CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operation

For the Three Month and 159 Day Period Ended September 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 three month and 159 day period ended September 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 114 day period from June 9, 2005 to September 30, 2005. To provide meaningful information to the reader, the following will refer to the three month period ended September 30, 2005 and also include a discussion of, and comparative operating results for, the three and nine month periods ended September 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 November 11, 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 nine months ended September 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the nine months ended September 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, as 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 50.0% 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. During the quarter ended September 30, 2005, the Fund operated 1,321 flights of which more than 98.0% 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 and second quarter MD&A, a major ACMI contract previously held with a Canadian airline was replaced directly with three major customers to provide additional lift and capacity to Western Canada on a nightly basis effective August 8, 2005. Agreements were signed with these three customers, which transferred 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.

The company recently renewed the only two major customer contracts that were up for renewal in 2005, on multi-year terms and with rate increases exceeding CPI. Cargojet also entered into a new customer contract, with minimum daily revenue guarantees, that took affect on November 01, 2005.

Canada and the United States have recently begun negotiations of a new Open Skies Agreement between the two countries. This MD & A includes a discussion of this topic, in the "Outlook" section.

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 both the three month and 159 day (operationally 114 days) period ended September 30, 2005, approximately 70.0% 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.

Revenues (continued)

The Fund also provides and operates dedicated aircraft on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis for UPS Supply Chain Solutions Inc., formerly known as Menlo Worldwide Inc. The airline 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 Quarter Ended September 30, 2005

- Average overnight daily cargo revenue for the third quarter of 2005 was $0.54 million per operating day as compared to $0.49 million per operating day for the third quarter of 2004, representing an increase of 10.2%.

- Average overnight weight carried on the network for the third quarter of 2005 increased by 8% to 0.56 million pounds per operating day as compared to 0.52 million pounds per operating day for the third quarter of 2004

- EBITDA [(A)] was $4.3 million for the quarter ended September 30, 2005 as compared to $1.1 million for the comparable quarter of 2004.

- Distributable Cash [(B)] and cash available for distribution was $2.7 million and $2.6 million respectively for the quarter ended September 30, 2005.

Results of Operation
(in thousands of dollars)

	Quarter ended September 30, 2005 (unaudited)	Period from inception April 25 to September 30, 2005 (159 days) [2] (unaudited)
Revenue	**$ 29,513**	$ 36,389
Direct expense	**22,629**	27,761
	6,884	8,628
Selling, general and administrative expenses		
Sales and marketing	**183**	218
General and administrative	**3,316**	4,068
Interest	**381**	467
Amortization of capital assets	**77**	95
Amortization of intangible assets	**2,601**	3,189
	6,558	8,037
Earnings before income taxes and non-controlling interest	**326**	591
Future income tax recovery	**494**	555
Earnings before non-controlling interest	**820**	1,146
Non-controlling interest	**(205)**	(287)
Net earnings	**615**	859
Distributions declared in the period	**(1,843)**	(2,293)
Deficit, beginning of period	**(206)**	-
Deficit, end of period	**$ (1,434)**	$ (1,434)
Earnings per trust unit (basic)	**$ 0.09**	$ 0.13
Earnings per trust unit (diluted) [1]	**$ 0.07**	$ 0.10
Average number of trust units outstanding basic (in thousands of units)	**6,699**	6,699
Average number of trust units outstanding diluted (in thousands of units)	**8,932**	8,932
Net earnings before non-controlling interest	**$ 820**	$ 1,146
Add:		
Interest	**381**	467
Future income tax recovery	**(494)**	(555)
Amortization of capital assets in direct expenses	**680**	835
Amortization of capital assets	**77**	95
Amortization of intangible assets	**2,601**	3,189
Aircraft heavy maintenance accrual	**715**	807
Less: Aircraft heavy maintenance expenditures	**(482)**	(607)
EBITDA [A]	**$ 4,298**	$ 5,377
EBITDA [A]	**$ 4,298**	$ 5,377
Maintenance capital expenditures-other than engines	**480**	568
Maintenance capital expenditures- engine purchases [3]	**735**	735
Interest	**381**	467
Distributable cash [B]	**$ 2,702**	$ 3,607
Cash available for distribution (95% of distributable cash)	**$ 2,567**	$ 3,428
Distributable cash per unit - diluted [1]	**$ 0.303**	$ 0.404
Distributable cash available per unit [1]	**$ 0.288**	$ 0.384
Cash distributions	**$ 2,457**	$ 3,057
Cash distributions as a percentage of distributable cash	**91%**	85%
Cash distributions as a percentage of cash available for distribution	**96%**	89%

(1) Diluted earnings per trust unit. For the purpose of determining diluted earnings per trust unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

(2) These are the results of operation of the Fund for the 114 day period from June 9 to September 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.

(3) Maintenance expenditures- engines represent the purchase of two engines during the three months ended September 30, 2005. These expenditures will be offset by the proceeds of sale of the old engines, per the sales agreement dated October 15, 2005 for $436,000 USD.

Review of Operations (For the Three Month Period Ended September 30, 2005)

Revenue

Total revenue was $29.5 million for the three months ended September 30, 2005 and $36.4 million for the period June 9 to September 30, 2005, as compared to $25.8 million for the three months ended September 30, 2004. Revenue related to the overnight cargo service was $0.54 million per operating day for the three months ended September 30, 2005, and $0.53 million per operating day for the period June 9 to September 30, 2005 as compared to $0.49 million per operating day for the three months ended September 30, 2004. The increase over 2004 levels is as a result of a general increase in cargo volumes, and also as a result of an increase in fuel surcharges. Revenue related to the overnight cargo service accounted for 90.0% of the total revenue for the period June 9 to September 30, 2005.

ACMI cargo revenues were $1.6 million for the three months ended September 30, 2005, and $2.2 million for the period June 9 to September 30, 2005, as compared to $0.6 million for the three months ended September 30, 2004. The increase over the 2004 period is attributable to the fact that one of the ACMI accounts started in September of 2004 and existed until August 2005 and this revenue is not comparable for the first half of 2004. Revenue related to the ACMI cargo service accounted for 6.0% of the total revenue for the period June 9 to September 30, 2005.

ACMI passenger revenue was $1.1 million for the quarter ended September 30, 2005 and $1.3 million for the period June 9 to September 30, 2005 as compared to $0.7 million for the quarter ended September 30, 2004. Revenue related to the ACMI passenger service accounted for 4.0% of the total revenue for the period June 9 to September 30, 2005.

Direct Expenses

Direct expenses were $22.6 million for the quarter ended September 30, 2005 and represented 76.7% of revenue, compared to direct expenses of $21.4 million representing 83.1% of revenue for the quarter ended September 30, 2004. For the period June 9 to September 30, 2005 direct expenses were $27.7 million, representing 76.3% of revenue. The improvement in direct expenses as a percentage of revenue compared to 2004 can be attributed to an improvement in aircraft line maintenance expenses, a reduction in ground handling and equipment maintenance costs relative to prior periods, and an increase in overall cargo revenues. Fuel expense increased by $1.6 million to $8.4 million for the quarter ended September 30, 2005, an increase of 23.0% over the third quarter of 2004. Fuel cost as a percentage of revenue was 28.4% in the third quarter of 2005 as compared to 26.5% in the third quarter of 2004. Fuel increases were passed through to the customers as a fuel surcharge. The ability of the Fund to pass through increased fuel costs to customers was improved effective September 2004 with the introduction of the Emergency Fuel Surcharge ("EFS"). Fixed costs, which are spread over a larger revenue base, also contributed to the improvement in the margin.

Review of Operations (For the Three Month Period Ended September 30, 2005)

Selling, General and Administrative Expenses

Selling general and administrative expenses were $3.5 million, representing 11.9% of revenue for the three months ended September 30, 2005, compared to $3.2 million or 12.2% of revenue for the three months ended September 30, 2004. For the period June 9, 2005 to September 30, 2005 selling, general and administrative expenses were $4.3 million or 11.8% of revenue. The decrease in selling, general and administrative expenses as a percentage of revenue for the three months ended September 30, 2005 compared to the same period for 2004 is attributable to the fact that many of the fixed costs in this area were spread over a larger revenue base.

EBITDA [(A)]

EBITDA [(A)] for the quarter ended September 30, 2005 was $4.3 million or 14.6% of revenue, compared to $1.1 million or 4.2% of revenue for the three months ended September 30, 2004. For the period June 9 to September 30, 2005_EBITDA [(A)] was $5.4 million or 14.8%. The increase in EBITDA [(A)] as a percentage of revenue year over year is due to the fact that revenues increased proportionally more than direct expenses and selling, general and administrative expenses, and also due to the relative fixed nature of certain of these expenses. Additionally, a heavy maintenance accrual of $0.7 million was charged to earnings during the three months ended September 30, 2005 but was added back for the purposes of calculating EBITDA [(A)]. Actual heavy maintenance expenditures incurred during this period of $0.5 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 accrued by the Fund over a period of 24 months. Management expects that the heavy maintenance expenditures will be incurred as planned for the year.

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. 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 of intangible assets recorded for the three months ended September 30, 2005 was $2.6 million, and for the period from June 9, 2005 to September 30, 2005 was $3.2 million. Amortization of capital assets is consistent with past practices of the predecessor company Cargojet Holdings Ltd, and for the three months ended September 30, 2005 totaled $0.8 million, out of which $0.7 million is included in direct expenses. Amortization of capital assets for the period June 9 to September 30, 2005 totaled $0.9 million, out of which $0.8 million was included in direct expenses, and for the three months ended September 30, 2004, totaled $0.6 million, out of which $0.5 million was included in direct expenses.

Review of Operations (For the Three Month Period Ended September 30, 2005) (continued)

Interest

Interest expense was $0.4 million or 1.3% of revenue for the three months ended September 30, 2005 and reflects the average balance of the Fund's credit line at its fixed rate of interest of 6.89%. Interest expense was $0.5 million or 1.3% of revenue for the period June 9 to September 30, 2005, and $0.3 million or 1.2% of revenue for the three months ended September 30, 2004. 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 $0.5 million during the three months ended September 30, 2005 and $0.6 million during the period June 9 to September 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.

Non-controlling Interest

Non-controlling interest of $0.2 million for the three months ended September 30, 2005, and $0.3 million for the period June 9 to September 30, 2005 represents the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

Distributions

Total distributions for the three-month period ended September 30, 2005 were $2.46 million, and the total distributions for the period from April 25, 2005 to June 30, 2005 were 0.6 million. A distribution of $0.0917 per Income Fund unit, for the period September 1 to September 30, 2005 was declared payable to unit holders of record on September 30, 2005, payable on October 14, 2005. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period July 1, 2005 to September 30, 2005 was declared payable to unit holders of record on September 30, 2005, payable on October 14, 2005. The payout ratio for the three months ended September 30, 2005 was 91%.

Cash Available for Distribution

Cash available for distribution for the three months ended September 30, 2005 was $2.6 million, an increase of $1.7 million compared to $0.9 million for the twenty-two day period from June 9, 2005 to June 30, 2005. Cash available for distribution was affected by the purchase of aircraft engines equal to $0.7 million during the third quarter of 2005, the cost of which will be offset by the proceeds of sale of the old engines, equal to $0.5 million, received in October 2005.

Review of Operations (For the Three Month Period Ended September 30, 2005) (continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances during the three months ended September 30, 2005 was $0.2 million. The increase in cash is primarily due to increase in revenues and the timing of customer payments at month end, offset by $2.0 million paid during the quarter for the issuance costs of the initial public offering. Cash provided by operating activities after net changes in non-cash working capital balances for the period June 9, 2005 to September 30, 2005 was $3.8 million, out of which $0.6 million was cash still remaining on hand in respect of issuance costs of the initial public offering at September 30, 2005. Again, the increase in cash is primarily due to increased revenues, and the timing of customer payments.

Cash used in financing activities during the three months ended September 30, 2005 was $1.1 million. This was comprised of $1.8 million used for the distributions paid to unitholders, and an increase of long-term debt of $0.7 million. Cash provided by financing activities during the period June 9, 2005 to September 30, 2005 was $51.8 million, out of which $52.6 million was from the proceeds from the net issuance of Fund units, $1.0 million was from an increase of long-term debt, off-set by $1.8 million used for distributions to unitholders.

Cash used in investing activities during the three months ended September 30, 2005 was $1.3 million, represented by capital asset spending during the period. Cash used in investing activities during the period June 9, 2005 to September 30, 2005 was $54.4 million, out of which $53.0 million was used for the acquisition of the net assets of Cargojet Holdings, and $1.4 million was used for additions to capital assets.

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.

Highlights for the Quarter and Three Quarters Ended September 30, 2005

- Revenues and EBITDA [(A)] increased 14.6% and 301% respectively for the quarter ended September 30, 2005 in comparison to the quarter ended September 30, 2004.

- Revenues and EBITDA [(A)] increased 18.2% and 93.8% respectively for the three quarters ended September 30, 2005 in comparison to the three quarters ended September 30, 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 nine months ended September 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 nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2005	2004	**2005**	2004
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenues	**$29,513**	$25,752	**$84,971**	$71,901
Direct expenses	**22,629**	21,404	**65,334**	57,245
	6,884	4,348	**19,637**	14,656
Selling, general and administrative expenses				
Sales and marketing	**183**	218	**714**	504
General and administrative	**3,316**	2,934	**9,842**	8,639
Interest	**381**	319	**1,072**	863
Amortization of capital assets	**77**	68	**216**	184
Amortization of intangible assets	**2,601**	-	**3,188**	-
Employee profit sharing plan [2]	**-**	-	**2,000**	-
Stock-based compensation [2]	**-**	-	**4,466**	-
	6,558	3,539	**21,498**	10,190
Earnings before Non-controlling Interest and income taxes	**326**	809	**(1,861)**	4,466
Non-controlling Interest	**205**	-	**287**	-
Income taxes	**(494)**	168	**191**	929
Net earnings	**615**	641	**(2,339)**	3,537
Add:				
Interest	**381**	319	**1,072**	863
Amortization of capital assets in direct expenses	**680**	501	**1,862**	1,354
Amortization of capital assets	**77**	68	**216**	184
Amortization of intangible assets	**2,601**	-	**3,188**	-
Non-controlling Interest	**205**	-	**287**	-
Income taxes	**(494)**	168	**191**	929
Employee profit sharing plan [2]	**-**	-	**2,000**	-
Stock based compensation expense [2]	**-**	-	**4,466**	-
Aircraft heavy maintenance accrual	**715**	1,134	**1,635**	1,869
Less: Aircraft heavy maintenance expenditures	**(482)**	(1,759)	**(1,531)**	(3,036)
EBITDA [A]	**$ 4,298**	$ 1,072	**$11,047**	$ 5,700

[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 Quarter and Three Quarters Ended September 30, 2005)

Revenues

Revenues for the quarter ended September 30, 2005 increased $3.8 million or 14.6% to $29.5 million as compared to $25.8 million for the comparative period in 2004. ACMI cargo revenue accounted for $0.9 million of the increase while revenues from the overnight network increased $2.5 million or 10.2% to $26.9 million. ACMI passenger revenues increased by $0.4 million, or 53.2%.

Revenues for the three quarters ended September 30, 2005 increased by $13.1 million or 18.2% to $85.0 million, compared to the three quarters ended September 30, 2004. Revenues from the overnight network increased by $6.6 million or 9.5% to $75.3 million, while ACMI cargo revenue accounted for $6.1 million of the increase, due to the fact that the ACMI cargo contracts commenced in the third quarter of 2004. ACMI passenger revenues increased by $0.4 million or 18.0% over these two comparative periods.

Direct Expenses

Direct expenses for the quarter ended September 30, 2005 increased by $1.2 million or 5.7% to $22.6 million, compared to $21.4 million for the comparative period in 2004. Fuel expense increased by $1.6 million to $8.4 million, an increase of 23% over the third quarter of 2004. Fuel cost as a percentage of revenue was 28.4% in the third quarter of 2005 as compared to 26.5% in the third quarter of 2004. Fuel increases were passed through to the customers as a fuel surcharge. The number of block hours flown has a direct impact on the variable costs of the organization. The number of block hours flown during the third quarter of 2005 was 2,650, a decrease of 1.3% from the third quarter of 2004 due to the replacement of one of the ACMI cargo contracts with a revised cargo network in August 2005. Line maintenance costs decreased by $0.1 million, due to a reduction in contracted maintenance costs, and reduced aircraft parts repair costs. Heavy maintenance expenses decreased by $0.4 million, or 24.2% compared to the third quarter of 2004. The actual heavy maintenance expenditures during the third quarter of 2005 were $0.5 million as compared to $1.8 million in 2004. Linehaul expense increased by $0.4 million or 30.8% to $1.7 million compared to the third quarter of 2004 as a direct result of continued route rationalization initiatives to enable greater flexibility with the routes to meet the needs of customers.

<u>Review of Operations</u> (For the Quarter and Three Quarters Ended September 30, 2005) (continued)

<u>Direct Expenses</u> (continued)

Direct expenses for the three quarters ended September 30, 2005 increased by $8.1 million or 14.1% to $65.3 million, compared to $57.2 million for the comparative period in 2004. Fuel expense increased by $5.2 million to $22.9 million, an increase of 29.4% over 2004. Fuel cost as a percentage of revenue was 27.1% for the three quarters ended September 30, 2005, as compared to 24.6% for the comparative period in 2004. Fuel cost increases were passed through to the customers as a fuel surcharge. The number of block hours increased to 8,250 or 13.6% mainly due to the addition of two ACMI contracts that came into effect late in the third quarter of 2004. Both ACMI contracts began in September of 2004 and represented an increase of 1,561 hours as compared to 2004. . Navigation and landing fees increased by $0.7 million or 10.1% to $7.6 million. Crew costs increased by $0.7 million or 14.6% to $5.5 million. These increases were a direct result of the increased hours required to fly and service the new ACMI customers. Linehaul expense increased by $1.3 million or 40.6% to $4.5 million a direct result of route rationalization to enable greater flexibility with the routes to meet the needs of customers. Line maintenance expense decreased by $0.3 million or 4.8% to $6.0 million. The actual heavy maintenance expenditures for the three quarters ended September 30, 2005 were $1.5 million as compared to $3.0 million in 2004. Overall, the percentage increase in direct expenses was less than the percentage increase in revenues.

<u>Selling, General and Administrative Expenses</u>

Selling, general and administrative expenses for the three months ended September 30, 2005 increased by $0.4 million to $3.5 million or 11.0% compared to the comparative period in 2004. Volume rebates to customers increased marginally during the period as a result of Cargojet's initiative to reward customers for greater volumes. Employee salaries and related benefits increased by $0.3 million or 15.0% to $2.3 million, as a result of new employees being added to support the growth of the business. .

Selling, general and administrative expenses for the three quarters ended September 30, 2005 increased by $1.5 million to $10.6 million or 15.4% compared to the comparative period in 2004. Volume rebates to customers increased to $0.2 million during the period. Advertising and sales promotion expenses increased marginally to $0.3 million during the period. Employee salaries and related benefits increased by $1.4 million or 25.0% to $7.0 million, as a result of new employees being added to support the growth of the business.

Review of Operations (For the Quarter and Three Quarters Ended September 30, 2005)(continued)

EBITDA [A]

EBITDA [A] for the three months ended September 30, 2005 increased by $3.2 million or 301% to $4.3 million compared to $1.1 million for the comparative period in 2004. The improvement in EBITDA [A] is attributed to the increase in ACMI and overnight cargo revenues while utilizing the existing fixed cost base, which was offset by an increase in general, and administrative expenses. The improvement in EBITDA is also due to the fact that for the third quarter of 2005, the heavy maintenance accrual added back to earnings was greater than the heavy maintenance expenditures deducted from earnings to arrive at the EBITDA, whereas in the third quarter of 2004, the heavy maintenance accrual added back to earnings was less than the heavy maintenance expenditures deducted from earnings to arrive at EBITDA.

EBITDA [A] for the three quarters ended September 30, 2005 increased by $5.4 million or 93.8% to $11.0 million compared to the three quarters ended September 30, 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. The improvement in EBITDA is also due to the fact that the heavy maintenance accrual added back to earnings was greater than the heavy maintenance expenditures deducted from earnings to arrive at the EBITDA, whereas for the three quarters ended September 30, 2004, the heavy maintenance accrual added back to earnings was less than the heavy maintenance expenditures deducted from earnings to arrive at EBITDA.

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 (excluding goodwill and licenses) 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 the amortization of intangible assets recorded in the third quarter of 2005 was $2.6 million and the amortization of intangibles recorded since acquisition date of June 9, 2005 to September 30, 2005 was $3.2 million.

Interest

Interest expense increased by $0.1 million to $0.4 million in the third quarter of 2005, compared to $0.3 million for the comparative period in 2004. Interest expense increased by $0.2 million to $1.1 million for the three quarters ended September 30, 2005 compared to $0.9 million for the comparative period in 2004. The increase was primarily due to the increase in long term debt as a result of the refinancing that occurred concurrently with the Initial Public Offering.

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 three months ended September 30, 2005 was $2.6 million, an increase of $1.7 million from the twenty-two day period from June 9, 2005 to June 30, 2005. Cash available for distribution was affected by the purchase of aircraft engines equal to $0.7 million during the third quarter of 2005, the cost of which will be offset by the proceeds of sale of the old engines, equal to $0.5 million, received in the month of October 2005

Other Performance Measures

Capital Expenditures

Capital expenditures, totaled $1.3 million, for the quarter ended September 30, 2005. Of this amount $1.2 million was for maintenance capital expenditures, representing the replacement of capital in order to sustain current business operations. Included in the amount is $0.7 million related to engine purchases, and the balance related primarily to the purchase of rotable spare parts. Growth capital expenditures, representing capital required to meet the demands of acquired or organic growth, totaled $0.1 million for the quarter ended September 30, 2005. The total capital expenditures for the quarter ended September 30, 2005 were $0.3 million more than those for the quarter ended June 30, 2005.

Capital expenditures for the three quarters ended September 30, 2005 totaled $4.6 million. Maintenance capital expenditures totaled $3.4 million and include $2.1 million for engine purchases, $0.1 million for ground support equipment, $0.7 million for rotable spare parts, $0.4 million in leasehold improvements and furniture and fixtures and $0.1 million in computers and software. Growth capital expenditures totaled $1.2 million and include $0.5 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. Of the total growth capital expenditures of $1.2 million during the three quarters ended September 30, 2005, $0.1 million was for the period from June 9, 2005 to September 30, 2005.

Financial Condition

The following is a comparison of the financial condition of the fund as at September 30, 2005 to the financial position of the predecessor Cargojet Holdings Ltd. as at December 31, 2004 as disclosed in the prospectus dated June 1, 2005, and the financial position as at June 30, 2005 as disclosed in the interim financial statements of the Fund issued for the second quarter of 2005.

Cash

The cash increased by $3.4 million from the balance as at December 31, 2004 and decreased by $2.1 million from the balance as at June 30, 2005 to $1.2 million as at September 30 2005. Included in the $1.2 million balance is $0.6 million remaining on hand in respect of issuance costs of the initial public offering not paid as at September 30 2005. The sources and uses of cash are further discussed in the "Liquidity and Capital Resources" section.

Accounts Receivable

Accounts receivable increased by $0.7 million compared to the balance as at December 31, 2004 and by $1.3 million compared to the balance as at June 30, 2005 to $7.1 million as at September 30, 2005. The increase is primarily due to the increase in revenues and the timing of payments from customers. The quality of the Fund's receivables balance and its current collections remains excellent.

Financial Condition (continued)

Capital Assets

Capital assets increased by $2.5 million from December 31, 2004 to $29 million as at September 30, 2005. The increase was primarily due to the purchase of $2.1 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 $1.1 million, maintenance equipment of $0.1 million, computers and software of $0.1 million, furniture and fixtures of $0.1 million, and leasehold improvements of $0.3 million. These additions were offset by amortization during the three quarter period ended September 30, 2005 of $2.1 million. The increase in capital assets from June 30, 2005 was $1.3 million, made up of $0.7 million for aircraft engines, $0.3 million for rotable spares, as well as items in various other categories.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by $2.5 million from the balance as at December 31, 2004 and decreased by $2.2 million from the balance as at June 30, 2005 to $9.3 million as at September 30, 2005. The decrease is attributable to the timing of cash payments, including the timing of the payroll disbursement. Also, out of the $2.6 million that was accrued to June 30, 2005 for the issuance costs of the initial public offering, $2.0 million was paid by September 30, 2005 leaving an accrued balance of $0.6 million for the remaining issuance costs.

Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual increased by $0.1 million from December 31, 2004 to $1.5 million as at September 30, 2005. This is related solely to the timing difference between the accrual of $1.6 million and the actual heavy maintenance expense incurred of $1.5 million during the period. The aircraft heavy maintenance accrual increased by $0.2 million from June 30, 2005 to September 30, 2005. Again this is solely related to the timing difference between the heavy maintenance accrual of $0.7 million and the actual heavy maintenance expense of $0.5 million. Management expects that the heavy maintenance expenditures will be incurred as planned for the year.

Working Capital Position

The Fund has a working capital deficit, representing the difference between total current assets and current liabilities, of $0.6 million, an improvement of $16.6 million from December 31, 2004, and an improvement of $0.7 million from June 30, 2005. The increase is primarily due to continued strong cash flows combined with the restructuring the Company's 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 $4.6 million as well as heavy maintenance expenditures of $1.5 million during the three quarters ended September 30, 2005.

Financial Condition (continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances during the three quarters ended September 30, 2005 was $4.2 million. The increase in cash is primarily due to cash generated from operations, $0.6 million remaining on hand in respect of issuance costs of the initial public offering not paid as at September 30, 2005 and the timing of customer payments at month end. This was offset by $2.0 million paid for issuance costs of the initial public offering during the quarter.

Cash provided by financing activities during the three quarters ended September 30, 2005 was $56.3 million. The increase was due to the proceeds of $52.6 million from the issuance of Fund units net of issuance costs, an increase of long-term debt of $12.4 million, which was offset by a reduction in shareholder advances and notes payable of $6.2 million and $0.6 million respectively. Cash used for financing activities during the quarter ended September 30, 2005 was $1.1 million, represented by $1.8 million used for the distributions paid to unitholders, offset by an increase in long-term debt of $0.7 million.

Cash used in investing activities during the three quarters ended September 30, 2005 was $57.1 million. The decrease was due to the acquisition of the net assets of Cargojet Holdings Ltd. equal to $52.6 million, net of bank indebtedness assumed of $0.4 million. Capital asset spending during the three quarters ended September 30, 2005 was $4.6 million. Cash used in investing activities during the quarter ended September 30, 2005 was $1.3 million, represented entirely by the additions to capital assets during the quarter.

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

Total distributions for the three-month period ended September 30, 2005 were $2.46 million and $0.6 million for the period from April 25, 2005 to June 30, 2005. A distribution of $0.0917 per Income Fund unit, for the period September 1 to September 30, 2005 was declared payable to unit holders of record on September 30, 2005, payable on October 14, 2005. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period July 1, 2005 to September 30, 2005 was declared payable to unit holders of record on September 30, 2005, payable on October 14, 2005.

Financial Condition (continued)

Summary of Contractual Obligations

	Payments due by Period					
As at September 30, 2005	Total	2005 to Remainder of Fiscal Year	2006	2007	2008	2009
($ thousands)						
Long-term debt	$22,750	$ -	$ -	$22,750	$ -	$ -
Captial lease obligations	-	-	-	-	-	
Operating leases	14,376	1,376	5,274	4,207	2,417	1,102
Purchase obligations	-	-	-	-	-	
Other long-term obligations	-	-	-	-	-	
Total contractual obligations	$37,126	$1,376	$5,274	$26,957	$2,417	$1,102

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".

Transactions with Related Parties

During the third quarter ended September 30, 2005 the Fund received revenues of $1.1 million from Starjet Airways Ltd., and incurred costs associated with this revenue of $1.0 million. The accounts receivable balance owing as at September 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 three month period ended September 30, 2005, the Fund had sales to three customers that represented approximately 56% of total sales.

Contingencies

The Fund has provided irrevocable standby letters of credit totaling $0.22 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 Condition (continued)

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, which will be maturing on June 15, 2008, with a major Canadian financial institution in order to fix the interest rate at 6.89% during this period of time. The Fund has effectively achieved hedge accounting with respect to its current interest rate swap. 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.

Outlook

Demand for time-sensitive air cargo services continues to grow within Canada, as capacity available on commercial airlines continues to decrease and industry volumes continue to 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 such as Cargojet's. Although Cargojet has been able to pass through the increases in fuel costs, it is anticipated that jet fuel prices will decrease for future periods. Recently jet fuel prices have declined at a pace much slower than that of crude oil prices. The spread between crude oil prices and jet fuel prices has increased as much as 500% compared to that of January 2005, because of much higher refining costs and distribution costs for jet fuel during the damaging hurricane season that the U.S. experienced. Cargojet's fuel prices are fixed on a monthly basis by its major fuel suppliers and Cargojet adjusts it fuel surcharge accordingly to its customers. Management is confident that the Company will continue to fully recover any future increases in fuel costs.

Management believes that operating results will continue to improve in the coming year, with the renewal of two major customer contracts and the addition of a recently announced new guaranteed revenue contract, increased demand for its services and increasing market share.

Canada and the United States have recently begun negotiations of a new Open Skies Agreement between the two countries. Government sources say the biggest change would be that a Canadian airline taking passengers or cargo to a U.S. city would be able to pick up more business in that U.S. city, and then fly the people or goods to a third country. The reverse would of course also be true for a U.S. airline that wanted to do more business in Canada.

As things stand now, Canadian airlines can fly passengers and cargo to the U.S. but cannot then pick up additional business destined for a third country.

Financial Condition (continued)

Outlook (continued)

Despite the widespread lauding of the open skies talks, the practice of allowing Canadian airlines to transport passengers or cargo from one U.S. city to another -- a practice known as "cabotage" -- is not on the table. U.S. carriers would similarly not be allowed to exercise cabotage in Canada.

Cargojet does not believe that there is any significant threat to its current domestic time-sensitive overnight air cargo business as a result of any proposed changes to the current Open Skies Agreement.

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, obsolescence of spare parts, materials and supplies, and the valuation of intangible assets.

Financial Condition (continued)

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 non-cash (in the case of amortization, and future income tax recovery), or non-operating (in the case of interest on long-term debt, income taxes, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals). EBITDA is a useful financial and operating measure 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:

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.

Financial Condition (continued)

End Notes (continued)

(A) (continued)

Stock based compensation plan - stock based compensation plan expense represents 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.

(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.