The following is a discussion of the consolidated financial condition and results of operations of the Cargojet Income Fund (the "Fund") for the 251 day period ended December 31, 2005. The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. (the "Company" or "Cargojet") on June 9, 2005. Included in the Fund's results of operations are the results, of the corporate subsidiary Cargojet, for the 206 day period from June 9, 2005, (commencement of operations), to December 31, 2005. To provide meaningful information to the reader, the following will refer to the comparative operating results for the years ended December 31, 2005 and 2004, which include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund. This discussion should be read in conjunction with the Fund's Management Discussion and Analysis (MD&A) as included in the prospectus dated June 1, 2005. The Fund acquired 75% of the outstanding common shares of Cargojet Holdings Ltd. effective June 9, 2005 in connection with its initial public offering of trust units. 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.

Management has evaluated the effectiveness of the Funds' disclosure controls and procedures as of December 31, 2005 and has concluded that these are effective in providing reasonable assurance that material information relating to the Fund has been appropriately disclosed.

The effective date of the MD&A is March 14, 2006. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we", and "our" mean Cargojet Income Fund.

References to "EBITDA" [(A)] are to earnings before interest, income taxes, depreciation, amortization, payments under an employee profit sharing plan, stock based compensation expense, non-controlling interest and 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 income or loss determined in accordance with GAAP as indicators of the Company's performance or to cash flows from operating, investing, and financing activities as measures of liquidity and cash flows.

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the year ended December 31, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the year ended December 31, 2005 and 2004. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations.

## 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 Prospectus filed on June 1, 2005 with the regulatory authorities.

## Corporate Overview

The Fund is Canada's leading provider of time sensitive overnight air cargo service and operates a co-load network that management believes constitutes approximately 50% of Canada's dedicated domestic overnight air cargo market. The Fund operates its network from coast to coast transporting over 500,000 pounds (226.8 tonnes) of volumetric time-sensitive air cargo to thirteen major cities in Canada each business night. The Fund's co-load network consolidates cargo received from well over 200 customers and transports such cargo to the appropriate destination in a cost efficient and reliable manner. The Fund also operates dedicated aircraft on an ACMI (Aircraft, Crew, Maintenance & Insurance) basis for various customers within Canada and Internationally and recently began operations on a route operating between the USA and Bermuda five days per week. The Fund monitors key performance indicators and uses that information to reduce costs and improve the efficiency of its services. During the year ended December 31, 2005, the Fund operated 6,296 flight legs, of which more than 99.0% arrived at destination within 30 minutes of scheduled arrival time. The Fund makes cash distributions to unit holders based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of units payable in cash. The declaration of Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

## Recent Events

Economic and industry factors affecting the Fund remain largely unchanged from December 31, 2004 other than the events otherwise described.

During the past year customer contracts were renewed with two major customers on multiple year terms and with increases equal to or above CPI. A new five-year customer contract was also entered into in the last quarter of 2005, which includes minimum daily revenue guarantees and revenue of approximately $0.7 million per annum. In addition, contract extensions were successfully negotiated with Cargojet's two largest customers during the year. There are no customer contracts up for renewal in the 2006 fiscal year.

A general price increase of 5% was implemented effective August 1, 2005 and a subsequent 10% increase came into effect on January 1, 2006 for all non-contract customers.

In July 2005, The Canadian Transportation Agency (CTA) ruled in favour of Cargojet's objection to the application by a major Canadian passenger airline to provide domestic air cargo service using foreign registered aircraft and flight crews, as an extension of its international service.

The ACMI contract previously held with this major Canadian airline was replaced directly with three major customers to provide additional lift and capacity to Western Canada on a nightly basis effective August 2005. Contractual agreements, with minimum daily revenue guarantees, were signed with these three customers, which transferred all of their daytime air cargo business, previously traveling with the other airline, to the Fund.

Fourth quarter 2005 revenues increased over 2004 with higher volumes being handled from regular contract customers. Cargojet also entered into an Agreement with Canada Post Corporation to operate dedicated charter flights to carry increased seasonal mail volumes generating revenue of just over $0.6 million.

Cargojet introduced a new service, operating a dedicated cargo aircraft between Newark, New Jersey, USA and Hamilton, Bermuda ("international route") in November 2005. This provides a five day per week air cargo service for multiple customers and is patterned after the domestic business model that Cargojet has successfully built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass-through increases in fuel costs.

Additional interline agreements were signed with eleven new domestic and international airlines to expand the scope of our geographic coverage during 2005. Cargojet now has a total of twenty-two interline agreements and 2005 interline revenues increased 24% over the previous year.

**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 fixed space and weight allocation on the Fund's network and a corresponding fixed 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. For both the 251 day (operationally 206 days) period ended December 31, 2005, approximately 75% of the Fund's overnight air cargo revenue was generated by guaranteed contract, with the remaining space available sold on a non-guaranteed basis.

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. Typically this revenue helps to support lower demand flight 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 during 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 also provides and operates dedicated aircraft on an ACMI basis for UPS Supply Chain Solutions Inc., formerly known as Menlo Worldwide Inc. and BAX Global Inc. The airline operates these aircraft on dedicated routes where both customers are responsible for all commercial activities and the Fund is paid a fixed amount to operate the routes. In addition, the Fund also provides an ACMI passenger service for Starjet Airways Ltd., a related company, on a cost recovery plus six percent basis.

**Expenses**

Expenses consist of fixed and variable expenses including aircraft and ground support, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter and ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment, and building leases.

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Fund's business, which includes functions such as load scheduling, flight operations coordination, client relations, and administration and information systems. The Fund's administrative costs primarily consist of payroll, occupancy costs, and professional fees (such as audit and legal fees). The Fund's administrative staffing and associated costs are maintained at a level that the Fund deems appropriate to manage and support the size and nature of its current business activities.

## 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 prospectus of the Fund dated June 1, 2005.

The following includes a discussion of the results of operations for the 251 day period and year ended December 31, 2005. To provide meaningful information to the reader, the comparative operating results for the year ended December 31, 2005 and December 31, 2004 include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund.

## Highlights

- Revenues increased 16.6% for the year ended December 31, 2005 in comparison to the year ended December 31, 2004.
- EBITDA [A] increased 47.4% for the year ended December 31, 2005 in comparison to the year ended December 31, 2004.
- EBITDA [A] increased to 12.0% of revenue for the year ended December 31, 2005 in comparison to 9.5% for the year ended December 31, 2004.

## Results of Operations
## (in thousands of dollars)

| | Period from inception April 25 to December 31, 2005 (251 days) (2) |
|---|---|
| | (audited) |
| Revenue | $ 69,295 |
| Direct expense | 55,089 |
| | 14,206 |
| Selling, general and administrative expenses | |
| Sales and marketing | 396 |
| General and administrative | 7,731 |
| Interest | 959 |
| Amortization of capital assets | 178 |
| Amortization of intangible assets | 5,762 |
| | 15,025 |
| Loss before income taxes and non-controlling interest | (819) |
| Future income tax recovery | 1,434 |
| Earnings before non-controlling interest | 615 |
| Non-controlling interest | (154) |
| Net earnings | 461 |
| Distributions declared in the period | (4,136) |
| Deficit, beginning of period | - |
| Deficit, end of period | $ (3,675) |
| Earnings per trust unit (basic) | $ 0.07 |
| Earnings per trust unit (diluted) (1) | $ 0.07 |
| Average number of trust units outstanding basic (in thousands of units) | 6,699 |
| Average number of trust units outstanding diluted (in thousands of units) | 8,932 |
| | (unaudited) |
| Net earnings before non-controlling interest | $ 615 |
| Add: | |
| Interest | 959 |
| Future income tax recovery | (1,434) |
| Amortization of capital assets in direct expenses | 1,553 |
| Amortization of capital assets | 178 |
| Amortization of intangible assets | 5,762 |
| Aircraft heavy maintenance accrual | 1,460 |
| Less: Aircraft heavy maintenance expenditures | (620) |
| EBITDA (A) | $ 8,472 |
| EBITDA (A) | $ 8,472 |
| Maintenance capital expenditures-other than engines | 896 |
| Maintenance capital expenditures - engine purchases (3) | 220 |
| Interest | 959 |
| Distributable cash (B) | $ 6,397 |
| Cash available for distribution (95% of distributable cash) | $ 6,078 |
| Distributable cash per unit - diluted (1) | $ 0.716 |
| Distributable cash available per unit (1) | $ 0.680 |
| Cash distributions | $ 5,515 |
| Cash distributions as a percentage of distributable cash | 86% |
| Cash distributions as a percentage of cash available for distribution | 91% |

(1) Diluted earnings per trust unit. For the purpose of determining diluted earnings per trust unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

(2) These are the results of operations of the Fund for the 206 day period from June 9 to December 31, 2005. 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.

(3) Maintenance capital expenditures- engines include the purchase of two engines during the three months ended September 30, 2005 These expenditures were offset by the proceeds of sale of the old engines per the sales agreement dated October 15, 2005 for $515,003.

## Results of Operations
## (in thousands of dollars)

Supplementary Financial Information [1]

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the year ended December 31, 2005 and have been presented only to provide the reader with additional information to improve the comparability of the operating results for the years ended December 31, 2005 and 2004. This approach is not consistent with GAAP and may yield results that are not strictly comparable on a year-to-year basis due to the impact of applying purchase accounting at the closing date of the acquisition by the Fund of Cargojet. Management believes, however, that this is the most meaningful way to present the results of operations.

| | Year Ended December 31, | |
|---|---|---|
| | **2005** | **2004** |
| | **(unaudited)** | **(unaudited)** |
| Revenues | **$ 117,878** | **$ 101,065** |
| Direct expenses | **92,663** | **79,925** |
| | **25,215** | **21,140** |
| Selling, general and administrative expenses | | |
| Sales and marketing | **892** | **989** |
| General and administrative | **13,503** | **11,719** |
| Interest | **1,564** | **1,200** |
| Amortization of capital assets | **299** | **275** |
| Amortization of intangible assets | **5,762** | **-** |
| Employee profit sharing plan [2] | **2,000** | **2,014** |
| Stock-based compensation [2] | **4,466** | **-** |
| | **28,486** | **16,197** |
| (Loss) Earnings before Income taxes and Non-controlling Interest | **(3,271)** | **4,943** |
| Income taxes | **(688)** | **1,029** |
| (Loss) Earnings before Non-controlling Interest | **(2,583)** | **3,914** |
| Non-controlling Interest | **154** | **-** |
| Net (loss) earnings | **(2,737)** | **3,914** |
| Add: | | |
| Interest | **1,564** | **1,200** |
| Amortization of capital assets in direct expenses | **2,580** | **1,955** |
| Amortization of capital assets | **299** | **275** |
| Amortization of intangible assets | **5,762** | **-** |
| Non-controlling Interest | **154** | **-** |
| Income taxes | **(688)** | **1,029** |
| Employee profit sharing plan [2] | **2,000** | **2,014** |
| Stock based compensation expense [2] | **4,466** | **-** |
| Aircraft heavy maintenance accrual | **2,287** | **2,639** |
| Less: Aircraft heavy maintenance expenditures | **(1,544)** | **(3,431)** |
| EBITDA [A] | **$ 14,143** | **$ 9,595** |

[1] The Supplementary Financial Information above is provided only for comparative purposes and does not reflect the current structure of the Fund.

[2] The Employee profit sharing plan and the stock-based compensation plan existed in the predecessor company; however, they were discontinued at the closing of the initial public offering.

**<u>Review of Operations</u> (For the 251 day period and Year Ended December 31, 2005)**

<u>Revenues</u>

Total revenue was $69.3 million for the period June 9 to December 31, 2005. Revenue relating to the overnight cargo service accounted for 91.1% of the total revenue for the period June 9 to December 31, 2005. Total revenues for the year ended December 31, 2005 increased by $16.8 million or 16.6% to $117.9 million, compared to the year ended December 31, 2004. Revenues from the overnight network for the year ended December 31, 2005 increased by $11.0 million or 11.6% to $105.6 million as compared to 2004. The increase over 2004 levels is as a result of the addition of new customer business, growth of existing customers' volumes and an increase in fuel surcharges. ACMI cargo revenues were $2.7 million for the period June 9 to December 31, 2005. Revenue related to the ACMI cargo service accounted for 3.9% of the total revenue for the period June 9 to December 31, 2005. ACMI cargo revenues increased by $4.1 million or 130.6% to $7.2 million for the year ended December 31, 2005 as compared to 2004. One of the ACMI routes started in September of 2004 was terminated in August 2005 and this business was converted to overnight cargo service revenue. In addition, one other ACMI route was temporarily halted by mutual request of the Fund and the customer for a forty-five day period during the fourth quarter to allow for better utilization of the aircraft servicing this route onto higher yielding domestic routes to handle peak period volumes. Revenue from the international flights from Newark to Bermuda represented an increase of $1.2 million during the year and ACMI passenger revenues increased by $0.5 million or 13.3%.

<u>Direct Expenses</u>

For the period June 9 to December 31, 2005 direct expenses were $55.1 million, representing 79.5% of revenue. Direct expenses for the year ended December 31, 2005 increased by $12.8 million or 16.0% to $92.7 million, compared to $79.9 million for the comparable period in 2004. Fuel expense increased by $8.7 million or 34.0% for the year ended December 31, 2005 compared to 2004. Fuel cost as a percentage of revenue was 29.1% for the year ended December 31, 2005, as compared to 25.4% for the comparative period in 2004. Fuel cost increases were passed through to the customers as a fuel surcharge and billed to customers on a cost recovery basis only. The international route commenced November 14, 2005 with higher operational costs due to the initial startup of this service and as a result overall margins were reduced. It is anticipated that these costs will reduce and margins will improve. Also, one of the Fund's largest customers received a credit equal to $0.4 million during the fourth quarter as a rate concession for higher than anticipated volumes and entering into a significant contract extension. The Fund also began operating a new scheduled flight, as part of its overnight cargo service, effective August 2005. This flight replaced the capacity previously provided on an ACMI basis to a major scheduled airline and the Fund entered into new agreements with three major customers to handle the additional air cargo. The initial margins on this business were less than traditionally experienced on the overnight network however this flight provides additional growth capacity for the Fund on key head haul routes. The Fund anticipates improving yields and margins on this business moving forward. The number of block hours increased by 11.5% to 11,309 due mainly to the addition of two ACMI contracts that came into effect late in the third quarter of 2004, as well as the international flights which began in the fourth quarter of 2005. The ACMI contracts began in September of 2004 and represented an increase of 1,047 hours during 2005 as compared to 2004. The international flights represented an additional 186 block hours in the fourth quarter of 2005. Aircraft navigation and landing fees increased by $0.8 million or 8.8% to $10.4 million. Crew costs increased by $0.8 million or 11.7% to $7.6 million. These increases were primarily a result of the increased hours required to fly and service the new ACMI customers, and the international route. Linehaul expense increased by $1.6 million or 33.5% to $6.3 million as a direct result of route rationalization to enable greater flexibility with the routes to meet the needs of customers. Heavy maintenance accruals decreased by $0.3 million to $2.3 million, or 11.5% for the year ended December 31, 2005 as compared to the comparable period in 2004. Actual heavy maintenance expenditures for the year ended December 31, 2005 decreased by $1.9 million to $1.5 million from the comparable period in 2004.

Selling, General and Administrative Expenses

For the period June 9, 2005 to December 31, 2005 selling, general and administrative expenses were $8.1 million or 11.7% of revenue. Selling, general and administrative expenses for the year ended December 31, 2005 increased by $1.7 million to $14.4 million or 13.3% compared to the year ended December 31, 2004. Selling, general and administrative expenses for the year ended December 31, 2005 represented 12.2% of revenue as compared to 12.6% in 2004. Decreases in marketing expenses, travel, consulting fees, were offset by increases in public company related expenses, professional fees, and employee salaries. Employee salaries and related benefits increased by $1.7 million or 22.6% to $9.3 million for the year ended December 31, 2005 as compared to 2004, as a result of new employees being added to support the growth of the business.

EBITDA [(A)]

For the period June 9 to December 31, 2005 EBITDA [(A)] was $8.5 million or 12.3% of revenue. EBITDA [(A)] for the year ended December 31, 2005 increased by $4.6 million or 47.4% to $14.1 million compared to the year ended December 31, 2004. EBITDA [(A)] increased to 12.0% of revenue for the year ended December 31, 2005 in comparison to 9.5% for the year ended December 31, 2004. The improvement in EBITDA [(A)] can largely be attributed to the increase in revenue while utilizing the existing fixed cost structure of the network. Although EBITDA as a percentage of revenue increased year over year, it was impacted negatively by the following. The international route from Newark to Bermuda commenced with higher operational costs due to the startup of this service. It is anticipated that these costs will reduce and margins will improve as a result. Additionally, one of the Fund’s largest customers received a credit equal to $0.4 million as a rate concession for higher than anticipated volumes and entering into a significant contract extension. The Fund also initiated an additional overnight flight effective August 2005 to handle the additional volumes from some existing customers that were previously handled by another carrier. The margins on this business were less than those experienced on the overnight network. The rates associated with this flight are currently under review with the customers. Additional deicing costs were experienced during the month of December and amounted to an increase over the same period in the prior year of approximately $0.2 million. Heavy maintenance actual expenditures were lower for the year ended December 31, 2005 as compared to the year ended December 31, 2004. Heavy maintenance accruals added back to earnings in 2005 were $2.3 million as compared to $2.6 million in 2004. Actual heavy maintenance expenditures incurred in 2005 were $1.5 million as compared to $3.4 million in 2004.

**Amortization, Interest, Income Taxes, Cash Available for Distribution,**
**<u>and Non-controlling Interest are not Comparable for the Following Reasons</u>**

<u>Amortization</u>

Amortization is not comparable for prior periods due to the change in the Fund's capital structure relative to its predecessor Cargojet Holdings Ltd. Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses) arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. These intangible assets include goodwill of $46.2 million, customer relationships of $38.1 million, licenses of $1.0 million and non-compete agreements of $2.7 million. Amortization of intangible assets recorded for the period from June 9, 2005 to December 31, 2005 was $5.8 million. Amortization of capital assets is consistent with past practices of the predecessor company Cargojet Holdings Ltd., and for the period June 9 to December 31, 2005 totaled $1.7 million, out of which $1.6 million was included in direct expenses.

<u>Interest</u>

Interest expense is not comparable for prior periods due to the change in the Fund's capital structure. Interest expense was $1.0 million or 1.4% of revenue for the period June 9 to December 31, 2005. Interest expense is calculated as the average balance of the Fund's credit line at its fixed rate of interest of 6.89%. It also includes interest expense of $0.1 million on an amount payable to The Cargojet Group of Companies Employee Profit Share Plan Trust. The Fund has entered into a derivative financial instrument that effectively hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

<u>Income Taxes</u>

Income taxes are not comparable for the prior periods due to the change in the tax structure of the Fund versus its predecessor. The future income tax recovery of $1.4 million during the period June 9 to December 31, 2005 represents the calculation of the reversal of temporary differences between the financial reporting and tax basis calculated at the effective income tax rates with respect to these differences for the period. The Fund is not otherwise subject to income taxes to the extent that its taxable income is paid or payable to a unit holder.

<u>Cash Available for Distribution</u>

Cash available for distribution is not comparable for prior periods due to the change in the Fund's capital structure. Cash available for distribution from June 9, 2005 to December 31, 2005 was $6.1 million.

<u>Non-controlling Interest</u>

Non-controlling interest is not comparable for the prior periods due to the change in the capital structure of the Fund versus its predecessor. Non-controlling interest of $0.2 million for the period June 9 to December 31, 2005 represents the share of earnings for the period related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

## Other Performance Measures

Capital Expenditures

Capital expenditures for the year ended December 31, 2005 totaled $5.4 million. Maintenance capital expenditures totaled $3.7 million and include $2.1 million for engine purchases, $0.2 million for ground support equipment, $0.8 million for rotable spare parts, $0.5 million in leasehold improvements and furniture and fixtures and $0.1 million in computers and software. Proceeds on the disposal of used engines were $0.5 million. Growth capital expenditures totaled $1.7 million and include $0.9 million for rotable spare parts inventory, $0.6 million related to the hangar construction, maintenance equipment of $0.1 million, and $0.1 million for the purchase of ground support equipment. Of the total growth capital expenditures of $1.7 million during the year ended December 31, 2005, $0.6 million was for the period from June 9, 2005 to December 31, 2005 and includes the purchase of certain assets of AllCanada Express Inc.

## Financial Condition

The following is a comparison of the financial condition of the fund as at December 31, 2005 to the financial position of the predecessor Cargojet Holdings Ltd. as at December 31, 2004 as disclosed in the prospectus dated June 1, 2005, and the financial position as at September 30, 2005 as disclosed in the interim financial statements of the Fund issued for the third quarter of 2005.

Cash

Cash increased by $2.6 million from the balance as at December 31, 2004 and decreased by $0.8 million from the balance as at September 30, 2005 to $0.4 million as at December 31, 2005. Included in the $0.8 million decrease in cash since September 30, 2005 is the amount paid for the balance of the issuance costs of the initial public offering not paid as at September 30, 2005. The sources and uses of cash are further discussed in the "Liquidity and Capital Resources" section.

Accounts Receivable

Accounts receivable increased by $3.9 million compared to the balance as at December 31, 2004 and by $3.2 million compared to the balance as at September 30, 2005 to $10.3 million as at December 31, 2005. The increase is primarily due to the increase in revenues and the timing of payments from customers as well as the timing of GST refunds. There was an initial lag time in the payments received from the customers related to the start up of the international flights, since this new source of revenue started close to the holiday season. Included in the accounts receivable balance as at December 31, 2005 is $0.3 million due from one of the airport authorities, for their share of the cost to build a new taxiway. The quality of the Fund's receivable balances and its current collections in managements' opinion remains excellent.

Capital Assets

Capital assets increased by $2.0 million from December 31, 2004 to $28.5 million as at December 31, 2005. The increase was as a result of the purchase of $2.1 million for aircraft engines, additions to ground support equipment of $0.3 million, finalizations of the hangar construction of $0.6 million, additions to rotable spares of $1.7 million, maintenance equipment of $0.1 million, computers and software of $0.1 million and furniture, fixtures and leasehold improvements of $0.5 million. Proceeds on the disposal of used engines were $0.5 million. These additions were offset by amortization during the year ended December 31, 2005 of $2.9 million. The decrease in capital assets from September 30, 2005 of

$0.5 million, relates to $0.8 million for additions to capital assets net of $0.5 million received for the sale of used aircraft engines, and offset by $0.8 million representing the amortization of capital assets .

Accounts Payable and Accrued Charges

Accounts payable and accrued charges increased by $0.2 million from the balance as at December 31, 2004 and increased by $2.7 million from the balance as at September 30, 2005 to $12.0 million as at December 31, 2005. The increase is attributable to the timing of cash payments, including the timing of the payroll disbursement.

Aircraft Heavy Maintenance Accrual

The aircraft heavy maintenance accrual increased by $0.7 million from December 31, 2004 to $2.1 million as at December 31, 2005. This is related solely to the timing difference between the accrual of $2.3 million and the actual heavy maintenance expense incurred of $1.5 million during the period. The aircraft heavy maintenance accrual increased by $0.6 million from September 30, 2005 to December 31, 2005. Again this is solely related to the timing difference between the heavy maintenance accrual of $0.7 million and the actual heavy maintenance expense of $0.01 million. Management expects that the heavy maintenance accrual is sufficient to meet the expenditure to be incurred during the next fiscal year.

Working Capital Position

The Fund has a working capital deficit as at December 31, 2005, representing the difference between total current assets and current liabilities, of $2.0 million, an improvement of $15.2 million from December 31, 2004, and a reduction of $1.4 million from September 30, 2005. The increase from December 31, 2004 is primarily due to continued strong cash flows combined with the restructuring of the Fund's financing in contemplation of the initial public offering, which resulted in an increase of long-term debt after retiring short-term debt. The working capital was also affected by capital expenditures of $5.4 million as well as heavy maintenance expenditures of $1.5 million during the year ended December 31, 2005.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the period June 9, 2005 to December 31, 2005 was $5.7 million. This increase in cash is primarily due to increased revenues, and the timing of customer payments, supplier payments, as well as the timing of the payroll disbursement. In addition, cash was provided by the increase in the amount payable to The Cargojet Group of Companies Employee Profit Share Plan Trust.

Cash provided by financing activities during the period June 9, 2005 to December 31, 2005 was $49.4 million, out of which $52.2 million was from the proceeds from the net issuance of Fund units, $1.5 million from an increase in long-term debt, off-set by $4.3 million used for distributions to unitholders.

Cash used in investing activities during the period June 9, 2005 to December 31, 2005 was $54.7 million, out of which $53.0 million was used for the acquisition of the net assets of Cargojet Holdings, and $1.7 million was used for additions to capital assets net of the proceeds of sale of used engines during the same period.

Cash provided by operating activities after net changes in non-cash working capital balances for the year ended December 31, 2005 was $6.1 million, compared to $6.8 million for the year ended December 31,

2004. This decrease is primarily due to the increase in accounts receivable balances for the year ended December 31, 2005 as a result of the timing of payments from existing customers, as well as the new customers added for the international operations that commenced towards the end of the year.

Cash provided by financing activities during the year ended December 31, 2005 was $53.9 million. The increase was due to the proceeds of $52.2 million from the issuance of Fund units net of issuance costs, $4.3 million used for distributions paid to unitholders, an increase of long-term debt of $12.8 million, which was offset by a reduction in shareholder advances and notes payable of $6.2 million and $0.6 million respectively. Cash used for financing activities during the quarter ended December 31, 2005 was $2.4 million, represented by $2.5 million used for the distributions paid to unit holders and $0.4 million used for additional issuance costs for the initial public offering, offset by proceeds from an increase in long-term debt of $0.4 million.

Cash used in investing activities during the year ended December 31, 2005 was $57.5 million. This was primarily represented by the acquisition of the net assets of Cargojet Holdings Ltd. equal to $52.6 million, net of bank indebtedness assumed of $0.4 million. Capital asset spending during the year ended December 31, 2005 was $5.4 million. Cash used in investing activities during the quarter ended December 31, 2005 was $0.3 million, represented by additions to capital assets of $0.8 million and proceeds on the disposal of used engines of $0.5 million during the quarter.

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.

Management anticipates that the funds available under the operating facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash distributions.

Distributions

Total distributions were $4.29 million for the period from April 25, 2005 to December 31, 2005. A distribution of $0.0917 per Income Fund unit, equal to $0.6 million, for the period December 1 to December 31, 2005 was declared payable to unit holders of record on December 31, 2005, payable on January 15, 2006. Also, a distribution of $0.2751 per Exchangeable LP unit, equal to $0.6 million, for the period October 1, 2005 to December 31, 2005 was declared payable to Exchangeable LP unit holders of record on December 31, 2005, payable on January 15, 2006. Total distributions were $1.4 million for the period from April 25, 2005 to December 31, 2005 to the Exchangeable LP unit holders. The payout ratio for the period from April 25, 2005 to December 31, 2005 was 86%.

Cash Available for Distribution

Cash available for distribution is not comparable for prior periods due to the change in the Fund's capital structure. Cash available for distribution from June 9, 2005 to December 31, 2005 was $6.1 million.

Summary of Contractual Obligations

| As at December 31, 2005<br>($ thousands) | Payments due by Period<br>Total | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|
| Long-term debt | $23,180 | $ - | $ - | $23,180 | $ - | $ - |
| Captial lease obligations | - | - | - | - | - | |
| Operating leases | 16,901 | 6,079 | 4,449 | 3,634 | 2,723 | 16 |
| Purchase obligations | - | - | - | - | - | |
| Other long-term obligations | - | - | - | - | - | |
| Total contractual obligations | $40,081 | $6,079 | $4,449 | $26,814 | $2,723 | $ 16 |

Capital Resources

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

Off Balance Sheet Arrangements

The Fund has one off-balance sheet arrangement, an interest rate swap (see"Financial Instruments and Other Instruments") in addition to those disclosed under "Summary of Contractual Obligations".

Transactions with Related Parties

For the period from June 9, 2005 to December 31, 2005, the Fund received revenues of $2.2 million and incurred costs associated with this revenue of $1.9 million. The accounts receivable balance owing from Starjet as at December 31, 2005 was $0.7 million. The Fund also accrued interest on the EPSP Trust loan of $0.1 million for the year ended December 31, 2005

Segmented Information and Economic Dependence

The Fund manages its operations in one primary business segment, which is providing air cargo services on both a scheduled and ACMI basis. The Fund also provides ACMI aircraft services to Starjet Canada. Primary operations are conducted in Canada with some USA and International operations. During the period from June 9, 2005 to December 31, 2005, the Fund had sales to three customers that represented approximately 54% of total sales.

Contingencies

The Fund has provided irrevocable standby letters of credit totaling $0.22 million to a financial institution and a supplier as security for its corporate credit cards and ongoing services to be provided. The letter of credit for $0.2 million expires on December 29, 2006 and the remainder on March 20, 2006.

Financial Instruments and Other Instruments

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions. The Fund has entered into hedging transactions, which will be maturing on June 15, 2008, with a major Canadian financial institution in order to fix the interest rate at 6.89% during this period of time. The Fund has effectively achieved hedge accounting with respect to its current interest rate swap. 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, 2005 the Fund did not have any foreign exchange contracts outstanding.

Outlook

Demand for time-sensitive air cargo services continues to grow within Canada, as capacity available on commercial airlines continues to decrease and industry volumes continue to grow at above inflationary rates. Enhanced security regulations for air cargo, as recently announced by the Minister of Transport, may result in increased acceptance screening processes, particularly for air cargo carried in the belly of passenger aircraft and will lead to increased demand for air cargo services carried on all-cargo aircraft such as Cargojet's. Cargojet's fuel prices are fixed on a monthly basis by its major fuel suppliers and Cargojet adjusts it fuel surcharge accordingly to its customers. Management is confident that the Company will continue to fully recover any future increases in fuel costs.

Late in 2005, the Canadian and US governments reached agreement on a revised US/Canada Open Skies Agreement. As outlined in the Management Discussion and Analysis for the quarter ended September 30, 2005, the practice of allowing Canadian or US carriers to transport passengers or cargo between domestic points in the others' country, or cabotage, was not part of these discussions and is not part of the revised Agreement. Relaxation of Fifth Freedom capabilities --the ability to operate from a carriers home country to a second country and pick up passengers/cargo and continue to a third country--were included along with the introduction of co-terminalization for cargo carriers to operate an extension flight to a secondary point in the other country – but without the ability to carry domestic origin and destined cargo on the domestic leg of these transborder flights.

Cargojet does not believe that there is any significant threat to its current domestic time-sensitive overnight air cargo business as a result of any recent changes to the current Open Skies Agreement.

Cargojet recently expanded its service internationally with a new cargo service operating between Newark, New Jersey and Hamilton, Bermuda on a five-day per week basis as described previously in the section entitled Recent Events.

Management's principal objective is to increase free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls; and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives, especially those that can increase cash flow and, accordingly, distributions. Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of additional units.

Any decisions regarding the above, including potential increases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

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 the estimates. The items requiring the use of management estimates are the determination of aircraft heavy maintenance reserves, allowance for doubtful accounts, obsolescence of spare parts, materials and supplies, and the valuation of intangible assets.

End Notes

(A) All references to "EBITDA" in Management's Discussion and Analysis exclude some or all of the following: "amortization, interest on long-term debt, income taxes, future income tax recovery, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals". EBITDA is a term used by the Fund that does not have a standardized meaning prescribed by Canadian generally accepted accounting principles ("GAAP") and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Fund's operating profitability, and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of amortization, and future income tax recovery), or non-operating (in the case of interest on long-term debt, income taxes, non-controlling interest, employee profit sharing plan, stock based compensation plan and aircraft heavy maintenance accruals). EBITDA is a useful financial and operating measure for investors as it represents a starting point in the determination of distributable cash (B). 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 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.

Income taxes - income taxes are a function of tax laws and rates and are affected by matters, which are separate from the daily operations of the Fund.

Future income tax recovery - the calculation of future income tax recoveries are a function of temporary differences between the financial reporting and the tax basis for calculating tax expense and are separate from the daily operations of the Fund.

Non-controlling Interest - non-controlling interest represents a direct non-controlling interest in Cargojet Holdings Limited Partnership through Exchangeable LP Units. Accordingly non-controlling interest represents a different class of expense than those included in EBITDA.

Employee profit sharing plan - the employee profit sharing plan expense represents amounts previously paid to management in the predecessor company and are not considered an expense indicative of continuing operations. The plan was discontinued at the closing of the initial public offering; accordingly this expense represents a different class of expense than those included in EBITDA.

Stock based compensation plan - stock based compensation plan expense represents compensation paid to employees in the predecessor company, accordingly this expense represents a different class of expense than those included in EBITDA. The plan was discontinued at the closing of the initial public offering.

Aircraft heavy maintenance accruals - aircraft heavy maintenance accruals represent an estimate of the expense related to the overhaul of the Fund's aircraft and therefore is considered a non-cash item.

EBITDA is however reduced by the actual aircraft heavy maintenance incurred in the period; accordingly this expense represents a different class of expense than those included in EBITDA.

(B) The Fund has adopted a measurement called distributable cash to supplement net income 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 issuers. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for distribution to trust unit holders and Exchangeable LP unit holders. Exchangeable LP unit holders 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 unit holders in the calculation of distributable cash as Exchangeable LP unit holders distributions are economically equivalent to those received by trust unit holders and Exchangeable LP unit holders are exchangeable on a one-to-one basis for trust units of the Fund. Distributable cash is calculated as EBITDA [A] less maintenance capital expenditures, current income taxes and interest on long-term debt. 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.