Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2006 and 2005

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Auditors' Report

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

CARGOJET INCOME FUND
Consolidated Balance Sheets
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

s// John P. Webster
Trustee

s// Ajay Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND
Consolidated Statements 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 Statements 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

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of presentation

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

Spare parts, materials and supplies

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

Capital assets

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

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

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.

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.

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.

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

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.

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.

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.

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

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.

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

12. COMMITMENTS AND CONTINGENCIES (continued)

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).

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.

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

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.