

**CARGOJET INCOME FUND**

**Management Discussion and  
Analysis of Financial Condition and Results of Operations**

**For the Three Month and Nine Month Periods Ended September 30, 2006**

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## **Management Discussion and Analysis of Financial Condition and Results of Operations**

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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 nine month periods ended September 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 nine month periods ended September 30, 2006 and also include a discussion of and comparative operating results for, the three month and nine month periods ended September 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 Fund's annual report dated March 14, 2006.

Management has evaluated the effectiveness of the Funds' disclosure controls and procedures as of September 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 November 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"<sup>(A)</sup> 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<sup>(A)</sup> and Distributable Cash<sup>(B)</sup> are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA<sup>(A)</sup> and Distributable Cash<sup>(B)</sup> may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA<sup>(A)</sup> and Distributable Cash<sup>(B)</sup> 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 EBITDA<sup>(A)</sup> and Distributable Cash<sup>(B)</sup> are shown on pages 4 and 5, respectively.

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

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### **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 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 15<sup>th</sup> 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 described below.

During the three month period ended September 30, 2006, the Fund announced the successful recertification of its ISO 9001:2001 Quality accreditation for the sixth consecutive year and its fourth Shipper's Choice Award from Canadian Transportation & Logistics Magazine. These accomplishments indicate the ongoing commitment of the Fund to provide reliable and quality service levels to its customer base.

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. (Please refer to press release "Cargojet Income Fund announces increase in distributions" dated August 11, 2006.)

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On October 31, 2006, the Minister of Finance announced that the federal government will start taxing income trusts as corporations and impose a distribution tax on distributions from publicly traded income trusts and limited partnerships. For existing income trust and limited partnerships, the government has proposed a four-year transition period. They will not be subject to the new measures until the year 2011.

### **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 Aircraft, Crew, Maintenance and Insurance ("ACMI") basis for BAX Global Inc. and also provided ACMI services to UPS Supply Chain Solutions Inc. until June 3<sup>rd</sup>, 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.

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

	Three Month Period Ended		Nine Month Period Ended		159 Day Period
	September 30,		September 30,		from inception April 25 to
	2006	2005 (1)	2006	2005 (1)	September 30,
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 33,983	\$ 29,513	\$ 98,928	\$ 84,971	\$ 36,389
Direct expense	25,317	22,629	75,464	65,334	27,761
	8,666	6,884	23,464	19,637	8,628
Selling, general and administrative expenses					
Sales and marketing	198	183	650	715	218
General and administrative	3,996	3,316	11,340	9,841	4,068
Employee profit sharing plan (2)	-	-	-	2,000	-
Stock-based compensation plan (2)	-	-	-	4,466	-
Interest	398	381	1,313	1,072	467
Amortization of capital assets	99	77	286	216	95
Amortization of intangible assets	2,573	2,601	7,636	3,189	3,189
	7,264	6,558	21,225	21,499	8,037
Earnings before income taxes and non-controlling interest	1,402	326	2,239	(1,862)	591
Income taxes	(93)	(494)	(1,014)	191	(555)
Earnings before non-controlling interest	1,495	820	3,253	(2,053)	1,146
Non-controlling interest	374	205	813	286	287
Net earnings	1,121	\$ 615	2,440	\$ (2,339)	859
Calculation of EBITDA (A):					
Net earnings	\$ 1,121	\$ 615	\$ 2,440	\$ (2,339)	\$ 859
Add:					
Interest	398	381	1,313	1,072	467
Non-controlling interest	374	205	813	286	287
Employee profit sharing plan (2)	-	-	-	2,000	-
Stock-based compensation plan (2)	-	-	-	4,466	-
Deferred Line Maintenance Charges (3)	-	17	-	50	21
Income taxes	(93)	(494)	(1,014)	191	(555)
Loss on disposal of capital assets	21	-	21	-	-
Amortization of capital assets	836	757	2,428	2,078	930
Amortization of intangible assets	2,573	2,601	7,636	3,189	3,189
Aircraft heavy maintenance accrual	482	715	1,307	1,635	807
Less: Aircraft heavy maintenance expenditures	(1,156)	(482)	(1,503)	(1,531)	(607)
EBITDA (A)	\$ 4,556	\$ 4,315	\$ 13,441	\$ 11,097	\$ 5,398
Reconciliation of EBITDA (A) to Distributable Cash (B):					
EBITDA (A)	\$ 4,556	\$ 4,315	\$ 13,441		\$ 5,398
Maintenance capital expenditures (4)	308	1,215	2,064		1,303
Interest	398	381	1,313		467
Repayment of long term debt obligation under capital lease	29	-	123		-
Distributable cash (B)	\$ 3,821	\$ 2,719	\$ 9,941		\$ 3,628
Cash available for distribution (95% of distributable cash)	\$ 3,630	\$ 2,583	\$ 9,444		\$ 3,447

(1) Readers are cautioned that the combined supplementary financial information presented does not represent the results of the Fund for the nine month period ended September 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the nine month period ended September 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) Management has adjusted its calculation of EBITDA (A) and Distributable Cash (B) during the current period to include an adjustment for the amortization of deferred line maintenance charges. These amounts were previously excluded from the calculation of EBITDA (A) and Distributable Cash (B).

(4) Maintenance capital expenditures for the nine month period ended September 30, 2006 exclude the \$0.4 million for computer equipment as it was financed under a capital lease.

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### Distributable Cash<sup>(B)</sup> and Cash Available for Distribution (in thousands of dollars)

	Three Month Period Ended		Nine Month Period Ended		159 Day Period	
	September 30,		September 30,		from inception April 25 to	
	2006	2005 (1)	2006	2005	September 30,	
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
Net earnings	\$ 1,121	\$ 615	\$ 2,440	\$ 859		
Add:						
Items not affecting cash <sup>(1)</sup>						
Amortization of capital assets	836	757	2,428	930		
Amortization of intangible assets	2,573	2,601	7,636	3,189		
Loss on disposal of capital assets	21	-	21	-		
Future income taxes	(93)	(494)	(1,014)	(555)		
Deferred line maintenance charges <sup>(2)</sup>	-	17	-	21		
Non-controlling interest	374	205	813	287		
Aircraft heavy maintenance accrual	482	715	1,307	807		
Aircraft heavy maintenance expenditures	(1,156)	(482)	(1,503)	(607)		
	4,158	3,934	12,128	4,931		
Changes in non-cash working capital items <sup>(1)</sup>						
Accounts receivable	(86)	(1,287)	3,314	226		
Spare parts, materials and supplies	22	(33)	113	(43)		
Prepaid expenses and deposits	427	142	129	469		
Due from related company	(41)	(8)	213	(22)		
Accounts payable and accrued charges	131	(2,240)	(1,874)	(1,348)		
Income taxes payable	-	(264)	-	(416)		
Cash inflow from operating activities <sup>(1)</sup>	4,611	244	14,023	3,797		
Less:						
Maintenance capital expenditures <sup>(2)</sup>	308	1,215	2,064	1,303		
Repayment of long-term debt obligation under capital lease	29	-	123	-		
Decrease/(Increase) in long-term bank debt	-	-	-	-		
Total changes in non cash working capital items	453	(3,690)	1,895	(1,134)		
Distributable cash <sup>(B)</sup>	\$ 3,821	\$ 2,719	\$ 9,941	\$ 3,628		
Cash available for distribution (95% of distributable cash)	\$ 3,630	\$ 2,583	\$ 9,444	\$ 3,447		
Average number of trust units outstanding basic (in thousands of units)	6,699	6,699	6,699	6,699		
Average number of trust units outstanding diluted (in thousands of units)	8,932	8,932	8,932	8,932		
Distributable cash per unit - diluted <sup>(4)</sup>	\$ 0.428	\$ 0.304	\$ 1.113	\$ 0.406		
Distributable cash available per unit <sup>(4)</sup>	\$ 0.406	\$ 0.289	\$ 1.057	\$ 0.386		
Cash distributions	\$ 2,507	\$ 2,457	\$ 7,421	\$ 3,057		
Cash distributions as a percentage of distributable cash	66%	90%	75%	84%		
Cash distributions as a percentage of cash available for distribution	69%	95%	79%	89%		

(1) Please refer to Statement of Cash Flows for the Fund, included in the Interim Financial Statements for the respective quarters since the initial public offering.

(2) Management has adjusted its calculation of EBITDA(A) and Distributable Cash (B) during the current period to include an adjustment for the amortization of deferred line maintenance charges. These amounts were previously excluded from the calculation of EBITDA (A) and Distributable Cash (B).

(3) Maintenance capital expenditures for the nine month period ended September 30, 2006 exclude the \$0.4 million for computer equipment as it was financed under a capital lease.

(4) For the purpose of calculating Distributable Cash per Unit and Distributable Cash Available per Unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

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

- Total revenue for the three month period ended September 30, 2006 was \$34.0 million as compared to \$29.5 million for the three month period ended September 30, 2005, an increase of 15.3%
- Average overnight daily cargo revenue for the three month period ended September 30, 2006 was \$0.60 million per operating day, representing an increase of 11.1% as compared to \$0.54 million per operating day for the three month period ended September 30, 2005
- Net Earnings increased by 83.3%, to \$1.1 million for the three month period ended September 30, 2006 as compared to the three month period ended September 30, 2005
- EBITDA <sup>(A)</sup> increased 7.0% to \$4.6 million for the three month period ended September 30, 2006 as compared to \$4.3 million for the three month period ended September 30, 2005
- Distributable Cash <sup>(B)</sup> and cash available for distribution was \$3.8 million and \$3.6 million respectively, for the three month period ended September 30, 2006 as compared to \$2.7 million and \$2.6 million for the three month period ended September 30, 2005

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

#### Revenue

Total revenue increased by \$4.5 million to \$34.0 million for the three month period ended September 30, 2006, as compared to the three month period ended September 30, 2005, representing an increase of 15.3%. The increase over 2005 levels is a result of revenue enhancements on new and existing routes and fuel surcharges. Revenue related to the overnight cargo service was \$0.60 million per operating day for the three month period ended September 30, 2006, compared to \$0.54 million per operating day for the three month period ended September 30, 2005. Revenue related to the overnight cargo service accounted for 85.9% of the total revenue for the three month period ended September 30, 2006.

ACMI cargo revenue was \$1.5 million for the three month period ended September 30, 2006, compared to \$1.6 million for the three month period ended September 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 4.4% of the total revenue for the three month period ended September 30, 2006.

International revenue was \$2.4 million for the three month period ended September 30, 2006 and represented 7.1% of the total revenue. This international route, from Newark to Bermuda, commenced in November of 2005 and, therefore, there was no revenue for this route for the three month period ended September 30, 2005.

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

#### Revenue (continued)

ACMI passenger revenue was \$0.9 million for the three month period ended September 30, 2006 as compared to \$1.1 million for the three month period ended September 30, 2005. Revenue related to the ACMI passenger service accounted for 2.6% of the total revenue for the three month period ended September 30, 2006.

#### Direct Expenses

Direct expenses were \$25.3 million for the three month period ended September 30, 2006 and represented 74.4% of revenue, compared to direct expenses of \$22.6 million representing 76.6% of revenue for the three month period ended September 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 on new and existing business. For the three month period ended September 30, 2006, fuel expense increased by \$1.8 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 \$0.2 million, ground handling of \$0.1 million and landing fees of \$0.4 million were primarily due to the new international route and an additional scheduled flight.

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$4.2 million, representing 12.4% of revenue for the three month period ended September 30, 2006, compared to \$3.5 million or 11.9% of revenue for the three month period ended September 30, 2005. The increase in selling, general and administrative expenses as a percentage of revenue for the three month period ended September 30, 2006 compared to the same period for 2005 is primarily attributable to incentive plan expenses of \$0.4 million accrued during the period. In addition, the Fund experienced increases in public company expenses, professional fees, personnel salaries and benefits.

#### EBITDA <sup>(A)</sup>

EBITDA <sup>(A)</sup> for the three month period ended September 30, 2006 was \$4.6 million or 13.5% of revenue, compared to \$4.3 million or 14.6% of revenue for the three month period ended September 30, 2005. For the purpose of calculating EBITDA <sup>(A)</sup> for the three month period ended September 30, 2006, the heavy maintenance accrual of \$0.5 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of \$1.2 million were deducted from earnings. For the purpose of calculating EBITDA <sup>(A)</sup> for the three month period ended September 30, 2005, the heavy maintenance accrual of \$0.7 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of \$0.5 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.



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### Review of Operations (For the Three Month Period Ended September 30, 2006 and 2005) (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 September 30, 2006 was \$2.6 million and for the three months ended September 30, 2005, it was also \$2.6 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 September 30, 2006 totaled \$0.8 million, out of which \$0.7 million was included in direct expenses.

#### Interest

Interest expense was \$0.4 million for the three month period ended September 30, 2006 and reflects the interest on the average balance of the Fund's credit line. The interest expense was \$0.4 million for the three month period ended September 30, 2005. The Fund has entered into a derivative financial instrument that effectively hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

#### Future Income Tax Recovery

The future income tax recovery was \$0.1 million for the three month period ended September 30, 2006 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, due to the change in structure of the Fund versus its predecessor, Cargojet Holdings Ltd.

#### Non-controlling Interest

Non-controlling interest was \$0.4 million for the three month period ended September 30, 2006, compared to \$0.2 million for the three month period ended September 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.

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

#### **Distributions**

Total distributions for the three month period ended September 30, 2006 were \$2.5 million, or \$0.2807 per trust unit. A distribution of \$0.0945 per Income Fund unit, equal to \$0.6 million, for the period September 1, 2006 to September 30, 2006 was declared payable to unit holders of record on September 30, 2006, payable on October 13, 2006. Also, a distribution of \$0.2807 per Exchangeable LP unit, equal to \$0.6 million, for the period July 1, 2006 to September 30, 2006 was declared payable to Exchangeable LP unit holders of record on September 30, 2006, payable on October 13, 2006. The total distributions for the three month period ended September 30, 2005 were \$2.5 million, or \$0.275 per unit.

The payout ratio for the three month period ended September 30, 2006 was 66% compared to 90% for the three month period ended September 30, 2005. The cumulative payout ratio for the nine month period from January 1, 2006 to September 30, 2006 was 75%.

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 (Please refer to press release "Cargojet Income Fund announces increase in distributions" dated August 11, 2006).

#### **Cash Available for Distribution**

Cash available for distribution for the three month period ended September 30, 2006 was \$3.6 million compared to cash available for distribution for the three month period ended September 30, 2005 of \$2.6 million. Cash available for distribution was not fully distributed to unitholders as the Board of Trustees determined that cash should be retained for working capital requirements, capital requirements and debt reduction.

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### **Review of Operations (For the Three Month Period Ended September 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 September 30, 2006 was \$4.6 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 September 30, 2006 was \$2.5 million, comprised of \$2.5 million used for the distributions paid to unitholders.

Cash used in investing activities during the three month period ended September 30, 2006 was \$0.3 million, represented by capital asset spending of \$0.3 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 October 9, 2007 and management and the Fund's bankers are currently negotiating its renewal.

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.

#### **Other Performance Measures**

##### **Capital Expenditures**

Capital expenditures totaled \$0.3 million for the three month period ended September 30, 2006. These expenditures represented maintenance capital expenditures during this period.

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### Highlights for the Nine month period ended September 30, 2006 and 2005 <sup>(1)</sup>

- Total revenue for the nine month period ended September 30, 2006 was \$98.9 million as compared to \$85.0 million for the nine month period ended September 30, 2005, an increase of 16.4%
- Net Earnings increased by 204.3%, to \$2.4 million for the nine month period ended September 30, 2006 as compared to the nine month period ended September 30, 2005
- EBITDA <sup>(A)</sup> increased 20.7% to \$13.4 million for the nine month period ended September 30, 2006 as compared to \$11.1 million for the nine month period ended September 30, 2005
- Distributable Cash <sup>(B)</sup> and cash available for distribution was \$10.0 million and \$9.5 million respectively for the nine month period ended September 30, 2006

<sup>(1)</sup> Readers are cautioned that the comparative supplementary financial information presented does not represent the results of the Fund for the nine month period ended September 30, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the nine month period ended September 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.

### Review of Operations (For the Nine Month Period Ended September 30, 2006 and 2005)

#### Revenues

Total revenue for the nine month period ended September 30, 2006 increased by \$13.9 million or 16.4% to \$98.9 million compared to the nine month period ended September 30, 2005. The increase over 2005 levels is as a result of revenue enhancements on new and existing routes and fuel surcharges. Revenue from the overnight network increased by \$9.0 million or 12.0% to \$84.3 million, while ACMI cargo revenue decreased by \$2.0 million to \$4.7 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 nine month period ended September 30, 2006 was \$7.0 million. The international route, from Newark to Bermuda, commenced in November of 2005 and, therefore, there was no revenue for this route for the nine month period ended September 30, 2005. ACMI passenger revenue increased by \$0.04 million or 1.4% to \$3.0 million for the nine month period ended September 30, 2006, as compared to the same period in 2005.

#### Direct Expenses

Direct expenses for the nine month period ended September 30, 2006 were \$75.5 million or 76.3% of revenue, compared to \$65.3 million or 76.8% of revenue for the nine month period ended September 30, 2005. For the nine month period ended September 30, 2006, fuel expense increased by \$5.9 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 \$1.2 million, landing fees of \$1.0 million, line maintenance of \$0.2 million and ground handling of \$0.7 million are attributable to the addition of the international flights and the additional scheduled flight. Linehaul expense increased by \$0.7 million to \$5.2 million, as a direct result of route rationalization which resulted in the need to purchase additional space on certain routes.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$12.0 million representing 12.1% of revenue for the nine month period ended September 30, 2006 compared to \$10.6 million or 12.5% of revenue for the nine month period ended September 30, 2005. The increase in selling, general and administrative expenses was due to an increase in salaries and benefits, incentive plan costs, facility costs and public company expenses. This was offset by a decrease in expenses in other areas such as marketing and travel.

#### EBITDA <sup>(A)</sup>

EBITDA <sup>(A)</sup> for the nine month period ended September 30, 2006 was \$13.4 million or 13.5% of revenue compared to \$11.1 million or 13.1% of revenue for the nine month period ended September 30, 2005. The improvement in EBITDA <sup>(A)</sup> 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 <sup>(A)</sup> for the nine month period ended September 30, 2006, the heavy maintenance accruals of \$1.3 million charged to earnings were added back to earnings and the actual heavy maintenance expenditures incurred of \$1.5 million were deducted from earnings. For the purpose of calculating EBITDA <sup>(A)</sup> for the nine month period ended September 30, 2005, the heavy maintenance accruals of \$1.6 million charged to earnings were added back to earnings and the actual heavy maintenance expenditures incurred of \$1.5 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 nine month period ended September 30, 2006 was \$7.6 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 nine month period ended September 30, 2006 totaled \$2.4 million, out of which \$2.1 million was included in direct expenses.

#### Interest

Interest expense increased by \$0.2 million to \$1.3 million for the nine month period ended September 30, 2006, compared to \$1.1 million for the nine month period ended September 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.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### Future Income Tax Recovery

The future income tax recovery was \$1.0 million for the nine month period ended September 30, 2006 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and is 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 \$0.8 million for the nine month period ended September 30, 2006, compared to \$0.3 million for the period from June 9, 2005 to September 30, 2005 represents the share of earnings for the respective 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 nine month period ended September 30, 2006 were \$7.4 million, or \$0.8309 per trust unit. A distribution of \$0.0945 per Income Fund unit, equal to \$0.6 million, for the period September 1, 2006 to September 30, 2006 was declared payable to unit holders of record on September 30, 2006, payable on October 13, 2006. Also, a distribution of \$0.2807 per Exchangeable LP unit, equal to \$0.6 million, for the period July 1, 2006 to September 30, 2006 was declared payable to Exchangeable LP unit holders of record on September 30, 2006, payable on October 13, 2006. The total distributions for the period from June 9 to September 30, 2005 were \$3.1 million, or \$0.342 per trust unit.

The cumulative payout ratio for the nine month period from January 1, 2006 to September 30, 2006 was 75%. The payout ratio for the period from June 9 to September 30, 2005 was 84%.

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 (Please refer to press release "Cargojet Income Fund announces increase in distributions" dated August 11, 2006).

#### Cash Available for Distribution

Cash available for distribution for the nine month period ended September 30, 2006 was \$9.4 million. Cash available for distribution for the period from June 9 to September 30, 2005 was \$3.4 million. Cash available for distribution was not fully distributed to unitholders as the Board of Trustees determined that cash should be retained for working capital requirements, capital requirements and debt reduction.

# **CARGOJET INCOME FUND**

## **Management Discussion and Analysis of Financial Condition and Results of Operations**

For the Three Month and Nine Month Periods Ended September 30, 2006

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### **Review of Operations** ((For the Nine Month Period Ended September 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 nine month period ended September 30, 2006 was \$14.0 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 nine month period ended September 30, 2006 was \$9.8 million, comprised of \$7.4 million used for distributions paid to unitholders, \$0.1 million for additional issuance costs related to the initial public offering and a net \$2.3 million decrease in long-term debt.

Cash used in investing activities during the nine month period ended September 30, 2006 was \$2.1 million, represented by capital asset spending of \$2.1 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 October 9, 2007 and management and the Fund's bankers are currently negotiating its renewal.

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.

#### **Other Performance Measures**

##### **Capital Expenditures**

Capital asset additions totaled \$2.5 million for the nine month period ended September 30, 2006, including \$0.4 million for computer equipment financed under a capital lease, and \$2.1 million for maintenance capital expenditures.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### Financial Condition

The following is a comparison of the financial position of the Fund as at September 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. Also included is a comparison of the financial position of the Fund as at September 30, 2006 to the financial position of the Fund as at June 30, 2006 as disclosed in the interim financial statements issued for the three month period ended June 30, 2006.

#### Accounts Receivable

Accounts receivable decreased by \$3.3 million compared to the balance as at December 31, 2005 and increased by \$0.1 million compared to the balance as at June 30, 2006 to \$7.0 million as at September 30, 2006. The improvement from the balance at December 31, 2005 is partially due to the improved payment terms agreed to by the new international route customers, added in November 2005. 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 \$0.02 million from December 31, 2005 to \$28.5 million as at September 30, 2006. The increase in capital assets was comprised of \$2.1 million for maintenance capital expenditures, and \$0.4 million for computer equipment that was financed under a capital lease. These capital asset additions were offset by the \$0.08 million disposal of used ground equipment. The amortization of capital assets recorded during the nine month period ended September 30, 2006 was \$2.4 million. Capital assets decreased by \$0.6 from the balance as at June 30, 2006 made up of additions to capital assets of \$0.3 million and offset by amortization of capital assets during the three month period ended September 30, 2006 of \$0.8 million, as well the disposal of used ground equipment of \$0.08 million.

#### Intangible Assets

Intangible assets decreased by \$7.6 million from December 31, 2005 to \$74.6 million as at September 30, 2006. The decrease is entirely attributable to amortization of intangible assets recorded for the nine month period ended September 30, 2006 of \$7.6 million. Intangible assets decreased by \$2.6 million from June 30, 2006 as a result of amortization of intangible assets recorded for the three month period ended September 30, 2006 of \$2.6 million.



# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### Financial Condition (continued)

##### Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by \$1.9 million compared to the balance as at December 31, 2005 and increased by \$0.1 million compared to the balance as at June 30, 2006 to \$10.2 million as at September 30, 2006. The decrease from December 31, 2005 is primarily 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 nine month period ended September 30, 2006. The increase from June 30, 2006 is primarily due to the timing of supplier payments, as well as the timing of the payroll disbursement.

##### Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual decreased by \$0.2 million from December 31, 2005 to \$1.9 million as at September 30, 2006. This is related solely to the timing difference between the accrual of \$1.3 million and the actual heavy maintenance expense incurred of \$1.5 million during the period. The aircraft heavy maintenance accrual decreased by \$0.7 million from June 30, 2006 to September 30, 2006. This is as a result of an additional heavy maintenance accrual during this period of \$0.5 million and offset by heavy maintenance expenditures during this period of \$1.2 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 September 30, 2006, representing the difference between total current assets and current liabilities, of \$2.3 million, an increase in the deficit of \$0.4 million from December 31, 2005 and a decrease in the deficit of \$1.5 million from June 30, 2006. Working capital is affected by the timing of supplier payments, collections from customers and usage or repayment of the long-term revolving credit facility.

##### Long-Term Debt

The Fund has a long-term revolving credit facility to a maximum of \$28.0 million. As at September 30, 2006, the Fund had utilized \$21.0 million of this credit facility, compared to \$23.2 million as at December 31, 2005 and \$21.0 million as at June 30, 2006. The maturity date of this revolving credit facility is October 9, 2007. The renewal of the revolving credit facility is presently being negotiated by the management and the Fund's bankers.

Also included in long-term debt is the long-term portion of the obligation under capital lease. This capital lease commenced in 2006 and as at September 30, 2006, the long-term portion of the obligation under capital lease was \$0.16 million, compared to \$0.19 million as at June 30, 2006.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

### Financial Condition (continued)

#### Summary of Contractual Obligations

As at September 30, 2006 (\$ thousands)	Payments due by Period					
	Total	2006 to Remainder of Fiscal Year	2007	2008	2009	2010
Long-term debt	\$21,281	\$ 30	\$21,121	\$ 130	\$ -	\$ -
Operating leases	16,350	1,714	6,179	4,824	3,303	330
<b>Total contractual obligations</b>	<b>\$37,631</b>	<b>\$1,744</b>	<b>\$27,300</b>	<b>\$ 4,954</b>	<b>\$3,303</b>	<b>\$ 330</b>

#### Capital Resources

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

#### Off Balance Sheet Arrangements

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

#### Transactions with Related Parties

During the three and nine month periods ended September 30, 2006 the Fund earned revenues of \$0.91 million and \$3.0 million, respectively, from Starjet Airways Ltd. ("Starjet") and incurred costs associated with this revenue of \$0.86 million and \$2.7 million, respectively. During the three month period ended September 30, 2005 and the period from June 9, 2005 to September 30, 2005 the Fund earned revenues of \$1.1 million and \$1.3 million, respectively, from Starjet and incurred costs associated with this revenue of \$1.0 million and \$1.2 million, respectively. The accounts receivable balance owing from Starjet as at September 30, 2006 was \$0.5 million, compared to \$0.7 million as at September 30, 2005 and \$0.5 million as at June 30, 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.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### Financial Condition (continued)

##### 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.

For the three month period ended September 30, 2006 the Fund had sales to three customers of \$17.2 million or 51% of total revenue compared to \$15.9 million or 54% of revenue for the three month period ended September 30, 2005. For the nine month period ended September 30, 2006 the Fund had sales to three customers of \$50.2 million or 51% of total revenue compared to \$45.5 million or 54% of total revenue for the nine month period ended September 30, 2005. 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 September 30, 2006, the Fund has provided irrevocable standby letters of credit totaling \$0.35 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 29, 2006, one for \$0.02 million expires on March 20, 2007, and the remainder on July 7, 2007.

##### Financial Instruments and Other Instruments

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions. The Fund has entered into a hedging transaction, which matures 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 achieved hedge accounting with respect to its current interest rate swap. As at September 30, 2006, this interest rate swap 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 September 30, 2006, the Fund did not have any foreign exchange contracts outstanding.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### 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 continued growth with its existing customer base and to obtain new customers for both its domestic and international business and to continue to build alliances with international airlines.

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.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### Review of Operations ((For the Nine Month Period Ended September 30, 2006 and 2005) (continued)

#### 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.

<b>Critical Accounting Estimate</b>	<b>Methodology, Assumptions</b>
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.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### 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, employee profit sharing plan, stock based compensation plan, deferred line maintenance charges 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, aircraft heavy maintenance accruals 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 and stock based compensation plan). 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.

**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.

**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.

# CARGOJET INCOME FUND

## Management Discussion and Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2006

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### 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 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.