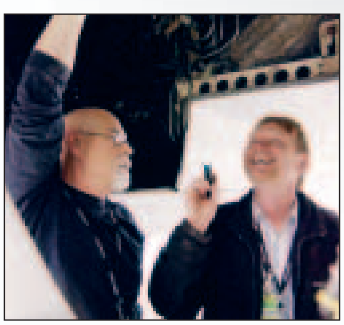
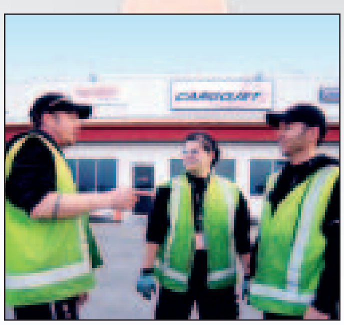
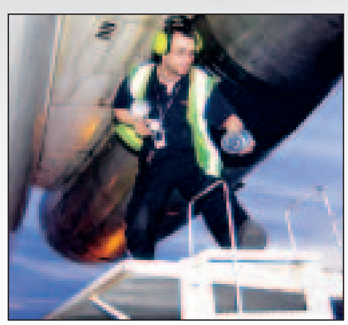
CARGOJET

2007 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 400 customers and carries over 840,000 pounds of cargo each business night across its North American network. 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 2007, Cargojet operated 8,308 flights of which more that 98% arrived at destination within 15 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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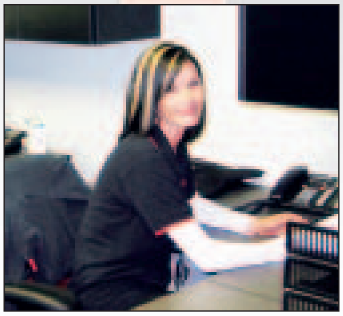
Financial Highlights

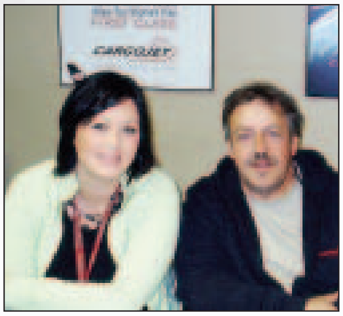
Supplementary Financial Information (in thousands of dollars)	Year Ended December 31, 2006 [1]	Three Month Period Ended March 31, 2007 [1]	June 30, 2007 [1]	September 30, 2007 [1]	December 31, 2007	Year Ended December 31, 2007
	(audited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(audited)
Revenues	$ 134,029	$ 33,825	$ 33,839	$ 35,002	$ 48,439	$ 151,105
Direct expenses	99,400	25,200	25,146	26,310	36,803	113,460
EBITDA [A]	19,221	4,145	5,392	5,188	6,872	21,597
Distributable cash [B]	14,889	3,120	3,437	3,649	4,211	14,416
Cash distributions	9,954	2,566	2,583	2,583	2,583	10,315
Direct expenses/Revenues	74.2%	74.5%	74.3%	75.2%	76.0%	75.0%
EBITDA [A]/Revenues	14.3%	12.3%	15.9%	14.8%	14.2%	14.3%
Cash distributions as a percentage of distributable cash	66.9%	82.2%	75.2%	70.8%	61.3%	71.6%

[1] The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for the noted periods have been restated. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

[A] Please refer to End Note (A) included at the end of the Management Discussion & Analysis

[B] Please refer to End Note (B) included at the end of the Management Discussion & Analysis

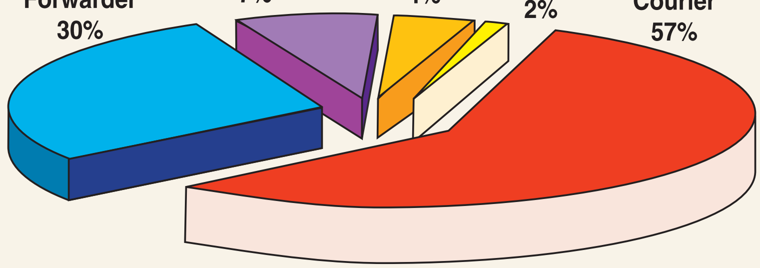




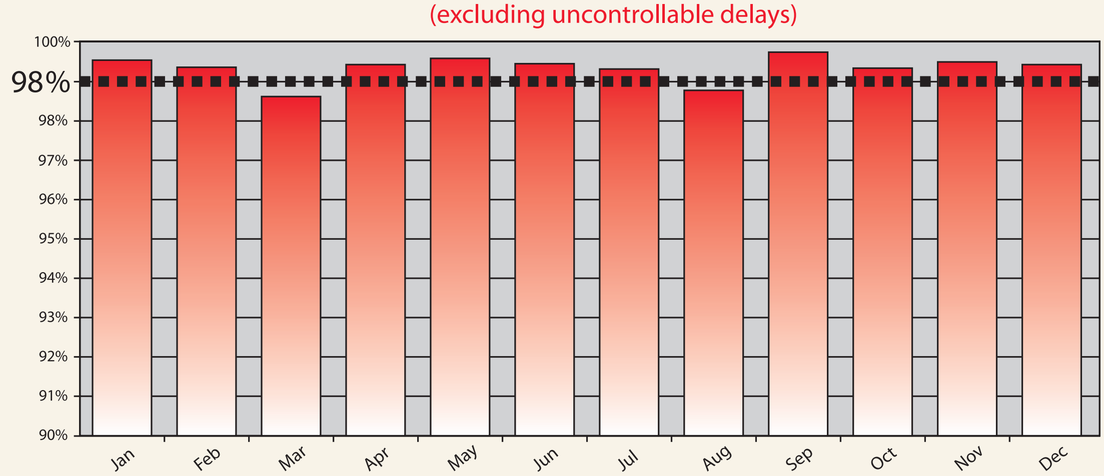
CARGOJET

FACTS

Revenue by Market Segment



DOMESTIC OVERNIGHT NETWORK
2007 On Time Performance Within :15 min
(excluding uncontrollable delays)



Source: Flight Following Database

ISO 9001:2000

ATAC IATA Cilla

A Member of The International Air Cargo Association TIACA

CCLA Canadian Courier & Logistics Association

Air Cargo World Excellence Award

Canada's 50 Best Managed Companies

Entrepreneur Of The Year

Shipper's Choice Award 2007

Shipper's Choice Award 2006

Shipper's Choice Award 2005

Shipper's Choice Award 2003

Shipper's Choice Award 2002

ON TIME PERFORMANCE

Message To Unitholders

Dear Unitholders,

We are very pleased to report very successful financial and operational results for the Cargojet Income Fund for 2007. Cargojet has continued to further establish itself as the most dominant provider of time-sensitive and value added overnight air cargo services in Canada today. Over the past year we have focused on profitably growing our business through both organic growth and strategic acquisitions that allow us to broaden our scope of coverage across North America.

In the past year we have added several new routes, both on a dedicated contract aircraft basis and to our overnight network schedule. Additionally, we have established our Cargojet Regional brand that allows us to provide dedicated time-sensitive air cargo services to secondary and tertiary markets across Canada. We are very proud of our consistent and reliable service levels and once again operated our network at a 98% on-time performance level. Cargojet was very pleased to be the only Canadian Air Cargo carrier to receive the 2007 Shipper's Choice Award from the trade publication Canadian Transportation & Logistics for the fifth consecutive year. We also successfully maintained our ISO 9001:2000 Quality accreditation for the seventh year in a row.

Our excellent operational results, impeccable safety record and on-time reliability are a testament to the hard work, dedication and team work of over 500 industry professionals working for Cargojet across the country who provide outstanding service to our customers every day.

Our financial results have consistently surpassed expectations and allowed us to meet or exceed all of our financial targets for the year. We have consistently met all cash distribution targets and our payout ratio for the 2007 year remained very conservative at 72%.

This Annual Report and the Management Discussion & Analysis will highlight the company's financial performance for the 2007 fiscal year. Highlights will include:

- Year over year revenue increase of 12.8%
- EBITDA increase of 12.5% to $21.6M for the year
- Total cash distributions of $10.3M or $1.1549 per trust unit

The Trustees of the Cargojet Income Fund have set the Fund's distribution policy to ensure the stability and sustainability of payments to unitholders. The business is managed on a conservative basis with a payout ratio consistent with the Fund's underlying ability to meet monthly fluctuations resulting from seasonality, unforeseen additional expenses and/or maintenance capital expenditures.

The company continues to grow its market share and expand the service levels offered to our customer base. Looking forward, 2008 is an exciting year of opportunity for the Fund, as we expand capacity and introduce more modern and more fuel efficient B757-200 Extended Range Freighter and B767-200 Extended Range Freighter Aircraft to our fleet. These aircraft will provide our customers with improved service levels, increased capacity and will allow for further expansion of the business into select international markets. We are also making significant investments in infrastructure to support these new aircraft, including more than doubling the size of our Aircraft Maintenance Hangar at our Operational Hub at Hamilton International Airport and tripling the size our Hub sort facility.

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

We believe that volume increases from our core customer base will continue to grow as cargo capacity on scheduled passenger aircraft continues to decrease and with the inevitable implementation of enhanced security regulations for air cargo carried in the belly of passenger aircraft. We also expect continued organic growth within our existing customer base and obtain new customers for both our domestic and international routes as the Fund continues to build on its competitive market position.

In conclusion and on behalf of the Board of Trustees, I would like to thank both our investors for their confidence in the Cargojet Income Fund and our team of professional employees for their hard work and dedication throughout the past year.

Dr. Ajay Virmani
President and Chief Executive Officer

Ajay Virmani

March 2008

Safety Management System

Cargojet is committed to the principles that define our Safety Management System.

The Safety Management System develops and sustains a strong safety and security culture where:

- Management is accountable and responsible for safety and security.
- Everyone in the organization takes an active role in safety and security.
- Activities are risk based.
- There are proactive activities.
- Performance is measured.
- Safe and secure practices, continuous learning and improvement are the norm.

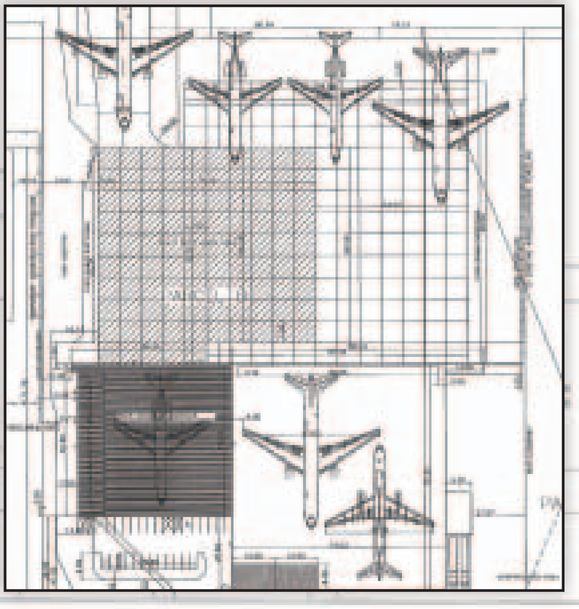
An organization's culture is demonstrated by what people do. Some of the practices that define Cargojet's safety culture are:

- Employee involvement.
- Reporting hazards, threats and events.
- Sharing safety information.
- Analysing contributing and underlying factors of hazards, threats and events.
- Making risk-based decisions and mitigating identified risks.
- Considering the impact on safety and security performance of decisions made.
- Achieving continuous improvements and innovation.

The overall goal is for safe and secure practices to be demonstrated and reflected in all activities, at all organizational levels, in everyday work. We must all actively work together to create safety and security in our dynamic, increasingly complex and integrated industry.

New Hangar Facility

The new hangar will commence construction in May 2008. This facility will include an additional hangar bay of 65000 sq. ft., 12000 sq. ft. of shop, offices and parts warehouse area, and 75000 sq. ft. of apron. The new facility will house a B767 and a B757 simultaneously, as well as provide apron parking for up to three widebody and narrowbody aircraft.



B767-200 Extended Range Aircraft

Cargojet will take delivery of its first widebody freighters in the third quarter of this year. The two B767-200ER freighters will be C-FGAJ (MSN 22319) and C-FMCJ (MSN 22316). Both of these aircraft are ex-American Airlines aircraft and are identically configured.

FGAJ is currently undergoing conversion at Israeli Aerospace Industries in Tel Aviv. This photo shows the A/C fully supported and prepped for the door opening to be cut (shown below).

Completion date for this aircraft will be in early June of 2008 and will be delivered to Cargojet in the latter part of the same month. FMCJ will be inducted into IAI in Tel Aviv in mid March with an anticipated completion date in early July and delivery to Cargojet in late July.

The Cargojet B767-200ER aircraft will carry a structural payload of up to 100,000 lbs and have a maximum range of just over 5,000 nautical miles.

The main deck will carry various configurations of ULD's and pallets and has provisions for carriage of certain aircraft engines as well as oversized (16ft) pallets. The standard configuration will accommodate 19 ULD's on the upper deck. The newly completed cargo interior of MSN 22318 is shown below. The Cargojet aircraft is also able to carry 2,640 cu. ft. of containerized cargo, and 430 cu. ft of bulk cargo in the lower cargo compartments.

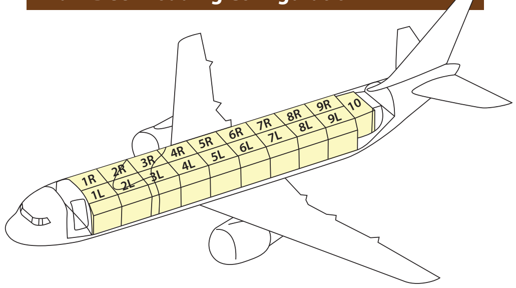
C-FGAJ in Tel Aviv Undergoing Conversion
(Yes, There Is An Aircraft In There!)

Main Deck of the B767-200ER

Following the freighter conversion for each aircraft, they will be painted in the Cargojet livery and then moved to ABX Air in Wilmington Ohio. While at ABX, they will undergo avionics upgrades over a three week period. These upgrades will provide advanced navigational and air traffic control capabilities needed for efficient transoceanic and European operations, as well as provide significant reliability improvements and maintenance cost reductions.

Entry into service dates for the two aircraft are expected to be July 1, 2008 for FGAJ and August 1, 2008 for FMCJ.

Main Deck Loading Configuration



One of the 5 standard configurations:
Eighteen 88"x125" modified A2 containers in positions 1 to 9, One 125"x 88" A2 container in Position 10

Position 1, 2, 3 L&R	7, 460 lb
Position 4, 5, L&R	10, 200 lb
Position 6, 7, 8, 9 L&R	7, 560 lb
Position 10	6, 000 lb

- Engine CF6-80A/80A2 carriage capability. (One position aft of the main side cargo door
- Perishable carriage capability

B767-200ER Main Deck Standard ULD Configuration

TECHNICAL SPECIFICATIONS

MAXIMUM PAYLOAD
100,000 lbs (45,359.23 Kg)

TOTAL VOLUME
15,468 cu ft

MAIN DECK
11,900 cu ft
Container Positions 19

LOWER DECK
3,170 cu ft
Container Positions 11 (LD8)

ENGINE MAXIMUM THRUST
General Electric CF6 80A
48,000 lbs (21,772Kg)

MAXIMUM FUEL CAPACITY
137,015 lbs (62,149 Kg)

MAXIMUM TAKEOFF WEIGHT
351,000 lbs (159,211Kg)

MAXIMUM RANGE WITH MAX. PAYLOAD
3,000 NM (5556 KM)

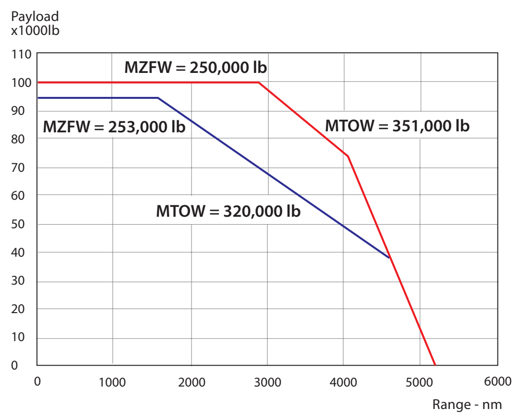
TYPICAL CRUISE SPEED
Mach 0.80

WING SPAN
156 ft 1in. (47.58 M)

OVERALL LENGTH
159 ft 2 in. (48.52 M)

TAIL HEIGHT
52 ft (15.84 M)

Typical Payload Range Capability



Cargojet B767-200ER Payload vs Range

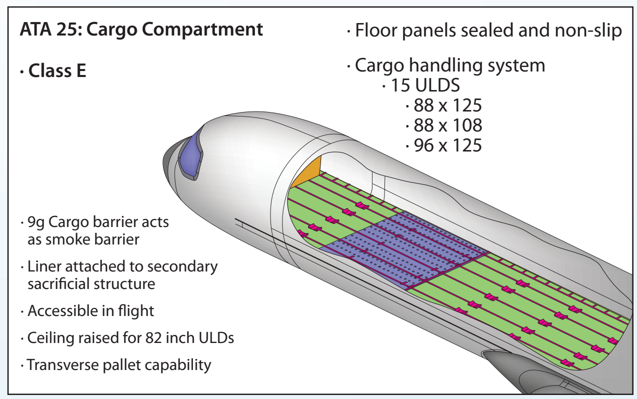
B757-200 Extended Range Aircraft

The Cargojet B757-200ER freighter will be C-FKCJ (MSN 24792) and is currently undergoing a C check at Flightstar in Jacksonville, Florida prior to the Precision Freighter conversion. This conversion will also be carried out by Flightstar once the C check is substantially completed.

This aircraft was previously operated by TUIFLY Nordic based in Stockholm, Sweden, and the photo below shows the aircraft in TUI livery during the Cargojet delivery inspection.

The Cargojet B757-200ER will have a structural payload of up to 80,000 lbs and a maximum range of nearly 5,000 nautical miles. The nominal payload vs range capabilities of the aircraft are shown on the next page.

The main deck can carry various ULD and pallet configurations in the standard 15 container layout. Commonality of container size with the B727-200AF is a tremendous benefit for the domestic network.



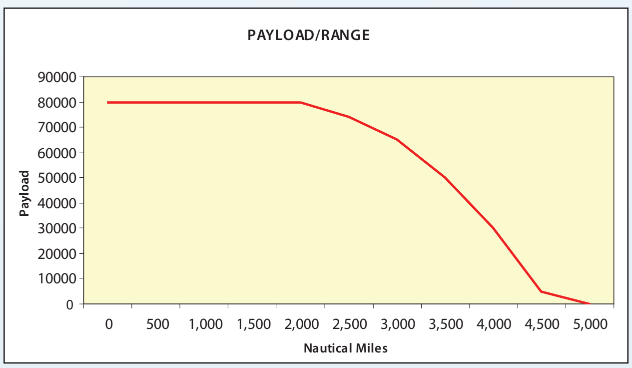
Cargo Compartment B757-200ER

C-FKCJ In Stockholm Prior to Delivery To Cargojet

Lower compartment capacity is 1,790 cu ft. of bulk load freight.

Following cargo conversion, the aircraft will undergo avionics upgrades similar to the B767-200ER. This will give Cargojet the ability to hold common type status for the B757/767 and allow flight crews to operate both aircraft types. The upgrades will also give the B757-200ER the same operational capabilities for international routes, as well as achieve the same reliability and cost efficiency improvements as the B767-200ER.

Entry into service for the Cargojet B757-200ER is expected to be in early August, 2008.



Cargojet B757-200ER Payload vs Range

TECHNICAL SPECIFICATIONS

MAXIMUM PAYLOAD
80,000 lbs (36,364 kgs)

TOTAL VOLUME
8,358 cu ft

MAIN DECK
6,600 cu ft
Container Positions 15

LOWER DECK
1,790 cu ft
Bulk Load

ENGINE MAXIMUM THRUST
Rolls Royce RB 211 – 535E4
44,200 lbs (20,059 kgs)

MAXIMUM FUEL CAPACITY
79,980 lbs (34,930 kgs)

MAXIMUM TAKEOFF WEIGHT
250,000 lbs (113,636 kgs)

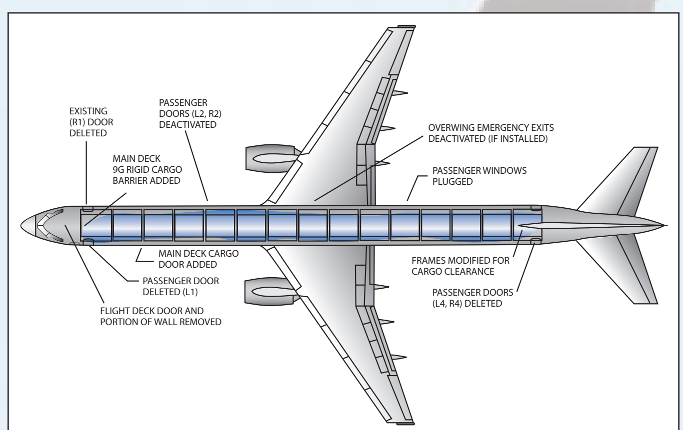
MAXIMUM RANGE WITH MAX. PAYLOAD
2,400 N M (4,452 km)

TYPICAL CRUISE SPEED
Mach 0.80

WING SPAN
124 ft 10 in (38.05 m)

OVERALL LENGTH
155 ft 3in (47.32 m)

TAIL HEIGHT
44 ft 6in (13.6m)



B757-200ER Main Deck Standard ULD Layout

B727-200 Advanced Freighter Aircraft

Cargojet operates a fleet of twelve B727-200AF freighters. These aircraft have a structural payload of up to 60,000 lbs and can carry 12 88 X 125 inch ULDs or pallets on the main deck and bulk cargo in the lower cargo compartments. Volumetric capacity is 5280 cu. ft on the main deck and 890 cu. ft. in the lower compartments. Various types of cargo can be carried on the main deck including live animals and perishable cargo.

The standard 88 X 125 ULD is common to the B727 and to the B757 providing flexibility and efficiency on the domestic network.

The typical range of the B727-200AF is 1800 nautical miles at maximum payload.

TECHNICAL SPECIFICATIONS

MAXIMUM PAYLOAD
60,000 lbs (27,200 Kg)

TOTAL VOLUME
6442 cu ft (182.2 cu M)

MAIN DECK
5280 cu ft

LOWER DECK
890 cu ft

ENGINE MAXIMUM THRUST
Pratt & Whiney JT8D-15 – 15,500 lbs (7045 Kg)
Pratt & Whiney JT8D-17 – 16,000 lbs (7272.7 Kg)

MAXIMUM FUEL CAPACITY
54,000 lbs – (24,500 Kg)

MAXIMUM TAKEOFF WEIGHT
194,800 – 197,000 lbs (88,545 – 89,400 Kg)

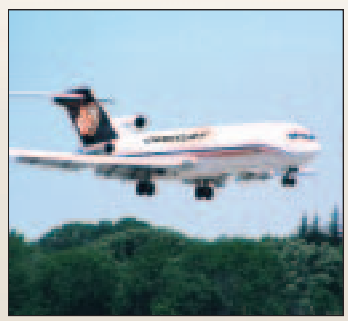
MAXIMUM RANGE
2150 Nautical Miles (3,982 Kilometers)

TYPICAL CRUISE SPEED
Mach 0.79 – 0.82

WING SPAN
108 ft (32.92 M)

OVERALL LENGTH
153 ft 2 in. (46.68 M)

TAIL HEIGHT
34 ft 11 in. (10.65 M)



CARAVAN 208B

TECHNICAL SPECIFICATIONS

MAXIMUM PAYLOAD
3400 lbs (1545.4 Kg)

TOTAL VOLUME
451 cu. Ft.

MAIN HOLD
340 cu. Ft.

CARGO POD
111 cu. Ft.

ENGINE MAXIMUM THRUST
PT6A-114 A
Flat Rated at 675 Shaft Horsepower

MAXIMUM FUEL CAPACITY
335 GAL (2244.5 lbs.)

MAXIMUM TAKEOFF WEIGHT
8750 lbs. (3968.9 Kg)

MAXIMUM RANGE WITH MAX. PAYLOAD
963 Miles (1549.8 Kilometers)

TYPICAL CRUISE SPEED
200 mph

WING SPAN
52 ft (15.8 M)

OVERALL LENGTH
41 ft 6 in. (12.6 M)

TAIL HEIGHT
15 ft (4.5 M)

BEECH 1900C

TECHNICAL SPECIFICATIONS

MAXIMUM PAYLOAD
5000 lbs (2272.7 Kg)

TOTAL VOLUME
652 cu ft (18.46 cu M)

CARGO DOOR (HEIGHT X WIDTH)
52”h x 52”h

ENGINE MAXIMUM THRUST
PT6A - 65B
Flat Rated at 1100 Shaft Horsepower

MAXIMUM FUEL CAPACITY
667 GAL (4468.9 lbs)

MAXIMUM TAKEOFF WEIGHT
16,600 lbs (7529.6 Kg)

MAXIMUM RANGE WITH MAX. PAYLOAD
1100 Miles (1770.2 Kilometers)

TYPICAL CRUISE SPEED
288 mph

WING SPAN
54 ft 6 in. (16.6 M)

OVERALL LENGTH
57 ft 10 in. (17.4 M)

TAIL HEIGHT
14 ft 11 in. (4.3 M)

Corporate Governance

The Fund and the Board recognize the importance of corporate governance to the effective management of the Fund and to the protection, as defined below, 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 Trustees have adopted and are guided by the principles outlined in Cargojet's Code of Ethics.

The Code applies to all employees and parties related to 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 and Committees

Cargojet is governed by its Trustees, which is elected annually by the unitholders with the assistance of the Board of Directors, (the "board") of a wholly owned subsidiary of the fund. The Board currently has five members, the majority of who are independent and two which are members of management.

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

Audit Committee

The funds audit committee was established to assist the Board 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 independent 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 Information circular for our annual meeting of unitholders.




CARGOJET INCOME FUND

Management Discussion and Analysis of Financial Condition and Results of Operations

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

The following is a discussion of the consolidated financial condition and results of operations of Cargojet Income Fund (the "Fund") for the three month and twelve month periods ended December 31, 2007. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 2006.

The Fund was created on April 25, 2005 and remained inactive until it acquired all of the shares of Cargojet Holdings Ltd. on June 9, 2005. Reference should be made to the prospectus of the Fund dated June 1, 2005 relating to the initial public offering for a complete description of the transactions effected concurrently with the closing of such offering.

The effective date of the MD&A is March 4, 2008. The Fund reports its financial results in Canadian dollars and under Canadian generally accepted accounting principles ("GAAP"). References herein to "Cargojet", the "Fund", "we" and "our" mean Cargojet Income Fund. This MD&A should be read in conjunction with the audited consolidated financial statements of the Fund as at and for the years ended December 31, 2007 and 2006.

References to "EBITDA"[A] are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual expenditures. Non-GAAP measures, EBITDA[A] and Distributable Cash[B], are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Therefore, EBITDA[A] and Distributable Cash[B] may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA[A] and Distributable Cash[B] should not be construed as an alternative to net earnings or loss determined in accordance with GAAP as indicators of the Fund's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Distributable Cash[B] and EBITDA[A] are shown on pages 4 and 7, respectively.

KEY FACTORS AFFECTING THE BUSINESS

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

FORWARD LOOKING STATEMENTS

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

CORPORATE OVERVIEW

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

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

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

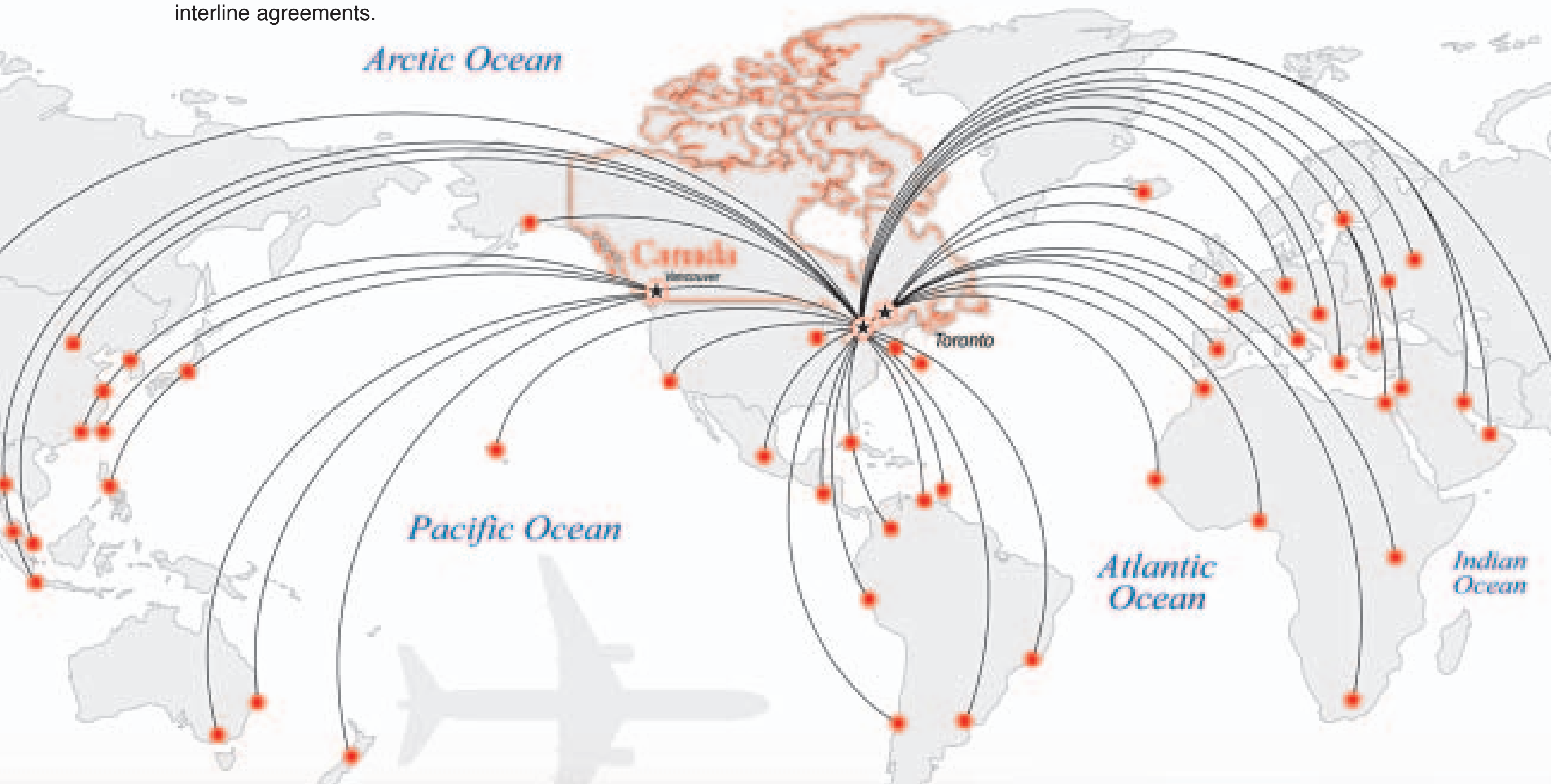
Cash distributions to unit holders of the Fund are based on all amounts received by the Fund, including interest, dividends, redemption proceeds, purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Trustees, and amounts related to the redemption of units payable in cash. The declaration of Trust provides that monthly cash distributions are to be paid on or about the 15th day of the succeeding month.

RECENT EVENTS

Economic and industry factors affecting the Fund remain largely unchanged from September 30, 2007 other than the events described below.

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

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



REVENUES

The Fund's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Fund's network and a corresponding guaranteed daily revenue amount is paid to the Fund for this space and weight allocation. Remaining capacity is sold on an ad hoc basis to contract and non-contract customers. The Fund also provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This revenue helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules. To enhance its revenues, the Fund offers a specialty charter service, typically, in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America and the Caribbean.

The Fund operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

The Fund provides and operates dedicated aircraft on an ACMI basis for major contract customers. Under these arrangements the customers are responsible for all commercial activities and the Fund is paid a fixed amount to operate the route.

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

With the addition of the Fixed Base Operations ("FBO") at the Hamilton International Airport, the Fund derives revenue from the sale of aviation related fuel products and provision of related aircraft and ground handling services.

EXPENSES

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

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

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2007	2006 [5]	**2007**	2006 [3][5]
	(unaudited)	(unaudited)	**(audited)**	(audited)
Cash inflow from operations before changes in non-cash working capital items [1]	**$ 5,363**	$ 5,430	**$ 18,616**	$ 17,558
Changes in non-cash working capital items [1]				
Accounts receivable	**(2,086)**	913	**(3,723)**	4,227
Spare parts, materials and supplies	**551**	20	**91**	133
Prepaid expenses and deposits	**(1,158)**	55	**(1,749)**	184
Due from related company	**597**	(66)	**597**	147
Income taxes payable	**1,160**	-	**1,790**	-
Accounts payable and accrued charges	**3,692**	1,320	**2,166**	(553)
	8,119	7,672	**17,788**	21,696
Less:				
Maintenance capital expenditures [2]	**1,121**	491	**4,071**	2,556
Repayment of long-term debt obligation under capital lease	**31**	29	**129**	113
Total changes in non-cash working capital items	**2,756**	2,242	**(828)**	4,138
Distributable cash [B]	**$ 4,211**	$ 4,910	**$ 14,416**	$ 14,889
Average number of trust units outstanding-basic (in thousands of units)	**6,699**	6,699	**6,699**	6,699
Average number of trust units outstanding-diluted (in thousands of units)	**8,932**	8,932	**8,932**	8,932
Distributable cash per unit - diluted [4]	**$ 0.471**	$ 0.550	**$ 1.614**	$ 1.667
Cash distributions	**$ 2,583**	$ 2,532	**$ 10,315**	$ 9,954
Cash distributions as a percentage of distributable cash	**61%**	52%	**72%**	67%

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

(2) Maintenance capital expenditures for the three month and twelve month periods ended December 31, 2006 exclude the $0.1 million and $0.5 million, respectively, for equipment that was financed under a capital lease.

(3) Management has adjusted its calculation of Distributable Cash [B] during the noted period to include an adjustment for the repayment of long-term debt obligation under capital lease.

(4) For the purpose of calculating diluted distributable cash per unit, the weighted average number of Trust units and Exchangeable LP units have been combined.

(5) The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2006 have been restated. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

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

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2007	2006 [1]	**2007**	2006 [1]
	(unaudited)	(unaudited)	**(audited)**	(audited)
Revenue	**$ 48,439**	$ 35,102	**$ 151,105**	$ 134,029
Direct expense	**36,803**	24,972	**113,460**	99,400
	11,636	10,130	**37,645**	34,629
Selling, general and administrative expenses				
Sales and marketing	**373**	175	**831**	826
General and administrative	**5,858**	4,685	**17,914**	16,024
Interest, net	**362**	350	**1,089**	1,663
Amortization of capital assets	**151**	158	**515**	444
Amortization of intangible assets	**2,686**	2,573	**10,322**	10,209
	9,430	7,941	**30,671**	$ 29,166
Earnings before income taxes and non-controlling interest	**2,206**	2,189	**6,974**	5,463
Provision for (recovery of) income taxes				
Current	**1,196**	-	**1,826**	-
Future	**(992)**	(11)	**(1,928)**	(651)
	204	(11)	**(102)**	(651)
Earnings before non-controlling interest	**2,002**	2,200	**7,076**	6,114
Non-controlling interest	**500**	550	**1,769**	1,528
Net income	**$ 1,502**	$ 1,650	**$ 5,307**	$ 4,586
Earnings per trust unit - basic	**$ 0.22**	$ 0.25	**$ 0.79**	$ 0.68
Earnings per trust unit - diluted	**$ 0.22**	$ 0.25	**$ 0.79**	$ 0.68
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	**6,699**	6,699
Average number of trust units - diluted (in thousands of units)	**8,932**	8,932	**8,932**	8,932
Total assets	**$ 112,768**	$ 118,513	**$ 112,768**	$ 118,513
Total long-term liabilities	**$ 22,346**	$ 28,404	**$ 22,346**	$ 28,404

[1] The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2006 have been restated. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

SELECTED FINANCIAL INFORMATION

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

	Three Month Period Ended							
	December 31 2007	September 30 2007 (1)	June 30 2007 (1)	March 31 2007 (1)	December 31 2006 (1)	September 30 2006 (1)	June 30 2006 (1)	March 31 2006 (1)
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	**$ 48,439**	$ 35,002	$ 33,839	$ 33,825	$ 35,102	$ 33,983	$ 33,593	$ 31,351
Net income	**$ 1,502**	$ 1,193	$ 1,469	$ 1,143	$ 1,650	$ 1,252	$ 1,538	$ 147
Earnings per trust unit - basic	**$ 0.22**	$ 0.18	$ 0.22	$ 0.17	$ 0.25	$ 0.19	$ 0.23	$ 0.02
Earnings per trust unit - diluted	**$ 0.22**	$ 0.18	$ 0.22	$ 0.17	$ 0.25	$ 0.19	$ 0.23	$ 0.02
Average number of trust units - basic (in thousands of units)	**6,699**	6,699	6,699	6,699	6,699	6,699	6,699	6,699
Average number of trust - diluted (in thousands of units)	**8,932**	8,932	8,932	8,932	8,932	8,932	8,932	8,932

(1) The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for the noted periods have been restated. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

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

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2007	2006 [(4)]	**2007**	2006 [(2)(4)]
	(unaudited)	(unaudited)	**(audited)**	(audited)
Calculation of EBITDA [(A)]:				
Net income	**$ 1,502**	$ 1,650	**$ 5,307**	$ 4,586
Add:				
Interest	**362**	350	**1,089**	1,663
Non-controlling interest	**500**	550	**1,769**	1,528
Recovery of future income taxes	**(992)**	(11)	**(1,928)**	(651)
Provision for current income taxes	**1,196**	-	**1,826**	-
Loss on disposal of capital assets	**-**	221	**22**	242
Amortization of capital assets	**1,013**	886	**3,593**	3,314
Amortization of intangible assets	**2,686**	2,573	**10,322**	10,209
Aircraft heavy maintenance amortization	**605**	326	**2,107**	570
Less: Aircraft heavy maintenance expenditures	**-**	(765)	**(2,510)**	(2,240)
EBITDA [(A)]	**$ 6,872**	$ 5,780	**$ 21,597**	$ 19,221
Reconciliation of EBITDA [(A)] to Distributable Cash [(B)]:				
EBITDA [(A)]	**$ 6,872**	$ 5,780	**$ 21,597**	$ 19,221
Less:				
Maintenance capital expenditures [(1)]	**1,121**	491	**4,071**	2,556
Interest [(3)]	**313**	350	**1,155**	1,663
Provision for current income taxes	**1,196**	-	**1,826**	-
Repayment of long-term debt obligation under capital lease	**31**	29	**129**	113
Distributable cash [(B)]	**$ 4,211**	$ 4,910	**$ 14,416**	$ 14,889

(1) Maintenance capital expenditures for the three month and twelve month periods ended December 31, 2006 exclude the $0.1 million and $0.5 million, respectively, for equipment that was financed under a capital lease.

(2) The calculation of Distributable Cash [(B)] had been adjusted during the noted period to include an adjustment for the repayment of long-term debt obligation under capital lease.

(3) For the purpose of calculating Distributable Cash [(B)] interest excludes the unrealized loss on derivatives amounting to $49,348 for the three month period ended December 31, 2007 and the net unrealized gain on derivatives amounting to $66,009 for the twelve month period ended December 31, 2007.

(4) The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2006 have been restated. Please refer to Note 3 in the Notes to the Consolidated Financial Statements.

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

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

HIGHLIGHTS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2007 AND 2006

- Total revenue for the three month period ended December, 2007 was $48.4 million as compared to $35.1 million for the three month period ended December 31, 2006, an increase of 37.9%.

- Average overnight daily cargo revenue for the three month period ended December 31, 2007 was $0.86 million per operating day, representing an increase of 37.0% as compared to $0.63 million per operating day for the three month period ended December 31, 2006.

- EBITDA [(A)] increased by 19.0% to $6.9 million for the three month period ended December 31, 2007 as compared to $5.8 million for the three month period ended December 31, 2006.

REVIEW OF OPERATIONS (FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2007 AND 2006)

REVENUE

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

ACMI cargo revenue was $4.1 million for the three month period ended December 31, 2007, compared to $1.4 million for the three month period ended December 31, 2006. The increase over 2006 is attributable to a new ACMI cargo service contract which commenced on September 8, 2007. ACMI cargo revenue accounted for 8.5% of the total revenue for the three month period ended December 31, 2007 compared to 4.0% for the three month period ended December 31, 2006.

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

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

Aircraft lease revenue from the passenger aircraft was $0.2 million for the three month period ended December 31, 2007, compared to $0.2 million for the three month period ended December 31, 2006. Aircraft lease revenue accounted for 0.4% of the total revenue for the three month period ended December 31, 2007, compared to 0.6% for the three month period ended December 31, 2006. ACMI passenger revenue was $0.1 million for the three month period ended December 31, 2006. The service agreement for the ACMI passenger revenue was terminated in October 2006 and therefore is not comparable for the three month period ended December 31, 2007. ACMI passenger revenue accounted for 0.3% of the total revenue for the three month period ended December 31, 2006.

DIRECT EXPENSES

Direct expenses were $36.8 million for the three month period ended December 31, 2007 and represented 76.0% of revenue, compared to direct expenses of $25.0 million representing 71.2% of revenue for the three month period ended December 31, 2006. The increase in direct expenses as a percentage of revenue compared to 2006 is attributable to an increase in costs related to the additional capacity and routes the Fund added during the period. Direct expenses such as aircraft lease costs, sub-service costs, crew costs, aircraft heavy maintenance, ground handling and labour costs increased during the period when compared to the same period last year. For the three month period ended December 31, 2007, fuel expense increased by $5.2 million over the comparative period in 2006. Fuel cost increases were passed through to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $6.3 million, representing 13.0% of revenue for the three month period ended December 31, 2007, compared to $4.9 million or 14.0% of revenue for the three month period ended December 31, 2006. The increase in selling, general and administrative expenses for the three month period ended December 31, 2007 compared to the same period for 2006 is mainly attributable to an increase in salaries and benefits, professional and consulting fees, advertising and promotion costs, offset by a reduction in audit fees.

EBITDA[(A)]

EBITDA [(A)] for the three month period ended December 31, 2007 was $6.9 million or 14.3% of revenue, compared to $5.8 million or 16.5% of revenue for the three month period ended December 31, 2006. The increase in EBITDA[(A)] can be attributed to continued efforts in increasing overall revenues while maintaining effective cost controls. For the purpose of calculating EBITDA[(A)] for the three month period ended December 31, 2007, the aircraft heavy maintenance amortization of $0.6 million charged to earnings was added back to earnings. There were no actual heavy maintenance expenditures incurred during the three month period ended December 31, 2007. For the purpose of calculating EBITDA[(A)] for the three month period ended December 31, 2006, the aircraft heavy maintenance amortization of $0.3 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $0.8 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

AMORTIZATION

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising primarily as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Collectively, the amortization of intangible assets recorded for the three month period ended December 31, 2007 was $2.7 million and for the three month period ended December 31, 2006, it was $2.6 million. Amortization of capital assets for the three month period ended December 31, 2007 totaled $1.0 million, out of which $0.9 million was included in direct expenses and for the three month period ended December 31, 2006 totaled $0.9 million, out of which $0.7 million was included in direct expenses.

INTEREST

Interest expense was $0.4 million for the three month period ended December 31, 2007, as well as for the three month period ended December 31, 2006. Included in the interest expense for the three month period ended December 31, 2007 was the unrealized loss of $0.05 million arising from the Fund's interest rate hedge on its loan, recorded at fair value, in accordance with the Fund's policy on derivative financial instruments. The Fund has entered into a derivative financial instrument that hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

FUTURE INCOME TAX RECOVERY

The future income tax recovery was $1.0 million for the three month period ended December 31, 2007 and represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and reductions in the effective tax rates that came into effect in December 2007.

INCOME TAX PROVISION

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

NON-CONTROLLING INTEREST

Non-controlling interest was $0.5 million for the three month period ended December 31, 2007 as compared to $0.6 million for the three month period ended December 31, 2006 and represents the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

DISTRIBUTABLE CASH

Distributable cash was $4.2 million for the three month period ended December 31, 2007, compared to $4.9 million for the three month period ended December 31, 2006. The decrease in distributable cash for the three month period ended December 31, 2007 compared to the three month period ended December 31, 2006 was primarily attributable to the provision for current income taxes.

DISTRIBUTIONS

Total distributions declared for the three month period ended December 31, 2007 were $2.6 million, or $0.2892 per trust unit. A distribution of $0.0964 per trust unit, equal to $0.6 million, for the period December 1, 2007 to December 31, 2007 was declared to unit holders of record on December 31, 2007, payable on or before January 15, 2008. Also, a distribution of $0.0964 per Exchangeable LP unit, equal to $0.2 million, for the period December 1, 2007 to December 31, 2007 was declared to Exchangeable LP unitholders of record on December 31, 2007, payable on or before January 15, 2008. The total distributions declared for the three month period ended December 31, 2006 were $2.5 million, or $0.2835 per trust unit. The payout ratio for the three month period ended December 31, 2007 was 61% compared to 52% for the three month period ended December 31, 2006.

The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy.

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2007 was $8.1 million. This is primarily due to continued strong revenues and the combination of the timing of collections from customers, supplier payments and the timing of the payroll disbursement.

Cash used in financing activities during the three month period ended December 31, 2007 was $2.6 million, comprised primarily of cash used for distributions paid to unitholders.

Cash used in investing activities during the three month period ended December 31, 2007 was $3.5 million, represented by capital asset spending of $1.7 and $1.8 million related to the acquisition of the net assets of Georgian Express Ltd. during the period.

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

CAPITAL EXPENDITURES

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

HIGHLIGHTS FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2007 AND 2006

- Total revenue for the twelve month period ended December 31, 2007 was $151.1 million as compared to $134.0 million for the twelve month period ended December 31, 2006, an increase of 12.8%.

- Average overnight daily cargo revenue for the twelve month period ended December 31, 2007 was $0.66 million per operating day, representing an increase of 13.8% as compared to $0.58 million per operating day for the twelve month period ended December 31, 2006.

- Net earnings were $5.3 million for the twelve month period ended December 31, 2007 as compared to $4.9 million for the twelve month period ended December 31, 2006, an increase of 15.2%.

- EBITDA [(A)] increased by 12.5% to $21.6 million for the twelve month period ended December 31, 2007 as compared to $19.2 million for the twelve month period ended December 31, 2006.

REVIEW OF OPERATIONS (FOR THE TWELVE MONTH PERIOD ENDED DECEMBER 31, 2007 AND 2006)

REVENUE

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

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

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

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

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

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

DIRECT EXPENSES

Direct expenses were $113.4 million for the twelve month period ended December 31, 2007 and represented 75.0% of revenue, compared to direct expenses of $99.4 million representing 74.2% of revenue for the twelve month period ended December 31, 2006. The increase in direct expenses compared to 2006 is attributable to additional direct costs related to the increase in revenues. For the twelve month period ended December 31, 2007, fuel expense increased by $7.1 million over the comparative period in 2006. Fuel cost increases were passed through to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses were $18.7 million, representing 12.4% of revenue for the twelve month period ended December 31, 2007, compared to $16.9 million or 12.6% of revenue for the twelve month period ended December 31, 2006. The increase in selling, general and administrative expenses for the twelve month period ended December 31, 2007 compared to the same period for 2006 is primarily attributable to an increase in salaries and benefits as well as professional and consulting fees.

EBITDA[A]

EBITDA [A] for the twelve month period ended December 31, 2007 was $21.6 million or 14.3% of revenue, compared to $19.2 million or 14.3% of revenue for the twelve month period ended December 31, 2006. The increase in EBITDA[A] can be attributed to continued efforts in increasing overall revenues while maintaining effective cost controls. For the purpose of calculating EBITDA [A] for the twelve month period ended December 31, 2007, the aircraft heavy maintenance amortization of $2.1 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $2.5 million were deducted from earnings. For the purpose of calculating EBITDA [A] for the twelve month period ended December 31, 2006, the aircraft heavy maintenance amortization of $0.6 million charged to earnings was added back to earnings and the actual heavy maintenance expenditures incurred of $2.2 million were deducted from earnings. Heavy maintenance on aircraft occurs at regular and predetermined intervals and the costs related to these events are deferred by the Fund and amortized over a period of 24 months until the next scheduled heavy maintenance.

AMORTIZATION

Amortization expense of the Fund includes amortization of the identified intangible assets (excluding goodwill and licenses), arising primarily as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Fund's initial public offering. Collectively, the amortization of intangible assets recorded for the twelve month period ended December 31, 2007 was $10.3 million as compared to $10.2 million for the twelve month period ended December 31, 2006. Amortization of capital assets for the twelve month period ended December 31, 2007 totaled $3.6 million, out of which $3.1 million was included in direct expenses and for the twelve month period ended December 31, 2006 totaled $3.3 million, out of which $2.9 million was included in direct expenses.

INTEREST

Interest expense was $1.1 million for the twelve month period ended December 31, 2007, compared to interest expense of $1.7 million for the twelve month period ended December 31, 2006. The decrease in interest expense is primarily due to a reduction in long-term debt for the twelve month period ended December 31, 2007 compared to the twelve month period ended December 31, 2006. The decrease in interest expense is also due to the unrealized gain of $0.1 million for the twelve month period ended December 31, 2007 arising from the Fund's interest rate hedge on its loan, recorded at fair value, in accordance with the Fund's policy on derivative financial instruments. The Fund has entered into a derivative financial instrument that hedges the Fund's interest expense for the period June 15, 2005 to June 15, 2008.

FUTURE INCOME TAX RECOVERY

The future income tax recovery of $1.9 million for the twelve month period ended December 31, 2007 represents the reversal of temporary differences between the financial reporting and tax bases of the balance sheet items and reductions in the effective tax rates which came into effect in December 2007. In accordance with the October 31, 2006 trust legislation, substantively enacted into law on June 12, 2007, the Fund is required to give recognition in the financial statements to future income taxes arising from the temporary tax differences which were previously not tax-effected but expected to reverse after January 1, 2011, at the expected tax rates applicable to the Fund. The effect of this change has been included in the calculation of the future income tax recovery for the twelve month period ended December 31, 2007.

INCOME TAX PROVISION

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

NON-CONTROLLING INTEREST

Non-controlling interest was $1.8 million for the twelve month period ended December 31, 2007, compared to $1.5 million for the twelve month period ended December 31, 2006 and represents the share of earnings for these periods related to the Exchangeable LP units held by the retained interest holders relative to the total public units held.

DISTRIBUTABLE CASH

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

DISTRIBUTIONS

Total distributions declared for the twelve month period ended December 31, 2007 were $10.3 million, or $1.1549 per trust unit. A distribution of $0.0964 per trust unit, equal to $0.6 million, for the period December 1, 2007 to December 31, 2007 was declared to unit holders of record on December 31, 2007, payable on or before January 15, 2008. Also, a distribution of $0.0964 per Exchangeable LP unit, equal to $0.2 million, for the period December 1, 2007 to December 31, 2007 was declared to Exchangeable LP unitholders of record on December 31, 2007, payable on or before January 15, 2008. The total distributions declared for the twelve month period ended December 31, 2006 were $10.0 million, or $1.1144 per trust unit. The payout ratio for the twelve month period ended December 31, 2007 was 72% compared to 67% for the twelve month period ended December 31, 2006.

On March 8, 2007, the board of Trustees of the Fund approved the release of the subordination provisions as they relate to the Exchangeable LP units as all conditions pertaining to the subordination had been satisfied (please refer to the Prospectus filed June 1, 2005 with the regulatory authorities for more information).

The Fund announced on January 22, 2007, an increase in annualized distributions of 2% from $1.133 per unit to $1.156 per unit effective from the distributions declared for the period from February 1, 2007 to February 28, 2007. The Fund reviews its historical and expected results on a regular basis including consideration of economic conditions to assess the appropriateness of its distribution policy. The following table summarizes the cash distributions for the twelve month period ended December 31, 2007:

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
December 31, 2006	January 15, 2007		633,043		633,043			1,266,086
January 31, 2007	February 15, 2007	633,043	633,043	211,015	-	844,058	0.0945	633,043
February 28, 2007	March 15, 2007	645,770	645,770	215,256	-	861,026	0.0964	645,770
March 31, 2007	April 13, 2007	645,771	645,771	215,257	641,528	861,028	0.0964	1,287,299
April 30, 2007	May 15, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
May 31, 2007	June 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
June 30, 2007	July 13, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
July 31, 2007	August 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
August 31, 2007	September 14, 2007	645,770	645,770	215,256	215,256	861,026	0.0964	861,026
September 30, 2007	October 15, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
October 31, 2007	November 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
November 30, 2007	December 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
December 31, 2007	January 15, 2008	645,771		215,257		861,028	0.0964	-
		7,736,518	7,723,790	2,578,840	2,996,626	10,315,358	1.1549	10,720,416

LIQUIDITY AND CAPITAL RESOURCES

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2007 was $17.8 million. This is primarily due to continued strong revenues and improved margins and the combination of the timing of collections from customers, supplier payments and the timing of the payroll disbursement.

Cash used in financing activities during the twelve month period ended December 31, 2007 was $14.8 million, comprised of a $4.1 million decrease in long-term debt and $10.7 million used for distributions paid to unitholders.

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

CAPITAL EXPENDITURES

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

FINANCIAL CONDITION

The following is a comparison of the financial position of the Fund as at December 31, 2007 to the financial position of the Fund as at December 31, 2006. Also included is a comparison of the financial position of the Fund as at December 31, 2007 to the financial position of the Fund as at September 30, 2007

ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2007 amounted to $9.9 million, an increase of $3.8 million compared to the balance of $6.1 million as at December 31, 2006 and an increase of $2.1 million compared to the balance of $7.8 million as at September 30, 2007. The fluctuation in the accounts receivable balance is primarily due to timing differences for payments received from customers. The quality of the Fund's receivable balances and its current collections, in management's opinion, remains excellent.

CAPITAL ASSETS

Capital assets increased by $1.4 million from December 31, 2006 and increased by $0.7 million from September 30, 2007 to $29.4 million as at December 31, 2007. The increase in capital assets for the three month period ended December 31, 2007 was comprised of $1.1 million for maintenance capital expenditures and $0.6 million for growth capital expenditures, offset by the amortization of capital assets recorded during the twelve month period ended December 31, 2007 of $1.0 million. The increase in capital assets for the twelve month period ended December 31, 2007 was comprised of $4.1 million for maintenance capital expenditures, and $0.9 million for growth capital expenditures, offset by the amortization of capital assets recorded during the twelve month period ended December 31, 2007 of $3.6 million.

INTANGIBLE ASSETS

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

DEFERRED HEAVY MAINTENANCE

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

ACCOUNTS PAYABLE AND ACCRUED CHARGES

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

WORKING CAPITAL POSITION

The Fund had a working capital surplus as at December 31, 2007, representing the difference between total current assets and current liabilities, of $0.7 million, compared to a working capital surplus of $3.4 million as at December 31, 2006. The decrease in working capital compared to December 31, 2006 is primarily due to the use of cash of $4.0 million for the repayment of long-term bank debt. Working capital as at December 31, 2007 was also affected by the timing of supplier payments and collections from customers, an increase in prepaid expenses and deposits, as well as an increase in the amount of aircraft maintenance parts and supplies in stock.

LONG-TERM DEBT

The Fund has a long-term revolving credit facility to a maximum of $26.0 million. As at December 31, 2007, the Fund had utilized $17.0 million of this credit facility, compared to $21.0 million as at December 31, 2006 and $17.0 million as at September 30, 2007. The maturity date of this revolving credit facility is April 1, 2009.

LIQUIDITY

The Fund continues to maintain debt levels at a very manageable level. The $9.0 million of available credit on the Fund's long-term revolving credit facility gives the Fund a high level of flexibility to manage capital expenditures and working capital requirements going forward. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment. There are no circumstances that management is aware of that would impair the Fund's ability to undertake any transaction which is essential to the Fund's operations.

CONTINGENCIES

As of December 31, 2007, the Fund has provided irrevocable standby letters of credit totaling $0.34 million to a financial institution and two suppliers as security for its corporate credit cards and ongoing services to be provided. One of the letters of credit for $0.02 million, expires on March 20, 2008, one for $0.12 million expires on July 6, 2008 and the third for $0.2 million expires December 31, 2008.

Summary of Contractual Obligations

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

CAPITAL RESOURCES

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

OFF-BALANCE SHEET ARRANGEMENTS

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

SEGMENTED INFORMATION AND ECONOMIC DEPENDENCE

The Fund manages its operations in one primary business segment, which is providing air cargo services on both a scheduled and ACMI basis. Primary operations are conducted in Canada with some USA and international operations. For the three month period ended December 31, 2007 the Fund had sales to three customers of $21.8 million or 45% of total revenue compared to $18.8 million or 54% of total revenue for the three month period ended December 31, 2006. For the twelve month period ended December 31, 2007 the Fund had sales to three customers of $76.4 million or 51% of total revenue compared to $68.9 million or 51% of total revenue for the twelve month period ended December 31, 2006. Each of these customers are under long-term contract with the Fund and the revenue from each of these three customers represented more than 10% of the total revenue in these comparative periods. The Fund also provided ACMI services to Starjet, a related company, until October 2006, when the service agreement with Starjet was terminated. The passenger aircraft was subsequently leased to a third party.

TRANSACTIONS WITH RELATED PARTIES

During the three and twelve month periods ended December 31, 2006 the Fund earned revenues from Starjet of $0.06 million and $3.0 million, and incurred costs associated with this revenue of $0.05 million and $2.7 million, respectively. The service agreement with Starjet was terminated in October 2006 and therefore, there were no revenues earned from Starjet during the twelve month period ended December 31, 2007. The accounts receivable balance owing from Starjet as at December 31, 2007 was nil, compared to $0.6 million as at December 31, 2006. The Fund has acted upon its guarantee provided by the shareholders of Starjet, the retained interest holders of the Fund, and has received the total amount that was due from the related company.

During the twelve month period ended December 31, 2007 the Fund had transactions with two related companies, Flagship International Aviation Ltd. (“FIAL”) and Flagship Aviation Holdings Ltd. (“Flagship Aviation”), each of these companies controlled by one of the Fund’s executive officers. The cost of sales transactions for fuel, amounting to $0.01 million, are in the normal course of operations and relate to the aircraft and airport ground equipment fuelling services supplied to the Fund by FIAL. On March 17, 2007, FIAL had entered into an agency agreement with the Fund’s primary fuel supplier. The fuelling agreement was transferred to the Fund during the three month period ended September 30, 2007 and $0.2 million in assets required for the fuelling operation were purchased by the Fund from FIAL. The accounts payable balance owing to FIAL as at December 31, 2007 was $0.003 million and is included in the balance sheet under accounts payable and accrued charges. The cost of sales transactions with Flagship Aviation amounting to $0.01 million are in the normal course of operations and are related to a warehouse lease agreement that the Fund has entered into with Flagship Aviation for a new warehouse and office building at the Hamilton International Airport. The accounts payable balance owing to Flagship Aviation as at December 31, 2007 was nil.

The Fund also incurred interest expense of $0.04 million in the twelve month period ended December 31, 2006 on advances received from the Cargojet Group of Companies Employee Profit Sharing Plan Trust (“EPSP Trust”), an entity established prior to the acquisition of Cargojet for the benefit of certain senior executives of the predecessor company. The EPSP Trust loan and the accrued interest were repaid on March 31, 2006.

FINANCIAL INSTRUMENTS

The Fund is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange and the degree of volatility that these rates present. The Fund is exposed to interest rate risk on its credit facility and gains or losses on its foreign exchange risk on U.S. dollar transactions. The Fund entered into a hedging transaction with a major Canadian financial institution to manage most of its interest rate exposure in respect of its floating rate debt. This hedging transaction matures on June 15, 2008. The hedge was effective until the January 15, 2007 repayment of $4.0 million of the loan balance, after which the hedge no longer met the accounting requirements for hedge accounting and accordingly, hedge accounting was discontinued. Changes in unrealized gains and losses that arise as a result of remeasuring the swap at fair value at the end of each period are now recognized in earnings during the period. As at December 31, 2007, the hedge had a positive fair value, or value favourable to the Fund, of approximately $0.1 million.

SUBSEQUENT EVENTS

In January 2008, the Fund signed a non-binding letter of intent for the purpose of acquiring a 51% interest in Prince Edward Air Ltd., a regional operator of cargo aircraft based in Eastern Canada. The completion of acquisition is subject to the negotiation and execution of a definitive purchase and sale agreement, the completion of legal and financial due diligence and customary closing conditions and is expected to close in March 2008. Also in January 2008, the Fund announced plans to add two Boeing 767-200 Extended Range Freighter Aircraft to its fleet. These aircraft are tentatively scheduled to be introduced into service in the second and third quarters of 2008. It also announced plans to enhance its live animal shipping program.

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

OUTLOOK

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

Management believes that volume increases from its core customer base will also continue to grow as cargo capacity on scheduled passenger aircraft continues to decrease and with the possible implementation of enhanced security regulations for air cargo carried in the belly of passenger aircraft. Management also expects to achieve continued organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Fund continues to build on its competitive market position. Management will also continue to explore opportunities to acquire complementary or competing businesses within the limits set by the proposed tax legislation. These opportunities include those within the regional air cargo markets both in Eastern and Western Canada as well as trans-border route operations.

Fuel prices continue to fluctuate and remain at historically high levels. The Fund fixes the price it pays for jet fuel on monthly basis with all its fuel suppliers. Any fuel cost increases on a month over month basis are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Management is confident that the Fund will continue to fully recover any future increases in fuel costs.

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

Management's principal objective is to increase free cash flow available for distribution by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls, and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives, especially those that can increase cash flow. Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of additional units. Any decisions regarding the above, including further increases in distributions, will be considered and determined as appropriate by the Board of Trustees of the Fund.

CRITICAL ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The more significant items requiring the use of management estimates are the determinations of the allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies and rotables and the valuation of intangible assets. The table below discloses the methodology used by management in the assessment of these accounting estimates.

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

INCOME TAXES

The Fund is taxed as a “mutual fund trust” for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund’s subsidiaries are taxable.

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

FINANCIAL REPORTING UPDATE

ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

On January 1, 2007, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3865, Hedges. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative amounts for prior periods have not been restated.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. On adoption of this standard on January 1, 2007, an increase in assets of $0.2 million, an increase in non-controlling interest of $0.4 million and a reduction in accumulated other comprehensive income of $0.1 million was recorded in connection with the interest rate swap.

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Distributions payable to unit holders	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest rate method. Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair market value of the financial instrument in the period. In accordance with Section 3855, the Fund conducted a search for embedded derivatives in its contractual arrangements and did not identify any embedded features that required separate presentation from the related host contract.

Section 3865 provides new standards for the accounting treatment of qualifying hedging relationships and the related disclosures. The recommendations of this Section are optional and are only required if the entity is applying hedge accounting.

Also effective January 1, 2007 for the Fund is Section 1506, Accounting Changes. This standard specifies when an entity is permitted to change an accounting policy; specifies how to account for a change in accounting policy, a change in estimate or correction of an error; and establishes disclosure to explain the effects of changes in accounting policy and estimates and corrections of errors on the financial statements. The standard specifies that an entity should change an accounting policy only when it is required by a primary source of GAAP or results in a more reliable and relevant presentation in the financial statements. Also, the standard requires disclosure of the effects of any issued pronouncements that are not yet applied.

Except for the impact of Section 1530 that has been noted above, the adoption of these standards had no impact on the financial statements of the Fund.

CHANGES TO EXISTING ACCOUNTING POLICIES

The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months). The previous accrual (accrue-in-advance) method involved estimating the cost of the overhaul and accruing that cost to the overhaul. The actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense. Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices. This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2006 have been restated.

FUTURE ACCOUNTING CHANGES

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), and Handbook Section 3863, Financial Instruments – Presentation (Section 3863). These new standards become effective for the Fund on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Also effective January 1, 2008 for the Fund is Handbook Section 3031, Inventories, which establishes standards for measuring and disclosing information related to inventories. In addition to expanded disclosure requirements, this Section provides specific guidance as to conversion costs to be included and excluded in inventories and accounting for impairment adjustments.

The Fund is assessing how it will be affected by these new requirements.

The CICA also amended Section 1400, General Standards of Financial Statement Presentation, to include a requirement that management make an assessment of an entity's ability to continue as a going concern when preparing financial statements. This change came into effect on January 1, 2008.

INFORMATION DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures within the Fund and the General Partner (“GP”) are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Trustees of the Fund and the Directors of the GP. An evaluation of the effectiveness of the Fund’s and the GP’s disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2007 by management, including the Chief Executive Officer of the GP and the Chief Financial Officer of the GP. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Fund and the GP are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Fund (individuals authorized to communicate with the public about information concerning the Fund), the Audit Committee, the Board of Directors of the GP and the Board of Trustee of the Fund, all of whom approved it prior to its publication.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During 2007, the Fund completed its documentation and assessment of internal controls over financial reporting, leading to the regulatory certification of its annual filings. The Fund has documented and is assessing the operating effectiveness of the internal controls in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian generally accepted accounting principles. This undertaking enabled the Chief Executive Officer and Chief Financial Officer to attest that internal controls over financial reporting are designed to provide reasonable assurance that its financial reporting is reliable and that the Fund’s consolidated financial statements were prepared in accordance with GAAP.

END NOTES

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

Amortization - as a non-cash item, amortization has no impact on the determination of EBITDA and distributable cash.

Interest on long-term debt - interest on long-term debt is a function of the Fund's treasury/financing activities and represents a different class of expense than those included in EBITDA.

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

Provision for current income taxes - the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

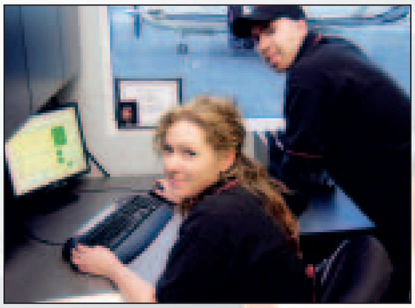
Non-controlling Interest - non-controlling interest represents a direct non-controlling interest in Cargojet Holdings Limited Partnership through exchangeable LP units. Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

Gain or loss on disposal of capital assets - the gain or loss arising from the disposal of capital assets. As a non-cash item, the gain or loss on disposal of capital assets has no impact on the determination of EBITDA and distributable cash.

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

(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.

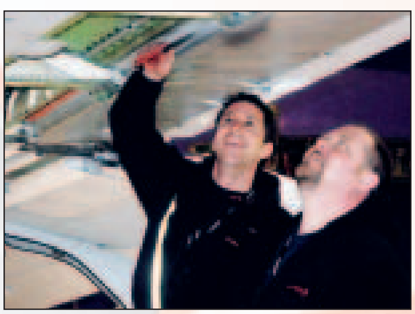
The board of Trustees carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees.

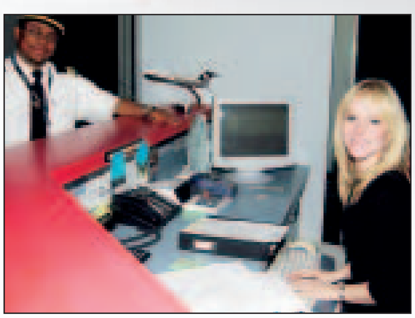
These financial statements have been audited by the external auditors, Deloitte & Touche LLP, Chartered Accountants, whose report follows.

Dr. Ajay Virmani

President and Chief Executive Officer
April 2008

Auditors' Report to the Unitholders





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To the Unitholders of
Cargojet Income Fund

We have audited the consolidated balance sheets of Cargojet Income Fund as at December 31, 2007 and 2006 and the consolidated statements of operations and deficit, comprehensive income and cash flows for the years then ended. 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, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

Toronto, Ontario
February 25, 2008

Member of
Deloitte Touche Tohmatsu

Consolidated Financial Statements of

CARGOJET INCOME FUND

December 31, 2007 and 2006

CARGOJET INCOME FUND
Consolidated Balance Sheets
December 31, 2007 and 2006

	2007	2006 (Restated - Note 3)
ASSETS		
CURRENT		
Cash	$ 3,197,946	$ 7,093,311
Accounts receivable	9,885,590	6,096,482
Spare parts, materials and supplies	1,444,422	1,104,307
Prepaid expenses and deposits	2,626,794	1,376,360
Due from related party (Note 12)	-	597,381
	17,154,752	16,267,841
CAPITAL ASSETS (Note 4)	29,448,937	28,011,262
INTANGIBLE ASSETS (Note 5)	16,893,709	25,865,209
DEPOSITS	913,201	413,723
DEFERRED HEAVY MAINTENANCE (Note 6)	2,187,232	1,784,965
GOODWILL	46,169,976	46,169,976
	$ 112,767,807	$ 118,512,976
LIABILITIES		
CURRENT		
Accounts payable and accrued charges (Note 7)	$ 13,640,682	$ 11,474,466
Income taxes payable	1,790,000	-
Distributions payable to unitholders (Note 16)	861,028	1,266,086
Current portion of long-term debt (Note 8)	130,132	128,633
	16,421,842	12,869,185
LONG-TERM DEBT (Note 8)	17,000,000	21,130,131
FUTURE INCOME TAXES (Note 9)	5,345,796	7,273,480
	38,767,638	41,272,796
NON-CONTROLLING INTEREST (Note 10(b))	19,688,291	20,498,294
UNITHOLDERS' EQUITY		
UNITHOLDERS' CAPITAL (Note 10(a))	62,235,654	62,235,654
DEFICIT	(7,923,776)	(5,493,768)
	54,311,878	56,741,886
	$ 112,767,807	$ 118,512,976

John P. Webster
Trustee

Dr. Ajay Virmani
President and Chief Executive Officer

CARGOJET INCOME FUND
Consolidated Statements of Operations and Deficit
Years ended December 31, 2007 and 2006

	2007	2006 (Restated - Note 3)
REVENUES	$ 151,105,124	$ 134,029,664
DIRECT EXPENSES	113,459,659	99,400,252
	37,645,465	34,629,412
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES		
Sales and marketing	831,186	825,436
General and administrative	17,914,770	16,025,353
Interest, net	1,089,215	1,662,915
Amortization of capital assets (Note 4)	514,909	443,888
Amortization of intangible assets	10,321,500	10,208,999
	30,671,580	29,166,591
EARNINGS BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	6,973,885	5,462,821
PROVISION FOR (RECOVERY OF) INCOME TAXES (Note 9)		
Current	1,826,222	-
Future	(1,927,684)	(651,295)
	(101,462)	(651,295)
EARNINGS BEFORE NON-CONTROLLING INTEREST	7,075,347	6,114,116
NON-CONTROLLING INTEREST (Note 10(b))	(1,768,837)	(1,528,529)
NET INCOME	5,306,510	4,585,587
DEFICIT, BEGINNING OF YEAR		
As previously reported	(7,107,570)	(3,674,307)
Change in accounting policy - heavy maintenance expenditures (Note 3)	1,613,802	1,060,167
As restated	(5,493,768)	(2,614,140)
DISTRIBUTIONS DECLARED IN THE YEAR (Note 16)	(7,736,518)	(7,465,215)
DEFICIT, END OF YEAR	$ (7,923,776)	$ (5,493,768)
EARNINGS PER TRUST UNIT - BASIC (Note 10(c))	$ 0.79	$ 0.68
EARNINGS PER TRUST UNIT - DILUTED (Note 10(c))	$ 0.79	$ 0.68

CARGOJET INCOME FUND
Consolidated Statements of Comprehensive Income
Years ended December 31, 2007 and 2006

	2007	2006
NET INCOME	$ 5,306,510	$ 4,585,587
OTHER COMPREHENSIVE INCOME (LOSS)		
Reclassification of gains on interest rate swap designated as a cash flow hedge, net of income taxes of $nil (Note 14)	(114,030)	-
COMPREHENSIVE INCOME	$ 5,192,480	$ 4,585,587
ACCUMULATED OTHER COMPREHENSIVE INCOME		
Balance of beginning of year		
As previously reported	$ -	$ -
Transition adjustment for cash flow hedge, net of income taxes of $nil (Note 3)	114,030	-
Accumulated other comprehensive income, beginning of year		
As restated	114,030	-
Other comprehensive loss for the year	(114,030)	-
ACCUMULATED OTHER COMPREHENSIVE INCOME, END OF YEAR	$ -	$ -

CARGOJET INCOME FUND
Consolidated Statements of Cash Flows
Years ended December 31, 2007 and 2006

	2007	2006 (Restated - Note 3)
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FLOWING ACTIVITIES		
OPERATING		
Net income	$ 5,306,510	$ 4,585,587
Items not affecting cash		
Amortization of capital assets	3,593,593	3,313,895
Amortization of intangible assets	10,321,500	10,208,999
Loss on disposal of capital assets	21,936	242,231
Future income taxes	(1,927,684)	(651,295)
Unrealized gain on derivatives	(66,009)	-
Non-controlling interest	1,768,837	1,528,529
Aircraft heavy maintenance amortization	2,107,469	570,380
Aircraft heavy maintenance expenditures	(2,509,736)	(2,240,206)
	18,616,416	17,558,120
Changes in non-cash working capital items		
Accounts receivable	(3,723,099)	4,226,962
Spare parts, materials and supplies	91,056	132,828
Prepaid expenses and deposits	(1,749,912)	183,874
Due from related party	597,381	147,270
Accounts payable and accrued charges	2,166,216	(553,170)
Income taxes payable	1,790,000	-
	17,788,058	21,695,884
FINANCING		
Repayment of long-term debt	(4,128,632)	(2,398,252)
Proceeds from issuance of Fund Units net of issuance costs	-	(94,317)
Distributions paid to unitholders and non-controlling interest	(10,720,416)	(9,916,106)
	(14,849,048)	(12,408,675)
INVESTING		
Acquisition of net assets of Georgian Express Ltd. (Note 11)	(1,781,171)	-
Proceeds from disposal of capital assets	31,738	2,030
Additions to capital assets	(5,084,942)	(2,555,430)
	(6,834,375)	(2,553,400)
NET CHANGE IN CASH	(3,895,365)	6,733,809
CASH POSITION, BEGINNING OF YEAR	7,093,311	359,502
CASH POSITION, END OF YEAR	$ 3,197,946	$ 7,093,311
SUPPLEMENTARY FINANCIAL INFORMATION		
Interest paid	$ 1,221,718	$ 1,779,642
Income taxes paid	$ 36,222	$ -
Equipment purchased under capital lease	$ -	$ 477,154

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

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 acquired all of the shares of Cargojet on June 9, 2005.

The Fund provides domestic and transborder air cargo services in addition to aircraft handling and aircraft and airport ground equipment fueling services through its newly acquired Fixed Base Operations ("FBO") business at the Hamilton International Airport.

2. 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 CHLP's 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%

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill and 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 operations and deficit before income taxes and non-controlling interest.

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

Intangible assets that have a finite life, such as customer relationships and non-compete agreements, are capitalized and are amortized on a straight-line basis over a three or four-year period or the term of the non-compete agreement, respectively, and are further tested for impairment if events or circumstances indicate that the assets might be impaired.

Impairment of long-lived assets

An impairment loss is 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.

Income taxes

The Fund is taxed as a "mutual fund trust" for Canadian income tax purposes. Pursuant to the Declaration of Trust, the trustees intend to distribute or designate all taxable income earned by the Fund to unitholders of the Fund and to deduct such distributions and designations for income tax purposes. Therefore, no provision for current income taxes payable is required at the trust level. However, certain of the Fund's subsidiaries are taxable.

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

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

2. 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 unitholders are entitled to earnings that are economically equivalent to distributions of the Fund. The exchangeable units were recorded at the value at 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 services are invoiced to the customer at cost.

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental becomes due.

Revenue from fuelling services is billed on the basis of prevailing rates at the time of sale and recorded when the sale is completed.

Translation of foreign currencies

Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at rates of exchange prevailing at the 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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

2. 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. Commencing from January 1, 2007, all derivative financial instruments are recorded at their fair values.

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.

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.

As discussed in Note 3, new standards for the accounting treatment of qualifying hedging relationships came into effect on January 1, 2007. These requirements are optional and are only required if the entity is applying hedge accounting. As at December 31, 2007, the Fund was not applying hedge accounting and, accordingly, the Fund's derivative financial instruments, which consists of an interest rate swap at December 31, 2007, has been reported at fair value and unrealized gains and losses that arise as a result of remeasuring the interest rate swap at its fair value at the end of each period are recognized in net earnings during the period.

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 significant items requiring the use of management estimates are the allowance for doubtful accounts, the obsolescence of spare parts, materials, supplies and rotables, and the valuation of capital and intangible assets and their related amortization.

3. CHANGES IN ACCOUNTING

Adoption of new and revised accounting standards

On January 1, 2007, the Fund adopted the recommendations of the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1530, Comprehensive Income; Section 3251; Equity; Section 3855, Financial Instruments - Recognition and Measurement; Section 3861, Financial Instruments - Disclosure and Presentation; and Section 3865, Hedges. Under the new standards, policies followed for periods prior to the effective date generally are not reversed and, therefore, the comparative amounts for prior periods have not been restated.

Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with generally accepted accounting principles. On adoption of this standard on January 1, 2007, an increase in assets of $152,040, an increase in non-controlling interest of $38,010 and a reduction in accumulated other comprehensive income of $114,030 was recorded in connection with the interest rate swap (Note 14).

Section 3861 establishes standards for presentation of financial instruments and non-financial derivatives and identifies the information that should be disclosed about them.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

3. CHANGES IN ACCOUNTING (continued)

Adoption of new and revised accounting standards (continues)

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet and at what amount, requiring fair value or cost-based measures under different circumstances. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held to maturity investments and other financial liabilities which are measured at amortized cost.

The Fund's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Deposits	Loans and receivables	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Distributions payable to unitholders	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

Transaction costs incurred with issuing non-revolving debt are included in the carrying value of the debt to which they relate and are amortized to interest expense using the effective interest rate method.

Unrealized gains or losses on financial instruments classified as held for trading are recognized in net income based on the change in the fair market value of the financial instrument in the period.

In accordance with Section 3855, the Fund conducted a search for embedded derivatives in its contractual arrangements and did not identify any embedded features that required separate presentation from the related host contract.

Section 3865 provides new standards for the accounting treatment of qualifying hedging relationships and the related disclosures. The recommendations of this Section are optional and are only required if the entity is applying hedge accounting.

Also effective January 1, 2007 for the Fund is Section 1506; Accounting Changes. This standard specifies when an entity is permitted to change an accounting policy; specifies how to account for a change in accounting policy, a change in estimate or correction of an error; and establishes disclosure to explain the effects of changes in accounting policy and estimates and corrections of errors on the financial statements. The standard specifies that an entity should change an accounting policy only when it is required by a primary source of GAAP or results in a more reliable and relevant presentation in the financial statements. Also, the standard requires disclosure of the effects of any issued pronouncements that are not yet applied.

Except for the impact of Section 1530 that has been noted above, the adoption of these standards had no impact on the financial statements of the Fund.

Changes to comparatives

Comparative balances have been reclassified to align with the current year presentation. As at December 31, 2006, deposits of $413,723 have been reclassified from current to non-current assets, and the current portion of the future income tax liability of $2,220,129 has been reclassified from current to non-current liabilities.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

3. CHANGES IN ACCOUNTING (continued)

Changes to existing accounting policies

The Fund has changed its accounting policy in relation to the treatment of aircraft heavy maintenance expenditures for owned and certain leased aircraft from the accrual method to the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized and amortized on a straight-line basis to the next overhaul (24 months). The previous accrual (accrue-in-advance) method involved estimating the cost of the overhaul and accruing that cost to the overhaul. The actual cost of the overhaul was charged to the accrual, with any deficiency or excess charged or credited to expense.

Management believes the deferral method provides more reliable and relevant information to the users of the financial statements as it minimizes the need for significant estimation and is consistent with industry and international accounting practices.

This change in accounting policy has been accounted for retrospectively, and the comparative financial statements for 2006 have been restated. The effect of adopting the deferral method is summarized below:

	2006 Opening Balance Sheet	2006	2007
Income statement			
Decrease in direct expense	$ -	$ 1,155,573	$ 444,948
Increase in future income tax expense	-	417,393	136,310
Increase in non-controlling interest expense	-	184,545	77,160
Increase in net income	-	553,635	231,478
Increase in net income per unit	-	0.08	0.03
Balance sheet			
Increase in deferred heavy maintenance	$ 115,140	$ 1,784,965	$ 2,187,232
Decrease in aircraft heavy maintenance accrual	2,097,691	1,583,438	1,626,119
Increase in future income tax liability	799,275	1,216,667	1,352,977
Increase in non-controlling interest	353,389	537,934	615,094
Decrease in deficit	1,060,167	1,613,802	1,845,280

Future accounting changes

On December 1, 2006, the CICA issued three new accounting standards: Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments – Disclosures (Section 3862), and Handbook Section 3863, Financial Instruments – Presentation (Section 3863). These new standards become effective for the Fund on January 1, 2008.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance.

Sections 3862 and 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation, revising and enhancing its disclosure requirements, and carrying forward unchanged its presentation requirements. These new sections place increased emphasis on disclosures about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

Also effective January 1, 2008 for the Fund is Handbook Section 3031, Inventories, which establishes standards for measuring and disclosing information related to inventories. In addition to expanded disclosure requirements, this Section provides specific guidance as to conversion costs to be included and excluded in inventories and accounting for impairment adjustments.

The Fund is assessing how it will be affected by these new requirements.

The CICA also amended Section 1400, General Standards of Financial Statement Presentation, to include a requirement that management make an assessment of an entity's ability to continue as a going concern when preparing financial statements. This change came into effect on January 1, 2008.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

4. CAPITAL ASSETS

	2007		
	Cost	Accumulated Amortization	Net Book Value
Aircraft and engines	$ 19,004,241	$ 3,500,575	$ 15,503,666
Ground equipment	2,896,411	923,891	1,972,520
Rotable spares	7,337,138	1,042,398	6,294,740
Computer hardware and software	1,738,460	719,652	1,018,808
Furniture and fixtures	604,168	206,183	397,985
Leasehold improvements	2,696,455	1,154,722	1,541,733
Vehicles	312,505	146,109	166,396
Hangar facility	3,340,121	787,032	2,553,089
	$ 37,929,499	$ 8,480,562	$ 29,448,937

	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

As at December 31, 2007, $403,461 (2006 - $403,461) of the computer hardware and software and $73,693 (2006 - $73,693) of the vehicles described above less accumulated amortization of $163,402 (2006 - $60,519) and $43,698 (2006 - $30,842), respectively, were subject to capital leases.

Amortization expense consists of amounts charged under the following classification:

	2007	2006
Direct expenses	$ 3,078,684	$ 2,870,007
Selling, general and administrative expenses	514,909	443,888
	$ 3,593,593	$ 3,313,895

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

5. INTANGIBLE ASSETS

	2007			
	Rate	Cost	Accumulated Amortization	Net Book Value
Licenses		1,000,000	$ -	$ 1,000,000
Lease benefits	3 years	384,000	32,000	352,000
Customer relationship	3 - 4 years	38,687,600	24,482,305	14,205,295
Non-compete agreements	3 - 4 years	3,114,400	1,777,986	1,336,414
		$ 43,186,000	$ 26,292,291	$ 16,893,709

	2006			
	Rate	Cost	Accumulated Amortization	Net Book Value
Licenses		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
		$ 41,836,000	$ 15,970,791	$ 25,865,209

6. DEFERRED HEAVY MAINTENANCE

	2007	2006
Cost	$ 5,666,079	$ 3,156,343
Accumulated amortization	(3,478,847)	(1,371,378)
	$ 2,187,232	$ 1,784,965

7. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	2007	2006
Trade payables and accrued charges	$ 10,429,527	$ 8,177,631
Payroll and benefits	3,211,155	3,296,835
	$ 13,640,682	$ 11,474,466

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

8. 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 as 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 an interest rate swap with a major Canadian financial institution to manage most of the interest rate exposure with respect to the floating rate debt (Note 14).

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; and
- assignment of insurance proceeds, loss if any, payable to the bank.

Long-term debt consists of the following:

	2007	2006
Revolving credit facility	$ 17,000,000	$ 21,000,000
Obligation under capital lease	130,132	258,764
	17,130,132	21,258,764
Less current portion of long-term debt	130,132	128,633
	$ 17,000,000	$ 21,130,131

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:

2008	$	135,039
Less interest @ 6.89%		4,907
Obligation under capital lease		130,132
Less current portion		130,132
Balance of obligation	$	-

Interest on long-term debt for the year ended December 31, 2007 totaled $1,236,832 (December 31, 2006 - $1,639,343).

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

9. INCOME TAXES

The tax effect of significant temporary differences is as follows:

	2007	2006
Capital assets	$ 3,166,578	$ 2,721,070
Intangible assets	2,811,161	5,548,821
Financing costs	(1,197,020)	(1,770,764)
Deferred heavy maintenance	565,077	774,353
Future income tax liability	$ 5,345,796	$ 7,273,480

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

	2007	2006
Earnings before income taxes and non-controlling interest	$ 6,973,885	$ 5,462,822
Income tax at the combined basic rate	2,518,967	1,973,171
Tax on income attributable to Trust Unitholders and Exchangeable LP Unitholders	(3,652,896)	(3,453,871)
Non-deductible component of amortization of intangible assets	978,491	978,491
Permanent and other differences	217,793	73,040
Future income tax rate adjustment	(163,817)	(222,126)
Income tax recovery	$ (101,462)	$ (651,295)

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.

The October 31, 2006 trust legislation was substantively enacted into law on June 12, 2007, at which time the Fund gave accounting recognition to these new tax rules. While the Fund will not be liable for current taxes at the trust level until January 1, 2011, it must give recognition in the financial statements to the future income taxes arising from those temporary tax differences expected to reverse after January 1, 2011, at the expected tax rates applicable to the Fund. The effect of this change is included in the above reconciliation as part of the impact of changes in statutory tax rates.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

10. UNITHOLDERS' EQUITY AND NON-CONTROLLING INTEREST

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
Unitholders' capital as at December 31, 2007 and 2006	6,698,863	$ 62,235,654

(b) Non-controlling interest

	Number	Amount
Non-controlling interest, December 31, 2005	2,232,955	$ 21,458,170
Share of earnings of CHLP	-	1,528,529
Distributions declared in the year (Note 15)	-	(2,488,405)
Non-controlling interest, December 31, 2006	2,232,955	20,498,294
Share of earnings of CHLP	-	1,768,837
Distributions declared in the year (Note 15)	-	(2,578,840)
Non-controlling interest, December 31, 2007	2,232,955	$ 19,688,291

(c) Earnings per Trust Unit

Basic earnings per Trust Unit has been calculated based on the average number of Trust Units outstanding of 6,698,863 in 2007 and 2006. For the purpose of determining diluted earnings per Trust Unit, the weighted average number of Trust Units and Exchangeable LP Units, totaling 8,831,818 in 2007 and 2006, have been combined.

CARGOJET INCOME FUND

Notes to the Consolidated Financial Statements

December 31, 2007 and 2006

11. ACQUISITION OF GEORGIAN EXPRESS LTD.

Effective October 1, 2007, the Fund completed the acquisition of selected assets (the "purchased assets") of Georgian Express Ltd. ("Georgian Express"), including the inventory, a non-compete agreement, aircraft operations manuals and certain customer and lease contracts.

Georgian Express is a specialized air cargo operator serving numerous Canadian markets providing dedicated cargo lift to major couriers and transportation companies. The integration of the purchased assets of Georgian Express will allow the Fund to bring quality air cargo services to small and medium sized markets and extend connectivity to the Fund's national overnight air cargo network.

The aggregate purchase price of the purchased assets was $1,781,171. The acquired operations have been included in the consolidated financial statements of the Fund from October 1, 2007. The purchase price was allocated to identifiable tangible and intangible assets acquired based on their estimate fair values as follows:

Inventory	$	381,171
Aircraft operations manuals		50,000
Intangible assets		
Customer contracts		574,000
Non-compete agreement		392,000
Aircraft leases		384,000
Total consideration	$	1,781,171

The intangible assets are being amortized on a straight-line basis over their estimated useful lives of three years.

12. 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.

		2007		2006
Revenues associated with passenger air service	$	-	$	3,015,253
Cost of sales associated with the stated revenues	$	-	$	2,711,170

These transactions were in the normal course of operations and 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 2006, 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 shortfall in the amounts due of $597,381. This amount was collected in 2007.

The Fund also had the following transactions with two related companies, Flagship International Aviation Ltd. ("FIAL") and Flagship Aviation Holdings Ltd. ("Flagship Aviation"), each of these companies controlled by one of the Fund's executive officers.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

12. RELATED PARTY TRANSACTIONS (continued)

	2007	2006
Acquisition of capital assets		
Ground equipment	$ 104,300	$ -
Vehicles	72,000	-
Furniture and fixtures	23,700	-
Deposit	26,325	-
Cost of sales		
Fuel - ground equipment	101,048	-
Warehouse rent	105,300	-
Selling, general and administrative expenses		
Office maintenance	411	-
Office stationery and supplies	2,462	-

The cost of sales transactions for fuel are in the normal course of operations and relate to the aircraft and airport ground equipment fuelling services supplied to the Fund. The cost of sales transactions with Flagship Aviation are in the normal course of operations and are related to a warehouse lease agreement that the Fund has entered into with Flagship Aviation for a new 31,000 square foot warehouse and office building at the Hamilton International Airport. The accounts payable balance owing to FIAL as at December 31, 2007 was $ 3,046 (2006 - $Nil) and is included in the balance sheet under accounts payable and accrued charges.

On March 17, 2007, FIAL entered into an agency agreement with the Fund's primary fuel supplier at the Hamilton International Airport. During the quarter this fuel services agreement was transferred to the Fund and the Fund purchased the fuel service assets from FIAL required to perform the fuel services agreement.

13. 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:

2008	$ 6,955,229
2009	5,338,510
2010	2,083,819
2011	912,022
2012	315,900
Thereafter	1,474,200
	$ 17,079,680

Contingency

The Fund has provided irrevocable standby letters of credit totaling approximately $339,000 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:

March 20, 2008	$ 20,000
July 6, 2008	119,000
December 31, 2008	200,000
	$ 339,000

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

14. FINANCIAL INSTRUMENTS

Fair value

The fair value of the long-term debt approximates its carrying value as the long-term debt bears interest at floating rates. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

Credit risk

The Fund is subject to risk of non-payment of accounts receivable. The Fund mitigates this risk by monitoring the creditworthiness of its customers and limiting its concentration of receivables to any one specific group of customers. At December 31, 2007, approximately 21% of the accounts receivable balance was receivable from two customers (2006 - approximately 27% 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, 2007 and 2006 the Fund had no foreign exchange forward contracts outstanding.

The foreign exchange loss during the year was $228,261 (2006 - $17,103).

Interest rate risk

The Fund has long-term floating rate debt which creates an exposure to fluctuations in interest rates (Note 8).

The Fund uses interest rate swaps to manage its exposure to interest rate fluctuations. At December 31, 2007, 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 $17,000,000. The Fund receives floating rate interest at BA-CDOR and pays fixed rate interest at 3.69% plus a stamping fee of 2.8% per annum. The swap matures on June 15, 2008.

As at December 31, 2006, this interest rate swap qualified for hedge accounting and the unrealized gain at that date was deferred. On January 15, 2007, the Fund repaid a portion of its long-term debt and the accounting requirements for hedge accounting were no longer met. Accordingly, the unrealized gain was recognized in earnings, as will any gains, losses, revenues or expenses arising subsequently as a result of remeasuring the swap at fair value at each period end.

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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

15. GUARANTEES

In the normal course of business, the Fund enters into agreements that meet the definition of a guarantee. The Fund's primary guarantees 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.

(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.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

16. 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 year ended December 31, 2007 were $7,736,518 (2006 – $7,465,215) to unitholders and $2,578,840 (2006 – $2,488,405) 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, 2007.

		Unitholders		Exchangeable LP Unitholders		Total		
Record Date	Date Distribution Paid/Payable	Declared $	Paid $	Declared $	Paid $	Declared $	Per Unit $	Paid $
December 31, 2006	January 15, 2007	-	633,043	-	633,043	-	-	1,266,086
January 31, 2007	February 15, 2007	633,043	633,043	211,015	-	844,058	0.0945	633,043
February 28, 2007	March 15, 2007	645,770	645,770	215,256	-	861,026	0.0964	645,770
March 31, 2007	April 13, 2007	645,771	645,771	215,257	641,528	861,028	0.0964	1,287,299
April 30, 2007	May 15, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
May 31, 2007	June 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
June 30, 2007	July 13, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
July 31, 2007	August 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
August 31, 2007	September 14, 2007	645,770	645,770	215,256	215,256	861,026	0.0964	861,026
September 30, 2007	October 15, 2007	645,771	645,771	215,257	215,257	861,028	0.0964	861,028
October 31, 2007	November 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
November 30, 2007	December 15, 2007	645,770	645,770	215,257	215,257	861,027	0.0964	861,027
December 31, 2007	January 15, 2008	645,771	-	215,257	-	861,028	0.0964	-
		7,736,518	7,723,790	2,578,840	2,996,626	10,315,358	1.1549	10,720,416

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

16. DISTRIBUTIONS (continued)

Distributions payable at December 31, 2007 are as follows:

Units	Period	Record Date	Payment Date	Per Unit	Distributions Amount
Income Fund units	December 1 to December 31, 2007	December 31, 2007	January 15, 2008	$ 0.0964	$ 645,771
Exchangeable LP units	December 1 to December 31, 2007	December 31, 2007	January 15, 2008	$ 0.0964	$ 215,257
					$ 861,028

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

The monthly distribution rates for unitholders and Exchangeable LP unitholders increased by 2.0% from $0.0945 to $0.0964 effective from February 28, 2007.

17. 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 year, the Fund had sales to three customers that represented 51% of the total revenues (2006 - three customers that represented 51% of the total revenues). These sales are provided under service agreements that expire over various periods to September 2010. Each of these customers had sales in excess of 10% of total revenues during all periods.

CARGOJET INCOME FUND
Notes to the Consolidated Financial Statements
December 31, 2007 and 2006

18. SUBSEQUENT EVENTS

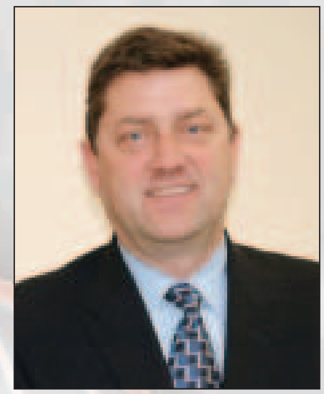
On January 18, 2008, the Fund signed a non-binding letter of intent for the purpose of acquiring a 51% interest in Prince Edward Air Ltd., a regional operator of cargo aircraft based in Eastern Canada. The completion of acquisition is subject to the negotiation and execution of a definitive purchase and sale agreement, the completion of legal and financial due diligence and customary closing conditions and is expected to close in March 2008.

In January 2008, the Fund announced plans to add two Boeing 767-200 Extended Range Freighter Aircraft to its fleet. These aircrafts are tentatively scheduled to be introduced into service in the second and third quarter of 2008. It also announced plans to enhance the live animal shipping program.

In February 2008, the Fund entered into a series of US dollar forward purchase contracts worth an aggregate total of US $21,000,000. These US dollar forward purchase contracts begin in March, 2008 and expire on December 1, 2009, and are consistent with the Fund's foreign exchange risk management policy. As part of this policy, the Fund enters into US dollar forward purchase contracts to reduce uncertainty surrounding Canadian dollar value of anticipated cash flows where it has significant net exposures in US currency.

Officers of the GP

Dr. Ajay Virmani, MBA
President,
Chief Executive Officer



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

Jamie Porteous
Executive Vice-President,
Sales and Service

Officers of the GP

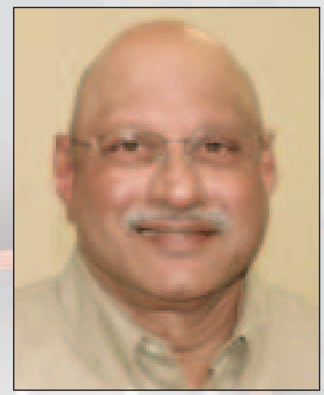
Alan Pidgeon
Senior Vice President,
Technical Operations

George Sugar
Senior Vice President,
Flight Operations

John Kim, CA
Vice President, Finance

Trustees of the Fund & Directors of the GP

John P. Webster
Trustee (Lead Director)



Terence M. Francis
Trustee

Jonathan Carroll
Trustee

One Team ...

"The Cargojet Team"

"Cheers!"

"Ajay & The Dancing Girls"

"Cargojet's Own Carrollers"

"Chris Allen & Duncan Hamilton & James Garbutt"

"Maintenance Team"

"Dorian Pearce"

One Dream ...

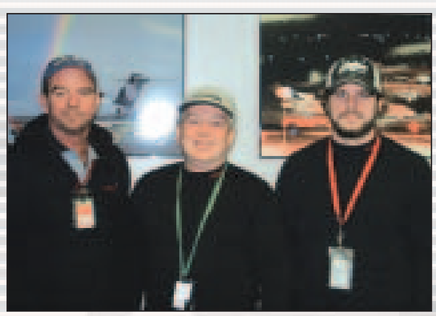
“Daily Operations Meeting”

“Richard Gere, Shilpa Shetty & Dr. Ajay Virmani”

“Edmonton Team”

“Ladies of Cargojet”

“Hamilton Team”



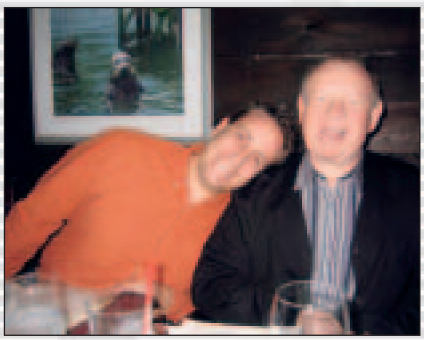
“Halifax Team”

“Dan, Paul & Ajay
Sharing A Few Laughs”

One Team ...

“Hamilton Team”

“Chris Bosh (Raptors #4)
Signing Autographs”



“We Love Each Other”

“Lyle & His Elf”

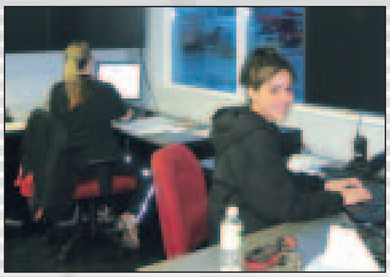
“Chris Ryan Hard At Work”

“Come On ... Help Him Out!”

“Cargojet Flight Crew”

One Dream ...

“Ottawa Team”



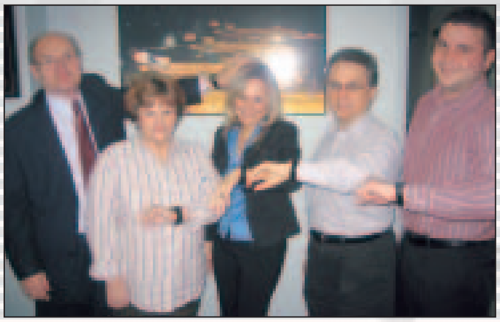
“Alana & Holly Preparing the Daily Load Plans”

Jamie Strangway
Chosen As “First Officer of the Year”

“Ajay with the Magical Team of Disney @ The Annual CJ Festive Brunch”

“Serge Hosting Customers”

“Enjoying the Festivities!”



“Dwayne, Aneta, Heather, Steve & Chris smiling proudly as they receive their 5th Year Anniversary watches. Congratulations to All Celebrating their 5th Anniversary”

“Captain Tony Najm Being Congratulated On 5 Years of Service”

“Vancouver Team”

CJT.UN

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