CARGOJET

2006 Annual Report

Cargojet is Canada’s leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 50% of Canada’s domestic overnight air cargo capacity. Cargojet’s network consolidates cargo received from over 200 customers and carries over 500,000 pounds of cargo each business night to thirteen major city centers across Canada. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. In 2006, Cargojet operated 6,213 flights of which more that 98.5% arrived at destination within 30 minutes of scheduled arrival. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.

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Financial Highlights

Supplementary Financial Information[1] Year ended December 31 (in thousands of dollars)	2004 [1]	2005 [1]	2006
	(audited)	(unaudited)	(audited)
Revenues	$ 101,065	$ 117,878	$ 134,030
Direct expenses	79,925	92,663	100,556
EBITDA	9,595	14,211	19,221
Direct expenses/Revenues	79.1%	78.6%	75.1%
EBITDA/Revenues	9.5%	12.1%	14.3%

[1] Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the years ended December 31, 2005 and 2004, 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 and include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund. 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

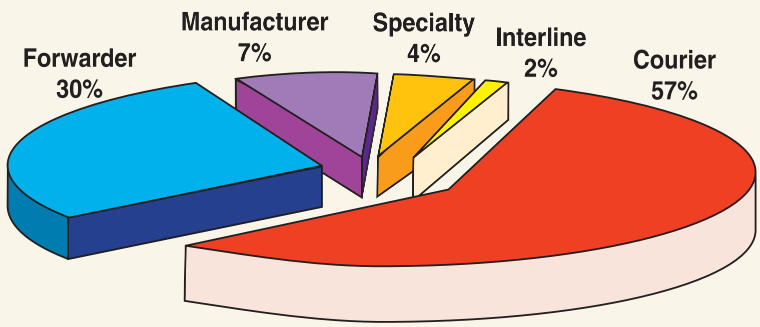
Supplementary Financial Information (in thousands of dollars)	251 day period [1] from April 25 to December 31, 2005 [2]	Quarter ended March 31, 2006	Quarter ended June 30, 2006	Quarter ended September 30, 2006	Quarter ended December 31, 2006	Year ended December 31, 2006
	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Revenues	$ 69,295	$ 31,352	$ 33,593	$ 33,983	$ 35,102	$ 134,030
Direct expenses	55,089	25,363	24,784	25,317	25,092	100,556
EBITDA	8,511	3,387	5,499	4,556	5,780	19,221
Distributable cash	6,436	1,772	4,348	3,821	4,910	14,851
Cash distributions	5,515	2,457	2,457	2,507	2,532	9,954
Total assets	$ 125,420	$ 121,586	$ 117,851	$ 116,206	$ 116,728	$ 116,728
Long-term debt (including the current portion of long-term debt)	23,180	26,378	21,309	21,281	21,259	21,259
Unitholder's equity	58,622	56,729	56,195	55,435	55,128	55,128
Direct expenses/Revenues	79.5%	80.9%	73.8%	74.5%	71.5%	75.1%
EBITDA/Revenues	12.3%	10.8%	16.4%	13.4%	16.5%	14.3%
Cash distributions as a percentage of distributable cash	85.7%	138.7%	56.5%	65.6%	51.6%	67.0%

[1] These are the results of operations of the Fund for the 206 day period from June 9, 2005 (commencement of operations) to December 31, 2005. The Fund was created on April 25, 2005 and remained inactive until acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005.

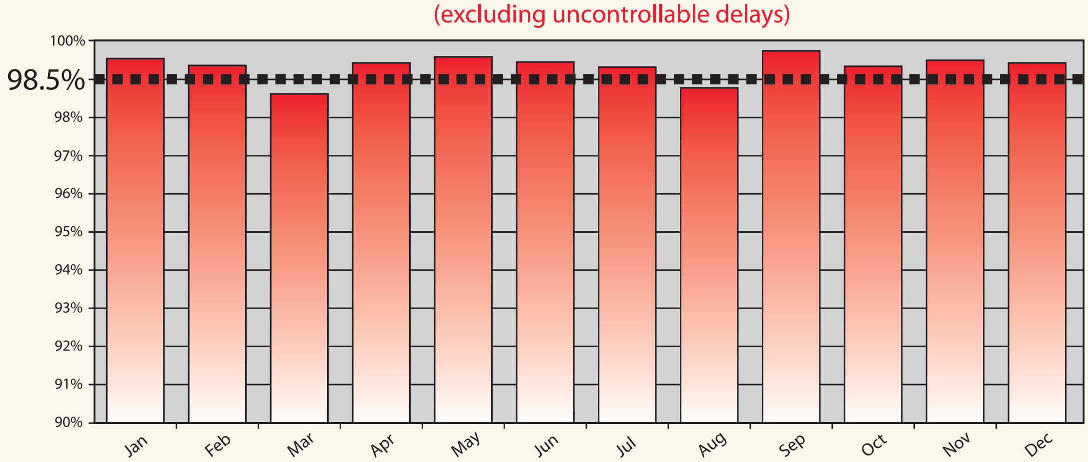
[2] Management has adjusted its calculation of Distributable Cash during the current period to include an adjustment for the amortization of deferred line maintenance charges. These amounts were previously excluded from the calculation of Distributable Cash.

FACTS

Revenue by Market Segment



DOMESTIC OVERNIGHT NETWORK
2006 On Time Performance Within :15 min
(excluding uncontrollable delays)



Source: Flight Following Database

ISO 9001:2000

ON TIME PERFORMANCE

Message To Unitholders

Dear Unitholders,

We are pleased and excited to report on Cargojet's first complete year as an Income Fund. Cargojet has continued to grow its business in the time-sensitive domestic overnight air cargo market and has expanded its air cargo reach internationally. This past year has been a very successful one for the Fund, as we have continued to grow our revenues, reduce our operating costs and improve our overall financial performance. Our excellent team work, on time performance, maintenance reliability and overall successful record has earned the respect and loyalty of our customers.

Strong 2006 Financial Results

Our financial results, particularly the very strong improvement in the last three quarters of the year, have allowed us to consistently exceed our financial targets. We have met our commitment to pay all cash distributions to unitholders since inception of the Trust, and were also able to increase cash distributions twice during the past twelve months. Our payout ratio remained well below target, finishing up the year at a very conservative 67%.

This Annual Report and the Management Discussion & Analysis will discuss the company's financial performance for the 2006 fiscal year. Highlights include:

Year over year revenue increase of 13.7% to $134.0 million; An increase in EBITDA of 35.2% from the previous year to $19.2 million. A year to date payout ratio of 67% as compared to 86% in the prior year, and a significant reduction in our overall leverage as the Fund continues to focus on debt reduction.

The trustees of the Cargojet Income Fund have set the Fund's distribution policy to ensure the stability and sustainability of payments to unitholders. Our policy is temperate in this regard and the Fund intends to pay cash distributions consistent with the terms of its prospectus.

The business is managed on a conservative basis with a payout ratio consistent with the Funds underlying ability to meet any monthly fluctuations brought on by seasonality, unforeseen additional expenses and/or maintenance capital expenditures.

Outlook

The company continues to be leaders in the domestic overnight air cargo market and continues to generate stable revenue streams through its long-term customer contracts. Service levels have consistently exceeded 98.5% on-time reliability in this extremely time-sensitive business and the company again experienced record volumes handled in 2006.

Looking forward, we anticipate that the economic climate will continue to remain strong and demand for time-sensitive air cargo services will continue to grow domestically within Canada and internationally.

On behalf of the Board of Trustees and all of our employees, I would like to take this opportunity to thank all of our unitholders, for their enduring and continued commitment to Cargojet and our collective success.

Dr. Ajay Virmani
President and Chief Executive Officer

March 2007

Cargojet Celebrates 5th Anniversary

In February 2007 Cargojet celebrated its fifth anniversary in business. From its humble beginnings during the transition years as predecessor companies, Cargojet has grown from a small company of sixty employees and $25M in annual revenues to a full-fledged cargo airline with over 400 transportation professionals employed across Canada and annual revenues in excess of $130M for the past fiscal year.

The company has gone through significant change and growth during this period including the acquisition and formation of the Airways division and the addition of twelve B727-200F aircraft. We have expanded our domestic overnight air cargo network to meet the growing demands of shippers across the country and extended our business beyond our borders with the addition of our Bermuda service and additional trans-border ACMI contract flying. Cargojet has also expanded its market reach with the addition of twenty-five commercial agreements with the world's largest international airlines.

During the past five years, Cargojet has consistently met or exceeded customer demand for air cargo transportation, allowing it to capture in excess of 50% market share of the time-sensitive domestic overnight air cargo business. Based on its performance and customer respect, the company has won several industry awards, including the Air Cargo World Excellence Award, Shipper's Choice Award as Cargo Airline of the Year for four consecutive years and was selected as one of Canada's 50 Best Managed Companies.

In 2005, Cargojet successfully completed its initial public offering as the Cargojet Income Fund. The response from capital markets was extremely strong and management and employees of Cargojet continue to retain an approximate one-third interest in Cargojet following completion of the acquisition.

Cargojet is committed to continue the strong financial growth of its business and has consistently met all cash distributions, including two increases during 2006, to its unitholders. The fundamentals of our business remain very strong. Air cargo capacity shortages and demand for reliable and premium services continue to provide opportunity for Cargojet to successfully grow into the future.

Happy 5th Anniversary Team Cargojet

Engine Compressor Wash Program

With the rising prices of fuel, Cargojet's challenge is to operate their fleet of Pratt & Whitney JT8D series turbine engines at optimum efficiency.

Compressor performance degrades during normal operation due to pollutants in the air bonding firmly on the blades. This so-called compressor fouling has a detrimental effect on the compressor efficiency. A heavily fouled compressor can have up to an 8% reduction in performance.

Over time, dirt accumulation on the compressor airfoils reduces engine compressor efficiency. Engine core washes are recommended to remove this dirt. Contamination levels depend on the aircraft's operations and environment, so wash frequency must be optimized by the operator. Periodic engine washes also have a positive effect on the exhaust gas temperature margin and consequently on engine life.

Reduced fuel consumption means more payload-range.

Cargojet has adapted for 2007 a compressor wash program developed by a company called Engine Cleaning Technologies Inc. (ECT) utilizing R-MC cleaning fluid. This fluid is approved by Pratt & Whitney for use on all the JT8D series turbine engines. This fluid is Non-Toxic, Non-Flammable, Biodegradable & has no harmful effects on the engine components. The wash is accomplished with the engine running, which is more efficient than other wash methods.

The R-MC program is used by major airlines including American, Continental and Midway on their fleet of JT8D engines. They have experienced an average of 1% - 3% increase in fuel efficiency. Cargojet is looking forward to similar results on our fleet.

Paul Rinaldo
Director Technical Operations

Safety Management System

Commitment, Cognizance and Competence

The organizational structures and activities that make up a Safety Management System are found throughout an organization. Every employee contributes to the safety health of the organization. The system must be integrated into "the way things are done" throughout the establishment. This is achieved by the implementation and continuing support of our Safety Policy and Procedures.

Safety Management starts with management philosophy recognizing that threats to safety exist, setting the organization's standards and confirming that safety is everyone's responsibility.

Our Safety Policy specifies how safety will be achieved. It is our clear statement of responsibility, authority and accountability. The development of our organizational processes and structures incorporating safety goals into every aspect of the operation and the development of the skills and knowledge necessary to do the job.

Our Safety Procedures are a clear direction to all staff on how to execute our safety policy, providing a means for planning, organizing, controlling, and for monitoring and assessing safety status and processes.

Our Safety Practices follow well-designed, effective procedures, avoiding the shortcuts that can detract from safety and taking appropriate action when a safety concern is identified.

What is most important in the final analysis is that each component of our system be effective, not just in place, and that the system becomes a way of doing business at every level at Cargojet.

Angela Campbell
Director SMS & Security

Cargojet Customer Care Program

Cargojet key performance indicator (KPI) is the measurement of the on-time arrival performance of our scheduled overnight air cargo network. Industry standard is the measurement of flight arrivals at destination within fifteen minutes of scheduled arrival time. Cargojet set the benchmark at 95% and has consistently achieved results in excess of this minimum, average 98.5% on time performance for the 2006 calendar year.

Cargojet prides itself on the level of communication and responsiveness to customer needs. All customer service contact is centralized in our Cargo Movement Control Centre at our head office, in Mississauga, ON. Customer communication plans are customized as per individual customer demand and all operational information, such as flight departure/arrival information, shipment tender and retrieval information, etc., is communicated to individual customers on a real time basis. Customer demands for Cargojet's services can range from a contract basis to ad-hoc request for air cargo services. Cargojet routinely reacts to last minute requests for the transportation of time sensitive shipments, to the co-ordination of emergency relief charters for floods, fires, and other disasters around the world.

Cargojet has been recognized with two significant Customer Service achievements over the past month. Cargojet has also been awarded the Shipper's Choice Award, for the past four years, by Canadian Transportation & Logistics Magazine, a leading industry publication. Cargojet surpassed shipper expectations in the total Industry Sector Average and particularly in the key areas of On-time Performance, Competitive Pricing, Leaders in Problem Solving, Customer Service and Value-Added Services.

The survey, conducted in conjunction with the federal government and research firm G. Bramm & Associates surveyed 4500 Canadian shippers. Providing them with an opportunity to set benchmarks for expected carrier performance in seven key areas and to rate their top carriers against those benchmarks.

In addition, Cargojet regularly conducts its own external customer surveys, to measure performance and gauge feedback from customers in a wide range of customer service areas including, reception/telephone answering; customer service/personal touch; accuracy/timeliness of information; sales/marketing; Information technology; accounting/invoicing; etc..

Over 80 customer surveys were sent out last year, to a vast cross-section of both contract & non-contract customers asking for their feedback in 23 specific customer service areas and ranking of our service levels on a scale of 1 to 5 (1 = Requires Immediate Improvement and 5 = Excellent).

Cargojet achieved ratings above 4 or Very Good or higher, in 19 out of 23 measurement areas. This once again reflects the consistent and reliable levels of service that we provide to our customers across the country.

Cargojet is also committed to the ISO Quality Management System and has achieved the ISO 9001:2000 Quality Standard Accreditation for the past six consecutive years. This internationally recognized ISO 9000 series of quality systems – tells our customers that we consistently produce and deliver quality service.

Audits of our compliance to the ISO quality standards are performed annually by independent, outside auditors.

We are committed to quality, in the way we do business and in the way we serve your customers. Cargojet has implemented and maintains the highest standards of excellence, and fully meets or exceeds the most demanding requirements of our customers and suppliers.

Corporate Governance

The Fund and the Board recognize the importance of corporate governance to the effective management of the Fund and to the protection of its employees and unitholders. The Fund's approach to significant issues of corporate governance is designed with a view to ensuring that the business and affairs of the Fund are effectively managed so as to enhance unitholder value. The Fund has adopted National Policy 58-201 Corporate Governance Guidelines and National Instrument 58-101 Disclosure of Corporate Governance Practices to ensure it meets its disclosure requirements.

Code of Ethics

To ensure we meet the highest standards of governance, the Board of Trustees has adopted and is guided by the principles outlined in Cargojet's Code of Ethics.

The Code applies to everyone from the Board of Trustees to all employees of Cargojet. It incorporates all of our guiding principles and provides a frame of reference for dealing with complex and sensitive issues. Any non-compliance with the Code is to be reported to Cargojet's Human Resources. The Trustees monitor compliance of the code by obtaining reports from Cargojet's Human Resources Manager as to any matters reported under the Code.

The Board encourages and promotes an overall culture of ethical business conduct by promoting compliance with applicable laws, rules and regulations; providing guidance to trustees, directors, officers and employees to help them recognize and deal with ethical issues; promoting a culture of open communication, honesty and accountability; and ensuring awareness of disciplinary action for violations of ethical business conduct.

Board of Trustees

Cargojet is governed by its Board of Trustees, which is elected annually by the unitholders. The Board currently has five members, the majority of who are defined as independent and two are management.

Board Committees

The Board of Trustees has established three committees to assist the board with the analysis of issues and allow more time for the full board to discuss and debate matters of business.

Audit Committee

The Board's audit committee was established to assist the Board of Trustees by reviewing, with its auditors, the financial reports and other financial information provided to the public, internal controls regarding finance and accounting, and general oversight of the Fund's auditing, accounting and financial reporting.

The committee is made up of three independant Trustees. Its responsibilities include:

- Review annual and quarterly financial statements with management and independent auditors prior to the release or filing of reports
- Review and discuss with management all significant issues regarding corporate risk
- Recommend independent auditors to the Board, ensure independence, and review the performance of the independent auditors
- Review and discuss results and significant findings by the independent auditors and recommend audited statements for inclusion in the Fund's Annual report.

Corporate Governance Committee

The Corporate Governance Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Overseeing the Fund's Code of Ethics and Disclosure Policy
- Implementation of Corporate Governance Policies

Compensation and Nominating Committee

The Compensation and Nominating Committee is made up of three Board members, appointed annually. Its responsibilities include:

- Assess Board membership needs and recommend board nominees
- Ongoing orientation and education of trustees and directors
- Assess the Fund's management succession plan
- Assess the Fund's compensation plan for officers and senior management

Disclosure Policy

To ensure transparency and quality disclosure to our Unitholders, we have a policy that outlines the principles of disclosure of material information as well as identifying designated spokespersons and maintaining confidentiality. The policy also outlines how we manage media relations, rumours, contacts with analysts, investors and the media, quiet periods, posting of information on Cargojet's website, and communication and enforcement. The Disclosure Policy applies to all employees and parties related to Cargojet and is the responsibility of the Board's Corporate Governance committee.

More information on Cargojet corporate governance practices can be found in our Management Proxy Circular.

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, 2006

The following is a discussion of the consolidated financial condition and results of operations of the Cargojet Income Fund (the "Fund") 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. To provide meaningful information to the reader, the following will refer to the three month and twelve month periods ended December 31, 2006 and also include a discussion of and comparative operating results for, the three month and twelve month periods ended December 31, 2005 which include the results of Cargojet Holdings Ltd., one of the predecessor companies of the Fund.

The effective date of the MD&A is March 8, 2007. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we"and "our" mean Cargojet Income Fund.

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, gain or loss on disposal of capital assets, deferred line maintenance charges 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 5 and 8, respectively.

Readers are cautioned that the combined supplementary financial information presented are not the results of the Fund for the twelve month period 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 twelve month period ended December 31, 2006 and 2005. 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.

KEY FACTORS AFFECTING THE BUSINESS

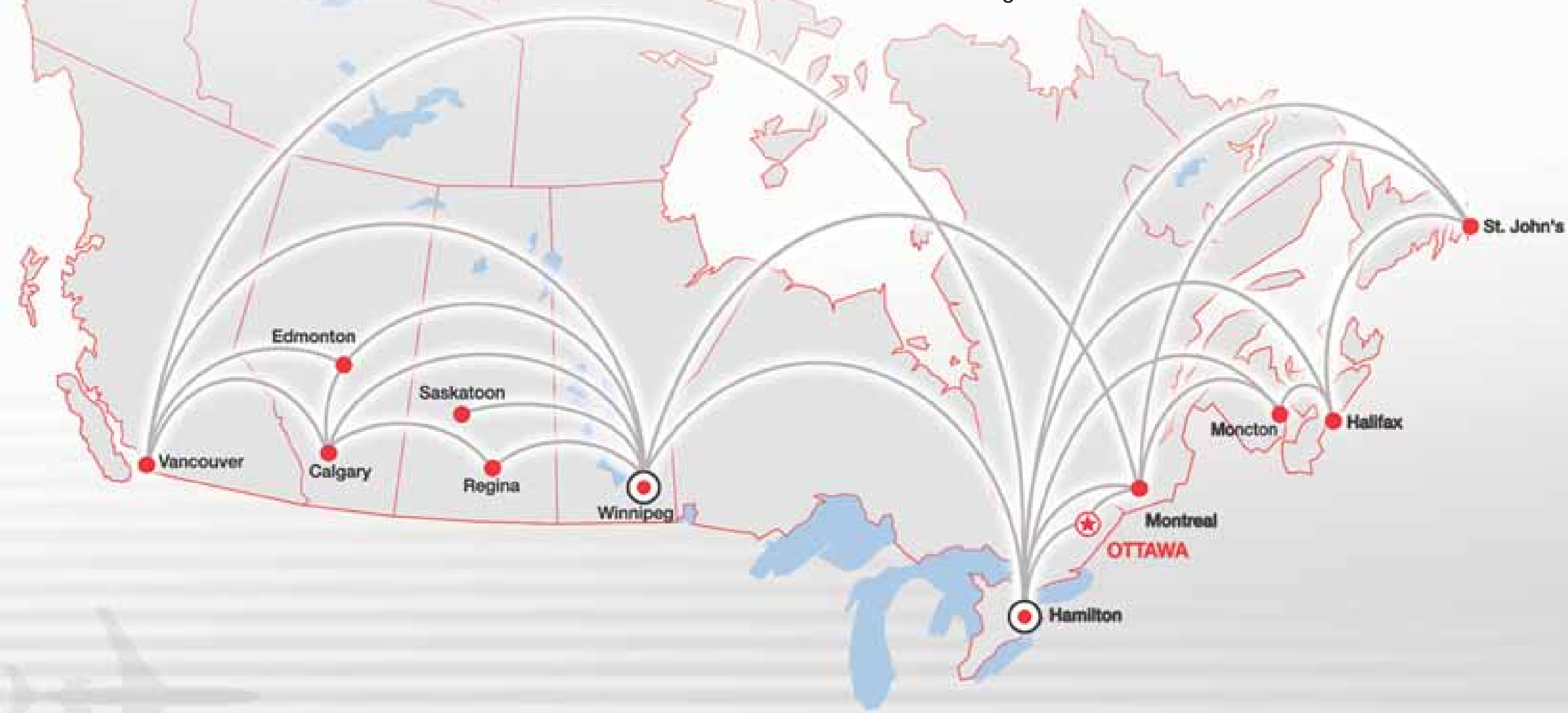
The results of operations, business prospects and financial condition of the Fund are subject to a number of risks and uncertainties and are affected by a number of factors outside of the control of management of the Fund. For a more complete discussion of the risks affecting the Fund's business, reference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

FORWARD LOOKING STATEMENTS

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

CORPORATE OVERVIEW

The Fund is Canada's leading provider of time sensitive overnight air cargo service and operates a co-load network that management believes constitutes approximately 50% of Canada's dedicated domestic overnight air cargo market. The Fund operates twelve 727-200 series aircraft, six of which are leased and six owned. 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 Aircraft, Crew, Maintenance & Insurance ("ACMI") basis for various customers. In addition, the Fund operates an international air cargo route operating between the USA and Bermuda five days per week for multiple customers. The Fund monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services. The Fund makes cash distributions to unitholders 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, 2005 other than the events described below.

No major customer contracts were up for renewal in 2006 and rate increases of approximately 15% were applied to all non-contract customers during the year. All major customers remain under long-term contracts with annual rate increases scheduled on the individual anniversary dates of each agreement.

The Fund continued to increase its international opportunities with the addition of several new commercial agreements with major international carriers. The Fund also solidified its Newark to Bermuda route with renewed customer contracts and significant rate increases. In addition, the Fund improved margins and secured the longer term relationship of its ACMI contract through the consolidation of the route into its Hamilton, Ontario hub.

Overall on-time performance remained in excess of 98% with arrivals within fifteen minutes of schedule, surpassing industry benchmarks and the Fund's contractual obligations.

The Fund achieved the successful recertification of its ISO 9001:2001 Quality accreditation for the sixth consecutive year and its fourth Shipper's Choice Award from Canadian Transportation & Logistics Magazine. These accomplishments indicate the ongoing commitment of the Fund to provide reliable and quality service levels to its customer base.

Fuel costs continued to fluctuate during the year. The Fund continues to adjust its monthly fuel surcharge to customers to recover any increases in fuel cost at the time that they occur.

The Fund continued its implementation of a formalized Safety Management System (SMS) in accordance with Transport Canada requirements and is committed to maintaining a safe, secure work environment for all employees, customers and unitholders.

The Fund announced on August 11, 2006, an increase in annualized cash distributions of 3% from $1.10 per unit to $1.133 per unit. The Fund announced on January 22, 2007, an increase in annualized distributions from $1.133 per unit to $1.156 per unit.

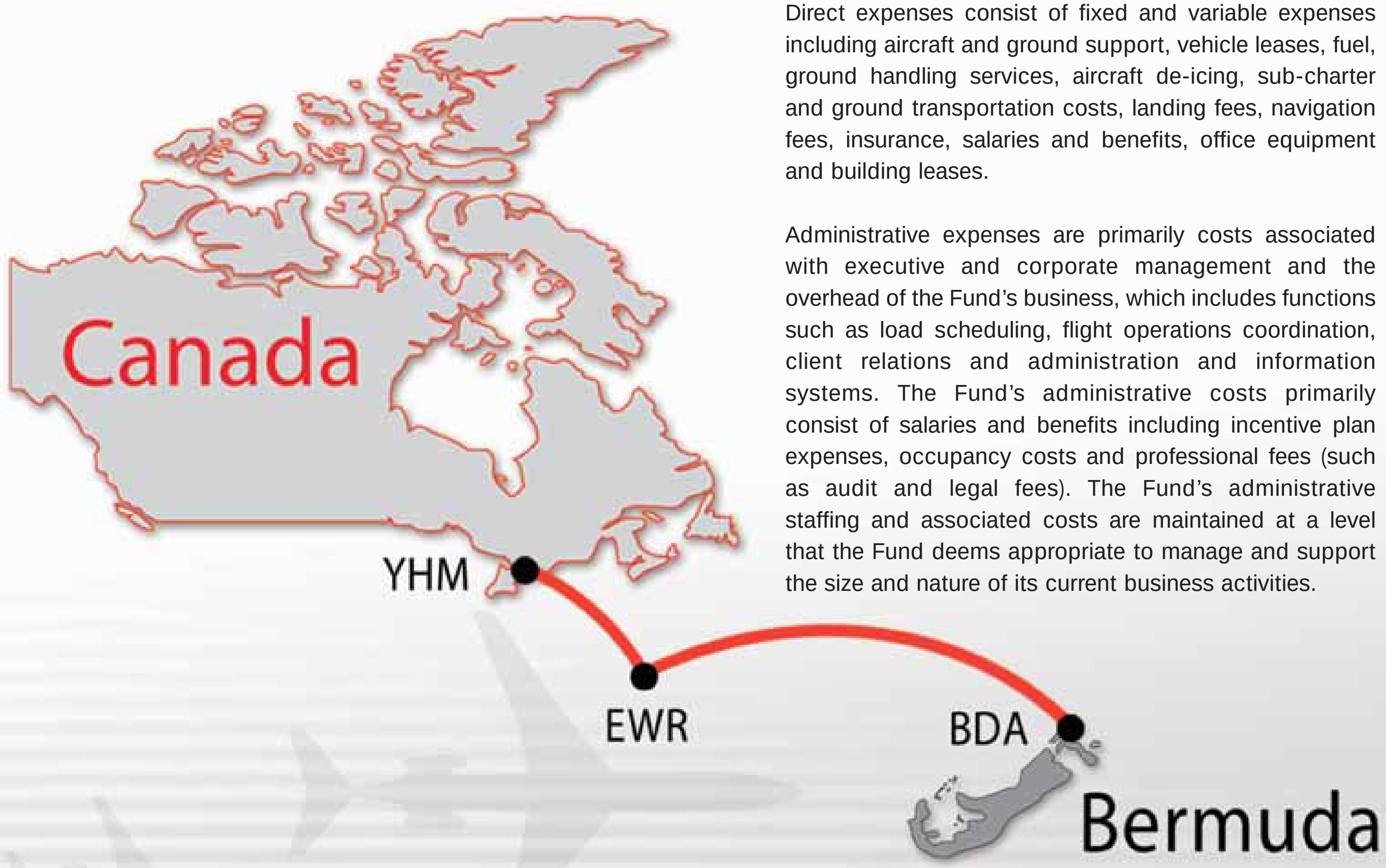
On October 31, 2006, the Minister of Finance announced that the federal government will start taxing income trusts as corporations and impose a distribution tax on distributions from publicly traded income trusts and limited partnerships. For existing income trust and limited partnerships, the government has proposed a four-year transition period. They will not be subject to the new measures until the year 2011 if certain requirements are maintained.

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.

In addition, the Fund operates an international route operating 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 BAX Global Inc. and also provided ACMI services to UPS Supply Chain Solutions Inc. until June 2nd, 2006 when the term of this contract was completed. The airline operates a dedicated route where the customer is responsible for all commercial activities and the Fund is paid a fixed amount to operate the route. In addition, the Fund also provided ACMI passenger services for Starjet Airways Ltd., a related company, on a cost recovery plus six percent basis. The operations of Starjet Airways Ltd. ended December 21, 2006.



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, 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 salaries and benefits including incentive plan expenses, 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.

RECONCILIATION OF CASH FROM OPERATING ACTIVITIES TO DISTRIBUTABLE CASH[B] (IN THOUSANDS OF DOLLARS)

	Three Month Period Ended December 31,		Year Ended December 31,	251 Day Period[2] from inception April 25 to December 31,
	2006	2005[1]	**2006**	2005
	(unaudited)	(unaudited)	**(audited)**	(audited)
Cash inflow from operating activities[1]	**5,430**	2,622	**17,558**	7,552
Changes in non-cash working capital items[1]				
Accounts receivable	**913**	(3,235)	**4,227**	(3,009)
Spare parts, materials and supplies	**20**	(141)	**133**	(184)
Prepaid expenses and deposits	**55**	(54)	**184**	415
Due from related company	**(66)**	(36)	**147**	(58)
Accounts payable and accrued charges	**1,320**	2,736	**(553)**	1,389
Income taxes payable	-	-	-	(416)
	7,672	**1,892**	**21,696**	**5,689**
Less:				
Maintenance capital expenditures[3]	**491**	(186)	**2,555**	1,116
Repayment of long-term debt obligation under capital lease	**29**	-	**152**	-
Total changes in non cash working capital items	**2,242**	(730)	**4,138**	(1,863)
Distributable cash[B]	**$ 4,910**	$ 2,808	**$ 14,851**	$ 6,436
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]	**$ 0.550**	$ 0.314	**$ 1.663**	$ 0.721
Cash distributions	**$ 2,532**	$ 2,457	**$ 9,954**	$ 5,515
Cash distributions as a percentage of distributable cash	**52%**	88%	**67%**	86%

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

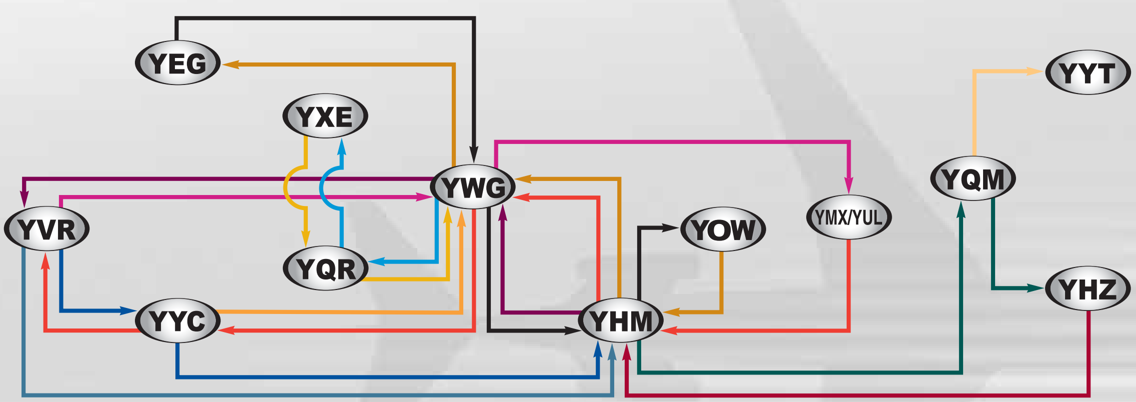
(2) Management has adjusted its calculation of Distributable Cash[B] during the current period to include an adjustment for the amortization of deferred line maintenance charges. These amounts were previously excluded from the calculation of Distributable Cash[B].

(3) 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.

(4) For the purpose of calculating Distributable Cash per Unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

Domestic Network

Monday-Thursday Nights



RESULTS OF OPERATIONS AND SUPPLEMENTARY FINANCIAL INFORMATION (IN THOUSANDS OF DOLLARS)

	Three Month Period Ended December 31,		Year Ended December 31,		251 Day Period from inception April 25 to December 31,
	2006	2005	**2006**	2005 [1]	2005
	(unaudited)	(unaudited)	**(audited)**	(unaudited)	(audited)
Revenue	**$ 35,102**	$ 32,906	**$ 134,030**	$ 117,878	$ 69,295
Direct expense	**25,092**	27,329	**100,556**	92,663	55,089
	10,010	5,577	**33,474**	25,215	14,206
Selling, general and administrative expenses					
Sales and marketing	**175**	177	**826**	892	395
General and administrative	**4,686**	3,662	**16,025**	13,503	7,730
Employee profit sharing plan [2]	-	-	-	2,000	-
Stock-based compensation plan [2]	-	-	-	4,466	-
Interest	**350**	492	**1,663**	1,564	959
Amortization of capital assets	**158**	83	**444**	299	178
Amortization of intangible assets	**2,573**	2,573	**10,209**	5,762	5,762
	7,942	6,987	**29,167**	28,486	15,024
Earnings (loss) before income taxes and non-controlling interest	**2,068**	(1,410)	**4,307**	(3,271)	(818)
Income taxes	**(55)**	(879)	**(1,069)**	(688)	(1,434)
Earnings (loss) before non-controlling interest	**2,123**	(531)	**5,376**	(2,583)	616
Non-controlling interest	**531**	(133)	**1,344**	154	154
Net earnings (loss)	**$ 1,592**	(398)	**$ 4,032**	$ (2,737)	$ 462
Earnings (loss) per trust unit - basic	**$ 0.24**	$ (0.06)	**$ 0.60**		$ 0.07
Earnings (loss) per trust unit - diluted	**$ 0.24**	$ (0.06)	**$ 0.60**		$ 0.07
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	**$ 116,728**	$ 125,420	**$ 116,728**	$ 125,420	$ 125,420
Total long-term liabilities	**$ 25,342**	$ 29,097	**$ 25,342**	$ 29,097	$ 29,097

[1] Readers are cautioned that the combined supplementary financial information presented does not represent the results of the Fund for the twelve month period 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 twelve month period ended December 31, 2006 and 2005. 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.

[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.

SELECTED FINANCIAL INFORMATION

SUMMARY OF MOST RECENTLY COMPLETED CONSOLIDATED QUARTERLY RESULTS (IN THOUSANDS OF DOLLARS)

	Three Month Period Ended						67 Day Period Ended
	December 31 2006 (unaudited)	September 30 2006 (unaudited)	June 30 2006 (unaudited)	March 31 2006 (unaudited)	December 31 2005 (unaudited)	September 30 2005 (unaudited)	June 30 2005 [1] (unaudited)
Revenue	**$ 35,102**	$ 33,983	$ 33,593	$ 31,352	$ 32,906	$ 29,513	$ 6,876
Net earnings (loss)	**$ 1,592**	$ 1,121	$ 1,369	$ (50)	$ (398)	$ 615	$ 244
Earnings (loss) per trust unit - basic (dollars per unit)	**$ 0.24**	$ 0.17	$ 0.20	$ (0.01)	$ (0.06)	$ 0.09	$ 0.04
Earnings (loss) per trust unit - diluted (dollars per unit)	**$ 0.24**	$ 0.17	$ 0.20	$ (0.01)	$ (0.06)	$ 0.09	$ 0.04
Average number of trust units basic (in thousands of units)	**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

[1] These are the results of operations of the Fund for the 22 day period from June 9, 2005 to June 30, 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.

RECONCILIATION OF EBITDA[A] TO DISTRIBUTABLE CASH[B] (IN THOUSANDS OF DOLLARS)

	Three Month Period Ended December 31,		Year Ended December 31,		251 Day Period from inception April 25 to December 31,
	2006	2005	**2006**	2005 [1]	**2005**
	(unaudited)	(unaudited)	**(audited)**	(unaudited)	**(audited)**
Calculation of EBITDA [A]:					
Net earnings (loss)	**$ 1,592**	$ (398)	**$ 4,032**	$ (2,737)	**$ 462**
Add:					
Interest	**350**	492	**1,663**	1,564	**959**
Non-controlling interest	**531**	(133)	**1,344**	154	**154**
Employee profit sharing plan	-	-	-	2,000	-
Stock-based compensation plan [2]	-	-	-	4,466	-
Deferred Line Maintenance Charges [3]	-	17	-	68	**38**
Income taxes	**(55)**	(879)	**(1,069)**	(688)	**(1,434)**
Loss on disposal of capital assets	**221**	-	**242**	-	-
Amortization of capital assets	**886**	802	**3,314**	2,879	**1,731**
Amortization of intangible assets	**2,573**	2,573	**10,209**	5,762	**5,762**
Aircraft heavy maintenance accrual	**447**	653	**1,754**	2,287	**1,459**
Less: Aircraft heavy maintenance expenditures	**(765)**	(13)	**(2,268)**	(1,544)	**(620)**
EBITDA [A]	**$ 5,780**	$ 3,114	**$ 19,221**	$ 14,211	**$ 8,511**
Reconciliation of EBITDA [A] to Distributable Cash [B]:					
EBITDA [A]	**$ 5,780**	$ 3,114	**$ 19,221**		**$ 8,511**
Maintenance capital expenditures [4]	**491**	(186)	**2,555**		**1,116**
Interest	**350**	492	**1,663**		**959**
Repayment of long term debt obligation under capital lease	**29**	-	**152**		-
Distributable cash [B]	**$ 4,910**	$ 2,808	**$ 14,851**		**$ 6,436**

(1) Readers are cautioned that the combined supplementary financial information presented does not represent the results of the Fund for the twelve month period 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 twelve month period ended December 31, 2006 and 2005. 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.

(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.

(3) Management has adjusted its calculation of EBITDA[A] and Distributable Cash [B] during the current period to include an adjustment for the amortization of deferred line maintenance charges. These amounts were previously excluded from the calculation of EBITDA [A] and Distributable Cash [B].

(4) 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.

HIGHLIGHTS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2006 AND 2005

- Total revenue for the three month period ended December 31, 2006 was $35.1 million as compared to $32.9 million for the three month period ended December 31, 2005, an increase of 6.7%
- Average overnight daily cargo revenue for the three month period ended December 31, 2006 was $0.63 million per operating day, representing an increase of 1.6% as compared to $0.62 million per operating day for the three month period ended December 31, 2005
- Net Earnings increased by $2.0 million to $1.6 million for the three month period ended December 31, 2006 as compared to a net loss of $0.4 million for the three month period ended December 31, 2005
- EBITDA [A] increased by 87.1% to $5.8 million for the three month period ended December 31, 2006 as compared to $3.1 million for the three month period ended December 31, 2005
- Distributable Cash [B] was $4.9 million for the three month period ended December 31, 2006 as compared to $2.8 million for the three month period ended December 31, 2005

REVIEW OF OPERATIONS (FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2006 AND 2005)

REVENUE

Total revenue increased by $2.2 million to $35.1 million for the three month period ended December 31, 2006, as compared to the three month period ended December 31, 2005, representing an increase of 6.7%. The increase over 2005 levels is a result of revenue enhancements on new and existing routes. Revenue related to the overnight cargo service was $0.63 million per operating day for the three month period ended December 31, 2006, compared to $0.62 million per operating day for the three month period ended December 31, 2005. Revenue related to the overnight cargo service accounted for 88.0% of the total revenue for the three month period ended December 31, 2006.

ACMI cargo revenue was $1.4 million for the three month period ended December 31, 2006, compared to $0.5 million for the three month period ended December 31, 2005. The increase from 2005 is attributable to the addition of a new ACMI contract early in the 2006 fiscal year end. ACMI cargo revenue accounted for 4.0% of the total revenue for the three month period ended December 31, 2006.

International revenue was $2.5 million for the three month period ended December 31, 2006 and represented 7.1% of the total revenue. International revenue was $1.2 million for the three month period ended December 31, 2005 and represented 3.6% of the total revenue. The international route, from Newark to Bermuda, commenced in November of 2005.

ACMI passenger and lease revenue from the passenger aircraft was $0.3 million for the three month period ended December 31, 2006 as compared to $0.9 million for the three month period ended December 31, 2005. The service agreement for the ACMI passenger revenue was terminated in October, 2006. The passenger aircraft was subsequently leased to a third party.

DIRECT EXPENSES

Direct expenses were $25.1 million for the three month period ended December 31, 2006 and represented 71.5% of revenue, compared to direct expenses of $27.3 million representing 83.0% of revenue for the three month period ended December 31, 2005. The improvement in direct expenses as a percentage of revenue compared to 2005 can be attributed to a general increase in overall revenue, combined with continued cost control efforts on new and existing business. For the three month period ended December 31, 2006, fuel expense decreased by $1.4 million over the comparative period in 2005. Fuel cost decreases were passed through to customers as a reduction in fuel surcharge and billed to customers on a cost recovery basis only.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $4.9 million, representing 14.0% of revenue for the three month period ended December 31, 2006, compared to $3.8 million or 11.6% of revenue for the three month period ended December 31, 2005. The increase in selling, general and administrative expenses as a percentage of revenue for the three month period ended December 31, 2006 compared to the same period for 2005 is primarily attributable to incentive plan expenses of $0.8 million accrued during the period.

EBITDA [(A)]

EBITDA [(A)] for the three month period ended December 31, 2006 was $5.8 million or 16.5% of revenue, compared to $3.1 million or 9.4% of revenue for the three month period ended December 31, 2005. The improvement in EBITDA can be attributed to an improvement in margins related to a new scheduled flight for the overnight cargo service which began later in 2005. For the purpose of calculating EBITDA [(A)] for the three month period ended December 31, 2006, the heavy maintenance accrual of $0.4 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.8 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the three month period ended December 31, 2005, the heavy maintenance accrual of $0.7 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.01 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are accrued by the Fund over a period of 24 months.

AMORTIZATION

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Collectively, the amortization of intangible assets recorded for the three month period ended December 31, 2006 was $2.6 million and for the three months ended December 31, 2005, it was also $2.6 million. Amortization of capital assets is consistent with past practices of the predecessor company, Cargojet Holding Ltd., as well as the practices of the Fund, since its inception. Amortization of capital assets for the three month period ended December 31, 2006 totaled $0.9 million, out of which $0.7 million was included in direct expenses.

INTEREST

Interest expense was $0.4 million for the three month period ended December 31, 2006. The interest expense was $0.5 million for the three month period ended December 31, 2005. The Fund has entered into a derivative financial instrument that effectively hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

FUTURE INCOME TAX RECOVERY

The future income tax recovery was $0.1 million for the three month period ended December 31, 2006 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse. The Fund is not otherwise subject to income taxes to the extent that its taxable income is paid or payable to a unit holder, due to the change in structure of the Fund versus its predecessor, Cargojet Holdings Ltd.

NON-CONTROLLING INTEREST

Non-controlling interest was $0.5 million for the three month period ended December 31, 2006, compared to $(0.1) million for the three month period ended December 31, 2005 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.

DISTRIBUTIONS

Total distributions for the three month period ended December 31, 2006 were $2.5 million, or $0.2835 per trust unit. A distribution of $0.0945 per Income Fund unit, equal to $0.6 million, for the period December 1, 2006 to December 31, 2006 was declared to unit holders of record on December 31, 2006, payable on January 15, 2007. Also, a distribution of $0.2835 per Exchangeable LP unit, equal to $0.6 million, for the period October 1, 2006 to December 31, 2006 was declared to Exchangeable LP unit holders of record on December 31, 2006, payable on January 15, 2007. The total distributions for the three month period ended December 31, 2005 were $2.5 million, or $0.275 per trust unit. The payout ratio for the three month period ended December 31, 2006 was 52% compared to 88% for the three month period ended December 31, 2005.

The Fund announced on August 11, 2006, an increase in annualized cash distributions of 3% from $1.10 per unit to $1.133 per unit. The Fund announced on January 22, 2007, an increase in annualized distributions of 2% from $1.133 per unit to $1.156 per unit.

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, 2006 was $7.7 million. This is primarily due to continued strong revenues and improved margins and the combination of the timing of collections from customers, supplier payments and the timing of the payroll disbursement.

Cash used in financing activities during the three month period ended December 31, 2006 was $2.6 million, comprised of $2.5 million used for the distributions paid to unitholders and a net $0.1 million decrease in long-term debt related to capital leases.

Cash used in investing activities during the three month period ended December 31, 2006 was $0.5 million, represented by capital asset spending of $0.5 million during the period.

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results. The Fund's revolving credit facility is used primarily for working capital requirements. The Fund's revolving credit facility will mature on April 1, 2009.

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

CAPITAL EXPENDITURES

Capital expenditures totaled $0.5 million for the three month period ended December 31, 2006. These expenditures represented maintenance capital expenditures during this period.

HIGHLIGHTS FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2006 AND 2005 [1]

- Total revenue for the twelve month period ended December 31, 2006 was $134.0 million as compared to $117.9 million for the twelve month period ended December 31, 2005, an increase of 13.7%

- Net earnings increased by $6.7 million to $4.0 million for the twelve month period ended December 31, 2006 as compared to a loss of $2.7 million for the twelve month period ended December 31, 2005.

- EBITDA [A] increased by 35.2% to $19.2 million for the twelve month period ended December 31, 2006 as compared to $14.2 million for the twelve month period ended December 31, 2005

- Distributable Cash [B] was $14.9 million for the twelve month period ended December 31, 2006 as compared to $6.4 million for the 251 day period from inception April 25 to December 31, 2005.

(1) Readers are cautioned that the comparative supplementary financial information presented does not represent the results of the Fund for the twelve month period 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 twelve month period ended December 31, 2006 and 2005. 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.

REVIEW OF OPERATIONS (FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2006 AND 2005)

REVENUE

Total revenue for the twelve month period ended December 31, 2006 increased by $16.1 million or 13.7% to $134.0 million compared to the twelve month period ended December 31, 2005. The increase over 2005 levels is as a result of revenue enhancements on new and existing routes and fuel surcharges. Revenue from the overnight network increased by $9.6 million or 9.1% to $115.2 million, while ACMI cargo revenue decreased by $1.1 million to $6.2 million. One of the ACMI contracts was terminated in August 2005, at which time this business was converted to overnight cargo service revenue with the addition of a new scheduled flight late in 2005. International revenue for the twelve month period ended December 31, 2006 was $9.5 million, compared to $1.2 million for the twelve month period ended December 31, 2005. The international route, from Newark to Bermuda, commenced in November of 2005 and, therefore, there was no revenue for this route prior to this time. ACMI passenger and lease revenue from the passenger aircraft decreased by $0.6 million to $3.2 million for the twelve month period ended December 31, 2006, as compared to $3.8 million for the twelve month period ended December 31, 2005.

DIRECT EXPENSES

Direct expenses for the twelve month period ended December 31, 2006 were $100.6 million or 75.1% of revenue, compared to $92.7 million or 78.6% of revenue for the twelve month period ended December 31, 2005. For the twelve month period ended December 31, 2006, fuel expense increased by $4.5 million over the same period in 2005. Fuel cost increases were passed through to customers as a fuel surcharge and billed to customers on a cost recovery basis only. Increases in crew costs of $1.2 million, landing fees of $1.0 million and ground handling of $0.8 million are attributable to the addition of the international flights and the additional scheduled flight. Linehaul expense increased by $0.5 million to $6.8 million, as a direct result of route rationalization which resulted in the need to purchase additional space on certain routes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $16.9 million representing 12.6% of revenue for the twelve month period ended December 31, 2006 compared to $14.4 million or 12.2% of revenue for the twelve month period ended December 31, 2005. The increase in selling, general and administrative expenses was due to an increase in salaries and benefits, incentive plan costs, facility costs and professional fees. This was offset by a decrease in expenses in other areas such as marketing and travel.

EBITDA [(A)]

EBITDA [(A)] for the twelve month period ended December 31, 2006 was $19.2 million or 14.3% of revenue compared to $14.2 million or 12.0% of revenue for the twelve month period ended December 31, 2005. The improvement in EBITDA [(A)] can be largely attributed to the improvement in margins on both the overnight network and the international network by bringing in increased revenues and controlling costs to better utilize the existing fixed cost base. For the purpose of calculating EBITDA [(A)] for the twelve month period ended December 31, 2006, the heavy maintenance accruals of $1.8 million charged to earnings were added back to earnings and the actual heavy maintenance expenditures incurred of $2.3 million were deducted from earnings. For the purpose of calculating EBITDA [(A)] for the twelve month period ended December 31, 2005, the heavy maintenance accruals of $2.3 million charged to earnings were added back to earnings and the actual heavy maintenance expenditures incurred of $1.5 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are accrued by the Fund over a period of 24 months.

AMORTIZATION

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Collectively, the amortization of intangible assets recorded for the twelve month period ended December 31, 2006 was $10.2 million. Amortization of capital assets is consistent with past practices of the predecessor company, Cargojet Holdings Ltd. as well as the practices of the Fund since its inception. Amortization of capital assets 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 increased by $0.1 million to $1.7 million for the twelve month period ended December 31, 2006, compared to $1.6 million for the twelve month period ended December 31, 2005. The increase in interest expense was primarily due to the increase in long term debt as a result of the refinancing that occurred concurrently with the initial public offering. The Fund has entered into a derivative financial instrument that effectively hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

FUTURE INCOME TAX RECOVERY

The future income tax recovery was $1.1 million for the twelve month period ended December 31, 2006 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and is measured using the substantively enacted tax rates that will be in effect when the differences are expected to reverse. The Fund is not otherwise subject to income taxes to the extent that its taxable income is paid or payable to a unit holder, due to the change in structure of the Fund versus its predecessor, Cargojet Holdings Ltd.

NON-CONTROLLING INTEREST

Non-controlling interest of $1.3 million for the twelve month period ended December 31, 2006, compared to $0.2 million for the period from June 9, 2005 to December 31, 2005 represents the share of earnings for the respective periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

DISTRIBUTIONS

Total distributions declared for the twelve month period ended December 31, 2006 were $10.0 million, or $1.1144 per trust unit. A distribution of $0.0945 per Income Fund unit, equal to $0.6 million, for the period December 1, 2006 to December 31, 2006 was declared payable to unit holders of record on December 31, 2006, payable on January 15, 2007. Also, a distribution of $0.2835 per Exchangeable LP unit, equal to $0.6 million, for the period October 1, 2006 to December 31, 2006 was declared payable to Exchangeable LP unit holders of record on December 31, 2006, payable on January 15, 2007. The total distributions for the period from June 9 to December 31, 2005 were $5.5 million, or $0.62 per trust unit.

The cumulative payout ratio for the twelve month period from January 1, 2006 to December 31, 2006 was 67%. The cumulative payout ratio from June 9, 2005 to December 31, 2006 was 73%. The payout ratio for the period from June 9 to December 31, 2005 was 86%.

The Fund announced on August 11, 2006, an increase in annualized cash distributions of 3% from $1.10 per unit to $1.133 per unit. The Fund announced on January 22, 2007, an increase in annualized distributions of 2% from $1.133 per unit to $1.156 per unit, bringing the total increase in annualized distributions since June 9, 2005 to 5%.

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 year ended December 31, 2006:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
January 31, 2006	February 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
February 28, 2006	March 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
March 31, 2006	April 14, 2006	614,286	614,286	204,762	614,286	819,048	0.0917	1,228,572
April 30, 2006	May 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
May 31, 2006	June 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
June 30, 2006	July 14, 2006	614,286	614,286	204,762	614,286	819,048	0.0917	1,228,572
July 31, 2006	August 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
August 31, 2006	September 15, 2006	633,043	633,043	211,014	-	844,057	0.0945	633,043
September 30, 2006	October 13, 2006	633,042	633,042	211,014	626,790	844,056	0.0945	1,259,832
October 31, 2006	November 15, 2006	633,042	633,042	211,014	-	844,056	0.0945	633,042
November 30, 2006	December 15, 2006	633,043	633,043	211,014	-	844,057	0.0945	633,043
December 31, 2006	January 15, 2007	633,043	-	211,015	-	844,058	0.0945	-
		7,465,215	6,832,172	2,488,405	1,855,362	9,953,620	1.1144	8,687,534

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, 2006 was $21.7 million. This is primarily due to continued strong revenues and improved margins and the combination of the timing of collections from customers, supplier payments and the timing of the payroll disbursement.

Cash used in financing activities during the twelve month period ended December 31, 2006 was $12.4 million, comprised of $9.9 million used for distributions paid to unitholders, $0.1 million for additional issuance costs related to the initial public offering and a net $2.4 million decrease in long-term debt.

Cash used in investing activities during the twelve month period ended December 31, 2006 was $2.6 million, represented by capital asset spending of $2.6 million during the period.

There are no provisions within existing debt or lease agreements that will trigger additional funding requirements or early payments based on current or expected results. The Fund's revolving credit facility is used primarily for working capital requirements. The Fund's revolving credit facility will mature on April 1, 2009.

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

CAPITAL EXPENDITURES

Capital asset additions totaled $3.1 million for the twelve month period ended December 31, 2006, including $0.5 million for capital assets financed under a capital lease, and the balance for maintenance capital expenditures.

FINANCIAL CONDITION

The following is a comparison of the financial position of the Fund as at December 31, 2006 to the financial position of the Fund as at December 31, 2005. Also included is a comparison of the financial position of the Fund as at December 31, 2006 to the financial position of the Fund as at September 30, 2006.

ACCOUNTS RECEIVABLE

Accounts receivable decreased by $4.2 million compared to the balance as at December 31, 2005 and decreased by $0.9 million compared to the balance as at September 30, 2006 to $6.1 million as at December 31, 2006. The decrease in the accounts receivable balance is partially due to the improved payment terms agreed to by the new international route customers, added in November 2005. In addition, certain existing customers also agreed to new payment terms during 2006. The quality of the Fund's receivable balances and its current collections, in management's opinion, remains excellent.

CAPITAL ASSETS

Capital assets decreased by $0.5 million from December 31, 2005 to $28.0 million as at December 31, 2006. The decrease in capital assets was comprised of $2.6 million for maintenance capital expenditures, and $0.5 million for equipment that was financed under a capital lease. These capital asset additions were offset by the $0.3 million net disposal of used equipment and leasehold improvements. The amortization of capital assets recorded during the twelve month period ended December 31, 2006 was $3.3 million. Capital assets decreased by $0.5 from the balance as at September 30, 2006 made up of additions to capital assets of $0.5 million, additions to capital assets financed under capital lease of $0.1 million and offset by amortization of capital assets during the three month period ended December 31, 2006 of $0.9 million, as well the disposal of used equipment and leasehold improvements of $0.2 million.

INTANGIBLE ASSETS

Intangible assets decreased by $10.2 million from December 31, 2005 to $72.0 million as at December 31, 2006. The decrease is entirely attributable to amortization of intangible assets recorded for the twelve month period ended December 31, 2006 of $10.2 million. Intangible assets decreased by $2.6 million from the balance as at September 30, 2006 as a result of amortization of intangible assets recorded for the three month period ended December 31, 2006 of $2.6 million.

ACCOUNTS PAYABLE AND ACCRUED CHARGES

Accounts payable and accrued charges decreased by $0.6 million compared to the balance as at December 31, 2005 and increased by $1.3 million compared to the balance as at September 30, 2006 to $11.5 million as at December 31, 2006. The decrease from December 31, 2005 is primarily a result of the re-payment of the advance from the Cargojet Group of Companies Employee Profit Share Plan Trust ("EPSP Trust") of $1.9 million during the twelve month period ended December 31, 2006, offset by the timing of supplier payments, and the timing of the payroll disbursement. The increase from September 30, 2006 is primarily due to the timing of supplier payments, as well as the timing of the payroll disbursement.

AIRCRAFT HEAVY MAINTENANCE ACCRUAL

The aircraft heavy maintenance accrual decreased by $0.4 million from September 30, 2006 to $1.6 million as at December 31, 2006. This is related solely to the timing difference between the accrual of $0.4 million and the actual heavy maintenance expense incurred of $0.8 million during the period. The aircraft heavy maintenance accrual decreased by $0.5 million from December 31, 2005 to December 31, 2006. This is as a result of an additional heavy maintenance accrual during this period of $1.8 million and offset by heavy maintenance expenditures during this period of $2.3 million.

WORKING CAPITAL POSITION

The Fund had a working capital surplus as at December 31, 2006, representing the difference between total current assets and current liabilities, of $0.4 million, compared to a working capital deficit of $2.3 million as at September 30, 2006 and a working capital deficit of $2.0 million as at December 31, 2005. Included in the current assets was $7.1 million in cash as at December 31, 2006, compared to $2.5 million as at September 30, 2006 and $0.4 million as at December 31, 2005. Working capital is affected by the timing of supplier payments, collections from customers and usage or repayment of the long-term revolving credit facility.

LONG-TERM DEBT

The Fund has a long-term revolving credit facility to a maximum of $28.0 million. This maximum authorized limit will be reduced to $26.0 million on July 1, 2007 and to $25.0 million on July 1, 2008. As at December 31, 2006, the Fund had utilized $21.0 million of this credit facility, compared to $23.2 million as at December 31, 2005 and $21.0 million as at September 30, 2006. The maturity date of this revolving credit facility is April 1, 2009.

Also included in long-term debt is the long-term portion of the obligation under capital lease. This capital lease commenced in 2006 and as at December 31, 2006, the long-term portion of the obligation under capital lease was $0.13 million, compared to $0.16 million as at September 30, 2006.

SUMMARY OF CONTRACTUAL OBLIGATIONS

	Payments due by Period					
As at December 31, 2006	Total	2007	2008	2009	2010	2011
($ thousands)						
Long-term debt	$ 21,259	$ 129	$ 130	$ 21,000	$ -	$ -
Operating leases	16,121	6,552	5,293	3,727	417	132
Total contractual obligations	$ 37,380	$ 6,681	$ 5,423	$ 24,727	$ 417	$ 132

CAPITAL RESOURCES

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

OFF BALANCE SHEET ARRANGEMENTS

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

TRANSACTIONS WITH RELATED PARTIES

During the three and twelve month periods ended December 31, 2006 the Fund earned revenues of $0.1 million and $3.0 million, respectively, from Starjet Airways Ltd. ("Starjet") and incurred costs associated with this revenue of $0.1 million and $2.7 million, respectively. During the three month period ended December 31, 2005 and the period from June 9, 2005 to December 31, 2005 the Fund earned revenues of $0.9 million and $2.2 million, respectively, from Starjet and incurred costs associated with this revenue of $0.8 million and $1.9 million, respectively. The accounts receivable balance owing from Starjet as at December 31, 2006 was $0.6 million, compared to $0.7 million as at December 31, 2005 and $0.5 million as at September 30, 2006.

The service agreement with Starjet was terminated in October 2006 and the Fund has acted upon its guarantee provided by the shareholders of Starjet, the retained interest holders of the Fund, to fund any shortfall in the amounts due from the related company. The passenger aircraft was subsequently leased to a third party.

The Fund also incurred interest expenses of $0.04 million on the EPSP Trust loan during the three month period ended March 31, 2006. The EPSP Trust loan and the accrued interest were repaid on March 31, 2006.

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 provided ACMI services to Starjet, a company providing first class passenger charter services. Primary operations are conducted in Canada with some USA and International operations.

For the three month period ended December 31, 2006 the Fund had sales to three customers of $18.8 million or 53% of total revenue compared to $17.6 million or 54% of total revenue for the three month period ended December 31, 2005. For the twelve month period ended December 31, 2006 the Fund had sales to three customers of $68.9 million or 51% of total revenue compared to $63.2 million or 54% of total revenue for the twelve month period ended December 31, 2005. 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.

CONTINGENCIES

As of December 31, 2006, the Fund has provided irrevocable standby letters of credit totaling $0.36 million to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. One of the letters of credit for $0.2 million, expires on December 31, 2007, one for $0.14 million expires on July 6, 2007 and the third for $0.02 million expires March 20, 2007.

SUBSEQUENT EVENTS

On January 10, 2007, Cargojet Airways Ltd., an indirect subsidiary of the Fund, was served with a statement of claim by Capital Sports and Entertainment Inc. claiming damages of $2.0 million for breach of contract. The Fund believed the claim to be without merit. The claim was dismissed by the Ontario Supreme Court of Justice without costs on February 15, 2007.

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 has entered into a hedging transaction with a major Canadian financial institution, in order to fix the interest rate at 6.89%, amended to 6.49% effective December 28, 2006. This hedging transaction matures on June 15, 2008. The Fund has achieved hedge accounting with respect to its current interest rate swap. As at December 31, 2006, this interest rate swap had a positive fair value, or value favourable to the Fund of approximately $0.2 million. The Fund manages its exposure to changes in the Canadian/U.S. exchange rates on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods. As at December 31, 2006, 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, may result in increased acceptance screening processes, particularly for air cargo carried in the belly of passenger aircraft and may lead to increased demand for air cargo services carried on all-cargo aircraft such as those of Cargojet. Cargojet's fuel prices are fixed on a monthly basis by its major fuel suppliers and Cargojet adjusts its fuel surcharge accordingly to its customers. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

The Fund expects to achieve continued organic growth within its existing customer base and to obtain new customers for both its domestic and international business due to its competitive market position and strength of its value added services. In addition, the Fund will continue to explore opportunities to acquire complementary or competing businesses within the limits set by the proposed tax legislation.

In November 2006, the Government of Canada announced a new international air policy titled *Blue Sky: Canada's New International Air Policy*. It will provide opportunities for Canadian airlines to grow and compete successfully in a more liberalized global environment. The new policy approach does not include cabotage rights - the right for a foreign airline to carry domestic traffic between points in Canada. Cargojet supports the government's new initiatives regarding international air policy and has already taken advantage of seventh freedom all-cargo opportunities with its Newark, NJ to Bermuda route.

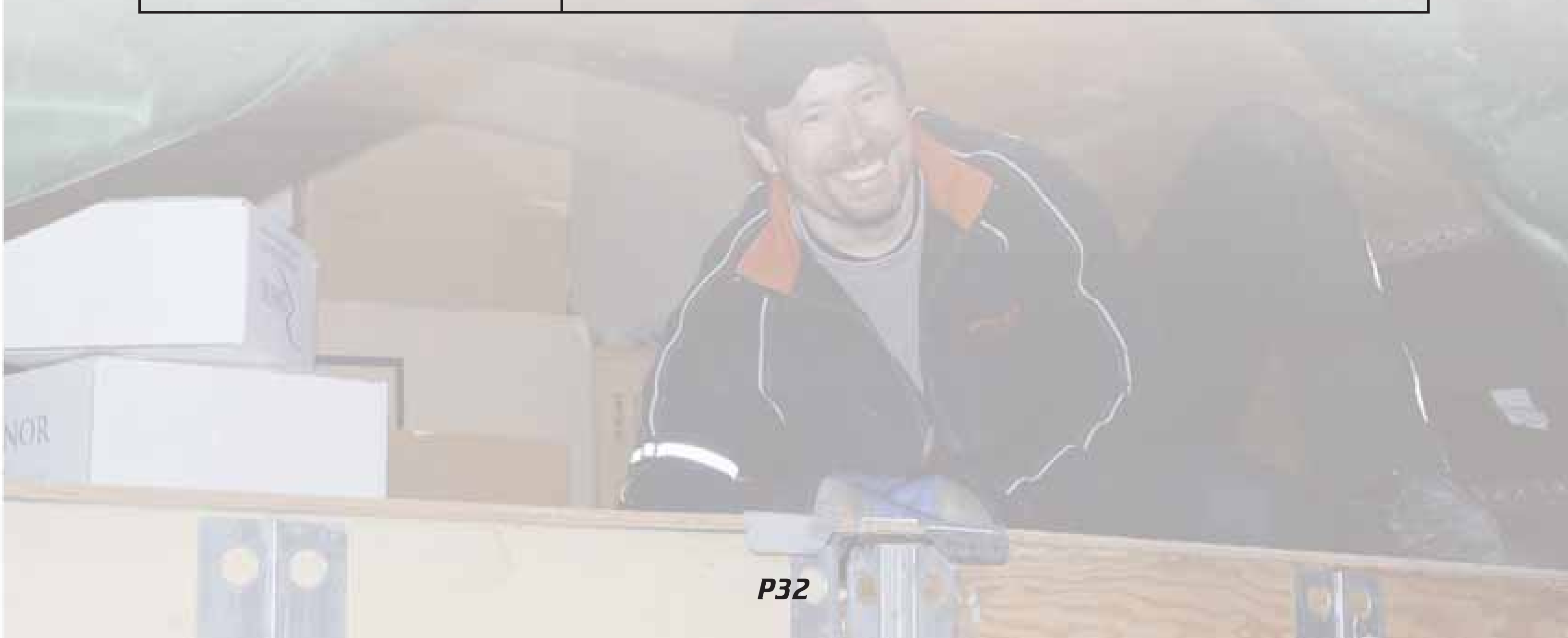
Management's principal objective is to increase free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls; and growing the business organically and through strategic and accretive 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 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 items requiring the use of management estimates are the determinations of aircraft heavy maintenance reserves, the allowance for doubtful accounts, the obsolescence of spare parts, materials and supplies and the valuation of intangible assets. The table below discloses the methodology used by management in the assessment of these accounting estimates.

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



INCOME TAXES

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in Fund income being subject to a tax at the trust level.

In addition, if the proposals are enacted as announced, it would also result in the Fund accounting for future income taxes under the asset and liability method, whereby future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Future income tax assets would be recorded in the consolidated financial statements to the extent that realization of such benefits is more likely than not.

FINANCIAL REPORTING UPDATE

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

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

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

INFORMATION DISCLOSURE CONTROLS AND PROCEDURES

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

The Fund has identified the need for improvement with regards to segregation of duties. These matters and their related risks are not uncommon in a company of Cargojet's size. To date, Cargojet has utilized external advisors and taken such other action as it has considered appropriate to minimize this risk including the hiring of additional staff. In addition, management is taking appropriate steps to further analyze and improve in this area.

During the year ended December 31, 2006, the Fund made changes to its internal controls that did not materially affect internal controls over financial reporting.

END NOTES

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

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.

Amortization of deferred line maintenance charges - these are line maintenance charges paid, and amortized over a period greater than twelve months. As a non-cash item, the amortization of these charges has no impact on the determination of EBITDA and distributable cash.

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.

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 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.

Management's Report to the Unitholders

The consolidated financial statements of the Cargojet Income Fund and all information in this annual report are the responsibility of management and have been approved by the Board of Trustees.

The financial statements have been prepared by management in conformity with generally accepted accounting principles in Canada. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of Cargojet Income Fund has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The board of Trustees carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees.

These financial statements have been audited by the external auditors, Deloitte & Touche LLP, Chartered Accountants, whose report follows.

Dr. Ajay Virmani

President and Chief Executive Officer
March 2007

Auditors' Report to the Unitholders

Deloitte.

Deloitte & Touche LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheets of Cargojet Income Fund as at December 31, 2006 and 2005 and the consolidated statements of earnings and deficit and of cash flows for the year ended December 31, 2006 and for the period from inception (April 25, 2005) to December 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2006 and 2005 and the results of its operations and its cash flows for the year ended December 31, 2006 and for the period from inception (April 25, 2005) to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Toronto, Ontario
March 2, 2007

Member of
Deloitte Touche Tohmatsu

Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2006 and 2005

CARGOJET INCOME FUND
Consolidated Balance Sheet
December 31, 2006 and 2005

	2006	2005
ASSETS		
CURRENT		
Cash	$ 7,093,311	$ 359,502
Accounts receivable	6,096,482	10,323,444
Spare parts, materials and supplies	1,104,307	1,237,135
Prepaid expenses and deposits	1,790,083	1,973,957
Due from related party (Note 11)	597,381	744,651
	16,681,564	14,638,689
CAPITAL ASSETS (Note 4)	28,011,262	28,536,834
INTANGIBLE ASSETS (Note 5)	72,035,185	82,244,184
	$ 116,728,011	$ 125,419,707
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 7)	$ 11,474,466	$ 12,027,636
Distributions payable to unitholders (Note 15)	1,266,086	1,228,572
Future income taxes (Note 9)	2,220,129	1,492,356
Current portion of aircraft heavy maintenance accrual (Note 8)	1,208,438	1,847,691
Current portion of long-term debt (Note 6)	128,633	-
	16,297,752	16,596,255
LONG-TERM DEBT (Note 6)	21,130,131	23,179,862
AIRCRAFT HEAVY MAINTENANCE ACCRUAL (Note 8)	375,000	250,000
FUTURE INCOME TAXES (Note 9)	3,836,683	5,667,211
	41,639,566	45,693,328
NON-CONTROLLING INTEREST (Note 10(b))	19,960,361	21,104,782
UNITHOLDERS' EQUITY		
UNITHOLDERS' CAPITAL (Note 10(a))	62,235,654	62,295,904
DEFICIT	(7,107,570)	(3,674,307)
	55,128,084	58,621,597
	$ 116,728,011	$ 125,419,707

John P. Webster
Trustee

Dr. Ajay Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND
Consolidated Statement of Earnings and Deficit
Periods ended December 31, 2006 and 2005

	2006	Period from inception (April 25, 2005) to December 31, 2005 (251 days)
REVENUES	$ 134,029,664	$ 69,295,475
DIRECT EXPENSES	100,555,825	55,089,462
	33,473,839	14,206,013
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	825,436	395,615
General and administrative	16,025,353	7,730,512
Interest, net	1,662,915	958,593
Amortization of capital assets	443,888	178,090
Amortization of intangible assets	10,208,999	5,761,792
	29,166,591	15,024,602
EARNINGS (LOSS) BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	4,307,248	(818,589)
FUTURE INCOME TAX RECOVERY (Note 9)	1,068,688	1,434,020
EARNINGS BEFORE NON-CONTROLLING INTEREST	5,375,936	615,431
NON-CONTROLLING INTEREST (Note 10(b))	(1,343,984)	(153,858)
NET EARNINGS	4,031,952	461,573
DISTRIBUTIONS DECLARED IN THE PERIOD (Note 15)	(7,465,215)	(4,135,880)
DEFICIT, BEGINNING OF PERIOD	(3,674,307)	-
DEFICIT, END OF PERIOD	$ (7,107,570)	$ (3,674,307)
EARNINGS PER TRUST UNIT - basic	$ 0.60	$ 0.07
EARNINGS PER TRUST UNIT - diluted (Note 10(c))	$ 0.60	$ 0.07
AVERAGE NUMBER OF TRUST UNITS OUTSTANDING - BASIC (in thousands of units)	6,699	6,699
AVERAGE NUMBER OF TRUST UNITS OUTSTANDING - DILUTED (in thousands of units)	8,932	8,932

CARGOJET INCOME FUND

Consolidated Statement of Cash Flows

Periods ended December 31, 2006 and 2005

	2006	Period from inception (April 25, 2005) to December 31, 2005 (251 days)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net earnings	$ 4,031,952	$ 461,573
Items not affecting cash		
Amortization of capital assets	3,313,895	1,730,990
Amortization of intangible assets	10,208,999	5,761,792
Loss on disposal of capital assets	242,231	-
Future income taxes	(1,068,688)	(1,434,020)
Deferred line maintenance charges	-	38,367
Non-controlling interest	1,343,984	153,858
Aircraft heavy maintenance accrual	1,753,836	1,459,526
Aircraft heavy maintenance expenditures	(2,268,089)	(619,769)
	17,558,120	7,552,317
Changes in non-cash working capital items		
Accounts receivable	4,226,962	(3,008,660)
Spare parts, materials and supplies	132,828	(183,800)
Prepaid expenses and deposits	183,874	414,273
Due from related party	147,270	(57,827)
Accounts payable and accrued charges	(553,170)	1,388,608
Income taxes payable	-	(415,922)
	21,695,884	5,688,989
FINANCING		
Net (decrease) increase in long-term debt	(2,398,252)	1,469,005
Proceeds from issuance of Fund Units net of issuance costs	(94,317)	52,199,291
Distributions paid to unitholders and non-controlling interest	(9,916,106)	(4,285,934)
	(12,408,675)	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	2,030	515,003
Additions to capital assets	(2,555,430)	(2,235,068)
	(2,553,400)	(54,711,849)
NET CASH INFLOW	6,733,809	359,502
CASH POSITION, BEGINNING OF PERIOD	359,502	-
CASH POSITION, END OF PERIOD	$ 7,093,311	$ 359,502
SUPPLEMENTARY FINANCIAL INFORMATION		
Interest paid	$ 1,779,642	$ 926,352
Income taxes paid	$ -	$ 460,563
Distributions payable to income fund unitholders	$ 633,043	$ 614,286
Distributions payable to exchangeable unitholders	$ 633,043	$ 614,286
Equipment purchased under capital lease	$ 477,154	$ -
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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

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 $7,440,476, (prior to recording the effect of future income taxes of $2,687,500) resulting in net cash proceeds of $52,104,974.

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, 446,591 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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

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

Intangible assets

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

Goodwill and intangible assets with indefinite useful lives are not amortized.

Goodwill is tested for impairment annually on April 1 or more frequently if events or changes in circumstances indicate that the assets might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared to its fair value. When the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered not to be impaired and the second step is not required. The second step of the impairment test is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. When the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate item in the consolidated statement of earnings and deficit before income taxes and non-controlling interest.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

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 follows 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, 2006.

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. It is the Fund's policy to either purchase, lease reconditioned engines or overhaul existing 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 is a mutual fund trust for income tax purposes. As a result, the Fund is only taxable on any amount not allocated to Unitholders. These financial statements do not reflect any income taxes as the Fund is committed to distribute to its unitholders all or virtually all of its taxable income and taxable capital gains and the Fund intends to comply with the provisions of Income Tax Act that permit the deduction of distributions to unitholders from the Fund's taxable income and taxable capital gains.

Deferred line maintenance charges

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-controlling interest

Non-controlling interest represents a direct non-controlling equity interest 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 delivery occurs and the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from ACMI (aircraft, crew, maintenance and insurance) cargo services is recorded when the cargo service has been provided at a fixed daily rate to operate a specific route. The customer is otherwise responsible for all commercial activities and any costs incurred in excess of the ACMI services are invoiced to the customer at cost.

Revenue from ACMI passenger services is billed on the basis of a contracted ACMI rate and recorded when the services have been provided. Any costs incurred in excess of ACMI service are invoiced to the customer at cost.

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 exposure. 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 and deficit. 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 follows 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 accrual, allowance for doubtful accounts, the obsolescence of spare parts, materials and supplies and the valuation of intangible assets.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

4. CAPITAL ASSETS

2006	Cost	Accumulated Amortization	Net Book Value
Aircraft and engines	$ 17,334,467	$ 2,076,969	$ 15,257,498
Ground equipment	2,330,378	542,241	1,788,137
Rotable spares	5,754,758	596,164	5,158,594
Computer hardware and software	1,365,346	362,975	1,002,371
Furniture and fixtures	455,303	125,295	330,008
Leasehold improvements	2,119,144	625,620	1,493,524
Vehicles	235,633	91,269	144,364
Hangar facility	3,340,121	503,355	2,836,766
	$ 32,935,150	$ 4,923,888	$ 28,011,262

2005	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

As at December 31, 2006 $403,461 (December 31, 2005 - $Nil) of the computer hardware and software and $73,693 (December 31, 2005 - $Nil) of the vehicles described above less accumulated amortization of $60,519 (December 31, 2005 - $Nil) and $30,842 (December 31, 2005 - $Nil) respectively were subject to capital lease.

Amortization expense consists of amounts charged under the following classification:

	2006	2005
Direct expenses	$ 2,870,007	$ 1,552,900
Selling, general and administrative expenses	443,888	178,090
	$ 3,313,895	$ 1,730,990

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

5. INTANGIBLE ASSETS

	2006			
	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	14,906,072	23,207,528
Non-compete agreements	4 years	2,722,400	1,064,719	1,657,681
		$ 88,005,976	$ 15,970,791	$ 72,035,185

	2005			
	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. LONG-TERM DEBT

The Fund renegotiated its revolving credit facility with a Canadian chartered bank on December 28, 2006. The facility is to a maximum of $28.0 million, reducing to $26.0 million as at July 1, 2007 and to $25.0 million at July 1, 2008. The facility bears interest at bank prime plus 1.3% and is repayable on maturity, April 1, 2009. The previous facility was to a maximum of $28.0 million and bore interest at prime plus 1.7%. The Fund has entered into 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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

6. LONG-TERM DEBT (continued)

Long-term debt consists of the following:

	2006	2005
Revolving credit facility	$ 21,000,000	$ 23,179,862
Obligation under capital lease	258,764	-
	21,258,764	23,179,862
Less current portion of long-term debt	128,633	-
	$ 21,130,131	$ 23,179,862

The following is a schedule of future minimum annual lease payments for computer hardware and software under capital lease together with the balances of the obligations:

2007	$ 142,200
2008	135,039
	277,239
Less interest @ 6.89%	18,475
Obligation under capital lease	258,764
Less current portion	128,633
Balance of obligation	$ 130,131

Interest on long-term debt for the period ended December 31, 2006 totaled $1,639,343 (December 31, 2005 - $926,005).

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2006	2005
Trade payables and accrued charges	$ 8,177,631	$ 8,493,027
Advances from EPSP Trust	-	1,900,000
Payroll and benefits	3,296,835	1,634,609
	$ 11,474,466	$ 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, bore interest at 8% per annum and was repayable on demand.

8. AIRCRAFT HEAVY MAINTENANCE ACCRUAL

The Fund provides for airframe overhaul expenses for each owned and certain leased aircrafts. These expenses are charged to earnings according to the pre-determined number of months between airframe overhauls. As at December 31, 2006, the estimated liability totalled $1,583,438 (2005 - $2,097,691), of which $1,208,438 (2005 - $1,847,691) is expected to be expended in the next fiscal year.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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9. INCOME TAXES

The tax effect of significant temporary differences is as follows:

	2006	2005
Capital assets	$ 2,721,070	$ 2,303,310
Intangible assets	5,548,821	8,288,895
Operating loss carryforwards	-	(408,131)
Financing costs	(1,770,764)	(2,357,924)
Expenses incurred, not currently deductible	(442,315)	(666,583)
Future income tax liability	6,056,812	7,159,567
Current portion of future income tax liability	2,220,129	1,492,356
Future income tax liability	$ 3,836,683	$ 5,667,211

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

	2006	2005
Earnings (loss) before income taxes and non-controlling interest	$ 4,307,248	$ (818,589)
Income taxes (recovery) at the combined basic rate	$ 1,555,778	$ (295,674)
Tax on income attributable to trust unitholders and exchangeable LP unitholders	(3,453,871)	(1,721,756)
Tax on amortization of intangible assets	978,491	552,244
Permanent and other differences	73,040	31,166
Future income tax rate adjustment	(222,126)	-
Income tax recovery	$ (1,068,688)	$ (1,434,020)

On October 31, 2006, the Department of Finance (Canada) announced tax proposals pertaining to the taxation of income distributed by publicly listed income trusts and the tax treatment of trust distributions to their unitholders. Currently, the Fund does not pay tax on income it distributes to its unitholders. If enacted, the proposals would apply to the Fund effective January 1, 2011 and would result in Fund income being subject to a tax at the trust level.

In addition, if the proposals are enacted as announced, it would also result in the Fund accounting 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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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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.

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 overallotment	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 as at December 31, 2005	6,698,863	62,295,904
Additional cost of issuance, net of future income taxes of $34,067	-	(60,250)
Unitholders' equity as at December 31, 2006	6,698,863	$ 62,235,654

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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10. UNITHOLDERS' EQUITY (continued)

(b) Non-controlling interest

	Number	Amount
Exchangeable LP units issued on acquisition of Cargojet Holdings Ltd.	2,530,682	$ 25,306,820
Redemption of Exchangeable LP units	(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, December 31, 2005	2,232,955	21,104,782
Share of earnings of the CHLP	-	1,343,984
Distributions declared in the period (Note 15)	-	(2,488,405)
Non-controlling interest, December 31, 2006	2,232,955	$ 19,960,361

(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.

	2006	2005
Revenues associated with passenger air service	$ 3,015,253	$ 2,185,897
Cost of sales associated with the stated revenues	$ 2,711,170	$ 1,920,325

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. Prior to December 31, 2006 the amounts due from the related company were non-interest bearing and were due on demand.

During the year the operations of Starjet were wound up and as a result the Fund acted upon the guarantee provided by the shareholders of Starjet, the retained interest holders of the Fund, to fund the short fall in the amounts due of $597,381.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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12. COMMITMENTS AND CONTINGENCIES

Commitments

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

2007	$	6,552,006
2008		5,292,844
2009		3,726,696
2010		417,127
2011		131,920
	$	16,120,593

Contingency

The Fund has provided irrevocable standby letters of credit totaling approximately $360,000 to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. The letters of credit expire as follows:

December 31, 2007	$	200,000
March 20, 2007		20,000
July 6, 2007		140,000
	$	360,000

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, 2006, approximately 27% of the accounts receivable balance was receivable from two customers (2005 - approximately 29% 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, 2006 and 2005 the Fund had no foreign exchange forward contracts outstanding.

The foreign exchange loss during the year was $17,103 (2005 - exchange loss of $46,596).

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

13. FINANCIAL INSTRUMENTS (continued)

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, 2006 and 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 of 3.2% per annum and the swap matures on June 15, 2008. On December 28, 2006 the loan agreement was renegotiated (Note 6) and the stamping fee was reduced to 2.8% per annum.

At December 31, 2006, this interest rate swap contract had a positive fair value, or value favourable to the Fund of approximately $152,000 (2005 - $193,000) compared to a recorded asset of approximately $5,600 (2005 - liability of $3,400). The swap is an effective hedge as at December 31, 2006 and 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 and leased aircrafts. Under the terms of these agreements, the Fund agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
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14. GUARANTEES (continued)

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

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

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 December 31, 2006 were $7,465,215 (2005 - $4,135,880) to unitholders and $2,488,405 (2005 - $1,378,626) to Exchangeable LP unitholders.

The Fund reviews its historical and expected results on regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. The following table summarizes the cash distributions for the year ended December 31, 2006.

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
January 31, 2006	February 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
February 28, 2006	March 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
March 31, 2006	April 14, 2006	614,286	614,286	204,762	614,286	819,048	0.0917	1,228,572
April 30, 2006	May 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
May 31, 2006	June 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
June 30, 2006	July 14, 2006	614,286	614,286	204,762	614,286	819,048	0.0917	1,228,572
July 31, 2006	August 15, 2006	614,286	614,286	204,762	-	819,048	0.0917	614,286
August 31, 2006	September 15, 2006	633,043	633,043	211,014	-	844,057	0.0945	633,043
September 30, 2006	October 13, 2006	633,042	633,042	211,014	626,790	844,056	0.0945	1,259,832
October 31, 2006	November 15, 2006	633,042	633,042	211,014	-	844,056	0.0945	633,042
November 30, 2006	December 15, 2006	633,043	633,043	211,014	-	844,057	0.0945	633,043
December 31, 2006	January 15, 2007	633,043	-	211,015	-	844,058	0.0945	-
		7,465,215	6,832,172	2,488,405	1,855,362	9,953,620	1.1144	8,687,534

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2006 and 2005

15. DISTRIBUTIONS (continued)

Distributions payable at December 31, 2006 are as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
Income Fund units	December 1 to December 31, 2006	December 31, 2006	January 15, 2007	$ 0.0945	$ 633,043
Exchangeable LP units	October 1 to December 31, 2006	December 31, 2006	January 15, 2007	$ 0.2835	$ 633,043
					$ 1,266,086

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	January 13, 2006	$ 0.0917	$ 614,286
Exchangeable LP units	October 1 to December 31, 2005	December 31, 2005	January 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 $0.28 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 $0.28 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.

The monthly distribution rates for unitholders and Exchangeable LP unitholders increased by 3.0% from $0.0917 to $0.0945 effective from August 31, 2006. In addition subsequent to the year end December 31, 2006, the monthly rates were increased from $0.0945 to $0.0964 effective February 28, 2007.

16. SEGMENTED INFORMATION

The Fund manages its operations in one business segment, which is providing domestic and trans-border air cargo services. Operations are conducted primarily in Canada. During the period, the Fund had sales to three customers that represented 51% of the total revenues (2005 - 2 customers that represented 54% of the total revenues). These sales are provided under service agreements that expire over various periods to June 2010. Each of these customers had sales in excess of 10% of total revenues during all periods.

17. SUBSEQUENT EVENT

On January 10, 2007, Cargojet Airways Ltd., an indirect subsidiary of the Fund, was served with a statement of claim by Capital Sports and Entertainment Inc. claiming damages of $2,000,000 for breach of contract. The Fund believed the claim was without merit. The claim was dismissed by the Ontario Supreme Court without costs on February 15, 2007.

Officers of the GP

Dr. Ajay Virmani, MBA
President, Chief Executive Officer

Dan Mills
Chief Financial Officer,
Corporate Secretary,
Executive Vice-President

Jamie Porteous
Executive Vice-President,
Sales and Service

Officers of the GP

Alan Pidgeon
Senior Vice President

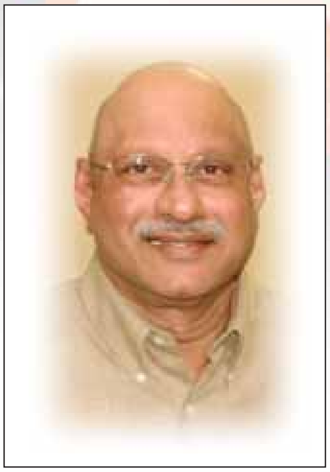
George Sugar
Vice President

Anthony Joseph
Corporate Controller

Trustees of the Fund & Directors of the GP

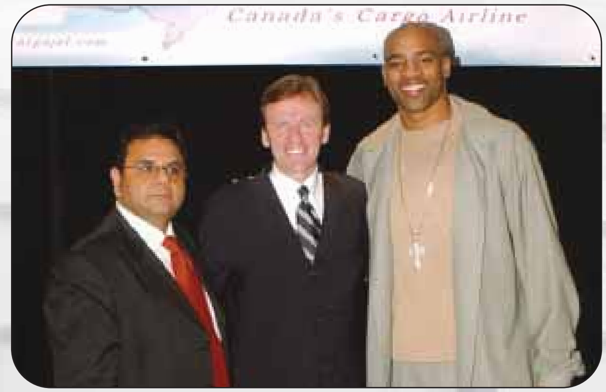
John P. Webster
Trustee (Lead Director)

Craig Baxter
Trustee



Terence M. Francis
Trustee

“Team Cargojet Celebrating



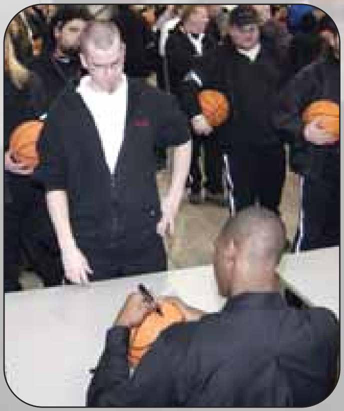
On February 21, 2002 Cargojet was launched by
Ajay Virmani, Allan Rock (ex-Minister of Industry Affairs)
& NBA Superstar Vince Carter

On March 8, 2007 Cargojet celebrated its 5th Anniversary,
with NBA Superstars TJ Ford, Anthony Parker,
Rasho Nesterovic, Kris Humphries,
Joey Graham & Ajay Virmani

Team Altimax Enjoy The Festivities

Ted Huybers (ICS), Rick Hashie (ATS),
Marcus Pryce-Jones (ATS)
& Ron Lake (Sameday)
Enjoy Meeting the Raptors

Halloween Dress Up Day



Chris (NBA) Superstar
Signing Autographs

Lyle, Gary (Schenker),
Jamie & Mackenzie (OCS)

Chandra ... Leader of the Pack

The Past 5 Years”

“Five Golden Pilots”
Enjoying A Festive Holiday Meal

The Sameday Team with
Vince Carter at Cargojet Launch

Ajay Virmani received an Honourary
“Doctorate of Laws”

“Simply The Best”

Prime Minister Stephen Harper takes a tour
of the Cargojet Aircraft and the BAX facility with
Dwayne Hihn (Country Manager - BAX)

Cargojet’s Singing Bells ...

Serge, Wade & Paul

Julius ????

(Halloween Dress Up Day)

“Team Cargojet At The Top Of Their Game

As They Celebrate Their 5th Anniversary"

* Toronto Raptors Superstars TJ Ford, Kris Humphries, Anthony Parker, Joey Graham & Rasho Nesterovic

CJT.UN

www.cargojet.com

350 Britannia Road East, Units 5 & 6, Mississauga, Ontario L4Z 1X9
Tel: (905) 501-7373 • Toll Free: (800) 753-1051 • Fax: (905) 501-7447