

CARGOJET INCOME FUND

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

For the Three Month and Twelve Month Periods Ended December 31, 2007

CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

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The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three month and twelve month periods ended December 31, 2007. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 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 March 4, 2008. 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 audited consolidated financial statements of the Fund as at and for the years ended December 31, 2007 and 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.

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Corporate Overview

The Fund is Canada's leading provider of time sensitive overnight air cargo services. Its main air cargo business is comprised of the following:

- Operating a domestic overnight air cargo co-load network between thirteen major Canadian cities
- Providing dedicated aircraft to various customers on an Aircraft, Crew, Maintenance & Insurance ("ACMI") basis, operating between points in Canada and the USA.
- Operating a scheduled international route for multiple cargo customers between the USA and Bermuda
- Operating a regional air cargo network servicing nineteen smaller cities in Ontario, Quebec and the Maritimes.

The Fund currently operates twelve Boeing 727-200 series cargo aircraft, six of which are leased and six owned. In addition, the Fund periodically contracts other airlines on an ACMI basis to temporarily operate aircraft on the Fund's behalf. This provides added capacity to its overall network to meet new business and/or peak period demands. Currently four aircraft are operated on this basis, two of which are B727-200F and two of which are Beechcraft B1900. The Fund operates its business across North America transporting over 840,000 pounds (381 metric tonnes) of time sensitive air cargo each business night utilizing a total fleet of twenty-two all-cargo aircraft. The Fund's domestic overnight air cargo co-load network consolidates cargo received from customers and transports such cargo to the appropriate destination in a timely and safe manner. The Fund continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

Cash distributions to unit holders 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 September 30, 2007 other than the events described below.

Core domestic overnight air cargo network volumes continued to increase during the three-month period ended December 31, 2007, consistent with expectations. The Fund added capacity and revenues on two new Canada/USA trans-border routes for existing contract customers. The Fund introduced an additional early morning flight from Hamilton to Calgary and Vancouver on a five day per week basis, doubling its capacity in to and out of the Vancouver market. To accommodate this business growth, the Fund subcontracted capacity on a temporary basis on two routes and also took delivery of an additional leased B727-200 Advance Freighter aircraft. During the three month period ended December 31, 2007, the Fund also signed two additional commercial agreements with major international airlines, bringing the total to thirty-four interline agreements.

In October 2007, the Fund also announced the completion of the acquisition of the cargo assets of Georgian Express Ltd. and the launch of its Cargojet Regional brand. The Fund began operating the new Cargojet Regional business on October 2, 2007 serving nineteen smaller destinations within Ontario, Quebec and the Maritimes using a fleet of four Beechcraft B1900 and four Cessna Caravan turbo-prop aircraft on a contractual basis for two major customers on October 2, 2007.

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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.

The Fund also generates revenues from its Cargojet Regional operations operating dedicated cargo aircraft to several smaller communities across Ontario, Quebec and the Maritimes.

With the addition of the Fixed Base Operations ("FBO") 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.

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2007 (unaudited)	2006 ⁽⁵⁾ (unaudited)	2007 (audited)	2006 ⁽³⁾⁽⁵⁾ (audited)
Cash inflow from operations before changes in non-cash working capital items ⁽¹⁾	\$ 5,363	\$ 5,430	\$ 18,616	\$ 17,558
Changes in non-cash working capital items ⁽¹⁾				
Accounts receivable	(2,086)	913	(3,723)	4,227
Spare parts, materials and supplies	551	20	91	133
Prepaid expenses and deposits	(1,158)	55	(1,749)	184
Due from related company	597	(66)	597	147
Income taxes payable	1,160	-	1,790	-
Accounts payable and accrued charges	3,692	1,320	2,166	(553)
	8,119	7,672	17,788	21,696
Less:				
Maintenance capital expenditures ⁽²⁾	1,121	491	4,071	2,556
Repayment of long-term debt obligation under capital lease	31	29	129	113
Total changes in non-cash working capital items	2,756	2,242	(828)	4,138
Distributable cash ^(B)	\$ 4,211	\$ 4,910	\$ 14,416	\$ 14,889
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⁾	\$ 0.471	\$ 0.550	\$ 1.614	\$ 1.667
Cash distributions	\$ 2,583	\$ 2,532	\$ 10,315	\$ 9,954
Cash distributions as a percentage of distributable cash	61%	52%	72%	67%

⁽¹⁾ Please refer to Statement of Cash Flows for the Fund.

⁽²⁾ Maintenance capital expenditures for the three month and twelve month periods ended December 31, 2006 exclude the \$0.1 million and \$0.5 million, respectively, 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 diluted distributable cash per unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

⁽⁵⁾ 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. 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. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

^(B) Please refer to End Note (B) included at the end of this MD & A.

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Results of Operations and Supplementary Financial Information

(in thousands of dollars)

	Three Month Period Ended		Twelve Month Period Ended	
	December 31		December 31	
	2007	2006 ⁽¹⁾	2007	2006 ⁽¹⁾
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	\$ 48,439	\$ 35,102	\$ 151,105	\$ 134,029
Direct expense	36,803	24,972	113,460	99,400
	11,636	10,130	37,645	34,629
Selling, general and administrative expenses				
Sales and marketing	373	175	831	826
General and administrative	5,858	4,685	17,914	16,024
Interest, net	362	350	1,089	1,663
Amortization of capital assets	151	158	515	444
Amortization of intangible assets	2,686	2,573	10,322	10,209
	9,430	7,941	30,671	29,166
Earnings before income taxes and non-controlling interest	2,206	2,189	6,974	5,463
Provision for (recovery of) income taxes				
Current	1,196	-	1,826	-
Future	(992)	(11)	(1,928)	(651)
	204	(11)	(102)	(651)
Earnings before non-controlling interest	2,002	2,200	7,076	6,114
Non-controlling interest	500	550	1,769	1,528
Net income	\$ 1,502	\$ 1,650	\$ 5,307	\$ 4,586
Earnings per trust unit - basic	\$ 0.22	\$ 0.25	\$ 0.79	\$ 0.68
Earnings per trust unit - diluted	\$ 0.22	\$ 0.25	\$ 0.79	\$ 0.68
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	\$ 112,768	\$ 118,513	\$ 112,768	\$ 118,513
Total long-term liabilities	\$ 22,346	\$ 28,404	\$ 22,346	\$ 28,404

⁽¹⁾ 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. 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. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

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Selected Financial Information

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

	Three Month Period Ended							
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
	2007	2007 ⁽¹⁾	2007 ⁽¹⁾	2007 ⁽¹⁾	2006 ⁽¹⁾	2006 ⁽¹⁾	2006 ⁽¹⁾	2006 ⁽¹⁾
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 48,439	\$ 35,002	\$ 33,839	\$ 33,825	\$ 35,102	\$ 33,983	\$ 33,593	\$ 31,351
Net income	\$ 1,502	\$ 1,193	\$ 1,469	\$ 1,143	\$ 1,650	\$ 1,252	\$ 1,538	\$ 147
Earnings per trust unit - basic	\$ 0.22	\$ 0.18	\$ 0.22	\$ 0.17	\$ 0.25	\$ 0.19	\$ 0.23	\$ 0.02
Earnings per trust unit - diluted	\$ 0.22	\$ 0.18	\$ 0.22	\$ 0.17	\$ 0.25	\$ 0.19	\$ 0.23	\$ 0.02
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

⁽¹⁾ 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. 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 the notes periods have been restated. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

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

	Three Month Period Ended		Twelve Month Period Ended	
	December 31		December 31	
	2007	2006 ⁽⁴⁾	2007	2006 ⁽²⁾⁽⁴⁾
	(unaudited)	(unaudited)	(audited)	(audited)
<u>Calculation of EBITDA^(A):</u>				
Net income	\$ 1,502	\$ 1,650	\$ 5,307	\$ 4,586
Add:				
Interest	362	350	1,089	1,663
Non-controlling interest	500	550	1,769	1,528
Recovery of future income taxes	(992)	(11)	(1,928)	(651)
Provision for current income taxes	1,196	-	1,826	-
Loss on disposal of capital assets	-	221	22	242
Amortization of capital assets	1,013	886	3,593	3,314
Amortization of intangible assets	2,686	2,573	10,322	10,209
Aircraft heavy maintenance amortization	605	326	2,107	570
Less: Aircraft heavy maintenance expenditures	-	(765)	(2,510)	(2,240)
EBITDA^(A)	\$ 6,872	\$ 5,780	\$ 21,597	\$ 19,221

Reconciliation of EBITDA^(A) to Distributable Cash^(B):

EBITDA ^(A)	\$ 6,872	\$ 5,780	\$ 21,597	\$ 19,221
Less:				
Maintenance capital expenditures ⁽¹⁾	1,121	491	4,071	2,556
Interest ⁽³⁾	313	350	1,155	1,663
Provision for current income taxes	1,196	-	1,826	-
Repayment of long-term debt obligation under capital lease	31	29	129	113
Distributable cash^(B)	\$ 4,211	\$ 4,910	\$ 14,416	\$ 14,889

⁽¹⁾ Maintenance capital expenditures for the three month and twelve month periods ended December 31, 2006 exclude the \$0.1 million and \$0.5 million, respectively, 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 \$49,348 for the three month period ended December 31, 2007 and the net unrealized gain on derivatives amounting to \$66,009 for the twelve month period ended December 31, 2007.

⁽⁴⁾ 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. 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. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

^(A) Please refer to End Note (A) included at the end of this MD & A.

^(B) Please refer to End Note (B) included at the end of this MD & A.

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Highlights for the Three Month Periods Ended December 31, 2007 and 2006

- Total revenue for the three month period ended December, 2007 was \$48.4 million as compared to \$35.1 million for the three month period ended December 31, 2006, an increase of 37.9%.
- Average overnight daily cargo revenue for the three month period ended December 31, 2007 was \$0.86 million per operating day, representing an increase of 37.0% as compared to \$0.63 million per operating day for the three month period ended December 31, 2006.
- EBITDA ^(A) increased by 19.0% to \$6.9 million for the three month period ended December 31, 2007 as compared to \$5.8 million for the three month period ended December 31, 2006.

Review of Operations (For the Three Month Periods Ended December 31, 2007 and 2006)

Revenue

Total revenue increased by \$13.3 million to \$48.4 million for the three month period ended December 31, 2007, as compared to the three month period ended December 31, 2006, representing an increase of 37.9%. Revenue related to the overnight cargo service increased by \$10.3 million to \$41.2 million for the three month period ended December 31, 2007, as compared to the three month period ended December 31, 2006 representing an increase of 33.3%. Revenue related to the overnight cargo service accounted for 85.1% of the total revenue for the three month period ended December 31, 2007, compared to 88.0% for the three month period ended December 31, 2006.

ACMI cargo revenue was \$4.1 million for the three month period ended December 31, 2007, compared to \$1.4 million for the three month period ended December 31, 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 8.5% of the total revenue for the three month period ended December 31, 2007 compared to 4.0% for the three month period ended December 31, 2006.

International revenue was \$2.6 million for the three month period ended December 31, 2007, compared to \$2.5 million for the three month period ended December 31, 2006. International revenue accounted for 5.4% of the total revenue for the three month period ended December 31, 2007, compared to 7.1% for the three month period ended December 31, 2006.

Fixed Base Operations (FBO) revenue was \$0.4 million for the three month period ended December 31, 2007. This revenue was introduced on September 17, 2007 and therefore is not comparable to the three month period ended December 31, 2006. FBO revenue accounted for 0.8% of the total revenue for the three month period ended December 31, 2007.

Aircraft lease revenue from the passenger aircraft was \$0.2 million for the three month period ended December 31, 2007, compared to \$0.2 million for the three month period ended December 31, 2006. Aircraft lease revenue accounted for 0.4% of the total revenue for the three month period ended December 31, 2007, compared to 0.6% for the three month period ended December 31, 2006. ACMI passenger revenue was \$0.1 million for the three month period ended December 31, 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 December 31, 2007. ACMI passenger revenue accounted for 0.3% of the total revenue for the three month period ended December 31, 2006.

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Review of Operations (For the Three Month Periods Ended December 31, 2007 and 2006)

Direct Expenses

Direct expenses were \$36.8 million for the three month period ended December 31, 2007 and represented 76.0% of revenue, compared to direct expenses of \$25.0 million representing 71.2% of revenue for the three month period ended December 31, 2006. The increase in direct expenses as a percentage of revenue compared to 2006 is attributable to an increase in costs related to the additional capacity and routes the Fund added during the period. Direct expenses such as aircraft lease costs, sub service costs, crew costs, aircraft heavy maintenance, ground handling and labour costs increased during the period when compared to the same period last year. For the three month period ended December 31, 2007, fuel expense increased by \$5.2 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 \$6.3 million, representing 13.0% of revenue for the three month period ended December 31, 2007, compared to \$4.9 million or 14.0% of revenue for the three month period ended December 31, 2006. The increase in selling, general and administrative expenses for the three month period ended December 31, 2007 compared to the same period for 2006 is mainly attributable to an increase in salaries and benefits, professional and consulting fees, advertising and promotion costs, offset by a reduction in audit fees.

EBITDA ^(A)

EBITDA ^(A) for the three month period ended December 31, 2007 was \$6.9 million or 14.3% of revenue, compared to \$5.8 million or 16.5% of revenue for the three month period ended December 31, 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 three month period ended December 31, 2007, the aircraft heavy maintenance amortization of \$0.6 million charged to earnings was added back to earnings. There were no actual heavy maintenance expenditures incurred during the three month period ended December 31, 2007. For the purpose of calculating EBITDA ^(A) for the three month period ended December 31, 2006, the aircraft heavy maintenance amortization of \$0.3 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of \$0.8 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising primarily 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 December 31, 2007 was \$2.7 million and for the three month period ended December 31, 2006, it was \$2.6 million. Amortization of capital assets for the three month period ended December 31, 2007 totaled \$1.0 million, out of which \$0.9 million was included in direct expenses and for the three month period ended December 31, 2006 totaled \$0.9 million, out of which \$0.7 million was included in direct expenses.

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Review of Operations (For the Three Month Periods Ended December 31, 2007 and 2006) (continued)

Interest

Interest expense was \$0.4 million for the three month period ended December 31, 2007, as well as for the three month period ended December 31, 2006. Included in the interest expense for the three month period ended December 31, 2007 was the unrealized loss of \$0.05 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 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 \$1.0 million for the three month period ended December 31, 2007 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and reductions in the effective tax rates that came into effect in December 2007.

Income Tax Provision

The provision for current income tax payable for the three month period ended December 31, 2007 was \$1.2 million, compared to nil for the three month period ended December 31, 2006. The increase in current taxes payable is partially attributable to the Fund having no tax loss carry forward amounts in the period ended December 31, 2007 whereas the Fund had tax loss carry forward amounts during the comparable period in 2006.

Non-controlling Interest

Non-controlling interest was \$0.5 million for the three month period ended December 31, 2007 as compared to \$0.6 million for the three month period ended December 31, 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 \$4.2 million for the three month period ended December 31, 2007, compared to \$4.9 million for the three month period ended December 31, 2006. The decrease in distributable cash for the three month period ended December 31, 2007 compared to the three month period ended December 31, 2006 was primarily attributable to the provision for current income taxes.

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Review of Operations (For the Three Month Periods Ended December 31, 2007 and 2006) (continued)

Distributions

Total distributions declared for the three month period ended December 31, 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 December 1, 2007 to December 31, 2007 was declared to unit holders of record on December 31, 2007, payable on or before January 15, 2008. Also, a distribution of \$0.0964 per Exchangeable LP unit, equal to \$0.2 million, for the period December 1, 2007 to December 31, 2007 was declared to Exchangeable LP unitholders of record on December 31, 2007, payable on or before January 15, 2008. The total distributions declared for the three month period ended December 31, 2006 were \$2.5 million, or \$0.2835 per trust unit. The payout ratio for the three month period ended December 31, 2007 was 61% compared to 52% for the three month period ended December 31, 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 December 31, 2007 was \$8.1 million. This is primarily due to continued strong revenues 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 December 31, 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 December 31, 2007 was \$3.5 million, represented by capital asset spending of \$1.7 and \$1.8 million related to the acquisition of the net assets of Georgian Express Ltd. 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.

Capital Expenditures

Capital asset additions totaled \$1.7 million for the three month period ended December 31, 2007, out of which \$1.1 million represented maintenance capital expenditures and \$0.6 million represented growth capital expenditures for the period.

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Highlights for the Twelve Month Periods Ended December 31, 2007 and 2006

- Total revenue for the twelve month period ended December 31, 2007 was \$151.1 million as compared to \$134.0 million for the twelve month period ended December 31, 2006, an increase of 12.8%
- Average overnight daily cargo revenue for the twelve month period ended December 31, 2007 was \$0.66 million per operating day, representing an increase of 13.8% as compared to \$0.58 million per operating day for the twelve month period ended December 31, 2006
- Net earnings were \$5.3 million for the twelve month period ended December 31, 2007 as compared to \$4.9 million for the twelve month period ended December 31, 2006, an increase of 15.2%
- EBITDA ^(A) increased by 12.5% to \$21.6 million for the twelve month period ended December 31, 2007 as compared to \$19.2 million for the twelve month period ended December 31, 2006

Review of Operations (For the Twelve Month Periods Ended December 31, 2007 and 2006)

Revenue

Total revenue increased by \$17.1 million to \$151.1 million for the twelve month period ended December 31, 2007, as compared to the twelve month period ended December 31, 2006, representing an increase of 12.8%. The increase over 2006 is a result of revenue enhancements on existing contracts and the addition of new contracts. Revenue related to the overnight cargo service increased by \$16.1 million to \$131.3 million for the twelve month period ended December 31, 2007, as compared to the twelve month period ended December 31, 2006, representing an increase of 14%. Revenue related to the overnight cargo service accounted for 86.9% of the total revenue for the twelve month period ended December 31, 2007, compared to 85.9% for the twelve month period ended December 31, 2006.

ACMI cargo revenue was \$8.7 million for the twelve month period ended December 31, 2007, compared to \$6.2 million for the twelve month period ended December 31, 2006. ACMI cargo revenue accounted for 5.8% of the total revenue for the twelve month period ended December 31, 2007 compared to 4.6% for the twelve month period ended December 31, 2006.

International revenue was \$10.2 million for the twelve month period ended December 31, 2007, compared to \$9.5 million for the twelve month period ended December 31, 2006. The increase compared to the same period in 2006 is primarily attributable to revenue enhancements to existing contracts during the twelve month period ended December 31, 2007. International revenue accounted for 6.8% of the total revenue for the twelve month period ended December 31, 2007, compared to 7% for the twelve month period ended December 31, 2006.

Fixed Base Operations (FBO) revenue was \$0.4 million and accounted for 0.3% of the total revenue for the twelve month period ended December 31, 2007. This revenue was introduced on September 17, 2007 and therefore is not comparable to the three month period ended December 31, 2006.

Aircraft lease revenue from the passenger aircraft was \$0.5 million for the twelve month period ended December 31, 2007 as compared to \$0.2 million for the twelve month period ended December 31, 2006. Aircraft lease revenue accounted for 0.3% of the total revenue for the twelve month period ended December 31, 2007, compared to 0.15% for the twelve month period ended December 31, 2006.

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Review of Operations (For the Twelve Month Periods Ended December 31, 2007 and 2006) (continued)

Revenue (continued)

ACMI passenger revenue was \$3.0 million for the twelve month period ended December 31, 2006 and accounted for 2.2% of the total revenue. The service agreement for the ACMI passenger revenue was terminated in October, 2006 and therefore is not comparable for the twelve month period ended December 31, 2007.

Direct Expenses

Direct expenses were \$113.4 million for the twelve month period ended December 31, 2007 and represented 75.0% of revenue, compared to direct expenses of \$99.4 million representing 74.2% of revenue for the twelve month period ended December 31, 2006. The increase in direct expenses compared to 2006 is attributable to additional direct costs related to the increase in revenues. For the twelve month period ended December 31, 2007, fuel expense increased by \$7.1 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 \$18.7 million, representing 12.4% of revenue for the twelve month period ended December 31, 2007, compared to \$16.9 million or 12.6% of revenue for the twelve month period ended December 31, 2006. The increase in selling, general and administrative expenses for the twelve month period ended December 31, 2007 compared to the same period for 2006 is primarily attributable to an increase in salaries and benefits as well as professional and consulting fees.

EBITDA ^(A)

EBITDA ^(A) for the twelve month period ended December 31, 2007 was \$21.6 million or 14.3% of revenue, compared to \$19.2 million or 14.3% of revenue for the twelve month period ended December 31, 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 twelve month period ended December 31, 2007, the aircraft heavy maintenance amortization of \$2.1 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 twelve month period ended December 31, 2006, the aircraft heavy maintenance amortization of \$0.6 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of \$2.2 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

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Review of Operations (For the Twelve Month Periods Ended December 31, 2007 and 2006) (continued)

Amortization

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising primarily 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 twelve month period ended December 31, 2007 was \$10.3 million as compared to \$10.2 million for the twelve month period ended December 31, 2006. Amortization of capital assets for the twelve month period ended December 31, 2007 totaled \$3.6 million, out of which \$3.1 million was included in direct expenses and for the twelve month period ended December 31, 2006 totaled \$3.3 million, out of which \$2.9 million was included in direct expenses.

Interest

Interest expense was \$1.1 million for the twelve month period ended December 31, 2007, compared to interest expense of \$1.7 million for the twelve month period ended December 31, 2006. The decrease in interest expense is primarily due to a reduction in long-term debt for the twelve month period ended December 31, 2007 compared to the twelve month period ended December 31, 2006. The decrease in interest expense is also due to the unrealized gain of \$0.1 million for the twelve month period ended December 31, 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 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 \$1.9 million for the twelve month period ended December 31, 2007 represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and reductions in the effective tax rates which came into effect in December 2007. 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 which were previously not tax-effected but 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 twelve month period ended December 31, 2007.

Income Tax Provision

The provision for current income tax payable for the twelve month period ended December 31, 2007 was \$1.8 million, compared to nil for the twelve month period ended December 31, 2006. The increase in current taxes payable is partially attributable to the Fund having no tax loss carry forward amounts in the twelve month period ended December 31, 2007 whereas the Fund had tax loss carry forward amounts during the comparable period in 2006.

Non-controlling Interest

Non-controlling interest was \$1.8 million for the twelve month period ended December 31, 2007, compared to \$1.5 million for the twelve month period ended December 31, 2006 and represents the share of earnings for these

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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 \$14.4 million for the twelve month period ended December 31, 2007, compared to \$14.9 million for the twelve month period ended December 31, 2006. The decrease in distributable cash for the twelve month period ended December 31, 2007 compared to the twelve month period ended December 31, 2006 was primarily attributable to the provision for current income taxes.

Distributions

Total distributions declared for the twelve month period ended December 31, 2007 were \$10.3 million, or \$1.1549 per trust unit. A distribution of \$0.0964 per trust unit, equal to \$0.6 million, for the period December 1, 2007 to December 31, 2007 was declared to unit holders of record on December 31, 2007, payable on or before January 15, 2008. Also, a distribution of \$0.0964 per Exchangeable LP unit, equal to \$0.2 million, for the period December 1, 2007 to December 31, 2007 was declared to Exchangeable LP unitholders of record on December 31, 2007, payable on or before January 15, 2008. The total distributions declared for the twelve month period ended December 31, 2006 were \$10.0 million, or \$1.1144 per trust unit. The payout ratio for the twelve month period ended December 31, 2007 was 72% compared to 67% for the twelve month period ended December 31, 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 effective from the distributions declared for the period from February 1, 2007 to February 28, 2007. 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 twelve month period 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	-
		<u>7,736,518</u>	<u>7,723,790</u>	<u>2,578,840</u>	<u>2,996,626</u>	<u>10,315,358</u>	<u>1.1549</u>	<u>10,720,416</u>

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Review of Operations (For the Twelve Month Periods Ended December 31, 2007 and 2006) (continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2007 was \$17.8 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 twelve month period ended December 31, 2007 was \$14.8 million, comprised of a \$4.1 million decrease in long-term debt and \$10.7 million used for distributions paid to unitholders.

Cash used in investing activities during the twelve month period ended December 31, 2007 was \$6.8 million, represented by net capital asset spending of \$5.0 million and \$1.8 million related to the acquisition of the net assets of Georgian Express Ltd. during the period.

Capital Expenditures

Capital asset additions totaled \$5.0 million for the twelve month period ended December 31, 2007, out of which \$4.1 million represented maintenance capital expenditures for the period and \$0.9 million represented growth capital expenditures.

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Financial Condition

The following is a comparison of the financial position of the Fund as at December 31, 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 December 31, 2007 to the financial position of the Fund as at September 30, 2007

Accounts Receivable

Accounts receivable as at December 31, 2007 amounted to \$9.9 million, an increase of \$3.8 million compared to the balance of \$6.1 million as at December 31, 2006 and an increase of \$2.1 million compared to the balance of \$7.8 million as at September 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 \$1.4 million from December 31, 2006 and increased by \$0.7 million from September 30, 2007 to \$29.4 million as at December 31, 2007. The increase in capital assets for the three month period ended December 31, 2007 was comprised of \$1.1 million for maintenance capital expenditures and \$0.6 million for growth capital expenditures, offset by the amortization of capital assets recorded during the twelve month period ended December 31, 2007 of \$1.0 million. The increase in capital assets for the twelve month period ended December 31, 2007 was comprised of \$4.1 million for maintenance capital expenditures, and \$0.9 million for growth capital expenditures, offset by the amortization of capital assets recorded during the twelve month period ended December 31, 2007 of \$3.6 million.

Intangible Assets

Intangible assets decreased by \$9.0 million from December 31, 2006 and decreased by \$1.3 million from September 30, 2007 to \$63.1 million as at December 31, 2007. The decrease is attributable to the amortization of intangible assets recorded for the twelve month period ended December 31, 2007 of \$10.3 million and for the three month period ended December 31, 2007 of \$2.7 million offset by the addition of \$1.4 million in intangible assets related to the acquisition of the net assets of Georgian Express Ltd. during the three and twelve month periods ended December 31, 2007.

Deferred Heavy Maintenance

Deferred heavy maintenance increased by \$0.4 million from December 31, 2006 and decreased by \$0.6 million from September 30, 2007 to \$2.2 million as at December 31, 2007. The increase from the balance as at December 31, 2006 is as a result of additional aircraft heavy maintenance expenditures during this period of \$2.5 million and the heavy maintenance amortization during this period of \$2.1 million. The decrease from the balance as at September 30, 2007 is as a result of heavy maintenance amortization of \$0.6 million during the three month period ended December 31, 2007. There were no actual heavy maintenance expenditures incurred during the three month period ended December 31, 2007.

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Financial Condition (continued)

Accounts Payable and Accrued Charges

Accounts payable and accrued charges increased by \$2.1 million compared to the balance as at December 31, 2006 and increased by \$3.7 million compared to the balance as at September 30, 2007 to \$13.6 million. The increase compared to both of these periods ended is primarily a result of the timing of supplier payments, and the timing of the payroll disbursement.

Working Capital Position

The Fund had a working capital surplus as at December 31, 2007, representing the difference between total current assets and current liabilities, of \$0.7 million, compared to a working capital surplus of \$3.4 million as at December 31, 2006. The decrease in working capital compared to December 31, 2006 is primarily due to the use of cash of \$4.0 million for the repayment of long-term bank debt. Working capital as at the December 31, 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 parts 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 December 31, 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 September 30, 2007. The maturity date of this revolving credit facility is April 1, 2009.

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 December 31, 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 \$0.02 million, expires on March 20, 2008, one for \$0.12 million expires on July 6, 2008 and the third for \$0.2 million expires December 31, 2008.

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Financial Condition (continued)

Summary of Contractual Obligations

As at December 31, 2007 (\$ thousands)	Payments due by Period						
	Total	2008	2009	2010	2011	2012	Thereafter
Long-term debt	\$ 17,000	\$ -	\$ 17,000	\$ -	\$ -	\$ -	\$ -
Operating leases	17,080	6,955	5,339	2,084	912	316	1,474
Total contractual obligations	\$ 34,080	\$ 6,955	\$ 22,339	\$ 2,084	\$ 912	\$ 316	\$ 1,474

Capital Resources

The Fund expects to make capital expenditures of approximately \$7.0 million over the course of the next four quarters in connection with the deployment of the new aircraft required to meet the Funds increase in capacity demand. The new aircraft are scheduled to enter service in the second quarter of 2008. These capital expenditures will consist of the addition of new aircraft tooling and ground handling equipment, aircraft spare parts inventories, new airfreight containers, aircrew training and aircraft operations manuals. Management is currently reviewing various financing options available to the Fund to finance the anticipated capital expenditures in 2008.

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. For the three month period ended December 31, 2007 the Fund had sales to three customers of \$21.8 million or 45% of total revenue compared to \$18.8 million or 54% of total revenue for the three month period ended December 31, 2006. For the twelve month period ended December 31, 2007 the Fund had sales to three customers of \$76.4 million or 51% of total revenue compared to \$68.9 million or 51% of total revenue for the twelve month period ended December 31, 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. The Fund also provided ACMI services to Starjet, a related company, until October 2006, when the service agreement with Starjet was terminated. The passenger aircraft was subsequently leased to a third party.

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Financial Condition (continued)

Transactions with Related Parties

During the three and twelve month periods ended December 31, 2006 the Fund earned revenues from Starjet of \$0.06 million and \$3.0 million, and incurred costs associated with this revenue of \$0.05 million and \$2.7 million, respectively. The service agreement with Starjet was terminated in October 2006 and therefore, there were no revenues earned from Starjet during the twelve month period ended December 31, 2007. The accounts receivable balance owing from Starjet as at December 31, 2007 was nil, 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, and has received the total amount that was due from the related company.

During the twelve month period ended December 31, 2007 the Fund had 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. The cost of sales transactions for fuel, amounting to \$0.01 million, are in the normal course of operations and relate to the aircraft and airport ground equipment fuelling services supplied to the Fund by FIAL. 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 accounts payable balance owing to FIAL as at December 31, 2007 was \$0.003 million and is included in the balance sheet under accounts payable and accrued charges. The cost of sales transactions with Flagship Aviation amounting to \$0.01 million 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 warehouse and office building at the Hamilton International Airport. The accounts payable balance owing to Flagship Aviation as at December 31, 2007 was nil.

The Fund also incurred interest expense of \$0.04 million in the twelve month period ended December 31, 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 \$4.0 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 December 31, 2007, the hedge had a positive fair value, or value favourable to the Fund, of approximately \$0.1 million.

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Subsequent Events

In January 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. Also 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 quarters of 2008. It also announced plans to enhance its live animal shipping program.

During February 2008, the Fund entered into a series of U.S. dollar forward purchase contracts for an aggregate total of U.S. \$21.0 million. These U.S. dollar forward contracts begin in March 2008 and expire in December 2009, and are consistent with the Fund's foreign exchange risk management policy. As part of this policy, the Fund will enter into U.S. dollar forward purchase contracts to reduce uncertainty surrounding Canadian dollar value of anticipated cash flows where it has significant foreign exchange exposure to U.S. currency fluctuations.

Outlook

The Fund continues to experience increased commitments for its premium and time-definite air cargo services on the overnight network, especially from contract customers. Forecasted economic slowdown in the USA and Canada may impact future demand as we move into 2008, although historically air cargo carriers have benefited when manufacturers and distributors maintain lower inventory levels and ship on a more "just-in-time" basis.

Management believes that volume increases from its core customer base will also continue to grow as cargo capacity on scheduled passenger aircraft continues to decrease and with the possible implementation of enhanced security regulations for air cargo carried in the belly of passenger aircraft. 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.

Fuel prices continue to fluctuate and remain at historically high levels. 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.

Aircraft fleet renewal plans are well underway with the planned introduction of the B757-200F and B767-200F Extended Range Freighter aircrafts later in 2008. Initial employee training, indoctrination and capital expenses associated with the introduction of these new aircraft type will begin in the first three months of 2008.

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Outlook (continued)

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 the allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies and rotables 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
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, supplies and rotables	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 finite life are capitalized and are amortized over their estimated useful lives and are further tested for impairment if events or circumstances indicate that the asset might be impaired.

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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 financial statements to the extent that realization of such benefit is more likely than not.

Financial Reporting Update

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 \$0.2 million, an increase in non-controlling interest of \$0.4 million and a reduction in accumulated other comprehensive income of \$0.1 million was recorded in connection with the interest rate swap.

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.

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Financial Reporting Update (continued)

Adoption of new and revised accounting standards (continued)

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 unit holders	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.

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 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.

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Financial Reporting Update (continued)

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.

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, 2007 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.

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Internal Controls over Financial Reporting

During 2007, the Fund completed its documentation and assessment of internal controls over financial reporting, leading to the regulatory certification of its annual filings. The Fund has documented and is assessing the operating effectiveness 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 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.

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End Notes

(A) All references to “EBITDA” in the Management’s Discussion and Analysis exclude some or all of the following: “amortization, interest on long-term debt, future income tax recovery, provision for current income taxes, non-controlling interest, gain or loss on disposal of capital assets and amortization of aircraft heavy maintenance expenditures”. 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, amortization of aircraft heavy maintenance expenditures 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.

Amortization of aircraft heavy maintenance expenditures - amortization of aircraft heavy maintenance expenditures represents a non-cash item. EBITDA is however reduced by the actual aircraft heavy maintenance expenditures incurred in the period; accordingly, this expense represents a different class of expense than those included in EBITDA.

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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.