basis. This service involves providing a dedicated aircraft on a dedicated route where the customer is responsible for all costs of the operation including fuel, navigation fees, landing fees, cargo handling and all other commercial activities. Minimum guaranteed revenues are part of the contract.

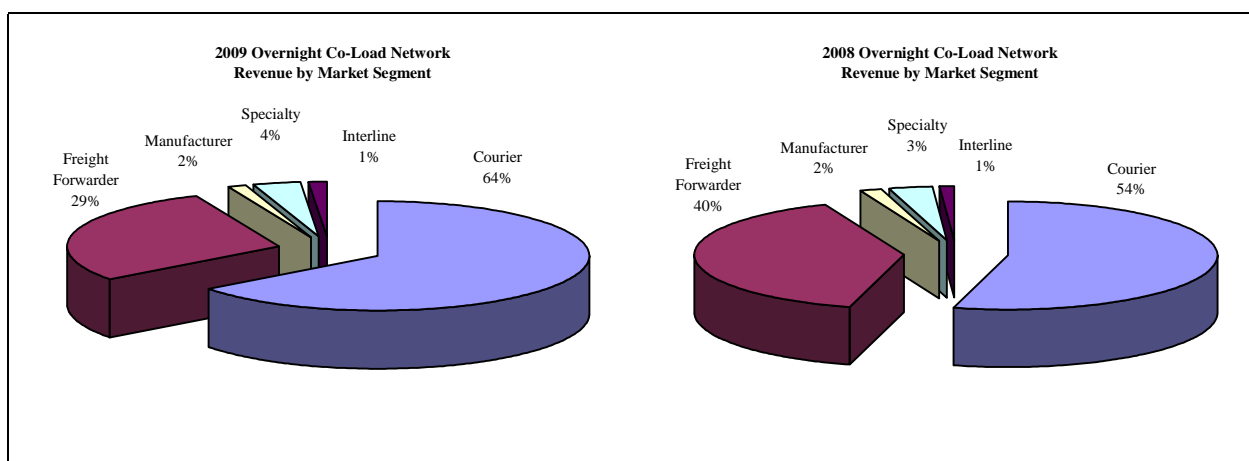
Specialized Skill and Knowledge

The Company operates in an industry that requires specialized skills and knowledge. Cargojet employs individuals who possess specific technical knowledge and experience in the areas of aircraft operation, aircraft maintenance, flight planning, flight dispatch, crew planning, crew training, ground handling and commercial airline cargo management. The Company has not experienced material difficulty in recruiting and retaining appropriate staff to carry out its operations.

Customers

A key factor in the success of Cargojet lies in its long standing relationships and long term contracts with its customer base. Cargojet's customer base includes UPS Canada Ltd., DHL Express Canada, Sameday Worldwide (a division of McCain Foods Limited), CEVA Global Logistics, ICS Courier Services Inc., ATS, Midland Transport Limited (part of the Irving Group), Korean Airlines Ltd., Lufthansa Cargo AG, Cathay Pacific Airways Ltd. and many others. Cargojet's customer base is comprised of major couriers, freight forwarders, manufacturers, specialty shippers and international airlines. Cargojet also handles the time sensitive shipment needs of customers including pharmaceutical, perishable, seafood, agriculture, hi-tech, garment, precious metals and chemical companies. Cargojet's 10 largest customers accounted for approximately 70% of revenues in 2009 and approximately 73% of revenues in 2008. Management believes that Cargojet is the exclusive overnight air cargo provider to most of its customers on Canadian routes.

The following charts illustrate revenue by customer segment on the Company's overnight co-load network for the years ended December 31, 2009 and December 31, 2008:



Competition

The Company faces competition within its market from a mix of dedicated air cargo providers and passenger airlines offering air cargo services using the cargo holds of their aircraft. The Company's main competitors are Kelowna Flightcraft and Morningstar Air Express Inc., which operate an exclusive overnight network for two large courier companies in Canada. They typically do not offer guaranteed space to others (i.e., their competitors) on their network. Canadian domestic airlines offer air cargo services on their passenger flights by using excess belly cargo capacity of their aircraft. However, their networks and service standards do not provide a competitive alternative for customers in the time sensitive overnight air cargo market. These commercial airlines do not have the capability of handling heavy, palletized cargo nor are they able to handle specialty or perishable freight.

Facilities

As Cargojet provides air cargo services across Canada, offices and locations have been strategically located in each of the 13 city centers to meet customer's needs and requirements. All of Cargojet's facilities are leased, with the exception of its aircraft hangar in Hamilton, which is owned. Eight of these facilities are bonded by Canada Customs allowing international cargo to terminate or transit through the warehouse facility. Cargojet's facilities across Canada are equipped with cargo handling equipment in addition to aircraft handling equipment. Hamilton is the main hub of Cargojet's operations and is equipped to handle all types of cargo starting with truck offload to transfer and on-load onto aircraft.

The terms of the Company's main facilities leases are summarized below.

Facility	Expiration Date	Renewal Terms
Mississauga, ON (Cargojet head office)	August 31, 2014	One two year renewal option plus one five year renewal option
Hamilton, ON (land rent)	July, 2019	Three five year renewal options plus one renewal option for approximately 2 years
Montreal, QB	June 30, 2011	Automatic renewal every year after expiry unless 6 months notice to terminate lease provided
Moncton, NB	July 31, 2011	Five year renewal option
Winnipeg, MB	April 30, 2010	Five year renewal option.
Calgary, AB	June 30, 2010	Five year renewal option.
Edmonton, AB	June 30, 2012	Five year renewal option.
Richmond, BC	April 30, 2015	Three year renewal option.

Total monthly lease payments for the Company's material leases and offices and warehouses associated therewith are approximately \$123,000 and all of the lease agreements are in good standing.

In April 2009, Cargojet completed construction of its first hangar facility at the Hamilton International Airport adjacent to its existing hangar. The land upon which the new hangars are constructed is leased from the Hamilton Airport Authority. In October 2008, the Fund purchased a warehouse and office building at the Hamilton International Airport for approximately \$1.0 million plus applicable taxes.

Cargojet Equipment

Cargojet operates a fleet of thirty-four all-cargo aircraft. The maximum payload, range, age and applicable lease termination information for each aircraft type is summarized in the table below:

Number and Type of Freighter Aircraft	Leased / Owned	Max. Payload (lbs)	Range (miles)	Age	Lease Detail
2 x Boeing 767-200ER	Leased	100,000	5,000	25	Leases expire in 2015. No early termination.
1 x Boeing 757-200ER	Leased	80,000	3,900	20	Lease expires in 2015. No early termination.
3 x Boeing 727-200	Leased	60,000	1,800	29	Leases expire in 2012. Two 727s have early termination with 60 days notice and one 727 has early termination with 6 months notice
7 x Boeing 727-200	Owned	60,000	1,800	30	n/a
1 x SAAB 340	Owned	8,000	1,200	24	n/a

Number and Type of Freighter Aircraft	Leased / Owned	Max. Payload (lbs)	Range (miles)	Age	Lease Detail
1 x Beech King Air 200	Owned	2,400	1,000	34	n/a
1 x Beech 1900	Owned	4,500	1,000	23	n/a
7 x Navajo Chieftain	Owned	1,500	800	34	n/a
2 x Beech 99	Owned	3,000	1,000	41	n/a
2 x Beech 1900	Leased	4,500	1,000	15	Leases expire in October 2010, early termination with 180 days notice or with 90 days notice if the route is cancelled by the customer.
4 x Cessna Caravan	Leased	2,700	450	15	
6 x Beech 1900	Leased	4,500	1,000	21-25	Leases expire in July 2014, early termination with 90 days notice if the route is cancelled by the customer.
3 x Cessna Caravan	Leased	2,700	450	10-11	

All aircraft meet Transport Canada and FAA Stage III noise abatement guidelines enabling unrestricted operation across North America. Total monthly lease payments for the Company's aircraft leases are approximately \$1.2 million and all of the lease agreements are in good standing.

All aircraft are maintained under Transport Canada and the manufacturers' approved maintenance programs incorporating periodic service checks. The Company's B767, B757 and B727 aircraft are also required to undergo comprehensive heavy maintenance checks every 18 to 24 months. Cargojet is recognized by Transport Canada as an "Approved Maintenance Organization" and all aircraft maintenance service is performed in house except for the heavy maintenance checks.

Regulation

Domestic Services

Transport Canada and the Canadian Transportation Agency (the "CTA") regulate the transportation industry in Canada. Cargojet holds an Air Operators Certificate issued by Transport Canada for the operation of its aircraft. It is also licensed by the CTA to operate domestic, transborder and international all-cargo and passenger operations. Cargojet has successfully passed periodic audits by both Transport Canada and the CTA and maintains excellent relationships with both regulatory bodies. Since 1996, air navigation services in Canada have been provided by NAV Canada, a privatized company. In addition, all major Canadian airports are operated by local airport authorities that are also privatized companies.

Cargojet is also a member in good standing of the International Air Transport Association (IATA), the Air Transport Association of Canada (ATAC), the Canadian International Freight Forwarders Association (CIFFA), the International Air Cargo Association (TIACA) and the Canadian Courier & Logistics Association (CCLA).

Under the *Canada Transportation Act* (the "Act"), there is free market entry provided a carrier can show that: (i) it is "Canadian", defined in the Act as being controlled in fact by Canadians and having at least 75% of its voting interests owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the *Air Transportation Regulations*.

In February 1995, a new air services agreement, the Open Skies Agreement, was implemented between Canada and the United States, replacing the previous bilateral agreement, which restricted market access. This new agreement gave Canadian air carriers unlimited route rights to provide "own aircraft" services between Canada and the United States. The carriage of local traffic between points within one country by carriers of the other country continues to be prohibited.

International Services

Scheduled international air services are regulated by the Canadian and foreign governments involved. The Minister of Transport has the authority to designate which Canadian air carriers may serve scheduled international routes. International route rights are obtained through bilateral negotiations between Canada and foreign countries. Bilateral agreements provide for the rights which may be exercised over agreed routings and the conditions under which the carriers may operate, including, among others, the number of carriers which may operate, the capacity and/or flight frequencies that may be provided and the controls over tariffs to be charged. Most bilateral agreements to which Canada is a party provide for the designation of more than one Canadian carrier, while some provide for the designation of only one Canadian air carrier. In general, bilateral agreements between Canada and European countries are more liberal in terms of controls on capacity and flight frequencies than those between Canada and Asian countries.

In February 2001, the Minister of Transport announced the launch of an international air services policy review to address competition in the international market with the release of a consultation document for stakeholder review and comment. The objective of this review was to liberalize Canada's policy for scheduled international air services, including how Canada approaches the negotiation and management of air traffic rights with other countries. In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Amendments negotiated between Canada and the United States reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers including the Company to establish domestic routes within the US.

In addition to holding valid Canadian operating certificates, the Company also holds a valid Foreign Air Operators Certificate issued by the U.S. Federal Aviation Authority and is licensed by the U.S. Department of Transportation to operate all cargo and passenger operations in and out of the United States. The CTA licences do not expire once issued, but are subject to revocation or suspension in certain circumstances in accordance with the provisions of the Act and regulations made thereunder. Each year, the Company is required to submit a declaration of continuance of qualifications to the CTA to maintain its licence. The United States of America Department of Transportation license is renewed annually in April of each year. In addition, the United States of America Federal Aviation Administration Foreign Air Operators Certificate does not expire but is subject to revocation or suspension in certain circumstances in accordance with U.S. Federal Aviation Authority regulations.

Charter Services

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the Canada-U.S. Open Skies Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

Security Initiatives

Following the September 11, 2001 terrorist attacks, the Minister of Transport issued new air security measures, including increased screening and enhanced security procedures. Other countries have imposed similar security requirements. In December 2001, the Minister of Transport announced several security initiatives including a new Canadian Air Transport Security Authority responsible for the provision of key air security services.

More recently, Transport Canada has launched a web site exclusively devoted to their Air Cargo Security ("ACS") Program. Progress of their ACS Initiative continues, which involves projects that require freight forwarders, shippers and air carriers to develop performance based security programs for their operations, the development of a Secure Supply Chain Management System ("SSCMS") and improved air cargo screening techniques and technologies. In 2008, Cargojet participated in Transport Canada's Air Cargo Security Training Working Group to assist in the development of air cargo security training requirements. The scope of these training requirements encompasses all stages of the air cargo secure supply chain.

In conjunction with an IATA Operational Safety Audit that was conducted in October 2009, Cargojet further developed and enhanced its security procedures and processes. Cargojet has created and implemented a formal Security Manual that outlines the Policy and Procedures. Cargojet also conducts base and vendor audits annually in accordance

with the Cargojet Quality Assurance Manual. Cargojet continues to monitor all security initiatives with Transport Canada and the Transportation Security Administration (“TSA”).

Developments by the TSA in the United States focused on cargo being carried on passenger aircraft. No significant changes were introduced for cargo being transported by all-cargo carriers. Employee training was conducted at stations serving as the last point of departure prior to entry into the U.S. on procedures applicable under the governing TSA All Cargo International Security Program.

Seasonality

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in the first quarter. Accordingly, the seasonal nature of the business of the Company will affect the reported quarterly financial results of operations of the Company.

Economic Dependence

During the twelve month period ended December 31, 2009, the Fund had sales to three customers that represented 51% of the total revenues (December 31, 2008 – 44%). These sales are provided under service agreements that expire over various periods to September 2014. Two of these of these customers had sales in excess of 10% of total revenues during 2009 and all three of these customers had sales in excess of 10% during 2008.

Employees

The Company currently employs approximately 516 employees, 47 in administration, 301 in airline operations and 168 in cargo operations. Management believes that relations with its employees are excellent. None of the Company’s employees are unionized and the Company has never experienced a work stoppage.

ADDITIONAL INFORMATION RESPECTING THE FUND

General

The Fund is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario pursuant to the Fund Declaration of Trust. The Fund qualifies as a mutual fund trust for the purposes of the Tax Act. The following is a summary of the material attributes and characteristics of the Units and Special Voting Units and certain provisions of the Fund Declaration of Trust, which summary does not purport to be complete. Reference is made to the Fund Declaration of Trust for a complete description of the Units and Special Voting Units and the full text of its provisions. See “Material Contracts”.

Activities of the Fund

The Fund Declaration of Trust provides that the Fund is restricted to:

- (i) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of the Trust and other corporations, partnerships, trusts or other persons engaged, directly or indirectly, in the business of air cargo shipment, as well as activities ancillary thereto, and such other investments as the Trustees may determine;
- (ii) acquiring, investing in, transferring, disposing of and otherwise dealing with securities of any of the Trust, the GP, the Partnership or any of their respective subsidiaries in connection with the Fund’s obligations under the Exchange Agreement;
- (iii) temporarily holding cash in interest-bearing accounts, short-term government debt or short-term investment grade corporate debt for the purposes of paying the expenses and liabilities of the Fund,

paying amounts payable by the Fund in connection with the redemption of any Units or other securities of the Fund and making distributions to Unitholders;

- (iv) issuing Units, Special Voting Units and other securities of the Fund (including securities convertible or exchangeable into Units, Special Voting Units or warrants, options or other rights to acquire Units, Special Voting Units or other securities of the Fund) (a) for obtaining funds to conduct the activities of the Fund, including raising funds for acquisitions and development; (b) pursuant to distribution reinvestment plans, incentive option plans or other compensation plans, if any, established by the Fund, the Trust, the GP, the Partnership or their respective subsidiaries; (c) in satisfaction of non-cash distributions; (d) under the Exchange Agreement; or (e) in satisfaction of any indebtedness or borrowing by the Fund;
- (v) issuing debt securities (including debt securities convertible into, or exchangeable for, Units, Special Voting Units or other securities of the Fund) or otherwise borrowing and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering any of its assets as security;
- (vi) guaranteeing the payment of any indebtedness, liability or obligation of the Trust, the Partnership, the GP, the Company or any of their respective subsidiaries or the performance of any obligation of any of them, and mortgaging, pledging, charging, granting a security interest in or otherwise encumbering all or any part of the Fund's assets as security for such guarantee, and subordinating its rights under the Trust Notes to other indebtedness;
- (vii) disposing of all or any part of the assets of the Fund;
- (viii) issuing or redeeming rights and Units pursuant to any Unitholder rights plan adopted by the Fund;
- (ix) repurchasing securities issued by the Fund, subject to the provisions of the Fund Declaration of Trust and applicable laws;
- (x) satisfying the obligations, liabilities or indebtedness of the Fund;
- (xi) entering into and performing its obligations under the Acquisition Agreement, the Underwriting Agreement, the Exchange Agreement and any agreement relating to the Credit Facility; and
- (xii) undertaking all other usual and customary actions for the conduct of the activities of the Fund in the ordinary course as are approved by the Trustees from time to time, or as are contemplated by the Fund Declaration of Trust,

provided the Fund will not undertake any activity, take any action, omit to take any action or make or retain any investment which would result in the Fund not being considered a "mutual fund trust" for purposes of the Tax Act, or would result in the Units being treated as "foreign property" for the purposes of the Tax Act.

Trustees

The Fund will have a minimum of three Trustees and a maximum of ten Trustees, at all times at least 75% shall be residents of Canada (within the meaning of the Tax Act). The Trustees are to supervise the activities and manage the affairs of the Fund. The Fund is currently governed by three Trustees, all of whom are "independent" within the meaning of applicable securities laws. See also "Trustees, Directors and Officers".

The Fund Declaration of Trust provides that, subject to its terms and conditions, the Trustees will have full, absolute and exclusive power, control and authority over the trust assets and over the affairs of the Fund to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the trust assets and will supervise the investments and conduct the affairs of the Fund. Subject to such terms and conditions, the Trustees are responsible for, among other things:

- acting for, voting on behalf of and representing the Fund as a holder of the Trust Units and Trust Notes;
- maintaining records and providing reports to Voting Unitholders;

- effecting payments of distributable cash from the Fund to Unitholders; and
- voting in favour of the Fund’s nominees to serve as trustees of the Trust.

Meetings of Voting Unitholders

The Fund Declaration of Trust provides that meetings of Voting Unitholders will be called and held annually for the election of Trustees and the appointment of auditors of the Fund. The Fund Declaration of Trust provides that the Voting Unitholders will be entitled to pass resolutions that will bind the Trustees only with respect to:

- the election or removal of Trustees;
- the election or removal of nominees of the Fund to serve as trustees of the Trust;
- the appointment or removal of the auditors of the Fund;
- the appointment of an inspector to investigate the performance by the Trustees in respect of their respective responsibilities and duties in respect of the Fund;
- the approval of amendments to the Fund Declaration of Trust (but only in the manner described below under “Amendments to the Fund Declaration of Trust”);
- the termination of the Fund;
- any merger, amalgamation, consolidation or other business combination or joint venture of the Fund, except in conjunction with an internal reorganization;
- the sale of all or substantially all of the assets of the Fund;
- the exercise of certain voting rights attached to the securities of the Trust held by the Fund and securities of the Partnership or the GP, as the case may be, held by the Trust;
- the ratification of any Unitholder rights plan, distribution reinvestment plan, distribution reinvestment and Unit purchase plan, Unit option plan or other compensation plan contemplated by the Fund Declaration of Trust requiring Unitholder approval;
- the dissolution of the Fund prior to the end of its term; and
- such other business as the Trustees may determine or as may properly be brought before the meeting, including any other matters required by securities law, stock exchange rules or other laws or regulations to be submitted to Voting Unitholders for their approval,

provided that the Voting Unitholders shall not pass any resolution that would cause the Fund, the Trust, the GP or the Partnership or their respective subsidiaries to breach the terms of the Exchange Agreement or the Partnership Agreement or cause the Fund not to qualify as a mutual fund trust, or Units to constitute foreign property, for the purposes of the Tax Act.

No other action taken by Voting Unitholders or any other resolution of the Voting Unitholders at any meeting will in any way bind the Trustees.

The Fund Declaration of Trust contains provisions as to the notice required and other procedures with respect to the calling and holding of meetings of Voting Unitholders.

Exercise of Certain Voting Rights Attached to Securities of the Trust, the GP and the Partnership

The Fund Declaration of Trust provides that the Fund will not vote any securities of the Trust, nor permit the Trust to vote any securities of the GP or the Partnership to authorize any transaction which is adverse to the Unitholders including, among other things:

- any sale, lease or other disposition of all or substantially all of the direct or indirect assets of the Trust, the GP, the Partnership, the Company or any of their respective affiliates, except in conjunction with an internal reorganization of any of these entities, as applicable, pursuant to a good faith charge, pledge, mortgage, lien, security interest or other encumbrance granted by the Trust over any assets of the Trust in the ordinary

course of business of pursuant to any guarantee or any obligation of the Trust, the GP, the Partnership, the Company or any of their respective affiliates;

- any amalgamation, arrangement or other merger of the Trust, the GP, the Partnership, the Company or any of their respective affiliates, with any other entity, except in conjunction with an internal reorganization of any of these entities, as applicable;
- any material amendment to the Trust Note Indenture other than in contemplation of a further issuance of Trust Notes to the Fund that are identical in all respects to the Trust Notes issued in connection with the Offering or in conjunction with an internal reorganization of the Trust, the GP, the Partnership, the Company or any of their respective affiliates, as applicable;
- the winding-up or dissolution of the Trust, the GP, the Partnership, the Company or any of their respective affiliates prior to the end of the term of the Fund except in conjunction with an internal reorganization of these entities, as applicable; or
- any material amendment to the constating documents of the Trust, the GP, the Partnership, the Company or any of their respective affiliates, to change the authorized units, share capital or partnership interests which may be prejudicial to the Fund; and
- any change to the subordination provisions attached to the Exchangeable LP Units,

without the authorization of the Voting Unitholders by a Special Resolution.

Amendments to the Fund Declaration of Trust

The Fund Declaration of Trust contains provisions that allow it to be amended or altered from time to time by the Trustees with the consent of the Voting Unitholders by a Special Resolution.

The Trustees, at their discretion and without the approval of the Voting Unitholders, will be entitled to make certain amendments to the Fund Declaration of Trust, including amendments:

- (i) which are required for the purpose of ensuring continuing compliance with applicable laws (including the Tax Act), regulations, requirements or policies of any governmental authority having jurisdiction over the Trustees or over the Fund, including ensuring that the Fund continues to qualify as a “mutual fund trust” and the Units do not constitute “foreign property”, each within the meaning of the Tax Act;
- (ii) which, in the opinion of counsel, provide additional protection or added benefits for the Unitholders and/or holders of Special Voting Units;
- (iii) to remove any conflicts or inconsistencies in the Fund Declaration of Trust or to make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders and holders of Special Voting Units; and
- (iv) which, in the opinion of the Trustees, are necessary or desirable as a result of changes in taxation laws or policies of any governmental authority having jurisdiction over the Trustees or the Fund.

Notwithstanding the previous sentence, the Trustees may not amend the Fund Declaration of Trust in a manner which would result in (a) the Fund failing to qualify as a “mutual fund trust” under the Tax Act or (b) the Units being treated as “foreign property” for the purposes of the Tax Act.

Term of the Fund

The Fund has been established for a term ending 21 years after the date of death of the last surviving issue of Her Majesty, Queen Elizabeth II, alive on April 25, 2005. On a date selected by the Trustees which is not more than two years prior to the expiry of the term of the Fund, the Trustees are obligated to commence to wind-up the affairs of the Fund so that it will terminate on the expiration of the term. At any time prior to the expiry of the term of the Fund, the Voting Unitholders may by Special Resolution require the Trustees to commence the termination, liquidation or winding-up of the affairs of the Fund.

Take-over Bids

The Fund Declaration of Trust and the Limited Partnership Agreement contain provisions to the effect that if a take-over bid is made for the Units and not less than 90% of the Units on a fully diluted basis (including the Units that persons are entitled to acquire pursuant to the Exchange Agreement and other securities exchangeable, directly or indirectly, for Units (the “Exchangeable Securities”) as applicable, (other than Units, including Exchangeable LP Units and Exchangeable Securities held by or on behalf of the offeror or an affiliate or associate of the offeror) are taken up and paid for by the offeror, subject to other provisions of the Fund Declaration of Trust, the offeror will be entitled to acquire the Units, Exchangeable LP Units and other Exchangeable Securities held by holders who did not accept the take-over bid, on the same terms on which the offeror acquired Units pursuant to the take-over bid.

The Fund Declaration of Trust and the Exchange Agreement include provisions to facilitate the exchange of Exchangeable LP Units for Units so that a holder of Exchangeable LP Units can exercise its rights to exchange all or a portion of such holdings for Units, including conditionally, in order to tender to a take-over bid.

Information and Reports

The Fund will furnish to Voting Unitholders, in accordance with applicable securities laws, all financial statements of the Fund (including quarterly and annual financial statements) and other reports as are from time to time required by applicable law, including prescribed forms needed for the completion of Unitholders’ tax returns under the Tax Act and equivalent provincial legislation.

Prior to each meeting of Voting Unitholders, the Trustees will provide to the Voting Unitholders (along with notice of the meeting) all information, together with such certifications, as is required by applicable law and by the Fund Declaration of Trust to be provided to Voting Unitholders.

In addition, the Company has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada and to the Fund that for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- issue a press release and deliver to the Fund for filing a material change report in respect of any material change in its business, operations or capital;
- provide to the Fund the information that would be required to be included in an annual information form or any other report or document required to be filed with the securities commissions or other securities regulatory authorities as if they were reporting issuers in each of the provinces and territories of Canada; and
- to the extent that the Fund does not prepare financial statements including its results of operations, deliver to the Fund quarterly unaudited and annual audited financial statements together with corresponding management’s discussion and analysis for those periods for filing with the securities commissions or other securities regulatory authorities in each of the provinces of Canada and delivery to the Fund’s registered and beneficial Voting Unitholders in accordance with applicable securities laws.

Such releases, forms, reports and statements, in each case, shall be in the form and content that the Company would be required to file with the Ontario Securities Commission as if it were a reporting issuer under Ontario securities laws. The quarterly unaudited and annual audited financial statements of the Company will be delivered by the Fund to Voting Unitholders concurrently with the financial statements of the Fund for the corresponding period.

The Fund has undertaken to the securities commissions or other securities regulatory authorities in each of the provinces and territories of Canada that for so long as the Fund is a reporting issuer under applicable securities laws, it will:

- treat the Company as a subsidiary of the Fund; however, if generally accepted accounting principals prohibit the consolidation of financial information of the Company and the Fund, for as long as the Company (and any of its significant business interests) represents significant assets of the Fund, the Fund will provide unitholders with separate financial statements for the Company (and any of its significant business interests);
- take appropriate measures to require each person who would be an insider of the Company if the Company were a reporting issuer to (a) file insider reports about trades in Units (including securities which are exchangeable into Units), and (b) comply with statutory prohibitions against insider trading; and

- annually certify that it has complied with its undertaking, and file the certificate on SEDAR concurrently with the filing of its annual financial statements.

DISTRIBUTIONS

The Fund made cash distributions of \$0.84, \$0.98 and \$1.15 per Unit for the financial years ended 2009, 2008 and 2007, respectively.

The Fund makes distributions of substantially all of its available cash to the Unitholders to the maximum extent possible. The amount of cash available for distribution will be equal to the cash receipts of the Fund in respect of such month including the interest and principal repayments on the Trust Notes and the distributions, if any, on or in respect of the Trust Units owned by the Fund, less:

- administrative expenses and other obligations of the Fund;
- amounts which may be paid by the Fund in connection with any cash redemptions or repurchases of Units;
- satisfaction of debt service obligations of the Fund on account of both principal and interest; and
- any amount that the Trustees may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the Fund, that have been or are reasonably expected to be incurred in the activities and operations of the Fund (to the extent that such costs or expenses have not otherwise been taken into account in the calculation of the available distributable cash of the Fund).

The Fund may make additional distributions in excess of monthly distributions during the year, as the Trustees may determine. The distribution declared in respect of the month ending December 31 in each year will include such amount in respect of the taxable income and net realized capital gains, if any, of the Fund for such year as is necessary to ensure that the Fund will not be liable for ordinary income taxes under the Tax Act in such year. See also “Description of Capital Structure of the Fund – Distribution Policy of the Fund”.

Any income of the Fund which is applied to any cash redemptions of Units or is otherwise unavailable for cash distribution will, to the extent necessary to ensure that the Fund does not have an income tax liability under Part I of the Tax Act, be distributed to Unitholders in the form of additional Units. Those additional Units will be issued under exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

Holders of Units who are non-residents of Canada will be required to pay all withholding taxes payable in respect of any distributions of income by the Fund, whether those distributions are in the form of cash or additional Units. Non-residents should consult their own tax advisors regarding the tax consequences of investing in the Units.

DESCRIPTION OF CAPITAL STRUCTURE OF THE FUND

Units and Special Voting Units

The beneficial interests in the Fund are divided into interests of two classes, described and designated as “Units” and “Special Voting Units”, respectively. An unlimited number of Units and an unlimited number of Special Voting Units may be issued pursuant to the Fund Declaration of Trust. Each Unit is transferable and represents an equal undivided beneficial interest in any distributions from the Fund, (whether of net income, net realized capital gains or other amounts), and in any net assets of the Fund, and in the event of termination or winding-up of the Fund, in the Fund’s assets. All Units are of the same class with equal rights and privileges. The Units issued pursuant to the Offering are not subject to future calls or assessments, and entitle the holders thereof to one vote for each whole Unit held at all meetings of Voting Unitholders. Except as set out under “Redemption at the Option of Unitholders” below, the Units have no conversion, retraction, redemption or pre-emptive rights.

The Special Voting Units are not entitled to any interest or share in the distribution, or net assets of the Fund. Special Voting Units may be issued in series and will only be issued in connection with or in relation to an Exchangeable LP Units, and, if the Trustees so determine, other Exchangeable Securities, in each case for the purpose of providing voting rights with respect to the Fund to the holders of such securities. Special Voting Units will be issued in conjunction with, and will be attached to, the Exchangeable LP Units or other Exchangeable Securities to which they relate, and will be evidenced only by the certificates representing such Exchangeable LP Units or other Exchangeable Securities. Special Voting Units will not be transferable separately from the Exchangeable LP Units or other Exchangeable Securities to which they are attached. Each Special Voting Unit will entitle the holder thereof to that number of votes at any meeting of Voting Unitholders that is equal to the number of Units that may be obtained upon the exchange (direct or indirect) of the Exchangeable LP Unit or other Exchangeable Security to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit or other Exchangeable Security for Units, the Special Voting Unit that is attached to such Exchangeable LP Unit or other Exchangeable Security 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 rights with respect thereto.

No certificates will be issued for fractional Units and fractional Units will not entitle the holders thereof to vote. The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Issuance of Units

The Fund Declaration of Trust provides that the Units or rights to acquire Units may be issued by the Fund at the times, to the persons, for the consideration and on the terms and conditions that the Trustees determine, including any issuance to the holders of the Exchangeable Securities. Units may be issued in satisfaction of any non-cash distribution of the Fund to Unitholders on a pro rata basis to the extent that the Fund does not have available cash to fund such distributions. The Fund Declaration of Trust also provides that immediately after any pro rata distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated such that each Unitholder will hold after the consolidation the same number of Units as the Unitholder held before the non-cash distribution, except where tax was required to be withheld in respect of the Unitholder’s share of the distribution. In this case, each certificate, if any, representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts so distributed represent income, non-resident holders will be subject to withholding tax and the consolidation will not result in such non-resident Unitholders holding the same number of Units. Such non-resident Unitholders will be required to surrender the certificates, if any, representing their original Units in exchange for a certificate representing their post-consolidation Units.

Redemption at the Option of Unitholders

Units are redeemable at any time on demand by the holders thereof. As the Units will be issued in book-entry form, a Unitholder who wishes to exercise the redemption right will be required to obtain a redemption notice form from the Unitholder’s investment dealer who will be required to deliver the completed redemption notice form to the Fund at its head office and to CDS. Upon receipt of the redemption notice by the Fund, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof shall be entitled to receive a price per Unit (the “Redemption Price”) equal to the lesser of:

- (i) 90% of the “market price” of a Unit calculated as of the date on which the Units were surrendered for redemption (the “Redemption Date”); and
- (ii) 100% of the “closing market price” on the Redemption Date.

The Redemption Price payable by the Fund in respect of all Units surrendered for redemption during any calendar month shall be satisfied by way of a cash payment no later than the last day of the month following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that:

- (i) the total amount payable by the Fund in respect of those Units and all other Units tendered for redemption in the same calendar month shall not exceed \$50,000, provided that the Trustees may, in their sole discretion, waive this limitation in respect of all Units tendered for redemption in any calendar month;
- (ii) at the time the Units are tendered for redemption, the outstanding Units shall be listed for trading on a stock exchange or traded or quoted on another market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and
- (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period ending on the Redemption Date.

For additional details on the redemption right attaching to the Units and the Redemption Price reference is made to the Fund Declaration of Trust, available on SEDAR at www.sedar.com.

Repurchase of Units

The Fund will be allowed, from time to time, to purchase Units for cancellation in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange or regulatory policies. Any such repurchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

Limitation on Non-Resident Ownership

In order for the Fund to maintain its status as a mutual fund trust under the Tax Act, the Fund must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, the Fund Declaration of Trust provides that at no time may non-residents of Canada and partnerships which are not “Canadian partnerships” for the purposes of the Tax Act be the beneficial owners of more than 49.9% of the Units then outstanding. This 49.9% limitation will be applied with respect to the issued and outstanding Units of the Fund on both a non-diluted basis and a fully-diluted basis, including all Units issuable upon the exercise of all exchange rights. The Trustees, in their sole discretion, may require declarations as to the jurisdictions in which beneficial owners of Units and Special Voting Units are resident. If the Trustees become aware, as a result of acquiring such declarations as to beneficial ownership, that the beneficial owners of at least 40% of the Units (on a non-diluted or fully diluted basis, including all Units issuable upon the exercise of all exchange rights) are, or may be, non-residents, partnerships which are not “Canadian partnerships” for the purposes of the Tax Act or any combination of the foregoing, or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Units or Exchangeable LP Units from, or issue or register a transfer of Units or Exchangeable LP Units to, a person unless the person provides a declaration that the person is not a non-resident or is a Canadian partnership and does not hold the Units or Exchangeable LP Units for the benefit of non-residents.

If, notwithstanding the foregoing, the Trustees, in their sole discretion, determine that more than 40% of the Units are held by non-residents and/or partnerships which are not “Canadian partnerships” for the purposes of the Tax Act (on a non-diluted or fully diluted basis, including all Units issuable upon the exercise of all exchange rights), the Trustees may send a notice to such holders of Units or Exchangeable LP Units, chosen in inverse order to the order of acquisition or registration or in such manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or Exchangeable LP Units or a portion thereof within a specified period of not more than 30 days. If the persons receiving such notice have not sold the specified number of Units or Exchangeable LP Units or provided the Trustees with satisfactory evidence that they are not non-residents or are a Canadian partnership within such period, the Trustees may, on behalf of such persons, sell such Units or cause such Exchangeable LP Units to be converted into Units and sold and, in the interim, shall suspend the voting and distribution rights attached to or associated with such Units or Exchangeable LP Units. Upon such sale, the affected holders shall cease to be holders of the Units and their rights shall be limited to receiving the net proceeds of such sale. Notwithstanding the foregoing, the Trustees shall not take any action which shall affect the rights of the Selling Shareholders to or in respect of any Units held by any of the Selling Shareholders on closing or any Units subsequently acquired on the exchange of Exchangeable LP Units held by any of

the Selling Shareholders on closing, and, for greater certainty, any of such Units shall be deemed to have been acquired by such Selling Shareholder prior to the acquisition of Units by any other Unitholder.

Draft amendments to the Tax Act released by the Minister of Finance (Canada) on September 16, 2004 would have, if enacted as proposed, caused the Fund to cease to qualify as a mutual fund trust for the purposes of the Tax Act if the fair market value of all the Units and Special Voting Units held by non-residents of Canada or partnerships which are not "Canadian partnerships" for purposes of the Tax Act is more than 50% of the fair market value of all issued and outstanding Units and Special Voting Units. A partnership will only qualify as a Canadian partnership at a particular time if *all* of its members at that time are resident in Canada. The Fund Declaration of Trust takes into account such draft amendments to the Tax Act. Depending on the final form of the draft amendments, if enacted, it may be necessary to amend the Fund Declaration of Trust to take into account any new restrictions. Such an amendment may be made without Unitholder approval. On December 6, 2004, the Minister of Finance (Canada) introduced a Notice of Ways and Means Motion to amend the Tax Act which did not include these proposed amendments. The government's announcement indicated that further discussions with the private sector will be pursued before a decision is made on the appropriate tax policy.

In addition, the Act, pursuant to which the CTA regulates transportation industries in Canada, including the air transport industry, requires holders of licenses to operate a domestic service to be Canadian (as defined in the Act), where non-Canadians may not (i) control the Fund in fact or (ii) hold or beneficially own or control, directly or indirectly, the right to vote more than 25% of the Units. The constraints on ownership rights contained in the Fund Declaration of Trust require the Fund to refuse to recognize ownership rights which would render it non-Canadian.

For these purposes, the Trustees may make a public announcement and shall be entitled to do one or more of the following to ensure that non-Canadians do not (i) control the Company in fact or (ii) hold or beneficially own or control, directly or indirectly, the right to vote more than 25% of the Units:

- (a) refuse to accept any subscriptions for Units from a non-Canadian person or entity if such subscription, and the resulting issuance of Units, would cause (1) the Fund to be controlled in fact by non-Canadians, or (2) 25% or more of the voting interests of the Fund to be held or beneficially owned or controlled, directly or indirectly, by non-Canadians, or (3) any breach of the Act or the regulations thereunder;
- (b) refuse, or cause the transfer agent for the Units to refuse, to register or recognize any transfer of Units to a non-Canadian person or entity if such subscription, and the resulting issuance of Units, would cause (1) the Fund to be controlled in fact by non-Canadians, or (2) 25% or more of the voting interests of the Fund to be held or beneficially owned or controlled, directly or indirectly, by non-Canadians, or (3) any breach of the Act or the regulations thereunder;
- (c) restrict on a pro rata basis the rights of non-Canadian holders of Units to vote at a meeting of Unitholders or otherwise vote the Units where more than 25% of the Units represented at such meeting are held or beneficially owned or controlled, directly or indirectly, by non-Canadian holders, such that the total number of votes which may be cast by or on behalf of non-Canadian holders at such meeting shall not be greater than 25% of the total number of votes which may be cast at such meeting; and
- (d) sell, repurchase or redeem any Units that are held or beneficially owned or controlled, directly or indirectly, by non-Canadian holders.

If notwithstanding the foregoing, the Trustees, in their sole discretion, determine that non-Canadians (i) control the Fund in fact or (ii) hold or beneficially own or control, directly or indirectly, the right to vote more than 25% of the Units, the Trustees may send a notice to such non-Canadian holders of the Units, chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not non-Canadians within such period, the Trustees may on behalf of such Unitholders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to or associated with such Units (other than the right to receive the net proceeds from the sale). Upon such sale, the affected holders shall cease to be holders of the

relevant Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates representing such securities. The Fund may direct the Transfer Agent to do any of the foregoing.

Exceptions

The constraints described above do not apply to Units held by way of security only. Furthermore, they do not apply to Units of the Fund held by one or more underwriters solely for the purpose of distributing the Units to the public, or by any person acting as an intermediary in the payment of funds or the delivery of securities in connection with trades in securities and providing centralized facilities for the clearing of trades in securities.

Administration of Constraints

The Fund Declaration of Trust grants to the Trustees all powers necessary to give effect to the ownership restrictions. The Fund has adopted and will in future adopt various procedures and processes with respect to the transfer of voting securities of the Fund to ensure that the 25% limitation on non-Canadian ownership of voting securities of the Fund is respected. In addition, the Fund has adopted such procedures and processes in order to monitor the number of its voting securities owned by Canadians to ensure that the provisions of the Act are complied with.

Distribution Policy of the Fund

The Fund makes distributions of its available cash to Unitholders to the maximum extent possible. Cash distributions are payable monthly to Unitholders of record on the last business day of each month and are paid on or about the 15th day of the following month. The Fund pays regular monthly cash distributions, which were \$0.042 per Unit at December 31, 2009. See also “Distributions”, above.

MARKET FOR SECURITIES

Trading Price and Volume

The Units and Debentures are listed on the TSX under the symbols “CJT.UN” and “CJT.DB”, respectively. The following tables set forth information relating to the trading of the Units and Debentures on the TSX for the months indicated:

Month	Units			Debentures		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
January 2009	3.35	2.46	214,129	55.00	45.00	155,000
February 2009	3.38	2.33	461,100	60.00	40.00	98,000
March 2009	2.86	2.12	698,408	65.49	43.60	492,000
April 2009	3.11	2.60	333,291	64.01	45.05	292,000
May 2009	5.05	2.68	534,031	83.50	70.00	214,000
June 2009	4.09	3.33	471,300	81.00	77.00	3,698,000
July 2009	4.07	3.53	264,874	80.50	75.00	274,000
August 2009	5.81	3.81	294,025	96.00	80.00	451,000
September 2009	6.97	5.40	253,290	90.00	87.50	482,000
October 2009	6.93	5.96	192,325	98.75	89.50	425,000
November 2009	9.42	5.51	533,400	100.00	94.37	581,000
December 2009	9.47	8.00	1,113,786	102.50	99.98	1,323,000

Month	Units			Debentures		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
January 2010	10.48	10.25	198,823	105.00	100.50	225,000
February, 2010	10.14	9.39	151,408	103.99	101.00	142,000
March 1 - 12, 2010	9.89	7.49	697,411	104.89	101.00	216,000

TRUSTEES, DIRECTORS AND OFFICERS

Name, Occupation and Security Holding

The following table sets out, for each of the current Trustees of the Fund, and the directors and executive officers of the GP, the person's name, province and country of residence, positions with the Fund and/or the GP (i.e., trusteeship) and principal occupation. The Trustees of the Fund will also comprise the trustees of the Trust and the majority of the Board. The trustees of the Fund and directors and executive officers of the GP as a group beneficially own, directly or indirectly, 2,597,369 Units (32.5%) of the Fund on a fully diluted basis excluding the effect of the Debentures. The information as to Units beneficially owned or over which control or direction is exercised, not being within the knowledge of the Fund, has been furnished by the proposed nominees. The term of office for each of the Trustees and directors of the GP will expire at the time of the next annual meeting of Unitholders of the Fund currently scheduled for May 18, 2010.

Name and Province/Country of Residence ⁽⁵⁾⁽⁶⁾	Position with the Company	Principal Occupation ⁽¹⁾	Trustee, Director and/or Officer Since	Voting Units Beneficially Owned, Controlled or Directed (#/%)
Terence M. Francis ⁽²⁾⁽³⁾⁽⁴⁾ British Columbia, Canada	Trustee of the Fund, Director of the GP	Principal of T.&T.G. Consulting (SA) Ltd.	2005	3,340 / 0.04%
Paul V. Godfrey ⁽²⁾⁽³⁾⁽⁴⁾ Ontario, Canada	Trustee of the Fund, Director of the GP	President and Chief Executive Officer of the National Post since January 2009. President and Chief Executive Officer of the Toronto Blue Jays Baseball Club from 2000 to 2008.	February 2009	3,000 / 0.04%
John P. Webster ⁽²⁾⁽⁴⁾⁽⁷⁾ Ontario, Canada	Trustee of the Fund, Director of the GP	President and Chief Executive Officer of Maple Trust Company	2005	4,000 / 0.05%
Ajay Virmani ⁽⁸⁾ Ontario, Canada	President, Chief Executive Officer and Director of the GP	Chief Executive Officer of the GP	2005	1,808,693 / 22.63%
Dan Mills ⁽³⁾⁽⁹⁾ Ontario, Canada	Executive Vice President, Corporate Governance, Chief Financial Officer, Corporate Secretary, and Director of the GP	Chief Financial Officer since March 2008 and Executive Vice President Corporate Governance, Corporate Secretary and Executive Vice-President of the GP since June 2005. Chief Financial Officer of the Fund from June 2005 to June 2007. Executive Vice President and Chief Financial Officer of Cargojet Holdings Ltd. prior to June 2005.	2005	446,955 / 5.59%
Jamie Porteous Ontario, Canada	Executive Vice-President, Sales and Service of the GP	Executive Vice- President, Sales and Service of the GP	2005	256,307 / 3.21%

Name and Province/Country of Residence ⁽⁵⁾⁽⁶⁾	Position with the Company	Principal Occupation ⁽¹⁾	Trustee, Director and/or Officer Since	Voting Units Beneficially Owned, Controlled or Directed (#/%)
John Kim ⁽¹⁰⁾ Ontario, Canada	Vice President Finance of the GP	Vice President Finance of the GP since April 2008. Vice President Finance of CHUM Ltd. from 2006 to 2007. Vice President Finance of Royal LePage Relocation Services from 2002 to 2006	2008	8,674/0.11%
George Sugar ⁽⁹⁾ Ontario, Canada	Vice-President, Flight Operations of Cargojet Airways Ltd.	Vice-President, Flight Operations of Cargojet Airways Ltd. from January 5, 2006. Prior to January 5, 2006, Chief Pilot. Prior to August 2002, Director of Flight Operations at Skyservice Airlines Inc.	2005	2,350 / 0.03%

Notes:

- (1) Unless otherwise indicated, each of the foregoing individuals has been principally engaged in the occupations set out opposite his name for the preceding five years.
- (2) Member of the Compensation and Nominating Committee. Mr. Godfrey is Chairman of the Compensation and Nominating Committee.
- (3) Member of the Corporate Governance Committee. Mr. Francis is Chairman of the Corporate Governance Committee.
- (4) Member of the Audit Committee. Mr. Webster is Chairman of the Audit Committee.
- (5) No Trustee of the Fund or director or executive officer of the GP is, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity: (i) was the subject of a cease trade order or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; (ii) was subject to an event that resulted, after the Trustee, director or executive officer ceased to be a director, chief executive officer or chief financial officer in the relevant company being the subject of a cease trade or similar order or an order that denied the relevant company access to any exemption under securities legislation, for a period of more than 30 consecutive days; or (iii) or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, except (A) on December 17, 2002, Flagship International Marketing Ltd. ("FIML") voluntarily filed an assignment in bankruptcy under the *Bankruptcy and Insolvency Act*. At the time of filing the assignment in bankruptcy, Ajay Virmani and Dan Mills were the shareholders and directors of FIML. Ajay Virmani and Dan Mills together represented approximately 76% of creditor claims. The Fuller Landau Group Inc. acted as trustee of FIML. FIML filed the assignment in bankruptcy for tax related reasons; and (B) on December 21, 2006, Starjet Airways Ltd. ("SAL") voluntarily filed an assignment in bankruptcy under the *Bankruptcy and Insolvency Act*. At the time of filing the assignment in bankruptcy, Ajay Virmani, Dan Mills and Jamie Porteous were officers and directors of SAL. The Virmani Family Trust, The Mills Family Trust and The Porteous Family Trust were shareholders of SAL. The Fuller Landau Group Inc. acted as trustee of SAL. Paul Godfrey is President and Chief Executive Officer of the National Post Inc., which was part of CanWest when it voluntarily entered into *Companies' Creditors Arrangement Act* ("CCAA") protection and successfully obtained an Order from the Ontario Superior Court of Justice (Commercial Division) commencing proceedings under the CCAA on October 6, 2009. The National Post was outside creditor protection under the CCAA proceedings, and on October 31, 2009 was transferred from the media conglomerate's holding company Canwest Media Inc. to a new subsidiary of the publishing group. The National Post remains outside of the CCAA filing, but part of the sales process that has been initiated by Canwest.
- (6) No Trustee of the Fund or director or executive officer of the GP has, within 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.
- (7) Lead director of the GP.
- (8) Chairman of the board of directors of the GP.
- (9) Effective March 14, 2008, Mr. Mills was reappointed as Chief Financial Officer following the resignation of Wade. Morrell as Chief Financial Officer. Mr. Mills will cease acting as Executive Vice President, Corporate Governance, and Chief Financial Officer, Corporate Secretary, and Director of the GP effective April 1, 2010.
- (10) Effective April 1, 2010, Mr. Kim will become Chief Financial Officer of the GP.

Conflicts of Interest

To the best of the Fund's knowledge, there are no known existing or potential conflicts of interest between the Fund and any of its subsidiaries and any Trustee of the Fund, Trust's Trustee or any director or officer of the GP or the Company, except that certain of such Trustees, Trust's Trustees, directors and officers serve as directors and officers of other public companies and therefore it is possible that a conflict may arise between their duties as a Trustee, Trust's Trustee or as a director or officer of the GP or the Company and their duties as a director or officer of such other companies.

The Trustees of the Fund, the Trust's Trustees and the directors and officers of the GP and the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts, and the Fund will rely upon such laws in respect of any Trustees', directors' or officers' conflicts or in respect of any breaches of duty by any of its Trustees, the Trust's Trustees or the directors and officers of the GP or the Company. The Fund Declaration of Trust contains "conflict of interest" provisions that serve to protect Unitholders and holders of Special Voting Units without creating undue limitations on the Fund. The Fund Declaration of Trust contains provisions, similar to those contained in the *Business Corporations Act* (Ontario), that require each Trustee or officer to disclose to the Fund, as applicable, any interest in a material contract or transaction or proposed material contract or transaction with the Fund, or the fact that such person is a director or officer of, or otherwise has a material interest in, any person who is a party to a material contract or transaction or proposed material contract or transaction with the Fund. In any case, a Trustee or officer who has made disclosure to the foregoing effect is not entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction is one relating primarily to (i) his remuneration as a Trustee, director or officer of the Fund, as applicable, (ii) insurance or indemnity, or (iii) a contract or transaction with an affiliate.

AUDIT COMMITTEE

Audit Committee Charter

The Audit Committee's mandate is to provide assistance to the Board of Trustees of the Fund in fulfilling its financial reporting and control responsibility to the Unitholders and the investment community.

The Audit Committee Charter is attached hereto as Schedule "A".

Composition of the Audit Committee

The Audit Committee is comprised of the three Trustees of the Fund, all of whom are independent and financially literate. The members of the Audit Committee are Terence Francis, Paul Godfrey and John Webster.

Relevant Experience

Terence Francis:

Mr. Francis is a graduate of the Harvard Business School Advanced Management Program. He is the principal of T.&T.G.(SA) Consulting Ltd. and has served as a corporate officer and senior executive of Canadian Airlines Corporation.

Paul Godfrey:

Mr. Godfrey was appointed President and Chief Executive Officer of the National Post in January 2009. Prior to this position, Mr. Godfrey was the Chairman of the Metropolitan Toronto Council for 11 years, and has been the President and Chief Executive Officer of the Sun Media Corporation. Mr. Godfrey was also previously President and Chief Executive Officer of the Toronto Blue Jays Baseball Club. Mr. Godfrey graduated from the University of Toronto with a Bachelor of Applied Science in Chemical Engineering. He is the Chairman of RioCan Real Estate Investment Trust and a director of Astral Media Inc.

John Webster:

Mr. Webster has been the President and Chief Executive Officer of Maple Trust Company since 1989. He received an Honours BA from Wilfred Laurier University and an LL.B and B.L.L. from McGill University. He has been the Chief Executive Officer and previously, Chief Operating Officer, for a regulated financial institution for a total of over twenty years. During such time Mr. Webster has participated in overseeing numerous internal and external audits as a member of senior management and as a board member. In addition, Mr. Webster's current and previous directorships include Maple Trust Company, Filogix Inc. and St. Joseph's Corporation.

Pre-Approval Policies and Procedures

The Audit Committee must pre-approve all non-audit services to be provided to the Fund or its subsidiary entities by its external auditors or the external auditors of the Fund's subsidiary entities.

External Fees by Audit Category

	Year ended December 31, 2009	Year ended December 31, 2008
Audit Fees	\$ 249,667	\$ 250,000
Audit-Related Fees	3,180	0
Tax-Related Fees	153,795	173,000
All Other Fees	21,200	79,617
Total Fees	<u>\$ 427,842</u>	<u>\$ 502,617</u>

PROMOTER

Ajay Virmani, a director and President and Chief Executive Officer of the GP, attorney of the Fund, may be considered to be a promoter of the Fund by reason of his initiative in organizing the business and affairs of the Fund. The Virmani Family Trust has the right to exchange, in certain circumstances, 1,808,693 Exchangeable LP Units on the basis of one Exchangeable LP Unit for one Unit. Mr. Virmani is a beneficiary and one of three trustees of the Virmani Family Trust. The Virmani Family Trust currently owns and/or controls 1,808,693 Units on a fully diluted basis excluding the effect of the Debentures, representing approximately 22.6% of the Units. See also "General Development of the Business of the Fund".

LEGAL PROCEEDINGS

Management is not aware of any legal proceedings outstanding, threatened or pending as of the date hereof by or against the Fund or its subsidiaries which would be material to a purchaser of Units.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out herein, as of the date hereof, no Trustee, director, executive officer or 10% security holder of the Fund and its subsidiaries or any associate or affiliate of any such person or company, has or had any material interest, direct or indirect, in any transaction that has materially affected or will materially affect the Fund or any of its subsidiaries.

TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Units is Computershare Investor Services Inc. at its principal transfer office in Toronto.

MATERIAL CONTRACTS

The only contracts, other than contracts entered into in the ordinary course of business that are material to the Fund and were entered into in the financial period ended December 31, 2009, or in prior years that are still in effect are as follows:

1. the Fund Declaration of Trust;
2. the Trust Declaration of Trust;
3. the Partnership Agreement;
4. the Securityholders Agreement, which provides for the composition of the Board and its committees as described under “Governance – Board of the GP” and “Governance – Board Committees”.

Except for a transfer to a party to the Securityholders Agreement or a transfer pursuant to the Exchange Agreement, before a transfer of a unit of the Partnership or a common share of the GP by any party, the transferee of such unit or share, as the case may be, must agree to be bound by the Securityholders Agreement and upon such transfer will assume the benefits and obligations of the transferring party, except that the Virmani Family Trust, the Mills Family Trust and the Porteous Family Trust (each a “**Vendor**” and collectively, the “**Vendor Group**”) may not assign its rights to any person that is not a member of the Vendor Group.

For so long as the percentage of the issued and outstanding Units, on a diluted basis, held by the Vendor Group is at least 20%, each of the Fund, the Trust and the GP cannot cause or permit the Partnership or any of its subsidiaries to undertake any of the following transactions without the prior written consent of the Vendor Group: (a) change the size of the Board; (b) the sale, assignment, lease, exchange or other disposition of all or substantially all of the assets of the Partnership or any of its subsidiaries (otherwise than in connection with an internal reorganization); (c) any amalgamation, merger, consolidation, plan of arrangement or other business combination or joint venture of the Partnership or any of its subsidiaries with any other entity (otherwise than in connection with an internal reorganization); (d) the acquisition by the Partnership or any of its subsidiaries of any material assets or any material interest in another business; (e) the issuance by the Partnership or any of its subsidiaries of additional units or other equity or equity-linked security, other than in the ordinary course of business; (f) the incurrence of indebtedness by the Partnership or any of its subsidiaries other than in the ordinary course of business; (g) any change to the constating documents of the Partnership, the GP or any of their subsidiaries; (h) any change of the lawyers, auditors or bankers of the Partnership; or (i) the adoption, by the Partnership or any of its subsidiaries, of any plan or proposal to liquidate, dissolve or reorganize or seek relief under bankruptcy or insolvency laws, other than in connection with an internal reorganization.

The Securityholders Agreement may only be modified, amended, altered, waived or supplemented with the written approval of each Vendor, save and except for (i) amendments to cure any ambiguity or to correct or supplement any provisions which are defective or inconsistent with any other provision of the Securityholders Agreement, provided that the cure, correction or supplemental provision does not and will not adversely affect the interests of any Vendor, or (ii) amendments to ensure that the GP and the Partnership are in compliance with the Canadian Ownership and Control Provisions (as defined in the Fund Declaration of Trust) as they relate to the GP, the Partnership, their subsidiaries and their owners.

The Securityholders Agreement will continue in force until the percentage of the issued and outstanding Units, on a diluted basis, held by the Vendor Group is less than 10%. The Partnership Agreement will remain in effect notwithstanding any termination of the Securityholders Agreement;

5. the Exchange Agreement;
6. the Trust Note Indenture;
7. the Operating Partnership Agreement; and
8. the Debenture Indenture dated April 9, 2008 between the Fund and Computershare Trust Company of Canada.

The foregoing documents are filed on SEDAR at www.sedar.com. Copies of the foregoing documents may also be examined during normal business hours at the head and registered office of the Fund located at 350 Britannia Road East, Units 5 and 6 Mississauga, Ontario L4Z 1X9.

INTERESTS OF EXPERTS

The auditors of the Fund are Deloitte & Touche LLP, Chartered Accountants, Toronto, Ontario. The Fund's consolidated annual financial statements for the period ended December 31, 2009 have each been filed under National Instrument 51-102 – *Continuous Disclosure Obligations* in reliance on the report of Deloitte & Touche LLP, Chartered Accountants, given on their authority as experts in auditing and accounting. Deloitte & Touche LLP has confirmed to the Fund that it is independent within the meaning of the rules of professional conduct of the Institute of Chartered Accountants of Ontario and that no partner, employee or consultant who participated in preparing the report of Deloitte & Touche LLP for the Fund has any registered or beneficial interest in any Units.

ADDITIONAL INFORMATION

Additional information can be found on SEDAR at www.sedar.com.

Additional information, including the remuneration and indebtedness of Trustees, directors and officers of the Fund and its subsidiaries, principal holders of the Fund's securities and securities authorized for issuance under equity compensation plans, is contained in the Fund's information circular for its most recent annual meeting of Unitholders. Additional financial information is provided in the Fund's financial statements and management's discussion and analysis for the period ended December 31, 2009.

RISK FACTORS

The following are certain factors relating to the business of the Fund and its subsidiaries and the industry and structure of the Fund.

Risks Related to the Business

Loss of Key Contracts

The Company's 10 largest customers accounted for approximately 70% of 2009 revenues of the Company and the Company's top two customers each accounted for over 10% of the Company's 2009 revenues. The loss of any one of these significant contracts of the Company would cause immediate disruption and would adversely affect the Company's revenues. Any such loss of a significant contract would have an adverse effect on the results of operations of the Company and there is no assurance that the Company would be able to replace the loss of any significant contract with another customer on terms as favourable as the Company's existing contracts. If the Company's relationship with its customers or the financial health of the customers were to be negatively affected, the Company's financial results could suffer.

Most of the Company's contracts with its customers are for a term of three to five years with the ability to terminate generally upon six to twelve months notice or if the Company is not meeting specified performance targets. When these contracts expire, there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favourable to the Company as existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

Canada — US Open Skies

The current Canada — US "Open Skies" agreement provides regulation of the airline industry, including the air cargo industry, within Canada and currently provides protection of domestic national carriers in each country. The agreement allows cross-border flights between Canada and the United States but provides major restrictions on carriers from operating flight routes between two points within the other's country. Recent amendments negotiated between the two countries reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers including the Company to establish domestic routes within the US. There is no assurance that this "Open Skies" agreement will continue in its present form in the future. Increased competition resulting from the liberalization or revocation of this agreement could affect the Company's ability to compete for a market share, which in turn could have a material adverse effect on the Company's business, results of operations or financial condition.

Competition

The Company competes within the industry of air-cargo courier services with other dedicated air cargo carriers. In addition, the Company competes for market share with motor carriers, express companies and other air couriers and airlines who offer cargo services on their regularly scheduled passenger flights. In addition to competition from competitors, new companies may enter the domestic air cargo industry and may be able to offer services at discounted rates. Concentrating only on the air cargo industry does not allow the Company to compete in different modes of freight transportation which may provide a cheaper alternative to air cargo. The Company's inability to compete for a market share of the air cargo industry under these circumstances would have a material adverse effect on the Company's business, results of operations or financial condition.

Government Regulations

The Company's operations are subject to complex aviation, transportation, environmental, labor, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals. The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

The Company is routinely audited by various regulatory bodies including Transport Canada and the CTA to ensure compliance with all flight operation and aircraft maintenance requirements. To date, the Company has successfully passed all audits, however, there can be no assurance that the Company will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Company may incur costs to clean up contamination present on, at or under its facilities, even if such contamination was present prior to the commencement of the Company's operations at the facility and was not caused by its activities which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company cannot provide any assurance that existing laws, agreements, treaties or regulations will not be revised or that new laws, agreements, treaties or regulations, which could have an adverse impact on the Company's

operations, will not be adopted or become applicable to the Company. For example, the Company's aircraft currently meet Transport Canada and FAA Stage III noise abatement guidelines. Any future implementation of Stage IV noise abatement guidelines would require the Company to incur expenses to ensure its aircraft meet such guidelines which expenses could negatively impact the Company's earnings. The Company also cannot provide any assurance that it will be able to recover any or all increased costs of compliance from its customers or that the business and financial condition of the Company will not be adversely affected by future changes in applicable laws and regulations.

Insurance

Cargojet's operations are subject to risks normally inherent in the air-cargo industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by Cargojet or its agents. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of Cargojet. There can be no assurance that insurance coverage will be sufficient to cover one or more large claims, or that the applicable insurer will be solvent at the time of any covered loss. There can be no assurance that the Company will be able to obtain insurance at acceptable levels and costs in the future. Cargojet may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies. The occurrence of an aircraft-related accident or mishap involving the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, Cargojet does not carry any business interruption insurance.

Maintaining Leased Aircraft and Availability of Future Aircraft

The Company currently owns nineteen and leases twenty-one of its aircraft. The success of the Company will depend, in part, on its ability to replace owned aircraft when necessary and to maintain favourable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favourable leases for its aircraft and such risk could have a material adverse effect on the Company's business, results of operations or financial condition. See "Business of Cargojet – Overview" and "Business of Cargojet – Cargojet Equipment".

Fixed Costs

The Company is subject to a high degree of operating leverage. Since fixed costs comprise a proportion of the operating costs of each flight route, the expenses of each flight route do not vary proportionately with the amount of shipments that the Company carries. Accordingly, a decrease in the Company's revenues could result in a disproportionately higher decrease in the Company's earnings as expenses would remain unchanged.

Fuel Prices

The Company requires significant quantities of fuel for its aircraft. The Company is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. Although the Company historically has implemented fuel surcharges to mitigate the earnings impact of unusually high fuel prices, competitive and other pressures may prevent the Company from passing these costs on to its customers in the future. The Company cannot provide any assurance that its supply of fuel will continue uninterrupted, that rationing will not be imposed or that the prices of, or taxes on, fuel will not increase significantly in the future. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought. Increases in prices that the Company is unable to pass on to its customers would have a material adverse effect on the Company's business, results of operations or financial condition.

Costs Related to Mechanical and Maintenance Problems and Replacement of Equipment and Parts

Although costs related to mechanical problems and to maintenance for Cargojet's aircraft have been forecasted and funded pursuant to its leasing arrangements and maintenance agreements, the actual costs may be higher than those anticipated. Unexpected repairs relating to mechanical problems and to maintenance are beyond the control of the Company and may have a material adverse effect on the Company's business, results of operations or financial

condition. In addition, the ability of the Company to obtain equipment and replacement parts on satisfactory terms when required is not always certain. Any inability to obtain equipment or parts, or to obtain the required equipment or parts on satisfactory terms and on a timely basis could have a material adverse effect on the Company's business, results of operations or financial condition.

Foreign Exchange Fluctuations

The Company undertakes sales and purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. Changes in the value of the Canadian dollar relative to the U.S. dollar could have a negative effect on the profitability of the Company. For the year ended December 31, 2009, Cargojet had net expense exposure to the U.S. dollar of approximately U.S.\$17.7 million. To the extent that Cargojet does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the U.S. dollar may have a material adverse effect on Cargojet's business, results of operations or financial condition.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that the Company's business and growth strategy will enable the Company to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including general economic conditions and consumer confidence.

There can be no assurance that the Company will be successful in achieving its strategic plan or that this strategic plan will enable the Company to grow at historical rates or to sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on the Company's business, result of operations or financial condition.

There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations or financial condition.

Industry Risk and Economic Sensitivity

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. The Company's revenues are impacted by the health of the economy in the regional markets in which the Company operates. Although the Company cannot specifically correlate the impact of macro-economic conditions on its business activities, the Company believes that a decline in economic conditions in Canada may result in decreased demand for the services the Company provides and, to the extent that this decline continues or increases in severity, the Company's business, results of operations or financial condition could be materially adversely affected. The Company believes that the current world-wide economic recession and financial markets crisis have negatively impacted Cargojet's shipping volumes.

Terrorist Activity

The terrorists' attacks of September 11, 2001 and their aftermath negatively impacted the air cargo industry. Additional terrorist attacks, the fear of such attacks or increased hostilities could further negatively impact the air cargo industry. The Company could experience a decrease in the use of its air cargo network as a means of transporting goods domestically and internationally and an increase in costs.

Dependence on Key Personnel

The Fund's success will be substantially dependent on the continued services of senior management of the Company. The loss of the services of one or more key members of senior management of the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company's continued growth depends on the ability of the Company to attract and retain skilled managers and employees and the ability of its personnel to manage the Company's growth. The inability to attract and retain key personnel could have a material adverse effect on the Company's business, results of operations or financial condition.

Labour Relations

Currently, the Company's employees are not unionized. The maintenance of a productive and efficient labour environment and, in the event of unionization, the successful negotiation of a collective bargaining agreement, cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. Severe weather during any extended period could prevent shipments from being delivered on a timely basis and could force flight cancellations. Any extended delay in meeting time sensitive shipping deadlines would have a material adverse effect on the Company's business, results of operations or financial condition.

Seasonal Fluctuations

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in the first quarter. Accordingly, the seasonal nature of the business of the Company will effect the quarterly financial results of operation of the Company that will be reported.

Dependence on International Trade

The principal businesses of Cargojet is indirectly related to, and future performance is dependent upon, the volume of international trade, including cross-border trade between Canada and the US. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, exchange controls, currency fluctuations and Canadian, US and foreign laws relating to duties, trade restrictions, foreign investment and taxation. There can be no assurance that trade-related events beyond the control of Cargojet, such as failure to reach or adopt trade agreements and an increase in trade restrictions, will not have a material adverse effect on the Company's business, results of operations or financial condition.

Risks Related to the Structure of the Fund

Dependence of the Fund on the Trust, the Partnership, and the Company

The cash distributions to the Unitholders will be entirely dependent on the ability of the Trust to pay its interest obligations under the Trust Notes, and to make distributions on the Trust Units. Payments by the Trust will depend, in turn, on the ability of the Partnership to satisfy its debt service obligations under the Credit Facility and the Partnership's ability to pay distributions on the Partnership Units.

Distributions to the Unitholders will be entirely dependent on the ability of the Company to pay its operating expenses and to pay dividends or distributions, as applicable. The sole source of cash flow of the Company is the operation of the business. In the conduct of business, the Company pays expenses and incurs debt and obligations to third parties. These expenses, debts and obligations could impact the ability of the Company to produce positive operating results.

Credit Facilities and Restrictive Covenants

The Partnership has third party debt service obligations under the Credit Facility. The ability of the Fund and its subsidiaries to make distributions, pay dividends or make other payments or advances, will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Credit Facility). The degree to which the Partnership is leveraged could have important consequences to the holders of the Units, including: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of

the principal of and interest on the indebtedness, thereby reducing funds available for future operations and distribution to the Fund; (ii) certain of the Partnership's borrowings will be at variable rates of interest, which exposes the Partnership to the risk of increased interest rates; and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Partnership's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness at all or on favourable terms, may increase the sensitivity of distributable cash to interest rate variations and could have a negative impact on the Fund's ability to make distributions on its Units.

The Credit Facility contains numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Partnership to incur additional indebtedness, to create liens or other encumbrances, to pay distributions or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facility contains a number of financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with the obligations in the agreements in respect of the Credit Facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility were to be accelerated, there can be no assurance that the Company's assets would be sufficient to repay in full that indebtedness. In addition, the Credit Facility will mature no later than July 27, 2011. There can be no assurance that future borrowing or equity financing will be available to the Company, or available on acceptable terms, in an amount sufficient to fund the Company's needs.

Cash Distributions are Not Guaranteed and Will Fluctuate with the Company's Performance

Although the Fund intends to distribute the income earned by the Fund less expenses of the Fund and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by the Company's businesses or ultimately distributed to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, obligations under applicable credit facilities, the sustainability of margins, capital expenditures and upgrade and renovation expenditures. The market value of the Units may deteriorate if the Fund is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors. See "Income Tax Matters" and "SIFT Proposals" below.

Nature of Units

Securities such as the Units are hybrids in that they share certain attributes common to both equity securities and debt instruments. The Units do not represent a direct investment in the Trust, the Partnership or the Company and should not be viewed by investors as securities in the Trust, the Partnership or the Company. As holders of Units, Unitholders will not have the statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The Units represent a fractional interest in the Fund. The Fund's primary assets will be Series 1 Trust Notes and the Trust Units. The price per Unit is a function of anticipated distributable cash of the Fund. The Units are not "deposits" within the meaning of the Canada Deposit Insurance Corporations Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the Fund is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Restrictions on Potential Growth

The payout by the Company of substantially all of its operating cash flow will make additional capital and operating expenditures dependent on increased cash flow or additional financing in the future. Lack of such funds could limit the future growth of the Company and the related cash flow to the Fund.

Distribution of Securities on Redemption or Termination of the Fund

It is anticipated that the redemption right will not be the primary mechanism for Unitholders to liquidate their investments. Upon a redemption of Units or termination of the Fund, the Trustees may distribute Series 2 Trust Notes and Series 3 Trust Notes directly to the Unitholders, subject to obtaining all required regulatory approvals. There is currently no market for the Series 2 Trust Notes and Series 3 Trust Notes. In addition, the Series 2 Trust Notes and Series 3 Trust Notes are not freely tradable and are not currently listed on any stock exchange and no established market is expected to develop in such Series 2 Trust Notes and Series 3 Trust Notes. See “Description of the Fund — Redemption at the Option of Unitholders”. Series 2 Trust Notes and Series 3 Trust Notes so distributed may not be qualified investments for trusts governed by Plans, depending upon the circumstances at the time.

The Fund May Issue Additional Units Diluting Existing Unitholders’ Interests

The Fund Declaration of Trust authorizes the Fund to issue an unlimited number of Units and Special Voting Units for such consideration and on such terms and conditions as shall be established by the Trustees without the approval of any Unitholders. The Unitholders will have no pre-emptive rights in connection with such further issues. Additional Units will be issued by the Fund upon the exchange of the Exchangeable LP Units.

Future Sales of Units by the Retained Interest Shareholders

The Retained Interest Shareholders indirectly hold in aggregate, approximately 28.1% of the outstanding Units. If the Retained Interest Shareholders sell substantial amounts of Units in the public market, the market price of the Units could decrease. The perception among the public that these sales will occur could also produce such an effect.

Income Tax Matters

Cargojet is subject to federal and provincial income and capital taxes. Cargojet will become liable for tax in future years where its share of income from the Operating Partnership exceeds its deductible expenses.

Although the Fund is of the view that all expenses to be claimed by the Fund, the Trust, the Partnership, the Company and the Operating Partnership in the determination of their respective incomes under the Tax Act will be reasonable and deductible by the appropriate entity in accordance with the applicable provisions of the Tax Act, that the allocations of income and loss of the Partnership and Operating Partnership to be made for purposes of the Tax Act will be reasonable, and that the position adopted by Cargojet in computing its taxable capital for capital tax purposes is appropriate, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA or the provincial taxing authority will agree. Counsel can provide no opinion with respect to the reasonableness of any expense or of the allocation of income by a partnership. If CRA successfully challenges the deductibility of expenses or the allocation of income, Cargojet’s liability to income tax may increase.

There can be no assurance that Canadian federal income tax law or the interpretation thereof, respecting the treatment of mutual fund trusts will not be changed in a manner which adversely affects the holders of Units. If the Fund ceases to qualify as a “mutual fund trust” under the Tax Act, the income tax considerations relating to the Fund would be materially and adversely different in certain respects.

Currently, a trust will not be considered to be a mutual fund trust if it is established or maintained primarily for the benefit of non-residents of Canada unless all or substantially all of its property is property other than taxable Canadian property as defined in the Tax Act. On September 16, 2004, the Minister of Finance (Canada) released draft amendments to the Tax Act. Under the draft amendments, a trust would lose its status as a mutual fund trust if the aggregate fair market value of all units issued by the trust held by one or more non-resident persons or partnerships that are not Canadian partnerships is more than 50% of the aggregate fair market value of all the units issued by the trust where more than 10% (based on fair market value) of the trust’s property is taxable Canadian property or certain other types of property. If the draft amendments were enacted as proposed, and if, at any time, more than 50% of the aggregate fair market value of units of the Fund were held by non-residents and/or partnerships other than Canadian partnerships, the Fund would thereafter cease to be a mutual fund trust. The draft amendments do not provide any means of rectifying a loss of mutual fund trust status. On December 6, 2004, the Minister of Finance (Canada) tabled a Notice of Ways and Means Motion which did not include these proposed changes. The government has announced that it has suspended implementation of these proposed changes pending further consultation with interested parties. The

Fund has adopted mechanisms to ensure that the Fund is not maintained primarily for the benefit of non-resident persons.

Series 2 Trust Notes and Series 3 Trust Notes received as a result of the redemption of Units will not be qualified investments for trusts governed by Plans and their acquisition may give rise to adverse consequences to a Plan and/or an annuitant under the Plan.

Interest on the Trust Notes accrues at the Fund level for Canadian federal income tax purposes, whether or not actually paid. The Fund Declaration of Trust provides that a sufficient amount of the Fund's net income and net realized capital gains will be distributed each year to Unitholders in order to eliminate the Fund's liability for tax under Part I of the Tax Act. Where such amount of net income (including interest on the Series 1 Trust Notes) and net realized capital gains of the Fund in a taxation year exceeds the cash available for distribution in the year, such excess net income and net realized capital gains will be distributed to Unitholders in the form of additional Units. Unitholders will generally be required to include an amount equal to the fair market value of those Units in their income, in circumstances when they do not directly receive a cash distribution.

Income fund structures where income is realized by a taxable corporation such as Cargojet, generally involve a significant amount of inter-company or similar debt, generating substantial interest expense, which serves to reduce net income and therefore income tax payable. There can be no assurance that taxation authorities will not seek to challenge the amount of interest expense deducted. If such a challenge were to succeed, it could materially adversely affect the amount of Distributable Cash available. The Fund believes that the interest expense inherent in the structure of the Fund is supportable and reasonable in light of the terms of the debt owed by the Company to the Partnership and the Fund.

SIFT Rules

Provisions of the Tax Act were enacted on June 22, 2007 (the "SIFT Rules") relating to the federal income taxation of publicly-listed or traded trusts (such as income trusts and real estate investment trusts) and partnerships. The SIFT Rules apply to a publicly-traded trust that is a specified investment flow-through entity (a "SIFT") which existed before November 1, 2006 (the "Existing Trust") commencing with taxation years ending in 2011.

From January 1, 2011, certain distributions attributable to a SIFT will not be deductible in computing the SIFT's taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. Distributions paid by a SIFT as returns of capital will not be subject to this tax. There may be circumstances where an Existing Trust could lose its transitional relief where its equity capital grows beyond certain dollar limits measured by reference to the Existing Trust's market capitalization at the close of trading on October 31, 2006. On December 4, 2008 the Department of Finance announced changes to its guidelines to allow a SIFT to accelerate the utilization of its remaining growth room so that the full amount could be currently available.

The Fund is a SIFT as defined in the legislation. Accordingly the Fund will be subject to taxes on distributions of certain income earned after 2010.

For investors receiving distributions from an income trust out of income that has been subject to the SIFT Rules, the distributions will be deemed to be dividends received from a taxable Canadian corporation. Thus, the investor, if an individual, receives the benefit of the enhanced dividend tax credit available for eligible dividends. Investors that are corporations, may be permitted to deduct the dividends but private or closely-held corporations will be subject to a refundable tax.

Certain transactions following completion of the plan of arrangement in respect of the proposed conversion of the Fund from an income trust to a corporation may result in losses realized by holders of Exchangeable L.P. Units being subject to a stop-loss rule in the Tax Act. In particular, if New Cargojet is a "SIFT wind-up corporation" (as defined in the Tax Act) in respect of the Partnership, the Tax Act deems the common voting shares and the variable voting shares of New Cargojet to be property that is identical to the Exchangeable L.P. Units for the purpose of applying the stop-loss rule. If the stop-loss rule applies, the capital loss otherwise realized by such holder of Exchangeable L.P. Units is denied and may only be recognized on the occurrence of certain specific triggering events enumerated in the Tax Act. The stop-loss rule is complex and holders of Exchangeable L.P. Units should consult with their own tax advisors regarding the application of the Tax Act to the plan of arrangement in respect of the proposed conversion having regard to their own particular circumstances.

Increase in Interest Rates

One of the factors that may influence the price of the Units in public trading markets will be the annual cash-on-cash return from distributions by the Fund on the Units as compared to cash-on-cash returns on other financial instruments. Thus, an increase in market interest rates will result in higher cash-on-cash returns on other financial instruments, which could adversely affect the market price of the Units.

GLOSSARY OF TERMS

“**ACMI**” is an acronym for Aircraft, Crew, Maintenance and Insurance and means the operation of a dedicated aircraft on a leased basis whereby the customer is responsible for all costs of the operation and the owner provides the aircraft and crew and is responsible for the maintenance and insurance of the aircraft. This is also referred to as a “wet lease”.

“**Acquireco**” means Cargojet Acquisition Limited, a corporation incorporated under the laws of Ontario.

“**Acquisition Agreement**” means the acquisition agreement, dated June 9, 2005, among the Fund, the Trust, the Partnership, Acquireco, the GP, the Company, the Operating Partnership, the Selling Shareholders and Ajay Virmani.

“**Act**” means the *Canada Transportation Act*.

“**B727**” means Boeing 727-200.

“**B757**” means Boeing 757-200 ER.

“**B767**” means Boeing 767-200 ER.

“**Board**” means the board of directors of the GP.

“**Cargojet**” or “**Company**” means Cargojet Holdings Ltd., together with its subsidiaries and as the context so requires, includes the Operating Partnership.

“**CDS**” means CDS Clearing and Depository Securities Inc.

“**Closing Date**” means June 9, 2005.

“**CRA**” means the Canada Revenue Agency.

“**Credit Facility**” means the senior revolving credit facility in an aggregate principal amount of \$30 million.

“**CTA**” means the Canadian Transportation Agency.

“**Debenture Bid**” means the normal course issuer bid for the purchase of Debentures during the period of from March 17, 2009 to March 16, 2010.

“**Debentures**” has the meaning ascribed thereto in the subsection “General Development of the Business of the Fund – Other Developments”.

“**Distributable Cash**” means the amount of cash available for distribution to the Unitholders.

“**Exchange Agreement**” means the exchange agreement dated as of June 9, 2005, among the Fund, the Trust, the Partnership, the GP and certain security holders of the Fund and/or its subsidiaries, providing for the terms of exchange and related provisions governing the Exchangeable LP Units;

“**Exchangeable LP Units**” means the Class B limited partnership units of the Partnership.

“**Exchangeable Securities**” means securities exchangeable, directly or indirectly, for Units.

“**Flagship Aviation**” means Flagship Aviation Holdings Ltd.

“**Fund**” means Cargojet Income Fund, an unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario.

“**Fund Declaration of Trust**” means the declaration of trust dated as of April 25, 2005 as amended and restated as of June 1, 2005, among Ajay Virmani, as initial trustee of the Fund, and Cargojet Holdings Ltd., as initial Unitholder, pursuant to which the Fund was established, as it may be further amended, supplemented or restated from time to time.

“**GAAP**” means generally accepted accounting principles in Canada.

“**Georgian**” means Georgian Express Ltd.

“**GP**” means Cargojet GP Inc., a corporation incorporated under the laws of the Province of Ontario.

“**Offering**” means the offering of 5,954,545 Units issued and sold by the Fund pursuant to the (final) prospectus dated June 1, 2005.

“**Operating Partnership**” means Cargojet Partnership, the operating partnership established as a general partnership under the laws of the Province of Ontario.

“**Operating Partnership Agreement**” means the operating partnership agreement dated June 9, 2005, among the Partnership and the Company.

“**Ordinary LP Units**” means the Class A limited partnership units of the Partnership, all of which are owned by the Trust.

“**Over-Allotment Option**” means the option granted by the Fund to the Underwriters to purchase up to 297,727 additional Units and exercised in full on June 30, 2005.

“**Partnership**” means Cargojet Holdings Limited Partnership, a limited partnership established under the laws of the Province of Ontario pursuant to the Partnership Agreement.

“**Partnership Agreement**” means the limited partnership agreement dated April 28, 2005, among the GP and the Trust as initial limited partner, governing the terms of the Partnership and the relationship among the limited partners and the GP thereunder.

“**Partnership Units**” means, collectively, the Ordinary LP Units and the Exchangeable LP Units.

“**Plans**” means trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts each as defined in the Tax Act.

“**Prince Edward Air**” means Prince Edward Air Ltd.

“**Redemption Date**” means the date on which the Units were surrendered for redemption.

“**Redemption Price**” has the meaning given to it under “Description of the Fund — Redemption at the Option of Unitholders”.

“**Retained Interest Shareholders**” means the Selling Shareholders, who, together with employees, indirectly acquired a 30% interest in the Fund, consisting of Units and Exchangeable LP Units on the Closing Date.

“**Securityholders Agreement**” means the securityholders agreement dated as of June 9, 2005, among the Fund, the Trust, the Partnership, the GP, the Virmani Family Trust, the Mills Family Trust and the Porteous Family Trust;

“**Selling Shareholders**” means the selling shareholders of the Company.

“**Series 1 Trust Notes**” means the series 1 notes of the Trust issued under the Trust Note Indenture.

“**Series 2 Trust Notes**” means the series 2 notes of the Trust issued under the Trust Note Indenture.

“**Series 3 Trust Notes**” means the series 3 notes of the Trust issued under the Trust Note Indenture.

“**SIFT Rules**” means the provisions of the Tax Act enacted June 22, 2007.

“**SL Express**” means Skylink Express Inc.

“**SL Partnership**” means the partnership between the Fund and SL Express entered into on July 17, 2009.

“**Special Resolution**” means a resolution passed by the affirmative vote of the holders of not less than 66 2/3% of the Units and Special Voting Units who voted in respect of that resolution at a meeting of Voting Unitholders at which a quorum was present or a resolution or instrument signed in one or more counterparts by the holders of not less than 66 2/3% of the Units and Special Voting Units entitled to vote on such resolution.

“**Special Voting Units**” means the units of the Fund to be issued to represent voting rights in the Fund that accompany the Exchangeable LP Units.

“**Substantial Issuer Bid**” means the substantial issuer bid to purchase for cancellation up to \$15,000,000 principal amount of outstanding Debentures at a purchase price of \$1,010 in cash for every \$1,000 principal amount of Debentures, plus a payment in respect of all accrued and unpaid interest outstanding on such Debentures in the amount of \$15.62 per \$1,000 principal amount of Debentures.

“**Tax Act**” means the Income Tax Act (Canada) and the regulations thereunder.

“**Trust**” means Cargojet Operating Trust, an unincorporated, limited purpose trust established under the laws of the Province of Ontario.

“**Trust Declaration of Trust**” means the declaration of trust dated as of April 25, 2005, among Ajay Virmani, as initial trustee of the Trust, and Cargojet Income Fund, as initial unitholder of the Trust, pursuant to which the Trust was established, as it may be amended, supplemented or restated from time to time.

“**Trust Note Indenture**” means the note indenture entered into between the Trust and Computershare Trust Company of Canada dated June 9, 2005 governing the terms of the Trust Notes.

“**Trust Notes**” means, collectively, the Series 1 Trust Notes and Series 2 Trust Notes of the Trust.

“**Trust Units**” means units of the Trust.

“**Trust’s Trustees**” means the trustees of the Trust.

“**Trustee**” or “**Trustees**” means the trustees of the Fund or any one of them.

“**TSA**” means the Transportation Security Administration.

“**TSX**” means the Toronto Stock Exchange.

“**Underwriters**” means RBC Dominion Securities Inc., BMO Nesbitt Burns Inc., CIBC World Markets Inc., Scotia Capital Inc. and Genuity Capital Markets.

“**Underwriting Agreement**” means the underwriting agreement entered into among the Fund, the Trust, the Partnership, the GP, the Company, Acquireco, the Selling Shareholders and the Underwriters dated June 1, 2005.

“**Unitholders**” means the holders of Units.

“**Units**” means units of the Fund other than Special Voting Units.

“**Voting Unitholders**” means holders of Units and Special Voting Units.

“**Voting Units**” means the Units and Special Voting Units.

“wet lease” see definition for “ACMP”.

SCHEDULE A - AUDIT COMMITTEE CHARTER

CHARTER OF THE AUDIT COMMITTEE

Purpose

The Audit Committee's mandate is to provide assistance to the Board of Trustees of Cargojet Income Fund (the "Fund") in fulfilling its financial reporting and control responsibility to the unitholders and the investment community.

Composition

The Audit Committee will be comprised of at least three trustees of the Fund, all of whom, subject to any exemptions set out in National Instrument 52-110 *Audit Committees* ("NI 52-110"), will be independent and financially literate. An "independent" trustee is a trustee who has no direct or indirect material relationship with the Fund. A "material relationship" is a relationship that could, in the view of the Board of Trustees of the Fund, be reasonably expected to interfere with the exercise of the trustee's independent judgement or a relationship deemed to be a material relationship pursuant to NI 52-110. A "financially literate" trustee is a trustee who has the ability to read and understand a set of financial instruments that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Fund.

Responsibilities

Responsibilities of the Audit Committee generally include, but are not limited to, the undertaking of the following tasks:

1. Making recommendations to the Board of Trustees of the Fund regarding the selection, evaluation and compensation of the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund. In making such recommendations, the Audit Committee will:
 - (a) confirm the independence of the auditors and report to the Board of Trustees of the Fund its conclusions on the independence of the auditors and the basis for these conclusions; and
 - (b) meet with the auditors and financial management to review the scope of the proposed audit for the current year, and the audit procedures to be used.
2. Overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Fund, including the resolution of disagreements between management and the external auditor regarding financial reporting. In overseeing such work, the Audit Committee will:
 - (a) review with the external auditors any audit problems or difficulties and management's response;
 - (b) at least annually obtain and review a report prepared by the external auditors describing (i) the auditors' internal quality-control procedures; and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, and reviewing any steps taken to deal with any such issues;
 - (c) serve as an independent and objective party to monitor the Fund's financial reporting process and internal control system and oversee management's reporting on internal control;

- (d) provide open lines of communication among the external auditors, financial and senior management, and the Board of Trustees of the Fund for financial reporting and control matters;
 - (e) make inquires of management and the external auditors to identify significant business, political, financial and control risks and exposures and assess the steps management has taken to minimize such risks to the Fund; and
 - (f) establish procedures to ensure that the Audit Committee meets the external auditors on a regular basis in the absence of management.
3. Pre-approving all non-audit services to be provided to the Fund or its subsidiary entities by the Fund's external auditor, subject to any exemptions set out in NI 52-110. Notwithstanding the pre-approval process, the Audit Committee will ensure that the external auditors are prohibited from providing the following non-audit services and will determine the other non-audit services the external auditors are prohibited from providing:
- (a) bookkeeping or other services related to the accounting records or financial statements of the Fund;
 - (b) financial information systems design and implementation;
 - (c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
 - (d) actuarial services;
 - (e) internal audit outsourcing services;
 - (f) management functions or human resources;
 - (g) broker, dealer, investment adviser or investment banking services;
 - (h) legal services and expert services unrelated to the audit; and
 - (i) any other service that the Audit Committee determines to be impermissible.
4. Reviewing the Fund's financial statements, MD&A and annual and interim earnings press releases before the Fund publicly discloses the information. In connection with such review, the Audit Committee will ensure that:
- (a) management has reviewed the financial statements with the Audit Committee, including significant judgments affecting the financial statements;
 - (b) the members of the Audit Committee have discussed among themselves, without management or the external auditors present, the information disclosed to the Audit Committee; and
 - (c) the Audit Committee has received the assurance of both financial management and the external auditors that the Fund's financial statements are fairly presented in conformity with Canadian GAAP in all material respects.
5. Ensuring that adequate procedures are in place for the review of the Fund's public disclosure of financial information extracted or derived from the Fund's financial statements, other than the public disclosure referred to in paragraph 4 above, and periodically assessing the adequacy of those procedures.
6. Establishing procedures for:

- (a) the receipt, retention and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters; and
 - (b) the confidential, anonymous submission by employees of the Fund of concerns regarding questionable accounting or auditing matters.
7. Reviewing and approving the Fund's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Fund.
 8. Annually reviewing and revising this Charter as necessary with the approval of the Board of Trustees of the Fund and the text relating to this Charter, which is required to appear in the annual information form of the Fund, as more specifically set out in Form 52-110FI Audit Committee Information Required in an AIF.

Authority

The Audit Committee has the authority to:

- (a) engage independent counsel and other advisors as the Audit Committee determines necessary to carry out its duties;
- (b) set and pay the compensation for any advisors employed by the Audit Committee; and
- (c) communicate directly with the internal and external auditors.

Meetings

The Audit Committee will meet regularly at times necessary to perform the duties described above in a timely manner, but not less than four times a year. Meetings may be held at any time deemed appropriate by the Audit Committee.

At the discretion of the Audit Committee, meetings may be held with representatives of the external auditors and appropriate members of management.

The external auditors will have direct access to the Audit Committee at their own initiative.

The Chairman of the Audit Committee will report periodically to the Board of Trustees of the Fund.