

Air Carrier ASTAR Air Cargo, Inc

Operation _____

Quarter Ended December 31, 2006**NOTES TO BTS FORM 41 REPORT****Operating Revenues and Expenses by Reporting Entity**

Operating Revenues are specifically identified and reported by the respective Entity.

Operating and Nonoperating Expenses (Income) not specifically attributable to a given Entity, are allocated to all of the Entities [as considered appropriate] based principally on the Aircraft Block Hours (by Equipment Type) operated within each Entity during the subject quarter.

Aircraft Mechanics

ASTAR's line maintenance mechanics perform limited heavy airframe and engine overhauls and maintenance. Most of that work, together with all component repairs, are outsourced to other companies. Accordingly, beginning in April 2002, said line maintenance mechanics are classified as **Aircraft Handling Personnel** (account no. 64.26).

ASTAR accounts for its [heavy] aircraft maintenance engineers, planners and inspectors as **Maintenance Labor** (account no. 53.25)

Aircraft Fuel

Substantially all of ASTAR's flying is done under an *ACMI agreement* under which ASTAR's customer is responsible for aircraft fuel. For operational purposes, ASTAR maintains records of the fuel enplaned under this ACMI agreement. However, ASTAR does not record the associated cost of the fuel in its accounting records. Accordingly, calculations of ASTAR's average fuel cost per gallon (or by any other metric) using the attached Form 41 Schedules are not meaningful.

Fuel expense was reduced by approximately \$629,000 due to federal excise tax refund.

Income Tax Expense

Income tax (expense) benefit - ASTAR Air Cargo, Inc. elected to become a qualified sub-chapter S under the Internal Revenue Code, effective January 1, 2006. The IRS approved ASTAR's sub-chapter S election, therefore the deferred tax asset totaling \$19.3M was written off this quarter consistent with GAAP.

Cash Flow Statement (Schedule B-12)

The accompanying cash flow statement is for the period January 1, 2006 to December 31, 2006.

Other

ASTAR increased its line of credit with HSH Nordbank to \$175M from \$115M.

During this quarter ASTAR acquired 20 aircraft previously under operating leases. This transaction is reflected by an increase in fixed assets and decrease in aircraft rent expense, in addition to an increase in long term debt of approximately \$75M.