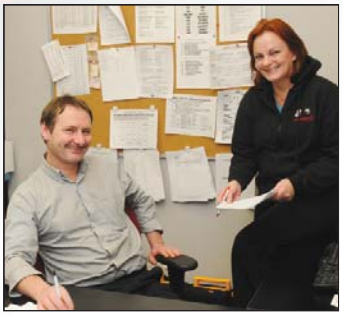
2010 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 50% of Canada's domestic overnight air cargo capacity. Cargojet's network consolidates cargo received from over 400 customers and carries over 750,000 pounds of cargo each business night across its North American network. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. In 2010, Cargojet operated approximately 12,000 flights of which more than 98% arrived at destination within 15 minutes of scheduled arrival. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.



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Financial Highlights**

Supplementary Financial Information (In thousands of dollars)	Year Ended December 31 2009	Three Month Period Ended March 31 2010	June 30 2010	September 30 2010	December 31 2010	Year Ended December 31 2010
Revenues	143,585	36,766	37,751	38,765	42,923	156,205
Direct expenses	103,231	29,449	29,225	29,409	32,513	120,597
EBITDA	24,527	3,411	4,176	5,659	6,695	19,941
Distributable cash	9,442	(6,165)	2,861	3,745	5,409	5,850
Cash distributions	7,099	1,007	1,007	1,007	1,007	4,028
Direct expenses/Revenues	72%	80%	77%	76%	76%	77%
EBITDA/revenues	17%	9%	11%	15%	16%	13%
Cash distributions as a percentage of distributable cash	75%	NM*	35%	27%	19%	69%

* Cash distribution as a percentage of distributable cash is not meaningful ("NM") for the three month periods ended March 31, 2010 due to the fact that there was a distributable cash deficit for this period.

** Financial highlights for 2010 and 2009 are for continuing operations only.

Message To Unitholders

Message to Shareholders,

STRENGTHENING ECONOMIC GROWTH AND INCREASED CUSTOMER DEMAND RESULTS IN A STRONG FINISH TO THE YEAR.

After experiencing a slower than expected start to the past fiscal year, Cargojet has once again delivered strong financial and operational results for 2010. Despite the impact of softening yields as a result of industry-wide pricing pressure, the dedicated team of Cargojet professionals was able to effectively manage our costs and achieve our financial targets for the year.

In addition to maintaining our financial and operational goals, we also achieved a significant milestone, as the Cargojet Income Fund converted to a common share corporation effective January 01, 2011. Cargojet Inc. (TSX:CJT) is committed to continuing to provide customers and shareholders with exceptional value and consistent financial and operational results.

Customer demand continued to grow in 2010 and by the fourth-quarter we had experienced the largest rise in volumes in over three years. Economic growth and particularly consumer demand are key drivers of Cargojet's success and the improvements that we have seen in the past year bode well for continued and further growth going into this year. We continually monitor both revenue and operating costs and make necessary adjustments to keep our operating margins at a level of acceptance to Management, our Board and to our Shareholders. Strong cash flows will continue to provide value to shareholders through our on-going dividend policy and any excess cash will be primarily used to pay down debt and strengthen our balance sheet.

In the spring of 2010 Cargojet successfully recertified its ISO 9001:2008 Quality Standard Accreditation for the 10th consecutive year. Cargojet continues to be the only air cargo carrier in Canada with this accreditation. Cargojet surpassed expectations in the industry in key areas of on-time performance, customer service, quality of equipment and operations, competitive pricing and leaders in problem solving. Our on-time arrival performance levels continue to exceed 98%. This award is a testament of the dedication and loyalty of our team members. We are also fully compliant with Stage IV of the Transport Canada Safety Management System program and recently have completed our Program Validation Inspection by Transport Canada. Cargojet is fully committed to providing a safe and secure operation for our customers, our team and our shareholders.

FINANCIAL RESULTS

Despite the soft start to 2010, we are very pleased with our financial results for the year. Total revenues, excluding discontinued operations, increase by 8.8% over the previous year to $156.2M. Although Gross Margin saw a slight decrease to 22.8% primarily due to the impact of customer pricing pressures, we were able to effectively manage our costs in an appropriate manner. Customer demand showed continued stability, growth and strength, especially in the fourth-quarter, resulting in EBITDA of $19.9M for the full year.

During the past year Cargojet disposed of its Cargojet Regional business as it no longer fit the growth and profitability model of our core business. Cargojet also improved its balance sheet with a reduction in long-term debt through the repurchase of debentures through a normal and substantial course issuer bid issued in early 2010.

We are very pleased with our financial results and accomplishments in 2010. They are a reflection of the skill and ability that, we have to manage and navigate our business through demanding and changing economic times.

OUTLOOK

We are benefiting from the full effect of cost controls implemented early in 2010 combined with increasing customer volumes and demand. Continued economic growth and particularly consumer demand will dictate the level of growth as we move forward. We are definitely beginning to see signs of improvement in the economy and our customer's volumes but will continue to tread cautiously and manage our costs in a prudent and responsible manner.

As the economy continues to improve, new revenue opportunities will present themselves and Cargojet is well positioned to take advantage of this growth and continues to seek new sources of revenue and to grow our current business.

CARGOJET TEAM

Cargojet is committed to providing a safe and secure and highly reliable level of service to our Customers at all times. We cannot do this without the dedication, loyalty and commitment of every single member of the Cargojet team. Each and every day, they go about their jobs with the single purpose of providing exceptional value to our customers and our shareholders.

The Board of Directors of Cargojet Inc. has set a dividend policy consistent with the past policy of the Cargojet Income Fund to ensure the continued stability and sustainability of dividend payments to our Shareholders. Future dividend payments will be determined by the Board in accordance with the company's financial results and cash requirements.

In conclusion and on behalf of the Board of Directors, I would like to thank our Customers for their on-going loyalty and support; our Shareholders for their confidence in our business; and every member of the Cargojet Team for their dedication, hard work and support.

Dr. Ajay K. Virmani
President & Chief Executive Officer

Ajay Virmani

April 2011

Corporate Governance

The Fund and the Board recognize the importance of corporate governance to the effective management of the Fund and to the protection as defined below of its employees and unitholders. The Fund's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Fund are effectively managed so as to enhance unitholder value. The Fund has adopted National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices to ensure it meets its disclosure requirements.

Code of Ethics

To ensure we meet the highest standards of governance, the Trustees have adopted and are guided by the principles outlined in Cargojet's Code of Ethics.

The Code applies to all employees and parties related to Cargojet. It incorporates all of our guiding principles and provides a frame of reference for dealing with complex and sensitive issues. Any non-compliance with the Code is to be reported to Cargojet's Human Resources. The Trustees monitor compliance of the code by obtaining reports from Cargojet's Human Resources Manager as to any matters reported under the Code.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to trustees, directors, officers and employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

Board and Committees

Cargojet is governed by its Trustees, which is elected annually by the unitholders with the assistance of the Board of Directors, (the "board") of a wholly owned subsidiary of the fund. The Board currently has five members, the majority of who are independent and two which are members of management.

The Board has established three committees to assist with the analysis of certain issues and to allow more time for the full Board to discuss and debate matters of business.

Audit Committee

The funds Audit Committee was established to assist the Board by reviewing, with its auditors, the financial reports and other financial information provided to the public, internal controls regarding finance and accounting, and general oversight of the Fund's auditing, accounting and financial reporting.

The committee is made up of three independant Trustees. Its responsibilities include:

- Review annual and quarterly financial statements with management and independent auditors prior to the release or filing of reports
- Review and discuss with management all significant issues regarding corporate risk
- Recommend independent auditors to the Board, ensure independence, and review the performance of the independent auditors
- Review and discuss results and significant findings by the independent auditors and recommend audited statements for inclusion in the Fund's Annual report.

Corporate Governance Committee

The Corporate Governance Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Overseeing the Fund's Code of Ethics and Disclosure Policy
- Implementation of Corporate Governance Policies

Compensation and Nominating Committee

The Compensation and Nominating Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Assess Board membership needs and recommend board nominees
- Ongoing orientation and education of trustees and directors
- Assess the Fund's management succession plan
- Assess the Fund's compensation plan for officers and senior management

Disclosure Policy

To ensure transparency and quality disclosure to our Unitholders, we have a policy that outlines the principles of disclosure of material information as well as identifying designated spokespersons and maintaining confidentiality. The policy also outlines how we manage media relations, rumours, contacts with analysts, investors and the media, quiet periods, posting of information on Cargojet's website, and communication and enforcement. The Disclosure Policy applies to all employees and parties related to Cargojet and is the responsibility of the Board's Corporate Governance committee.

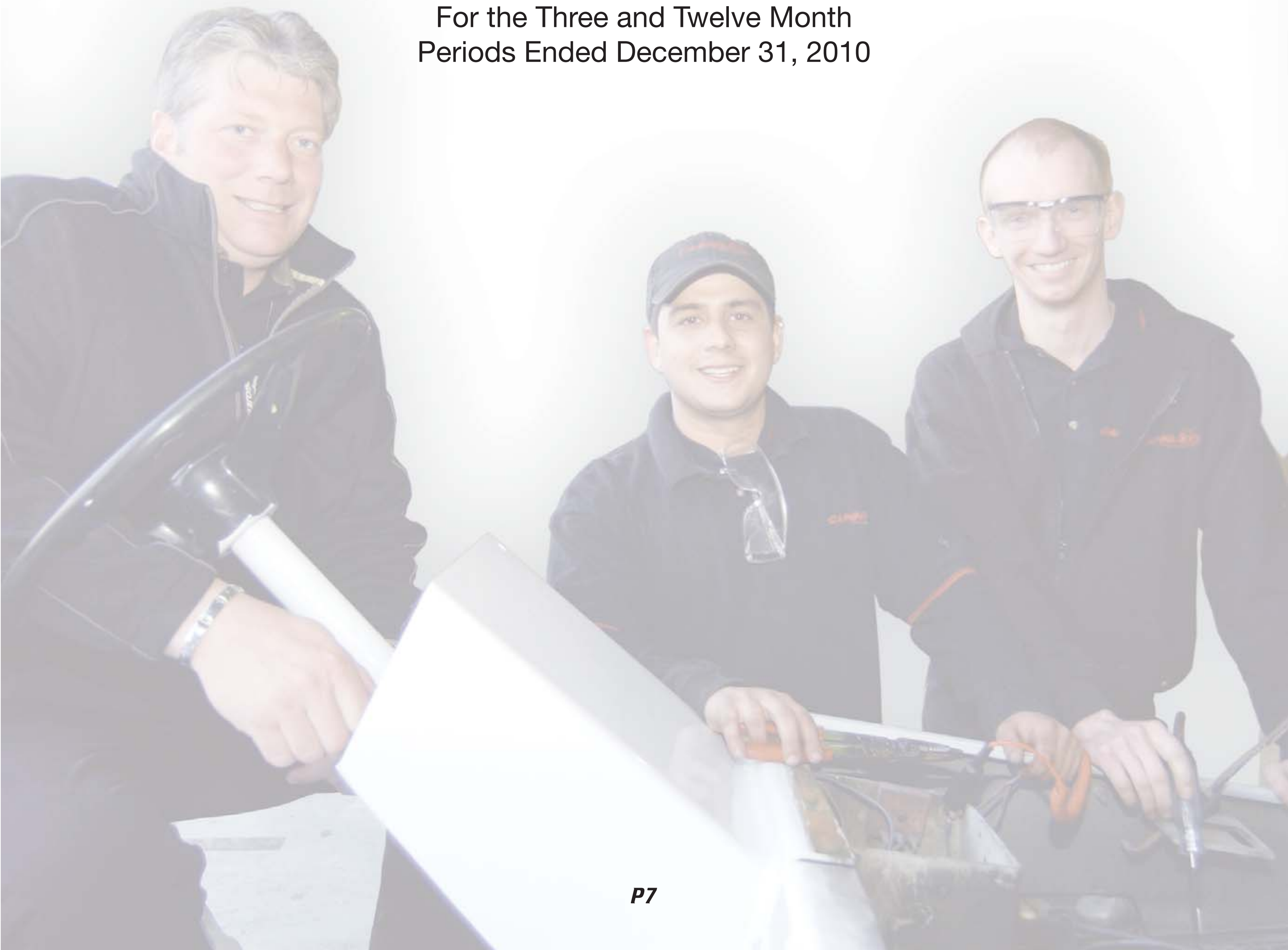
More information on Cargojet corporate governance practices can be found in our Information circular for our annual meeting of unitholders.



CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2010

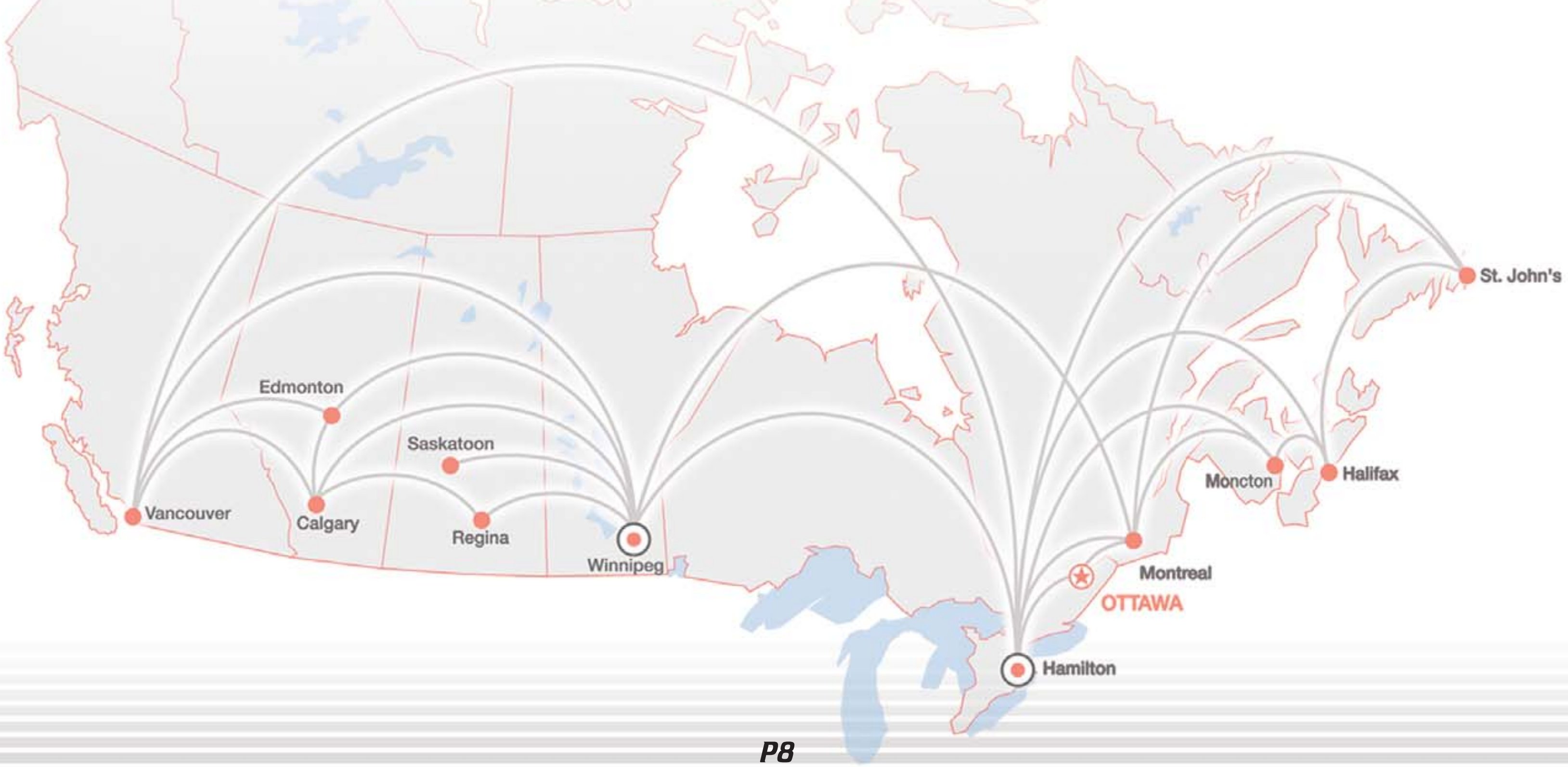


The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three and twelve month periods ended December 31, 2010. The following also includes a discussion of and comparative operating results for the three and twelve month periods ended December 31, 2009.

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

The effective date of the MD&A is February 23, 2011. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we" and "our" mean Cargojet Income Fund. This MD&A should be read in conjunction with the audited consolidated financial statements of the Fund as at and for the twelve month periods ended December 31, 2010 and 2009.

References to "EBITDA" [(A)] are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA [(A)] and Distributable Cash [(B)], are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA [(A)] and Distributable Cash [(B)] may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA [(A)] and Distributable Cash [(B)] should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Distributable Cash [(B)] and EBITDA [(A)] are shown on pages 14 and 17,respectively.



KEY FACTORS AFFECTING THE BUSINESS

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference should be made to the Annual Information Form ("AIF"), filed March 18, 2010 with the regulatory authorities.

FORWARD LOOKING STATEMENTS

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Fund or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in our AIF, filed March 18, 2010 with the regulatory authorities.

CORPORATE OVERVIEW

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

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

The Fund operates its business across North America transporting over 750,000 pounds of time sensitive air cargo each business night utilizing its fleet of all-cargo aircraft. The Fund's domestic overnight air cargo co-load network consolidates cargo received from customers and transports such cargo to the appropriate destination in a timely and safe manner. The Fund continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

The Fund currently operates one leased 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and ten Boeing 727-200 ("B727") series cargo aircraft, three of which are leased and seven owned. The Fund also periodically contracts other airlines on an ACMI or sub-charter basis to temporarily operate aircraft on the Fund's behalf. This provides added capacity to its overall network to meet new business and/or peak period demands. Currently none of Cargojet's aircraft are operated on this basis.

As at the date of this MD&A, the Fund owns twelve regional aircraft that are held for sale or lease. Five of the aircraft are under lease to third parties. Three regional aircraft were sold in 2011 as of the date of this MD&A.

RECENT EVENTS

INCOME TRUST CONVERSION

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

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

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

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

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

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

SALE OF CARGOJET REGIONAL PARTNERSHIP

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

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

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

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

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

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

The net loss from discontinued operations is summarized as follows:

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

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

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

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

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

ASSETS HELD FOR SALE

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

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

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

PURCHASE OF CARGOJET CONVERTIBLE DEBENTURES

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

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

PURCHASE OF U.S. DOLLAR FORWARD PURCHASE CONTRACTS

On January 1, 2010, the Fund discontinued hedge accounting and is recognizing the deferred loss on the outstanding foreign exchange contracts as at January 1, 2010 over the period to October 2011 in the same periods in which the hedged anticipated transactions would affect net income. During the three and twelve month periods ended December 31, 2010, a loss of $54,103 (net of taxes of $26,703) and $216,217 (net of taxes of $106,813), respectively, was recognized and transferred from accumulated other comprehensive income to net income.

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

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

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

REVENUES

The Fund's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Fund's network and a corresponding guaranteed daily revenue amount is paid to the Fund for this space and weight allocation. Remaining capacity is sold on an *ad hoc* basis to contract and non-contract customers. The Fund also generates revenue from a variety of other air cargo services:

- The Fund provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This revenue helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.

- To further enhance its revenues, the Fund offers a specialty charter service, typically in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe.

- The Fund operates an international route operating between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

- The Fund provides and operates dedicated aircraft on an ACMI basis. On these contracts, the customer is responsible for all commercial activities and the Fund is paid a fixed amount to operate the routes.

EXPENSES

Direct expenses consist of fixed and variable expenses including aircraft and ground support, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter and ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment and building leases.

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Fund's business that include functions such as load scheduling, flight operations coordination, client relations, administration, accounting and information systems.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2010

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Cash inflow from continuing operations before changes in non-cash working capital items [1]	**6,239**	5,403	**17,222**	18,154
Changes in non-cash working capital items [1]				
Accounts receivable	**(1,997)**	1,096	**(2,929**	413
Materials and supplies	**(308)**	(110)	**(266)**	55
Prepaid expenses and deposits	**(760)**	(1,870)	**(552)**	(372)
Accounts payable and accrued charges	**(417)**	(1,170)	**109**	(3,753)
Income taxes payable (recoverable)	**262**	218	**(295)**	3,215
	3,019	3,567	**13,289**	17,712
Less:				
Maintenance capital expenditures	**227**	1,067	**1,656**	2,933
Income taxes paid	**4**	1,550	**-**	-
Change in fair value on non-hedge derivatives	**-**	-	**(258)**	-
Transfer of loss (gain) on derivatives from accumulated other comprehensive income	**54**	(709)	**216**	(2,599)
Heavy maintenance deposits	**492**	-	**1,882**	710
Repayment of long-term debt obligation under capital lease	**53**	46	**208**	192
Minority Interest in cash inflow from operations before changes in working capital items of discontinued operations	**-**	(856)	**-**	(856)
Total changes in non-cash working capital items	**(3,220)**	(1,836)	**(3,933)**	(442)
Purchase of Cargojet Income Fund debentures	**-**	-	**7,668**	2,808
Purchase of Cargojet Income Fund units	**-**	3,170	**-**	5,524
Distributable cash from continuing operations	**5,409**	1,135	**5,850**	9,442
Distributable cash from discontinued operations	**108**	(42)	**22**	(1,175)
Total Distributable cash [B]	**5,517**	1,093	**5,872**	8,267
Average number of trust units outstanding - basic (in thousands of units)	**6,437**	6,063	**6,293**	6,367
Average number of trust units outstanding - diluted (in thousands of units) [2]	**9,534**	8,296	**7,993**	8,600
Distributable cash per unit - diluted	**$ 0.58**	$ 0.13	**$ 0.73**	$ 0.96
Cash distributions	**1,007**	3,910	**4,028**	7,099
Cash distributions as a percentage of distributable cash	**18%**	358%	**69%**	86%

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

(2) For the purpose of calculating distributable cash per unit – diluted for the three month periods ended December 31, 2010 and 2009, and for the twelve month periods ended December 31, 2009, the weighted average number of units and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating distributable cash per unit – diluted for the three month period ended December 31, 2010, the weighted average number of Units, the weighted average number of Exchangeable LP units, and the effect of the Fund's convertible debentures have been combined.

(B) Please refer to end note (B) included at the end of this MD&A.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2010

Results of Operations and Supplementary Financial Information (in thousands)

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2010	2009	**2010**	2009
	(unaudited) **$**	(unaudited) $	**(audited)** **$**	(audited) $
Revenue	**42,923**	37,193	**156,205**	143,585
Direct expenses	**32,513**	27,164	**120,597**	103,231
	10,410	10,029	**35,608**	40,354
Selling, general and administrative expenses				
Sales and marketing	**251**	178	**815**	575
General and administrative	**5,169**	4,589	**18,525**	18,954
Loss (gain) on debenture redemption	**-**	-	**273**	(401)
Interest, net	**865**	1,240	**3,431**	3,800
Loss on derivative contracts	**569**	-	**208**	-
Amortization of capital assets	**135**	236	**644**	755
Amortization of intangible assets	**-**	-	**-**	4,447
	6,989	6,243	**23,896**	28,130
Earnings before income taxes and non-controlling interest and discontinued operations	**3,421**	3,786	**11,712**	12,224
Provision for (recovery of) income taxes				
Current	**249**	(65)	**1,636**	1,436
Future	**116**	(1,278)	**1,375**	(1,912)
	365	(1,343)	**3,011**	(476)
Earnings from continuing operation before non-controlling interests	**3,056**	5,129	**8,701**	12,700
Non-controlling interests	**646**	1,453	**1,745**	3,400
Net income from continuing operations	**2,410**	3,676	**6,956**	9,300
Loss from discontinued operations	**(879)**	96	**(2,916)**	(1,135)
Net income	**1,531**	3,772	**4,040**	8,165
Basic earnings (loss) per trust unit				
Continuing operations	**0.37**	0.60	**1.11**	1.46
Discontinued operations	**(0.14)**	0.02	**(0.46)**	(0.18)
	$ **0.23**	**$** 0.62	$ **0.65**	**$** 1.28
Diluted earnings (loss) per trust unit				
Continuing operations	**0.37**	0.56	**1.09**	1.44
Discontinued operations	**(0.14)**	0.01	**(0.46)**	(0.19)
	$ **0.23**	**$** 0.57	$ **0.63**	**$** 1.25
Average number of trust units - basic (in thousands of units)	**6,437**	6,063	**6,293**	6,367
Average number of trust units - diluted (in thousands of units)	**9,534**	10,304	**7,993**	10,608
Total assets	**120,817**	135,155	**120,817**	135,155
Total long-term liabilities	**39,676**	50,097	**39,676**	50,097

[1] For the purpose of calculating earnings per unit – diluted for the twelve month period ended December 31 2010, the weighted average numbers of Trust Unit and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating earnings per unit – diluted for the three and twelve month periods ended December 31, 2009 and for the three month period ended 2010, the weighted average number of Unit and the weighted average number of Exchangeable LP units and the effect of the Fund's convertible debentures have been combined.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2010

Selected Financial Information

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31 2010	September 30 2010	June 30 2010	March 31 2010	December 31 2009	September 30 2009	June 30 2009	March 31 2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 42,923	$ 38,765	$ 37,751	$ 36,766	$ 37,193	$ 35,662	$ 33,999	$ 36,732
Net income from continuing operations (in thousands)	$ 2,410	$ 2,202	$ 1,780	$ 564	$ 3,676	$ 1,171	$ 2,784	$ 1,669
Net loss from discontinued operations (in thousands)	$ (879)	$ (317)	$ (1,494)	$ (226)	$ 96	$ (207)	$ (574)	$ (450)
Basic earnings (loss) per trust unit								
- Continuing operations	$ 0.37	$ 0.34	$ 0.28	$ 0.10	$ 0.60	$ 0.19	$ 0.43	$ 0.25
- Discontinued operations	$ (0.14)	$ (0.05)	$ (0.24)	$ (0.04)	$ 0.02	$ (0.03)	$ (0.09)	$ (0.07)
	$ 0.23	$ 0.29	$ 0.04	$ 0.06	$ 0.62	$ 0.16	$ 0.34	$ 0.18
Diluted earnings (loss) per trust unit [1]								
- Continuing operations	$ 0.37	$ 0.33	$ 0.28	$ 0.09	$ 0.56	$ 0.19	$ 0.41	$ 0.25
- Discontinued operations	$ (0.14)	$ (0.05)	$ (0.24)	$ (0.04)	$ 0.01	$ (0.03)	$ (0.09)	$ (0.07)
	$ 0.23	$ 0.28	$ 0.04	$ 0.05	$ 0.57	$ 0.16	$ 0.32	$ 0.18
Average number of trust units - basic (in thousands of units)	6,437	6,437	6,437	5,851	6,063	6,202	6,547	6,665
Average number of trust units - diluted [1] **(in thousands of units)**	9,534	9,534	7,993	7,993	10,304	8,435	11,005	8,898

[1] For the purpose of calculating earnings per unit – diluted for the twelve month period ended December 31 2010, the weighted average numbers of Trust Unit and the weighted average number of Exchangeable LP units have been combined. For the purpose of calculating earnings per unit – diluted for the three and twelve month periods ended December 31, 2009 and for the three month period ended 2010, the weighted average number of Unit and the weighted average number of Exchangeable LP units and the effect of the Fund's convertible debentures have been combined.

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Twelve Month Periods Ended December 31, 2010

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2010	2009	**2010**	2009
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA (A):				
Net income from continuing operations	**2,410**	3,675	**6,956**	9,300
Add:				
Interest	**865**	1,240	**3,431**	3,800
Non-controlling interests	**646**	1,453	**1,745**	3,400
Provision for (recovery of) current income taxes	**249**	(65)	**1,636**	1,436
Provision for (recovery of) future income taxes	**116**	(1,277)	**1,375**	(1,912)
Loss on disposal of capital assets	**-**	67	**-**	67
Gain on disposal of intangible assets	**-**	-	**-**	(160)
Change in fair value on non-hedge derivatives	**569**	-	**466**	-
Loss (gain) on debenture redemption	**-**	-	**273**	(401)
Amortization of capital assets	**1,794**	1,749	**6,438**	5,663
Amortization of intangible assets	**-**	-	**-**	4,447
Aircraft heavy maintenance amortization	**743**	465	**2,713**	1,853
Aircraft heavy maintenance expenditures	**(205)**	(293)	**(3,210)**	(2,256)
Heavy maintenance deposits [1]	**(492)**	-	**(1,882)**	(710)
EBITDA from continuing operations	**6,695**	7,014	**19,941**	24,527
EBITDA from discontinued operations	**108**	(69)	**(23)**	(844)
Total EBITDA (A)	**6,803**	6,945	**19,918**	23,683
Reconciliation of EBITDA (A) to Distributable Cash (B):				
EBITDA from continuing operations	**6,695**	7,014	**19,941**	24,527
Less:				
Maintenance capital expenditures	**227**	1,067	**1,656**	2,933
Interest [2]	**757**	1,110	**2,923**	3,191
Provision for current income taxes	**249**	486	**1,636**	437
Repayment of long-term debt obligation under capital lease	**53**	46	**208**	192
Purchase of Cargojet Income Fund debentures	**-**	-	**7,668**	2,808
Purchase of Cargojet Income Fund units	**-**	3,170	**-**	5,524
Distributable cash from continued operations	**5,409**	1,135	**5,850**	9,442
Distributable cash from discontinued operations	**108**	(42)	**22**	(1,175)
Total distributable cash (B)	**5,517**	1,093	**5,872**	8,267

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

[2] For the purpose of calculating Distributable Cash (B) for the three and twelve month periods ended December 31, 2010 and 2009, interest excludes the accretion interest expense due to the Fund's convertible debentures.

(A) Please refer to End Note (A) included at the end of this MD&A.
(B) Please refer to End Note (B) included at the end of this MD&A.

HIGHLIGHTS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2010 AND 2009

- Total revenue for the three month period ended December 31, 2010 was $42.9 million as compared to $37.2 million for the same period in 2009, representing an increase of $5.7 million or 15.3%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2010 was $0.706 million per operating day as compared to $0.643 million per operating day for same period in 2009, representing an increase of 9.8%.

- EBITDA for the three month period ended December 31, 2010 was $6.7 million as compared to $7.0 million for the same period in 2009, a decrease of $0.3 million or 4.3%.

- Distributable Cash was $5.4 million for the three month period ended December 31, 2010 as compared to $1.1 million for the same period in 2009, an increase of $4.3 million or 391%.

Total revenue for the three month period ended December 31, 2010 was $42.9 million as compared to $37.2 million for the same period in 2009, representing an increase of $5.7 million or 15.3%. The increase in revenues was due primarily to the increase in core overnight volumes, fuel pass-through revenues, charter revenue, and aircraft leasing revenues.

Revenue related to the core overnight and ACMI cargo businesses excluding fuel surcharges and other cost pass-through revenues, for the three month period ended December 31, 2010 was $34.6 million compared to $31.5 million for the same period in 2009, an increase of $3.1 million or 9.8%. The increase was due to a $2.2 million or 7.5% increase in revenues from higher volumes on the overnight network and a $0.9 million or 45.0% increase in revenues from ACMI contracts and chartered flights.

Fuel surcharges and other cost pass-through revenues were $7.3 million for the three month period ended December 31, 2010 as compared to $5.5 million for the same period in 2009, representing an increase of $1.8 million or 32.7%. The increase was due primarily to higher fuel prices that were passed onto customers, and an increase in the number of block hours flown.

Other revenues were $1.0 million for the three month period ended December 31, 2010 as compared to $0.2 million for the same period in 2009, an increase of $0.7 million or 400.0%. The increase was due primarily to an increase in aircraft leasing revenue related to the resumption of third-party leasing revenues subsequent to the sale of the regional business.

DIRECT EXPENSES

Total direct expenses were $32.5 million for the three month period ended December 31, 2010 as compared to $27.2 million for the same period in 2009, representing an increase of $5.3 million or 19.5%. As a percentage of revenue, direct expenses increased from 73.1% in 2009 to 75.8% for the same period in 2010. The overall increase in direct expenses was due primarily to higher fuel prices and absence of foreign exchange gains in 2010.

Fuel costs were $11.4 million for the three month period ended December 31, 2010 as compared to $9.1 million for the same period in 2009. The $2.3 million or 25.3% increase in fuel costs were due to higher fuel prices and an increase in block hours flown. The cost incurred by the Fund due to higher fuel prices was passed on to customers as an increase in their fuel surcharges.

Foreign exchange gains and losses decreased from a gain of $0.7 million in 2009 to a charge of $0.1 million in 2010. In January 2009 the Fund ended its foreign exchange hedging program and realized a gain of $2.6 million from the sale of all of the Fund's remaining U.S. dollar forward purchase contracts. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affected net income, in which $0.7 million was recognized for the three month period ended December 31, 2009.

Depreciation expense increased from $1.5 million in 2009 to $1.7 million in 2010, an increase of $0.2 million or 13.3%.

Aircraft costs increased from $3.5 million in 2009 to $4.7 million in 2010, an increase of $1.2 million or 34.3%. The increase was due primarily to higher sub-charter costs to accommodate higher volumes during the three month period ended December 31, 2010 and an increase related to the resumption of third-party sub-charter costs subsequent to the sale of the regional business.

Heavy maintenance amortization costs were $0.7 million for the three month period ended December 31, 2010 as compared to $0.5 million for the same period in 2009, an increase of $0.2 million or 40.0%. The variance was due to timing of the maintenance required by each aircraft. Heavy maintenance of aircraft occur at regular and predetermined intervals and costs related to these are deferred by Fund and amortized over a period of 18 to 24 months until the next scheduled maintenance.

Other pass-through costs including handling, navigation, landing and parking were $4.9 million for the three month period ended December 31, 2010 as compared to $4.3 million for the same period in 2009. The $0.6 million or 14.0% increase in costs was due to higher volumes, additional block hours flown on the Fund's overnight network and extra sub-charter flights required to accommodate the increase in volumes through the fourth quarter of 2010.

Maintenance costs were $2.8 million for the three month period ended December 31, 2010 as compared to $2.9 million for the same period in 2009. The decrease of $0.1 million or 3.4% was due to the decrease in maintenance reserves relating to aircraft that were subleased for regional business.

Total crew costs including salaries, training and positioning were $2.0 million for the three month period ended December 31, 2010 as compared to $2.1 million for the same period in 2009, a decrease of $0.1 million or 4.8%. The decrease was due primarily to the timing of crew training.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $4.4 million for the three month period ended December 31, 2010 as compared to $4.1 million for the same period in 2009. The increase of $0.3 million or 7.3% was due primarily to the increase in block hours flown to accommodate higher volumes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses were $5.4 million for the three month period ended December 31, 2010 compared to $4.8 million for the same period in 2009, an increase of $0.6 million or 12.5%. The increase was due primarily to transaction costs expensed during the three months ended December 31, 2010 relating to the conversion from income trust to a corporation, and the capitalization of transaction costs associated with the formation of Cargojet Regional Partnership ("CJR") in 2009.

EBITDA

EBITDA for the three months period ended December 31, 2010 was $6.7 million or 15.6% of revenue, compared to $7.0 million or 18.8% of revenue for the same period in 2009. The decrease in EBITDA of $0.3 million or 4.3% was due primarily to the following:

- An increase in gross margin in 2010 due primarily to increase in core overnight revenues
- Increased administrative costs in 2010 due to trust conversion costs as compared to the capitalization of transaction costs relating to the formation of CJR in 2009
- An increase in net heavy maintenance deposits in 2010
- Foreign exchange gains relating to the sale of U.S. dollar forward purchase contracts in 2009

AMORTIZATION

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL. The intangible assets relating to the filing of the Fund's initial public offering were fully amortized as at December 31, 2009. The intangible assets related to the acquisition of PEAL were fully impaired in 2010 and the loss was recorded in the loss from discontinued operations.

INTEREST

Interest expense was $0.9 million for the three month period ended December 31, 2010, compared to interest expense of $1.2 million for the three month period ended December 31, 2009. The decrease of $0.3 million or 25.0% was due to decrease in long-term debt and debentures.

CURRENT INCOME TAXES

The current income taxes for the three month periods ended December 31, 2010 and December 31, 2009 were a charge of $0.2 million and a recovery of $0.1 million, respectively. Provisions for income taxes are due to certain subsidiaries of the Fund that are taxable.

FUTURE INCOME TAXES

The future income tax recovery of $0.1 million for the three month period ended December 31, 2010 compared to future income tax recovery of $1.3 million in the same period in 2009 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

NON-CONTROLLING INTERESTS

Net non-controlling interests were a charge to earnings of $0.6 million for the three month period ended December 31, 2010, as compared to a charge to earnings of $1.5 million for the three month period ended December 31, 2009. Non-controlling interests represent the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders.

DISTRIBUTABLE CASH

Distributable cash was $5.4 million for the three month period ended December 31, 2010, compared to $1.1 million for the three month period ended December 31, 2009. The increase in distributable cash of $4.3 million or 391% was due primarily to the $3.2 million purchase of Cargojet Income Fund units in 2009, and changes in accounts payable and accrued charges due to timing of vendor payments.

DISTRIBUTIONS

Total distributions declared for the three month period ended December 31, 2010 were $1.0 million or $0.126 per unit, resulting in a payout ratio of 18%. In comparison, total distributions declared for the three month period ended December 31, 2009 were $3.9 million or $0.471 per unit.

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		$	$	$	$	$	$	$
September 30, 2010	October 15, 2010	-	270,359	-	65,365	-	-	335,724
October 31, 2010	November 15, 2010	270,358	270,358	65,365	65,365	335,723	0.0420	335,723
November 30, 2010	December 15, 2010	270,358	270,358	65,366	65,366	335,724	0.0420	335,724
December 31, 2010	January 15, 2011	270,358	-	65,365	-	335,723	0.0420	-
		811,074	811,075	196,096	196,096	1,007,170	0.1260	1,007,171

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		$	$	$	$	$	$	$
September 30, 2009	October 15, 2009	-	164,685	-	60,290	-	-	224,975
October 31, 2009	November 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,985	2,451,985	897,646	897,646	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		2,858,609	2,781,355	1,051,720	1,018,226	3,910,329	0.4710	3,799,581

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2010 was $3.0 million as compared to $3.6 million for the same period in 2009. The $0.6 million decrease in cash for the fourth quarter of 2010 as compared to the same period in 2009 was due primarily to a decrease in net operating income.

Cash used in financing activities during the three month period ended December 31, 2010 of $4.2 million and comprised the repayment of long-term debt of $3.2 million and distributions paid to unitholders of $1.0 million.

Cash used in investing activities during the three month period ended December 31, 2010 was $0.4 million and comprised of net capital asset additions of $0.2 million and increase in restricted cash of $0.2 million.

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

The credit facility is secured by the following:

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

The Fund also maintains fixed loans with another Canadian chartered bank through its subsidiary Prince Edward Air Ltd. ("PEAL"). The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the assets of PEAL and a guarantee provided by CJA for 20% of the outstanding amounts. CJA is a wholly-owned subsidiary of the Fund and the sole shareholder of PEAL.

The loans are repayable in monthly installments plus interest and will mature by January 2019. The Fund also maintains cash deposits with the chartered bank related to heavy maintenance reserve requirements of the aircraft assets secured by the loans. These cash deposits in the amount of $629,930 as at December 31, 2010 and $454,144 as at December 31, 2009 are reported as restricted cash in the consolidated balance sheets.

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

CAPITAL EXPENDITURES

Net capital asset additions were $0.2 million for the three month period ended December 31, 2010 as compared to $1.8 million for the same period in 2009. Net capital additions for the three month period ended December 31, 2010 were comprised of $0.2 million of maintenance capital expenditures. In comparison, net capital additions for the three months ended December 31, 2009 were comprised of $1.1 million of maintenance capital expenditures, and $0.7 million of growth capital expenditures.

HIGHLIGHTS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2010 AND 2009

- Total revenue for the twelve month period ended December 31, 2010 was $156.2 million as compared to $143.6 million for the same period in 2009, representing an increase of $12.6 million or 8.8%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2010 was $0.639 million per operating day as compared to $0.615 million per operating day for same period in 2009, representing an increase of 4.0%.

- EBITDA for the twelve month period ended December 31, 2010 was $19.9 million as compared to $24.5 million for the same period in 2009, a decrease of $4.6 million or 18.8%.

- Distributable Cash was $5.9 million for the twelve month period ended December 31, 2010 as compared to $9.4 million for the same period in 2009, a decrease of $3.5 million or 37.2%.

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2010 AND 2009

REVENUE

Total revenue for the twelve month period ended December 31, 2010 was $156.2 million as compared to $143.6 million for the same period in 2009, representing an increase of $12.6 million or 8.8%. The increase in revenues was due to increased core overnight volumes, fuel pass-through revenues, charter revenue, and aircraft leasing revenues.

Revenue related to the core overnight business, excluding fuel surcharges and other cost pass-through revenues, for the twelve month period ended December 31, 2010, was $127.8 million compared to $122.3 million for the same period in 2009, an increase of $5.5 million or 4.5%. This increase in core overnight revenues was due to higher volumes from the core overnight business, increased charter activity and higher ACMI revenues.

Fuel surcharges and other cost pass-through revenues were $25.3 million for the twelve month period ended December 31, 2010 as compared to $20.2 million for the same period in 2009, an increase of $5.1 million or 25.2%. The increase is due to increased block hours flown, charter flights, and higher fuel prices that resulted in an increase in fuel surcharges billed to customers.

Other revenues were $3.1 million for the twelve month period ended December 31, 2010 as compared to $1.1 million for the same period in 2009, an increase of $2.0 million or 181.8%. The increase was due primarily to the lease of the Fund's regional aircraft related to the resumption of third-party leasing revenues subsequent to the sale of the regional business.

DIRECT EXPENSES

Total direct expenses were $120.6 million for the twelve month period ended December 31, 2010 as compared to $103.2 million for the same period in 2009, representing an increase of $17.4 million or 16.9%. As a percentage of revenue, direct expenses increased from 71.9% in 2009 to 77.2% for the same period in 2010. The overall increase in direct expenses was due primarily to higher fuel prices, the absence of foreign exchange gains, and maintenance expenses.

Fuel costs were $39.9 million for the twelve month period ended December 31, 2010 as compared to $31.6 million for the same period in 2009. The $8.3 million or 26.3% increase in fuel costs was due to higher fuel prices and an increase in block hours. The increased costs incurred by the Fund due to higher fuel prices were passed onto customers as an increase in their fuel surcharges.

Foreign exchange gains decreased from a gain of $2.8 million in the twelve months ended December 31, 2009 compared to a charge of $0.2 million for the same period in 2010. In January 2009 the Fund ended its foreign exchange hedging program and realized a gain of $2.8 million from the sale of all of the Fund's remaining U.S. dollar forward purchase contracts. This gain was recognized throughout 2009 in net income in the same periods that the hedged anticipated transactions to which the hedges related affected net income.

Depreciation expense increased from $4.9 million in 2009 to $5.8 million in 2010, an increase of $0.9 million or 18.4%. The increase was due primarily to the new hangar facility at the Hamilton Airport that was completed in the second quarter of 2009 and reclassification of depreciation to losses from discontinued operations for part of 2009 related to PEAL operations. For the period from January 1, 2009 to July 31, 2009, all of the depreciation expense recorded under PEAL has been reclassified as loss from discontinued operations. Upon the formation of CJR, beginning August 1, 2009 all depreciation expense recorded under PEAL has been classified as expenses from continuing operations. Depreciation expense recorded in the twelve month period ended December 31, 2010 includes depreciation of regional aircraft that are currently under lease to third parties.

Other pass-through costs including handling, navigation, landing and parking were $18.0 million for the twelve month period ended December 31, 2010 as compared to $16.9 million for the same period in 2009. The $1.1 million or 6.5% increase in costs was due to higher block hours flown in 2010, as well as increased costs associated with additional sub-charter flights.

Maintenance costs were $10.8 million for the twelve month period ended December 31, 2010 as compared to $9.6 million for the same period in 2009, an increase of $1.2 million or 12.5%. The increase in maintenance costs was due primarily to the additional block hours flown.

Heavy maintenance amortization costs were $2.7 million for the twelve month period ended December 31, 2010 as compared to $1.9 million for the same period in 2009, an increase of $0.8 million or 42.1%. The variance was due to timing of the maintenance required by each aircraft. Heavy maintenance of aircraft occur at regular and predetermined intervals and costs related to these are deferred by the Fund and amortized over a period of 18 to 24 months until the next scheduled maintenance.

Aircraft costs including engine reserves, airframe reserves and sub-charter lease costs were $17.8 million for the twelve month period ended December 31, 2010 as compared to $16.4 million for the same period in 2009. The increase of $1.4 million or 8.5% was due primarily to the increase in sub-charter activities and the increase in the lease costs related to regional aircraft related to the resumption of third-party lease costs subsequent to the sale of the regional business.

Total crew costs including salaries, training and positioning were $8.9 million for the twelve month period ended December 31, 2010 as compared to $8.4 million for the same period in 2009, an increase of $0.5 million or 6.0%. The increase in costs was due to additional crew costs incurred for the increased ACMI and charter activities, as well as higher salaries compared to 2009.

All other direct operating costs including ground operations and equipment, warehouse expenses, linehaul costs and aircraft insurance were $16.6 million for the twelve month period ended December 31, 2010 as compared to $16.3 million for the same period in 2009. The increase of $0.3 million or 1.8% was primarily due to increased customer volumes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses were $19.3 million for the twelve month period ended December 31, 2010 compared to $19.6 million for the same period in 2009. The decrease of $0.3 million or 1.5% was due primarily to staff reductions, lower management and employees bonus expenses, partially offset by legal and consulting expenses related to the Fund's conversion from an income trust to a corporation.

EBITDA

EBITDA for the twelve month period ended December 31, 2010 was $19.9 million or 12.7% of revenue, compared to $24.5 million or 17.1% of revenue for the same period in 2009. The reduction in EBITDA of $4.6 million or 18.8% was due primarily to the following:

- A decrease in gross margin due primarily to lower yields, offset by an increase in core overnight volumes and charter business
- An increase in net heavy maintenance deposits and expenditures
- A decrease in administrative costs
- A foreign exchange gain in 2009 from the sale of U.S. dollar forward purchase contracts

AMORTIZATION

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering as well as a result of the acquisition of PEAL. There was no amortization expense recognized for 2010 due to discontinued regional operations. As well, all the intangibles related to the initial public offering were fully amortized in the prior year.

INTEREST

Interest expense was $3.4 million for the twelve month period ended December 31, 2010, compared to interest expense of $3.8 million for the twelve month period ended December 31, 2009 due to the reduction of long-term debt.

CURRENT INCOME TAXES

Current income taxes for the twelve month period ended December 31, 2010 was $1.6 million as compared to $1.4 million for the twelve month period ended December 31, 2009. The increase in current income taxes of $0.2 million or 14.3% is primarily due to higher income being retained by the taxable entities within the Fund as a result of lower total distributions compared to prior year. The payment and recovery of income taxes are due to certain subsidiaries of the Fund that are taxable.

FUTURE INCOME TAXES

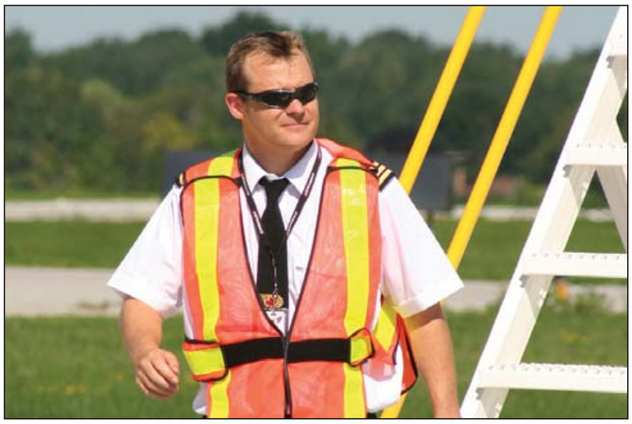
The future income tax expense of $1.4 million for the twelve month period ended December 31, 2010 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period. The Fund recorded a future income tax recovery of $1.9 million in the same period in 2009.

NON-CONTROLLING INTERESTS

Net non-controlling interests were a charge to earnings of $1.7 million for the twelve month period ended December 31, 2010, as compared to a charge to earnings of $3.4 million for the twelve month period ended December 31, 2009. Non-controlling interests represent the share of earnings or losses for these periods related to the Exchangeable LP units held by the retained interest holders.

DISTRIBUTABLE CASH

Distributable cash was $5.9 million for the twelve month period ended December 31, 2010, compared to $9.4 million for the twelve month period ended December 31, 2009. The decrease in distributable cash of $3.5 million or 37.2% was due primarily to an increase in purchases of convertible debentures and decrease in EBITDA, offset by an increase in maintenance capital expenditures and the purchase of Cargojet Income Fund Trust Units in 2009.



DISTRIBUTIONS

Total distributions declared for the twelve month period ended December 31, 2010 were $4.0 million or $0.504 per unit. In comparison, total distributions declared for the twelve month period ended December 31, 2009 were $7.1 million or $0.8355 per unit.

The following tables summarize the cash distributions for the twelve month periods ended December 31, 2010 and 2009:

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

	Date Distribution	Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Paid/Payable	Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		$	$	$	$	$	$	$
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	444,486	150,725	150,725	595,211	0.0675	595,211
April 30, 2009	May 15, 2009	177,267	177,267	60,290	60,290	237,557	0.0270	237,557
May 31, 2009	June 15, 2009	176,638	176,638	60,290	60,290	236,928	0.0270	236,928
June 30, 2009	July 15, 2009	175,461	175,461	60,290	60,290	235,751	0.0270	235,751
July 31, 2009	August 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
August 31, 2009	September 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
September 30, 2009	October 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
October 31, 2009	November 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,985	2,451,985	897,646	897,646	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		5,233,297	5,442,214	1,865,634	1,922,575	7,098,931	0.8355	7,364,789

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2010 was $13.3 million. Cash provided by operating activities after net changes in non-cash working capital balances for the same period in 2009 was $17.7 million. The $4.4 million decrease in cash for 2010 as compared to the same period in 2009 was due primarily lower net income, as well as timing of customer and vendor payments.

Cash used by financing activities during the twelve month period ended December 31, 2010 was $15.3 million. Cash used by financing activities during the twelve month period ended December 31, 2009 was $3.4 million. The increase in net cash outflow of $11.9 million was due primarily to the repurchase of convertible debentures and repayment of long-term debt.

Cash used in investing activities during the twelve month period ended December 31, 2010 of $1.6 million and was comprised of $1.7 million in capital asset spending, $0.3 million of proceeds from disposals of capital assets, and $0.2 million increase in restricted cash.

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

The credit facility is secured by the following:

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

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

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

CAPITAL EXPENDITURES

Capital asset additions were $1.7 million for the twelve month period ended December 31, 2010 as compared to $6.7 million for the same period in 2009. Capital additions for the twelve month period ended December 31, 2010 were comprised of maintenance capital expenditures. Capital additions for the twelve month period ended December 31, 2009 were comprised of $2.9 million of maintenance capital expenditures and $3.8 million of growth capital expenditures, in which $3.0 was related to the new hangar.

FINANCIAL CONDITION

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

ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2010 amounted to $11.3 million as compared to $8.4 million as at December 31, 2009. The increase of $2.9 million was due to increased revenue compared to 2009 and the difference in the timing of weekly customer billing and cash receipts at year end. The quality of the Fund's net receivable balances and its current collections, in management's opinion, remain excellent.

CAPITAL ASSETS

As at December 31, 2010 net capital assets were $45.4 million as compared to $49.7 million as at December 31, 2009. The $4.3 million net decrease in capital assets was due to $6.4 million amortization of capital assets, offset by net capital asset additions of $2.1 million.

ACCOUNTS PAYABLE AND ACCRUED CHARGES

Accounts payable and accrued charges as at December 31, 2010 were $11.1 million as compared to $11.0 million as at December 31, 2009. The increase of $0.1 million was due primarily to the timing of supplier payments.

DEFERRED HEAVY MAINTENANCE AND HEAVY MAINTENANCE DEPOSITS

The balance of total deferred heavy maintenance expenditures as at December 31, 2010 was $2.6 million as compared to $2.1 million as at December 31, 2009. The increase of $0.5 million was due to heavy maintenance expenditure additions of $3.2 million offset by amortization of $2.7 million. In comparison, total heavy maintenance expenditure additions for the twelve month period ended December 31, 2009 were $2.3 million and amortization of deferred heavy maintenance for this period was $1.9 million. Heavy maintenance deposits are paid to aircraft lessors on a monthly basis.

WORKING CAPITAL POSITION

The Fund had a working capital surplus as at December 31, 2010, representing the difference between total current assets and current liabilities, of $2.4 million, compared to a working capital surplus of $8.1 million as at December 31, 2009. The decrease in net working capital was due primarily to the re-purchase of the Fund's debentures in the first quarter of 2010.

LONG-TERM DEBT

Total long-term debt excluding the current portion was $12.2 million as at December 31, 2010 as compared to $16.5 million as at December 31, 2009. The long-term debt consists of Cargojet's revolving credit facility, fixed loans related to PEAL, and capital lease obligations.

CONVERTIBLE DEBENTURES

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

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

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

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

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

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

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

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

	December 31, 2010	December 31, 2009
	$	$
Principal balance	24,655,000	32,131,000
Less:		
Issuance costs	(1,237,467)	(1,612,696)
Conversion option to Unitholders' equity	(1,568,975)	(2,044,727)
Accretion	1,513,382	1,249,504
Balance	23,361,940	29,723,081

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

SUMMARY OF CONTRACTUAL OBLIGATIONS

As at December 31, 2010 (in thousands)	Total $	2011 $	2012 $	2013 $	2014 $	2015 $	Thereafter $
	Payments due by Period						
Fixed Loans – PEAL	5,149	1,460	795	825	858	551	660
Credit Facility	8,515	-	-	8,515	-	-	-
Capital Lease Obligations	196	160	36	-	-	-	-
Operating Leases	51,893	10,940	10,047	10,266	10,093	8,669	1,878
	65,753	12,560	10,878	19,606	10,951	9,220	2,538

OFF-BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

During the twelve month period ended December 31, 2010 the Fund had no transactions with any related companies.

MAJOR CUSTOMERS

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

CONTINGENCIES

The Fund has provided irrevocable standby letters of credit totaling approximately $0.7 million to a financial institution as security for its corporate credit cards and to a number of vendors as security for the Fund's ongoing purchases.

FINANCIAL INSTRUMENTS

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

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

In May 2010, the Fund sold all of its outstanding U.S. dollar forward purchase contracts, resulting in a pretax gain of $257,713.

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

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

OUTLOOK

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

The Fund continues to recover fuel price increases through fuel surcharges. Any fuel cost increases due to higher fuel prices are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Similarly, any cost savings due to lower fuel prices are passed on to customers as a decrease in fuel surcharge. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

Management's principal objective is to maximize free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls, and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives especially those that can improve cash flow.

Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of shares. Any decisions regarding the above, including further increases or decreases in dividends, will be considered and determined as appropriate by the Board of Directors of Cargojet Inc.

CRITICAL ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The more significant items requiring the use of management estimates are the determinations of the allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies, and rotables and the valuation of intangible assets. The table below discloses the methodology used by management in the assessment of these accounting estimates.

Critical Accounting Estimate	**Methodology and Assumptions**
Financial instruments	All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held to maturity investments, loans and receivables, and other liabilities, which are measured at amortized cost.
Capital assets	An impairment loss is recognized when events or circumstances indicate that the carrying amount of the capital asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.
Goodwill	Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the statement of operations and deficit before income taxes and non-controlling interest.
Valuation of intangible assets that have a finite life	Intangible assets that have a finite life, such as customer relationships and non-compete agreements, are capitalized and are amortized on a straight-line basis over a three or four-year period or the term of the non-compete agreement, respectively, and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

INCOME TAXES

The Fund is taxed as a "mutual fund trust" for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund's subsidiaries are taxable.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets would be recorded in the financial statements to the extent that realization of such benefit is more likely than not.

INFORMATION DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures within the Fund and the General Partner ("GP") are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Trustees of the Fund and the Directors of the GP. An evaluation of the effectiveness of the Fund's and the GP's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2010 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

FINANCIAL REPORTING UPDATE

INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Accounting Standards Board ("AcSB") has confirmed that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises for financial periods beginning on and after January 1, 2011. The Fund will be preparing its first set of financial statements in accordance with IFRS for the three month period ending March 31, 2011. These financial statements will also include comparative IFRS results for the periods commencing January 1, 2010.

The following discussion has been organized on a basis consistent with the presentation and classification under Canadian GAAP for ease of reference, although the classification and components of account balances under IFRS will be different than under Canadian GAAP. Additionally, as the Fund continues to assess the impact of its transition to IFRS, additional differences may be identified which could impact the above amounts.

IFRS are premised on a conceptual framework similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While management believe that the adoption of IFRS will not have a material impact on our reported cash flows, it will have a material impact on the Fund's consolidated balance sheets and statements of income.

The following disclosure highlights the initial adjustments required to be made on adoption of IFRS in order to provide an opening balance sheet and the significant accounting policies, required or expected to be applied by the Fund subsequent to adoption that will be significantly different from the Fund's current accounting policies. This discussion has been prepared using the standards and interpretations currently issued and expected to be effective at the end of the first annual IFRS reporting period, which will be December 31, 2011. Certain accounting policies expected to be adopted under IFRS may not be adopted and the application of such policies to certain transactions or circumstances may be modified and as a result the pro-forma January 1, 2010 and December 31, 2010 underlying values prepared on a basis consistent with IFRS are subject to change. The amounts have not been audited or subject to review by the Fund's external auditor.

IFRS 1: First-time Adoption of International Financial Reporting Standards

Adoption of IFRS requires the application of IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively.

However, IFRS 1 does require certain mandatory exceptions and limited optional exemptions in specified areas of certain standards from this general requirement. The following are the optional exemptions available under IFRS 1 significant to us that management expect to apply in preparing the Fund's first financial statements under IFRS:

(i) Business combinations
The Fund has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 retrospectively to past business combinations. Accordingly, the Fund has not restated business combinations that took place prior to the transition date.

(ii) Fair value or revaluation as deemed cost
IFRS 1 allows an entity to initially measure an item of property, plant and equipment upon transition to IFRS at fair value or under certain circumstances using a previous GAAP revaluation, as opposed to recreating depreciated cost under IFRS. The Fund has elected to measure all items of property, plant and equipment at depreciated cost under IFRS.

(iii) Borrowing costs

IAS 23 requires the borrowing costs directly attributable to the acquisition, construction or production of a long-lived asset to be capitalized. The Fund has applied the borrowing costs exemption in IFRS 1 to not apply IAS 23 retrospectively to capitalize borrowing costs arising from acquisition of long-lived assets. Accordingly, the Fund has not capitalized borrowing costs for acquisition of long-lived assets that took place prior to the transition date.

(iv) Designation of previously recognized financial instruments

Under the exemption in IFRS 1, the Fund may designate any financial instruments as available for sale investments or designate any financial asset or liability at fair value. The Fund has chosen not to apply this exemption.

(v) Leases

The Fund elected to apply the transitional provisions in *IFRIC 4, Determining whether an Arrangement contains a Lease*. This election allows the Fund to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at that date. This election resulted in no additional arrangements being identified as a lease, and thus has no impact on the financial statements.

(vi) Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Fund under Canadian GAAP are consistent with their application under IFRS.

Expected Impact of the adoption of IFRS

The following is the expected changes of the Fund's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the transition date of January 1, 2010:

	Note	Unitholders' Equity	Non-controlling Interest	Total Equity
As reported under Canadian GAAP - December 31, 2009		46,701,110	-	46,701,110
Reclassification of Non-Controlling Interests to				
Unitholder's Equity under IFRS	(i)	-	21,270,060	21,270,060
Deferred income taxes on convertible debentures	(ii)	(415,206)	-	(415,206)
Componentization of fixed assets	(iii)	(1,766,335)	-	(1,766,335)
Deferred income taxes	(iv)	547,564	-	547,564
Expected balance under IFRS - January 1, 2010		45,067,133	21,270,060	66,337,193

The following is the expected changes of the Fund's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at March 31, 2010:

	Note	Unitholders' Equity	Non-controlling Interest	Total Equity
As reported under Canadian GAAP - March 31, 2010		51,448,726	-	51,448,726
Reclassification of Non-Controlling Interests to				
Unitholder's Equity under IFRS	(i)	-	15,279,993	15,279,993
Deferred income taxes on convertible debentures	(ii)	(255,923)	-	(255,923)
Componentization of fixed assets	(iii)	(1,831,073)	-	(1,831,073)
Deferred income taxes	(iv)	567,633	-	567,633
Expected balance under IFRS - March 31, 2010		49,929,363	15,279,993	65,209,356

Under Canadian GAAP, the Fund's units are currently included within Unitholder's equity. Prior to the conversion of the Fund to a corporation on January 1, 2011, the requirement to distribute taxable income under the Declaration of Trust may be considered a financial instrument under IFRS due to the contractual obligation to deliver cash to another entity. As a result, the fair value of the Fund's units may need to be presented as a financial liability under IFRS, and the distributions as an expense. Any subsequent changes in fair value would then need to be recognized in the statement of operations.

At the date of this report, the Fund has not yet reached a conclusion on the classification of the Fund's units on conversion to IFRS.

DISCUSSION OF KEY DIFFERENCES:

i. Reclassification of non-controlling interests to unitholders' equity
Canadian GAAP states that non-controlling interests are not a financial liability or an equity instrument of an entity, and should be presented in the consolidated balance sheet separately from equity. However, under IFRS non-controlling interest is presented as a part of equity.

ii. Deferred income taxes on convertible debentures
Canadian GAAP states that if the entity is able to settle the instrument in accordance with its terms without the incidence of tax, then there is deemed to be no temporary difference. However, IFRS requires that the deferred tax consequences of a financial instrument containing both a liability and equity component should be recognized both in profit or loss and in equity in accordance with the component parts.

iii. Componentization of fixed assets
IFRS requires fixed assets to be depreciated based on significant identifiable components, whereas Canadian GAAP does not have such requirements. Under IFRS, the Fund's aircraft has been componentized into the significant components of hulls and engines. The difference in depreciation as a result of componentization has been recorded in retained earnings.

iv. Deferred income taxes
Deferred income taxes are impacted by the change in temporary differences resulting from the effect of the IFRS reconciling items described above.

The following is the expected change of the Fund's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the three month period ended March 31, 2010:

	Note	Three months ended March 31, 2010
Net income as reported under Canadian GAAP		337,642
Reclassification of non-controlling interests under IFRS	(i)	136,324
Deferred income taxes on convertible debentures	(ii)	159,283
Componentization of fixed assets	(iii)	(64,738)
Deferred income taxes	(iv)	20,069
Expected balance under IFRS		588,580
Attributable to:		
Unitholders		724,904
Non-controlling interests		(136,324)
Net income as reported under IFRS		588,580

DISCUSSION OF KEY DIFFERENCES:

i. Non-controlling interests
Non-controlling interests are included in the determination of net income under IFRS. This adjustment adds back non-controlling interests expense as determined under Canadian GAAP.

ii. Deferred income taxes on convertible debentures
The difference relates to change in temporary difference resulting from the effect of recognition of deferred taxes on convertible debentures.

iii. Componentization of fixed assets
IFRS requires fixed assets to be depreciated based on significant identifiable components, whereas Canadian GAAP does not have such requirements. Under IFRS, the Fund's aircraft has been componentized into the significant components of hulls and engines. The accelerated depreciation as a result of componentization has been recorded in retained earnings.

iv. Deferred income taxes
Deferred income taxes are impacted by the change in temporary differences resulting from the effect of the IFRS reconciling items described above.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Chief Executive Officer and the Chief Financial Officer have evaluated the design and effectiveness of the Fund's internal controls over financial reporting based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

There have been no changes in the Fund's internal controls over financial reporting during the three and twelve month periods ended December 31, 2010 that have materially affected, or are likely to materially affect, the Fund's internal controls over financial reporting.

END NOTES

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

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

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

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

Provision for current income taxes - the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

Non-controlling Interests - non-controlling interests represent a direct non-controlling interest in Cargojet Holdings Limited Partnership through Exchangeable LP units and the non-controlling shareholders of Cargojet Regional Partnership and PEAL (2009 only). Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

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

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

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

Non-cash lease expense - promissory note from SkyLink Express Inc. applied to lease aircraft payments. As a non-cash item, non-cash lease expense has no impact on the determination of EBITDA and distributable cash.

Change in fair value on non-hedge derivative - the gain or loss arising from mark to market adjustment on foreign exchange contracts. As a non-cash item, the fair value gain or loss on derivative contracts has no impact on the determination of EBITDA and distributable cash.

Amortization of aircraft heavy maintenance expenditures - amortization of aircraft heavy maintenance expenditures represents a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance expenditures and deposits incurred in the period; accordingly, this expense represents a different class of expense than those included in EBITDA.

(8) The Fund has adopted a measurement called distributable cash to supplement net earnings as a measure of operating performance. Distributable cash is a term, which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other Funds. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unitholders and exchangeable LP unitholders. Exchangeable LP unitholders are presented as non-controlling interest in the consolidated financial statements of the Fund, however, management of the Fund has elected to include the holdings of the exchangeable LP unitholders in the calculation of distributable cash as exchangeable LP unitholders' distributions are economically equivalent to those received by trust unitholders and exchangeable LP unitholders are exchangeable on a one-to-one basis for Units of the Fund. The PEAL and CJR non-controlling interests are excluded from the calculation of distributable cash. Distributable cash is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "distributable cash" have the meaning set out in this note.

Management's Report to the Unitholders

The consolidated financial statements of the Cargojet Income Fund and all information in this annual report are the responsibility of management and have been approved by the Board of Trustees.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of the Cargojet Income Fund has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The board of Trustees carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees.

These financial statements have been audited by the external auditors, Deloitte & Touche LLP, Chartered Accountants, whose report follows.

Dr. Ajay K. Virmani

President and Chief Executive Officer
February 2011

Auditor's Report to the Unitholders

Deloitte.

Independent Auditor's Report

To the Unitholders of
Cargojet Income Fund

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

February 23, 2011
Toronto, Canada

Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2010 and 2009

CARGOJET INCOME FUND
Consolidated Balance Sheets
As at December 31, 2010 and 2009

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

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

John P. Webster
Trustee

Dr. Ajay K. Virmani
President and Chief Executive Officer

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

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

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

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income and Accumulated Other Comprehensive Income (Loss)
Years ended December 31, 2010 and 2009

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

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

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
Years ended December 31, 2010 and 2009

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
Years ended December 31, 2010 and 2009

1. NATURE OF THE BUSINESS

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

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

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

Materials and supplies

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

Capital assets

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

Jet aircraft	-	7-1/2%
Propeller aircraft	-	20 years
Spare parts	-	actual usage
Engines	-	engine cycles and 20 years
Ground equipment	-	20% to 40%
Rotable spares	-	7-1/2%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	shorter of useful life and lease term
Vehicles	-	30%
Hangar facility	-	10%

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and intangible assets

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

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

Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the statement of operations before income taxes and non-controlling interest.

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

Intangible assets that have a finite life, such as customer relationships and non-compete agreements, are capitalized and are amortized on a straight-line basis over a three or four-year period or the term of the non-compete agreement, respectively, and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

Impairment of long-lived assets

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

Heavy maintenance

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

2. **SIGNIFICANT ACCOUNTING POLICIES (continued)**

Income taxes

The Fund is taxed as a "mutual fund trust" for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund's subsidiaries are taxable.

The Fund accounts for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Future income tax assets are recorded in the financial statements to the extent that realization of such benefit is more likely than not.

Non-controlling interests

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

Revenue recognition

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

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

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
Years ended December 31, 2010 and 2009

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of foreign currencies

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

Financial instruments

All financial assets are classified as either held for trading, held to maturity investments, loans and receivables or available-for-sale. All financial liabilities are classified as either held for trading or other financial liabilities. All financial instruments are initially recorded on the balance sheet at fair value. After initial recognition, financial instruments are measured at their fair values, except for held to maturity investments, loans and receivables, and other liabilities, which are measured at amortized cost.

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

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

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

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

Derivative financial instruments and hedges

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

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

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

CARGOJET INCOME FUND
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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedges (continued)

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

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

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

Convertible debentures

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

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

Management's use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant items requiring the use of management estimates are the obsolescence of spare parts, materials, supplies and rotable spares, the valuation of capital and intangible assets and their related amortization, the valuation of goodwill and the allocation of fair values to assets acquired and liabilities assumed on business acquisitions.

Comparative figures

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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3. CHANGES IN ACCOUNTING POLICIES

Future accounting changes

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

4. DISPOSITION OF THE FUND'S REGIONAL BUSINESS

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

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

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

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

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

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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4. DISPOSITION OF THE FUND'S REGIONAL BUSINESS (continued)

The net loss from discontinued operations is summarized as follows:

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

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

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

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

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

<u>Assets held for sale</u>

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
Years ended December 31, 2010 and 2009

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

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

5. CAPITAL ASSETS

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

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

Amortization expense consists of amounts charged under the following classifications:

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
Years ended December 31, 2010 and 2009

6. INTANGIBLE ASSETS

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

7. DEFERRED HEAVY MAINTENANCE

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

8. ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

9. LONG-TERM DEBT

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

The credit facility is secured by the following:

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
Years ended December 31, 2010 and 2009

9. LONG-TERM DEBT (continued)

Long-term debt consists of the following:

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

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

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

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

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
Years ended December 31, 2010 and 2009

10. CONVERTIBLE DEBENTURES

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

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

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

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

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

SUBSTANTIAL AND NORMAL COURSE ISSUER BIDS

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

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

CARGOJET INCOME FUND
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10. CONVERTIBLE DEBENTURES (continued)

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

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

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

11. INCOME TAXES

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

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

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

CARGOJET INCOME FUND
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11. INCOME TAXES (continued)

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

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

12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS

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

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

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

CARGOJET INCOME FUND
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12. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTERESTS (continued)

(a) Trust Units

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

b) Non-controlling interests

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

Non-controlling interests – CHLP

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

Non-controlling interests – PEAL

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

Non-controlling interests – Cargojet Regional Partnership

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

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

c) Earnings per Trust Unit

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

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

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

d) Exchange of LP Units

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

e) Normal course issuer bid

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

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

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13. CAPITAL MANAGEMENT

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

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

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

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

14. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

Contingencies

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

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

CARGOJET INCOME FUND
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15. FINANCIAL INSTRUMENTS

Risk management policies

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

Fair values

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

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

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

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

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

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

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

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

CARGOJET INCOME FUND
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15. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

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

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

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

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

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

Liquidity risk

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

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

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

15. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk

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

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

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

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

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

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

Commodity risk

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

Market risk

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

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

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

CARGOJET INCOME FUND
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15. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

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

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

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

16. GUARANTEES

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

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

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

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

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

CARGOJET INCOME FUND
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17. DISTRIBUTIONS

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

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

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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17. DISTRIBUTIONS (continued)

Record Date	Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 2008	January 15, 2009	-	450,856	-	150,725	-	-	601,581
January 31, 2009	February 13, 2009	450,856	450,856	150,725	150,725	601,581	0.0675	601,581
February 28, 2009	March 13, 2009	450,221	450,221	150,724	150,724	600,945	0.0675	600,945
March 31, 2009	April 15, 2009	444,486	444,486	150,725	150,725	595,211	0.0675	595,211
April 30, 2009	May 15, 2009	177,267	177,267	60,290	60,290	237,557	0.0270	237,557
May 31, 2009	June 15, 2009	176,638	176,638	60,290	60,290	236,928	0.0270	236,928
June 30, 2009	July 15, 2009	175,461	175,461	60,290	60,290	235,751	0.0270	235,751
July 31, 2009	August 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
August 31, 2009	September 15, 2009	167,537	167,537	60,290	60,290	227,827	0.0270	227,827
September 30, 2009	October 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
October 31, 2009	November 15, 2009	164,685	164,685	60,290	60,290	224,975	0.0270	224,975
November 30, 2009	December 15, 2009	2,451,985	2,451,985	897,646	897,646	3,349,631	0.4020	3,349,631
December 31, 2009	January 15, 2010	241,939	-	93,784	-	335,723	0.0420	-
		5,233,297	5,442,214	1,865,634	1,922,575	7,098,931	0.8355	7,364,789

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

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

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

CARGOJET INCOME FUND
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18. SEGMENTED INFORMATION

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

19. ECONOMIC DEPENDENCE

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

20. INCOME TRUST CONVERSION

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

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

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

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

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

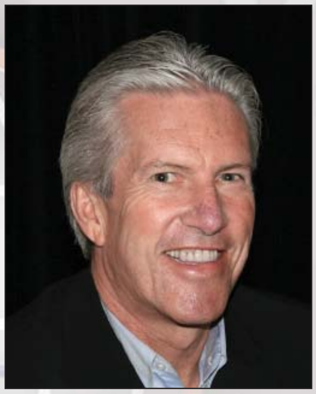
Effective January 1, 2011, the outstanding 6,437,109 Trust Units and 1,556,307 Exchangeable LP Units were converted into 7,755,271 common voting shares and 238,145 variable voting shares.

21. SUBSEQUENT EVENTS

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

Trustees and Officers of Cargojet

Dr. Ajay K. Virmani, MBA
President,
Chief Executive Officer



Jamie Porteous
Executive Vice-President,
Sales and Service

Trustees and Officers of Cargojet

John P. Webster
Trustee (Lead Director) & Officer

Paul V. Godfrey
Trustee & Officer

Terence M. Francis
Trustee & Officer

Officers of Cargojet

John Kim, CA
Chief Financial Officer
Corporate Secretary

George Sugar
Senior Vice President,
Flight Operations

CJT.UN

www.cargojet.com

350 Britannia Road East, Units 5 & 6, Mississauga, Ontario L4Z 1X9
Tel: (905) 501-7373 • Toll Free: (800) 753-1051 • Fax: (905) 501-7447