CARGOJET INCOME FUND

Management Discussion and
Analysis of Financial Condition and Results of Operation

For the Three Month and Six Month Periods Ended June 30, 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 and six month periods ended June 30, 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. To provide meaningful information to the reader, the following will refer to the three month and six month periods ended June 30, 2006 and also include a discussion of and comparative operating results for, the three month and six month periods ended June 30, 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 annual report dated March 14, 2006.

Management has evaluated the effectiveness of the Funds' disclosure controls and procedures as of June 30, 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 August 1, 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 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.

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the three month and six month periods ended June 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the three month and six month periods ended June 30, 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.

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 29, 2006 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 29, 2006 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.

In addition to a general price increase of 10% that came into effect on January 1, 2006 for all non-contract customers, the rates for several major contract accounts were increased as per the provisions in their contracts.

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. The term of the ACMI contract with UPS Supply Chain Solutions (previously known as Menlo Worldwide Inc.) was completed in June 2006.

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 six month periods ended June 30, 2006, 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. 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.

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.

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.

The Fund provides and operates dedicated aircraft on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis for BAX Global Inc. and also provided ACMI services to UPS Supply Chain Solutions Inc. until June 3rd, 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 provides ACMI passenger services for Starjet Airways Ltd., a related company, on a cost recovery plus six percent basis.

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 and administration and information systems. The Fund's administrative costs primarily consist of salaries and benefits including employee 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.

Results of Operation and Supplementary Financial Information [1]
(in thousands of dollars)

	Three Month Period Ended		Six Month Period Ended		Twenty-two Day Period Ended
	June 30, 2006	June 30, 2005 (1)	**June 30, 2006**	June 30, 2005 (1)	June 30, 2005
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)	(unaudited)
Revenue	**$ 33,593**	$ 28,080	**$ 64,945**	$ 55,458	$ 6,876
Direct expense	**24,784**	21,735	**50,147**	42,705	5,132
	8,809	6,345	**14,798**	12,753	1,744
Selling, general and administrative expenses					
Sales and marketing	**224**	373	**452**	532	36
General and administrative	**3,855**	3,515	**7,343**	6,524	752
Employee profit sharing plan (2)	**-**	(350)	**-**	2,000	-
Stock-based compensation plan (2)	**-**	4,466	**-**	4,466	-
Interest	**445**	351	**916**	691	86
Amortization of capital assets	**97**	66	**187**	139	18
Amortization of intangible assets	**2,545**	587	**5,063**	587	587
	7,166	9,008	**13,961**	14,939	1,479
Earnings before income taxes and non-controlling interest	**1,643**	(2,663)	**837**	(2,186)	265
Income taxes	**182**	(507)	**922**	(685)	61
Earnings before non-controlling interest	**1,825**	(3,170)	**1,759**	(2,871)	326
Non-controlling interest	**(456)**	(81)	**(440)**	(81)	(81)
Net earnings	**1,369**	$ (3,251)	**1,319**	$ (2,952)	245
Deficit, beginning of period	**(5,567)**		**(3,674)**		-
Distributions declared in the period	**(1,843)**		**(3,686)**		(450)
Deficit, end of period	**$ (6,041)**		**$ (6,041)**		$ (205)
Earnings per trust unit (basic)	**$ 0.20**		**$ 0.20**		$ 0.04
Earnings per trust unit (diluted) (3)	**$ 0.20**		**$ 0.20**		$ 0.04
Average number of trust units outstanding basic (in thousands of units)	**6,699**		**6,699**		6,699
Average number of trust units outstanding diluted (in thousands of units)	**8,932**		**8,932**		8,932
Net earnings	**$ 1,369**	$ (3,251)	**$ 1,319**	$ (2,952)	$ 245
Add:					
Interest	**445**	351	**916**	691	86
Non-controlling interest	**456**	81	**440**	81	81
Employee profit sharing plan (2)	**-**	(350)	**-**	2,000	-
Stock-based compensation plan (2)	**-**	4,466	**-**	4,466	-
Income taxes	**(182)**	507	**(922)**	685	(61)
Amortization of capital assets in direct expenses	**709**	641	**1,406**	1,182	154
Amortization of capital assets	**97**	66	**187**	139	18
Amortization of intangible assets	**2,545**	587	**5,063**	587	587
Aircraft heavy maintenance accrual	**379**	545	**825**	920	92
Less: Aircraft heavy maintenance expenditures	**(319)**	(1,048)	**(347)**	(1,048)	(124)
EBITDA (A)	**$ 5,499**	$ 2,595	**$ 8,887**	$ 6,751	$ 1,078
EBITDA (A)	**$ 5,499**		**$ 8,887**		$ 1,078
Maintenance capital expenditures-other than engines [4]	**337**		**995**		87
Maintenance capital expenditures- engine purchases	**341**		**761**		-
Interest	**445**		**916**		86
Repayment of long term debt obligation under capital lease	**28**		**56**		-
Distributable cash (B)	**$ 4,348**		**$ 6,159**		$ 905
Cash available for distribution (95% of distributable cash)	**$ 4,131**		**$ 5,851**		$ 860
Distributable cash per unit - diluted (3)	**$ 0.487**		**$ 0.690**		$ 0.101
Distributable cash available per unit (3)	**$ 0.462**		**$ 0.655**		$ 0.096
Cash distributions	**$ 2,457**		**$ 4,914**		$ 600
Cash distributions as a percentage of distributable cash	**57%**		**80%**		66%
Cash distributions as a percentage of cash available for distribution	**59%**		**84%**		70%

[1] Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the three month period and six month period ended June 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the three month period and six month period ended June 30, 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.

[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.

[3] 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.

[4] Maintenance capital expenditures for the six month period ended June 30, 2006 exclude the capital lease of $0.4 million for computer equipment.

Highlights for the Three Month Period Ended June 30, 2006 and 2005

- Total revenue for the three month period ended June 30, 2006 was $33.6 million as compared to $28.1 million for the three month period ended June 30, 2005, an increase of 19.6%
- Average overnight daily cargo revenue for the three month period ended June 30, 2006 was $0.56 million per operating day, representing an increase of 14.3% as compared to $0.49 million per operating day for the three month period ended June 30, 2005
- EBITDA (A) increased by 112% to $5.5 million for the three month period ended June 30, 2006 as compared to $2.6 million for the three month period ended June 30, 2005
- Distributable Cash (B) and cash available for distribution was $4.3 million and $4.1 million respectively, for the three month period ended June 30, 2006

Review of Operations (For the Three Month Period Ended June 30, 2006 and 2005)

Revenue

Total revenue increased by $5.5 million to $33.6 million for the three month period ended June 30, 2006, as compared to the three month period ended June 30, 2005, representing an increase of 19.6%. The increase over 2005 levels is as a result of revenue enhancements on new routes and maintaining fuel surcharges in line with fuel costs. Revenue related to the overnight cargo service was $0.56 million per operating day for the three month period ended June 30, 2006, compared to $0.49 million per operating day for the three month period ended June 30, 2005. Revenue related to the overnight cargo service accounted for 83.9% of the total revenue for the three month period ended June 30, 2006.

ACMI cargo revenue was $2.0 million for the three month period ended June 30, 2006, compared to $2.7 million for the three month period ended June 30, 2005. The decrease from 2005 is attributable to the fact that out of the two ACMI contracts started in 2004, one was terminated in August 2005 and the term for the other one was completed in June 2006. This was offset by the addition of a new ACMI contract early in the 2006 fiscal year end, as well as the conversion of the business from one of the ACMI contracts to overnight cargo service revenue with the addition of a new scheduled flight. ACMI cargo revenue accounted for 6.0% of the total revenue for the three month period ended June 30, 2006.

International revenue was $2.4 million for the three month period ended June 30, 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 three month period ended June 30, 2005.

Review of Operations (For the Three Month Period Ended June 30, 2006 and 2005) (continued)

Revenue (continued)

ACMI passenger revenue was $1.0 million for the three month period ended June 30, 2006 as compared to $1.0 million for the three month period ended June 30, 2005. Revenue related to the ACMI passenger service accounted for 3.1% of the total revenue for the three month period ended June 30, 2006.

Direct Expenses

Direct expenses were $24.8 million for the three month period ended June 30, 2006 and represented 73.8% of revenue, compared to direct expenses of $21.7 million representing 77.4% of revenue for the three month period ended June 30, 2005. The improvement in direct expenses as a percentage of revenue compared to 2005 can be attributed to a general increase in overall revenue, combined with continued cost control efforts. For the three month period ended June 30, 2006, fuel expense increased by $1.9 million over the comparative period in 2005. Fuel cost increases were passed through to customers as a fuel surcharge and billed to customers on a cost recovery basis only. Increases in crew costs of $0.3 million, ground handling of $0.2 million and landing fees of $0.3 million were primarily due to the new international route and an additional scheduled flight. Linehaul expense increased by $0.3 million primarily due to the purchasing of capacity on another network during the period to enable greater flexibility with the routes to meet the needs of customers.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $4.1 million, representing 12.2% of revenue for the three month period ended June 30, 2006, compared to $3.9 million or 13.8% of revenue for the three month period ended June 30, 2005. The decrease in selling, general and administrative expenses as a percentage of revenue for the three month period ended June 30, 2006 compared to the same period for 2005 is partially attributable to the fact that many of the fixed costs in this area were spread over a larger revenue base. In addition, the Fund experienced a reduction in such costs as marketing and travel, offset by increases in public company expenses, professional fees, personnel salaries and benefits.

Review of Operations (For the Three Month Period Ended June 30, 2006 and 2005) (continued)

EBITDA [(A)]

EBITDA [(A)] for the three month period ended June 30, 2006 was $5.5 million or 16.4% of revenue, compared to $2.6 million or 9.2% of revenue for the three month period ended June 30, 2005. The improvement in EBITDA [(A)] can be largely attributed to enhanced pricing and more efficient use of the network. For the purpose of calculating EBITDA [(A)] for the three month period ended June 30, 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 $0.3 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the three month period ended June 30, 2005, the heavy maintenance accrual of $0.5 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $1.0 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.

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 June 30, 2006 was $2.5 million. Amortization of capital assets is consistent with past practices of the predecessor company, Cargojet Holding Ltd., as well as the practices of the Fund, since its inception. Amortization of capital assets for the three month period ended June 30, 2006 totaled $0.8 million, out of which $0.7 million was included in direct expenses.

Interest

Interest expense was $0.45 million for the three month period ended June 30, 2006 and reflects the interest on the average balance of the Fund's credit line. The interest expense was $0.35 million for the three month period ended June 30, 2005. The increase in interest expense was primarily due to the increase in long term debt as a result of the refinancing that occurred concurrently with the initial public offering. 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 $0.2 million for the three month period ended June 30, 2006 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and are 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, due to the change in structure of the Fund versus its predecessor, Cargojet Holdings Ltd.

Review of Operations (For the Three Month Period Ended June 30, 2006 and 2005) (continued)

Non-controlling Interest

Non-controlling interest was $0.5 million for the three month period ended June 30, 2006, compared to $0.1 million for the twenty-two day period from June 9 to June 30, 2005 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.

Distributions

Total distributions for the three month period ended June, 2006 were $2.5 million, or $0.2751 per trust unit. A distribution of $0.0917 per Income Fund unit, equal to $0.6 million, for the period June 1, 2006 to June 30, 2006 was declared payable to unit holders of record on June 30, 2006, payable on July 14, 2006. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period April 1, 2006 to June 30, 2006 was declared payable to Exchangeable LP unit holders of record on June 30, 2006, payable on July 14, 2006. The total distributions for the twenty-two day period from June 9 to June 30, 2005 were $0.6 million, or $0.0672 per unit. The payout ratio for the three month period ended June 30, 2006 was 57% and the payout ratio for the twenty-two day period from June 9 to June 30, 2005 was 66%. The cumulative payout ratio for the six month period from January 1, 2006 to June 30, 2006 was 80%.

Cash Available for Distribution

Cash available for distribution for the three month period ended June 30, 2006 was $4.1 million. Cash available for distribution for the twenty-two day period from June 9 to June 30, 2005 was $0.86 million.

Review of Operations (For the Three Month Period Ended June 30, 2006 and 2005) (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 June 30, 2006 was $9.0 million. The increase in cash 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 June 30, 2006 was $7.5 million, comprised of $2.5 million used for the distributions paid to unitholders and a net decrease in long-term debt of $5.1 million.

Cash used in investing activities during the three month period ended June 30, 2006 was $0.8 million, represented by capital asset spending of $0.7 million during the period and $0.1 million used for additional issuance costs for the initial public offering.

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 June 30, 2006 totaled $0.7 million. This entire amount represented maintenance capital expenditures, which included $0.3 million for the purchase of an aircraft engine, $0.1 million for rotable spare parts, $0.1 million in leasehold improvements and furniture and fixtures, $0.1 million for computers and software and $0.1 million for ground support equipment and tooling assets.

Highlights for the Six Month Periods Ended June 30, 2006 and 2005

- Total revenue for the six month period ended June 30, 2006 was $64.9 million as compared to $55.5 million for the six month period ended June 30, 2005, an increase of 17.1%
- EBITDA [(A)] increased by 31.7% to $8.9 million for the six month period ended June 30, 2006 in comparison to the six month period ended June 30, 2005
- Distributable Cash [(B)] and cash available for distribution was $6.2 million and $5.9 million respectively for the six month period ended June 30, 2006

Review of Operations (For the Six Month Period Ended June 30, 2006 and 2005)

Revenues

Total revenue for the six month period ended June 30, 2006 increased by $9.4 million or 17.1% to $64.9 million compared to the six month period ended June 30, 2005. The increase over 2005 levels is as a result of revenue enhancements on new routes and maintaining fuel surcharges in line with fuel costs. Revenue from the overnight network increased by $6.6 million or 13.6% to $55.1 million, while ACMI cargo revenue decreased by $1.9 million to $3.2 million, due to the fact that one of the ACMI contracts 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. International revenue for the six month period ended June 30, 2006 was $4.6 million and this revenue is not comparable to the same period in 2005, since this business commenced in November of 2005. ACMI passenger revenue increased by $0.2 million or 11.1% to $2.0 million for the six month period ended June 30, 2006, as compared to the same period in 2005.

Direct Expenses

Direct expenses for the six month period ended June 30, 2006 were $50.1 million or 77.21% of revenue, compared to $42.7 million or 77.0% of revenue for the six month period ended June 30, 2005. For the six month period ended June 30, 2006, fuel expense increased by $4.1 million over the same period in 2005. Fuel cost increases were passed through to customers as a fuel surcharge and billed to customers on a cost recovery basis only. Increases in crew costs of $1.0 million, landing fees of $0.6 million, line maintenance of $0.2 million and ground handling of $0.5 million are also attributable to the addition of the international flights and the additional scheduled flight. Linehaul expense increased by $0.7 million to $3.5 million, as a direct result of route rationalization to enable greater flexibility with the routes to meet the needs of customers.

Review of Operations ((For the Six Month Period Ended June 30, 2006 and 2005) (continued)

Selling, General and Administrative Expenses

Selling, general and administrative expenses for the six month period ended June 30, 2006 increased by $0.7 million or 10.5% to $7.8 million compared to the comparative period in 2005. The increase in selling, general and administrative expenses was due to an increase in salaries and benefits, professional fees and public company expenses. This was offset by a decrease in expenses in other areas such as marketing and travel.

EBITDA [(A)]

EBITDA [(A)] for the six month period ended June 30, 2006 increased by $2.1 million or 31.7% to $8.9 million compared to the six month period ended June 30, 2005. The improvement in EBITDA [(A)] can be largely attributed to the improvement in margins on both the overnight network and the international network by bringing in increased revenues and controlling costs to better utilize the existing fixed cost base. For the purpose of calculating EBITDA [(A)] for the six month period ended June 30, 2006, the heavy maintenance accrual of $0.8 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.3 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the six month period ended June 30, 2005, the heavy maintenance accrual of $0.9 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $1.0 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.

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 six month period ended June 30, 2006 was $5.1 million. Amortization of capital assets is consistent with past practices of the predecessor company, Cargojet Holding Ltd. as well as the practices of the Fund, since its inception and for the six month period ended June 30, 2006 totaled $1.6 million, out of which $1.4 million was included in direct expenses.

Interest

Interest expense increased by $0.2 million to $0.9 million for the six month period ended June 30, 2006, compared to the six month period ended June 30, 2005. The increase in interest expense was primarily due to the increase in long term debt as a result of the refinancing that occurred concurrently with the initial public offering. 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.

Review of Operations ((For the Six Month Period Ended June 30, 2006 and 2005) (continued)

Future Income Tax Recovery

The future income tax recovery was $0.9 million for the six month period ended June 30, 2006 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and are 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, due to the change in structure of the Fund versus its predecessor, Cargojet Holdings Ltd.

Non-Controlling Interest

Non-controlling interest of $0.4 million for the six month period ended June 30, 2006, compared to $0.1 million for the twenty-two day period from June 9, 2005 to June 30, 2005 represents the share of earnings for the respective period related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

Distributions

Total distributions for the six month period ended June 30, 2006 were $4.9 million, or $0.5502 per trust unit. A distribution of $0.0917 per Income Fund unit, equal to $0.6 million, for the period June 1, 2006 to June 30, 2006 was declared payable to unit holders of record on June 30, 2006, payable on July 14, 2006. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period April 1, 2006 to June 30, 2006 was declared payable to Exchangeable LP unit holders of record on June 30, 2006, payable on July 14, 2006. The total distributions for the twenty-two day period from June 9 to June 30, 2005 were $0.6 million, or $0.0672 per trust unit. The payout ratio for the twenty-two day period from June 9 to June 30, 2005 was 66%. The cumulative payout ratio for the six month period from January 1, 2006 to June 30, 2006 was 80%.

Cash Available for Distribution

Cash available for distribution for the six month period ended June 30, 2006 was $5.9 million. Cash available for distribution for the twenty-two day period from June 9 to June 30, 2005 was $0.86 million.

Review of Operations ((For the Six Month Period Ended June 30, 2006 and 2005) (continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the six month period ended June 30, 2006 was $9.4 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 six month period ended June 30, 2006 was $7.2 million, comprised of $4.9 million used for distributions paid to unitholders and a net $2.3 million decrease in long-term debt.

Cash used in investing activities during the six month period ended June 30, 2006 was $1.9 million, represented by capital asset spending of $1.8 million during the period and $0.1 million used for additional issuance costs for the initial public offering.

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 totaled $2.2 million for the six month period ended June 30, 2006. Capital expenditures included the capital lease of $0.4 million for computer equipment. Maintenance capital expenditures totaled $1.8, which included $0.7 million for the purchase of aircraft engines, $0.3 million for rotable spare parts, $0.3 million in leasehold improvements and furniture and fixtures, $0.2 million for computers and software and $0.3 million for ground support equipment and tooling assets.

Review of Operations ((For the Six Month Period Ended June 30, 2006 and 2005) (continued)

Financial Condition

The following is a comparison of the financial condition of the fund as at June 30, 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 and the financial position of the Fund as at March 31, 2006 as disclosed in the interim financial statements issued for the three month period ended March 31, 2006.

Accounts Receivable

Accounts receivable decreased by $3.4 million compared to the balance as at December 31, 2005 and by $2.0 million compared to the balance as at March 31, 2006 to $6.9 million as at June 30, 2006. This improvement is due to the improved payment terms agreed to by the new international route customers. In addition, certain existing customers also agreed to new payment terms. The quality of the Fund's receivable balances and its current collections, in management's opinion, remains excellent.

Capital Assets

Capital assets increased by $0.6 million from December 31, 2005 to $29.1 million as at June 30, 2006. The increase in capital assets was comprised of $0.4 million for the capital lease for computer equipment, $0.7 million for the purchase of aircraft engines, $0.3 million for rotable spare parts, $0.3 million in leasehold improvements and furniture and fixtures, $0.2 million for computers and software and $0.3 million for ground support equipment and tooling assets. These additions were offset by amortization during the six month period ended June 30, 2006 of $1.6 million. Capital assets decreased by $0.1 from the balance as at March 31, 2006, made up of additions to capital assets of $0.7 million and offset by amortization during the three month period ended June 30, 2006 of $0.8 million. Additions to capital assets included $0.3 million for the purchase of an aircraft engine, $0.1 million for rotable spare parts, $0.1 million in leasehold improvements and furniture and fixtures, $0.1 million for computers and software and $0.1 million for ground support equipment and tooling assets.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by $2.0 million from December 31, 2005 and increased by $2.2 million from March 31, 2006 to $10.0 million as at June 30, 2006. The decrease from December 31, 2005 is as a result of the re-payment of the advance from the Cargojet Group of Companies Employee Profit Share Plan Trust ("EPSP Trust") of $1.9 million during the six month period ended June 30, 2006 and the timing of supplier payments. The increase from March 31, 2006 is primarily due to the timing of supplier payments, as well as the timing of the payroll disbursement.

Review of Operations ((For the Six Month Period Ended June 30, 2006 and 2005) (continued)

Financial Condition (continued)

Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual increased by $0.5 million from December 31, 2005 to $2.6 million as at June 30, 2006. This is related solely to the timing difference between the accrual of $0.8 million and the actual heavy maintenance expense incurred of $0.3 million during the period. The aircraft heavy maintenance accrual increased by $0.01 million from March 31, 2006 to June 30, 2006. This is as a result of an additional heavy maintenance accrual during this period of $0.4 million and offset by heavy maintenance expenditures during this period of $0.3 million. Management expects that the heavy maintenance expenses incurred will be as planned for the 2006 fiscal year.

Working Capital Position

The Fund had a working capital deficit as at June 30, 2006, representing the difference between total current assets and current liabilities, of $3.8 million, an increase in the deficit of $1.9 million from December 31, 2005 and an increase in the deficit of $4.0 million from March 31, 2006. The working capital was affected by the timing of supplier payments and collections from customers.

Summary of Contractual Obligations

	Payments due by Period					
As at June 30, 2006	Total	2006 to Remainder of Fiscal Year	2007	2008	2009	2010
($ thousands)						
Long-term debt	$21,000	$ -	$21,000	$ -	$ -	$ -
Capital lease	309	58	121	130	-	-
Operating leases	17,208	3,516	5,971	4,563	3,056	102
Total contractual obligations	$38,517	$3,574	$27,092	$ 4,693	$3,056	$ 102

In addition to the above contractual obligations, subsequent to June 30, 2006, the Fund committed to an operating lease for one warehouse facility with a term of 62 months. The minimum lease payments under this operating lease range from approximately $104,000 to $113,000 annually, throughout the term.

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".

Review of Operations ((For the Six Month Period Ended June 30, 2006 and 2005) (continued)

Financial Condition (continued)

Transactions with Related Parties

During the three month period ended June 30, 2006 the Fund earned revenues of $1.0 million from Starjet Airways Ltd. ("Starjet") and incurred costs associated with this revenue of $0.9 million. During the twenty-two day period ended June 30, 2005 the Fund earned revenues of $0.25 million from Starjet and incurred costs associated with this revenue of $0.24 million. The accounts receivable balance owing from Starjet as at June 30, 2006 was $0.5 million, compared to $0.7 million as at June 30, 2005 and $0.4 million as at March 31, 2006. 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. The Fund also provides ACMI services to Starjet, a company providing first class passenger charter services. Primary operations are conducted in Canada with some USA and International operations. During the three month and six month periods ended June 30, 2006 the Fund had sales to three customers that represented approximately 50% of total revenue and 51% of total revenue, respectively.

Contingencies

As of June 30, 2006, 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. On July 4, 2006, the Fund provided a further letter of credit of $0.1 million U.S., expiring on July 6, 2007, to a supplier as security for ongoing services to be provided.

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. As at June 30, 2006, this interest rate swap had a positive fair value, or value favourable to the Fund of approximately $0.4 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 June 30, 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 its fuel surcharge accordingly to its customers. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

Late in 2005, the Canadian and US governments reached agreement on a revised US/Canada Open Skies Agreement. 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 carrier's home country to a second country and pick up passengers or 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.

The Fund continues to build alliances with international airlines by offering domestic air cargo services 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. The Fund had a total of twenty-five interline agreements as at June 30, 2006.

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, 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.

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.

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.

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 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 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 calculated as EBITDA (A) less maintenance capital expenditures, interest on long-term debt and repayment of long-term debt obligation under capital lease. 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.