CARGOJET INC.

(Formerly Cargojet Income Fund)
Management's Discussion and
Analysis of Financial Condition and Results of Operations

For the Three Month and Nine Month Periods Ended September 30, 2011

The following is the Management's Discussion and Analysis (MD&A), of the consolidated financial condition and results of operations of Cargojet Inc. (the "Company") for the three month and nine month periods ended September 30, 2011. The following also includes a discussion of and comparative operating results for the three month and nine month periods ended September 30, 2010.

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.

The effective date of the MD&A is November 7, 2011. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") *Interim Financial Reporting* ("IAS 34") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the company expects to adopt in its consolidated financial statements as at and for the year ending December 31, 2011. As these financial statements are prepared using International Financial Reporting Standards ("IFRS"), certain disclosures that are required to be included in annual 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 Generally Accepted Accounting Principles ("Canadian GAAP") have been included in the Company's condensed consolidated interim financial statements ("consolidated financial statements") for the comparative annual period. This MD&A should be read in conjunction with the consolidated financial statements of the Company as at and for the three and nine month periods ended September 30, 2011 and 2010.

EBITDA [(A)] and Adjusted Free Cash Flow [(B)]

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual net expenditures. Non-GAAP measures, EBITDA and Adjusted Free Cash Flow, are not earnings measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted Free Cash Flow should not be construed as an alternative to net profit or loss determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Adjusted Free Cash Flow and EBITDA are shown on page 9 of the MD&A.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of management of the Company. For a more complete discussion of the risks affecting the Company's business, reference should be made to the Annual Information Form ("AIF"), filed February 28, 2011 with the regulatory authorities.

Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in the Company's AIF, filed February 28, 2011 with the regulatory authorities.

Corporate Overview

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

- Operating a domestic overnight air cargo co-load network between thirteen major Canadian cities
- Providing dedicated aircraft to customers on an Aircraft, Crew, Maintenance & Insurance ("ACMI") basis, operating between points in Canada and the USA
- Operating scheduled international routes for multiple cargo customers between the USA and Bermuda, and between Canada and Poland

The Company operates its business across North America transporting over 750,000 pounds of time sensitive air cargo each business night utilizing its fleet of all-cargo aircraft. The Company's domestic overnight air cargo co-load network consolidates cargo received from customers and transports such cargo to the appropriate destination in a timely and safe manner. The Company continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

The Company currently operates one leased 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and ten Boeing 727-200 ("B727") series cargo aircraft, three of which are leased and seven owned. The Company also periodically contracts other airlines on an ACMI or sub-charter basis to temporarily operate aircraft on the Company's behalf. This provides added capacity to its overall network to meet new business and/or peak period demands.

As at the date of this MD&A, the Company owns three regional aircraft. One of the aircraft is approved by the management for sale in its present condition and is held for sale.

Recent Events

Income Trust Conversion

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 Unit holders 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 Toronto Stock Exchange ("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. Convertible debentures of the Fund were converted into convertible debentures of the Company with no changes in their rights or terms.

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 Cargojet Inc., 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 (i) 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 (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.

On January 1, 2011, the outstanding 6,437,109 Trust Units and 1,556,307 Exchangeable LP Units were converted on a one-for-one basis into 7,755,271 common voting shares and 238,145 variable voting shares.

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 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.

Recent Events (Continued)

Sale of Cargojet Regional Partnership

On July 14, 2010, the Company entered into an agreement with SL Express to sell its 55% interest in the Cargojet Regional Partnership (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.

The sale agreement also included the sale of the Company's aircraft spare parts and other operating assets that were 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 receivable ("Second Note Receivable") of $1.8 million receivable 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 $2,536,506, 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

Prior to the classification as a discontinued operation, the results of the Partnership represented the entire regional air cargo segment of the Company. With the sale of the regional business, the Company now has only one segment. The Company operated its regional business under its subsidiary Prince Edward Air Ltd. ("PEAL") and plans to wind up PEAL into its parent company, Cargojet Airways Ltd. by the end of 2011.

Asset held for sale

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. 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

Recent Events (Continued)

Sale of Cargojet Regional Partnership (Continued)

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.

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.

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 income statement 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

Revenues

The Company's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Company's network and a corresponding guaranteed daily revenue amount is paid to the Company for this space and weight allocation. Remaining capacity is sold on an *ad hoc* basis to contract and non-contract customers. The Company also generates revenue from a variety of other air cargo services:

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.

- To further enhance its revenues, the Company offers a specialty charter service, typically in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe.

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

- The Company provides and operates dedicated aircraft on an ACMI basis. On these contracts, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the routes.

Expenses

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

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Company's business that include functions such as load scheduling, flight operations coordination, client relations, administration, accounting and information systems.

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2011	2010	**2011**	2010
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	$	$
Revenue	**40,307**	38,765	**122,596**	113,282
Direct expenses	**32,695**	29,474	**99,815**	88,277
	7,612	9,291	**22,781**	25,005
Selling, general and administrative expenses				
General and administrative	**5,817**	4,451	**15,510**	13,865
Sales and marketing	**143**	185	**399**	563
Finance cost	**832**	869	**2,446**	2,592
Finance income	**(48)**	(22)	**(171)**	(25)
Gain on derivative contracts	**(1,246)**	(103)	**(678)**	(361)
Distributions to Trust and Exchangeable LP Unitholders	**-**	1,007	**-**	3,022
Unrealized loss (gain) on Trust Units	**-**	8,368	**-**	(8,644)
Unrealized loss (gain) on Exchangeable LP Units	**-**	2,023	**-**	(2,787)
Unrealized loss on Conversion Option	**-**	548	**-**	668
Loss on debenture redemption	**-**	-	**-**	321
	5,498	17,326	**17,506**	9,214
Earnings (loss) before income taxes and discontinued operations	**2,114**	(8,035)	**5,275**	15,791
Provision for (recovery of) income taxes				
Current	**529**	833	**1,429**	1,388
Future	**103**	195	**(326)**	859
	632	1,028	**1,103**	2,247
Profit (loss) from continuing operations	**1,482**	(9,063)	**4,172**	13,544
Loss from discontinued operations	**(136)**	(674)	**(136)**	(2,436)
Net Profit (loss)	**1,346**	(9,737)	**4,036**	11,108
Earnings per share				
Basic	0.17 -	1.22	0.51	1.43
Diluted	0.17 -	1.22	0.51	1.34
Average number of shares - basic (in thousands of shares)(1)	**7,942**		**7,956**	
Average number of trust units - basic (in thousands of units)		7,993		7,993
Average number of trust units - diluted (in thousands of units)(2)		7,993		9,534

1. Average number of shares is calculated net of treasury shares.

2 For the purpose of calculating earnings per trust unit – diluted for the three and nine month periods ended September 30, 2010, the weighted average numbers of Trust Unit and the weighted average number of Exchangeable LP units, and the effect of the Fund's convertible debentures have been combined.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	September 30 2011 (unaudited)	June 30 2011 (unaudited)	March 31 2011 (unaudited)	December 31 2010 (unaudited)	September 30 2010 (unaudited)	June 30 2010 (unaudited)	March 31 2010 (unaudited)	December 31 2009 (unaudited)
Revenue (in thousands)	$ 40,307	$ 41,182	$ 41,108	$ 42,923	$ 38,765	$ 37,751	$ 36,766	$ 37,193
Net income (loss) from continuing operations (in thousands)[2]	$ 1,482	$ 1,407	$ 1,283	$ (4,316)	$ (9,063)	$ 16,535	$ 6,072	$ 3,676
Net loss from discontinued operations (in thousands)[2]	$ (136)	$ -	$ -	$ (806)	$ (674)	$ (1,251)	$ (511)	$ 96
Earnings (loss) per Share / Trust Unit								
From continuing and discontinued operations								
- Basic	0.17	0.18	0.16 -	0.64 -	1.22	1.92	0.72	0.62
- Diluted	0.17	0.18	0.16 -	0.64 -	1.22	1.66	0.65	0.57
From continuing operations								
- Basic	0.19	0.18	0.16 -	0.54 -	1.13	2.07	0.76	0.60
- Diluted	0.19	0.18	0.16 -	0.54 -	1.13	1.78	0.69	0.56
Average number of trust units - basic (in thousands of units)[1]	-	-	-	7,993	7,993	7,993	7,993	6,063
Average number of trust units - diluted (in thousands of units)[1]	-	-	-	7,993	7,993	9,534	9,534	10,304
Average number of shares - basic (in thousands of shares)[3]	7,942	7,942	7,984	-	-	-	-	-
Average number of shares - diluted (in thousands of shares)[3]	7,942	7,942	7,984	-	-	-	-	-

1. For the purpose of calculating the earnings per trust unit – diluted for the three month period ended December 31, 2009, March 31, 2010 and June 30, 2010, the weighted average numbers of Trust Units, the weighted average number of Exchangeable LP units, and the effect of the Fund's convertible debentures have been combined. For the purpose of calculating the earnings per trust unit – diluted for the three month period ended September 30, 2010 and December 31, 2010, the weighted average numbers of Trust Units and the weighted average number of Exchangeable LP units have been combined.

2. The net income from continuing operations and the net income from discontinued operations for the three month periods ended prior to January 1, 2010 are in compliance with Canadian GAAP. The revenue, net income and earning per share from continuing operations discontinued operations for the three month period ended subsequent to January 1, 2010 are based on figures in compliance with IFRS.

3. Average number of shares is calculated net of treasury shares.

Calculation of EBITDA[(A)] and Adjusted Free Cash Flow[(B)] :
(in thousands)

	Three Month Period Ended September 30		Nine Month Period Ended September 30	
	2011	2010	**2011**	2010
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA [(A)]:				
Profit from continuing operations	**1,482**	(9,063)	**4,171**	13,544
Add:				
Interest, net	**784**	847	**2,275**	2,567
Provision for current income taxes	**529**	833	**1,430**	1,388
Provision for (recovery of) deferred income taxes	**103**	195	**(326)**	859
Loss on disposal of property, plant and equipment	**419**	-	**632**	-
Impairment on property, plant and equipment	**1,138**	-	**1,138**	-
Change in fair value on non-hedge derivatives	**(1,034)**	(103)	**(466)**	(103)
Loss on purchase of debentures	**-**	-	**-**	321
Distributions to Trust and Exchangeable LP Unitholders	**-**	1,007	**-**	3,022
Unrealized gain on Trust Units	**-**	8,368	**-**	(8,644)
Unrealized gain on Exchangeable LP Units	**-**	2,023	**-**	(2,787)
Unrealized loss on conversion option	**-**	548	**-**	668
Depreciation of property, plant and equipment	**1,368**	1,614	**4,266**	4,837
Aircraft heavy maintenance depreciation	**812**	792	**2,634**	1,970
Aircraft heavy maintenance expenditures	**(544)**	(1,041)	**(3,354)**	(3,005)
Heavy maintenance deposits [(1)]	**(689)**	(360)	**(431)**	(1,389)
EBITDA from continuing operations	**4,368**	5,659	**11,969**	13,248
EBITDA from discontinued operations	**(188)**	(218)	**(188)**	(131)
Total EBITDA [(A)]	**4,180**	5,441	**11,781**	13,117
Calculation of Adjusted Free Cash Flow [(B)]:				
Cash inflow from operating activities from continuing operations	**3,925**	4,770	**9,972**	7,249
Addition to property, plant and equipment	**(1,156)**	(390)	**(3,560)**	(1,511)
Proceeds from disposal of property, plant and equipment	**49**	81	**959**	273
Standardized free cash flow	**2,818**	4,461	**7,371**	6,011
Repayment of long-term debt	**(2,044)**	(2,431)	**(6,504)**	(3,545)
Repayment of finance lease	**(29)**	(52)	**(135)**	(185)
Repurchase of convertible debentures	**-**	-	**-**	(7,668)
Provision for current income taxes	**(529)**	(833)	**(1,429)**	(1,388)
Changes in non-cash working capital items and deposits	**(191)**	(1,262)	**(713)**	713
Adjusted free cash flow [(B)]	**25**	(117)	**(1,410)**	(6,062)

1. Heavy maintenance deposits are paid to the aircraft lessors on a monthly basis. Cargojet accrues a refund of these payments when it incurs actual heavy maintenance expenditures.

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

Review of Operations for the Three Month Periods ended September 30, 2011 and 2010

Highlights for the Three Month Periods Ended September 30, 2011 and 2010

- Total revenue for the three month period ended September 30, 2011 was $40.3 million as compared to $38.8 million for the same period in 2010, representing an increase of $1.5 million or 3.9%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2011 was $0.62 million per operating day as compared to $0.64 million per operating day for same period in 2010, representing a decrease of 3.1%.

- EBITDA for the three month period ended September 30, 2011 was $4.4 million as compared to $5.7 million for the same period in 2010, a decrease of $1.3 million or 22.8%.

- Adjusted free cash flow was an inflow of $0.03 million for the three month period ended September 30, 2011 as compared to an outflow of $0.1 million for the same period in 2010, an increase of $0.13 million.

Revenue

Total revenue for the three month period ended September 30, 2011 was $40.3 million as compared to $38.8 million for the same period in 2010, representing an increase of $1.5 million or 3.9%. The increase in revenues was due primarily to the increase in charter, ACMI and fuel pass-through revenues.

Revenue related to the core overnight and ACMI cargo businesses excluding fuel surcharges and other cost pass-through revenues, for the three month period ended September 30, 2011 was $31.0 million compared to $31.9 million for the same period in 2010, representing a decrease of $0.9 million or 2.8%. The decrease in revenue was due to decreased volumes and lower yields from the Company's core overnight network and the effect of a stronger Canadian dollar on revenues billed in US funds, offset by increased charter and ACMI revenue.

Effective August 1st, 2011 the Company entered into an agreement to provide scheduled air cargo services to destinations in the northern regions of Canada. Under this agreement, the Company initially operates two flights per week on a fixed costs basis that is inclusive of fuel, navigation and landing fees. Any fuel cost increases are recovered through a fuel surcharge similar to our core overnight network. These flights are operated during the day, thus increasing the utilization of the Company's aircraft fleet. Also during the quarter, one of the Company's other ACMI customers cancelled its route of four flights per week from Canada to the U.S as they announced that they have exited the domestic air cargo market in the U.S. The Company will reduce one B727-200F aircraft from its fleet as a result. The net contributions from these two ACMI contracts are expected to offset.

Fuel surcharges and other cost pass-through revenues were $9.0 million for the three month period ended September 30, 2011 as compared to $6.3 million for the same period in 2010, representing an increase of $2.7 million or 42.9%. The increase was due primarily to higher fuel prices that were passed onto

Review of Operations for the Three Month Periods ended September 30, 2011 and 2010 (Continued)

Revenue (Continued)

customers. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.5 million for the three month period ended September 30, 2011, as compared to $0.1 million for the same period in 2010.

Other revenues were $0.3 million for the three month period ended September 30, 2011 as compared to $0.6 million for the same period in 2010, a decrease of $0.3 million or 50.0%. The decrease is primarily due to the reduced number of leased regional aircraft.

Direct Expenses

Total direct expenses were $32.7 million for the three month period ended September 30, 2011 as compared to $29.5 million for the same period in 2010, representing an increase of $3.2 million or 10.8%. As a percentage of revenue, direct expenses increased from 76.0% in 2010 to 81.1% for the same period in 2011. The overall increase in direct expenses was due primarily to higher fuel prices, increased maintenance cost, higher block hours and added commercial costs.

Fuel costs were $13.4 million for the three month period ended September 30, 2011 as compared to $10.1 million for the same period in 2010. The $3.3 million or 32.7% increase in fuel costs were due to higher fuel prices. The cost incurred by the Company due to higher fuel prices was passed on to customers as an increase in their fuel surcharges.

Foreign exchange gains and losses included a charge of nil in 2011 as compared to $0.1 in 2010. In December 2009, the Company discontinued its foreign exchange hedging program and realized a loss of $0.5 million from the sale of all of the Company's remaining U.S. dollar forward purchase contracts. This loss is recognized throughout 2010 and 2011 in net income in the same periods that the hedged anticipated transactions to which the hedges related affected net income.

Depreciation expense decreased from $1.4 million in 2010 to $1.2 million in 2011, a decrease of $0.2 million or 14.3%. The decrease is primarily due to the decrease in fixed assets as a result of the disposal of aircraft used in the Company's regional operations.

Aircraft costs decreased from $4.4 million in 2010 to $4.0 million in 2011, a decrease of $0.4 million or 9.1%. The decrease was primarily due to the decrease in regional aircraft lease costs and US dollar denominated aircraft lease costs as a result of the strengthening Canadian Dollar.

Heavy maintenance amortization costs were unchanged, at $0.8 million for both the three month periods ended September 30, 2011 and 2010. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by Company and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Review of Operations for the Three Month Periods ended September 30, 2011 and 2010 (Continued)

Direct Expenses (Continued)

Maintenance costs were $2.5 million for the three month period ended September 30, 2011 as compared to $2.3 million for the same period in 2010. The increase of $0.2 million or 8.7% was primarily due to the increase in spare parts expenses.

Total crew costs including salaries, training and positioning were $2.4 million for the three month period ended September 30, 2011 and $2.3 million for the same period in 2010, an increase of $0.1 million or 4.3%. The increase in cost was due primarily to the timing of crew training.

Commercial and other direct operating costs were $8.4 million for the three month period ended September 30, 2011 as compared to $8.1 million for the same period in 2010. The increase of $0.3 million or 3.7% was due primarily to the increase in line haul cost.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $5.8 million for the three month period ended September 30, 2011 compared to $4.4 million for the same period in 2010, an increase of $1.4 million or 31.8%. The increase was due primarily to impairment losses of regional aircraft and increased salaries partially offset by management bonus accrual in 2010.

EBITDA

EBITDA for the three month period ended September 30, 2011 was $4.4 million or 10.9% of revenue, compared to $5.7 million or 14.7% of revenue for the same period in 2010. The decrease in EBITDA of $1.3 million or 22.8% was due primarily to the following:

- A decrease in gross margin due primarily to lower volume and reduced yields partially offset by increased charter activity and ACMI revenue.
- Higher direct costs due primarily to an increase in maintenance and commercial costs.

Amortization

Amortization expense of the Company includes amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Company's initial public offering as well as a result of the acquisition of PEAL. The intangible assets relating to the filing of the Company's initial public offering were fully amortized as at December 31, 2009. The intangible assets related to the acquisition of PEAL were disposed of in 2010 and the resulting loss was recorded in the loss from discontinued operations.

Review of Operations for the Three Month Periods ended September 30, 2011 and 2010 (Continued)

Finance Costs

Finance costs were $0.8 million for the three month period ended September 30, 2011, compared to $0.8 million for the three month period ended September 30, 2010.

Unrealized gain on 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 (“conversion option”) are classified as liabilities and recorded at fair value through profit and loss (“FVTPL”). At each reporting date, the fair value of these liabilities was assessed with a corresponding charge or credit to income recorded in 2010. On January 1, 2011, the Company converted from an income trust structure to a corporation structure. The Trust Units and the Exchangeable LP units were converted into common voting shares and variable voting shares classified under shareholder’s equity. The conversion option was reclassified to shareholder’s equity as well. The fair value of these balances is no longer assessed after reclassification into equity and there are no unrealized gains and losses in 2011.

Current Income Taxes

Current income taxes for the three month periods ended September 30, 2011 and September 30, 2010 were a charge of $0.5 million and $0.8 million, respectively. Provisions for income taxes are due to certain subsidiaries of the Company that are taxable.

Deferred Income Taxes

Deferred income taxes for the three month period ended September 30, 2011 were a charge of $0.1 million as compared to a charge of $0.2 million for the same period in 2010. Deferred taxes represent the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Non-controlling Interests

As a result of the Company converting from an income trust structure to corporate structure, all non-controlling interests were converted to common shareholders. As such, there are no non-controlling interests in the Company as at September 30, 2011.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $0.03 million for the three month period ended September 30, 2011, compared to an outflow of $0.1 million for the three month period ended September 30, 2010.

Review of Operations for the Three Month Periods ended September 30, 2011 and 2010 (Continued)

Dividends/Distributions

Total dividends declared for the three month period ended September 30, 2011 were $1,079,111 or $0.135 per share. In comparison, total distributions declared for the three month period ended September 30, 2010 were $1,007,172 or $0.126 per unit.

Record Date	Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 20, 2011	July 5, 2011				1,079,111
September 20, 2011	October 5, 2011	1,079,111	7,993,416	0.1350	-
		1,079,111		0.1350	1,079,111

Record Date	Date Date Distribution Paid/Payable	Unitholders Declared	Unitholders Paid	Exchangeable LP Unitholders Declared	Exchangeable LP Unitholders Paid	Total Declared	Total Per Unit	Total Paid
		$	$	$	$	$	$	$
June 30, 2010	July 15, 2010		270,359		65,365			335,724
July 31, 2010	August 15, 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 14, 2010	270,359	-	65,365	-	335,724	0.0420	-
		811,077	811,077	196,095	196,095	1,007,172	0.1260	1,007,172

The Company began paying dividends on a quarterly basis effective with the three month period ended June 30, 2011.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended September 30, 2011 was $3.9 million as compared to $4.8 million for the same period in 2010. The $0.9 million decrease in cash was due primarily to the timing of accounts receivable, increase in prepayments and payment of taxes.

Cash used in financing activities during the three month period ended September 30, 2011 was $2.9 million and was comprised of net repayment of long-term debt of $2.0 million and dividends paid to shareholders of $1.1 million offset by $0.2 million proceeds from disposition of derivatives.

Cash used in investing activities during the three month period ended September 30, 2011 was $0.7 million and was comprised of net capital asset additions of $1.1 million offset by $0.5 million of proceeds from disposal of regional aircraft and installments of note receivables.

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, 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

Review of Operations for the Three Month Periods ended September 30, 2011 and 2010 (Continued)

Liquidity and Capital Resources (Continued)

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.

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 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 also provided a standby letter of credit of $630,000 to this bank against these loans.

Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash dividends. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Company’s ability to undertake any transaction which is essential to the Company’s operations.

Capital Expenditures

Net capital asset additions were $1.1 million for the three month period ended September 30, 2011 as compared to $0.3 million for the same period in 2010. The capital asset additions in the current and prior periods were primarily comprised of spare parts, leasehold improvements and furniture and fixtures.

Review of Operations for the Nine Month Periods ended September 30, 2011 and 2010

Highlights for the Nine Month Periods Ended September 30, 2011 and 2010

- Total revenue for the nine month period ended September 30, 2011 was $122.6 million as compared to $113.3 million for the same period in 2010, representing an increase of $9.3 million or 8.2%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2011 was $0.62 million per operating day, unchanged from $0.62 million per operating day for same period in 2010.

- EBITDA for the nine month period ended September 30, 2011 was $12.0 million as compared to $13.2 million for the same period in 2010.

- Adjusted free cash flow was an outflow of $1.4 million for the nine month period ended September 30, 2011 as compared to an outflow of $6.0 million for the same period in 2010, an increase of $4.6 million.

Revenue

Total revenue for the nine month period ended September 30, 2011 was $122.6 million as compared to $113.3 million for the same period in 2010, representing an increase of $9.3 million or 8.2%. The increase in revenues was due primarily to the increase in fuel pass-through, charter and ACMI revenues.

Revenue related to the core overnight and ACMI cargo businesses excluding fuel surcharges and other cost pass-through revenues, for the nine month period ended September 30, 2011 was $93.5 million compared to $93.2 million for the same period in 2010, an increase of $0.3 million or 0.3%. The increase in revenue was due to higher charter activity and ACMI revenue, offset by lower yields and the effect of a stronger Canadian dollar on revenues billed in US funds.

On August 1st, 2011 the Company entered into an agreement to provide scheduled air cargo services to destinations in the northern regions of Canada. Under this agreement, the Company initially operates two flights per week on a fixed costs basis that is inclusive of fuel, navigation and landing fees. Any fuel cost increases are recovered through a fuel surcharge similar to our core overnight network. These flights are operated during the day, thus increasing the utilization of Company's aircraft fleet. Also during the quarter, one of the Company's other ACMI customers cancelled its route of four flights per week from Canada to the U.S as they announced that they have exited the domestic air cargo market in the U.S. The Company will reduce one B727-200F aircraft from its fleet as a result. The net contributions from these two ACMI contracts are expected to offset.

Review of Operations for the Nine Month Periods ended September 30, 2011 and 2010 (Continued)

Revenue (Continued)

Fuel surcharges and other cost pass-through revenues were $27.9 million for the nine month period ended September 30, 2011 as compared to $18.7 million for the same period in 2010, representing an increase of $9.2 million or 49.2%. The increase was due primarily to higher fuel prices that were passed onto customers. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $1.7 million for the nine month period ended September 30, 2011, as compared to $0.8 million for the same period in 2010.

Other revenues were $1.2 million for the nine month period ended September 30, 2011 compared to $1.4 million for the same period in 2010. The decrease is primarily due to the reduced number of leased regional aircraft.

Direct Expenses

Total direct expenses were $99.8 million for the nine month period ended September 30, 2011 as compared to $88.3 million for the same period in 2010, representing an increase of $11.5 million or 13.0%. As a percentage of revenue, direct expenses increased from 77.9% in 2010 to 81.4% for the same period in 2011. The overall increase in direct expenses was due primarily to higher fuel prices and increased commercial costs and heavy maintenance amortization.

Fuel costs were $40.9 million for the nine month period ended September 30, 2011 as compared to $28.9 million for the same period in 2010. The $12.0 million or 41.5% increase in fuel costs were due to higher fuel prices and an increase in block hours flown. The cost incurred by the Company due to higher fuel prices was passed on to customers as an increase in their fuel surcharges.

Foreign exchange gains and losses included a charge of $0.2 million in 2011 and remained unchanged from $0.2 million in 2010. In December 2009, the Company discontinued its foreign exchange hedging program and realized a loss of $0.5 million from the sale of all of the Company's remaining U.S. dollar forward purchase contracts. This loss is recognized throughout 2010 and 2011 in net income in the same periods that the hedged anticipated transactions to which the hedges related affected net income.

Depreciation expense decreased from $4.3 million in 2010 to $3.6 million in 2011, a decrease of $0.7 million or 16.3%. The decrease is primarily due to the decrease in fixed assets as a result of the disposal of aircraft used in the Company's regional operations.

Aircraft costs decreased from $13.1 million in 2010 to $11.7 million in 2011, a decrease of $1.4 million or 10.7%. The decrease was primarily due to the decrease in regional aircraft lease costs and US dollar denominated aircraft lease costs as a result of a stronger Canadian Dollar compared to same period in 2010.

Heavy maintenance amortization costs were $2.6 million for the nine month period ended September 30, 2011 as compared to $2.0 million for the same period in 2010, an increase of $0.6 million or 30.0%. The variance was due to the timing of the maintenance required by each aircraft. In 2011, the scheduled maintenance of aircraft is more as compared to 2010. Heavy maintenance of aircraft occurs at regular and

Review of Operations for the Nine Month Periods ended September 30, 2011 and 2010 (Continued)

Direct Expenses (Continued)

predetermined intervals and costs related to these are deferred by Company and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Maintenance costs were $7.4 million for the nine month period ended September 30, 2011 as compared to $7.6 million for the same period in 2010. The decrease of $0.2 million or 2.6% was primarily due to the decrease in spare parts expenses and staff reductions.

Total crew costs including salaries, training and positioning were $7.1 million for the nine month period ended September 30, 2011 as compared to $6.9 million for the same period in 2010, an increase of $0.2 million or 2.9%. The increase in cost was due primarily to the timing of crew training.

Commercial and other direct operating costs were $26.3 million for the nine month period ended September 30, 2011 as compared to $25.3 million for the same period in 2010. The increase of $1.0 million or 4.0% was due primarily to increased block hours and higher interline expenses.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $15.3 million for the nine month period ended September 30, 2011 compared to $13.7 million for the same period in 2010. The increase of $1.6 million in SG&A expenses was due primarily to impairment losses of regional aircraft, exchange losses on settlement of forward contracts matured in 2011 partly offset by the sale of future forward exchange contracts, Income Trust conversion costs and management bonus accrual in 2010.

EBITDA

EBITDA for the nine month period ended September 30, 2011 was $12.0 million or 9.8% of revenue, compared to $13.2 million or 11.7% of revenue for the same period in 2010. The decrease of $1.2 million in EBITDA was due primarily to the following:

- A decrease in gross margin due primarily to lower volume and reduced yields partially offset by increased charter activity and ACMI revenue.
- Higher direct costs due primarily to an increase in maintenance and commercial costs.

Amortization

Amortization expense of the Company includes amortization of the identified intangible assets (excluding goodwill and licenses), recognized as a result of the acquisition of the Cargojet Group of Companies immediately after the filing of the Company's initial public offering as well as a result of the acquisition of PEAL. The intangible assets relating to the filing of the Company's initial public offering were fully amortized as at December 31, 2009. The intangible assets related to the acquisition of PEAL were disposed of in 2010 and the resulting loss was recorded in the loss from discontinued operations.

Review of Operations for the Nine Month Periods ended September 30, 2011 and 2010 (Continued)

Finance Costs

Net finance costs were $2.4 million for the nine month period ended September 30, 2011, compared to $2.6 million for the nine month period ended September 30, 2010. The decrease of $0.2 million or 7.7% was due to the decrease in long-term debt and debentures.

Unrealized gain on 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 ("conversion option") are classified as liabilities and recorded at fair value through profit and loss ("FVTPL"). At each reporting date, the fair value of these liabilities was assessed with a corresponding charge or credit to income recorded in 2010. On January 1, 2011, the Company converted from an income trust structure to a corporation structure. The Trust Units and the Exchangeable LP units were converted into common voting shares and variable voting shares classified under shareholder's equity. The conversion option was reclassified to shareholder's equity as well. The fair value of these balances is no longer assessed after reclassification into equity and there are no unrealized gains and losses in 2011.

Current Income Taxes

The current income taxes for the nine month periods ended September 30, 2011 were a charge of $1.4 million and remain unchanged at $1.4 million for the same period in 2010. Provisions for income taxes are due to certain subsidiaries of the Company that are taxable.

Deferred Income Taxes

The deferred income tax recovery of $0.3 million for the nine month period ended September 30, 2011 compared to the deferred income tax provision of $0.9 million for the same period in 2010 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Non-controlling Interests

As a result of the Company converting from an income trust structure to a corporate structure, all non-controlling interests were converted to common shareholders. Non-controlling interest for the nine month period ended September 30, 2011 was nil, as compared to $292,357 for the same period in 2010.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of $1.4 million for the nine month period ended September 30, 2011, compared to an outflow of $6.1 million for the nine month period ended September 30, 2010. The improvement of $4.7 million was due primarily to the repurchase of convertible debentures of $7.7 million in 2010, timing of customer receipts and vendor payments and repayment of long term debts in 2011.

Review of Operations for the Nine Month Periods ended September 30, 2011 and 2010 (Continued)

Dividends/Distributions

Total dividends declared for the nine month period ended September 30, 2011 were $3,165,392 million or $0.396 per share. In comparison, total distributions declared for the nine month period ended September 30, 2010 were $3,021,514 million or $0.378 per unit.

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

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	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

The Company began paying dividends on a quarterly basis effective with the three month period ended June 30, 2011.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the nine month period ended September 30, 2011 was $10.0 million as compared to $7.2 million for the same period in 2010. The $2.8 million increase in cash for the three quarters of 2011 as compared to the same period in 2010 was due primarily to the timing of customer receipts and vendor payments.

Cash used in financing activities during the nine month period ended September 30, 2011 was $8.8 million and was comprised of the net repayment of long-term debt of $6.5 million, purchase of treasury shares of $0.6 million and dividends paid to shareholders of $2.4 million.

Cash used in investing activities during the nine month period ended September 30, 2011 was $1.9 million and was primarily comprised of net capital asset additions.

Review of Operations for the Nine Month Periods ended September 30, 2011 and 2010 (Continued)

Liquidity and Capital Resources (Continued)

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, 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.

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 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 also provided a standby letter of credit for $630,000 to this bank against these loans.

Management anticipates that the funds available under the revolving credit facility and cash flow from operations will be adequate to fund anticipated capital expenditures, working capital and cash dividends. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Company's ability to undertake any transaction which is essential to the Company's operations.

Capital Expenditures

Net capital asset additions were $2.6 million for the nine month period ended September 30, 2011 as compared to $1.2 million for the same period in 2010.

Financial Condition

The following is a comparison of the financial position of the Company as at September 30, 2011 to the financial position of the Company as at December 31, 2010.

Accounts Receivable

Accounts receivable as at September 30, 2011 amounted to $10.0 million as compared to $11.3 million as at December 31, 2010. The reduction of $1.3 million was due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remains excellent.

Property, Plant and Equipment

As at September 30, 2011 property, plant, and equipment were $43.0 million as compared to $46.0 million as at December 31, 2010. The $3.0 million net decrease in property, plant, and equipment was due primarily to amortization of capital assets of $4.3 million, impairment charges of $1.1 million for regional aircraft offset by capital asset additions of $2.6 million.

Trade and other payables

Accounts payable and accrued charges as at September 30, 2011 were $11.0 million as compared to $11.1 million as at December 31, 2010. The decrease of $0.1 million was due primarily to the timing of supplier payments.

Working Capital Position

The Company had a working capital surplus as at September 30, 2011, representing the difference between total current assets and current liabilities, of $0.9 million, compared to a working capital surplus of $1.6 million as at December 31, 2010. The decrease of $0.7 million is primarily due to the timing of customer receipts and vendor payments and deferred heavy maintenance deposits that were expensed during the period.

Borrowings

Total borrowings excluding the current portion were $7.0 million as at September 30, 2011 as compared to $12.2 million as at December 31, 2010. The long-term debt consists of Cargojet's revolving credit facility and fixed loans related to PEAL.

Financial Condition (Continued)

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 shares. 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.

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 shares 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 then 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 balance of the Company's convertible debentures 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

Financial Condition (Continued)

Convertible Debentures (Continued)

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

The conversion option is measured at fair value through profit and loss ("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.

Summary of Contractual Obligations

	Payments due by period						
As at September 30, 2011	Total	2011	2012	2013	2014	2015	Thereafter
(in thousands)	$	$	$	$	$	$	$
Fixed Loans – PEAL	3,883	194	795	825	858	551	660
Credit Facility	3,868	-	-	3,868	-	-	-
Capital Lease Obligations	56	21	35	-	-	-	-
Operating Leases	46,895	3,178	11,272	10,796	10,613	8,940	2,096
	54,702	3,393	12,102	15,489	11,471	9,491	2,756

Financial Condition (Continued)

Off-Balance Sheet Arrangements

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

Transactions with Related Parties

During the three and nine month periods ended September 30, 2011 and 2010, the Company has entered into a transactions 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 operations 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 on account of advertising and promotional expenses and was recorded as prepaid expenses.

Major Customers

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.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $1.6 million to financial institutions as security for its loans, corporate credit cards, and to a number of vendors as security for the Company's ongoing purchases.

Financial Instruments

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Company manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods.

On January 1, 2010, the Company discontinued hedge accounting and is recognizing the deferred loss on the outstanding foreign exchange contracts as at January 1, 2010 over the period to October 2011 in the same periods in which the hedged anticipated transactions would affect net income. During the nine month period ended September 30, 2011, a loss of $135,259 (net of taxes of $66,758) was recognized and transferred from accumulated other comprehensive income to net income.

In August 2010, October 2010, and January 2011, the Company entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from September 2010 to December 2012 for an aggregate total of USD $38.5 million. These forward contracts were given to bank with a positive contract value of

Financial Condition (Continued)

Financial Instruments (Continued)

$0.20 million. The realized gain from the forward contracts was recorded in income for the nine month period ended September 30, 2011.

Outlook

Cargojet continues to experience increased demand for its ad-hoc charter and ACMI services. Continued volatile economic conditions may limit organic growth of our core overnight revenues and continued pricing pressures will impact yields for the balance of the year. Economic growth and consumer confidence as we enter 2012 may result in improved demand and the ability to recover previous pricing concessions and/or adjust pricing to recover cost of living increases.

The Company continues to recover fuel price increases through fuel surcharges. Any fuel cost increases due to higher fuel prices are passed on to customers as an increase in fuel surcharge and billed to customers on a cost recovery basis only. Similarly, any cost savings due to lower fuel prices are passed on to customers as a decrease in fuel surcharge. Management is confident that the Company will continue to fully recover any future increases in fuel costs.

Management's principal objective is to maximize free cash flow available for dividends by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls, and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives especially those that can improve cash flow.

Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of shares. Any decisions regarding the above, including further increases or decreases in dividends, will be considered and determined as appropriate by the Board of Directors of Cargojet Inc.

Critical Estimates

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

Financial Condition (Continued)

Critical Estimates (Continued)

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	All financial instruments are initially measured at their fair value plus in the case of a financial asset or financial liability not at fair value through profit and loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities at FVTPL.
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. 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.
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 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.
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.

Financial Condition (Continued)

Deferred Income Taxes

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.

Information Disclosure Controls and Procedures

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Directors of the Company. An evaluation of the effectiveness of the Company’s disclosure controls and procedures, as defined under the rules of the Canadian Securities Administrators, was conducted at September 30, 2011 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures of the Company are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

International Financial Reporting Standards (“IFRS”)

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its condensed consolidated interim and consolidated 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 of the Consolidated Interim Financial Statements. The Company will ultimately prepare its opening balance sheet and financial statements for 2010 and 2011 by applying existing IFRS 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 the financial statements.

Financial Reporting Update (Continued)

International Financial Reporting Standards ("IFRS") (Continued)

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.

Financial Reporting Update (Continued)

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

Financial Reporting Update (Continued)

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 (deficiency) reported in accordance with Canadian GAAP to its equity reported in accordance with IFRS at December 31, 2010:

	Note	Unitholders' Equity (deficiecy)	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 Unit holders' equity. However, the Trust Units are considered a financial liability under IFRS as they are puttable to the entity at any time by the Unit holders 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.

Financial Reporting Update (Continued)

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 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.

Financial Reporting Update (Continued)

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	54,211	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.

Financial Reporting Update (Continued)

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 Unit holders and Exchangeable LP Unit holders
Under Canadian GAAP, distributions to Trust Unit holders and Exchangeable LP Unit holders 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 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

Financial Reporting Update (Continued)

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

September 30, 2011 is the Company's third interim reporting period under IFRS. 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.

Financial Reporting Update (Continued)

International Financial Reporting Standards ("IFRS") (Continued)

Standards and Interpretations in issue not yet adopted (continued)

(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.* 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.

End Notes

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

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

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

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

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

Non-controlling interests - non-controlling interests represent a direct non-controlling interest in Cargojet Holdings Limited Partnership through Exchangeable LP units and the non-controlling shareholders of Cargojet Regional Partnership and PEAL (2009 only). Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

Gain or loss on disposal of property, plant & equipment - the gain or loss arising from the disposal of property, plant & equipment. As non-cash item, the gain or loss on disposal of property, plant & equipment has no impact on the determination of EBITDA and distributable cash.

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

Gain or loss on repurchases of debentures - the gain or loss arising from repurchase of debentures. As non-cash item, the gain or loss on repurchase of debentures has no impact on the determination of EBITDA and distributable cash.

End Notes (continued)

(A) (continued)

Non-cash lease expense - promissory note from SkyLink Express Inc. applied to lease aircraft payments. As non-cash item, non-cash lease expense has no impact on the determination of EBITDA and distributable cash.

Change in fair value on non-hedge derivative, conversion option, trust units, and exchangeable LP units - the gain or loss arising from mark to market adjustment on foreign exchange contracts, conversion option, trust units, and exchangeable LP units. As non-cash item, the fair value gain or loss on these has no impact on the determination of EBITDA and distributable cash.

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

(B) Adjusted Free Cash Flow is a term, which does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures used by other Companies. The objective of presenting this non-GAAP measure is to calculate the amount, which is available for dividend distributions to shareholders. Adjusted Free Cash Flow is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "Adjusted Free Cash Flow" have the meaning set out in this note.

In October 2008, CICA issued a consultation guidance titled *Improved Communications with non-GAAP Financial Measures: General Principles and Guidance for Reporting EBITDA and Free Cash Flow* ("The Guidance"). The Guidance defined Standardized Free Cash Flow as "Cash flows from operating activities as reported in the GAAP financial statements, including operating cash flows provided from or used in discontinued operations; total capital expenditures minus proceeds from the disposition of capital assets other than those of discontinued operations, as reported in the GAAP financial statements; and dividends, when stipulated, unless deducted in arriving at cash flows from operating activities."

The Company has adopted a measurement called Adjusted Free Cash Flow to supplement net earnings as a measure of operating performance. Adjusted Free Cash Flow is defined by the Company as Standardized Free Cash Flow as defined by the Canadian Institute of Chartered Accounts ("CICA"), less operating cash flows provided from or used in discontinued operations, repayment of long-term debt, repurchase of convertible debentures, repurchase of treasury shares / fund units, changes in working capital, plus provision or recovery of current income taxes.

The underlying reasons for the inclusion and exclusion of each item are as follows:

End Notes (continued)

(B) (continued)

Operating cash flows provided from or used in discontinued operations – As the operating cash flows provided from or used in discontinued operations are not expected to recur in the future, it has been excluded from the calculation of Adjusted Free Cash Flow to enhance the predictive value of the measure.

Repayment of long-term debt - The repayment of long-term debt is stipulated by the debt agreement between Cargojet and its creditors. It represents a cash outflow that is required for ongoing operations and therefore should be excluded in the calculation of Adjusted Free Cash Flow to determine a more representative measure of cash that is available for dividend distributions.

Repurchase of convertible debentures – The repurchase of convertible debentures represents a competing usage of operating cash flows versus dividend payments to shareholders. As such, it should be excluded from the calculation of Adjusted Free Cash Flow to determine a more representative measure of cash that is available for dividend distributions.

Changes in working capital - Changes in non-cash working capital items and deposits represents timing differences in the Company's working capital from year to year. These items are expected to be recoverable or payable shortly from the balance sheet date. Since it only represents short-term timing differences, it should be excluded from standardized free cash flow to determine a more representative measure of cash that is available for dividend distributions.

Provision for current income taxes – The Company must pay taxes on income that is earned in the period from taxable entities within the Cargojet organization. As taxes for the current year is usually paid in the following year, it is more appropriate to deduct provision for current income taxes from standardized free cash flow rather than the actual taxes paid.