Consolidated Financial Statements of

CARGOJET INCOME FUND

For the three-month and nine-month periods ended September 30, 2007 (unaudited)

CARGOJET INCOME FUND
Consolidated Balance Sheets
(unaudited)

	September 30, 2007	December 31, 2006
ASSETS		
CURRENT		
Cash	**$ 1,143,252**	$ 7,093,311
Accounts receivable	**7,848,935**	6,096,482
Spare parts, materials and supplies	**1,564,176**	1,104,307
Prepaid expenses and deposits	**2,381,505**	1,790,083
Due from related party (Note 11)	**597,381**	597,381
	13,535,249	16,681,564
CAPITAL ASSETS (Note 4)	**28,792,695**	28,011,262
INTANGIBLE ASSETS (Note 5)	**18,229,436**	25,865,209
GOODWILL	**46,169,976**	46,169,976
	$ 106,727,356	$ 116,728,011
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 7)	**$ 9,948,676**	$ 11,474,466
Income taxes payable	**630,000**	-
Distributions payable to unitholders (Note 15)	**861,028**	1,266,086
Future income taxes (Note 9)	**2,288,801**	2,220,129
Current portion of long-term debt (Note 6)	**127,916**	128,633
Current portion of aircraft heavy maintenance accrual (Note 8)	**937,500**	1,208,438
	14,793,921	16,297,752
LONG-TERM DEBT (Note 6)	**17,033,376**	21,130,131
AIRCRAFT HEAVY MAINTENANCE ACCRUAL (Note 8)	**310,901**	375,000
FUTURE INCOME TAXES (Note 9)	**2,589,182**	3,836,683
	34,727,380	41,639,566
NON-CONTROLLING INTEREST (Note 10(b))	**19,188,243**	19,960,361
UNITHOLDERS' EQUITY		
UNITHOLDERS' CAPITAL (Note 10(a))	**62,235,654**	62,235,654
DEFICIT	**(9,423,921)**	(7,107,570)
	52,811,733	55,128,084
	$ 106,727,356	$ 116,728,011

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
REVENUES	**$ 35,001,730**	$ 33,982,814	**$ 102,665,622**	$ 98,927,832
DIRECT EXPENSES	**26,327,947**	25,316,679	**77,328,543**	75,463,520
	8,673,783	8,666,135	**25,337,079**	23,464,312
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES				
Sales and marketing	**194,137**	197,881	**458,046**	650,557
General and administrative	**3,953,090**	3,996,587	**12,057,143**	11,339,585
Interest, net	**354,774**	397,699	**726,861**	1,313,272
Amortization of capital assets (Note 4)	**135,722**	99,350	**364,278**	286,088
Amortization of intangible assets	**2,573,227**	2,573,227	**7,635,773**	7,635,772
	7,210,950	7,264,744	**21,242,101**	21,225,274
EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	**1,462,833**	1,401,391	**4,094,978**	2,239,038
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 9)				
Current	**220,000**	-	**630,000**	-
Future	**(337,016)**	(92,893)	**(1,178,829)**	(1,014,393)
	(117,016)	(92,893)	**(548,829)**	(1,014,393)
EARNINGS BEFORE NON-CONTROLLING INTEREST	**1,579,849**	1,494,284	**4,643,807**	3,253,431
NON-CONTROLLING INTEREST (Note 10(b))	**394,962**	373,571	**1,160,951**	813,358
NET EARNINGS	**1,184,887**	1,120,713	**3,482,856**	2,440,073
DEFICIT, BEGINNING OF PERIOD	**(8,671,497)**	(6,040,663)	**(7,107,570)**	(3,674,307)
DISTRIBUTIONS DECLARED IN THE PERIOD (Note 15)	**(1,937,311)**	(1,880,372)	**(5,799,207)**	(5,566,088)
DEFICIT, END OF PERIOD	**$ (9,423,921)**	$ (6,800,322)	**$ (9,423,921)**	$ (6,800,322)
EARNINGS PER TRUST UNIT - basic	**$ 0.18**	$ 0.17	**$ 0.52**	$ 0.36
EARNINGS PER TRUST UNIT - diluted (Note 10(c))	**$ 0.18**	$ 0.17	**$ 0.52**	$ 0.36
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

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
(unaudited)

	Three months ended September 30		Nine months ended September 30	
	2007	2006	**2007**	2006
NET (OUTFLOW) INFLOW OF CASH RELATED TO THE FOLLOWING ACTIVITIES				
OPERATING				
Net earnings	**$ 1,184,887**	$ 1,120,713	**$ 3,482,856**	$ 2,440,073
Items not affecting cash				
Amortization of capital assets	**915,222**	835,657	**2,581,187**	2,427,906
Amortization of intangible assets	**2,573,227**	2,573,227	**7,635,773**	7,635,772
Loss on disposal of capital assets	**-**	20,905	**21,937**	20,905
Future income taxes	**(337,016)**	(92,893)	**(1,178,829)**	(1,014,393)
Unrealized gain on derivative	**56,942**	-	**(115,357)**	-
Non-controlling interest	**394,962**	373,571	**1,160,951**	813,358
Aircraft heavy maintenance accrual	**661,504**	482,366	**2,213,622**	1,307,001
Aircraft heavy maintenance expenditures	**(779,340)**	(1,155,683)	**(2,548,659)**	(1,502,821)
	4,670,388	4,157,863	**13,253,481**	12,127,801
Changes in non-cash working capital items				
Accounts receivable	**(990,871)**	(86,102)	**(1,637,096)**	3,314,200
Spare parts, materials and supplies	**(548,580)**	22,524	**(459,869)**	112,580
Prepaid expenses and deposits	**(389,570)**	426,789	**(591,422)**	128,640
Due from related party	**-**	(41,283)	**-**	212,884
Accounts payable and accrued charges	**288,403**	131,418	**(1,525,790)**	(1,873,604)
Income taxes payable	**220,000**	-	**630,000**	-
	3,249,770	4,611,209	**9,669,304**	14,022,501
FINANCING				
Revolving credit facility	**-**	-	**(4,000,000)**	(2,179,862)
Capital lease payments	**(30,629)**	(28,596)	**(97,472)**	(122,747)
Distributions paid to unitholders and non-controlling interest	**(2,583,081)**	(2,475,902)	**(8,137,334)**	(7,390,190)
	(2,613,710)	(2,504,498)	**(12,234,806)**	(9,692,799)
INVESTING				
Acquisition of net assets of Cargojet Holdings Ltd. including bank indebtedness of $424,970	**-**	-	**-**	(94,317)
Additions to capital assets	**(1,457,327)**	(307,951)	**(3,416,295)**	(2,064,008)
Proceeds on disposal of capital assets	**29,844**	2,030	**31,738**	2,030
	(1,427,483)	(305,921)	**(3,384,557)**	(2,156,295)
NET CASH (OUTFLOW) INFLOW	**(791,423)**	1,800,790	**(5,950,059)**	2,173,407
CASH POSITION, BEGINNING OF PERIOD	**1,934,675**	732,119	**7,093,311**	359,502
CASH POSITION, END OF PERIOD	**$ 1,143,252**	$ 2,532,909	**$ 1,143,252**	$ 2,532,909
SUPPLEMENTARY FINANCIAL INFORMATION				
Interest paid	**$ 305,125**	$ 388,491	**$** 917,806	$ 1,422,972
Equipment purchased under capital lease	**$ -**	$ -	**$** -	$ 403,461

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income
(unaudited)

	Three months ended September 30, 2007	Nine months ended September 30, 2007
NET EARNINGS	**$ 1,184,887**	$ 3,482,856
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification of gains on interest rate swap designated as a cash flow hedge, net of income taxes of $nil (Note 13)	**-**	(114,030)
COMPREHENSIVE INCOME	**$ 1,184,887**	$ 3,368,826
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance of beginning of period		
As previously reported	**$ -**	$ -
Transition adjustment for cash flow hedge, net of income taxes of $nil (Note 3)	**-**	114,030
Accumulated other comprehensive income, beginning of period		
As restated	**-**	114,030
Other comprehensive loss for the period	**-**	(114,030)
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF PERIOD	**$ -**	$ -

1. NATURE OF THE BUSINESS

Cargojet Income Fund (the "Fund") is an unincorporated opened-ended limited purpose trust established under the laws of Ontario pursuant to a Declaration of Trust dated April 25, 2005. The Fund was created to invest in Cargojet Holdings Ltd. (the "Company" or "Cargojet"). The Fund acquired all of the shares of Cargojet on June 9, 2005.

The Fund provides domestic and transborder air cargo services in addition to aircraft handling as well as aircraft and airport ground equipment fueling services through its newly acquired Fixed Base Operations ("FBO") business at the Hamilton International Airport.

2. BASIS OF PRESENTATION

The consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The financial information included herein reflects all adjustments which in the opinion of management are necessary for a fair presentation of the results for the interim periods presented. The results of operations for the three and nine month periods ended September 30, 2007 and 2006 are not necessarily indicative of the results to be expected for the full year. The accounting policies used in the preparation of these unaudited consolidated interim financial statements are consistent with those described in the audited financial statements of the Fund for the year ended December 31, 2006, except as discussed in Note 3 for the adoption of new accounting standards for financial instruments, hedges and comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated interim financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

Basis of presentation

These consolidated financial statements include the accounts of the Fund and its wholly-owned subsidiary, Cargojet Operating Trust, and its 75% owned subsidiary, Cargojet Holdings Limited Partnership ("CHLP"), and CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd. and Cargojet Partnership.

New accounting policies

On January 1, 2007 the Fund adopted the following accounting standards: Financial Instruments – Recognition and Measurement ("Section 3855"); Hedges ("Section 3865"); and Comprehensive Income ("Section 1530"). These Sections require certain financial instruments and hedge positions to be recorded at their fair value on the balance sheet. These new standards also introduce the concept of comprehensive income and accumulated other comprehensive income. The adoption of these standards was on a prospective basis without retroactive restatement of prior periods. The initial impact of adopting these standards on January 1, 2007 was an increase in assets of $152,040, an increase in non-controlling interest of $38,010 and a reduction in accumulated other comprehensive income of $114,030.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Spare parts, materials and supplies

Spare parts, materials and supplies are valued at average cost less provision for obsolescence.

Capital assets

Capital assets are recorded at cost and are amortized using the declining-balance basis, except for leasehold improvements and engines which are amortized on the straight-line basis, at the following rates per annum:

Aircraft	-	7-½%
Engines	-	engine cycles
Ground equipment	-	20%
Rotable spares	-	7-½%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	Lease term
Vehicles	-	30%
Hangar facility	-	10%

Intangible assets

Goodwill arises when the Fund acquires a business. It represents the excess, at the dates of acquisition, of the cost of the acquired business over the fair value of the net identifiable assets acquired.

Goodwill and intangible assets with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the consolidated statement of earnings and deficit before income taxes and non-controlling interest.

Intangible assets, such as licenses, that have an indefinite useful life, are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test compares the carrying amount of the intangible asset with its fair value, and an impairment loss is recognized in the consolidated statement of operations and deficit for the excess, if any.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets that have a finite life, such as customer relationships and non-compete agreements are capitalized and are amortized on a straight-line basis over a four-year period and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

Impairment of long-lived assets

An impairment loss is recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value. Any resulting impairment loss is recorded in the period in which the impairment occurs.

Aircraft heavy maintenance accrual

The Fund provides for airframe overhaul expenses for each owned and certain leased aircraft based on a provision for the scheduled costs. These expenses are charged to earnings according to the pre-determined number of months between airframe overhauls. Actual results could differ from those estimates and differences could be significant. Engine overhauls on owned aircraft are not accrued. It is the Fund’s policy to either purchase engines, lease reconditioned engines or overhaul existing engines as required by the maintenance schedule and amortize such engines over the related number of engine cycles which represents the operating lives of the engines.

The Fund makes payments representing a portion of engine and airframe overhaul expenses to certain aircraft lessors. These payments are expensed as incurred. The excess of the actual costs incurred for future overhaul expenses over payments made is accrued when the amount is determinable.

Income taxes

The Fund is taxed as a “mutual fund trust” for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund’s subsidiaries are taxable.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interest

Non-controlling interest represents a direct non-controlling equity interest through exchangeable limited partnership units in CHLP. Exchangeable unitholders are entitled to earnings that are economically equivalent to distributions of the Fund. The exchangeable units were recorded at the value at which the Fund's Trust Units were issued to the public through the initial public offering. Exchanges of exchangeable units are recorded at the carrying value of the exchangeable units at issuance net of net earnings and distributions attributable to participating exchangeable units to the date of exchange.

Revenue recognition

Revenue is recognized when delivery occurs and the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from ACMI (aircraft, crew, maintenance and insurance) cargo services is recorded when the cargo service has been provided at a fixed daily rate to operate a specific route. The customer is otherwise responsible for all commercial activities and any costs incurred in excess of the ACMI services are invoiced to the customer at cost.

Revenue from ACMI passenger services is billed on the basis of a contracted ACMI rate and recorded when the services have been provided. Any costs incurred in excess of ACMI service are invoiced to the customer at cost.

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental becomes due.

Revenue from fuelling services is billed on the basis of prevailing rates at the time of sale and recorded when the sale is completed.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at rates of exchange prevailing at the period end. Gains or losses resulting from such translations are included in income.

Transactions in foreign currencies throughout the period have been converted at the exchange rate prevailing at the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Derivative financial instruments are utilized by the Fund in the management of its interest rate and foreign currency exposure. The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes. Commencing from January 1, 2007, all derivative financial instruments are recorded at their fair value.

The Fund enters into interest rate swaps in order to manage its exposure to fluctuations in interest rates on its floating rate debt. These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based.

Section 3865 provides new standards for the accounting treatment of qualifying hedging relationships. The recommendations of the Section are optional and are only required if the entity is applying hedge accounting. As at September 30, 2007, the Fund was not applying hedge accounting and, accordingly, the Fund’s derivative financial instruments, which consists of an interest rate swap at September 30, 2007, has been reported at fair value and unrealized gains and losses that arise as a result of remeasuring the interest rate swap at its fair value at the end of each period are recognized in net earnings during the period.

Management’s use of 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 significant items requiring the use of management estimates are the determination of the aircraft heavy maintenance accrual, the allowance for doubtful accounts, the obsolescence of spare parts, materials and supplies and the valuation of capital and intangible assets.

4. CAPITAL ASSETS

	September 30, 2007		
	Cost	**Accumulated Amortization**	**Net Book Value**
Aircraft and engines	**$ 18,577,950**	**$ 3,102,327**	**$ 15,475,623**
Ground equipment	**2,582,994**	**794,509**	**1,788,485**
Rotable spares	**6,635,434**	**910,242**	**5,725,192**
Computer hardware and software	**1,663,681**	**621,361**	**1,042,320**
Furniture and fixtures	**503,112**	**178,236**	**324,876**
Leasehold improvements	**2,645,995**	**1,013,770**	**1,632,225**
Vehicles	**311,564**	**132,181**	**179,383**
Hangar facility	**3,340,121**	**715,530**	**2,624,591**
	$ 36,260,851	**$ 7,468,156**	**$ 28,792,695**

4. CAPITAL ASSETS (continued)

	December 31, 2006		
	Cost	Accumulated Amortization	Net Book Value
Aircraft and engines	$ 17,334,467	$ 2,076,969	$ 15,257,498
Ground equipment	2,330,378	542,241	1,788,137
Rotable spares	5,754,758	596,164	5,158,594
Computer hardware and software	1,365,346	362,975	1,002,371
Furniture and fixtures	455,303	125,295	330,008
Leasehold improvements	2,119,144	625,620	1,493,524
Vehicles	235,633	91,269	144,364
Hangar facility	3,340,121	503,355	2,836,766
	$ 32,935,150	$ 4,923,888	$ 28,011,262

As at September 30, 2007, $403,461 (December 31, 2006 - $403,461) of the computer hardware and software and $73,693 (December 31, 2006 - $73,693) of the vehicles described above less accumulated amortization of $137,470 (December 31, 2006 - $60,519) and $40,457 (December 31, 2006 - $30,842), respectively, were subject to capital lease.

Amortization expense consists of amounts charged under the following classification:

	Three months ended September 30,		**Nine months ended September 30,**	
	2007	2006	**2007**	2006
Direct expenses	**$ 779,500**	$ 736,307	**$ 2,216,909**	$ 2,141,818
Selling, general and administrative expenses	**135,722**	99,350	**364,278**	286,088
	$ 915,222	$ 835,657	**$ 2,581,187**	$ 2,427,906

5. INTANGIBLE ASSETS

	September 30, 2007			
	Rate	**Cost**	**Accumulated Amortization**	**Net Book Value**
Licences		**$ 1,000,000**	**$ -**	**$ 1,000,000**
Customer relationships	**4 years**	**38,113,600**	**22,032,793**	**16,080,807**
Non-compete agreements	**4 years**	**2,722,400**	**1,573,771**	**1,148,629**
		$ 41,836,000	**$ 23,606,564**	**$ 18,229,436**

	December 31, 2006			
	Rate	Cost	Accumulated Amortization	Net Book Value
Licences		$ 1,000,000	-	$ 1,000,000
Customer relationships	4 years	38,113,600	14,906,072	23,207,528
Non-compete agreements	4 years	2,722,400	1,064,719	1,657,681
		$ 41,836,000	$ 15,970,791	$ 25,865,209

6. LONG-TERM DEBT

The Fund renegotiated its revolving credit facility with a Canadian chartered bank on December 28, 2006. The facility is to a maximum of $28.0 million, reducing to $26.0 million as at July 1, 2007 and to $25.0 million as at July 1, 2008. The facility bears interest at bank prime plus 1.3% and is repayable on maturity, April 1, 2009. The previous facility was to a maximum of $28.0 million and bore interest at prime plus 1.7%. The Fund has entered into an interest rate swap with a major Canadian financial institution to manage most of the interest rate exposure with respect to their floating rate debt (Note 13).

The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness, granting liens or selling assets without the consent of the lenders. The credit facilities are also subject to the maintenance of certain financial covenants.

The credit facility is secured by the following:

- general security agreement over all assets of the Fund.
- guarantee and postponement of claim to a maximum of $35.0 million in favour of Cargojet Partnership and certain other entities of the Fund.
- assignment of insurance proceeds, payable to the bank.

6. LONG-TERM DEBT (continued)

Long-term debt consists of the following:

	September 30, 2007	December 31, 2006
Revolving credit facility	**$ 17,000,000**	$ 21,000,000
Obligation under capital lease	**161,292**	258,764
	17,161,292	21,258,764
Less current portion of long-term debt	**127,916**	128,633
	$ 17,033,376	$ 21,130,131

The following is a schedule of future minimum annual lease payments for computer hardware and software under capital lease together with the balances of the obligations:

2007 - remainder of fiscal year	$ 33,760
2008	135,039
	168,799
Less interest @ 6.89%	7,507
Obligation under capital lease	161,292
Less current portion	127,916
Balance of obligation	$ 33,376

Interest on long-term debt for the three and nine month periods ended September 30, 2007 totaled $303,824 and $929,863, respectively, (three and nine month periods ended September 30, 2006 - $398,944 and $1,281,726, respectively).

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	September 30, 2007	December 31, 2006
Trade payables and accrued charges	**$ 7,847,912**	$ 8,177,631
Payroll and benefits	**2,100,764**	3,296,835
	$ 9,948,676	$ 11,474,466

8. AIRCRAFT HEAVY MAINTENANCE ACCRUAL

The Fund provides for airframe overhaul expenses for each owned and certain leased aircraft. These expenses are charged to earnings according to the pre-determined number of months between airframe overhauls. As at September 30, 2007, the estimated liability totalled $1,248,401 (December 31, 2006 - $1,583,438), of which $937,500 (December 31, 2006 - $1,208,438) is expected to be expended in the next twelve months.

9. INCOME TAXES

The tax effect of significant temporary differences is as follows:

	September 30, 2007	December 31, 2006
Capital assets	**$ 3,194,924**	$ 2,721,070
Intangible assets	**3,400,169**	5,548,821
Financing costs	**(1,368,744)**	(1,770,764)
Expenses incurred, not currently deductible	**(348,366)**	(442,315)
Future income tax liability	**4,877,983**	6,056,812
Current portion of future income tax liability	**2,288,801**	2,220,129
Future income tax liability	**$ 2,589,182**	$ 3,836,683

A reconciliation between the Fund's statutory and effective tax rates is as follows:

	Three months ended September 30,		**Nine months ended September 30,**	
	2007	2006	**2007**	2006
Earnings before income taxes and non-controlling interest	**$ 1,462,833**	$ 1,401,391	**$ 4,094,978**	$ 2,239,038
Income tax at the combined basic rate	**$ 528,375**	$ 506,182	**$ 1,479,106**	$ 808,741
Tax on income attributable to Trust Unit-holders and Exchangeable LP Unitholders	**(875,497)**	(822,005)	**(2,773,948)**	(2,476,246)
Impact of change in statutory rates		-	**(59,273)**	-
Permanent and other differences	**230,106**	222,930	**805,286**	653,112
Income tax recovery	**$ (117,016)**	$ (92,893)	**$ (548,829)**	$(1,014,393)

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

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund must give accounting recognition to these proposed tax rules. While the Fund will not be liable for current taxes at the trust level until January 1, 2011, it must give recognition in the financial statements to the future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011, at the expected tax rates applicable to the Fund. The effect of this change is included in the above reconciliation as part of the impact of changes in statutory tax rates.

10. UNITHOLDERS' EQUITY

The beneficial interests in the Fund are divided into interests of two classes, described and designated as "Trust Units" and "Special Voting Units", respectively. An unlimited number of Trust Units and Special Voting Units may be authorized and issued pursuant to the Declaration of Trust.

Each Trust Unit represents an equal voting, fractional, and undivided beneficial interest in the Fund. All Trust Units are transferable and share equally in all distributions from the Fund whether of net earnings, return of capital, return of principal, interest, dividends or net realized capital gains or other amounts, and in the net assets of the Fund in the event of termination or winding up of the Fund. The Trust Units are redeemable at any time on demand by the holders at fair value as determined by and subject to the conditions of the Declaration of Trust to a maximum of $50,000 per calendar quarter.

The Special Voting Units are not entitled to any interest or share in the Fund, in any distribution from the Fund whether of net earnings, net realized gains or other amounts, or in the net assets of the Fund in the event of a termination or winding-up of the Fund. The Special Voting Units will only be issued to the holders of Class A limited partnership units of the CHLP ("Exchangeable LP Units"), for the purpose of providing voting rights to these Special Voting Unitholders, with respect to the Fund. Each Special Voting Unit will entitle the holder to that number of votes at any meeting of Voting Unitholders that is equal to the number of Units that may be obtained upon the exchange of the Exchangeable LP Unit to which it is attached. Upon the exchange or conversion of an Exchangeable LP Unit for a Trust Unit, the related Special Voting Unit will immediately be cancelled without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any further rights.

(a) Trust Units

	Number	Amount
Unitholders' capital as at December 31, 2006 and September 30, 2007	6,698,863	$ 62,235,654

(b) Non-controlling interest

	Number	Amount
Non-controlling interest, December 31, 2006	2,232,955	$ 19,960,361
Share of earnings of the CHLP		1,160,951
Distributions declared in the period (Note 15)		(1,933,069)
Non-controlling interest, September 30, 2007	2,232,955	$ 19,188,243

(c) 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.

11. RELATED PARTY TRANSACTIONS

The Fund had the following transactions with a related company, Starjet Airways Ltd. ("Starjet"), a company controlled by the Fund's Chief Executive Officer.

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	**2007**	2006
Revenues associated with passenger air service	**$ -**	$ 911,640	**$ -**	$ 2,957,318
Cost of sales associated with the stated revenues	**$ -**	$ 856,608	**$ -**	$ 2,655,744

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties**.** The amounts due from the related company were non-interest bearing and were due on demand.

During 2006, the operations of Starjet were wound up and as a result the Fund acted upon the guarantee provided by the shareholders of Starjet, the retained interest holders of the Fund, to fund the shortfall in the amounts due of $597,381.

The Fund also had the following transactions with two related companies, Flagship International Aviation Ltd. ("FIAL") and Flagship Aviation Holdings Ltd. ("Flagship Aviation"), each of these companies controlled by one of the Fund's executive officers.

	Three months ended September 30,		Period ended September 30,	
	2007	2006	**2007**	2006
Acquisition of capital assets				
Ground equipment	**$ 104,300**	$ -	**$ 104,300**	$ -
Vehicles	**72,000**	-	**72,000**	-
Furniture and fixtures	**23,700**	-	**23,700**	-
Cost of sales				
Fuel - ground equipment	**35,444**	**-**	**107,297**	**-**
Warehouse rent	**26,325**	**-**	**26,325**	**-**

The cost of sales transactions for fuel are in the normal course of operations and relate to the aircraft and airport ground equipment fuelling services supplied to the Fund. The cost of sales transactions with Flagship Aviation are in the normal course of operations and are related to a warehouse lease agreement that the Fund has entered into with Flagship Aviation for a new 31,000 square foot warehouse and office building at the Hamilton International Airport. The accounts payable balance owing to FIAL as at September 30, 2007 was $13,007 (December 31, 2006 - $Nil) and is included in the balance sheet under accounts payable and accrued charges.

On March 17, 2007, FIAL entered into an agency agreement with the Fund's primary fuel supplier at the Hamilton International Airport. During the quarter this fuel services agreement was transferred to the Fund and the Fund purchased the fuel service assets from FIAL required to perform the fuel services agreement.

12. COMMITMENTS AND CONTINGENCIES

Commitments

The Fund is committed to the following approximate annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

2007 - remainder of fiscal year	$ 1,738,000
2008	5,932,000
2009	3,217,000
2010	1,990,000
2011	454,000
Thereafter	1,790,000
	$15,121,000

Contingency

The Fund has provided irrevocable standby letters of credit totaling approximately $339,000 to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. The letters of credit expire as follows:

December 31, 2007	$ 200,000
March 20, 2008	20,000
July 6, 2008	119,000
	$ 339,000

One of the Fund's subsidiaries has been reassessed by Canada Revenue Agency in respect of its 2003 and 2004 taxation years related to the deductibility of per-diem expenditures claimed in those years. As a result, the Fund may be liable for taxes and related interest. The Fund intends to defend its position and, although the outcome cannot be predicted with certainty, management currently considers the Fund's exposure not to be material to the Fund's financial position.

13. FINANCIAL INSTRUMENTS

Commencing from January 1, 2007 all financial instruments are initially recorded at their fair value.

Fair value

The fair values of all financial assets and liabilities approximate their carrying values based on management estimates. Section 3855 requires that the assets and liabilities be classified by characteristics and / or management intent.

13. FINANCIAL INSTRUMENTS (continued)

The classifications are as follows:

Assets / Liabilities	Classification	Measurement
Cash	Held for Trading	Fair Value
Accounts receivable	Loans and Receivables	Amortized Cost
Deposits	Loans and Receivables	Amortized Cost
Due from related company	Loans and Receivables	Amortized Cost
Accounts payable and accrued charges	Other Financial Liabilities	Amortized Cost
Distributions payable to unitholders	Other Financial Liabilities	Amortized Cost
Long-term debt	Other Financial Liabilities	Amortized Cost
Aircraft heavy maintenance accrual	Other Financial Liabilities	Amortized Cost

Credit risk

The Fund is subject to risk of non-payment of accounts receivable. The Fund mitigates this risk by monitoring the creditworthiness of its customers and limiting its concentration of receivables to any one specific group of customers. At September 30, 2007, approximately 19% of the accounts receivable balance was receivable from two customers (December 31, 2006 - approximately 27% from two customers).

Foreign exchange risk

The Fund undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in those foreign currencies. As at September 30, 2007 and December 31, 2006 the Fund had no foreign exchange forward contracts outstanding.

The foreign exchange losses during the three and nine month periods ended September 30, 2007 were approximately $102,000 and $241,700, respectively (three and nine month periods ended - September 30, 2006, foreign exchange losses of $34,000 and $ 77,000, respectively).

Interest rate risk

The Fund has long-term floating rate debt which creates an exposure to fluctuations in interest rates (Note 6).

The Fund uses interest rate swaps to manage its exposure to interest rate fluctuations. At September 30, 2007, the Fund had one swap contract in place with a major Canadian financial institution to manage most of the interest rate exposure in respect of these floating rate debts.

The swap has a notional amount of $17,000,000. The Fund pays floating rate interest at BA-CDOR and receives fixed rate interest at 3.69% plus a stamping fee of 2.8 % per annum. The swap matures on June 15, 2008.

As at December 31, 2006, this interest rate swap qualified for hedge accounting and the unrealized gain at that date was deferred. On January 15, 2007, the Fund repaid a portion of its long-term debt and the accounting requirements for hedge accounting were no longer met. Accordingly, the unrealized gain was recognized in earnings, as will any gains, losses, revenues or expenses arising subsequently as a result of remeasuring the swap at fair value at each period end.

13. FINANCIAL INSTRUMENTS (continued)

Commodity risk

The Fund is exposed to commodity risk for variations in fuel costs. The Fund does not use derivative instruments to mitigate this risk.

14. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees subject to the disclosure requirements of AcG-14 are as follows:

(a) The Fund has provided indemnities under lease agreements for the use of various operating facilities and leased aircraft. Under the terms of these agreements, the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all trustees, directors and officers of the Fund for various items including, but not limited to, all costs to settle suits or actions due to association with the Fund, subject to certain restrictions. The Fund has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a trustee, director or officer of the Fund. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Fund has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Fund to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Fund from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Fund has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

15. DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month. Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis. Distributions declared during the three and nine month periods ended September 30, 2007 were $1,937,311 and $5,799,207, respectively, to unitholders and $645,771 and $1,933,069, respectively, to Exchangeable LP unitholders (three and nine month periods ended September 30, 2006 - $1,880,372 and $5,566,088, respectively, to unitholders and $626,791 and $1,855,363, respectively, to Exchangeable LP unitholders,).

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. The following table summarizes the cash distributions for the nine months ended September 30, 2007.

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
December 31, 2006	January 15, 2007	-	633,043	-	633,043	-	-	1,266,086
January 31, 2007	February 15, 2007	633,043	633,043	211,015	-	844,058	0.0945	633,043
February 28, 2007	March 15, 2007	645,770	645,770	215,256	-	861,026	0.0964	645,770
March 31, 2007	April 13, 2007	645,771	645,771	215,257	641,528	861,028	0.0964	1,287,299
April 30, 2007	May 15, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
May 31, 2007	June 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
June 30, 2007	July 13, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
July 31, 2007	August 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
August 31, 2007	September 14, 2007	645,770	645,770	215,256	215,256	861,026	0.0964	861,026
September 30, 2007	October 15, 2007	645,771	-	215,257	-	861,028	0.0964	-
		5,799,207	5,786,479	1,933,069	2,350,855	7,732,276	0.8657	8,137,334

Distributions payable at September 30, 2007 are as follows:

Units	Period	Record Date	Payment Date	Per Unit	Amount
Trust Units	September 1 to September 30, 2007	September 30, 2007	October 15, 2007	$ 0.0964	$ 645,771
Exchangeable LP units	September 1 to September 30, 2007	September 30, 2007	October 15, 2007	$ 0.0964	215,257
					$ 861,028

15. DISTRIBUTIONS (continued)

Distributions payable at December 31, 2006 are as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
Trust Units	December 1 to December 31, 2006	December 31, 2006	January 15, 2007	$ 0.0945	$ 633,043
Exchangeable LP units	October 1 to December 31, 2006	December 31, 2006	January 15, 2007	$ 0.2835	633,043
					$ 1,266,086

The monthly distribution rates for unitholders and Exchangeable LP unitholders increased by 2.0% from $0.0945 to $0.0964 effective from February 28, 2007.

16. SEGMENTED INFORMATION

The Fund manages its operations in one business segment, which is providing domestic and trans-border air cargo services. Operations are conducted primarily in Canada.

During the three and nine month periods ended September 30, 2007, the Fund had sales to three customers that represented 52% and 53%, respectively, of the total revenues (three and nine month periods ended September 30, 2006 - 51% and 51%, respectively, to three customers). These sales are provided under service agreements that expire over various periods to September 2010. Each of these customers had sales in excess of 10% of total revenues during all periods.

17. SUBSEQUENT EVENT

On October 3, 2007, the Fund announced that it had completed the acquisition of the cargo assets of Georgian Express Ltd. and amended its Transport Canada Air Operators Certificate to permit operations using small cargo aircraft. The total purchase price paid under the asset purchase agreement for customer contracts, aircraft spare parts inventory and non-compete agreements was $1,811,330. The purchase agreement is subject to a final purchase price adjustment pending the results of an independent third party valuation of the fair market value of the aircraft spare parts inventory portion of the purchase. Such valuation will be completed by year end.