

Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2007 and 2006

Auditors' Report

To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheets of Cargojet Income Fund as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Canada
February 25, 2008

CARGOJET INCOME FUND

Consolidated Balance Sheets

December 31, 2007 and 2006

	2007	2006 (Restated - Note 3)
ASSETS		
CURRENT		
Cash	\$ 3,197,946	\$ 7,093,311
Accounts receivable	9,885,590	6,096,482
Spare parts, materials and supplies	1,444,422	1,104,307
Prepaid expenses and deposits	2,626,794	1,376,360
Due from related party (Note 12)	-	597,381
	17,154,752	16,267,841
CAPITAL ASSETS (Note 4)	29,448,937	28,011,262
INTANGIBLE ASSETS (Note 5)	16,893,709	25,865,209
DEPOSITS	913,201	413,723
DEFERRED HEAVY MAINTENANCE (Note 6)	2,187,232	1,784,965
GOODWILL	46,169,976	46,169,976
	\$ 112,767,807	\$ 118,512,976
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 7)	\$ 13,640,682	\$ 11,474,466
Income taxes payable	1,790,000	-
Distributions payable to unitholders (Note 16)	861,028	1,266,086
Current portion of long-term debt (Note 8)	130,132	128,633
	16,421,842	12,869,185
LONG-TERM DEBT (Note 8)	17,000,000	21,130,131
FUTURE INCOME TAXES (Note 9)	5,345,796	7,273,480
	38,767,638	41,272,796
NON-CONTROLLING INTEREST (Note 10(b))	19,688,291	20,498,294
UNITHOLDERS' EQUITY		
UNITHOLDERS' CAPITAL (Note 10(a))	62,235,654	62,235,654
DEFICIT	(7,923,776)	(5,493,768)
	54,311,878	56,741,886
	\$ 112,767,807	\$ 118,512,976

s// John P. Webster
Trustee

s// Ajay Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
Years ended December 31, 2007 and 2006

	2007	2006 (Restated - Note 3)
REVENUES	\$ 151,105,124	\$ 134,029,664
DIRECT EXPENSES	113,459,659	99,400,252
	37,645,465	34,629,412
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	831,186	825,436
General and administrative	17,914,770	16,025,353
Interest, net	1,089,215	1,662,915
Amortization of capital assets (Note 4)	514,909	443,888
Amortization of intangible assets	10,321,500	10,208,999
	30,671,580	29,166,591
EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	6,973,885	5,462,821
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 9)		
Current	1,826,222	-
Future	(1,927,684)	(651,295)
	(101,462)	(651,295)
EARNINGS BEFORE NON-CONTROLLING INTEREST	7,075,347	6,114,116
NON-CONTROLLING INTEREST (Note 10(b))	(1,768,837)	(1,528,529)
NET INCOME	5,306,510	4,585,587
DEFICIT, BEGINNING OF YEAR		
As previously reported	(7,107,570)	(3,674,307)
Change in accounting policy - heavy maintenance expenditures (Note 3)	1,613,802	1,060,167
As restated	(5,493,768)	(2,614,140)
DISTRIBUTIONS DECLARED IN THE YEAR (Note 16)	(7,736,518)	(7,465,215)
DEFICIT, END OF YEAR	\$ (7,923,776)	\$ (5,493,768)
EARNINGS PER TRUST UNIT - BASIC (Note 10(c))	\$ 0.79	\$ 0.68
EARNINGS PER TRUST UNIT - DILUTED (Note 10(c))	\$ 0.79	\$ 0.68

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income
Years ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
NET INCOME	\$ 5,306,510	\$ 4,585,587
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification of gains on interest rate swap designated as a cash flow hedge, net of income taxes of \$nil (Note 14)	(114,030)	-
COMPREHENSIVE INCOME	\$ 5,192,480	\$ 4,585,587
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance of beginning of year		
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 year		
As restated	114,030	-
Other comprehensive loss for the year	(114,030)	-
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF YEAR	\$ -	\$ -

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	2007	2006 (Restated - Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income	\$ 5,306,510	\$ 4,585,587
Items not affecting cash		
Amortization of capital assets	3,593,593	3,313,895
Amortization of intangible assets	10,321,500	10,208,999
Loss on disposal of capital assets	21,936	242,231
Future income taxes	(1,927,684)	(651,295)
Unrealized gain on derivatives	(66,009)	-
Non-controlling interest	1,768,837	1,528,529
Aircraft heavy maintenance amortization	2,107,469	570,380
Aircraft heavy maintenance expenditures	(2,509,736)	(2,240,206)
	18,616,416	17,558,120
Changes in non-cash working capital items		
Accounts receivable	(3,723,099)	4,226,962
Spare parts, materials and supplies	91,056	132,828
Prepaid expenses and deposits	(1,749,912)	183,874
Due from related party	597,381	147,270
Accounts payable and accrued charges	2,166,216	(553,170)
Income taxes payable	1,790,000	-
	17,788,058	21,695,884
FINANCING		
Repayment of long-term debt	(4,128,632)	(2,398,252)
Proceeds from issuance of Fund Units net of issuance costs	-	(94,317)
Distributions paid to unitholders and non-controlling interest	(10,720,416)	(9,916,106)
	(14,849,048)	(12,408,675)
INVESTING		
Acquisition of net assets of Georgian Express Ltd. (Note 11)	(1,781,171)	-
Proceeds from disposal of capital assets	31,738	2,030
Additions to capital assets	(5,084,942)	(2,555,430)
	(6,834,375)	(2,553,400)
NET CHANGE IN CASH	(3,895,365)	6,733,809
CASH POSITION, BEGINNING OF YEAR	7,093,311	359,502
CASH POSITION, END OF YEAR	\$ 3,197,946	\$ 7,093,311
SUPPLEMENTARY FINANCIAL INFORMATION		
Interest paid	\$ 1,221,718	\$ 1,779,642
Income taxes paid	\$ 36,222	\$ -
Equipment purchased under capital lease	\$ -	\$ 477,154

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

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 and aircraft and airport ground equipment fueling services through its newly acquired Fixed Base Operations (“FBO”) business at the Hamilton International Airport.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated 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.

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	-	7-1/2%
Engines	-	engine cycles
Ground equipment	-	20%
Rotable spares	-	7-1/2%
Computer hardware and software	-	30%
Furniture and fixtures	-	20%
Leasehold improvements	-	Lease term
Vehicles	-	30%
Hangar facility	-	10%

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and intangible assets

Goodwill is created 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 operations 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.

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 three or four-year period or the term of the non-compete agreement, respectively, 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.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 services are invoiced to the customer at cost.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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.

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 values.

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.

The Fund periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts.

As discussed in Note 3, new standards for the accounting treatment of qualifying hedging relationships came into effect on January 1, 2007. These requirements are optional and are only required if the entity is applying hedge accounting. As at December 31, 2007, the Fund was not applying hedge accounting and, accordingly, the Fund's derivative financial instruments, which consists of an interest rate swap at December 31, 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 allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies and rotables, and the valuation of capital and intangible assets and their related amortization.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

3. CHANGES IN ACCOUNTING

Adoption of new and revised accounting standards

On January 1, 2007, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 1530, *Comprehensive Income*; Section 3251, *Equity*; Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3861, *Financial Instruments - Disclosure and Presentation*; and Section 3865, *Hedges*. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative amounts for prior periods have not been restated.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. On adoption of this standard on January 1, 2007, 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 was recorded in connection with the interest rate swap (Note 14).

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost.

The Fund’s financial assets and financial liabilities are classified and measured as follows:

<u>Asset/Liability</u>	<u>Classification</u>	<u>Measurement</u>
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Distributions payable to unitholders	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest rate method.

Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair market value of the financial instrument in the period.

In accordance with Section 3855, the Fund conducted a search for embedded derivatives in its contractual arrangements and did not identify any embedded features that required separate presentation from the related host contract.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

3. CHANGES IN ACCOUNTING (continued)

Section 3865 provides new standards for the accounting treatment of qualifying hedging relationships and the related disclosures. The recommendations of this Section are optional and are only required if the entity is applying hedge accounting.

Also effective January 1, 2007 for the Fund is Section 1506, *Accounting Changes*. This standard specifies when an entity is permitted to change an accounting policy; specifies how to account for a change in accounting policy, a change in estimate or correction of an error; and establishes disclosure to explain the effects of changes in accounting policy and estimates and corrections of errors on the financial statements. The standard specifies that an entity should change an accounting policy only when it is required by a primary source of GAAP or results in a more reliable and relevant presentation in the financial statements. Also, the standard requires disclosure of the effects of any issued pronouncements that are not yet applied.

Except for the impact of Section 1530 that has been noted above, the adoption of these standards had no impact on the financial statements of the Fund.

Changes to comparatives

Comparative balances have been reclassified to align with the current year presentation. As at December 31, 2006, deposits of \$413,723 have been reclassified from current to non-current assets, and the current portion of the future income tax liability of \$2,220,129 has been reclassified from current to non-current liabilities.

Changes to existing accounting policies

The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months). The previous accrual (accrue-in-advance) method involved estimating the cost of the overhaul and accruing that cost to the overhaul. The actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense.

Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices.

This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2006 have been restated. The effect of adopting the deferral method is summarized below:

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

3. CHANGES IN ACCOUNTING (continued)

Changes to existing accounting policies (continued)

	2006 Opening Balance Sheet	2006	2007
Income statement			
Decrease in direct expense	\$ -	\$ 1,155,573	\$ 444,948
Increase in future income tax expense	-	417,393	136,310
Increase in non-controlling interest expense	-	184,545	77,160
Increase in net income	-	553,635	231,478
Increase in net income per unit	-	0.08	0.03
Balance sheet			
Increase in deferred heavy maintenance	\$ 115,140	\$ 1,784,965	\$ 2,187,232
Decrease in aircraft heavy maintenance accrual	2,097,691	1,583,438	1,626,119
Increase in future income tax liability	799,275	1,216,667	1,352,977
Increase in non-controlling interest	353,389	537,934	615,094
Decrease in deficit	1,060,167	1,613,802	1,845,280

Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, *Capital Disclosures* (Section 1535), Handbook Section 3862, *Financial Instruments – Disclosures* (Section 3862), and Handbook Section 3863, *Financial Instruments – Presentation* (Section 3863). These new standards become effective for the Fund on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Also effective January 1, 2008 for the Fund is Handbook Section 3031, *Inventories*, which establishes standards for measuring and disclosing information related to inventories. In addition to expanded disclosure requirements, this Section provides specific guidance as to conversion costs to be included and excluded in inventories and accounting for impairment adjustments.

The Fund is assessing how it will be affected by these new requirements.

The CICA also amended Section 1400, *General Standards of Financial Statement Presentation*, to include a requirement that management make an assessment of an entity's ability to continue as a going concern when preparing financial statements. This change came into effect on January 1, 2008.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

4. CAPITAL ASSETS

	2007		
	Cost	Accumulated Amortization	Net Book Value
Aircraft and engines	\$ 19,004,241	\$ 3,500,575	\$ 15,503,666
Ground equipment	2,896,411	923,891	1,972,520
Rotable spares	7,337,138	1,042,398	6,294,740
Computer hardware and software	1,738,460	719,652	1,018,808
Furniture and fixtures	604,168	206,183	397,985
Leasehold improvements	2,696,455	1,154,722	1,541,733
Vehicles	312,505	146,109	166,396
Hangar facility	3,340,121	787,032	2,553,089
	\$ 37,929,499	\$ 8,480,562	\$ 29,448,937

	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 December 31, 2007, \$403,461 (2006 - \$403,461) of the computer hardware and software and \$73,693 (2006 - \$73,693) of the vehicles described above less accumulated amortization of \$163,402 (2006 - \$60,519) and \$43,698 (2006 - \$30,842), respectively, were subject to capital leases.

Amortization expense consists of amounts charged under the following classification:

	2007	2006
Direct expenses	\$ 3,078,684	\$ 2,870,007
Selling, general and administrative expenses	514,909	443,888
	\$ 3,593,593	\$ 3,313,895

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

5. INTANGIBLE ASSETS

	2007			
	Rate	Cost	Accumulated Amortization	Net Book Value
Licenses		\$ 1,000,000	\$ -	\$ 1,000,000
Lease benefits	3 years	384,000	32,000	352,000
Customer relationship	3 - 4 years	38,687,600	24,482,305	14,205,295
Non-compete agreements	3 - 4 years	3,114,400	1,777,986	1,336,414
		\$43,186,000	\$26,292,291	\$ 16,893,709

	2006			
	Rate	Cost	Accumulated Amortization	Net Book Value
Licenses		\$ 1,000,000	\$ -	\$ 1,000,000
Customer relationship	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. DEFERRED HEAVY MAINTENANCE

	2007	2006
Cost	\$ 5,666,079	\$ 3,156,343
Accumulated amortization	(3,478,847)	(1,371,378)
	\$ 2,187,232	\$ 1,784,965

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2007	2006
Trade payables and accrued charges	\$10,429,527	\$ 8,177,631
Payroll and benefits	3,211,155	3,296,835
	\$13,640,682	\$11,474,466

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

8. 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 the floating rate debt (Note 14).

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; and
- assignment of insurance proceeds, loss if any, payable to the bank.

Long-term debt consists of the following:

	<u>2007</u>	<u>2006</u>
Revolving credit facility	\$ 17,000,000	\$ 21,000,000
Obligation under capital lease	130,132	258,764
	<u>17,130,132</u>	<u>21,258,764</u>
Less current portion of long-term debt	130,132	128,633
	<u>\$ 17,000,000</u>	<u>\$ 21,130,131</u>

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:

2008	\$ 135,039
Less interest @ 6.89%	4,907
Obligation under capital lease	<u>130,132</u>
Less current portion	<u>130,132</u>
Balance of obligation	<u>\$ -</u>

Interest on long-term debt for the year ended December 31, 2007 totaled \$1,236,832 (December 31, 2006 - \$1,639,343).

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

9. INCOME TAXES

The tax effect of significant temporary differences is as follows:

	<u>2007</u>	<u>2006</u>
Capital assets	\$ 3,166,578	\$ 2,721,070
Intangible assets	2,811,161	5,548,821
Financing costs	(1,197,020)	(1,770,764)
Deferred heavy maintenance	565,077	774,353
Future income tax liability	\$ 5,345,796	\$ 7,273,480

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

Earnings before income taxes and non-controlling interest	\$ 6,973,885	\$ 5,462,822
Income tax at the combined basic rate	2,518,967	1,973,171
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(3,652,896)	(3,453,871)
Non-deductible component of amortization of intangible assets	978,491	978,491
Permanent and other differences	217,793	73,040
Future income tax rate adjustment	(163,817)	(222,126)
Income tax recovery	\$ (101,462)	\$ (651,295)

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 gave accounting recognition to these new 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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

10. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTEREST

The beneficial interests in the Fund is divided into interests of two classes, described and designated as "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 Unit holders, 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 Units, 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

	<u>Number</u>	<u>Amount</u>
Unitholders' capital as at December 31, 2007 and 2006	6,698,863	\$ 62,235,654

(b) Non-controlling interest

	<u>Number</u>	<u>Amount</u>
Non-controlling interest, December 31, 2005	2,232,955	\$ 21,458,170
Share of earnings of CHLP	-	1,528,529
Distributions declared in the year (Note 15)	-	(2,488,405)
Non-controlling interest, December 31, 2006	2,232,955	20,498,294
Share of earnings of CHLP	-	1,768,837
Distributions declared in the year (Note 15)	-	(2,578,840)
Non-controlling interest, December 31, 2007	2,232,955	\$ 19,688,291

(c) Earnings per Trust Unit

Basic earnings per Trust Unit has been calculated based on the average number of Trust Units outstanding of 6,698,863 in 2007 and 2006. For the purpose of determining diluted earnings per Trust Unit, the weighted average number of Trust Units and Exchangeable LP Units, totaling 8,831,818 in 2007 and 2006, have been combined.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

11. ACQUISITION OF GEORGIAN EXPRESS LTD.

Effective October 1, 2007, the Fund completed the acquisition of selected assets (the “purchased assets”) of Georgian Express Ltd. (“Georgian Express”), including the inventory, a non-compete agreement, aircraft operations manuals and certain customer and lease contracts.

Georgian Express is a specialized air cargo operator serving numerous Canadian markets providing dedicated cargo lift to major couriers and transportation companies. The integration of the purchased assets of Georgian Express will allow the Fund to bring quality air cargo services to small and medium sized markets and extend connectivity to the Fund’s national overnight air cargo network.

The aggregate purchase price of the purchased assets was \$1,781,171. The acquired operations have been included in the consolidated financial statements of the Fund from October 1, 2007. The purchase price was allocated to identifiable tangible and intangible assets acquired based on their estimate fair values as follows:

Inventory	\$	381,171
Aircraft operations manuals		50,000
Intangible assets		
Customer contracts		574,000
Non-compete agreement		392,000
Aircraft leases		384,000
Total consideration	\$	1,781,171

The intangible assets are being amortized on a straight-line basis over their estimated useful lives of three years.

12. 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.

	2007	2006
Revenues associated with passenger air service	\$ -	\$ 3,015,253
Cost of sales associated with the stated revenues	\$ -	\$ 2,711,170

These transactions were in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Prior to December 31, 2006 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. This amount was collected in 2007.

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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

12. RELATED PARTY TRANSACTIONS (continued)

	<u>2007</u>	<u>2006</u>
Acquisition of capital assets		
Ground equipment	\$ 104,300	\$ -
Vehicles	72,000	-
Furniture and fixtures	23,700	-
Deposit	26,325	-
Cost of sales		
Fuel - ground equipment	101,048	-
Warehouse rent	105,300	-
Selling, general and administrative expenses		
Office maintenance	411	-
Office stationery and supplies	2,462	-

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 December 31, 2007 was \$ 3,046 (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.

13. COMMITMENTS AND CONTINGENCIES

Commitments

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

2008	\$ 6,955,229
2009	5,338,510
2010	2,083,819
2011	912,022
2012	315,900
Thereafter	1,474,200
	<u>\$ 17,079,680</u>

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

13. COMMITMENTS AND CONTINGENCIES (continued)

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:

March 20, 2008	\$ 20,000
July 6, 2008	119,000
December 31, 2008	200,000
	<hr/>
	\$ 339,000

14. FINANCIAL INSTRUMENTS

Fair value

The fair value of the long-term debt approximates its carrying value as the long-term debt bears interest at floating rates. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

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 December 31, 2007, approximately 21% of the accounts receivable balance was receivable from two customers (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 the foreign currencies. The Fund manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods. As at December 31, 2007 and 2006 the Fund had no foreign exchange forward contracts outstanding.

The foreign exchange loss during the year was \$228,261 (2006 - \$17,103).

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

14. FINANCIAL INSTRUMENTS (continued)

Interest rate risk

The Fund has long-term floating rate debt which creates an exposure to fluctuations in interest rates (Note 8).

The Fund uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 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 receives floating rate interest at BA-CDOR and pays 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.

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.

15. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees are as follows:

- (a) The Fund has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. 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.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

15. GUARANTEES (continued)

- (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.

16. 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 year ended December 31, 2007 were \$7,736,518 (2006 – \$7,465,215) to unitholders and \$2,578,840 (2006 – \$2,488,405) to Exchangeable LP unitholders.

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

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		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	645,771	215,257	215,257	861,028	0.0964	861,028
October 31, 2007	November 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
November 30, 2007	December 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
December 31, 2007	January 15, 2008	645,771	-	215,257	-	861,028	0.0964	-
		7,736,518	7,723,790	2,578,840	2,996,626	10,315,358	1.1549	10,720,416

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

16. DISTRIBUTIONS (continued)

Distributions payable at December 31, 2007 are as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
Income Fund units	December 1 to December 31, 2007	December 31, 2007	January 15, 2008	\$ 0.0964	\$ 645,771
Exchangeable LP units	December 1 to December 31, 2007	December 31, 2007	January 15, 2008	\$ 0.0964	215,257
					\$ 861,028

Distributions payable at December 31, 2006 are as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
Income Fund 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.

17. 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 year, the Fund had sales to three customers that represented 51% of the total revenues (2006 - two customers that represented 51% of the total revenues). 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.

18. SUBSEQUENT EVENTS

On January 18, 2008, the Fund signed a non-binding letter of intent for the purpose of acquiring a 51% interest in Prince Edward Air Ltd., a regional operator of cargo aircraft based in Eastern Canada. The completion of acquisition is subject to the negotiation and execution of a definitive purchase and sale agreement, the completion of legal and financial due diligence and customary closing conditions and is expected to close in March 2008.

In January 2008, the Fund announced plans to add two Boeing 767-200 Extended Range Freighter Aircraft to its fleet. These aircraft are tentatively scheduled to be introduced into service in the second and third quarter of 2008. It also announced plans to enhance the live animal shipping program.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

18. SUBSEQUENT EVENTS (continued)

In February 2008, the Fund entered into a series of US dollar forward purchase contracts worth an aggregate total of US \$21,000,000. These US dollar forward purchase contracts begin in March, 2008 and expire on December 1, 2009, and are consistent with the Fund's foreign exchange risk management policy. As part of this policy, the Fund enters into US dollar forward purchase contracts to reduce uncertainty surrounding Canadian dollar value of anticipated cash flows where it has significant net exposures in US currency.