CARGOJET INCOME FUND

Management Discussion and
Analysis of Financial Condition and Results of Operation

For the Three Month Period Ended March 31, 2006

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 period ended March 31, 2006. 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. 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. To provide meaningful information to the reader, the following will refer to the three month period ended March 31, 2006 and also include a discussion of, and comparative operating results for, the three month period ended March 31, 2005 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.

Management has evaluated the effectiveness of the Funds' disclosure controls and procedures as of March 31, 2006 and has concluded that these are effective in providing reasonable assurance that material information relating to the Fund has been appropriately disclosed.

The effective date of the MD&A is April 21, 2006. 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, non-controlling interest and adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA [A], and Distributable Cash [B] are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA [A], and Distributable Cash [B] may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA [A] and Distributable Cash [B] should not be construed as an alternative to net 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 March 31, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the three month period ended March 31, 2006 and 2005. 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 and operates a co-load network that management believes constitutes approximately 50% of Canada’s dedicated domestic overnight air cargo market. 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 also operates dedicated aircraft on an Aircraft, Crew, Maintenance & Insurance (“ACMI”) basis for various customers. In November, 2005, the Fund also began operations on an international route operating between the USA and Bermuda five days per week. The Fund monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services. The Fund makes cash distributions to unitholders 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 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, 2005 other than the events otherwise described.

A general price increase of 10% came into effect on January 1, 2006 for all non-contract customers.

Cargojet also entered into an agreement in late January 2006 with BAX Global Inc. to provide ACMI services four days per week from Montreal and Toronto to Toledo, Ohio.

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 three-month period ended March 31, 2006, approximately 75% 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 flight legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules. To enhance its revenues, the Fund offers a specialty charter service typically during 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 ACMI basis for UPS Supply Chain Solutions Inc., formerly known as Menlo Worldwide Inc. and BAX Global Inc. The Fund operates these aircraft on dedicated routes where both customers are responsible for all commercial activities and the Fund is paid a fixed amount to operate the routes. 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 consist primarily 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 three month period ended March 31, 2006

- Total revenue for the three month period ended March 31, 2006 was $31.4 million as compared to $27.4 million for the three month period ended March 31, 2005, representing an increase of 14.6%.

- 98% of flights arrived at their destination within 30 minutes of scheduled arrival time for the three months ended March 31, 2006.

- Average overnight weight carried on the network for the three month period ended March 31, 2006 increased by 6.8% to 0.53 million pounds per operating day as compared to the three month period ended March 31, 2005.

- EBITDA [(A)] was $3.4 million for the three month period ended March 31, 2006 as compared to $4.2 million for the three month period ended March 31, 2005.

- Distributable Cash [(B)] and cash available for distribution was $1.8 million and $1.7 million respectively for the three month period ended March 31, 2006.

Results of Operations
(in thousands of dollars)

		Three months ended March 31, 2006 (unaudited)
Revenue	$	31,352
Direct expense		25,363
		5,989
Selling, general and administrative expenses		
Sales and marketing		228
General and administrative		3,489
Interest		471
Amortization of capital assets		90
Amortization of intangible assets		2,517
		6,795
Loss before income taxes and non-controlling interest		(806)
Future income tax recovery		740
Loss before non-controlling interest		(66)
Non-controlling interest		16
Net Loss		(50)
Deficit, beginning of period		(3,674)
Distributions declared in the period		(1,843)
Deficit, end of period	$	(5,567)
Loss per trust unit (basic)	$	(0.01)
Loss per trust unit (diluted) (1)	$	(0.01)
Average number of trust units outstanding - basic (in thousands of units)		6,699
Average number of trust units outstanding - diluted (in thousands of units)		8,932
Net loss before non-controlling interest	$	(66)
Add:		
Interest		471
Future income tax recovery		(740)
Amortization of capital assets in direct expenses		697
Amortization of capital assets		90
Amortization of intangible assets		2,517
Aircraft heavy maintenance accrual		446
Less: Aircraft heavy maintenance expenditures		(28)
EBITDA (A)	$	3,387
EBITDA (A)	$	3,387
Maintenance capital expenditures -other than engines (2)		658
Maintenance capital expenditures - engine purchase (3)		420
Interest		471
Distributable cash (B)	$	1,838
Cash available for distribution (95% of distributable cash)	$	1,746
Distributable cash per unit - diluted (1)	$	0.206
Distributable cash available per unit (1)	$	0.195
Cash distributions	$	2,457
Cash distributions as a percentage of distributable cash		134%
Cash distributions as a percentage of cash available for distribution		141%

(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) Maintenance capital expenditures: excludes the capital lease purchase of $0.4 million for computer equipment.
(3) Maintenance capital expenditures- engine purchase: represents the purchase of one aircraft engine.

Results of Operations

Supplementary Financial Information [1]

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the three month period ended March 31, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the three month periods ended March 31, 2006 and 2005. 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 March 31,	
	2006 (unaudited)	2005 (unaudited)
Revenues	$ 31,352	$ 27,377
Direct expenses	25,363	20,970
	5,989	6,407
Selling, general and administrative expenses		
Sales and marketing	228	160
General and administrative	3,489	3,009
Interest	471	339
Amortization of capital assets	90	73
Amortization of intangible assets	2,517	-
Employee profit sharing plan [2]	-	2,350
	6,795	5,931
(Loss) Earnings before Income taxes and Non-controlling Interest	(806)	476
Income taxes	(740)	179
(Loss) Earnings before Non-controlling Interest	(66)	297
Non-controlling Interest	(16)	-
Net (loss) earnings	(50)	297
Add:		
Interest	471	339
Amortization of capital assets in direct expenses	697	540
Amortization of capital assets	90	73
Amortization of intangible assets	2,517	-
Non-controlling Interest	(16)	-
Income taxes	(740)	179
Employee profit sharing plan [2]	-	2,350
Aircraft heavy maintenance accrual	446	375
Less: Aircraft heavy maintenance expenditures	(28)	-
EBITDA [A]	$ 3,387	$ 4,153

(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 existed in the predecessor company; however, it was discontinued at the closing of the initial public offering.

Review of Operations (For the Three Month Period Ended March 31, 2006)

Revenue

Total revenue increased by $4.0 million or 14.6% to $31.4 million for the three month period ended March 31, 2006, as compared to $27.4 million for the three month period ended March 31, 2005. Overnight cargo revenues increased by $2.9 million or 12.1% to $26.9 million for the three month period ended March 31, 2006, as compared to $24.0 million for the three month period ended March 31, 2005. The increase over 2005 levels is as a result of the addition of new customer business, growth of existing customers' volumes and an increase in fuel surcharges. Revenue related to the overnight cargo service accounted for 85.7% of the total revenue for the three month period ended March 31, 2006.

ACMI cargo revenues were $1.2 million for the three month period ended March 31, 2006, as compared to $2.5 million for the three month period ended March 31, 2005. The decrease from 2005 is attributable to the fact that one of the ACMI routes started in September of 2004 and was terminated in August 2005, at which time this business was converted to overnight cargo service revenue with the addition of a new scheduled flight. Revenue related to the ACMI cargo service accounted for 3.8% of the total revenue for the three month period ended March 31, 2006.

International revenue was $2.2 million for the three month period ended March 31, 2006, and represented 7.0% of the total revenue. This international route, from Newark to Bermuda, commenced in November of 2005 and therefore revenue from this operation is not comparable to the first quarter of 2005.

ACMI passenger revenue was $1.0 million for the three month period ended March 31, 2006 as compared to $0.9 million for the three month period ended March 31, 2005. The ACMI passenger revenue was higher for the three month period ended March 31, 2006 because of a Federal election charter during this time. Revenue related to the ACMI passenger service accounted for 3.2% of the total revenue for the three month period ended March 31, 2006.

Direct Expenses

Direct expenses for the three month period ended March 31, 2006 increased by $4.4 million or 21.0% to $25.4 million, compared to $21.0 million for the comparative period in 2005. Direct expenses for the three month period ended March 31, 2006 represented 80.9% of revenue, compared to 76.6% for the comparable period in 2005. Fuel expense increased by $2.2 million to $9.0 million, an increase of 32.4% over the three month period ended March 31, 2005. Fuel cost as a percentage of revenue was 28.7% in the three month period ended March 31, 2006 as compared to 24.8% for the comparative period in 2005. Fuel cost increases were passed through to the customers as a fuel surcharge and billed to customers on a cost recovery basis only. Increases in crew costs of $0.7 million, aircraft lease costs of $0.3 million, ground handling of $0.3 million, and landing fees of $0.3 million were incurred primarily due to the new international route, an additional scheduled flight, and a new ACMI contract. It is anticipated that these costs will reduce going forward. Linehaul expense increased by $0.4 million primarily due to the purchasing of capacity on a competing network rather than operating or extending flights on Cargojet's own network during the period.

Review of Operations (For the Three Month Period Ended March 31, 2006) (continued)

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$3.7 million, representing 11.8% of revenue for the three month period ended March 31, 2006, compared to \$3.2 million or 11.7% of revenue for the three month period ended March 31, 2005. The increase in selling, general and administrative expenses between these two periods is due to an increase in personnel salaries and benefits, public company expenses, insurance costs, and a decrease in foreign exchange gains.

EBITDA [A]

EBITDA [A] for the three month period ended March 31, 2006 was \$3.4 million or 10.8% of revenue, compared to \$4.2 million or 15.3% of revenue for the three month period ended March 31, 2005. The decrease in EBITDA [A] as a percentage of revenue for the first quarter of 2006 compared to the first quarter of 2005 is partially due to the increase in fuel cost between these two time periods. These additional costs were billed to customers on a cost recovery basis only. Higher than anticipated operational costs related to the international route resulted in lower margins for the quarter. It is anticipated that both the revenues and costs will improve and overall margins will improve as a result. Margins on the additional overnight flight are less than those experienced on the overnight network, however, it is anticipated that the margins on this business will continue to improve. Higher crew costs, and an increase in selling, general and administrative expenses, as previously noted, also reduced EBITDA for the period. The heavy maintenance accrual of \$0.4 million charged to earnings during the three month period ended March 31, 2006 was added back for the purposes of calculating EBITDA [A]. Actual heavy maintenance expenditures incurred during this period of \$0.03 million have been deducted for the purpose of calculating 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.

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. Collectively, the amortization of intangible assets recorded for the three month period ended March 31, 2006 was \$2.5 million. Amortization of capital assets is consistent with past practices of the predecessor company, Cargojet Holdings Ltd. as well as the practices of the Fund, since its inception, and for the three month period ended March 31, 2006 totaled \$0.8 million, out of which \$0.7 million was included in direct expenses.

Interest

Interest expense was $0.5 million or 1.6% of revenue for the three month period ended March 31, 2006. Interest expense is calculated as the average balance of the Fund's credit line at its fixed rate of interest of 6.89%. It also includes interest expense of $0.04 million on an amount payable to The Cargojet Group of Companies Employee Profit Share Plan Trust ("EPSP Trust"). The Fund has entered into an interest rate swap to effectively manage its exposure to interest rate fluctuations for the period from June 15, 2005 to June 15, 2008.

Future Income Tax Recovery

The future income tax recovery of $0.7 million during the three month period ended March 31, 2006, 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 $(0.02) million for the three month period ended March 31, 2006 represents the share of loss for this period related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

Distributions

Total distributions, including distributions to the Exchangeable LP unitholders, for the three months ended March 31, 2006, were $2.5 million. A distribution of $0.0917 per Income Fund unit, equal to $0.6 million, for the period March 1 to March 31, 2006 was declared payable to unitholders of record on March 31, 2006, payable on April 13, 2006. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period January 1 to March 31, 2006 was declared payable to Exchangeable LP unitholders of record on March 31, 2006, payable on April 13, 2006. The payout ratio for the three month period ended March 31, 2006 was 134%. The cumulative payout ratio for the period from June 9, 2005 to March 31, 2006 was 97%.

Cash Available for Distribution

Cash available for distribution for the three month period ended March 31, 2006 was $1.7 million. Cash available for distribution was affected by maintenance capital expenditures during the three month period ended March 31, 2006 of $1.1 million, out of which $0.4 million was for the purchase of an aircraft engine.

Review of Operations (For the Three Month Ended March 31, 2006) (continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances during the three month period ended March 31, 2006 was $0.4 million. This is primarily due to continued strong revenues and the combination of the timing of customer payments, supplier payments, and the timing of the payroll disbursement.

Cash provided by financing activities during the three month period ended March 31, 2006 was $0.3 million, comprised of $2.5 million used for the distributions paid to unitholders and an increase in long-term debt of $2.8 million.

Cash used in investing activities during the three month period ended March 31, 2006 was $1.1 million, represented by capital asset spending during the period, out of which $0.4 million was used for the purchase of an aircraft engine.

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.

Other Performance Measures

Capital Expenditures

Capital expenditures for the three month period ended March 31, 2006 totaled $1.5 million. Capital expenditures included the capital lease purchase of $0.4 million for computer equipment. Maintenance capital expenditures totaled $1.1 million, which included $0.4 million for engine purchases, $0.3 million for ground support equipment, $0.2 million for rotable spare parts and $0.2 million in leasehold improvements and furniture and fixtures.

Financial Condition

The following is a comparison of the financial condition of the Fund as at March 31, 2006 to the financial position of the Fund as at December 31, 2005 as disclosed in the annual report for the year ended December 31, 2005.

Cash

Cash decreased by $0.3 million from December 31, 2005 to $0.02 million as at March 31, 2006. This is primarily due to the timing of customer and supplier payments, the timing of GST payments, as well as the timing of the bi-weekly payroll expenditure. The sources and uses of cash are further discussed in the "Liquidity and Capital Resources" section.

Accounts Receivable

The balance for accounts receivable decreased by $1.4 million from the balance as at December 31, 2005 to $9.0 million. The decrease is primarily due to the timing of payments from customers as well as the timing of GST refunds. There was an initial lag time in the payments received from the customers related to the start up of the international route, since this new source of revenue started close to the 2005 holiday season, and accounts were brought up to date during the three month period ended March 31, 2006. The quality of the Fund's receivable balances and its current collections in managements' opinion, remains excellent.

Capital Assets

Capital assets increased by $0.7 million from December 31, 2005 to $29.2 million as at March 31, 2006. The increase was as a result of the purchase of $0.4 million for an aircraft engine, additions to ground support equipment of $0.3 million, additions to rotable spare parts of $0.2 million and furniture, fixtures and leasehold improvements of $0.2 million, and the capital lease purchase of $0.4 million for computer equipment. These additions were offset by amortization during the period of $0.8 million.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by $4.2 million from the balance as at December 31, 2005 to $7.8 million. The decrease is attributable to the timing of supplier payments. The decrease is also due to the timing of the payroll disbursement and the re-payment of the advance from EPSP Trust of $1.9 million.

Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual increased by $0.4 million from December 31, 2005 to $2.5 million as at March 31, 2006. This is related solely to the timing difference between the accrual of $0.5 million and the actual heavy maintenance expense incurred of $0.03 million during the three months ended March 31, 2006. Management expects that the heavy maintenance accrual is sufficient to meet the expenditures to be incurred as per the heavy maintenance schedule.

Financial Condition (continued)

Working Capital Position

The Fund had a working capital as at March 31, 2006, representing the difference between total current assets and current liabilities, of $0.1 million, an improvement of $2.1 million from December 31, 2005. The increase from December 31, 2005 is primarily due to the decrease in accounts payable and accrued charges, offset by a decrease in accounts receivable after the holiday season. It was also due to the repayment of the advance from the EPSP Trust.

Summary of Contractual Obligations

	Payments due by Period					
As at March 31, 2006	Total	2006-remainder of fiscal year	2007	2008	2009	2010
(in thousands of dollars)						
Long-term debt	$ 26,040		$ 26,040			
Captial lease	337	86	121	130		
Operating leases	19,457	5,719	6,099	4,364	3,169	106
Other long-term obligations	-					
Total contractual obligations	$ 45,834	$ 5,805	$ 32,260	$ 4,494	$ 3,169	$ 106

Capital Resources

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

Off Balance Sheet Arrangements

The Fund has one off-balance sheet arrangement, an interest rate swap (see" Financial Instruments and Other Instruments") in addition to those disclosed under "Summary of Contractual Obligations".

Financial Condition (continued)

Transactions with Related Parties

During the three month period ended March 31, 2006 the Fund earned revenues of $1.0 million from Starjet Airways Ltd., and incurred costs associated with this revenue of $0.9 million. The accounts receivable balance owing from Starjet as at March 31, 2006 was $0.4 million. The Fund also incurred interest expenses of $0.04 million on the EPSP Trust loan. The EPSP Trust loan and the accrued interest were paid on March 31, 2006.

Segmented Information and Economic Dependence

The Fund manages its operations in one primary business segment, which is providing air cargo services on both a scheduled and ACMI basis. The Fund also provides ACMI services to Starjet Airways Ltd., a company providing first class passenger charter services. Primary operations are conducted in Canada with some USA and International operations. During the three month period ended March 31, 2006, the Fund had sales to three customers that represented approximately 51% of total revenue.

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 letter of credit for $0.2 million expires on December 29, 2006 and the remainder on March 20, 2007.

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 a hedging transaction, 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 rates on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods. As at March 31, 2006, the Fund did not have any foreign exchange contracts outstanding.

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, 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 those of Cargojet. 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 Fund will continue to fully recover any future increases in fuel costs.

Outlook (continued)

Late in 2005, the Canadian and US governments reached agreement on a revised US/Canada Open Skies Agreement. As outlined in the Management Discussion and Analysis for the quarter ended September 30, 2005, the practice of allowing Canadian or US carriers to transport passengers or cargo between domestic points in the others' country, or cabotage, was not part of these discussions and is not part of the revised Agreement. Relaxation of Fifth Freedom capabilities, the ability to operate from a carriers home country to a second country and pick up passengers/cargo and continue to a third country, were included along with the introduction of co-terminalization for cargo carriers to operate an extension flight to a secondary point in the other country, but without the ability to carry domestic origin and destined cargo on the domestic leg of these transborder flights.

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 recent changes to the current Open Skies Agreement.

Cargojet recently expanded its service internationally with a new cargo service operating between Newark, New Jersey and Hamilton, Bermuda, on a five-day per week basis and the addition of a new ACMI cargo agreement with BAX Global Inc., operating four days per week from Montreal and Toronto to Toledo, Ohio as described previously in the section entitled "Recent Events".

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, 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 additional 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 those estimates. The items requiring the use of management estimates are the determinations of aircraft heavy maintenance reserves, the 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 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.

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.

End Notes

(A) (Continued)

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 is 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 unitholders and Exchangeable LP unitholders. Exchangeable LP unitholders are presented as non-controlling interest in the consolidated financial statements of the Fund, however management of the Fund has elected to include the holdings of the Exchangeable LP unitholders in the calculation of distributable cash as Exchangeable LP unitholders distributions are economically equivalent to those received by trust unitholders and Exchangeable LP unitholders are exchangeable on a one-to-one basis for 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.