*Consolidated Financial Statements of*

# CARGOJET INCOME FUND

*For the period from incorporation*
*April 25 2005 to December 31 2005*

**Deloitte**

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# Auditors' Report

To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheet of Cargojet Income Fund as at December 31, 2005 and the consolidated statements of earnings and of cash flows for the period from incorporation April 25, 2005 to December 31, 2005 These financial statements are the responsibility of the Company's management Our responsibility is to express an opinion on these financial statements based on our audit

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2005 and the results of its operations and its cash flows for the period from incorporation, April 25, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
February 24, 2006

# CARGOJET INCOME FUND
## Consolidated Balance Sheet
**December 31, 2005**

| | | |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash | $ | **359,502** |
| Accounts receivable | | **10,323,444** |
| Spare parts, materials and supplies | | **1,237,135** |
| Prepaid expenses and deposits | | **1,973,957** |
| Due from related company (Note 11) | | **744,651** |
| | | **14,638,689** |
| CAPITAL ASSETS (Note 4) | | **28,536,834** |
| INTANGIBLE ASSETS (Note 5) | | **82,244,184** |
| | $ | **125,419,707** |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued charges (Note 7) | $ | **12,027,636** |
| Distributions payable to unitholders (Note 15) | | **1,228,572** |
| Future income taxes (Note 9) | | **1,492,356** |
| Current portion of aircraft heavy maintenance accrual (Note 8) | | **1,847,691** |
| | | **16,596,255** |
| LONG-TERM DEBT (Note 6) | | **23,179,862** |
| AIRCRAFT HEAVY MAINTENANCE ACCRUAL (Note 8) | | **250,000** |
| FUTURE INCOME TAXES (Note 9) | | **5,667,211** |
| | | **45,693,328** |
| NON-CONTROLLING INTEREST (Note 10(b)) | | **21,104,782** |
| **UNITHOLDERS' EQUITY** | | |
| UNITHOLDERS' CAPITAL (Note 10(a)) | | **62,295,904** |
| DEFICIT | | **(3,674,307)** |
| | | **58,621,597** |
| | $ | **125,419,707** |

On behalf of the Trustees:

"Ajay Virmani" "John Webster"

Ajay Virmani
President and Chief Executive Officer

John Webster
Trustee

# CARGOJET INCOME FUND
## Consolidated Statement of Earnings and Deficit
**For the period from incorporation, April 25, 2005 to December 31, 2005**

| | |
|---|---|
| REVENUES | $ 69,295,475 |
| DIRECT EXPENSES | 55,089,462 |
| | 14,206,013 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES | |
| Sales and marketing | 395,615 |
| General and administrative | 7,730,512 |
| Interest, net | 958,593 |
| Amortization of capital assets | 178,090 |
| Amortization of intangible assets | 5,761,792 |
| | 15,024,602 |
| EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST | (818,589) |
| FUTURE INCOME TAX RECOVERY (Note 9) | 1,434,020 |
| EARNINGS BEFORE NON-CONTROLLING INTEREST | 615,431 |
| NON-CONTROLLING INTEREST (Note 10(b)) | 153,858 |
| NET EARNINGS | 461,573 |
| DISTRIBUTIONS DECLARED IN THE PERIOD (Note 15) | (4,135,880) |
| DEFICIT, END OF PERIOD | $ (3,674,307) |
| EARNINGS PER TRUST UNIT - basic | $ 0 07 |
| EARNINGS PER TRUST UNIT - diluted (Note 10(c)) | $ 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 |

# CARGOJET INCOME FUND
## Consolidated Statement of Cash Flows
**For the period from incorporation, April 25, 2005 to December 31, 2005**

**NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES**

| | | |
|---|---|---|
| OPERATING | | |
| Net earnings | $ | 461,573 |
| Items not affecting cash | | |
| Amortization of capital assets | | 1,730,990 |
| Amortization of intangible assets | | 5,761,792 |
| Future income taxes | | (1,434,020) |
| Deferred line maintenance charges | | 38,367 |
| Non-controlling interest | | 153,858 |
| Aircraft heavy maintenance accrual | | 1,459,526 |
| Aircraft heavy maintenance expenditures | | (619,769) |
| | | 7,552,317 |
| Changes in non-cash working capital items | | |
| Accounts receivable | | (3,008,660) |
| Spare parts, materials and supplies | | (183,800) |
| Prepaid expenses and deposits | | 414,273 |
| Due from related company | | (57,827) |
| Accounts payable and accrued charges | | 1,388,608 |
| Income taxes payable | | (415,922) |
| | | 5,688,989 |
| FINANCING | | |
| Net increase in long-term debt | | 1,469,005 |
| Proceeds from issuance of Fund Units net of issuance costs | | 52,199,291 |
| Distributions paid to unitholders and non-controlling interest | | (4,285,934) |
| | | 49,382,362 |
| INVESTING | | |
| Acquisition of net assets of Cargojet Holding Ltd including bank indebtedness of $424,970 | | (52,991,784) |
| Proceeds from disposal of capital assets | | 515,003 |
| Additions to capital assets | | (2,235,068) |
| | | (54,711,849) |
| **NET CASH INFLOW AND CASH END OF PERIOD** | $ | 359,502 |
| SUPPLEMENTARY FINANCIAL INFORMATION | | |
| Interest paid | $ | 926,352 |
| Income taxes paid | $ | 460,563 |
| Distributions payable to income fund unitholders | $ | 614,286 |
| Distributions payable to exchangeable unitholders | $ | 614,286 |
| Issuance of Fund Units and Exchangeable LP Units on acquisition of net assets of Cargojet Holdings Ltd | $ | 29,772,730 |
| Overallotment issued to redeem non-controlling interest | $ | 2,977,270 |

### 1 NATURE OF THE BUSINESS

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

The Fund provides domestic and transborder air cargo services

### 2 INITIAL PUBLIC OFFERING AND ACQUISITION

On June 1, 2005, the Fund completed an initial public offering and the sale of 5,954,545 trust units (the "Units") for $10 00 per unit, for total gross proceeds of $59,545,450 The cost of issuing the units pre-over-allotment was $7,346,159 (prior to the recording the effect of future income taxes of $2,653,433) resulting in net cash proceeds of $52,199,291

On June 9, 2005, in conjunction with the initial public offering, the Fund, through a newly formed subsidiary, acquired all of the outstanding shares of Cargojet Cargojet was amalgamated with its new parent company to form a new company also called Cargojet Consideration for the acquisition was comprised of cash of $52,566,814, Units of the Fund with an ascribed value of $4,465,910 and 2,530,682 Exchangeable LP Units with an ascribed value of $25,306,820, in the Fund's wholly-owned subsidiary, Cargojet Holdings Limited Partnership ("CHLP")

The Fund granted an over-allotment option to the underwriters to purchase up to 297,727 additional Units on the same terms as the initial public offering On June 30, 2005, the over-allotment option was exercised in full with net proceeds from the exercise used to repurchase 297,727 exchangeable units from certain former shareholders of Cargojet at $10 00 per unit

## 2 INITIAL PUBLIC OFFERING AND ACQUISITION (continued)

The acquisition was accounted for by the purchase method with the results of Cargojet's operations included in the Fund's earnings from the date of acquisition These consolidated financial statements reflect the assets and liabilities of Cargojet at assigned fair values as follows

| | | |
|---|---|---|
| Assets and liabilities acquired | | |
| Accounts receivable | $ | **7,314,784** |
| Spare parts, materials and supplies | | **1,053,335** |
| Prepaid expenses and deposits | | **2,388,230** |
| Due from related company | | **686,824** |
| Capital assets | | **28,547,759** |
| Deferred line maintenance charges | | **38,367** |
| Licences | | **1,000,000** |
| Customer relationships | | **38,113,600** |
| Non-compete agreements | | **2,722,400** |
| Goodwill | | **46,169,976** |
| Bank indebtedness | | **(424,970)** |
| Accounts payable and accrued charges | | **(10,639,028)** |
| Income taxes payable | | **(415,922)** |
| Long-term debt | | **(21,710,857)** |
| Aircraft heavy maintenance accrual | | **(1,257,934)** |
| Future income taxes | | **(11,247,020)** |
| | $ | **82,339,544** |

| | | |
|---|---|---|
| Consideration | | |
| Cash | $ | **52,566,814** |
| Fund units (446,591 Fund units) | | **4,465,910** |
| Exchangeable LP units (2,530,682 Exchangeable LP units) | | **25,306,820** |
| | $ | **82,339,544** |

The allocation of the purchase price discrepancy, representing the excess of the purchase price, including acquisition costs, over the net book value of the net assets acquired, in the amount of $76,669,976 is allocated as follows

| | | |
|---|---|---|
| Goodwill | $ | **46,169,976** |
| Customer relationships | | **38,113,600** |
| Non-compete agreements | | **2,722,400** |
| Licenses | | **500,000** |
| Future income taxes | | **(10,836,000)** |
| | $ | **76,669,976** |

## 2 INITIAL PUBLIC OFFERING AND ACQUISITION (continued)

As at December 31, 2005, the allocation of the purchase price had not been finalized, as the current purchase price allocation may potentially be further adjusted for the identification of additional intangible assets Adjustments that increase or decrease the intangible assets will be offset to goodwill

## 3 SIGNIFICANT ACCOUNTING POLICIES

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

*Basis of presentation*

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

*Spare parts materials and supplies*

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

*Capital assets*

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

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

## 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

*Intangible assets*

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

Goodwill and intangible assets with indefinite useful lives are not amortized

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

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

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

*Impairment of long-lived assets*

The Fund adopted the Canadian accounting standard for impairment of long-lived assets, which requires that an impairment loss should be recognized when events or circumstances indicate that the carrying amount of the long-lived asset is not recoverable and exceeds its fair value Any resulting impairment loss is recorded in the period in which the impairment occurs

The Fund has determined that there was no impairment of long-lived assets at December 31, 2005

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

*Aircraft heavy maintenance accrual*

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

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

*Income taxes*

The Fund follows the liability method of accounting for income taxes Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities, and measured using the substantively enacted income tax rates and laws that will be in effect when the differences are expected to reverse

*Deferred line maintenance charges*

Deferred line maintenance charges are recorded at cost and are amortized over the period of the related service contracts

*Non-controlling interest*

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

*Revenue recognition*

Revenue is recognized when the transportation services are provided

*Translation of foreign currencies*

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

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

### 3 SIGNIFICANT ACCOUNTING POLICIES (continued)

*Derivative financial instruments*

Derivative financial instruments are utilized by the Fund in the management of its interest rate and foreign currency exposures The Fund's policy is not to utilize derivative financial instruments for trading or speculative purposes

The Fund enters into interest rate swaps in order to manage its exposure to fluctuations in interest rates on its floating rate debt These swaps require the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based and are designated as hedges of the interest payable on the debt While effective as hedges they are accounted for under the accrual method The net amount receivable or payable in respect of each swap is included in accounts receivable or accounts payable and accrued charges respectively in the balance sheet and recognized as an adjustment to interest, net in the statement of earnings and deficit

The Fund periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U S exchange rate on its purchase transactions denominated in U S dollars These contracts require the exchange of currencies on maturity of the contracts and are designated as hedges of anticipated U S dollar denominated purchases While effective as hedges they are accounted for under the settlement method The gain or loss on settlement of a contract is recognized as an adjustment to cost of the purchased items and is recognized in the statement of earnings and deficit when this item is expensed

Realized and unrealized gains or losses associated with derivative instruments, which have been terminated or cease to be effective prior to maturity, are deferred and recognized in earnings in the period in which the underlying hedged transaction is recognized In the event a designated hedged item is extinguished, matures or ceases to be probable prior to the termination of the related derivative instrument, any realized or unrealized gain or loss on such derivative instrument is recognized in the statement of earnings Any non-hedging derivative financial instruments are marked to market at each reporting date and the resulting adjustment is recognized as part of general and administrative expenses in the statement of earnings and deficit

*Guarantees*

The Fund has adopted Accounting Guideline 14, - Disclosure of Guarantees - ("AcG-14"), which addresses the disclosure to be made by a guarantor in its financial statements about its obligations under guarantees

The Fund has disclosed the information related to the guarantees in their current contracts in Note 14

*Management s use of estimates*

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

### 4 CAPITAL ASSETS

| | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|
| Aircraft and engines | $ 16,628,774 | $ 739,307 | $ 15,889,467 |
| Ground equipment | 1,928,135 | 206,822 | 1,721,313 |
| Rotable spares | 5,428,827 | 210,720 | 5,218,107 |
| Computer hardware and software | 615,348 | 94,101 | 521,247 |
| Furniture and fixtures | 434,151 | 45,437 | 388,714 |
| Leasehold improvements | 1,756,496 | 223,422 | 1,533,074 |
| Vehicles | 135,972 | 23,022 | 112,950 |
| Hangar facility | 3,340,121 | 188,159 | 3,151,962 |
| | $ 30,267,824 | $ 1,730,990 | $ 28,536,834 |

Amortization expense consists of amounts charged under the following classification

| | |
|---|---|
| Direct expenses | $ 1,552,900 |
| Selling, general and administrative expenses | 178,090 |
| | $ 1,730,990 |

### 5 INTANGIBLE ASSETS

| | Rate | Cost | Accumulated Amortization | Net Book Value |
|---|---|---|---|---|
| Goodwill | | $ 46,169,976 | $ - | $ 46,169,976 |
| Licences | | 1,000,000 | | 1,000,000 |
| Customer Relationship | 4 years | 38,113,600 | 5,377,672 | 32,735,928 |
| Non-compete agreements | 4 years | 2,722,400 | 384,120 | 2,338,280 |
| | | $ 88,005,976 | $ 5,761,792 | $ 82,244,184 |

## 6 BANK INDEBTEDNESS

The Fund has established a revolving credit facility with a Canadian chartered bank to a maximum of $28 0 million which bears interest at bank prime plus 1 7% and is repayable May 30, 2007 The Fund has entered into a hedging relationship with a major Canadian financial institution to manage most of the interest rate exposure with respect to their floating rate debt (Note 13)

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

The credit facility is secured by the following

- general security agreement over all assets of the Fund
- guarantee and postponement of claim to a maximum of $35 0 million in favour of Cargojet Partnership and certain other entities of the Fund
- assignment of insurance proceeds, loss if any, payable to the bank

## 7 ACCOUNTS PAYABLE AND ACCRUED CHARGES

| | | |
|---|---|---|
| Trade payables and related accrued charges | $ | **8,493,027** |
| Advances from the EPSP Trust | | **1,900,000** |
| Payroll and benefits | | **1,634,609** |
| | $ | **12,027,636** |

Advances 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, bear interest at 8% per annum and are repayable on demand

## 8 AIRCRAFT HEAVY MAINTENANCE ACCRUAL

The Fund provides for airframe overhaul expenses for each owned and certain leased aircraft These expenses are charged to earnings according to the pre-determined number of months between airframe overhauls As at December 31, 2005, the estimated liability totalled 2,097,691, of which $1,847,691 is expected to be expended in the next fiscal year

## 9 INCOME TAXES

The tax effect of significant temporary differences is as follows

| | | |
|---|---|---|
| Capital assets | $ | **2,303,310** |
| Intangible assets | | **8,288,895** |
| Operating loss carryforwards | | **(408,131)** |
| Financing costs | | **(2,357,924)** |
| Expenses incurred, not currently deductible | | **(666,583)** |
| Future income tax liability | | **7,159,567** |
| Current portion of future income tax liability | | **1,492,356** |
| Future income tax liability | $ | **5,667,211** |

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

| | | |
|---|---|---|
| Loss before income taxes and non-controlling interest | $ | **(818,589)** |
| Income tax recovery at the combined basic rate | $ | **(295,674)** |
| Tax on income attributable to trust unitholders and exchangeable LP unitholders | | **(1,721,756)** |
| Tax on amortization of intangible assets | | **552,244** |
| Permanent and other differences | | **31,166** |
| Income tax recovery | $ | **(1,434,020)** |

## 10 UNITHOLDERS' EQUITY

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

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

### 10 UNITHOLDERS' EQUITY (continued)

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

(a) Trust Units

| | Number | Amount |
|---|---|---|
| Issued on initial public offering | **5,954,545** | **$ 59,545,450** |
| Fund Units | **446,591** | **4,465,910** |
| Exercise of over-allotment | **297,727** | **2,977,270** |
| | **6,698,863** | **66,988,630** |
| Issuance costs, net of future income taxes of $2 653,433 | | **(4,692,726)** |
| Unitholders' equity, end of period | **6,698,863** | **$ 62,295,904** |

(b) Non-controlling interest

| | Number | Amount |
|---|---|---|
| Exchangeable LP units issued on acquisition of Cargojet Holdings Ltd | **2,530,682** | **$ 25,306,820** |
| Exercise of over-allotment | **(297,727)** | **(2,977,270)** |
| Share of earnings of the CHLP | | **153,858** |
| Distributions declared in the period (Note 15) | | **(1,378,626)** |
| Non-controlling interest, end of period | **2,232,955** | **$ 21,104,782** |

(c) Diluted earnings per trust unit

For the purpose of determining diluted earnings per trust unit the weighted average number of Trust Units and Exchangeable LP Units have been combined

### 11 RELATED PARTY TRANSACTIONS

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

| | |
|---|---|
| Revenues associated with passenger air service | $ 2 185,897 |
| Cost of sales associated with the stated revenues | $ 1,920,325 |

During the period, the Fund further accrued interest on the EPSP Trust (Note 7) loan of approximately $87,000

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties

Amounts due from the related company are in the nature of trade, are non-interest bearing and are due on demand

### 12 COMMITMENTS AND CONTINGENCY

*Commitments*

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

| | |
|---|---|
| 2006 | $ 6,078,814 |
| 2007 | 4,449,354 |
| 2008 | 3,633,882 |
| 2009 | 2,723,493 |
| 2010 | 15,522 |
| | $ 16,901,065 |

In addition, subsequent to the period end, the Fund committed to an operating lease for one additional aircraft with a term of 36 months The minimum lease payments under this operating lease range from approximately $ 977,000 to $ 1,082,000 annually, throughout the term The annual lease payments are not recorded in the above commitments

*Contingency*

The Fund has provided irrevocable standby letters of credit totaling $220,000 to a financial institution and a supplier as security for its corporate credit cards and ongoing services to be provided The letters of credit expire as follows

| | |
|---|---|
| December 29, 2006 | $ 200,000 |
| March 20, 2006 | 20 000 |
| | $ 220 000 |

### 13 FINANCIAL INSTRUMENTS

*Fair value*

The fair value of all financial assets and liabilities approximate their carrying value based on management estimates except as to the fair value of the interest rate swap as described below

*Credit risk*

The Fund is subject to risk of non-payment of accounts receivable The Fund mitigates this risk by monitoring the credit worthiness of its customers and limiting its concentration of receivables to any one specific group of customers At December 31, 2005, approximately 29% of the accounts receivable balance was receivable from two customers

*Foreign exchange risk*

The Fund undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies The Fund manages its exposure to changes in the Canadian/U S exchange rate on anticipated purchases by buying forward U S dollars at fixed rates in future periods As at December 31, 2005 the Fund had no foreign exchange forward contracts outstanding

The foreign exchange loss during the period was $46,596

*Interest rate risk*

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

The Fund uses interest rate swaps to manage its exposure to interest rate fluctuations At December 31, 2005, the Fund had one swap contract in place with a major Canadian financial institution to manage most of the interest rate exposure in respect of these floating rate debts The swap has a notional amount of $21,000,000 The Fund pays floating rate interest at BA-CDOR and receives fixed rate interest at 3 69% plus a stamping fee on a monthly basis and the swap matures on June 15, 2008

At December 31, 2005, this interest rate swap contract had a positive fair value or value favourable to the Fund of approximately $193,000 compared to a recorded liability of approximately $3,400 The swap is an effective hedge as at December 31, 2005 and therefore this unrecognized gain has not been taken to earnings

*Commodity risk*

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

### 14 GUARANTEES

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

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

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

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

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

### 15 DISTRIBUTIONS

The Fund makes regular distributions to unitholders of record as of the last business day of each month Distributions to unitholders and Exchangeable LP unitholders are calculated and recorded on an accrual basis Distributions declared during the period ended were $4,135,880 to unitholders and $1,378,626 to Exchangeable LP unitholders

## 15 DISTRIBUTION (continued)

Distributions payable at December 31 2005 are as follows

| Units | Period | Record date | Payment Date | Per Unit | Distributions Amount |
|---|---|---|---|---|---|
| Income Fund units | December 1 to December 31 2005 | December 31 2005 | **Jan 13, 2006** | **$ 0 0917** | **$ 614 286** |
| Exchangeable LP units | October 1 to December 31 2005 | December 31 2005 | **Jan 13, 2006** | **$ 0 2751** | **614,286** |
| | | | | | **$ 1,228 572** |

At the end of each fiscal quarter, including the fiscal quarter ending on the fiscal year end, distributions will be made in the following order of priority

a) First, in payment of the monthly distribution to the holders of Income Fund Units for the month then ended,

b) Second, to the holders of Income Fund Units to the extent that the monthly per unit distributions in respect of the twelve month period then ended were not made or were made in amounts less than approximately $0 09 per unit per month, the amount of any deficiency,

c) Third, to the holders of Exchangeable LP Units in a per unit amount of approximately $0 27 per fiscal quarter, if there is insufficient cash to make distributions in such amount, such lesser amount as is determinable,

d) Fourth, to the holders of Exchangeable LP Units to the extent that the per unit distributions in respect of any fiscal quarter(s) during the twelve month period then ended were not made or were made in amounts less than approximately $0 27 per Exchangeable LP Unit, the amount of any deficiency, and

e) Fifth, to the extent of any excess, proportionately to the holders of the Income Fund Units and the Exchangeable LP Units

## 16 SEGMENTED INFORMATION

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

During the period, the Fund had sales to three customers that represented 54% of total sales