Condensed consolidated interim financial statements of

CARGOJET INC.
(Formerly Cargojet Income Fund)

For the three and nine month periods ended September 30, 2011 and 2010

(Unaudited)

CARGOJET INC.
Condensed Consolidated Interim Balance Sheets
(unaudited, in Canadian dollars)

	Note	September 30, 2011	December 31, 2010	January 1, 2010
		$	$	$
			(Note 2)	(Note 2)
ASSETS				
CURRENT ASSETS				
Cash		-	621,522	3,031,764
Trade and other receivables		9,979,982	11,290,717	10,559,767
Inventories	5	658,198	1,074,658	808,907
Prepaid expenses and deposits		2,395,247	3,142,979	3,216,631
Current portion of notes receivable	19	833,151	820,582	800,000
Assets classified as held for sale	7	1,000,000	455,489	-
		14,866,578	17,405,947	18,417,069
NON-CURRENT ASSETS				
Property, plant and equipment	7	43,035,120	46,004,484	57,170,597
Notes receivable	19	2,359,339	2,883,636	2,066,667
Goodwill		46,169,976	46,169,976	46,169,976
Intangible assets	6	1,000,000	1,000,000	4,503,705
Deposits		5,508,711	4,826,513	3,859,283
Assets classified as held for sale		-	290,000	-
		112,939,724	118,580,556	132,187,297
LIABILITIES				
CURRENT LIABILITIES				
Overdraft		336,899	-	-
Trade and other payables		10,986,195	11,086,280	12,517,158
Current tax liabilities		672,147	1,652,117	1,946,834
Other financial liabilities		1,079,113	801,422	874,436
Borrowings	8	787,836	1,460,290	428,748
Finance leases	9	55,899	155,550	237,402
Trust Units		-	600,000	600,000
		13,918,089	15,755,659	16,604,578
NON-CURRENT LIABILITIES				
Borrowings	8	6,962,802	12,203,447	16,279,337
Finance leases	9	-	35,135	190,685
Trust Units		-	53,986,684	51,993,009
Exchangeable LP Units		-	13,197,483	20,386,879
Conversion option on convertible debentures	10	-	1,778,326	1,374,768
Convertible debentures	10	23,776,752	23,361,940	29,723,081
Deferred income taxes	11	3,274,789	3,116,706	4,270,598
Deferred income taxes on assets classified as held for sale	7	149,351	112,620	-
		48,081,783	123,548,000	140,822,935
SHAREHOLDERS' EQUITY (DEFICIENCY)		64,857,941	(4,967,444)	(8,635,638)
		112,939,724	118,580,556	132,187,297

The accompanying notes are an integral component of the condensed consolidated interim financial statements.

CARGOJET INC.
Condensed Consolidated Interim Statements of Income
(unaudited, in Canadian dollars)

	Note	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
		$	$	$	$
			(Note 2)		(Note 2)
REVENUES		40,306,960	38,765,111	122,596,512	113,282,339
DIRECT EXPENSES		32,694,528	29,474,122	99,815,102	88,277,023
		7,612,432	9,290,989	22,781,410	25,005,316
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES					
General and administrative	7	5,816,977	4,450,599	15,510,277	13,864,827
Sales and marketing		143,415	185,161	398,706	563,570
Finance costs		831,915	868,885	2,446,300	2,591,800
Finance income		(47,498)	(22,446)	(170,804)	(25,196)
Gain on derivative contracts		(1,246,410)	(103,093)	(678,149)	(360,806)
Distributions to Trust and Exchangeable LP Unitholders		-	1,007,173	-	3,021,514
Unrealized loss (gain) on Trust Units		-	8,368,242	-	(8,643,448)
Unrealized loss (gain) on Exchangeable LP Units		-	2,023,199	-	(2,787,137)
Unrealized loss on conversion option		-	548,084	-	667,913
Loss on debenture redemption	10	-	-	-	321,415
		5,498,399	17,325,804	17,506,330	9,214,452
EARNINGS (LOSS) BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS		2,114,033	(8,034,815)	5,275,080	15,790,864
PROVISION FOR (RECOVERY OF) INCOME TAXES	11				
Current		529,376	832,682	1,429,405	1,387,420
Deferred		102,993	195,214	(326,085)	859,162
		632,369	1,027,896	1,103,320	2,246,582
PROFIT (LOSS) FROM CONTINUING OPERATIONS		1,481,664	(9,062,711)	4,171,760	13,544,282
LOSS FROM DISCONTINUED OPERATIONS	19	(135,551)	(674,504)	(135,551)	(2,436,506)
NET PROFIT (LOSS)		1,346,113	(9,737,215)	4,036,209	11,107,776
Net profit (loss) attributable to:					
Owners of the Company		1,346,113	(9,737,215)	4,036,209	11,400,133
Non-controlling interests		-	-	-	(292,357)
		1,346,113	(9,737,215)	4,036,209	11,107,776
EARNINGS (LOSS) PER SHARE / PER TRUST UNIT	12				
From continuing and discontinued operations					
- Basic		0.17	(1.22)	0.51	1.43
- Diluted		0.17	(1.22)	0.51	1.34
From continuing operations					
- Basic		0.19	(1.13)	0.52	1.69
- Diluted		0.19	(1.13)	0.52	1.57

The accompanying notes are an integral component of the condensed consolidated interim financial statements.

CARGOJET INC.
Condensed Consolidated Interim Statements of Comprehensive Income
(unaudited, in Canadian dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2011	2010	2011	2010
		$	$	$	$
			(Note 2)		(Note 2)
NET PROFIT (LOSS)		1,346,113	(9,737,215)	4,036,209	11,107,776
OTHER COMPREHENSIVE INCOME					
Transfer of losses on foreign exchange contracts to net income, net of income taxes		27,051	54,105	135,259	162,313
TOTAL COMPREHENSIVE INCOME (LOSS)		1,373,164	(9,683,110)	4,171,468	11,270,089
Total comprehensive income (loss) attributable to:					
Owners of the Company		1,373,164	(9,683,110)	4,171,468	11,562,446
Non-controlling interests		-	-	-	(292,357)
		1,373,164	(9,683,110)	4,171,468	11,270,089

The accompanying notes are an integral component of the condensed consolidated interim financial statements.

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity (Deficiency)

Nine months ended September 30, 2011 and 2010

(unaudited, in Canadian dollars)

	Note	Shareholders' Capital	Non-controlling interests	Reserves	Conversion option	Other comprehensive income	Deficit	Shareholders' equity
		$	$	$	$	$	$	$
Balance, December 31, 2010	2	-	-	-	-	(144,274)	(4,823,170)	(4,967,444)
Net profit		-	-	-	-	-	4,036,209	4,036,209
Other comprehensive income		-	-	-	-	135,259	-	135,259
Total comprehensive income		-	-	-	-	135,259	4,036,209	4,171,468
Income trust conversion	1	67,784,167	-	-	1,778,326	-	-	69,562,493
Tax on Conversion Option		-	-	-	(506,823)	-	-	(506,823)
Treasury shares	14	(443,090)	-	-	-	-	-	(443,090)
Share-based compensation	14	-	-	206,731	-	-	-	206,731
Dividends	15	-	-	-	-	-	(3,165,394)	(3,165,394)
Balance, September 30, 2011		67,341,077	-	206,731	1,271,503	(9,015)	(3,952,355)	64,857,941
Balance, January 1, 2010	2	-	2,826,785	-	-	(360,691)	(11,101,732)	(8,635,638)
Net profit		-	(292,357)	-	-	-	11,400,133	11,107,776
Other comprehensive income		-	-	-	-	162,313	-	162,313
Balance, September 30, 2010	2	-	2,534,428	-	-	(198,378)	298,401	2,634,451

The accompanying notes are an integral component of the condensed consolidated interim financial statements.

CARGOJET INC.
Condensed Consolidated Interim Statements of Cash Flows
(unaudited, in Canadian dollars)

	Note	Nine months ended September 30, 2011	2010
		$	$ (Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from continuing operations		4,171,760	13,544,282
Items not affecting cash			
Depreciation of property, plant and equipment	7	4,266,243	4,838,018
Share-based compensation	14	328,466	-
Accretion of convertible debentures		414,812	414,364
Loss on purchase of debentures	10	-	321,415
Loss on disposal of property, plant and equipment		631,388	-
Impairment on property, plant and equipment	7	1,138,201	-
Non-cash interest on notes receivable		(169,876)	(18,718)
Deferred income taxes		(326,085)	859,162
Transfer of losses on derivatives from other comprehensive income		202,049	162,313
Change in fair value on non-hedge derivatives		(678,149)	(360,806)
Unrealized gain on Trust Units		-	(8,643,448)
Unrealized gain on Exchangeable LP Units		-	(2,787,137)
Unrealized loss on conversion option		-	667,913
Aircraft heavy maintenance depreciation	7	2,634,121	1,969,660
Aircraft heavy maintenance expenditures	7	(3,353,975)	(3,005,215)
		9,258,955	7,961,803
Changes in non-cash working capital items and deposits			
Trade and other receivables		1,310,735	(932,428)
Inventories		416,460	42,293
Prepaid expenses and deposits		65,534	208,025
Trade and other payables		(100,085)	525,574
Current tax liabilities		(979,970)	(556,552)
Net inflow of cash from continuing operations		9,971,629	7,248,715
Net outflow of cash from discontinued operations		(188,265)	(1,096,037)
NET CASH GENERATED BY OPERATING ACTIVITIES		9,783,364	6,152,678
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(6,504,175)	(3,545,238)
Proceeds from borrowings		591,076	3,631,969
Repayment of finance lease		(134,786)	(184,781)
Proceeds from (payments on) disposition of derivative contracts		212,450	(281,000)
Purchase of treasury shares	14	(564,825)	-
Repurchase of convertible debentures	10	-	(7,667,535)
Dividends paid to shareholders	15	(2,422,004)	-
NET CASH USED IN FINANCING ACTIVITIES		(8,822,264)	(8,046,585)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(3,559,986)	(1,511,438)
Proceeds from disposal of property, plant and equipment		958,861	272,949
Proceeds from note receivable	19	681,604	-
Net outflow of cash from continuing operations		(1,919,521)	(1,238,489)
Net inflow of cash from discontinued operations		-	1,294,797
NET CASH USED IN INVESTING ACTIVITIES		(1,919,521)	56,308
NET CHANGE IN CASH		(958,421)	(1,837,599)
CASH POSITION, BEGINNING OF PERIOD		621,522	3,031,764
CASH (OVERDRAFT) POSITION, END OF PERIOD		(336,899)	1,194,165

The accompanying notes are an integral component of the condensed consolidated interim financial statements

1. NATURE OF THE BUSINESS

Cargojet Inc. ("Cargojet" or "the Company") operates a domestic overnight air cargo co-load network between thirteen major Canadian cities. The Company also provides dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis, operating between points in Canada and the USA. As well, the Company operates scheduled international routes for multiple cargo customers between the USA and Bermuda, and between Canada and Poland.

Cargojet is publicly listed with shares and convertible debentures traded on the Toronto Stock Exchange ("TSX"). The Company is incorporated and domiciled in Canada and the registered office is located at 350 Britannia Road East, Units 5 and 6, Mississauga, Ontario.

Prior to January 1, 2011, the operations of the Company were carried out by Cargojet Income Fund ("the Fund"). Effective January 1, 2011, the Fund was converted from an income trust to a corporation structure whereby all Unitholders of the Fund had their Trust Units automatically converted into common shares of the Company on a one-for-one basis. The Trust Units and convertible debentures of the Fund were delisted from the TSX and the common voting shares and variable voting shares of the Company began trading on the TSX under the symbols "CJT" and "CJT.A", respectively, on January 6, 2011 (Note 13). Convertible debentures of the Fund were converted into convertible debentures of the Company with no changes in their rights or terms.

The conversion has been accounted for using the continuity of interest basis, recognizing the Company as the successor in interest to the Fund. Accordingly, all assets and liabilities of the Company have been recorded in Cargojet at their previous carrying amounts at the date of conversion in the Fund and the condensed consolidated interim financial statements as at and for the three and nine month periods ended September 30, 2011 and comparatives for the three and nine month periods ended September 30, 2010 and as at December 31, 2010 reflect the financial position, operating results and cash flows as if the Company had always carried on the business formerly carried on by the Fund.

On conversion, the carrying values of the Trust Units of the Fund were transferred to the common shares of the Company. As the interest in the puttable Trust Units of the Fund were converted into common shares of the Company, the common shares, including the conversion option attached to the convertible debentures, have been classified as equity.

These condensed consolidated interim financial statements ("the financial statements") were approved and authorized for issuance by the Board of Directors on November 7, 2011.

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its interim and annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS. Accordingly, the Company will make an unreserved statement of compliance with IFRS beginning with its 2011 annual financial statements. The Company's transition date is January 1, 2010 (the "transition date") and the Company has prepared its opening IFRS balance sheet at that date. These financial statements have been prepared in accordance with the accounting policies described in Note 3. The Company will ultimately prepare its opening balance sheet and financial statements for 2010 and 2011 by applying existing IFRS

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

with an effective date of December 31, 2011 or prior. Accordingly, the opening balance sheet and financial statements for 2010 and 2011 may differ from those presented in these financial statements.

a) Elected exemptions from full retrospective application

In preparing these financial statements in accordance with IFRS, the Company has applied certain of the optional exemptions from the full retrospective application of IFRS. The optional exemptions applied are as described below:

(i) Business Combinations
The Company has applied the business combinations exemption in *IFRS 1, First-time Adoption of International Financial Reporting Standards ("IFRS 1")* by selecting to adopt *IFRS 3, Business Combinations* ("*IFRS 3*") from August 1, 2009. Accordingly, the Company has restated all business combinations that took place on or after August 1, 2009 to comply with *IFRS 3*.

(ii) Borrowing Costs
The Company has applied the borrowing costs exemption in IFRS 1 to not apply *International Accounting Standard ("IAS") 23, Borrowing Costs* retrospectively to capitalize borrowing costs arising from acquisitions of qualifying assets. Accordingly, the Company has not capitalized borrowing costs for acquisitions of qualifying assets that took place prior to the transition date.

(iii) Leases
The Company elected to apply the transitional provisions in *IFRIC 4, Determining Whether an Arrangement Contains a Lease* ("*IFRIC 4*"). This election allows the Company to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at that date. This election resulted in no additional arrangements being identified as a lease.

b) Mandatory exceptions to retrospective application

In preparing these financial statements in accordance with IFRS, the Company has applied certain mandatory exemptions from the full retrospective application of IFRS. Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the Company under Canadian GAAP are consistent with their application under IFRS.

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

c) Reconciliation of equity (deficiency) reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity reported in accordance with IFRS at the transition date of January 1, 2010:

	Note	Unitholders' Equity (deficiency)	Non-controlling Interest	Total Equity (deficiency)
		$	$	$
As reported under Canadian GAAP - December 31, 2009		46,701,110	-	46,701,110
Reclassification of non-controlling interests to Unitholder's equity	(i)	-	2,826,785	2,826,785
Reclassification of Unitholders' capital from Unitholders' equity to liabilities	(ii)	(53,517,349)	-	(53,517,349)
Reclassification of conversion option on convertible debentures from Unitholders' equity to liabilities	(iii)	(2,044,727)	-	(2,044,727)
Deferred income taxes on convertible debentures	(iv)	(294,448)	-	(294,448)
Componentization of property, plant and equipment	(v)	(1,752,463)	-	(1,752,463)
Deferred income taxes on property, plant and equipment	(vi)	490,690	-	490,690
Changes in fair value of Trust Units, Exchangeable LP Units, and conversion option on convertible debentures	(vii)	(349,305)	-	(349,305)
Transaction costs relating to acquisition of Cargojet Regional Partnership ("CJR")	(viii)	(695,931)	-	(695,931)
As reported under IFRS - January 1, 2010		(11,462,423)	2,826,785	(8,635,638)

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity reported in accordance with IFRS at September 30, 2010:

	Note	Unitholders' Equity	Non-controlling Interests	Total Equity
		$	$	$
As reported under Canadian GAAP - September 30, 2010		52,106,005	-	52,106,005
Reclassification of non-controlling interests to Unitholder's equity	(i)	-	2,534,428	2,534,428
Reclassification of Unitholders' capital from Unitholders' equity to liabilities	(ii)	(59,106,288)	-	(59,106,288)
Reclassification of conversion option on convertible debentures from Unitholders' equity to liabilities	(iii)	(1,568,975)	-	(1,568,975)
Deferred income taxes on convertible debentures	(iv)	51,017	-	51,017
Componentization of property, plant and equipment	(v)	(1,946,081)	-	(1,946,081)
Deferred income taxes on property, plant and equipment	(vi)	544,902	-	544,902
Changes in fair value of Trust Units, Exchangeable LP Units, and conversion option on convertible debentures	(vii)	10,019,443	-	10,019,443
As reported under IFRS - September 30, 2010		100,023	2,534,428	2,634,451

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

c) Reconciliation of equity (deficiency) reported under Canadian GAAP to IFRS (continued)

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its equity reported in accordance with IFRS at December 31, 2010:

	Note	Unitholders' Equity (deficiency)	Non-controlling Interest	Total Equity (deficiency)
		$	$	$
As reported under Canadian GAAP - December 31, 2010		52,879,781	-	52,879,781
Reclassification of non-controlling interests to Unitholder's equity	(i)	-	-	-
Reclassification of Unitholders' capital from Unitholders' equity to liabilities	(ii)	(59,106,288)	-	(59,106,288)
Reclassification of conversion option on convertible debentures from Unitholders' equity to liabilities	(iii)	(1,568,975)	-	(1,568,975)
Deferred income taxes on convertible debentures	(iv)	138,301	-	138,301
Componentization of property, plant and equipment	(v)	(2,015,366)	-	(2,015,366)
Deferred income taxes on property, plant and equipment	(vi)	564,302	-	564,302
Changes in fair value of Trust Units, Exchangeable LP Units, and conversion options on convertible debentures	(vii)	4,140,801	-	4,140,801
As reported under IFRS - December 31, 2010		(4,967,444)	-	(4,967,444)

Discussion of key reconciliation items:

i. Reclassification of non-controlling interests to Unitholders' equity
Canadian GAAP states that non-controlling interests are not a financial liability or an equity instrument of an entity, and should be presented in the consolidated balance sheet separately from equity. However, under IFRS non-controlling interests are presented as a part of equity.

ii. Reclassification of Unitholders' capital from equity to liabilities
Under Canadian GAAP, the Trust Units are recorded as Unitholders' equity. However, the Trust Units are considered a financial liability under IFRS as they are puttable to the entity at any time by the Unitholders to a maximum of $50,000 per month.

iii. Reclassification of conversion option on convertible debentures from equity to liability
As the conversion options are convertible into Trust Units at the debenture holder's option, they are classified as a liability under IFRS consistent with the classification of the Trust Units.

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Discussion of key reconciliation items (continued):

iv. Deferred income taxes on convertible debentures

Canadian GAAP states that if the entity is able to settle the convertible debt instrument in accordance with its terms without the incidence of tax, then there is deemed to be no temporary difference. However, IFRS does not have the same exemption and, accordingly, the Company has now accounted for deferred taxes on the temporary difference.

v. Componentization of property, plant and equipment

IFRS requires property, plant and equipment to be depreciated based on significant identifiable components, whereas Canadian GAAP does not have the same explicit requirements. Under IFRS, the Company's aircraft have been componentized into two significant components of hulls and engines. This resulted in additional depreciation expense being recorded by the Company.

vi. Deferred income taxes on property, plant and equipment

Deferred income taxes are impacted by the change in temporary differences resulting from the effect of the componentization of property, plant and equipment described in adjustment (v) above.

vii. Changes in fair value of Trust Units, Exchangeable LP Units, and conversion option

Under IFRS, the Trust Units, the Exchangeable LP Units, and the conversion option on the convertible debentures are classified as liabilities and recorded at fair value through profit and loss ("FVTPL"). At each reporting date, these liabilities are re-measured to fair value with a corresponding charge or credit to income. Under Canadian GAAP, these items are recorded at cost.

viii. Transaction costs related to the acquisition of CJR

Under Canadian GAAP, the transaction costs related to the acquisition of the regional business were capitalized and recognized as goodwill. IFRS does not allow the capitalization of transaction costs relating to business combinations and these have therefore been expensed as incurred.

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Reconciliation of net profit (loss) as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's net profit reported in accordance with Canadian GAAP to its net profit in accordance with IFRS for the three and nine month periods ended September 30, 2010 and for the year ended December 31, 2010:

	Note	Three months ended September 30, 2010	Nine months ended September 30, 2010	Year ended December 31, 2010
		$	$	$
Net profit as reported under Canadian GAAP		1,885,163	2,509,008	4,039,754
Reclassification of non-controlling interests under IFRS	(i)	175,317	3,771	722,556
Deferred income taxes on convertible debentures	(ii)	196,044	345,464	432,749
Componentization of property, plant and equipment	(iii)	(65,335)	(193,618)	(262,902)
Deferred income taxes on property, plant and equipment	(iv)	18,294	54,212	73,613
Changes in fair value of Trust Units, Exchangeable LP Units, and conversion option on convertible debentures	(v)	(10,939,525)	10,762,672	4,361,338
Reclassification of distributions to Trust Units and Exchangeable LP Units from retained earnings to income	(vi)	(1,007,173)	(3,021,514)	(4,028,684)
Loss on the repurchase of convertible debentures	(vii)	-	(48,150)	(48,150)
Transaction costs related to the acquisition of CJR	(viii)	-	695,931	695,931
Net (loss) profit as reported under IFRS		(9,737,215)	11,107,776	5,986,205
Attributable to:				
Owners of the Company		(9,737,215)	11,400,133	6,278,562
Non-controlling interests		-	(292,357)	(292,357)

Discussion of key reconciliation items:

i. Reclassification of non-controlling interests

Non-controlling interests are included in the determination of net profit under IFRS. This adjustment adds back non-controlling interests as determined under Canadian GAAP.

ii. Deferred income taxes on convertible debentures

The difference relates to changes in temporary differences resulting from the effect of recognition of deferred taxes on convertible debentures.

iii. Componentization of property, plant and equipment

IFRS requires property, plant and equipment to be depreciated based on significant identifiable components, whereas Canadian GAAP does not have such a requirement. Under IFRS, the Company's aircraft have been componentized into two significant components, hulls and engines. This resulted in additional depreciation expense being recorded by the Company.

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Discussion of key reconciliation items (continued):

iv. Deferred income taxes on property, plant and equipment
Deferred income taxes are impacted by the change in temporary differences resulting from the effect of the IFRS reconciling item described per (iii) above.

v. Changes in fair value of Trust Units, Exchangeable LP Units, and Conversion Option
Under IFRS, the Trust Units, the Exchangeable LP Units, and the conversion option on convertible debentures are classified as liabilities and recorded at FVTPL. Under Canadian GAAP, these items are recorded at cost.

vi. Reclassification of distributions to Trust Unitholders and Exchangeable LP Unitholders
Under Canadian GAAP, distributions to Trust Unitholders and Exchangeable LP Unitholders are recorded as a reduction in retained earnings and non-controlling interests, respectively. Under IFRS, they are recorded as an expense as the Trust Units and the Exchangeable LP Units are classified as liabilities.

vii. Loss from the repurchase of convertible debentures
Under Canadian GAAP, the conversion option is recorded at cost. Under IFRS, the conversion option is recorded at FVTPL. A difference in the loss on repurchase of convertible debentures arose when the debentures were repurchased as a result of this valuation difference.

viii. Transaction costs related to the acquisition of CJR
Under Canadian GAAP, the transaction costs related to the acquisition of the regional business were capitalized and recognized as goodwill. IFRS does not allow the capitalization of transaction costs relating to business combinations and these have therefore been expensed as incurred.

Reconciliation of comprehensive income (loss) as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's comprehensive income reported in accordance with Canadian GAAP to its comprehensive income in accordance with IFRS for the three and nine month periods ended September 30, 2010 and for the year ended December 31, 2010:

	Note	Three months ended September 30, 2010	Nine months ended September 30, 2010	Year ended December 31, 2010
		$	$	$
Comprehensive income as reported under Canadian GAAP		1,939,268	2,671,321	4,256,171
Reclassification of non-controlling interests under IFRS	(i)	175,317	3,771	722,556
Difference in net profit	(ii)	(11,797,695)	8,594,997	1,223,893
Comprehensive (loss) income as reported under IFRS		(9,683,110)	11,270,089	6,202,620

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Discussion of key reconciliation items (continued):

i. Non-controlling interests
Non-controlling interests are included in the determination of comprehensive income (loss) under IFRS. This adjustment adds back non-controlling interests expense as determined under Canadian GAAP.

ii. Differences in net income
This reflects the differences in net income between Canadian GAAP and IFRS as described above.

d) Standards and Interpretations affecting amounts reported in the current and prior periods

The Company has adopted IFRS effective January 1, 2011. Accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS.

e) Standards and Interpretations in issue not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the financial year ending December 31, 2011, and accordingly, have not been applied in preparing these financial statements:

(i) Financial Instruments – Disclosures

The International Accounting Standards Board ("IASB") has issued an amendment to *IFRS 7, Financial Instruments: Disclosures*, requiring incremental disclosures regarding transfers of financial assets. This amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment at the beginning of its 2012 financial year and does not expect the implementation to have a significant impact on the Company's disclosures.

(ii) Financial Instruments

The IASB has issued a new standard, *IFRS 9, Financial Instruments* ("*IFRS 9*"), which will ultimately replace *IAS 39, Financial Instruments: Recognition and Measurement* ("*IAS 39*").

The replacement of *IAS 39* is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. This standard becomes effective on January 1, 2013. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

(iii) Consolidated Financial Statements

The IASB has issued a new standard, *IFRS 10, Consolidated Financial Statements* which will replace IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation – Special Purpose Entities.*

2. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") (CONTINUED)

Standards and Interpretations in issue not yet adopted (continued)

(iii) Consolidated Financial Statements (continued)

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. This standard becomes effective on January 1, 2013. The Company will apply the standard at the beginning of its 2013 financial year and does not expect the implementation to have a significant impact on the Company's disclosures.

(iv) Disclosure of Interests in Other Entities

The IASB has issued a new standard, *IFRS 12, Disclosure of Interests in Other Entities* on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is not applicable until January 1, 2013 but is available for early adoption. The Company will adopt the standard at the beginning of its 2013 financial year and does not expect the implementation to have a significant impact on the Company's disclosures.

(v) Fair Value Measurement

IFRS 13, Fair Value Measurement is a new standard that defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). The standard is not applicable until January 1, 2013 but is available for early adoption.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

In conjunction with the Company's consolidated financial statements to be issued under IFRS for the year ended December 31, 2011, these financial statements present the Company's interim reporting under IFRS as at and for the three and nine month periods ended September 30, 2011, including 2010 comparative periods. These financial statements have been prepared in accordance with *IFRS 1* and *IAS 34, Interim Financial reporting* ("*IAS 34*"), as issued by the IASB.

As these financial statements have been prepared using IFRS prior to the Company issuing its first annual financial statement under IFRS, certain disclosures that are required to be included in the annual

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance (continued)

consolidated financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian GAAP have been included in these financial statements.

These financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2010 and in consideration of the IFRS transition disclosures included in Note 2 to these financial statements and the additional annual disclosures included herein.

Basis of preparation

These financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for financial instruments measured at fair value through profit and loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These financial statements include the accounts of the Company and its wholly-owned subsidiary, Cargojet Holdings Limited Partnership ("CHLP"), CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd. ("CJH"), Cargojet Airways Ltd. ("CJA"), Cargojet Partnership ("CJP") and Prince Edward Air Ltd. ("PEAL") and, up to the date of disposal on July 14, 2010, PEAL's 55% interest in Cargojet Regional Partnership ("CJR") (Note 19).

All intra-company balances and transactions are eliminated in full upon consolidation.

Non-controlling interests in subsidiaries are identified separately from the Company's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Cash

Cash balance consists of cash on hand and demand deposits. The Company maintained cash deposits with a chartered bank related to heavy maintenance reserve requirements of its aircraft assets and included these deposits as part of the cash balance at the end of December 31, 2010 and January 1, 2010. As at September 30, 2011, the cash deposits have been replaced by a letter of credit.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's previously

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but is reviewed for impairment annually on April 1. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the cash-generating unit pro-rata on the basis of the carrying amount of each asset in the cash-generating unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

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 aircraft has been provided exclusively to a customer at a fixed daily rate operating on a specific route that may include cost of fuel and other commercial activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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.

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Inventories

Fuel inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimates of costs of completion and costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment. Borrowing costs related to the acquisition, construction or production of qualifying assets is capitalized to the cost of the item until the asset is ready for use.

When a significant part of an asset has a different useful life from the overall asset's useful life, it is identified as a separate component and depreciated accordingly.

Major spare parts are treated as property, plant and equipment, and depreciated on actual usage.

The Company recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized under property, plant and equipment and amortized on a straight-line basis to the next overhaul.

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits will flow to the Company and can be reliably measured. The carrying amount of the replaced part is derecognized. Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds on disposal to the carrying amount of the property, plant and equipment, and are recognized in earnings. The cost of day-to-day servicing of the property, plant and equipment is expensed as incurred in earnings.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives using the straight-line method. The Company reviews the depreciation methods, useful lives and residual values at each reporting date with the effect of any changes in estimate accounted for on a prospective basis.

The estimated useful lives are as follows:

Asset	Estimated useful life
Aircraft hull	40 years from the date of manufacture
Leased hardware and software	Lesser of useful life or term of lease
Engines	Engine cycles
Leased vehicles	Lesser of useful life or term of lease
Rotable spares	10 years
Spare parts	Actual usage
Ground equipment	10 years
Hangar facility	30 years
Vehicles	8 years
Computer hardware and software	5 years
Furniture and fixtures	10 years
Leasehold improvements	Lesser of useful life or term of lease
Deferred heavy maintenance	Up to the date of the next scheduled heavy maintenance

Leases

The Company uses assets made available under lease contracts. Lease contracts are recognized based on the substance of the agreement rather than the legal form to determine their classification as finance leases or operating leases.

Finance leases
Lease agreements that effectively transfer substantially all the risks and rewards of ownership of the leased assets to the Company are classified as finance leases. Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the policy on borrowing costs. Contingent rentals are recognized as expenses in the periods in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a straight-line basis over the shorter of their estimated useful life or the term of the agreement.

Operating leases
Lease agreements that do not meet the recognition criteria of a finance lease are classified and recognized as operating leases. Payments made under operating leases are charged to income on a straight-line basis over the term of the related lease agreement. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Arrangements containing a lease
In compliance with interpretation *IFRIC 4*, the Company identifies agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, as the purchaser in the arrangement benefits from a substantial share of the asset's production and payment is not dependent on production or market price. Such arrangements are treated as leases, and analyzed with reference to *IAS 17, Leases* ("*IAS 17*") for classification as either finance or operating leases.

Intangible assets

Definite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Indefinite life intangible assets, such as licenses, have no foreseeable limit to the period over which they are expected to generate net cash inflows and are carried at cost less accumulated impairment losses and are not amortized.

The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets excluding goodwill (continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Foreign currencies

The functional currency of each subsidiary is Canadian dollars which is the currency of the primary economic environment in which each subsidiary and the Company operates. For the purpose of the financial statements, the results and financial position of each subsidiary are expressed in Canadian dollars.

In preparing the financial statements of each subsidiary, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Income taxes

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period
Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Financial instruments

Financial assets are classified into the following specified categories: financial assets at FVTPL, held to maturity investments, available for sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All financial liabilities are classified as either FVTPL or other financial liabilities.

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

Asset/Liability	Classification	Measurement
Trades and other receivables, note receivable, and deposits	Loans and receivables	Amortized cost
Trade and other payables, distributions payable, convertible debentures and borrowings	Other financial liabilities	Amortized cost
Foreign exchange forward contracts	Fair value through profit or loss	Fair value
Exchangeable LP Units, Trust Units and conversion option on convertible debentures	Fair value through profit or loss	Fair value

Loans and receivables and other financial liabilities
Trade and other receivables, note receivable, deposits, trade and other payables, distributions payable, convertible debentures and borrowings are initially recognized at fair value and subsequently at amortized cost using the effective interest method less any impairment. Interest is recognized by applying the effective interest rate.

Exchangeable LP Units, Trust Units, and the conversion option on convertible debentures
As the Trust Units are puttable financial instruments that give the Unitholders the right to put the Trust Units back to the Fund, the Trust Units have been classified as a liability on the balance sheet for periods prior to the Company's conversion from an income trust to a corporation on January 1, 2011. The Trust Units are classified as FVTPL and re-measured to the quoted market value of the Fund's Trust Units as at each reporting date.

The Exchangeable LP Units may be converted to Trust Units on a one-for-one basis. Since the Trust Units are classified as a liability, the Exchangeable LP Units have also been classified as a liability on the balance sheet for periods prior to the Company's conversion from an income trust to a corporation on

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Exchangeable LP Units, Trust Units, and the conversion option on convertible debentures (continued)

January 1, 2011. The Exchangeable LP Units are classified as FVTPL and re-measured to the quoted market value of the Fund's Trust Units as at each reporting date.

Based on certain conditions, the convertible debentures are convertible, at the holders' discretion, at $16.00 per common share at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the debentures.

The debenture holder's option to convert the debenture units into common shares (the "conversion option") has been classified as a separate component from the liability component of the debenture. Prior to the conversion from an income trust to a corporation effective January 1, 2011, the Trust Units are classified as a liability, the conversion options have also been classified as a liability and are classified as FVTPL and re-measured to fair value determined using the Black-Scholes model as at each reporting date. On conversion to a corporation, the conversion options were reclassified to a separate component of shareholder's equity.

Derivative financial instruments
Derivative financial instruments are utilized by the Company in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative financial instruments are recorded at their fair values.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

Impairment of financial assets
Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is effective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets the estimated future cash flows of the investments have been affected.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or economic conditions that correlate with default on global receivables.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

De-recognition of financial assets and liabilities
De-recognition is applied for all or part of a financial asset, when the contractual rights making up the asset expire, or the Company substantially transfers most of the significant risks and benefits associated with ownership of the asset. De-recognition is applied for all or part of a financial liability, when the liability is extinguished due to cancellation or expiry of the obligation. When a debt is renegotiated with a lender giving rise to substantially different terms, a new liability is recognized.

The Company 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.

Convertible debentures

The component parts of compound instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently re-measured.

Accounting judgments and use of estimates

In preparing the financial statements, the Company's management is required to make judgments, estimates and assumptions that may affect the reported amount of the assets, liabilities, revenues and expenses. Although these estimates are based on management's best knowledge of the current events and actions that the Company may undertake in the future, actual results may differ from these estimates. Reported amounts which require management to make significant estimates and assumptions include inventories, property, plant and equipment, goodwill and intangible assets, and deferred taxes. These items are discussed below.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of property, plant and equipment, indefinite life intangibles and goodwill
Impairment tests on property, plant and equipment, indefinite life intangibles and goodwill are sensitive to the macro-economic and other assumptions used, and long-term financial forecasts. The Company therefore revises the underlying estimates and assumptions based on regularly updated information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting judgments and use of estimates (continued)

Deferred taxes
Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period which is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Inventories
Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Company reviews the estimated selling price and the estimated costs necessary to make the sale at each reporting period to determine the net realizable value of the inventories.

Share-based compensation
The Company has a long-term incentive plan (the "Plan") for certain of the executive officers and senior management of the Company. Under the Plan, Shares purchased on the open market on behalf of the Plan participants are recorded at cost as a reduction of Shareholders' Capital. The Company records a compensation expense on a straight-line basis over the vesting period, with a corresponding entry to Reserves. As each share vests, the equivalent amount is transferred from Reserves to Shareholders' Capital.

4. COMPENSATION OF KEY MANAGEMENT PERSONNEL

The remuneration of directors and other members of key management personnel during the three and nine month periods was as follows:

	Three month period ended		Nine month period ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	$	$	$	$
Short-term benefits	715,343	702,840	2,146,029	2,108,520
Post-employment benefits	2,596	2,596	7,788	7,788
Share-based payments	68,820	-	428,141	-
Total remuneration	786,759	705,436	2,581,958	2,116,308

5. INVENTORIES

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Fuel inventory	658,198	1,074,658	808,907

During the three and nine month periods ended September 30, 2011, costs of inventory of $13,425,022 and $40,858,380, respectively, were recognized in profit and loss as an expense (three and nine month periods ended September 30, 2010 - $10,056,367 and $28,888,684, respectively).

6. INTANGIBLE ASSETS

Intangible assets at September 30, 2011 and December 31, 2010 consist of licenses with indefinite lives carried at $1,000,000. Intangible assets at January 1, 2010 consist of licenses with indefinite lives carried at $1,000,000 and customer relationships related to the regional operations with a carrying value of $3,503,705. The customer relationships were sold to Skylink Express on July 14, 2010 (see note 19 for details).

7. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2010	Additions	Disposals	Impairment	Balance as at December 31, 2010
	$	$	$	$	$
Aircraft hull	16,715,458	-	(1,273,407)	-	15,442,051
Engines	13,985,425	-	(2,677,559)	-	11,307,866
Spare parts	2,830,263	-	(1,691,913)	-	1,138,350
Ground equipment	7,026,970	646,186	(418,823)	-	7,254,333
Rotable spares	11,255,714	422,084	(2,114,174)	-	9,563,624
Computer hardware and software	2,207,207	510,930	(44,805)	-	2,673,332
Leased hardware and software	830,156	-	-	-	830,156
Furniture and fixtures	847,363	117,969	(26,362)	-	938,970
Leasehold improvements	4,371,957	78,770	(125,408)	-	4,325,319
Vehicles	344,942	32,430	(23,878)	-	353,494
Leased vehicles	230,309	-	-	-	230,309
Hangar facility	14,878,351	2,051	-	-	14,880,402
Deferred heavy maintenance	7,024,017	3,210,540	-	-	10,234,557
	82,548,132	5,020,960	(8,396,329)	-	79,172,763

Accumulated Depreciation	Balance as at January 1, 2010	Depreciation	Disposals	Balance as at, December 31, 2010	Net Book Value, as at December 31, 2010
	$	$	$	$	$
Aircraft hull	4,254,266	1,800,709	(1,202,141)	4,852,834	10,589,217
Engines	4,623,544	2,998,194	(1,991,024)	5,630,714	5,677,152
Spare parts	-	-	-	-	1,138,350
Ground equipment	2,706,760	931,849	(219,763)	3,418,846	3,835,487
Rotable spares	2,147,159	580,533	(173,641)	2,554,051	7,009,573
Computer hardware and software	1,176,252	365,513	(12,826)	1,528,939	1,144,393
Leased hardware and software	426,385	136,844	-	563,229	266,927
Furniture and fixtures	411,046	91,272	(18,130)	484,188	454,782
Leasehold improvements	2,472,527	555,122	(118,184)	2,909,465	1,415,854
Vehicles	215,324	41,705	(12,191)	244,838	108,656
Leased vehicles	125,030	25,009	-	150,039	80,270
Hangar facility	1,927,437	1,299,470	-	3,226,907	11,653,495
Deferred heavy maintenance	4,891,805	2,712,424	-	7,604,229	2,630,328
	25,377,535	11,538,644	(3,747,900)	33,168,279	46,004,484

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Cost	Balance as at January 1, 2011	Additions	Disposals	Impairment	Balance as at September 30, 2011
	$	$	$	$	$
Aircraft hull	15,442,051	-	(759,328)	(479,998)	14,202,725
Engines	11,307,866	1,073,611	(1,042,218)	(658,203)	10,681,056
Spare parts	1,138,350	382,238	-	-	1,520,588
Ground equipment	7,254,333	253,926	(302,067)	-	7,206,192
Rotable spares	9,563,624	1,490,464	-	-	11,054,088
Computer hardware and software	2,673,332	114,700	-	-	2,788,032
Leased hardware and software	830,156	-	-	-	830,156
Furniture and fixtures	938,970	103,026	-	-	1,041,996
Leasehold improvements	4,325,319	54,226	-	-	4,379,545
Vehicles	353,494	22,205	-	-	375,699
Leased vehicles	230,309	-	-	-	230,309
Hangar facility	14,880,402	65,590	-	-	14,945,992
Deferred heavy maintenance	10,234,557	3,353,975	(1,878,222)	-	11,710,310
	79,172,763	6,913,961	(3,981,835)	(1,138,201)	80,966,688

Accumulated Depreciation	Balance as at January 1, 2011	Depreciation	Disposals	Balance as at September 30, 2011	Net Book Value, September 30, 2011
	$	$	$	$	$
Aircraft hull	4,852,834	839,170	(82,780)	5,609,224	8,593,501
Engines	5,630,714	673,064	(464,654)	5,839,124	4,841,932
Spare parts	-	-	-	-	1,520,588
Ground equipment	3,418,846	455,620	(120,849)	3,753,617	3,452,575
Rotable spares	2,554,051	1,112,969	-	3,667,020	7,387,068
Computer hardware and software	1,528,939	384,912	-	1,913,851	874,181
Leased hardware and software	563,229	132,585	-	695,814	134,342
Furniture and fixtures	484,188	83,917	-	568,105	473,891
Leasehold improvements	2,909,465	225,834	-	3,135,299	1,244,246
Vehicles	244,838	25,846	-	270,684	105,015
Leased vehicles	150,039	11,328	-	161,367	68,942
Hangar facility	3,226,907	320,998	-	3,547,905	11,398,087
Deferred heavy maintenance	7,604,229	2,634,121	(1,468,792)	8,769,558	2,940,752
	33,168,279	6,900,364	(2,137,075)	37,931,568	43,035,120

Included in general and administrative expenses for the three and nine month periods ended September 30, 2011 were depreciation expenses of $149,143 and $634,775, respectively (2010 – $191,068 and $508,475, respectively).

During the three month period ended September 30, 2011, the Company reviewed the carrying value of its regional aircraft and estimated that the recoverable amount is less than the book value of the aircraft.

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The Company reduced the net book value of the aircraft hull and engines to fair value by $1,138,201 and recorded the write down in general and administration expenses. The related deferred heavy maintenance expenditure of $409,430 was also written off and recorded in the general and administration expenses. Subsequent to September 30, 2011, the Company approved the sale of one of the aircraft and accordingly the fair value of $1,000,000 of the aircraft is presented as the asset held for sale as well as the related future tax liability of $149,351.

Change in useful life estimates

On January 1, 2011, the Company completed an assessment of the useful lives of all classes of property, plant and equipment, as well as a review of the period in which the expected pattern of economic benefits were expected to be consumed. From this review, it was determined that all asset classes should be depreciated on a straight-line basis from January 1, 2011 in order to better reflect the Company's expected pattern of benefit. Accordingly, the basis of depreciation and estimated useful lives were revised for aircraft hull, ground equipment, rotable spares and the hangar facility.

The effect of the change in estimate has been recognized prospectively from January 1, 2011 and did not have a material impact on depreciation expense for the three and nine month periods ending September 30, 2011.

8. BORROWINGS

Borrowings consist of the following:

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Revolving credit facility	3,867,858	8,514,989	11,130,589
Fixed loans - Prince Edward Air Ltd.	3,882,780	5,148,748	5,577,496
	7,750,638	13,663,737	16,708,085
Less current portion	787,836	1,460,290	428,748
	6,962,802	12,203,447	16,279,337

The Company renewed its revolving credit facility with a Canadian chartered bank on September 30, 2010. The credit facility is to a maximum of $25.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at September 30, 2011.

The credit facility is secured by the following:

- general security agreement over all assets of the Company;
- guarantee and postponement of claim to a maximum of $35.0 million in favour of Cargojet Partnership (wholly-owned subsidiary of the Company) and certain other entities of the Company; and
- assignment of insurance proceeds, payable to the bank.

8. BORROWINGS (CONTINUED)

The Company also maintains fixed loans with another Canadian chartered bank through its subsidiary Prince Edward Air Ltd. ("PEAL"). The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the assets of PEAL and a guarantee provided by Cargojet Airways Ltd. ("CJA") for 20% of the outstanding amounts. CJA is a wholly-owned subsidiary of the Company and the sole shareholder of PEAL. The loans are repayable in monthly installments plus interest and will mature by January 2019. The Company has provided a standby letter of credit of $630,000 to the bank which is held against this loan.

The following is the future minimum repayment schedule for the fixed loans related to PEAL:

	$
2011 (remainder of the year)	194,320
2012	794,994
2013	825,136
2014	857,844
2015	550,661
>2015	659,825
	3,882,780
Less current portion	787,836
	3,094,944

Interest expense on the borrowings for the three and nine month periods ended September 30, 2011 totaled $253,196 and $648,444, respectively (2010 - $261,167 and $766,011, respectively).

9. OBLIGATIONS UNDER FINANCE LEASES

The Company leases various service equipment and computer equipment which are classified as finance leases. As at September 30, 2011, future minimum base lease payments under the finance lease obligations are as follows:

	$
Not later than one year	57,366
Later than one year and not later than five years	-
Later than five years	-
	57,366
Less interest	1,467
Obligations under finance leases	55,899
Less current portion	55,899
	-

Interest expense on the obligations under finance leases for the three and nine month periods ended September 30, 2011 totaled $1,026 and $4,168, respectively (2010 – $2,475 and $8,966, respectively).

10. CONVERTIBLE DEBENTURES

In April 2008, $35.7 million of unsecured subordinated debentures were issued with a term of five years. These debentures bear a fixed interest rate of 7.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2008.

On or after May 1, 2011, but prior to April 30, 2012, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture provided that the current market price (as defined below) of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $16.00 per common share. After May 1, 2012, but prior to the maturity date of April 30, 2013, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. The term “current market price” is defined in the indenture to mean the weighted average trading price of the common shares on the Toronto Stock Exchange for the twenty (20) consecutive days ending on the fifth trading day preceding the date of redemption or maturity. There was no debenture redemption during the periods ended September 30, 2011.

On redemption or at maturity on April 30, 2013, the Company has the option to repay the debentures in either cash or equivalent common shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders’ discretion, at $16.00 per common share at any time prior to the close of business on the earlier of the maturity date and the business day immediately preceding the date specified by the Company for redemption of the debentures. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract.

The principal amount of the debentures has been allocated between its debt component and the conversion option. The two components have been classified separately as liabilities on the balance sheet as at January 1, 2010 and December 31, 2010. Following conversion of the Fund to a corporation on January 1, 2011, the conversion option was reclassified to equity. Factoring in the value of the conversion option and transaction costs, the convertible debentures bear interest at an effective rate of 10.04%.

The debt component is measured at amortized cost. The balance of the debt component at September 30, 2011, December 31, 2010 and January 1, 2010 consisted of the following amounts:

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Principal balance	24,655,000	24,655,000	32,131,000
Less:			
Issuance costs	(1,237,467)	(1,237,467)	(1,612,696)
Conversion option at inception	(1,568,975)	(1,568,975)	(2,044,727)
Accretion	1,928,194	1,513,382	1,249,504
Balance	23,776,752	23,361,940	29,723,081

10. CONVERTIBLE DEBENTURES (CONTINUED)

Interest expense on the debentures for the three and nine month periods ended September 30, 2011 totaled $605,870 and $1,797,857, respectively (2010 - $605,871 and $1,820,899, respectively).

The conversion option is measured at FVTPL and is valued using the Black-Scholes model. The valuation assumptions used to value the conversion option as at December 31, 2010, September 30, 2010, and January 1, 2010 are as follows:

	December 31, 2010	September 30, 2010	January 1, 2010
Stock price	$ 8.48	$ 7.70	$ 9.13
Exercise price	$ 16.00	$ 16.00	$ 16.00
Expected life in years	2.27	2.53	3.27
Annualized volatility	61%	63%	40%
Annual rate of quarterly dividends	5.94%	6.55%	5.85%
Risk-free discount rate	2.23%	2.01%	2.12%

The calculated fair values of the conversion option at January 1, 2010, September 30, 2010 and December 31, 2010 are $1,374,768, $1,611,857 and $1,778,326, respectively.

Substantial and normal course issuer bids

In January 2010, under the terms of a substantial issuer bid, the Company repurchased $7,476,000 principal amount of the debentures ($6,625,018 net of the related unamortized issuance costs and the $430,824 portion allocated to the conversion option) at a cost of $1,010 per debenture plus a payment in respect of all accrued interest and unpaid interest on these debentures for an aggregate purchase price of $7,667,535, representing $7,550,760 on account of principal (allocated $7,071,785 to the liability component repurchased and $430,824 to the conversion option component) and $116,775 on account of accrued interest. The repurchase of the debentures resulted in a loss of $321,415.

11. INCOME TAXES

The reconciliation between the Company's statutory and effective tax rate is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	$	$	$	$
Earnings (loss) before income taxes and discontinued operations	2,114,033	(8,034,815)	5,275,080	15,790,864
Provision for (recovery of) income taxes at the combined basic rate of 28%	591,929	(2,249,748)	1,477,022	4,421,442
Permanent and other differences	(62,553)	3,082,430	(47,617)	(3,034,022)
Provision for income taxes	529,376	832,682	1,429,405	1,387,420

The tax effect of significant temporary differences and loss carry forwards is as follows:

	September 30, 2011	December 31, 2010	January 1, 2010
	$	$	$
Property, plant and equipment	3,222,201	3,890,273	4,872,227
Intangible assets	(601,893)	(653,632)	36,892
Operating loss carryforward	(1,596,098)	(1,541,289)	(1,537,755)
Note receivable	(108,229)	(153,749)	-
Financing costs	(5,032)	(2,516)	(478,832)
Derivative contracts	(4,428)	(212,513)	(177,118)
Convertible debentures	263,292	(138,301)	294,448
Deferred heavy maintenance	2,104,976	1,928,433	1,260,736
Net deferred income tax liability	3,274,789	3,116,706	4,270,598

12. EARNINGS (LOSS) PER SHARE / TRUST UNIT

The following table reconciles the net earnings and weighted average shares outstanding used in computing basic and diluted earnings (loss) per share for the nine month periods ended September 30, 2011 and 2010:

		Nine month period ended September 30,		
Basic Earnings per share / Trust Unit		2011		2010
Profit from continuing operations	$	4,171,760	$	13,544,282
Loss from discontinued operations	$	(135,551)	$	(2,436,506)
Loss from discontinued operations attributable to non-controlling interest	$	-	$	292,357
Net profit used in the calculation of basic earnings per share / Trust Unit	$	4,036,209	$	11,400,133
Weighted average number of shares / Trust Units		7,955,696		7,993,416
Basic earnings per share / Trust Unit - continuing operations	$	0.52	$	1.69
Basic (loss) per share / Trust Unit - discontinued operations	$	(0.01)	$	(0.26)
Total basic earnings per share / Trust Unit	$	0.51	$	1.43
Diluted Earnings per share / Trust Unit				
Profit from continuing operations	$	4,171,760	$	13,544,282
Loss from discontinued operations	$	(135,551)	$	(2,436,506)
Loss from discontinued operations attributable to non-controlling interest	$	-	$	292,357
Effect of the conversion from the convertible debentures	$	-	$	1,384,564
Net profit used in the calculation of diluted earnings per share / Trust Unit	$	4,036,209	$	12,784,697
Weighted average number of shares / Trust Units		7,955,696		9,534,354
Diluted earnings per share / Trust Unit - continuing operations	$	0.52	$	1.57
Diluted (loss) per share / Trust Unit - discontinued operations	$	(0.01)	$	(0.23)
Total diluted earnings per share / Trust Unit	$	0.51	$	1.34

The effect of the convertible debentures has been excluded from the calculation of earnings per share for the nine month period ended September 30, 2011 as the impact would be anti-dilutive.

The following table reconciles the net earnings and weighted average shares outstanding used in computing basic and diluted earnings (loss) per share for the three month periods ended September 30, 2011 and 2010:

12. EARNINGS (LOSS) PER SHARE / TRUST UNIT (CONTINUED)

		Three month period ended September 30, 2011		2010
Basic Earnings (loss) per share / Trust Unit				
Profit (loss) from continuing operations	$	1,481,664	$	(9,062,711)
Loss from discontinued operations	$	(135,551)	$	(674,504)
Net profit (loss) used in the calculation of basic earnings per share / Trust Unit	$	1,346,113	$	(9,737,215)
Weighted average number of shares / Trust Units		7,941,670		7,993,416
Basic earnings (loss) per share / Trust Unit - continuing operations	$	0.19	$	(1.13)
Basic (loss) per share / Trust Unit - discontinued operations	$	(0.02)	$	(0.09)
Total basic earnings (loss) per share / Trust Unit	$	0.17	$	(1.22)
Diluted Earnings (loss) per share / Trust Unit				
Profit (loss) from continuing operations	$	1,481,664	$	(9,062,711)
Loss from discontinued operations	$	(135,551)	$	(674,504)
Net profit (loss) used in the calculation of diluted earnings per share / Trust Unit	$	1,346,113	$	(9,737,215)
Weighted average number of shares / Trust Units		7,955,696		7,993,416
Diluted earnings (loss) per share / Trust Unit - continuing operations	$	0.19	$	(1.13)
Diluted (loss) per share / Trust Unit - discontinued operations	$	(0.02)	$	(0.09)
Total diluted earnings (loss) per share / Trust Unit	$	0.17	$	(1.22)

The effect of the convertible debentures has been excluded from the calculation of earnings (loss) per share for the three month period ended September 30, 2011 as the impact would be anti-dilutive.

13. SHAREHOLDERS' CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of common voting shares and variable voting shares. The common voting shares are held only by shareholders who are Canadian residents. The variable voting shares are held only by shareholders who are non-Canadian residents. Under the articles of incorporation and bylaws of the Company, any common voting share that is sold to a non-Canadian resident is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian resident is automatically converted to a common voting share.

Variable voting shares carry one vote per share held, except where (1) the number of issued and outstanding variable voting shares exceeds 25% of the total number of all issued and outstanding common and variable voting shares, or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes that may be cast at such meeting.

If either of the above noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act or formality. Under the circumstances described in

13. SHAREHOLDERS' CAPITAL (CONTINUED)

Authorized (continued)

(i) above, the variable voting shares as a class cannot carry more than 25% of the total voting rights attached to the aggregate number of issued and outstanding common and variable voting shares. Under the circumstances described in (ii) above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% of the total number of votes that may be cast at the meeting.

b) Issued and outstanding

On January 1, 2011, the Company was converted from an income trust structure to a corporation structure. All Unitholders of the Fund had their Trust Units automatically converted into shares in the new corporate entity on a one-for-one basis.

The outstanding 6,437,109 Trust Units and 1,556,307 Exchangeable LP Units as at January 1, 2011 were converted into 7,755,271 common voting shares and 238,145 variable voting shares.

The following table shows the change in shareholders' capital from January 1, 2011 to September 30, 2011:

	Number	Amount $
Variable voting shares	238,145	2,019,470
Common voting shares	7,755,271	65,764,697
Balances as at January 1, 2011	7,993,416	67,784,167
Treasury stock purchase	(65,984)	(564,825)
Distributed share-based compensation	14,238	121,735
Balances as at September 30, 2011	7,941,670	67,341,077
Variable voting shares	226,545	1,920,979
Common voting shares	7,715,125	65,420,098

14. LONG-TERM INCENTIVE PLAN

In 2010, the Company adopted a long-term incentive plan (the "Plan") to provide certain of the executive officers and senior management of the Company with compensation opportunities tied to the performance of the Company. Company incentive bonuses, in the form of shares, will be provided to eligible employees on an annual basis where the earnings of the Company exceed a pre-determined base (the "base target"). The base target is set annually by the Compensation Committee of the Company's Board of Directors in accordance with the terms of the Plan.

If the Company's earnings exceed the base target, a percentage of the excess is contributed by the Company into a long-term incentive pool. Shares are then purchased on the open market by the Company and held by the Company until they vest. Vesting of the shares will occur on the basis of one-third of the total grant at the time of granting, and one third on each of the first and second anniversary dates.

14. LONG-TERM INCENTIVE PLAN (CONTINUED)

On March 15, 2011, in accordance with the Plan, the Company purchased 65,984 shares from the open market at an average price of $8.55, plus commissions. As at September 30, 2011, 14,238 of these shares had vested, $121,735 being transferred from Reserves to Shareholders' Capital. Share-based compensation expense of $68,820 and $428,141 has been included in the statement of income for the three and nine month periods ending September 30, 2011, which includes withholding taxes of nil and $99,675 paid on behalf of the eligible employees respectively.

The following table details the impact of the above transactions on the balance sheet as at September 30, 2011 and on the statement of income for the three and nine month periods ended September 30, 2011:

Shares purchased under the plan	Number	$
Balance, January 1, 2011	-	-
Shares acquired by Company for long-term incentive plan	65,984	564,825
Shares distributed by Company to long-term incentive plan participants	(14,238)	(121,735)
Balance, September 30, 2011	51,746	443,090

	Three months ended September 30, 2011	Nine months ended September 30, 2011
Share-based compensation expense	$	$
Shares transferred to long-term incentive plan participants	-	121,735
Withholding tax paid for long-term incentive plan participants	-	99,675
Share-based compensation, not yet vested	68,820	206,731
Share-based remuneration	68,820	428,141

15. DIVIDENDS / DISTRIBUTIONS

The following table summarizes the cash dividends for the nine months ended September 30, 2011:

Record Date	Date Dividends / Distribution Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 31, 2010	January 15, 2011	-	7,993,416	-	335,723
January 31, 2011	February 15, 2011	335,723	7,993,416	0.0420	335,723
February 28, 2011	March 15, 2011	335,724	7,993,416	0.0420	335,724
March 31, 2011	April 15, 2011	335,723	7,993,416	0.0420	335,723
June 20, 2011	July 5, 2011	1,079,111	7,993,416	0.1350	1,079,111
September 20, 2011	October 5, 2011	1,079,111	7,993,416	0.1350	-
		3,165,392		0.3960	2,422,004

15. DIVIDENDS / DISTRIBUTIONS (CONTINUED)

The following table summarizes the cash distributions for the nine months ended September 30, 2010:

Record Date	Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	LP Unitholders Declared	LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
December 31, 2009	January 15, 2010		241,939		93,784	-		335,723
January 31, 2010	February 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
February 28, 2010	March 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
March 31, 2010	April 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
April 30, 2010	May 14, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
May 31, 2010	June 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
June 30, 2010	July 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
July 31, 2010	August 13, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
August 31, 2010	September 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
September 30, 2010	October 15, 2010	270,359		65,365		335,724	0.0420	
		2,376,391	2,347,971	645,123	673,542	3,021,514	0.3780	3,021,513

As at September 30, 2011, $1,079,111 of dividends were declared but not yet paid to shareholders and are included in other financial liabilities on the balance sheet.

As at September 30, 2010, $270,359 of distributions to Trust Unitholders and $65,365 of distributions to Exchangeable LP Unitholders were declared but not yet paid.

16. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
Not later than one year	11,709,877
Later than one year and not later than five years	34,805,378
Later than five years	379,406
	46,894,661

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The Company has provided irrevocable standby letters of credit totalling $1,589,000 to financial institutions as security for its loan, corporate credit cards, and to several vendors as security for the Company's ongoing purchases. The letters of credit expire as follows:

	$
December 31, 2011	200,000
January 13, 2012	250,000
March 3, 2012	630,000
March 20, 2012	20,000
July 6, 2012	126,000
July 28, 2012	363,000
	1,589,000

17. RELATED PARTY TRANSACTIONS

During the three and nine months period ended September 30, 2011, the Company entered into a transaction with a related party, First Take Entertainment Ltd., a company controlled by one of the Company's executive officers.

This transaction was in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amount of $150,000 (2010 - nil) was paid on account of advertising and promotional expenses and was recorded as prepaid expense.

18. ECONOMIC DEPENDENCE

During the three and nine month periods ended September 30, 2011, the Company had sales to three customers that represented 52.6% and 53.6% of the total revenues, respectively (September 30, 2010 – 55.9% and 50.2%, respectively). These sales are provided under service agreements that expire over various periods to September 2018.

19. DISPOSITION OF THE COMPANY'S REGIONAL BUSINESS

On July 14, 2010, the Company entered into an agreement with SL Express to sell its 55% interest in the Partnership. The Partnership operated the Company's regional air cargo business segment that provided service to thirty-three smaller cities in Ontario, Quebec and the Maritime provinces. SL Express held the other 45% interest in the Partnership. Proceeds for the sale included a $3.2 million non-interest bearing note receivable ("First Note Receivable") over five years, that was reduced by approximately $0.7 million to account for the difference between the amounts due to Cargojet and SL Express from the Partnership, net of the total cash losses of the Partnership since its inception relative to the proportionate ownership of the Company and SL Express.

19. DISPOSITION OF THE COMPANY'S REGIONAL BUSINESS (CONTINUED)

The sale agreement also included the sale of the Company's aircraft spare parts and other operating assets that are required by SL Express in the operation of the Partnership, which were sold to SL Express on December 20, 2010 in exchange for a separate non-interest bearing note ("Second Note Receivable") of $1.8 million receivable payable over five years.

Both notes receivable due from SL Express are secured by a first charge on aircraft owned by SL Express. They are discounted at an annual rate of 6%.

The net loss from discontinued operations for both the three and nine month periods ended September 30, 2011 are $188,265 (net of taxes, $135,551), (2010 - $674,504 and $2,436,506, respectively).

The discounted balance of the notes receivable is comprised of the following as at September 30, 2011:

September 30, 2011	First Note Receivable	Second Note Receivable	Total
	$	$	$
Notes receivable	1,800,898	1,391,592	3,192,490
Less: notes receivable - current portion	491,054	342,097	833,151
Notes receivable - long-term portion	1,309,844	1,049,495	2,359,339

Interest revenue of $47,179 and $169,876 was recognized for the three and nine month periods ended September 30, 2011 respectively (2010 – nil).

Prior to the classification as a discontinued operation, the results of the Partnership represented the entire regional air cargo segment of the Company. As the operations of the Partnership comprised all of the results of the regional segment, the Company now has only one segment.