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, 2007

The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three month and nine month periods ended September 30, 2007. The following also includes a discussion of and comparative operating results 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.

The effective date of the MD&A is November 5, 2007. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we" and "our" mean Cargojet Income Fund. This MD&A should be read in conjunction with the unaudited interim financial statements of the Fund for the three month and nine month periods ended September 30, 2007 and 2006 as well as the audited financial statements and MD&A for the year ended December 31, 2006.

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

Key Factors Affecting the Business

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

Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Fund or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in our AIF, filed March 23, 2007 with the regulatory authorities.

Corporate Overview

The Fund is Canada's leading provider of time sensitive overnight air cargo service and operates a co-load network that management believes constitutes approximately 50% of Canada's dedicated domestic overnight air cargo market. The Fund uses twelve Boeing 727-200 series aircraft, six of which are leased and six owned. From time to time, the Fund also contracts other airlines on an Aircraft, Crew, Maintenance & Insurance ("ACMI") basis to operate Boeing 727-200 aircraft on the Fund's behalf. The Fund operates its network from coast to coast transporting over 550,000 pounds 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 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. Cash distributions to unitholders of the Fund are based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of units payable in cash. The declaration of Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

Recent Events

Economic and industry factors affecting the Fund remain largely unchanged from December 31, 2006 other than the events described below.

During the three month period ended September 30, 2007 the Fund announced the successful recertification of its ISO 9001:2001 Quality accreditation for the seventh consecutive year. The Fund also completed the final cutover and implementation of its new billing system during this three month period. This new system combines operational and billing functions into one system and provides more timely and accurate management information.

The new Cargojet Regional business commenced operations on October 2, 2007 as the Fund began servicing several smaller destinations within Ontario, Quebec and the Maritimes with B1900 and Cessna Caravan turbo-prop aircraft for two customers.

The Fund added additional capacity and revenues on two new Canada/US trans-border routes for existing contract customers. One of these trans-border routes services Calgary and Vancouver while the other services Hamilton. In addition to the two new trans-border routes, the Fund added another flight from its hub in Hamilton to Calgary and Vancouver on a five day per week rotation. As a result, the Fund doubled its previous lift capacity into Vancouver. During the period, the Fund also signed two additional commercial agreements with major international airlines, bringing the total to thirty-one interline agreements.

On September 17th, the Fund commenced its aircraft and airport ground equipment fueling operations at the Hamilton International Airport, its primary hub. These operations are commonly referred to as Fixed Base Operations (FBO). Under an agency agreement with a major North American fuel products supplier, the Fund provides various types of aviation related fuel products to a number of airlines and airport related companies in Hamilton, Ontario as part of these FBO services.

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.

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

The Fund provides and operates dedicated aircraft on an ACMI basis for major contract customers. Under these arrangements the customers are responsible for all commercial activities and the Fund is paid a fixed amount to operate the route.

With the addition of the FBO operation at the Hamilton International Airport, the Fund derives revenue from the sale of aviation related fuel products and provision of related aircraft and ground handling services.

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, these expenses include costs associated with load scheduling, flight operations coordination, client relations, information systems, salaries and benefits (including incentive plan expenses), occupancy costs and professional fees (such as legal and audit fees). The Fund's administrative staffing and associated costs are maintained at a level that the Fund deems appropriate to manage and support the size and nature of its current business activities.

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

	Three Month Period Ended September 30		Nine Month Period Ended September 30	
	2007	2006	**2007**	2006 [3]
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Cash inflow from operations before changes in non-cash working capital items [1]	**$ 4,670**	$ 4,158	**$ 13,253**	$ 12,128
Changes in non-cash working capital items [1]				
Accounts receivable	**(991)**	(86)	**(1,637)**	3,314
Spare parts, materials and supplies	**(548)**	22	**(460)**	113
Prepaid expenses and deposits	**(390)**	427	**(591)**	129
Due from related company	**-**	(41)	**-**	213
Income taxes payable	**220**	-	**630**	-
Accounts payable and accrued charges	**289**	131	**(1,526)**	(1,874)
	3,250	4,611	**9,669**	14,023
Less:				
Maintenance capital expenditures [2]	**990**	308	**2,950**	2,064
Repayment of long-term debt obligation under capital lease	**31**	29	**97**	123
Total changes in non-cash working capital items	**(1,420)**	453	**(3,584)**	1,895
Distributable cash [B]	**$ 3,649**	$ 3,821	**$ 10,206**	$ 9,941
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 [4]	**$ 0.409**	$ 0.428	**$ 1.143**	$ 1.113
Cash distributions	**$ 2,583**	$ 2,507	**$ 7,732**	$ 7,421
Cash distributions as a percentage of distributable cash	**71%**	66%	**76%**	75%

(1) Please refer to Statement of Cash Flows for the Fund.
(2) Maintenance capital expenditures for the nine month period ended September 30, 2006 exclude the $0.4 million for equipment that was financed under a capital lease.
(3) Management has adjusted its calculation of Distributable Cash [B] during the noted period to include an adjustment for the repayment of long-term debt obligation under capital lease.
(4) For the purpose of calculating Distributable Cash per Unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

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

	Three Month Period Ended September 30		Nine Month Period Ended September 30	
	2007	2006	**2007**	2006
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Revenue	**$ 35,002**	$ 33,983	**$ 102,666**	$ 98,928
Direct expense	**26,328**	25,317	**77,329**	75,464
	8,674	8,666	**25,337**	23,464
Selling, general and administrative expenses				
Sales and marketing	**194**	198	**458**	650
General and administrative	**3,953**	3,997	**12,057**	11,340
Interest	**355**	398	**727**	1,313
Amortization of capital assets	**136**	99	**364**	286
Amortization of intangible assets	**2,573**	2,573	**7,636**	7,636
	7,211	7,265	**21,242**	21,225
Earnings before income taxes and non-controlling interest	**1,463**	1,401	**4,095**	2,239
Provision for (recovery of) income taxes				
Current	**220**	-	**630**	-
Future	**(337)**	(93)	**(1,179)**	(1,014)
Earnings before non-controlling interest	**1,580**	1,494	**4,644**	3,253
Non-controlling interest	**395**	374	**1,161**	813
Net earnings	**$ 1,185**	$ 1,120	**$ 3,483**	$ 2,440
Earnings per trust unit - basic	**$ 0.18**	$ 0.17	**$ 0.52**	$ 0.36
Earnings per trust unit - diluted	**$ 0.18**	$ 0.17	**$ 0.52**	$ 0.36
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	**6,699**	6,699
Average number of trust units - diluted (in thousands of units)	**8,932**	8,932	**8,932**	8,932
Total assets	**$ 106,727**	$ 116,206	**$ 106,727**	$ 116,206
Total long-term liabilities	**$ 19,933**	$ 25,339	**$ 19,933**	$ 25,339

Selected Financial Information

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

	Three Month Period Ended							
	September 30 2007	June 30 2007	March 31 2007	December 31 2006	September 30 2006	June 30 2006	March 31 2006	December 31 2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	**$ 35,002**	$ 33,839	$ 33,825	$ 35,102	$ 33,983	$ 33,593	$ 31,352	$ 32,906
Net earnings (loss)	**$ 1,185**	$ 1,428	$ 870	$ 1,592	$ 1,121	$ 1,369	$ (50)	$ (398)
Earnings (loss) per trust unit - basic	**$ 0.18**	$ 0.21	$ 0.13	$ 0.24	$ 0.17	$ 0.20	$ (0.01)	$ (0.06)
Earnings (loss) per trust unit - diluted	**$ 0.18**	$ 0.21	$ 0.13	$ 0.24	$ 0.17	$ 0.20	$ (0.01)	$ (0.06)
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	6,699	6,699	6,699	6,699	6,699	6,699
Average number of trust units - diluted (in thousands of units)	**8,932**	8,932	8,932	8,932	8,932	8,932	8,932	8,932

Calculation of EBITDA(A) and Reconciliation of EBITDA(A) to Distributable Cash(B)
(in thousands of dollars)

	Three Month Period Ended September 30		Nine Month Period Ended September 30	
	2007	2006	**2007**	2006 (2)
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
Calculation of EBITDA (A):				
Net earnings	**$ 1,185**	$ 1,121	**$ 3,483**	$ 2,440
Add:				
Interest	**355**	398	**727**	1,313
Non-controlling interest	**395**	374	**1,161**	813
Recovery of future income taxes	**(337)**	(93)	**(1,179)**	(1,014)
Provision for current income taxes	**220**	-	**630**	-
Loss on disposal of capital assets	**-**	21	**22**	21
Amortization of capital assets	**915**	836	**2,581**	2,428
Amortization of intangible assets	**2,573**	2,573	**7,636**	7,636
Aircraft heavy maintenance accrual	**662**	482	**2,214**	1,307
Less: Aircraft heavy maintenance expenditures	**(780)**	(1,156)	**(2,549)**	(1,503)
EBITDA (A)	**$ 5,188**	$ 4,556	**$ 14,726**	$ 13,441
Reconciliation of EBITDA (A) to Distributable Cash (B):				
EBITDA (A)	**$ 5,188**	$ 4,556	**$ 14,726**	$ 13,441
Less:				
Maintenance capital expenditures (1)	**990**	308	**2,950**	2,064
Interest (3)	**298**	398	**843**	1,313
Provision for current income taxes	**220**	-	**630**	-
Repayment of long-term debt obligation under capital lease	**31**	29	**97**	123
Distributable cash (B)	**$ 3,649**	$ 3,821	**$ 10,206**	$ 9,941

(1) Maintenance capital expenditures for the nine month period ended September 30, 2006 exclude the $0.4 million for equipment that was financed under a capital lease.
(2) The calculation of Distributable Cash (B) had been adjusted during the noted period to include an adjustment for the repayment of long-term debt obligation under capital lease.
(3) For the purpose of calculating Distributable Cash (B) interest excludes the unrealized loss on derivatives amounting to $56,942 for the three month period ended September 30, 2007 and the net unrealized gain on derivatives amounting to $115,357 for the nine month period ended September 30, 2007.

Highlights for the Three Month Periods Ended September 30, 2007 and 2006

- Total revenue for the three month period ended September, 2007 was $35.0 million as compared to $34.0 million for the three month period ended September 30, 2006, an increase of 2.9%

- Average overnight daily cargo revenue for the three month period ended September 30, 2007 was $0.63 million per operating day, representing an increase of 5.0% as compared to $0.6 million per operating day for the three month period ended September 30, 2006

- Net earnings increased by 9.1% to $1.2 million for the three month period ended September 30, 2007 as compared to $1.1 million for the three month period ended September 30, 2006

- EBITDA (A) was $5.2 million for the three month period ended September 30, 2007, 13.0% greater than EBITDA (A) of $4.6 million for the three month period ended September 30, 2006

Review of Operations (For the Three Month Periods Ended September 30, 2007 and 2006)

Revenue

Total revenue increased by $1.0 million to $35.0 million for the three month period ended September 30, 2007, as compared to the three month period ended September 30, 2006, representing an increase of 2.9%. Revenue related to the overnight cargo service was $30.8 million for the three month period ended September 30, 2007, compared to $29.2 million for the three month period ended September 30, 2006. Revenue related to the overnight cargo service accounted for 88.0% of the total revenue for the three month period ended September 30, 2007, compared to 85.9% for the three month period ended September 30, 2006.

ACMI cargo revenue was $1.8 million for the three month period ended September 30, 2007, compared to $1.5 million for the three month period ended September 30, 2006. The increase over 2006 is attributable to a new ACMI cargo service contract which commenced on September 8, 2007. ACMI cargo revenue accounted for 5.1% of the total revenue for the three month period ended September 30, 2007 compared to 4.4% for the three month period ended September 30, 2006.

International revenue was $2.4 million for the three month period ended September 30, 2007, compared to $2.4 million for the three month period ended September 30, 2006. International revenue accounted for 6.9% of the total revenue for the three month period ended September 30, 2007, compared to 7.1% for the three month period ended September 30, 2006.

Fixed Base Operations (FBO) revenue was $0.01 million for the three month period ended September 30, 2007. This revenue was introduced on September 17, 2007 and therefore is not comparable to the three month period ended September 30, 2006.

ACMI passenger revenue was $0.9 million for the three month period ended September 30, 2006. The service agreement for the ACMI passenger revenue was terminated in October, 2006 and therefore is not comparable for the three month period ended September 30, 2007.

Review of Operations (For the Three Month Periods Ended September 30, 2007 and 2006)

Direct Expenses

Direct expenses were $26.3 million for the three month period ended September 30, 2007 and represented 75.1% of revenue, compared to direct expenses of $25.3 million representing 74.4% of revenue for the three month period ended September 30, 2006. The increase in direct expenses as a percentage of revenue compared to 2006 is attributable to an increase in costs such as additional aircraft lease costs, crew costs, aircraft heavy maintenance, ground linehaul, ground handling and labour costs, offset by a decrease in insurance expenses, landing fees, as well as air linehaul charges. For the three month period ended September 30, 2007, fuel expense increased by $0.4 million over the comparative period in 2006. Fuel cost increases were passed through to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $4.1 million, representing 11.7% of revenue for the three month period ended September 30, 2007, compared to $4.2 million or 12.4% of revenue for the three month period ended September 30, 2006. The decrease in selling, general and administrative expenses for the three month period ended September 30, 2007 compared to the same period for 2006 is attributable to a reduction in salaries and benefits, offset by an increase in professional and consulting fees, advertising and promotion costs, as well as legal costs.

EBITDA [A]

EBITDA [A] for the three month period ended September 30, 2007 was $5.2 million or 14.9% of revenue, compared to $4.6 million or 13.5% of revenue for the three month period ended September 30, 2006. The increase in EBITDA as a percentage of revenue can be attributed to continued efforts in increasing overall revenues while maintaining effective cost controls. For the purpose of calculating EBITDA [A] for the three month period ended September 30, 2007, the heavy maintenance accrual of $0.7 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.8 million were deducted from earnings. For the purpose of calculating EBITDA [A] 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. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are accrued by the Fund over a period of 24 months.

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Collectively, the amortization of intangible assets recorded for the three month period ended September 30, 2007 was $2.6 million and for the three month period ended September 30, 2006, it was also $2.6 million. Amortization of capital assets for the three month period ended September 30, 2007 totaled $0.9 million, out of which $0.8 million was included in direct expenses and for the three month period ended September 30, 2006 totaled $0.8 million, out of which $0.7 million was included in direct expenses.

Review of Operations (For the Three Month Periods Ended September 30, 2007 and 2006) (continued)

Interest

Interest expense was $0.4 million for the three month period ended September 30, 2007, compared to interest expense of $0.4 million for the three month period ended September 30, 2006. Included in the interest expense for the three month period ended September 30, 2007 was the unrealized loss of $0.06 million arising from the Fund's interest rate hedge on its loan, recorded at fair value, in accordance with the Fund's policy on derivative financial instruments. The 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 $0.3 million for the three month period ended September 30, 2007 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse. In accordance with the October 31, 2006 trust legislation, substantively enacted into law on June 12, 2007, the Fund is required to give recognition in the financial statements to future income taxes arising from the temporary tax differences expected to reverse after January 1, 2011, at the expected tax rates applicable to the Fund. The effect of this change was included in the calculation of the future income tax recovery for the three month period ended June 30, 2007.

Income Tax Provision

The provision for current income tax payable for the three month period ended September 30, 2007 was $0.2 million, compared to nil for the three month period ended September 30, 2006, for the taxes payable by certain of the Fund's subsidiaries that are taxable.

Non-controlling Interest

Non-controlling interest was $0.4 million for the three month period ended September 30, 2007, compared to $0.4 million for the three month period ended September 30, 2006 and represents the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

Distributable Cash

Distributable cash was $3.6 million for the three month period ended September 30, 2007, compared to $3.8 million for the three month period ended September 30, 2006. The decrease in distributable cash for the three month period ended September 30, 2007 compared to the three month period ended September 30, 2006 was primarily attributable to the provision for current income taxes and the increase in maintenance capital expenditures.

Review of Operations (For the Three Month Periods Ended September 30, 2007 and 2006) (continued)

Distributions

Total distributions declared for the three month period ended September 30, 2007 were $2.6 million, or $0.2892 per trust unit. A distribution of $0.0964 per trust unit, equal to $0.6 million, for the period September 1, 2007 to September 30, 2007 was declared to unitholders of record on September 30, 2007, payable on or before October 15, 2007. Also, a distribution of $0.0964 per Exchangeable LP unit, equal to $0.2 million, for the period September 1, 2007 to September 30, 2007 was declared to Exchangeable LP unitholders of record on September 30, 2007, payable on or before October 15, 2007. The total distributions declared for the three month period ended September 30, 2006 were $2.5 million, or $0.2807 per trust unit. The payout ratio for the three month period ended September 30, 2007 was 71% compared to 66% for the three month period ended September 30, 2006.

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.

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, 2007 was $3.2 million. This is primarily due to continued strong revenues, 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, 2007 was $2.6 million, comprised primarily of cash used for distributions paid to unitholders.

Cash used in investing activities during the three month period ended September 30, 2007 was $1.4 million, represented by capital asset spending of $1.4 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 will mature on April 1, 2009. Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

Capital Expenditures

Capital asset additions totaled $1.5 million for the three month period ended September 30, 2007, out of which $1.0 million represented maintenance capital expenditures and $0.5 million represented growth capital expenditures for the period.

Highlights for the Nine Month Periods Ended September 30, 2007 and 2006

- Total revenue for the nine month period ended September 30, 2007 was $102.7 million as compared to $98.9 million for the nine month period ended September 30, 2006, an increase of 3.8%
- Average overnight daily cargo revenue for the nine month period ended September 30, 2007 was $0.6 million per operating day, representing an increase of 7.1% as compared to $0.56 million per operating day for the nine month period ended September 30, 2006
- Net earnings were $3.5 million for the nine month period ended September 30, 2007 as compared to $2.4 million for the nine month period ended September 30, 2006, an increase of 45.8%
- EBITDA [A] increased by 9.7% to $14.7 million for the nine month period ended September 30, 2007 as compared to $13.4 million for the nine month period ended September 30, 2006
- Distributable Cash [B] was $10.2 million for the nine month period ended September 30, 2007 as compared to $9.9 million for the nine month period ended September 30, 2006

Review of Operations (For the Nine Month Periods Ended September 30, 2007 and 2006)

Revenue

Total revenue increased by $3.8 million to $102.7 million for the nine month period ended September 30, 2007, as compared to the nine month period ended September 30, 2006, representing an increase of 3.8%. The increase over 2006 is a result of revenue enhancements on new and existing routes. Revenue related to the overnight cargo service was $90.1 million for the nine month period ended September 30, 2007, compared to $84.3 million for the nine month period ended September 30, 2006. Revenue related to the overnight cargo service accounted for 87.7% of the total revenue for the nine month period ended September 30, 2007, compared to 85.2% for the nine month period ended September 30, 2006.

ACMI cargo revenue was $4.7 million for the nine month period ended September 30, 2007, compared to $4.7 million for the nine month period ended September 30, 2006. ACMI cargo revenue accounted for 4.6% of the total revenue for the nine month period ended September 30, 2007.

International revenue was $7.6 million for the nine month period ended September 30, 2007, compared to $7.0 million for the nine month period ended September 30, 2006. The increase compared to the same period in 2006 is primarily attributable to increased volumes during the nine month period ended September 30, 2007. International revenue accounted for 7.4% of the total revenue for the nine month period ended September 30, 2007.

Fixed Base Operations (FBO) revenue was $0.01 million for the three month period ended September 30, 2007. This revenue was introduced on September 17, 2007 and therefore is not comparable to the three month period ended September 30, 2006.

Review of Operations (For the Nine Month Periods Ended September 30, 2007 and 2006) (continued)

Revenue (continued)

Aircraft lease revenue from the passenger aircraft was \$0.3 million for the nine month period ended September 30, 2007 and accounted for 0.3% of the total revenue. This lease revenue was introduced in October 2006 and is therefore not comparable for the nine month period ended September 30, 2006.

ACMI passenger revenue was \$3.0 million for the nine month period ended September 30, 2006 and accounted for 3.0% of the total revenue. The service agreement for the ACMI passenger revenue was terminated in October, 2006 and therefore is not comparable for the nine month period ended September 30, 2007.

Direct Expenses

Direct expenses were \$77.3 million for the nine month period ended September 30, 2007 and represented 75.3% of revenue, compared to direct expenses of \$75.5 million representing 76.3% of revenue for the nine month period ended September 30, 2006. The decrease in direct expenses as a percentage of revenue compared to 2006 is attributable to a general increase in overall revenue, combined with effective cost controls. For the nine month period ended September 30, 2007, fuel expense increased by \$1.9 million over the comparative period in 2006. Fuel cost increases were passed through to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$12.5 million, representing 12.2% of revenue for the nine month period ended September 30, 2007, compared to \$12.0 million or 12.1% of revenue for the nine month period ended September 30, 2006. The slight increase in selling, general and administrative expenses as a percentage of revenue for the nine month period ended September 30, 2007 compared to the same period for 2006 is primarily attributable to an increase in salaries and benefits, professional and consulting fees, as well as legal expenses.

EBITDA [(A)]

EBITDA [(A)] for the nine month period ended September 30, 2007 was \$14.7 million or 14.3% of revenue, compared to \$13.4 million or 13.5% of revenue for the nine month period ended September 30, 2006. The increase in EBITDA can be attributed to continued efforts in increasing overall revenues while maintaining effective cost controls. For the purpose of calculating EBITDA [(A)] for the nine month period ended September 30, 2007, the heavy maintenance accrual of \$2.2 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of \$2.5 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the nine month period ended September 30, 2006, the heavy maintenance accrual of \$1.3 million charged to earnings was 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.

Review of Operations (For the Nine Month Periods Ended September 30, 2007 and 2006) (continued)

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Collectively, the amortization of intangible assets recorded for the nine month period ended September 30, 2007 was $7.6 million and for the nine month period ended September 30, 2006, it was also $7.6 million. Amortization of capital assets for the nine month period ended September 30, 2007 totaled $2.6 million, out of which $2.2 million was included in direct expenses and 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 was $0.7 million for the nine month period ended September 30, 2007, compared to interest expense of $1.3 million for the nine month period ended September 30, 2006. The decrease in interest expense is primarily due to a reduction in long-term debt for the nine month period ended September 30, 2007 compared to the nine month period ended September 30, 2006. The decrease in interest expense is also due to the unrealized gain of $0.1 million for the nine month period ended September 30, 2007 arising from the Fund's interest rate hedge on its loan, recorded at fair value, in accordance with the Fund's policy on derivative financial instruments. The 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 of $1.2 million for the nine month period ended September 30, 2007 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. In accordance with the October 31, 2006 trust legislation, substantively enacted into law on June 12, 2007, the Fund is required to give recognition in the financial statements to future income taxes arising from the temporary tax differences expected to reverse after January 1, 2011, at the expected tax rates applicable to the Fund. The effect of this change has been included in the calculation of the future income tax recovery for the nine month period ended September 30, 2007.

Income Tax Provision

The provision for current income tax payable for the nine month period ended September 30, 2007 was $0.6 million, compared to nil for the nine month period ended September 30, 2006, for the taxes payable by certain of the Fund's subsidiaries that are taxable.

Non-controlling Interest

Non-controlling interest was $1.2 million for the nine month period ended September 30, 2007, compared to $0.8 million for the nine month period ended September 30, 2006 and represents the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

Review of Operations (For the Nine Month Periods Ended September 30, 2007 and 2006) (continued)

Distributable Cash

Distributable cash was $10.2 million for the nine month period ended September 30, 2007, compared to $9.9 million for the nine month period ended September 30, 2006. This can be attributed to continued stable cash flow from operations before non-cash working capital items offset by the provision for current income taxes and the increase in maintenance capital expenditures.

Distributions

Total distributions declared for the nine month period ended September 30, 2007 were $7.7 million, or $0.8657 per trust unit. A distribution of $0.0964 per trust unit, equal to $0.6 million, for the period September 1, 2007 to September 30, 2007 was declared to unitholders of record on September 30, 2007, payable on or before October 15, 2007. Also, a distribution of $0.0964 per Exchangeable LP unit, equal to $0.2 million, for the period September 1, 2007 to September 30, 2007 was declared to Exchangeable LP unitholders of record on September 30, 2007, payable on or before October 15, 2007. The total distributions declared for the nine month period ended September 30, 2006 were $7.4 million, or $0.8309 per trust unit. The payout ratio for the nine month period ended September 30, 2007 was 76% compared to 75% for the nine month period ended September 30, 2006.

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

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

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 month period 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

Review of Operations (For the Nine Month Periods Ended September 30, 2007 and 2006) (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, 2007 was $9.7 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, 2007 was $12.2 million, comprised of a net $4.1 million decrease in long-term debt and $8.1 million used for distributions paid to unitholders.

Cash used in investing activities during the nine month period ended September 30, 2007 was $3.4 million, represented by capital asset spending of $3.4 million during the period.

Capital Expenditures

Capital asset additions totaled $3.4 million for the nine month period ended September 30, 2007, out of which $2.9 million represented maintenance capital expenditures for the period and $0.5 million represented growth capital expenditures.

Financial Condition

The following is a comparison of the financial position of the Fund as at September 30, 2007 to the financial position of the Fund as at December 31, 2006. Also included is a comparison of the financial position of the Fund as at September 30, 2007 to the financial position of the Fund as at June 30, 2007

Accounts Receivable

Accounts receivable as at September 30, 2007 amounted to $7.8 million, an increase of $1.7 million compared to the balance of $6.1 million as at December 31, 2006 and an increase of $0.9 million compared to the balance of $6.9 million as at June 30, 2007. The fluctuation in the accounts receivable balance is primarily due to timing differences for payments received from customers. The quality of the Fund's receivable balances and its current collections, in management's opinion, remains excellent.

Capital Assets

Capital assets increased by $0.8 million from December 31, 2006 and increased by $0.5 million from June 30, 2007 to $28.8 million as at September 30, 2007. The increase in capital assets for the three month period ended September 30, 2007 was comprised of $1.0 million for maintenance capital expenditures and $0.5 million for growth capital expenditures, offset by the amortization of capital assets recorded during the nine month period ended September 30, 2007 of $0.9 million. The increase in capital assets for the nine month period ended September 30, 2007 was comprised of $2.9 million for maintenance capital expenditures, and $0.5 million for growth capital expenditures, offset by the amortization of capital assets recorded during the nine month period ended September 30, 2007 of $2.6 million.

Intangible Assets

Intangible assets decreased by $7.6 million from December 31, 2006 and decreased by $2.6 million from June 30, 2007 to $64.4 million as at September 30, 2007. The decrease is entirely attributable to amortization of intangible assets recorded for the nine month period ended September 30, 2007 of $7.6 million and for the three month period ended September 30, 2007 of $2.6 million.

Accounts Payable and Accrued Charges

Accounts payable and accrued charges decreased by $1.5 million compared to the balance as at December 31, 2006 and increased by $0.3 million compared to the balance as at June 30, 2007 to $9.9 million. The decrease compared to both of these periods ended is primarily a result of the timing of supplier payments, and the timing of the payroll disbursement.

Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual decreased by $0.3 million from December 31, 2006 and by $0.1 million from June 30, 2007 to $1.2 million as at September 30, 2007. The decrease from the balance as at December 31, 2006 is as a result of an additional heavy maintenance accrual during this period of $2.2 million and offset by heavy maintenance expenditures during this period of $2.5 million. The decrease from the balance as at June 30, 2007 is as a result of an additional heavy maintenance accrual during this period of $0.7 million and offset by heavy maintenance expenditures during this period of $0.8 million.

Financial Condition (continued)

Working Capital Position

The Fund had a working capital deficit as at September 30, 2007, representing the difference between total current assets and current liabilities, of $1.3 million, compared to a working capital surplus of $0.4 million as at December 31, 2006 and a working capital deficit of $1.6 million as at June 30, 2007. The decrease in working capital compared to December 31, 2006 is primarily due to the use of cash of $4.0 million for the net repayment of long-term bank debt. Working capital for both the three month period ended September 30, 2007 and the nine month period ended September 30, 2007 was also affected by the timing of supplier payments and collections from customers, an increase in prepaid expenses and deposits, as well as an increase in the amount of aircraft maintenance materials and supplies in stock.

Long-Term Debt

The Fund has a long-term revolving credit facility to a maximum of $26.0 million. As at September 30, 2007, the Fund had utilized $17.0 million of this credit facility, compared to $21.0 million as at December 31, 2006 and $17.0 million as at June 30, 2007. The maturity date of this revolving credit facility is April 1, 2009. Also included in long-term debt is the long-term portion of the obligations under capital lease. This capital lease commenced in 2006 and as at September 30, 2007, the long-term portion of the obligation under capital lease was $0.03 million, compared to $0.13 million as at December 31, 2006 and $0.07 million as at June 30, 2007.

Liquidity

The Fund continues to maintain debt levels at a very manageable level. The $9.0 million of available credit on the Fund's long-term revolving credit facility gives the Fund a high level of flexibility to manage capital expenditures and working capital requirements going forward. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

Contingencies

As of June 30, 2007, the Fund has provided irrevocable standby letters of credit totaling $0.34 million to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. One of the letters of credit for $0.2 million, expires on December 31, 2007, one for $0.12 million expires on July 6, 2008 and the third for $0.02 million expires March 20, 2008.

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.

Financial Condition (continued)

Summary of Contractual Obligations

	Payments due by Period						
As at September 30, 2007 ($ thousands)	Total	2007	2008	2009	2010	2011	Thereafter
Long-term debt	$ 17,161	$ 31	$ 130	$ 17,000	$ -	$ -	$ -
Operating leases	15,119	1,738	5,931	3,217	1,990	453	1,790
Total contractual obligations	$ 32,280	$ 1,769	$ 6,061	$ 20,217	$ 1,990	$ 453	$ 1,790

Capital Resources

In July, 2007 the Fund signed an asset purchase agreement to acquire certain assets from Georgian Express Ltd., and the transaction closed in early October, 2007. The closing of this transaction was subject to customary approvals, including those of Transport Canada, as they related to the addition of the new aircraft type to the Fund's existing Air Operators Certificate. In July, 2007 the Fund also completed the $0.3 million purchase of aircraft parts and equipment that will be used in the Fund's planned regional cargo business. The Fund also added $0.2 million in assets for the FBO operation added in September 2007. The Fund does not expect to make any other significant capital expenditures in the near future.

Off-Balance Sheet Arrangements

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

Segmented Information and Economic Dependence

The Fund manages its operations in one primary business segment, which is providing air cargo services on both a scheduled and ACMI basis. Primary operations are conducted in Canada with some USA and International operations. The Fund also provided ACMI services to Starjet until October, 2006, when the service agreement with Starjet was terminated. The passenger aircraft was subsequently leased to a third party. For the three month period ended September 30, 2007 the Fund had sales to three customers of $18.3 million or 52% of total revenue compared to $17.2 million or 51% of total revenue for the three month period ended September 30, 2006. Each of these customers are under long-term contract with the Fund and the revenue from each of these three customers represented more than 10% of the total revenue in these comparative periods.

Financial Condition (continued)

Transactions with Related Parties

During the three month period ended September 30, 2006 the Fund earned revenues from Starjet of $0.91 million and incurred costs associated with this revenue of $0.86 million. The service agreement with Starjet was terminated in October 2006 and therefore, there were no revenues earned from Starjet during the three month period ended September 30, 2007. The accounts receivable balance owing from Starjet as at September 30, 2007 was $0.6 million, compared to $0.6 million as at December 31, 2006. The Fund has acted upon its guarantee provided by the shareholders of Starjet, the retained interest holders of the Fund, to fund the total amount due from the related company.

During the three month period ended September 30, 2007 the Fund had transactions with a related company, Flagship International Aviation Ltd. ("FIAL"), a company controlled by one of the Fund's executive officers. These transactions are in the normal course of operations and relate to the fuelling services supplied to the Fund and amounted to $0.04 million for the three month period ended September 30, 2007. The accounts payable balance owing to FIAL as at September 30, 2007 was $0.01 million, and is included in the balance sheet as at September 30, 2007 under accounts payable and accrued charges. On March 17, 2007, FIAL had entered into an agency agreement with the Fund’s primary fuel supplier. The fuelling agreement was transferred to the Fund during the three month period ended September 30, 2007 and $0.2 million in assets required for the fuelling operation were purchased by the Fund from FIAL.

The Fund had transactions in the amount of $0.03 million with a related company, Flagship Aviation Holdings Ltd. (Flagship Aviation), a company controlled by one of the Fund’s executive officers. These transactions are in the normal course of operations and relate to a warehouse lease agreement that the Fund has entered into with Flagship Aviation for a new premise at the Hamilton International Airport.

The Fund also incurred interest expense of $0.04 million in the nine month period ended September 30, 2006 on advances received from the Cargojet Group of Companies Employee Profit Sharing Plan Trust (“EPSP Trust”), an entity established prior to the acquisition of Cargojet for the benefit of certain senior executives of the predecessor company. The EPSP Trust loan and the accrued interest were repaid on March 31, 2006.

Financial Instruments

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions. The Fund entered into a hedging transaction with a major Canadian financial institution to manage most of its interest rate exposure in respect of its floating rate debt. This hedging transaction matures on June 15, 2008. The hedge was effective until the January 15, 2007 repayment of $1.0 million of the loan balance, after which the hedge no longer met the accounting requirements for hedge accounting and accordingly, hedge accounting was discontinued. Changes in unrealized gains and losses that arise as a result of remeasuring the swap at fair value at the end of each period are now recognized in earnings during the period. As at September 30, 2007, the hedge had a positive fair value, or value favourable to the Fund, of approximately $0.1 million.

Outlook

Moving into the fourth quarter, the Fund has achieved increased commitments for its premium and time-definite air cargo services on the overnight network. Volume growth continues to be above plan and indicates an earlier than expected traditional peak volume period going into the fourth quarter. As a result, management has prepared for the seasonal adjustment through the addition of higher frequency on its overnight network in addition to securing the services of two other operators on an interim sub service basis. By accelerating the last of the scheduled aircraft heavy maintenance checks into the third quarter, the Fund has ensured that the entire aircraft fleet is operational for peak season.

Management believes that volume increases from its core customer base will continue as cargo capacity on scheduled passenger aircraft continues to decrease with the growing use of narrow body aircraft that have limited cargo carrying capabilities. The potential of 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. Management also expects to achieve continued organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Fund continues to build on its competitive market position. Management will also continue to explore opportunities to acquire complementary or competing businesses within the limits set by the proposed tax legislation. These opportunities include those within the regional air cargo markets both in Eastern and Western Canada as well as trans border route operations.

Management notes that the trend in increasing jet fuel prices is still prevalent. As such, the Fund fixes the price it pays for jet fuel on a monthly basis with all its fuel suppliers. Any fuel cost increases on a month over month basis, are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

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. Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of additional units. Any decisions regarding the above, including further increases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

Critical Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The more significant items requiring the use of management estimates are the determinations of aircraft heavy maintenance reserves, the allowance for doubtful accounts, the obsolescence of spare parts, materials and supplies and the valuation of intangible assets. The table below discloses the methodology used by management in the assessment of these accounting estimates.

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

Income Taxes

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.

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 calculation of the future income tax recovery for the nine month period ended September 30, 2007.

Information Disclosure Controls and Procedures

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

Financial Reporting Update

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

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

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

Internal Controls over Financial Reporting

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

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, gain or loss on disposal of capital assets and aircraft heavy maintenance accruals". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of amortization, gain or loss on disposal of capital assets, aircraft heavy maintenance accruals and future income tax recovery), or non-operating (in the case of interest on long-term debt, provision for current income taxes and non-controlling interest). The underlying reasons for exclusion of each item are as follows:

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

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

Future income tax recovery - the calculation of future income tax recoveries is 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.

Provision for current income taxes – the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

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.

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

Aircraft heavy maintenance accruals - aircraft heavy maintenance accruals represent an estimate of the expense related to the overhaul of the Fund's aircraft and therefore is considered a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance incurred in the period; accordingly, this expense represents a different class of expense than those included in EBITDA.

End Notes (continued)

(B) The Fund has adopted a measurement called distributable cash to supplement net earnings as a measure of operating performance. Distributable cash is a term, which does not have a standardized meaning prescribed by GAAP and is therefore unlikely to be comparable to similar measures used by other Funds. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unitholders and exchangeable LP unitholders. Exchangeable LP unitholders are presented as non-controlling interest in the consolidated financial statements of the Fund, however, management of the Fund has elected to include the holdings of the exchangeable LP unitholders in the calculation of distributable cash as exchangeable LP unitholders' distributions are economically equivalent to those received by trust unitholders and exchangeable LP unitholders are exchangeable on a one-to-one basis for trust units of the Fund. Distributable cash is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "distributable cash" have the meaning set out in this note.