CARGOJET INCOME FUND

Management Discussion and
Analysis of Financial Condition and Results of Operations

For the Three Month Period Ended March 31, 2007

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, 2007. To provide meaningful information to the reader, the following also includes a discussion of and comparative operating results 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. on June 9, 2005. Reference should be made to the prospectus of the Fund dated June 1, 2005 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

The effective date of the MD&A is April 27, 2007. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we" and "our" mean Cargojet Income Fund. This MD&A should be read in conjunction with the unaudited interim financial statements of the Fund for the three month periods ended March 31, 2007 and 2006 as well as the consolidated financial statements and MD&A for the year ended December 31, 2006.

References to "EBITDA" (A) are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets, deferred line maintenance charges and after adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA (A) and Distributable Cash (B) are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA (A) and Distributable Cash (B) may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA (A) and Distributable Cash (B) should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Distributable Cash (B) and EBITDA(A) are shown on pages 4 and 7, respectively.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference should be made to the Annual Information Form ("AIF"), filed March 23, 2007 with the regulatory authorities.

Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan" "estimate", "expect", "intend" and similar expressions to the extent they relate to the Fund or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in our AIF, filed March 23, 2007 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 twelve 727-200 series aircraft, six of which are leased and six owned. 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 addition, the Fund operates an international air cargo route operating between the USA and Bermuda five days per week for multiple customers. 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

The Fund successfully renewed one major customer contract in January, 2007, on a multi-year term and with an increase in the daily minimum revenue guarantee. There is one other customer contract up for renewal in 2007, which the Fund fully expects to renew on similar terms and basis. All major customers remain under long-term contracts with annual rate increases scheduled on the individual anniversary dates of each agreement.

The Fund continued to increase its international opportunities with the addition of new commercial agreements with major international carriers, which now total twenty-seven. The Fund also renewed customer contracts on its Newark to Bermuda route on multi-year terms, with rate increases, during the three month period ended March 31, 2007.

Cargojet recently celebrated its fifth anniversary as Canada's Cargo Airline and continues to maintain consistent and reliable premium overnight air cargo services. Overall on-time performance remained excellent, surpassing industry benchmarks and the Fund's contractual obligations.

Fuel costs continued to fluctuate during the three month period ended March 31, 2007. The Fund continues to adjust its monthly fuel surcharge to customers to recover any increases in fuel cost at the time that they occur.

The Fund recently passed a Transport Canada audit of its stage-two Safety Management System (SMS) program and is committed to maintaining a safe, secure work environment for all employees, customers and unitholders.

The Fund announced on January 22, 2007, an increase in annualized cash distributions of 2% from $1.133 per unit to $1.156 per unit.

Revenues

The Fund's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Fund's network and a corresponding guaranteed daily revenue amount is paid to the Fund for this space and weight allocation. Remaining capacity is sold on an *ad hoc* basis to contract and non-contract customers. The Fund also provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This revenue helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules. To enhance its revenues, the Fund offers a specialty charter service, typically, in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America and the Caribbean.

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

The Fund provides and operates dedicated aircraft on an ACMI basis for BAX Global Inc. and also provided ACMI services to UPS Supply Chain Solutions Inc. until June 2nd, 2006 when the term of this contract was completed. 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 provided ACMI passenger services for Starjet Airways Ltd., a related company, on a cost recovery plus six percent basis. The operations of Starjet Airways Ltd. ended December 21, 2006.

Expenses

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

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Fund's business, which includes functions such as load scheduling, flight operations coordination, client relations, administration and information systems. The Fund's administrative costs primarily consist of salaries and benefits including incentive plan expenses, 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.

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

	Three Month Period Ended March 31,			
	2007		2006 (3)	
	(unaudited)		(unaudited)	
Cash inflow from operations before changes in non-cash working capital items (1)	**$**	**3,876**	$	2,916
Changes in non-cash working capital items (1)				
Accounts receivable		**(1,915)**		1,354
Spare parts, materials and supplies		**38**		80
Prepaid expenses and deposits		**(295)**		(71)
Due from related company		**-**		314
Accounts payable and accrued charges		**(571)**		(4,187)
	$	**1,133**	$	406
Less:				
Maintenance capital expenditures (2)		**719**		1,078
Repayment of long-term debt obligation under capital lease		**37**		66
Total changes in non-cash working capital items		**(2,743)**		(2,510)
Distributable cash (B)	**$**	**3,120**	$	1,772
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
Distributable cash per unit - diluted (4)	**$**	**0.349**	$	0.198
Cash distributions	**$**	**2,566**	$	2,457
Cash distributions as a percentage of distributable cash		**82%**		139%

(1) Please refer to Statement of Cash Flows for the Fund.
(2) Maintenance capital expenditures for the Three Month Period Ended March 31, 2006 exclude the $0.4 million for equipment that was financed under a capital lease.
(3) Management has adjusted its calculation of Distributable Cash (B) during the noted period to include an adjustment for the repayment of long-term debt obligation under capital lease. These amounts were previously excluded from the calculation of Distributable Cash (B).
(4) For the purpose of calculating Distributable Cash per Unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

Results of Operations and Supplementary Financial Information
(in thousands of dollars)

	Three Month Period Ended March 31, 2007 (unaudited)	Three Month Period Ended March 31, 2006 (unaudited)
Revenue	**$ 33,825**	$ 31,352
Direct expense	**25,769**	25,363
	8,056	5,989
Selling, general and administrative expenses		
Sales and marketing	**199**	228
General and administrative	**4,319**	3,489
Interest	**155**	471
Amortization of capital assets	**107**	90
Amortization of intangible assets	**2,517**	2,517
	7,297	6,795
Earnings (loss) before income taxes and non-controlling interest	**759**	(806)
Future income tax recovery	**(401)**	(740)
Earnings (loss) before non-controlling interest	**1,160**	(66)
Non-controlling interest	**290**	(16)
Net earnings (loss)	**$ 870**	$ (50)
Earnings (loss) per trust unit - basic	**$ 0.13**	$ (0.01)
Earnings (loss) per trust unit - diluted	**$ 0.13**	$ (0.01)
Average number of trust units basic (in thousands of units)	**6,699**	6,699
Average number of trust units diluted (in thousands of units)	**8,932**	8,932
Total assets	**$ 110,232**	$ 121,586
Total long-term liabilities	**$ 21,574**	$ 31,898

Selected Financial Information

Summary of Most Recently Completed Consolidated Quarterly Results
(in thousands of dollars)

	Three Month Period Ended							67 Day Period Ended
	March 31 2007	December 31 2006	September 30 2006	June 30 2006	March 31 2006	December 31 2005	September 30 2005	June 30 2005[1]
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	**$ 33,825**	$ 35,102	$ 33,983	$ 33,593	$ 31,352	$ 32,906	$ 29,513	$ 6,876
Net earnings (loss)	**$ 870**	$ 1,592	$ 1,121	$ 1,369	$ (50)	$ (398)	$ 615	$ 244
Earnings (loss) per trust unit - basic	**$ 0.13**	$ 0.24	$ 0.17	$ 0.20	$ (0.01)	$ (0.06)	$ 0.09	$ 0.04
Earnings (loss) per trust unit - diluted	**$ 0.13**	$ 0.24	$ 0.17	$ 0.20	$ (0.01)	$ (0.06)	$ 0.09	$ 0.04
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	6,699	6,699	6,699	6,699	6,699	6,699
Average number of trust units - diluted (in thousands of units)	**8,932**	8,932	8,932	8,932	8,932	8,932	8,932	8,932

(1) These are the results of operations of the Fund for the 22 day period from June 9, 2005 to June 30, 2005. The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005.

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

	Three Month Period Ended March 31,	
	2007	2006 [(2)]
	(unaudited)	(unaudited)
Calculation of EBITDA [(A)]:		
Net earnings (loss)	**$ 870**	$ (50)
Add:		
Interest	**155**	471
Non-controlling interest	**290**	(16)
Future income tax recovery	**(401)**	(740)
Amortization of capital assets	**817**	787
Amortization of intangible assets	**2,517**	2,517
Aircraft heavy maintenance accrual	**980**	446
Less: Aircraft heavy maintenance expenditures	**(1,083)**	(28)
EBITDA [(A)]	**$ 4,145**	$ 3,387
Reconciliation of EBITDA [(A)] to Distributable Cash [(B)]:		
EBITDA [(A)]	**$ 4,145**	$ 3,387
Maintenance capital expenditures [(1)]	**719**	1,078
Interest [(3)]	**269**	471
Repayment of long term-debt obligation under capital lease	**37**	66
Distributable cash [(B)]	**$ 3,120**	$ 1,772

(1) Maintenance capital expenditures for the Three Month Period Ended March 31, 2006 exclude the $0.4 million for equipment that was financed under a capital lease.

(2) Management has adjusted its calculation of Distributable Cash [(B)] during the noted period to include an adjustment for the repayment of long-term debt obligation under capital lease. These amounts were previously excluded from the calculation of Distributable Cash [(B)].

(3) Interest excludes the unrealized gain on derivatives of $114,535 for the purpose of calculating Distributable Cash [(B)] for the Three Month Period Ended March 31, 2007.

Highlights for the Three Month Periods Ended March 31, 2007 and 2006

- Total revenue for the three month period ended March 31, 2007 was $33.8 million as compared to $31.4 million for the three month period ended March 31, 2006, an increase of 7.6%

- Average overnight daily cargo revenue for the three month period ended March 31, 2007 was $0.58 million per operating day, representing an increase of 9.4% as compared to $0.53 million per operating day for the three month period ended March 31, 2006

- Net earnings increased to $0.9 million for the three month period ended March 31, 2007 as compared to a net loss of $0.05 million for the three month period ended March 31, 2006

- EBITDA [(A)] increased by 20.6% to $4.1 million for the three month period ended March 31, 2007 as compared to $3.4 million for the three month period ended March 31, 2006

- Distributable Cash [(B)] was $3.1 million for the three month period ended March 31, 2007 as compared to $1.8 million for the three month period ended March 31, 2006, an increase of 72.2%

Review of Operations (For the Three Month Periods Ended March 31, 2007 and 2006)

Revenue

Total revenue increased by $2.4 million to $33.8 million for the three month period ended March 31, 2007, as compared to the three month period ended March 31, 2006, representing an increase of 7.6%. The increase over 2006 levels is a result of revenue enhancements on new and existing routes. Revenue related to the overnight cargo service was $0.58 million per operating day for the three month period ended March 31, 2007, compared to $0.53 million per operating day for the three month period ended March 31, 2006. Revenue related to the overnight cargo service accounted for 87.9% of the total revenue for the three month period ended March 31, 2007.

ACMI cargo revenue was $1.4 million for the three month period ended March 31, 2007, compared to $1.2 million for the three month period ended March 31, 2006. The increase from 2006 is attributable to the addition of a new ACMI contract early in the 2006 fiscal year. ACMI cargo revenue accounted for 4.1% of the total revenue for the three month period ended March 31, 2007.

International revenue was $2.5 million for the three month period ended March 31, 2007 , compared to $2.2 million for the three month period ended March 31, 2006. The increase compared to the same period in 2006 is attributable to increased volumes and yield amelioration during the three month period ended March 31, 2007. International revenue accounted for 7.4% of the total revenue for the three month period ended March 31, 2007.

Review of Operations (For the Three Month Periods Ended March 31, 2007 and 2006) (continued)

Revenue (continued)

Aircraft lease revenue from the passenger aircraft was $0.2 million for the three month period ended March 31, 2007 as compared to ACMI passenger revenue of $1.0 million for the three month period ended March 31, 2006. The service agreement for the ACMI passenger revenue was terminated in October, 2006.

Direct Expenses

Direct expenses were $25.8 million for the three month period ended March 31, 2007 and represented 76.3% of revenue, compared to direct expenses of $25.4 million representing 80.9% of revenue for the three month period ended March 31, 2006. The improvement in direct expenses as a percentage of revenue compared to 2006 can be attributed to a general increase in overall revenue, combined with continued cost control efforts on new and existing business. For the three month period ended March 31, 2007, fuel expense increased by $0.71 million over the comparative period in 2006. Fuel cost increases were passed through to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $4.5 million, representing 13.3% of revenue for the three month period ended March 31, 2007, compared to $3.7 million or 11.8% of revenue for the three month period ended March 31, 2006. The increase in selling, general and administrative expenses as a percentage of revenue for the three month period ended March 31, 2007 compared to the same period for 2006 is primarily attributable to incentive plan expenses of $0.5 million accrued during the period.

EBITDA [(A)]

EBITDA [(A)] for the three month period ended March 31, 2007 was $4.1 million or 12.1% of revenue, compared to $3.4 million or 10.8% of revenue for the three month period ended March 31, 2006. The improvement in EBITDA can be attributed to an improvement in margins related to a new scheduled flight for the overnight cargo service which began later in 2005 as well as on the international route which began in November, 2005. For the purpose of calculating EBITDA [(A)] for the three month period ended March 31, 2007, the heavy maintenance accrual of $1.0 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $1.1 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the three month period ended March 31, 2006, the heavy maintenance accrual of $0.4 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.03 million were deducted from earnings. 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.

Review of Operations (For the Three Month Periods Ended March 31, 2007 and 2006) (continued)

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, 2007 was $2.5 million and for the three months ended March 31, 2006, it was also $2.5 million. Amortization of capital assets for the three month period ended March 31, 2007 totaled $0.8 million, out of which $0.7 million was included in direct expenses.

Interest

Interest expense was $0.2 million for the three month period ended March 31, 2007. The interest expense was $0.5 million for the three month period ended March 31, 2006. The decrease in interest expense is partially due to the unrealized gain arising from the Fund's interest rate hedge on its loan, recorded at fair value, in accordance with the Fund's policy on derivative financial instruments. The decrease in interest expense is also due to a reduction in long-term debt during the three month period ended March 31, 2007. 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 was $0.4 million for the three month period ended March 31, 2007 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse. 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 was $0.3 million for the three month period ended March 31, 2007, compared to $(0.02) million for the three month period ended March 31, 2006 and 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.

Review of Operations (For the Three Month Periods Ended March 31, 2007 and 2006) (continued)

Distributions

Total distributions declared for the three month period ended March 31, 2007 were $2.6 million, or $0.2873 per trust unit. A distribution of $0.0964 per Trust unit, equal to $0.6 million, for the period March 1, 2007 to March 31, 2007 was declared to unit holders of record on March 31, 2007, payable on or before April 15, 2007. Also, a distribution of $0.2873 per Exchangeable LP unit, equal to $0.6 million, for the period January 1, 2007 to March 31, 2007 was declared to Exchangeable LP unit holders of record on March 31, 2007, payable on or before April 15, 2007. The total distributions declared for the three month period ended March 31, 2006 were $2.5 million, or $0.2751 per trust unit. The payout ratio for the three month period ended March 31, 2007 was 82% compared to 139% for the three month period ended March 31, 2006.

On March 8, 2007, the board of Trustees of the Fund approved the release of the subordination provisions as they relate to the Exchangeable LP units as all conditions pertaining to the subordination had been satisfied (please refer to the Prospectus filed June 1, 2005 with the regulatory authorities for more information).

The Fund announced on August 11, 2006, an increase in annualized cash distributions of 3% from $1.10 per unit to $1.133 per unit. The Fund announced on January 22, 2007, an increase in annualized distributions of 2% from $1.133 per unit to $1.156 per unit, bringing the total increase in annualized distributions since June 9, 2005 to 5%.

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. The following table summarizes the cash distributions for the three month period ended March 31, 2007:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
January 31, 2007	February 15, 2007	633,043	633,043	211,015	-	844,058	0.0945	633,043
February 28, 2007	March 15, 2007	645,770	645,770	215,256	-	861,026	0.0964	645,770
March 31, 2007	April 13, 2007	645,771	-	215,257	-	861,028	0.0964	-
		1,924,584	1,278,813	641,528	-	2,566,112	0.2873	1,278,813

Review of Operations (For the Three Month Periods Ended March 31, 2007 and 2006) (continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended March 31, 2007 was $1.1 million. This is primarily due to continued strong revenues and improved margins and the combination of the timing of collections from customers, supplier payments and the timing of the payroll disbursement.

Cash used in financing activities during the three month period ended March 31, 2007 was $6.6 million, comprised of a net $4.0 million decrease in long-term debt and the balance used for distributions paid to unitholders.

Cash used in investing activities during the three month period ended March 31, 2007 was $0.7 million, represented by capital asset spending of $0.7 million during the period.

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. The Fund's revolving credit facility is used primarily for working capital requirements. The Fund's revolving credit facility will mature on April 1, 2009.

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

Capital Expenditures

Capital asset additions totaled $0.7 million for the three month period ended March 31, 2007, representing maintenance capital expenditures for the period.

Financial Condition

The following is a comparison of the financial position of the Fund as at March 31, 2007 to the financial position of the Fund as at December 31, 2006.

Accounts Receivable

Accounts receivable increased by $2.0 million to $8.1 million compared to the balance of $6.1 million as at December 31, 2006. The increase in the accounts receivable balance is primarily due to timing differences for payments received from customers. The quality of the Fund's receivable balances and its current collections, in management's opinion, remains excellent.

Capital Assets

Capital assets decreased by $0.1 million from December 31, 2006 to $27.9 million as at March 31, 2007. The decrease in capital assets was comprised of $0.7 million for maintenance capital expenditures, offset by the amortization of capital assets recorded during the three month period ended March 31, 2007 of $0.8 million.

Intangible Assets

Intangible assets decreased by $2.5 million from December 31, 2006 to $69.5 million as at March 31, 2007. The decrease is entirely attributable to amortization of intangible assets recorded for the three month period ended March 31, 2007 of $2.5 million.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by $0.6 million compared to the balance as at December 31, 2006. The decrease from December 31, 2006 is primarily a result of the timing of supplier payments, and the timing of the payroll disbursement.

Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual decreased by $0.1 million from December 31, 2006 to March 31, 2007. This is as a result of an additional heavy maintenance accrual during this period of $1.0 million and offset by heavy maintenance expenditures during this period of $1.1 million.

Working Capital Position

The Fund had a working capital deficit as at March 31, 2007, representing the difference between total current assets and current liabilities, of $2.2 million, compared to a working capital surplus of $0.4 million as at December 31, 2006. The decrease in working capital is primarily due to the use of cash of $4.0 million cash for the net repayment of long-term debt. Working capital was also affected by the timing of supplier payments and collections from customers.

Financial Condition (continued)

Long-Term Debt

The Fund has a long-term revolving credit facility to a maximum of $28.0 million. This maximum authorized limit will be reduced to $26.0 million on July 1, 2007 and to $25.0 million on July 1, 2008. As at March 31, 2007, the Fund had utilized $17.0 million of this credit facility, compared to $21.0 million as at December 31, 2006. The maturity date of this revolving credit facility is April 1, 2009.

Also included in long-term debt is the long-term portion of the obligations under capital lease. This capital lease commenced in 2006 and as at March 31, 2007, the long-term portion of the obligation under capital lease was $0.1 million, compared to $0.13 million as at December 31, 2006.

Summary of Contractual Obligations

	Payments due by Period					
As at March 31, 2007	Total	2007	2008	2009	2010	2011
($ thousands)						
Long-term debt	$ 17,222	$ 92	$ 130	$ 17,000	$ -	$ -
Operating leases	13,901	4,915	5,329	3,093	434	130
Total contractual obligations	$ 31,123	$ 5,007	$ 5,459	$ 20,093	$ 434	$ 130

Capital Resources

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

Off-Balance Sheet Arrangements

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

Financial Condition (continued)

Transactions with Related Parties

During the three month period ended March 31, 2006 the Fund earned revenues from Starjet of $1.0 million and incurred costs associated with this revenue of $0.9 million. The service agreement with Starjet was terminated in October 2006 and therefore, there were no revenues earned from Starjet during the three month period ended March 31, 2007. The accounts receivable balance owing from Starjet as at March 31, 2007 was $0.6 million, compared to $0.6 million as at December 31, 2006. The Fund has acted upon its guarantee provided by the shareholders of Starjet, the retained interest holders of the Fund, to fund any shortfall in the amounts due from the related company.

The Fund also incurred interest expenses of $0.04 million on the EPSP Trust loan during the three month period ended March 31, 2006. The EPSP Trust loan and the accrued interest were repaid 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. Primary operations are conducted in Canada with some USA and International operations. The Fund also provided ACMI services to Starjet until October, 2006, when the service agreement with Starjet was terminated. The passenger aircraft was subsequently leased to a third party.

For the three month period ended March 31, 2007 the Fund had sales to three customers of $18.2 million or 54% of total revenue compared to $16.1 million or 51% of total revenue for the three month period ended March 31, 2006. Each of these customers are under long-term contract with the Fund and the revenue from each of these three customers represented more than 10% of the total revenue in these comparative periods.

Contingencies

As of March 31, 2007, the Fund has provided irrevocable standby letters of credit totaling $0.36 million to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. One of the letters of credit for $0.2 million, expires on December 31, 2007, one for $0.14 million expires on July 6, 2007 and the third for $0.02 million expires March 20, 2008.

Financial 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 entered into a hedging transaction with a major Canadian financial institution to manage most of its interest rate exposure in respect of its floating rate debt. This hedging transaction matures on June 15, 2008. The hedge was effective until the January 15th, 2007 repayment of $1.0 million of the loan balance, after which the hedge no longer met the accounting requirements for hedge accounting and accordingly, hedge accounting was discontinued. Changes in unrealized gains and losses that arise as a result of remeasuring the swap at fair value at the end of each period are now recognized in earnings during the period. As at March 31, 2007, the hedge had a positive fair value, or value favourable to the Fund, of approximately $0.1 million. 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, 2007, 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 may 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 its fuel surcharge accordingly to its customers. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

The Fund expects to achieve continued organic growth within its existing customer base and to obtain new customers for both its domestic and international business due to its competitive market position and the strength of its value added services. In addition, the Fund will continue to explore opportunities to acquire complementary or competing businesses within the limits set by the proposed tax legislation.

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 further 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. The table below discloses the methodology used by management in the assessment of these accounting estimates.

Critical Accounting Estimate	Methodology, Assumptions
Aircraft heavy maintenance accrual	The accrual is based on past history, as well as expected costs of future heavy maintenance checks. Actual costs may be higher than those anticipated, due to unexpected maintenance costs beyond the control of the Fund.
Accounts Receivable: allowance for doubtful accounts	The allowance is based on specific analysis of the accounts receivable aging reports, and review of past efforts to collect the overdue invoices. The allowance is specific to the invoices not certain to be collected.
Obsolescence of spare parts, materials and supplies	The reserve for obsolescence of spare parts, materials and supplies is based on examination of the spare parts, materials and supplies by tracking repair and usage history. Provision is made based on these estimates.
Valuation of intangible assets	The valuation is based on expected future cash flows, with factors that may affect future cash flows taken into account. Intangible assets with an indefinite life are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Any resulting impairment loss is recorded in the period in which the impairment occurs, as dictated by Canadian generally accepted accounting principles. Intangible assets that have a definite life are capitalized and are amortized over their estimated useful life and are further tested for impairment if events or circumstances indicate that the asset might be impaired.

Income Taxes

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in Fund income being subject to a tax at the trust level.

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

Financial Reporting Update

Effective January 1, 2007, Cargojet adopted the accounting rules related to the new financial instruments accounting framework, which encompass the new Canadian Institute of Chartered Accountants ("CICA") Handbook Sections 3855 "Financial Instruments - Recognition and Measurement", 3865 "Hedges" and 1530 "Comprehensive Income". The new accounting pronouncements that are effective for 2007 determine how reporting entities recognize and measure financial assets, financial liabilities and non-financial derivatives.

New Section 3855 sets out comprehensive requirements for recognition and measurement of financial instruments. Under this standard, an entity would recognize a financial asset or liability only when the entity becomes a party to the contractual provisions of the financial instrument. Financial assets and financial liabilities would, with certain exceptions, be initially measured at fair value.

In conjunction with the new standard on financial instruments as discussed above, CICA Handbook Section 1530 (Comprehensive Income) has also been issued. A statement of comprehensive income would be included in a full set of financial statements for both interim and annual periods under this new standard. Comprehensive income is defined as the change in equity (net assets) of an enterprise during a period from transactions and other events and circumstances from non-owner sources. The new statement would present net income and each component to be recognized in other comprehensive income. Likewise, the CICA has issued Handbook Section 3251 (Equity), which requires the separate presentation of the components of equity (retained earnings, accumulated other comprehensive income ("AOCI"), the total retained earnings and accumulated other comprehensive income, contributed surplus, unitholders' capital and reserves); and the changes in equity arising from each of these components of equity.

Information Disclosure Controls and Procedures

Disclosure controls and procedures within the Fund and the General Partner ("GP") are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Trustees of the Fund and the Directors of the GP. An evaluation of the effectiveness of the Fund's and the GP's disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2006 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

Internal Controls over Financial Reporting

During 2006, the Fund began its documentation and assessment of internal controls over financial reporting, leading to the regulatory certification of its annual filings. The Fund has documented and assessed the design of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. This undertaking has enabled the Chief Executive Officer and Chief Financial Officer to attest that internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that the Fund's consolidated financial statements were prepared in accordance with GAAP.

The Fund has identified the need for improvement with regards to segregation of duties. These matters and their related risks are not uncommon in a company of Cargojet's size. To date, Cargojet has utilized external advisors and taken such other action as it has considered appropriate to minimize this risk including the hiring of additional staff. In addition, management is taking appropriate steps to further analyze and improve in this area.

During the year ended December 31, 2006, the Fund made changes to its internal controls that did not materially affect internal controls over financial reporting.

End Notes

(A) All references to "EBITDA" in the Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, future income tax recovery, non-controlling interest, deferred line maintenance charges, gain or loss on disposal of capital assets 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, deferred line maintenance charges, gain or loss on disposal of capital assets, aircraft heavy maintenance accruals and future income tax recovery), or non-operating (in the case of interest on long-term debt, income taxes and non-controlling interest). The underlying reasons for exclusion of each item are as follows:

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

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

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

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.

Amortization of deferred line maintenance charges - these are line maintenance charges paid, and amortized over a period greater than twelve months. As a non-cash item, the amortization of these charges has no impact on the determination of EBITDA and distributable cash.

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

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.

End Notes (continued)

[B] The Fund has adopted a measurement called distributable cash to supplement net earnings as a measure of operating performance. Distributable cash is a term, which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other Funds. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unitholders and exchangeable LP unitholders. Exchangeable LP unitholders are presented as non-controlling interest in the consolidated financial statements of the Fund, however, management of the Fund has elected to include the holdings of the exchangeable LP unitholders in the calculation of distributable cash as exchangeable LP unitholders' distributions are economically equivalent to those received by trust unitholders and exchangeable LP unitholders are exchangeable on a one-to-one basis for trust units of the Fund. 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.