CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operation

Period from June 9, 2005 to June 30, 2005

The following is a discussion of the consolidated financial condition and results of operations of the Cargojet Income Fund (the "Fund") for the sixty-seven day period ended June 30, 2005. The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. (the “Company” or “Cargojet”) on June 9, 2005. Included in the Fund’s results of operations are the results, of the corporate subsidiary Cargojet, for the twenty-two day period ended June 30, 2005. Comparative results for the twenty-two day period ended June 30, 2004 are not available. Therefore, to provide meaningful information to the reader, the following will refer to the twenty-two day period ended June 30, 2005 and also include a discussion of, and comparative operating results for, the three and six month periods ended June 30, 2005 and 2004 which include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund. This discussion should be read in conjunction with the Fund's Management Discussion and Analysis (MD&A) as included in the prospectus dated June 1, 2005. The Fund acquired 75% of the outstanding common shares of Cargojet Holdings Ltd. effective June 9, 2005 in connection with its initial public offering of trust units. 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 August 8, 2005. 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.

References to “EBITDA” [(A)] are to earnings before interest, income taxes, depreciation, amortization, payments under an employee profit sharing plan, stock based compensation expense and adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP Measures, (EBITDA [(A)], and Distributable Cash [(B)] are not earnings measures recognized by generally accepted accounting principles in Canada (“GAAP”) and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA [(A)], and Distributable Cash 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 income or loss determined in accordance with GAAP as indicators of the Company’s performance or to cash flows from operating investing and financing activities as measures of liquidity and cash flows.)

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the quarter ended June 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the three months and six months ended June 30, 2005 and 2004. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations.

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 including the matters discussed under "Risks and Uncertainties" herein, as well as the risks and uncertainties detailed in our Prospectus filed on June 1, 2005 with the regulatory authorities.

Corporate Overview

The Fund is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that management believes constitutes approximately 50% of Canada's dedicated domestic overnight cargo capacity. The Fund operates its network from coast to coast transporting over 500,000 pounds (226.8 tonnes) of volumetric time-sensitive air cargo to thirteen major cities in Canada each business night. The Fund's co-load network consolidates cargo received from well over 200 customers and transports such cargo to the appropriate destination in a cost efficient and reliable manner. The Fund monitors key performance indicators and uses that information to reduce costs and improve the efficiency of its services. In 2004, the Fund operated 5,458 flights of which more than 98% arrived at destination within 30 minutes of scheduled arrival time. The Fund makes cash distributions to unit holders based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of units payable in cash. The declaration of the Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

Recent Events

Economic and industry factors affecting the Fund remain largely unchanged from December 31, 2004 other than the events otherwise described.

As previously highlighted in the Fund's prospectus, a major ACMI contract previously held with a Canadian airline has now been replaced directly with three major customers to provide additional lift and capacity to Western Canada on a nightly basis effective August 8, 2005. Agreements have been signed with these three customers which transfer this business to the Fund.

Recently, the same Canadian airline had applied to Transport Canada to operate limited domestic air cargo service to Calgary using American registered aircraft/crew as an extension of its international service. The exemption was not granted as it was viewed as not being in the public interest and was in contravention of the existing US /Canada Air Services Agreement. Subsequently, the application for this additional domestic service using American registered aircraft/crew by this carrier was withdrawn. This action was a direct result of strong appeal and opposition from Cargojet and other significant industry stakeholders.

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 fixed space and weight allocation on the Fund's network and a corresponding fixed 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. For the period ended June 30, 2005, approximately 70% of the Fund's overnight air cargo revenue was generated by guaranteed contract, with the remaining space available sold on a non-guaranteed basis.

The Fund also provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. Typically 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 enhance its revenues during downtimes, 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 and the Caribbean.

The Fund also provides and operates dedicated aircraft on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis for Menlo Worldwide Inc. The aircraft operates a dedicated route where the customer is responsible for all commercial activities and the Fund is paid a fixed amount to operate the route. In addition, the Fund also provides an ACMI passenger service for Starjet Airways Ltd., a related company, on a cost recovery plus six percent basis.

Expenses

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, which includes functions such as load scheduling, flight operations coordination, client relations, and administration and information systems. The Fund's administrative costs primarily consist of payroll, occupancy costs, and professional fees (such as audit and legal fees). The Fund's administrative staffing and associated costs are maintained at a level that the Fund deems appropriate to manage and support the size and nature of its current business activities.

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 prospectus of the Fund dated June 1, 2005.

Highlights for the Twenty-two Day Period Ended June 30, 2005

- Average overnight daily cargo revenue for June 2005 was $0.49 million as compared to $0.43 million for June 2004, and compared to $0.48 million in the first quarter 2005.

- EBITDA [A] was $1.1 million for the twenty-two day period ended June 30, 2005.

- Distributable Cash [B] and cash available for distribution were $0.90 million and $0.86 million respectively for the twenty two day period ended June 30, 2005.

Results of Operation

	Twenty-two Day Period Ended June 30, 2005 (unaudited)
Revenue	$ 6,875
Direct expense	5,132
	1,743
Selling, general and administrative expenses	
Sales and marketing	36
General and administrative	752
Interest	86
Amortization of capital assets	18
Amortization of intangible assets	587
	1,479
Earnings before income taxes and non-controlling interest	264
Future income tax recovery	61
Earnings before non-controlling interest	325
Non-controlling interest	(81)
Net earnings	244
Distributions declared in the period	(450)
Deficit, end of period	$ (206)
Earnings per trust unit (basic and diluted)	$ 0.04
Average number of trust units outstanding (in thousands of units)	6,699
Net earnings before non-controlling interest	$ 325
Add:	
Interest	86
Future income tax recovery	(61)
Amortization of capital assets in direct expenses	154
Amortization of capital assets	18
Amortization of intangible assets	587
Aircraft heavy maintenance accrual	92
Less: Aircraft heavy maintenance expenditures	(124)
EBITDA (A)	$ 1,077
EBITDA (A)	$ 1,077
Maintenance capital expenditures	87
Interest	86
Distributable cash (B)	$ 904
Cash available for distribution (95% of distributable cash)	$ 860
Distributable cash flow per unit	$ 0.101
Distributable cash flow available per unit	$ 0.096
Cash distributions as a percentage of distributable cash flow	66%
Cash distributions as a percentage of cash flow available for distribution	70%

Review of Operations (For the Twenty-two Day Period Ended June 30, 2005)

Revenue

Total revenue was $6.9 million for the twenty-two day period ended June 30, 2005. Revenue related to the overnight cargo service was $0.49 million per operating day for June versus $0.48 million for the first two quarters of 2005 and as compared to $0.43 million for the first two quarters ended 2004. The increase over 2004 levels is as a result of a general increase in cargo volumes but also as a result of an increase in fuel surcharge which is passed through and billed to the customer. ACMI cargo revenues were $0.66 million for the twenty-two days ended June 30, 2005. The ACMI accounts started approximately September 2004 and there is no comparable for the first half of 2004.

ACMI passenger revenue was $0.25 million for the twenty-two day period ended June 30, 2005 and $0.34 million for the entire month of June 2005 as compared to $0.45 for June 2004. The ACMI passenger revenue was higher for June 2004 because of a Federal election charter.

Direct Expenses

Direct expenses were $5.1 million during the twenty-two day period ended June 30, 2005 and represented 74.6% of revenue. Direct expenses as a percentage of revenue for the second quarter ended June 30, 2005 and the six months ended June 30, 2005 was 77.4% and 77.0% respectively. The improvement in margin is directly attributable to the timing of the closing of the initial public offering (June 8, 2005) and the impact with respect to the daily revenues. Higher revenues were experienced in the twenty-two days ended June 30 versus the first 8 days of June 2005. Costs related to this period were properly matched and expensed. Fixed costs for the period are allocated on a calendar month basis. As a result direct expenses as a percentage of revenue during the twenty-two days ended are slightly lower than normal. Direct expenses, as a percentage of revenue for the entire month of June 2005 was 75.5%. The improvement in margin in the month of June is primarily due to an improvement in rotable expenses, a reduction in deicing costs relative to prior periods, and an increase in overall revenues. Fixed costs, which are spread over a larger revenue base, contribute to the improvement in the margin. The improvement in margin was offset marginally by an increase in fuel costs, which are passed through to the customer.

Selling, General and Administrative Expenses

Selling general and administrative expenses were $0.8 million for the twenty-two day period ended June 30, 2005 and represented 11.5% of revenue. Selling general and administrative expenses as a percentage of revenue for the second quarter ended June 30, 2005 and first quarter ended March 31, 2005 was 13.8% and 11.6% respectively. Selling general and administrative expenses, as a percentage of revenue for the entire month of June 2005 was 14.7%. This increase was directly attributable to expenses related to a bad debt provision of $0.07 million, volume rebates expensed during the period of $0.12 million, an increase in professional fees for $0.02 million and a charge for $0.1 million related to a settlement in relation to early retirement of debt.

Review of Operations (For the Twenty-two Day Period Ended June 30, 2005) (continued)

EBITDA [A]

EBITDA [A] for the twenty-two day period ended June 30, 2005 was $1.1 million or 15.7% of revenue. EBITDA [A] as a percentage of revenue for the three months ended June 30, 2005 and six months ended June 30, 2005 was 9.2% and 12.2% respectively. EBITDA [A] for the second quarter of 2005 was lower as a percentage of revenue due to the reasons described above in the discussion of direct expenses and selling, general and administrative. Additionally, a heavy maintenance accrual of $0.5 million was charged to earnings during the second quarter of 2005 but was added back for the purposes of calculating EBITDA [A] . Actual heavy maintenance expenditures incurred during this period of $1.0 million have been deducted from EBITDA [A] . Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are spread over a period of 24 months for accounting purposes.

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Funds' initial public offering. These intangible assets include goodwill of $46.2 million, customer relationships of $38.1 million, licenses of $1.0 million and non-compete agreements of $2.7 million. Collectively amortization recorded in the period from acquisition June 9, 2005 to June 30, 2005 was $ 0.6 million.
Amortization of capital assets for the twenty two day period ended June 30, 2005 was $0.18 million of which $0.15 million is included in direct expense. Amortization of capital assets is consistent with past practices of the predecessor company Cargojet Holdings Ltd.

Interest

Interest expense was $0.09 million for the twenty-two day period ended June 30, 2005 and reflects the average balance of the Fund's credit line at its fixed rate of interest of 6.89% for the period June 15 to June 30, 2005 and 5.95% for the period June 9 to June 14, 2005. The Fund has entered into a derivative financial instrument that effectively hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

Future Income Tax Recovery

The future income tax recovery of $0.06 million during the twenty-two day period ended June 30, 2005 represents the calculation of the reversal of temporary differences between the financial reporting and tax basis calculated at the effective income tax rates with respect to these differences for the period. The Fund is not otherwise subject to income taxes to the extent that its taxable income is paid or payable to a unit holder.

<u>Review of Operations</u> (For the Twenty-two Day Period Ended June 30, 2005) (continued)

<u>Non-controlling Interest</u>

Non-controlling interest of $0.08 represents the share of earnings for the twenty-two day period ended June 30, 2005 related to the exchangeable units held by the retained interest holders relative to the total public units held.

<u>Distributions Declared</u>

A distribution of $0.0672 per unit was declared payable to unit holders of record on June 30, 2005, payable July 15, 2005 and was equal to $0.45 million for the twenty-two day period ended June 30, 2005.

<u>Liquidity and Capital Resources</u>

Cash provided by operating activities after net changes in non-cash working capital balances during the twenty-two days ended June 30, 2005 was $3.6 million. The increase in cash is primarily due to the timing of customer payments at month end.

Cash provided by financing activities during the twenty-two days ended June 30, 2005 was $52.9 million. The increase was due to the proceeds from the issuance of Fund units net of issuance costs and an increase of long-term debt of $0.3 million.

Cash used in investing activities during the twenty-two days ended June 30, 2005 was $53.1 million. The decrease was due to the acquisition of the net assets of Cargojet Holdings Ltd. equal to $53.0 million. Capital asset spending during the period was $0.1 million.

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results.

Management anticipates that the funds available under the operating facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

<u>Highlights for the Three and Six Months Ended June 30, 2005</u>

- Revenues and EBITDA [A] increased 18.3% and 7.4% respectively for the three-month period ended June 30, 2005 in comparison to 2004.

- Revenues and EBITDA [A] increased 20.2% and 45.9% respectively for the six-month period ended June 30, 2005 in comparison to 2004.

Results of Operation

Supplementary Financial Information [1]

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the quarter ended June 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the three months and six months ended June 30, 2005 and 2004. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005 (unaudited)	2004 (unaudited)	2005 (unaudited)	2004 (unaudited)
Revenues	$ 28,080	$ 23,741	$ 55,458	$ 46,149
Direct expenses	21,735	18,578	42,705	35,841
	6,345	5,163	12,753	10,308
Selling, general and administrative expenses				
Sales and marketing	373	118	532	286
General and administrative	3,515	2,953	6,524	5,706
Interest	351	269	691	544
Amortization of capital assets	66	61	140	116
Amortization of intangible assets	587	-	587	-
Employee profit sharing plan [2]	(350)	-	2,000	-
Stock-based compensation [2]	4,466	-	4,466	-
	9,008	3,401	14,940	6,652
Earnings before Non-controlling Interest and income taxes	(2,663)	1,762	(2,187)	3,656
Non-controlling Interest	81	-	81	-
Income taxes	507	50	685	396
Net earnings	(3,251)	1,712	(2,953)	3,260
Add:				
Interest	351	269	691	544
Amortization of capital assets in direct expenses	641	450	1,181	854
Amortization of capital assets	66	61	140	116
Amortization of intangible assets	587	-	587	-
Non-controlling Interest	81	-	81	-
Income taxes	507	50	685	396
Employee profit sharing plan [2]	(350)	-	2,000	-
Stock based compensation expense [2]	4,466	-	4,466	-
Aircraft heavy maintenance accrual	545	507	920	735
Less: Aircraft heavy maintenance expenditures	(1,048)	(632)	(1,048)	(1,277)
EBITDA [A]	$ 2,595	$ 2,417	$ 6,750	$ 4,628

Footnote:

(1) The Supplementary Financial Information above is provided only for comparative purposes and does not reflect the current structure of the Fund.

(2) The Employee profit sharing plan and the Stock-based compensation plan existed in the predecessor company; however, they were discontinued at the closing of the initial public offering.

Review of Operations (For the Three and Six Month Periods Ended June 30, 2005)

Revenues

Revenues for the three months ended June 30, 2005 increased $4.3 million or 18.3% to $28.1 million as compared to $23.7 for the comparative period in 2004. ACMI cargo revenue accounted for $2.6 million of the increase while revenues from the overnight network increased $2.2 million or 10% to $24.4 million. ACMI passenger revenues decreased by $0.5 million. Revenues for the six months ended June 30, 2005 increased $9.3 million or 20.2% to $55.5 million. ACMI cargo revenue accounted for $5.2 million of the increase while revenues from the overnight network increased $4.1 million or 9.2% to $48.5 million. ACMI passenger revenues increased by $0.1 million or 4% over these two comparative periods.

Direct Expenses

Direct expenses for the three months ended June 30, 2005 increased by $3.2 million or 17.0% to $21.7 million, compared to $18.6 million for the comparative period in 2004. Fuel expense increased by $2.0 million to $7.7 million, an increase of 34.4% over the second quarter of 2004. Fuel costs as a percentage of revenue was 27.3% in the second quarter of 2005 as compared to 24.0% in the second quarter of 2004. Fuel increases were passed through to the customers as a fuel surcharge on revenue, which totaled $2.1 million in the second quarter of 2005 compared to $0.6 million for the comparative period in 2004, and is included in revenues. Customer contracts are analyzed and amended when necessary to reflect higher fuel prices. On ACMI contracts, fuel is also passed through to the customer. The number of block hours flown has a direct impact on the variable costs of the organization. The number of block hours increased to 2,789 or 19.9% due to the addition of two ACMI contracts. Both ACMI contracts began in September of 2004 and represented an increase of 658 hours as compared to the second quarter of 2004. Navigation and landing fees increased to $2.6 million, an increase of $0.4 million or 18.2%. Crew costs increased by $0.4 million or 22.7% to $1.9 million. These increases were a direct result of the increased hours required to fly and service the new ACMI customers. Heavy maintenance accrued and line maintenance expense were virtually unchanged quarter over quarter. The actual heavy maintenance incurred during the second quarter of 2005 was $1.0 million as compared to $0.6 million in 2004. Linehaul expense increased by $0.6 million or 52.8% to $1.8 million over 2004 as a direct result of route rationalization to enable greater flexibility with the routes to meet the needs of customers.

Review of Operations (For the Three and Six Month Periods Ended June 30, 2005) (continued)

Direct Expenses (continued)

Direct expenses for the six months ended June 30, 2005 increased by $6.9 million or 19.1% to $42.7 million, compared to $35.8 million for the comparative period in 2004. Fuel expense increased by $3.6 million to $14.5 million, an increase of 33.0% over 2004. Fuel costs as a percentage of revenue was 26.2% in 2005 as compared to 23.6% in 2004. Fuel increases were passed through to the customers as a fuel surcharge on revenue, which totaled $3.5 million for the six months ended June 30, 2005 compared to $1.4 million for the comparative period in 2004, and is included in revenues. The number of block hours increased to 5,600 or 22.4% mainly due to the addition of two ACMI contracts. Both ACMI contracts began in September of 2004 and represented an increase of 1,343 hours as compared to 2004. Navigation and landing fees increased to $5.1 million, an increase of $0.7 million or 16.0%. Crew costs increased by $0.7 million or 21.8% to $3.7 million. These increases were a direct result of the increased hours required to fly and service the new ACMI customers. Linehaul expense increased by $1.1 million or 44.3% to $3.7 million over 2004 as a direct result of route rationalization to enable greater flexibility with the routes to meet the needs of customers. Heavy maintenance accrued and line maintenance expense increased by $0.2 million or 4.2% to $6.0 million as compared to 2004. Actual heavy maintenance incurred for the six months ended June 30, 2005 was $1.0 million as compared to $1.3 million in 2004.

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the three months ended June 30, 2005 increased by $0.8 million or 26.6% to $3.9 million compared to $3.1 million for the comparative period in 2004. Volume rebates to customers increased to $0.1 million during the period as a result of Cargojet's initiative to reward customers for greater volumes. Advertising and sales promotions increased by $0.1 million to $0.15 million during the period. Employee salaries and related benefits increased by $0.6 million or 30.1% to $2.4 million, as a result of new employees being added to support the growth of the business. This increase also reflects annual salary adjustments.

Selling, general and administrative expenses for the six months ended June 30, 2005 increased by $1.1 million or 17.8% to $7.1 million compared to $6.0 million for the comparative period in 2004. Volume rebates to customers increased to $0.1 million during the period. Advertising and sales promotions increased by $0.1 million to $0.21 million during the period. Employee salaries and related benefits increased by $1.1 million or 29.3% to $4.7 million, as a result of new employees being added to support the growth of the business.

Amortization

Amortization is comparable to prior periods.

Review of Operations (For the Three and Six Month Periods Ended June 30, 2005) (continued)

EBITDA [A]

EBITDA [A] for the three months ended June 30, 2005 increased by $0.18 million or 7.4% to $2.6 million compared to $2.42 million for the comparative period in 2004. The improvement in EBITDA [A] is attributed to the increase in ACMI revenues while utilizing the existing fixed cost base, which was offset by an increase in general, and administrative expenses.

EBITDA [A] for the six months ended June 30, 2005 increased by $2.12 million or 45.9% to $6.75 million compared to $4.63 million for the comparative period in 2004. The improvement in EBITDA [A] can be largely attributed to the increase in ACMI revenues and steady increase in overnight revenues while utilizing the existing fixed cost base.

Amortization, Interest on Long-term Debt, Other Expenses, Income Taxes and Cash Available For Distribution are not Comparable for the Following Reasons:

Amortization

Amortization is not comparable due primarily to the change in the Fund's capital structure relative to its predecessor Cargojet Holdings Ltd. Amortization expense of the Fund includes amortization of the identified intangible assets arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Funds initial public offering. These intangible assets include goodwill of $46.2 million, customer relationships of $38.1 million, licenses of $1.0 million and non-compete agreements of $2.7 million. Collectively amortization recorded in the period from acquisition June 9, 2005 to June 30, 2005 was $ 0.6 million.

Interest

Interest expense increased by $0.08 million to $0.35 million in the second quarter of 2005, compared to $0.27 million for the comparative period in 2004. The increase was primarily due to an increase in long term bank debt as a result of the payment of a capital dividend.

Income Taxes

Income taxes are not comparable due to the change in the tax structure of the Fund versus its predecessor.

Cash Available For Distribution

Cash available for distribution is not comparable for prior periods due to the change in the Fund's capital structure. Cash available for distribution for the twenty-two day period ended June 30, 2005 was $0.86 million.

Other Performance Measures

Capital Expenditures

Capital expenditures, which include maintenance and growth capital expenditures, totaled $1.0 million for the three months ended June 30, 2005. Maintenance capital expenditures, representing the replacement of capital in order to sustain current business operations totaled $0.4 million and related primarily to the purchase of rotable spare parts. Growth capital expenditures, representing capital required to meet the demands of acquired or organic growth or capital, which specifically benefits a future period or periods, totaled $0.6 million of which $0.6 million related to the completion of the hangar facility in Hamilton.

Capital expenditures for the six-month period ended June 30, 2005 totaled $3.3 million. Maintenance capital expenditures totaled $2.2 million and include $1.4 million for engine purchases in the first quarter of 2005, $0.1 million for ground support equipment, $0.4 million for rotable spare parts, $0.2 million in leasehold improvements and furniture and fixtures and $0.1 in computers and software. Growth capital expenditures totaled $1.1 million and include $0.4 million for rotable spare parts inventory related to a new agreement with a parts supplier, $0.6 million related to the hangar construction and $0.1 million for the purchase of ground support equipment.

Financial Condition

The following is a comparison of the financial condition of the fund comparing the financial position of the predecessor Cargojet Holdings Ltd. as at December 31, 2004 as disclosed in the prospectus dated June 1, 2005 and that of the Fund as at June 30, 2005.

Cash

Cash increased by $5.5 million from December 31, 2004 to $3.3 million as at June 30 2005. The increase is due to improved operating results, as indicated by the increase in EBITDA.

Accounts Receivable

Accounts receivable decreased by $0.6 million from December 31, 2004 to $5.8 million as at June 30, 2005. The reduction is primarily due to the timing of payments from customers of which the larger payments are received towards the end of the week. The collection quality of receivables remains high with the average days' sales outstanding equal to 16 days.

Capital Assets

Capital assets increased by $2.0 million from December 31, 2004 to $28.5 million as at June 30, 2005. The increase was primarily due to the purchase of $1.4 million for aircraft engines, additions to ground support equipment of $0.2 million, finalizations of the hangar construction of $0.6 million, additions to rotable spares of $0.9 million, computers and software of $0.1 million, furniture and fixtures of $0.07 million, and leasehold improvements of $0.04 million. These additions were offset by amortization during the six months of $1.3 million.

Financial Condition (continued)

Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by $0.3 million from December 31, 2004 to $11.5 million as at June 30, 2005. The decrease is attributable to the timing of cash payments and offset by the remaining liability related to the initial public offering not yet paid of $2.6 million as at June 30, 2005.

Aircraft Heavy Maintenance Accrual

The Aircraft heavy maintenance accrual decreased by $0.2 million from December 31, 2004 to $1.2 million as at June 30, 2005. This is related solely to the timing difference between the accounting accrual of $0.9 million and the actual heavy maintenance expense incurred during the period of $1.1 million.

Working Capital Position

The Fund has a current working capital deficit position representing total current assets less current liabilities, of $1.3 million, an improvement of $15.9 million from the December 31, 2004. The increase is primarily due to continued strong cash flows combined with the restructuring of financing in contemplation of the initial public offering, which resulted in an increase of long-term debt after retiring short-term debt. The working capital was also affected by capital expenditures of $3.3 million during the period, as well as heavy maintenance expenditures of $1.1 million.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances during the six months ended June 30, 2005 was $4.0 million. The increase in cash is primarily due to cash generated from operations, $2.6 million remaining on hand in respect of issuance costs of the initial public offering not paid as at June 30, 2005 and the timing of customer payments at month end.

Cash provided by financing activities during the six months ended June 30, 2005 was $57.4 million. The increase was due to the proceeds from the issuance of Fund units net of issuance costs, an increase of long-term debt of $11.7 million, which was offset by a reduction in shareholder advances and notes payable of $6.2 million and $0.6 million respectively.

Cash used in investing activities during the six months ended June 30, 2005 was $55.8 million. The decrease was due to the acquisition of the net assets of Cargojet Holdings Ltd. equal to $52.6 million, net of bank indebtness assumed of $0.4 million. Capital asset spending during the period was $3.3 million.

Financial Condition (continued)

Liquidity and Capital Resources (continued)

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results.

Management anticipates that the funds available under the operating facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

Distributions

A distribution of $0.0672 per unit was declared payable to unit holders of record on June 30, 2005, payable July 15, 2005.

Summary of Contractual Obligations

	Payments due by Period					
As at June 30, 2005	**Total**	**2005- remainder of fiscal year**	**2006**	**2007**	**2008**	**2009**
		($ thousands)				
Long-term debt	$ 22,010	$ -	$ -	$ 22,010	$ -	$ -
Captial lease obligations	$ -	$ -	$ -	$ -	$ -	
Operating leases	$ 15,026	$ 2,745	$ 4,730	$ 4,014	$ 2,393	$ 1,145
Purchase obligations	$ -	$ -	$ -	$ -	$ -	
Other long-term obligations	$ -	$ -	$ -	$ -	$ -	
Total contractual obligations	$ 37,036	$ 2,745	$ 4,730	$ 26,024	$ 2,393	$ 1,145

Capital Resources

The Fund does not expect to make significant capital expenditures in the near future.

Off Balance Sheet Arrangements

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

Financial Condition (continued)

Transactions with Related Parties

During the twenty-two day period ended June 30, 2005 the Fund received revenues of $0.25 million from Starjet Airways Ltd., and incurred costs associated with this revenue of $0.24 million. The accounts receivable balance owing as at June 30, 2005 was $0.7 million.

Segmented Information and Economic Dependence

The Fund manages its operations in one business segment, which is providing domestic and transborder air cargo services. All operations are conducted in Canada. During the period ended June 30, 2005, the Fund had sales to three customers that represented 50% of total sales.

Contingencies

The Fund has provided irrevocable standby letters of credit totaling $0.2 million to a financial institution and a supplier as security for its corporate credit cards and ongoing services to be provided. The letters of credit expire as to $0.2 million on December 31, 2005 and the remainder on March 20, 2006.

Financial Instruments and Other Instruments

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions. The Fund has entered into hedging transactions with a major Canadian financial institution with the intent to fix the interest rate at 6.89% for the next three years. The Fund has effectively achieved hedge accounting with respect to its current interest rate swap. It is the Fund's intention to mitigate the risk associated with foreign exchange gains or losses through the purchase of foreign exchange forward contracts for 100% of the net estimated foreign exchange over the next two years. The Fund is in the process of preparing a foreign exchange hedging policy that complies with the requirements for hedge accounting as documented in Accounting Guideline 13.

Outlook

Demand for time-sensitive air cargo services continues to grow within Canada, as both capacity available on commercial airlines continues to decrease and industry volumes grow at above inflationary rates. Enhanced security regulations for air cargo, as recently announced by the Minister of Transport, may result in increased acceptance screening processes, particularly for air cargo carried in the belly of passenger aircraft and will lead to increased demand for air cargo services carried on all-cargo aircraft.

Management believes that operating results will continue to improve in the coming year, with the addition of recently announced new guaranteed revenue contracts and increased demand for its services.

Financial Condition (continued)

Outlook (continued)

Management's principal objective is to increase free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, including internationally; 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 increase cash flow and, accordingly, distributions. Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of addition units.

Any decisions regarding the above, including potential increases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

Critical Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates. The items requiring the use of management estimates are the determination of aircraft heavy maintenance reserves, allowance for doubtful accounts, the obsolescence of spare parts, materials and supplies, and the valuation of intangible assets.

End Notes

(A) All references to "EBITDA" in Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, income taxes, future income tax recovery, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals". 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 either non-cash (in the case of amortization, interest on long-term debt, income taxes, future income tax recovery, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals). EBITDA is a useful financial and operating metric for investors as it represents a starting point in the determination of distributable cash [B]. The underlying reasons for exclusion of each item are as follows:

Financial Condition (continued)

End Notes (continued)

Amortization – as a non-cash item amortization has no impact on the determination of 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.

Income taxes - income taxes are a function of tax laws and rates and are affected by matters, which are separate from the daily operations of the Fund.

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

Non-controlling Interest – non-controlling interest represents a direct non-controlling interest in Cargojet Holdings Limited Partnership through Exchangeable LP Units. Accordingly non-controlling interest represents a different class of expense than those included in EBITDA.

Employee profit sharing plan – the employee profit sharing plan expense represents amounts previously paid to management in the predecessor company and are not considered an expense indicative of continuing operations. The plan was discontinued at the closing of the initial public offering, accordingly this expense represents a different class of expense than those included in EBITDA.

Stock based compensation plan – stock based compensation plan expense represent compensation paid to employees in the predecessor company accordingly this expense represents a different class of expense than those included in EBITDA. The plan was discontinued at the closing of the initial public offering.

Aircraft heavy maintenance accruals – aircraft heavy maintenance accruals represent an estimate of the expense related to the overhaul of the Fund's aircraft and therefore considered a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance incurred in the period; accordingly this expense represents a different class of expense than those included in EBITDA.

Financial Condition (continued)

End Notes (continued)

(B) The Fund has adopted a measurement called distributable cash to supplement net income 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 issuers. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unit holders and Exchangeable LP unit holders. Exchangeable LP unit holders 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 unit holders in the calculation of distributable cash as Exchangeable LP unit holders distributions are economically equivalent to those received by trust unit holders and Exchangeable LP unit holders are exchangeable on a one-to-one basis for trust units of the Fund. Distributable cash is calculated as EBITDA [A] less maintenance capital expenditures, current income taxes and interest on long-term debt. 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.