Consolidated financial statements of

CARGOJET INC.
(Formerly Cargojet Income Fund)

For the years ended December 31, 2011 and 2010

Independent Auditor's Report

To the Shareholders of
Cargojet Inc.

We have audited the accompanying consolidated financial statements of Cargojet Inc., which comprise the consolidated balance sheets as at December 31, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity (deficiency) and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Deloitte + Touche LLP

Chartered Accountants
Licensed Public Accountants

February 24, 2012
Toronto, Canada

CARGOJET INC.

Consolidated Balance Sheets

As at December 31, 2011, December 31, 2010 and January 1, 2010

(in Canadian dollars)

	Note	December 31, 2011	December 31, 2010	January 1, 2010
		$	$	$
			(Note 2)	(Note 2)
ASSETS				
CURRENT ASSETS				
Cash		-	621,522	3,031,764
Trade and other receivables		10,744,026	11,290,717	10,559,767
Inventories	4	700,626	1,074,658	808,907
Prepaid expenses and deposits		2,300,663	3,142,979	3,216,631
Current portion of notes receivable	5	821,102	820,582	800,000
Current portion of finance lease receivable	6	293,017	-	-
Assets held for sale	7	45,000	455,489	-
		14,904,434	17,405,947	18,417,069
NON-CURRENT ASSETS				
Property, plant and equipment	7	43,999,601	46,004,484	57,170,597
Notes receivable	5	2,418,568	2,883,636	2,066,667
Finance lease receivable	6	623,693	-	-
Goodwill	8	46,169,976	46,169,976	46,169,976
Intangible assets	9	1,000,000	1,000,000	4,503,705
Deposits		5,521,614	4,826,513	3,859,283
Deferred income taxes on assets held for sale	7	3,567	-	-
Assets held for sale	7	-	290,000	-
		114,641,453	118,580,556	132,187,297
LIABILITIES				
CURRENT LIABILITIES				
Overdraft		110,235	-	-
Trade and other payables	10	10,580,082	11,086,280	12,517,158
Income taxes payable		734,000	1,652,117	1,946,834
Other financial liabilities	11	1,079,112	801,422	874,436
Borrowings	12	757,677	1,460,290	428,748
Finance leases	13	35,135	155,550	237,402
Trust Units		-	600,000	600,000
		13,296,241	15,755,659	16,604,578
NON-CURRENT LIABILITIES				
Borrowings	12	10,562,566	12,203,447	16,279,337
Finance leases	13	-	35,135	190,685
Trust Units		-	53,986,684	51,993,009
Exchangeable LP Units		-	13,197,483	20,386,879
Conversion option on convertible debentures	14	-	1,778,326	1,374,768
Convertible debentures	14	23,916,542	23,361,940	29,723,081
Deferred income taxes	15	3,249,721	3,116,706	4,270,598
Deferred income taxes on assets classified as held for sale	7	-	112,620	-
		51,025,070	123,548,000	140,822,935
EQUITY (DEFICIENCY)		63,616,383	(4,967,444)	(8,635,638)
		114,641,453	118,580,556	132,187,297

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

CARGOJET INC.
Consolidated Statements of Income
Years ended December 31, 2011 and 2010
(in Canadian dollars)

	Note	2011	2010
		$	$
			(Note 2)
REVENUES		165,510,674	156,205,321
DIRECT EXPENSES		135,674,982	120,859,686
		29,835,692	35,345,635
General and administrative expenses	7	18,956,206	19,168,644
Sales and marketing expenses		587,251	815,088
Loss on disposal of plant, property and equipment		1,164,270	-
Loss on impairment of plant, property and equipment	7	1,764,285	-
Finance costs		3,323,148	3,487,003
Finance income		(234,950)	(55,640)
Other expenses, gains and losses	16	(678,149)	196,746
		24,882,061	23,611,841
EARNINGS BEFORE INCOME TAXES AND DISCONTINUED OPERATIONS		4,953,631	11,733,794
PROVISION FOR (RECOVERY OF) INCOME TAXES	15		
Current		1,485,404	1,636,030
Deferred		(495,773)	868,821
		989,631	2,504,851
INCOME FROM CONTINUING OPERATIONS		3,964,000	9,228,943
LOSS FROM DISCONTINUED OPERATIONS	5	(168,256)	(3,242,738)
NET INCOME		3,795,744	5,986,205
Net income (loss) attributable to:			
Owners of the Company		3,795,744	6,278,562
Non-controlling interests		-	(292,357)
		3,795,744	5,986,205
EARNINGS PER SHARE / PER TRUST UNIT	18		
From continuing and discontinued operations			
- Basic		0.48	0.79
- Diluted		0.48	0.79
From continuing operations			
- Basic		0.50	1.15
- Diluted		0.50	1.15

CARGOJET INC.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2011 and 2010
(in Canadian dollars)

	Note	2011	2010
		$	$
			(Note 2)
NET INCOME		3,795,744	5,986,205
OTHER COMPREHENSIVE INCOME			
Transfer of losses on foreign exchange contracts to net income, net of income taxes of $71,210 (2010 - $106,813)	24	144,274	216,417
TOTAL COMPREHENSIVE INCOME		3,940,018	6,202,622
Total comprehensive income (loss) attributable to:			
Owners of the Company		3,940,018	6,494,979
Non-controlling interests		-	(292,357)
		3,940,018	6,202,622

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

CARGOJET INC.

Consolidated Statements of Changes in Equity (Deficiency)

Years ended December 31, 2011 and 2010
(in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Other comprehensive income	Deficit	Total shareholders' capital	Non-controlling interests	Total equity (deficiency)
		$	$	$	$	$	$	$	$
Balance, January 1, 2010	2	-	-	-	(360,691)	(11,101,732)	(11,462,423)	2,826,785	(8,635,638)
Net income		-	-	-	-	6,278,562	6,278,562	(292,357)	5,986,205
Other comprehensive income		-	-	-	216,417	-	216,417	-	216,417
Total comprehensive income		-	-	-	216,417	6,278,562	6,494,979	(292,357)	6,202,622
Conversion of Exchangeable LP Units		-	-	-	-	-	-	(2,534,428)	(2,534,428)
Balance, December 31, 2010		-	-	-	(144,274)	(4,823,170)	(4,967,444)	-	(4,967,444)
Net income		-	-	-	-	3,795,744	3,795,744	-	3,795,744
Other comprehensive income		-	-	-	144,274	-	144,274	-	144,274
Total comprehensive income		-	-	-	144,274	3,795,744	3,940,018	-	3,940,018
Income trust conversion	1	67,784,167	-	1,778,326	-	-	69,562,493	-	69,562,493
Tax on conversion option		-	-	(506,823)	-	-	(506,823)	-	(506,823)
Treasury shares	19	(443,000)	-	-	-	-	(443,000)	-	(443,000)
Share-based compensation	19	-	275,643	-	-	-	275,643	-	275,643
Dividends		-	-	-	-	(4,244,504)	(4,244,504)	-	(4,244,504)
Balance, December 31, 2011		67,341,167	275,643	1,271,503	-	(5,271,930)	63,616,383	-	63,616,383

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

CARGOJET INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2011 and 2010
(in Canadian dollars)

	Note	2011	2010
		$	$
			(Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES			
Income from continuing operations		3,964,000	9,228,943
Items not affecting cash			
Depreciation of property, plant and equipment	7	9,067,742	9,413,391
Share-based compensation	19	397,468	-
Finance costs		3,323,148	3,487,003
Interest paid		(2,768,546)	(2,932,848)
Loss on purchase of debentures	14	-	321,415
Loss on disposal of property, plant and equipment		1,164,270	-
Impairment on property, plant and equipment	7	1,764,285	-
Non-cash interest on notes receivable		(217,056)	(46,081)
Non-cash interest on finance lease receivable	6	(16,710)	-
Income tax provision		1,498,871	1,641,835
Income tax payments		(2,416,988)	(1,936,552)
Deferred income taxes		(495,773)	868,821
Transfer of losses on derivatives from other comprehensive income		215,484	216,417
Change in fair value on non-hedge derivatives		(678,149)	207,986
Unrealized gain on Trust Units		-	(3,622,503)
Unrealized gain on Exchangeable LP Units		-	(1,573,218)
Unrealized loss on conversion option		-	834,382
		14,802,046	16,108,991
Changes in non-cash working capital items and deposits			
Trade and other receivables		546,691	(2,929,513)
Inventories		374,032	(265,751)
Prepaid expenses and deposits		147,215	(551,770)
Trade and other payables		(506,198)	109,049
Net inflow of cash from continuing operations		15,363,786	12,471,006
Net (outflow) inflow of cash from discontinued operations		(233,688)	995,530
NET CASH GENERATED BY OPERATING ACTIVITIES		15,130,098	13,466,536
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(7,998,496)	(6,676,316)
Proceeds from borrowings		5,846,518	3,631,969
Repayment of finance leases payable		(155,550)	(237,403)
Proceeds from (payments on) disposition of derivative contracts		212,450	(281,000)
Purchase of treasury shares	17	(564,825)	-
Repurchase of convertible debentures	14	-	(7,667,535)
Dividends paid to shareholders		(3,501,115)	-
NET CASH USED IN FINANCING ACTIVITIES		(6,161,018)	(11,230,285)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(11,249,786)	(4,903,644)
Proceeds from disposal of property, plant and equipment		958,861	257,151
Collections of notes receivable		681,604	-
Collections of finance lease receivable		100,000	-
NET CASH USED IN INVESTING ACTIVITIES		(9,509,321)	(4,646,493)
NET CHANGE IN CASH		(540,241)	(2,410,242)
CASH POSITION, BEGINNING OF YEAR		621,522	3,031,764
CASH (OVERDRAFT) POSITION, END OF YEAR		81,281	621,522

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

1. NATURE OF THE BUSINESS

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

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

Prior to January 1, 2011, the operations of the Company were carried out by Cargojet Income Fund ("the Fund"). Effective January 1, 2011, the Fund was converted from an income trust to a corporate structure whereby all Unitholders of the Fund had their Trust Units automatically converted into common shares of the Company on a one-for-one basis. The Trust Units and convertible debentures of the Fund were delisted from the TSX and the common voting shares and variable voting shares of the Company began trading on the TSX under the symbols "CJT" and "CJT.A", respectively, on January 6, 2011 (Note 17). Convertible debentures of the Fund were converted into convertible debentures of the Company with no changes in their rights or terms.

The conversion has been accounted for using the continuity of interest basis, recognizing the Company as the successor in interest to the Fund. Accordingly, all assets and liabilities of the Company have been recorded in Cargojet at their previous carrying amounts at the date of conversion in the Fund and the consolidated financial statements as at, and for the year ended, December 31, 2011 and comparatives for the year ended December 31, 2010 and as at January 1, 2010 reflect the financial position, operating results and cash flows as if the Company had always carried on the business formerly carried on by the Fund.

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

These consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on February 24, 2012.

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

The Company has adopted IFRS effective January 1, 2011. Prior to the adoption of IFRS, the Company prepared its annual financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The Company's financial statements for the year ended December 31, 2011 are the first annual financial statements that comply with IFRS. 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.

2. TRANSITION TO 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 electing 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 *IFRS Interpretations Committee ("IFRIC") 4, Determining Whether an Arrangement Contains a Lease* ("*IFRIC 4*"). This election allows the Company to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at that date. This election resulted in no additional arrangements being identified as a lease.

b) Mandatory exceptions to retrospective application

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

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

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

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

	Note	Unitholders' equity (deficiency)	Non-controlling interest	Total equity (deficiency)
		$	$	$
As reported under Canadian GAAP - December 31, 2010		52,879,781	-	52,879,781
Reclassification of non-controlling interests to 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 option on convertible debentures	(vii)	4,140,801	-	4,140,801
As reported under IFRS - December 31, 2010		(4,967,444)	-	(4,967,444)

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

Discussion of key reconciliation items:

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

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

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

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 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.

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 or 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.

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

Discussion of key reconciliation items (continued):

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

Reconciliation of net income as reported under Canadian GAAP to IFRS

The following is a reconciliation of the Company's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2010:

	Note	Year ended December 31, 2010
		$
Net income as reported under Canadian GAAP		4,039,754
Reclassification of non-controlling interests under IFRS	(i)	722,557
Deferred income taxes on convertible debentures	(ii)	432,749
Componentization of property, plant and equipment	(iii)	(262,902)
Deferred income taxes on property, plant and equipment	(iv)	73,612
Changes in fair value of Trust Units, Exchangeable LP Units, and conversion option on convertible debentures	(v)	4,361,338
Reclassification of distributions to Trust Units and Exchangeable LP Units from equity to income	(vi)	(4,028,684)
Loss on the repurchase of convertible debentures	(vii)	(48,150)
Goodwill impairment	(viii)	695,931
Net income as reported under IFRS		5,986,205
Attributable to:		
Owners of the Company		6,278,562
Non-controlling interests		(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.

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

Discussion of key reconciliation items (continued):

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 the same explicit 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.

iv. Deferred income taxes on property, plant and equipment

Deferred income taxes are impacted by the change in temporary differences resulting from the effect of the IFRS reconciling item described per (iii) above.

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

Under IFRS, the Trust Units, the Exchangeable LP Units, and the conversion option on convertible debentures are classified as liabilities and recorded at FVTPL. Under Canadian GAAP, these items are recorded at cost.

vi. Reclassification of distributions to Trust Unitholders and Exchangeable LP Unitholders

Under Canadian GAAP, distributions to Trust Unitholders and Exchangeable LP Unitholders are recorded as a reduction in equity 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. Goodwill impairment

As transaction costs are expensed under IFRS 3, the goodwill recognized at the time of acquisition of Cargojet Regional Partnership in 2009 was reduced, with a corresponding reduction in goodwill impairment in 2010.

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

Reconciliation of comprehensive income 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 year ended December 31, 2010:

	Note	Year ended December 31, 2010
		$
Comprehensive income as reported under Canadian GAAP		4,256,171
Reclassification of non-controlling interests under IFRS	(i)	722,557
Increase in net income	(ii)	1,223,894
Comprehensive income as reported under IFRS		6,202,622

Discussion of key reconciliation items:

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

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

d) Standards and Interpretations issued 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 and to require disclosures to better assess the effect or potential effect of offsetting arrangements in the balance sheet. 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").*

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

Standards and Interpretations in issue not yet adopted (continued)

(ii) Financial Instruments (continued)

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, 2015. The Company has yet to assess the impact of the new standard on its results of operations, financial position and disclosures.

(iii) Financial Instruments – Presentation

The IASB has amended *IAS 32, Financial Instruments: Presentation ("IAS 32"),* clarifying the application of the offsetting requirements of financial assets and financial liabilities. The amendments to IAS 32 must be applied retrospectively for annual periods beginning on or after January 1, 2014. The Company does not expect the adoption of this standard to have a significant impact on the Company's disclosures.

(iv) Presentation of Financial Statements

The IASB amended *IAS 1, Presentation of Financial Statements ("IAS 1"),* providing guidance on items contained in other comprehensive income ("OCI") and their classification within OCI. The amendments to IAS 1 must be applied retrospectively for annual periods beginning on or after July 1, 2012. The Company does not expect the adoption of this standard to have a significant impact on the Company's disclosures.

(v) Consolidated Financial Statements

The IASB has issued a new standard, *IFRS 10, Consolidated Financial Statements ("IFRS 10")* which will replace *IAS 27, Consolidated and Separate Financial Statements* and *Standards Interpretation Committee ("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.

(vi) 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.

(vii) Fair Value Measurement

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared under IFRS, as issued by the International Accounting Standards Board and the Canadian Accounting Standards Board for publicly-accountable enterprises. These are the Company's first annual financial statements prepared under IFRS and IFRS 1 has been applied as described in Note 2.

Basis of preparation

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

These financial statements include the accounts of the Company and its wholly-owned subsidiary, Cargojet Holdings Limited Partnership ("CHLP") and CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd. ("CJH"), Cargojet Airways Ltd. ("CJA"), and Cargojet Partnership ("CJP").

For the year ended December 31, 2011 the financials statements include the wholly-owned subsidiary Prince Edward Air Ltd. ("PEAL") up to the date of dissolution of PEAL on December 22, 2011 and, up to the date on disposal on July 14, 2010, PEAL's 55% interest in CJR, which has been reported as discontinued operations (Note 5). Upon dissolution of PEAL, the assets and liabilities were rolled over to CJA, its sole shareholding company, without any effect on the financial statements of the Company.

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

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

Cash

Cash balance consists of cash on hand and demand deposits. The Company maintained cash deposits with a chartered bank related to heavy maintenance reserve requirements of its aircraft assets and included these deposits of $629,930 as at December 31, 2010 and $454,144 as at January 1, 2010 as part of the cash balance. As at December 31, 2011, the cash deposits have been replaced by a letter of credit.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

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

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

Assets held for sale

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

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

Assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is recognized when delivery occurs and the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from ACMI (aircraft, crew, maintenance and insurance) cargo services is recorded when the cargo aircraft has been provided exclusively to a customer at a fixed daily rate operating on a specific route that may include cost of fuel and other commercial activities.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition (continued)

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

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

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

The estimated useful lives are as follows:

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

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases
Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation.

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

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

Amounts due from lessees under finance leases are recognized as receivables at the amount of the net investment in the lease. Finance lease income is recognized so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases (continued)

Operating leases
Payments made under operating leases are charged to income on a straight-line basis over the term of the related lease agreement. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

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

Intangible assets

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets excluding goodwill (continued)

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 income.

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

Foreign currencies

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

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

Exchange differences are recognized in income in the period in which they arise.

Borrowing costs

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

Income taxes

Current taxes
The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the statement of income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

Deferred taxes
Deferred taxes are 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 income. 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 income 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 income nor the accounting income.

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

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

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

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

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

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

Financial instruments

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

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

Asset/Liability	Classification	Measurement
Cash, trade and other receivable, finance lease receivable, note receivable, and deposits	Loans and receivables	Amortized cost
Overdraft, trade and other payables, distributions payable, convertible debentures and borrowings	Other financial liabilities	Amortized cost
Foreign exchange forward contracts	Fair value through profit or loss	Fair value
Exchangeable LP Units, Trust Units and conversion option on convertible debentures (prior to conversion to a corporation)	Fair value through profit or loss	Fair value

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

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

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

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

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

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

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

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

The Company periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts.

Convertible debentures

The component parts of compound instruments (convertible debentures) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. A conversion option that allows the holder to obtain equity instruments that are puttable are classified as financial liabilities. As disclosed in Note 1, the conversion option was initially classified as a financial liability as the instrument allowed the holder to obtain puttable financial instruments. The conversion option was separated from the debt host at inception at fair value on the date of issuance and the residual amount allocated to the debt host contract. The conversion option was fair valued at the transition date and each subsequent reporting period up to January 1, 2011. The debt host component is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

Accounting judgments and use of estimates

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

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting judgments and use of estimates (continued)

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

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

4. INVENTORIES

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Fuel inventory	700,626	1,074,658	808,907

For the years ended December 31, 2011 and 2010, costs of inventory of $56,896,328 and $40,719,610, respectively, were recognized in income as an expense.

5. DISPOSITION OF THE COMPANY'S REGIONAL BUSINESS

On July 14, 2010, the Company entered into an agreement with Skylink Express to sell its 55% interest in 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. Skylink 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 Skylink 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 Skylink Express.

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

The results of operations of the Partnership have been classified as discontinued operations in the consolidated statements of income. The net cash flows are classified as operating activities from discontinued operations in the consolidated statements of cash flows.

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

The net loss from discontinued operations is summarized as follows:

	2011	2010
	$	$
Total revenue from discontinued operations	-	12,019,600
Loss from operating activities	(233,688)	(868,182)
Loss on write down of assets	-	(4,284,648)
Less: income taxes	65,432	1,910,092
Loss on discontinued operations	(168,256)	(3,242,738)

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

The discounted balance of the notes receivable is comprised of the following as at December 31, 2011:

	First Note Receivable	Second Note Receivable	Total
	$	$	$
Notes receivable	1,827,512	1,412,158	3,239,670
Less: notes receivable - current portion	483,953	337,149	821,102
Notes receivable - long-term portion	1,343,559	1,075,009	2,418,568

Interest revenue of $217,056 was recognized for the year ended December 31, 2011 (2010 – $46,081).

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 sales of the regional business, the Company now has only one segment.

6. FINANCE LEASE RECEIVABLE

In 2011, the Company entered into a lease agreement which transfers the title of one of its regional aircraft to the lessee at nominal value at the end of lease. Accordingly, the lease has been classified as a finance lease.

The finance lease receivable as at December 31, 2011 is comprised of the following:

Minimum lease payments	$
Not later than one year	300,000
Later than one year and not later than five years	700,000
Finance lease receivable	1,000,000
Less: unearned finance income	(83,290)
Present value of minimum lease payments	916,710
Current portion	293,017
Long-term portion	623,693

The estimated average effective interest rate is 5.17% and $16,710 of finance income was recognized in the year.

The finance lease receivable is secured by the leased aircraft.

7. PROPERTY, PLANT AND EQUIPMENT

The changes in property, plant and equipment for the year ended December 31, 2011 are as follows:

Cost	Balance as at January 1, 2011	Additions / Transfers	Disposals / Transfers	Impairment	Balance as at December 31, 2011
	$	$	$	$	$
Aircraft hull	15,442,051	825,010	(3,279,042)	(1,296,673)	11,691,346
Engines	11,307,866	2,940,070	(1,509,951)	(467,613)	12,270,372
Spare parts	1,138,350	267,118	-	-	1,405,468
Ground equipment	7,254,333	484,368	(302,067)	-	7,436,634
Rotable spares	9,563,624	2,634,423	-	-	12,198,047
Computer hardware and software	2,673,332	235,516	-	-	2,908,848
Leased hardware and software	830,156	-	-	-	830,156
Furniture and fixtures	938,970	112,863	-	-	1,051,833
Leasehold improvements	4,325,319	54,226	-	-	4,379,545
Vehicles	353,494	23,485	-	-	376,979
Leased vehicles	230,309	-	-	-	230,309
Hangar facility	14,880,402	70,590	-	-	14,950,992
Deferred heavy maintenance	10,234,558	4,402,117	(1,878,222)	-	12,758,453
	79,172,764	12,049,786	(6,969,282)	(1,764,286)	82,488,981

Accumulated Depreciation	Balance as at January 1, 2011	Depreciation	Disposals / Transfers	Balance as at December 31, 2011	Net Book Value, December 31, 2011
	$	$	$	$	$
Aircraft hull	4,852,834	1,091,455	(1,525,609)	4,418,680	7,272,666
Engines	5,630,714	899,732	(631,391)	5,899,055	6,371,317
Spare parts	-	-	-	-	1,405,468
Ground equipment	3,418,846	612,173	(120,849)	3,910,170	3,526,464
Rotable spares	2,554,051	1,507,812	-	4,061,863	8,136,184
Computer hardware and software	1,528,939	477,084	-	2,006,023	902,825
Leased hardware and software	563,229	149,334	-	712,563	117,593
Furniture and fixtures	484,188	112,247	-	596,435	455,398
Leasehold improvements	2,909,465	311,543	-	3,221,008	1,158,537
Vehicles	244,838	33,862	-	278,700	98,279
Leased vehicles	150,039	15,104	-	165,143	65,166
Hangar facility	3,226,907	428,286	-	3,655,193	11,295,799
Deferred heavy maintenance	7,604,229	3,429,110	(1,468,792)	9,564,547	3,193,906
	33,168,279	9,067,742	(3,746,641)	38,489,380	43,999,601

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The changes in property, plant and equipment for the year ended December 31, 2010 are as follows:

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

Accumulated Depreciation	Balance as at January 1, 2010	Depreciation	Disposals / Transfers	Balance as at, December 31, 2010	Net Book Value, as at December 31, 2010
	$	$	$	$	$
Aircraft hull	4,254,266	1,344,210	(745,643)	4,852,833	10,589,218
Engines	4,623,544	1,329,440	(322,269)	5,630,715	5,677,151
Spare parts	-	-	-	-	1,138,350
Ground equipment	2,706,760	931,849	(219,763)	3,418,846	3,835,487
Rotable spares	2,147,159	580,533	(173,641)	2,554,051	7,009,573
Computer hardware and software	1,176,252	365,513	(12,826)	1,528,939	1,144,393
Leased hardware and software	426,385	136,844	-	563,229	266,927
Furniture and fixtures	411,046	91,272	(18,130)	484,188	454,782
Leasehold improvements	2,472,527	555,122	(118,184)	2,909,465	1,415,854
Vehicles	215,324	41,705	(12,191)	244,838	108,656
Leased vehicles	125,030	25,009	-	150,039	80,270
Hangar facility	1,927,437	1,299,470	-	3,226,907	11,653,495
Deferred heavy maintenance	4,891,805	2,712,424	-	7,604,229	2,630,328
	25,377,535	9,413,391	(1,622,647)	33,168,279	46,004,484

Included in general and administrative expenses for the years ended December 31, 2011 and 2010 were depreciation expense of $783,899 and $643,453, respectively.

Following the sale of the Regional business in 2010, the Company's regional aircraft were being leased or held for sale. In 2011, the Company sold most of its regional fleet, including the aircraft that were returned upon the termination of the related leases. The Company reviewed the carrying value of the remaining regional aircraft and estimated that the recoverable amount was less than the book value of the aircraft. The recoverable amount was determined on a fair value less costs to sell basis, fair value being the market value for similar aircraft. The Company reduced the net book value of the aircraft hull and engines to fair value by $783,698 and reported a loss on impairment of property, plant and equipment. The related deferred heavy maintenance expenditure of $409,430 was written off and recorded in loss on disposal of property, plant and equipment.

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Also in 2011, the Company permanently removed one of its cargo aircraft from service. The Company intends to use the aircraft as a source for spare parts to maintain its existing fleet of aircraft. Any saleable parts and components of the aircraft that are not required by the Company will be held for sale. Accordingly, the Company reviewed the carrying value of this aircraft at December 31, 2011 and estimated that the recoverable value of the aircraft was less than the book value. The recoverable amount was determined on a fair value less costs to sell basis, fair value being the market value for similar spare parts. The Company reduced the net book value of this aircraft to fair value by $980,587 at December 31, 2011 and reported a loss on impairment of property, plant and equipment.

In 2011, the Company purchased three 727 aircraft that were previously leased for a total consideration of $3,062,400. The costs were segregated into three components consisting of engines totaling $1,487,953, airframe totaling $757,807, and deferred heavy maintenance totaling $816,640.

Assets held for sale

In 2011, an aircraft was approved for disposal and has been presented as held for sale at an estimated fair value of $45,000 with the related deferred tax asset of $3,567.

Following the sale of the regional business in 2010, seven aircraft that were not leased to third parties were approved for disposal. Accordingly, these assets were valued at the lower of their carrying value and estimated fair value. An amount of $2,776,654 was written off as loss from discontinued operations in the year ended December 31, 2010. The estimated fair value of the aircraft of $745,489 was presented as assets held for sale as at December 31, 2010, as well as the related deferred income tax liability of $112,620.

Change in useful life estimates

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

The effect of the change in estimate has been recognized prospectively from January 1, 2011 and the impact on depreciation expense for the year ending December 31, 2011 and going forward is not significant.

8. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single cash-generating unit. Goodwill is tested for impairment annually on April 1, or more frequently when there is an indication of potential impairment. The recoverable amount is determined based on a value in use calculation which uses cash flow projections based on historical results and using a steady 1.5% per annum growth rate, which has been estimated based on long-term growth rates in cash flow of the Company, and a discount rate of approximately 12% per annum (2010 - 14%). The Company believes that any reasonably possible change in key assumptions on which recoverable amounts are based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating units.

9. INTANGIBLE ASSETS

Intangible assets at December 31, 2011 and December 31, 2010 consist of licenses with indefinite lives carried at $1,000,000. Intangible assets at January 1, 2010 consist of licenses with indefinite lives carried at $1,000,000 and customer relationships related to the regional operations with a carrying value of $3,503,705. The customer relationships were sold to Skylink Express on July 14, 2010 (see Note 5 for details).

The Company believes that licenses have indefinite useful lives as the licenses provide a renewal option, at Transport Canada's discretion, provided that licensing conditions are met. As a result, the Company believes that the licenses have indefinite lives as the Company complies, and will continue to comply, with the licensing conditions specified in the existing laws, agreements, treaties and regulations.

10. TRADE AND OTHER PAYABLES

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Trade payables and accrued charges	10,279,042	9,991,790	11,919,349
Payroll and benefits	301,040	1,094,490	597,809
Trade and other payables	10,580,082	11,086,280	12,517,158

11. OTHER FINANCIAL LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Dividends payable	1,079,112	-	-
Distributions payable	-	335,723	335,723
Derivative contracts (Note 24)	-	465,699	538,713
Other financial liabilities	1,079,112	801,422	874,436

12. BORROWINGS

Borrowings consist of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Revolving credit facility	9,123,300	8,514,989	11,130,589
Fixed loans - Prince Edward Air Ltd.	-	5,148,748	5,577,496
Fixed loans - Cargojet Airways Ltd.	2,196,943	-	-
	11,320,243	13,663,737	16,708,085
Less current portion	757,677	1,460,290	428,748
Long-term portion	10,562,566	12,203,447	16,279,337

12. BORROWINGS (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 and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 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 Cargojet Airways Ltd. (“CJA”). These fixed loans were held by PEAL prior to its dissolution on December 22, 2011, after which they were transferred to CJA. The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the regional aircraft owned by CJA and notes receivable from Skylink Express that are secured by a first charge on certain aircraft owned by Skylink Express. The loans are repayable in monthly installments plus interest and will mature by January 2015. The Company also has provided a standby letter of credit of $780,000 to the bank which is held against the fixed loans.

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

	$
2012	757,677
2013	846,961
2014	551,181
2015	41,124
	2,196,943
Less current portion	757,677
Long-term portion	1,439,266

Interest expense on the borrowings for the years ended December 31, 2011 and 2010 totaled $864,742 and $1,034,667, respectively.

13. FINANCE LEASES

The Company leases various service equipment and computer equipment which are classified as finance leases. As at December 31, 2011, future minimum base lease payments under the finance lease are as follows:

	$
Not later than one year	35,876
Less interest	(741)
Finance leases	35,135
Current portion	35,135
Long-term portion	-

Interest expense on the finance leases for the years ended December 31, 2011 and 2010 totaled $4,895 and $10,598, respectively.

14. CONVERTIBLE DEBENTURES

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

On or after May 1, 2011, but prior to April 30, 2012, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture provided that the current market price (as defined below) of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $16.00 per common share. After May 1, 2012, but prior to the maturity date of April 30, 2013, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. The term "current market price" is defined in the indenture to mean the weighted average trading price of the common shares on the Toronto Stock Exchange for the twenty (20) consecutive days ending on the fifth trading day preceding the date of redemption or maturity. There was no debenture redemption during the year ended December 31, 2011.

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

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

The principal amount of the debentures has been allocated between its debt component and the conversion option. The two components have been classified separately as liabilities on the balance sheet as at January 1, 2010 and December 31, 2010. Following conversion of the Fund to a corporation on

January 1, 2011, the conversion option was reclassified to equity, net of deferred taxes. Factoring in the value of the conversion option and transaction costs, the convertible debentures bear interest at an effective rate of 10.04%.

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

	December 31, 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	2,067,984	1,513,382	1,249,504
Balance	23,916,542	23,361,940	29,723,081

14. CONVERTIBLE DEBENTURES (CONTINUED)

Interest expense on the debentures for the years ended December 31, 2011 and 2010 totaled $2,403,728 and $2,426,770, respectively.

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

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

The calculated fair values of the conversion option at January 1, 2010 and December 31, 2010 were $1,374,768 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.

15. INCOME TAXES

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

	Year ended December 31, 2011	2010
	$	$
Earnings before income taxes and discontinued operations	4,953,631	11,733,794
Income tax provision at the combined basic rate of 28.1% (2010 - 31%)	1,391,970	3,637,476
Permanent and other differences	(402,339)	(1,132,625)
Income tax expense	989,631	2,504,851

15. INCOME TAXES (CONTINUED)

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Property, plant and equipment	2,945,589	3,890,273	4,872,227
Intangible assets	(586,604)	(653,632)	36,892
Operating loss carryforward	(1,478,268)	(1,541,289)	(1,537,755)
Note receivable	(91,795)	(153,749)	-
Financing costs	(6,444)	(2,516)	(478,832)
Derivative contracts	-	(212,513)	(177,118)
Convertible debentures	196,390	(138,301)	294,448
Finance lease receivable	229,178	-	-
Deferred heavy maintenance	2,041,675	1,928,433	1,260,736
Net deferred income tax liability	3,249,721	3,116,706	4,270,598

16. OTHER EXPENSES, GAINS AND LOSSES

	2011	2010
	$	$
(Gain) loss on derivative contracts	(678,149)	207,986
Distributions to Trust and Exchangeable LP Unitholders	-	4,028,684
Unrealized gain on Trust Units	-	(3,622,503)
Unrealized gain on Exchangeable LP Units	-	(1,573,218)
Unrealized loss on conversion option	-	834,382
Loss on debenture redemption (Note 14)	-	321,415
Other expenses, gains and losses	(678,149)	196,746

17. SHAREHOLDERS' CAPITAL

a) Authorized

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

Variable voting shares carry one vote per share held, except where (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.

17. SHAREHOLDERS' CAPITAL (CONTINUED)

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.

b) Issued and outstanding

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

The outstanding 6,437,109 Trust Units and 1,556,307 Exchangeable LP Units as at January 1, 2011 were converted into 7,755,271 common voting shares and 238,145 variable voting shares. No preferred shares are issued and outstanding.

The following table shows the change in shareholders' capital from January 1, 2011 to December 31, 2011:

	Number	Amount
		$
Variable voting shares	238,145	2,019,470
Common voting shares	7,755,271	65,764,697
Outstanding, January 1, 2011	7,993,416	67,784,167
Treasury stock purchase	(65,984)	(564,825)
Distributed share-based compensation	14,238	121,825
Outstanding, December 31, 2011	7,941,670	67,341,167
Consisting of:		
Variable voting shares	225,445	1,911,655
Common voting shares	7,716,225	65,429,512

The following table shows the change in Trust Units from January 1, 2010 to December 31, 2010:

	Trust Units	
	Units	Amount
		$
Outstanding, January 1, 2010	5,760,461	53,517,349
Exchangeable LP Units converted to Trust Units	676,648	5,588,939
Outstanding, December 31, 2010	6,437,109	59,106,288

Dividends / distributions

Dividends to shareholders declared in 2011 amounted to $4,244,504 ($0.531 per share). Distributions to Trust Units declared in 2010 amounted to $4,028,684 ($0.504 per Trust Unit).

18. EARNINGS (LOSS) PER SHARE / TRUST UNIT

The following table reconciles the net income and weighted average shares outstanding used in computing basic and diluted earnings (loss) per share for the years ended December 31, 2011 and 2010:

Basic and diluted Earnings per share / Trust Unit		2011		2010
Income from continuing operations	$	3,964,000	$	9,228,943
Loss from discontinued operations	$	(168,256)	$	(3,242,738)
Loss from discontinued operations attributable to non-controlling interest	$	-	$	292,357
Net income used in the calculation of basic earnings per share / Trust Unit	$	3,795,744	$	6,278,562
Weighted average number of shares / Trust Units		7,952,161		7,993,416
Basic earnings per share / Trust Unit - continuing operations	$	0.50	$	1.15
Basic loss per share / Trust Unit - discontinued operations	$	(0.02)	$	(0.36)
Total basic earnings per share / Trust Unit	$	0.48	$	0.79

The effect of the convertible debentures and shares held under the long-term incentive plan have been excluded from the calculation of diluted earnings per share for the years ended December 31, 2011 and 2010 as the impact would be anti-dilutive.

19. 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 December 31, 2011, 14,238 of these shares had vested, $121,825 being transferred from share-based compensation reserve to shareholders' capital. Share-based compensation expense of $497,143 has been included in the statement of income for the year ending December 31, 2011, which includes withholding taxes of $99,675 paid on behalf of the eligible employees.

19. LONG-TERM INCENTIVE PLAN (CONTINUED)

The following table details the impact of the above transactions on shareholders' capital as at December 31, 2011 and on the statement of income for the year ended December 31, 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)	(121,825)
Balance, December 31, 2011	51,746	443,000

	Year ended December 31, 2011
Share-based compensation expense	$
Shares transferred to long-term incentive plan participants	121,825
Withholding tax paid for long-term incentive plan participants	99,675
Share-based compensation, not yet vested	275,643
Share-based remuneration	497,143

20. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
Not later than one year	10,900,150
Later than one year and not later than five years	31,717,076
Later than five years	371,331
Total	42,988,557

Contingencies

The Company has provided irrevocable standby letters of credit totalling $2,074,000 to financial institutions as security for its loan, corporate credit cards, and to several vendors as security for the Company's ongoing purchases. The letters of credit expire as follows:

	$
March 3, 2012	780,000
March 20, 2012	20,000
June 15, 2012	350,000
July 6, 2012	122,000
July 28, 2012	352,000
December 31, 2012	200,000
January 13, 2013	250,000
Total	2,074,000

21. RELATED PARTY TRANSACTIONS

In 2011, the Company entered into a transaction with a related party, First Take Entertainment Ltd., a company controlled by one of the Company's executive officers.

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

Compensation of key management personnel

In 2011, the employee benefit expense was $27,706,793 (2010 - $26,945,358) out of which $16,625,766 (2010 - $15,926,685) was recorded in direct cost and $11,081,027 (2010 - $11,018,673) was recorded in general and administrative expenses. The general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2011 and 2010 as follows:

	Year ended	
	December 31, 2011	December 31, 2010
	$	$
Short-term benefits	2,351,873	2,811,359
Post-employment benefits	10,384	10,384
Share-based payments	497,143	-
Total remuneration	2,859,400	2,821,743

22. ECONOMIC DEPENDENCE

In 2011, the Company had sales to three customers that represented 48.0% of the total revenues (2010 - 55.0%). These sales are provided under service agreements that expire over various periods to September 2018.

23. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the shareholders and debt holders.

The Company defines capital as the sum of total equity, borrowings, including the current portion, obligations under finance leases, convertible debentures, cash, and the present value of the future operating lease payments.

The Company manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt (with different characteristics), repurchase debt instruments for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Company's approach to capital management during the year.

The Company is subject to financial covenants related to its credit facility (Note 12). As at December 31, 2011 and 2010, the Company was in compliance with all financial covenants.

24. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2011.

Fair values

The fair value of the convertible debentures, based on quoted market prices as at December 31, 2011, was approximately $24,901,550 (December 31, 2010 – $24,901,550). The fair value of the long-term debt based on an estimate of market interest rates as at December 31, 2011 and 2010, was approximately equal to its carrying value. The fair values of the notes receivables, finance lease receivable and the assets held for sale as at December 31, 2011 were approximately equal to their carrying values. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

Assets and liabilities recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

Foreign exchange forward contracts are categorized in Level 2, as they are primarily derived from observable market inputs, that is, foreign exchange rates.

The Company does not have any Level 3 fair value measurements and thus no continuity schedule has been presented. In addition, there have been no significant transfers between levels.

Total assets and liabilities recorded at fair value as at December 31, 2011 are as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Assets held for sale	-	45,000	-	45,000

24. FINANCIAL INSTRUMENTS (CONTINUED)

Fair values (continued)

Total assets and liabilities at fair value as at December 31, 2010 were as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Assets				
Assets held for sale	-	745,489	-	745,489
Liabilities				
Trust Units	54,586,684	-	-	54,586,684
Exchangeable LP Units	13,197,483	-	-	13,197,483
Conversion option on convertible debentures	-	1,778,326	-	1,778,326
Foreign exchange contracts	-	465,699	-	465,699

Total liabilities at fair value as at January 1, 2010 were as follows:

	Level 1	Level 2	Level 3	Total
	$	$	$	$
Liabilities				
Trust Units	52,593,009	-	-	52,593,009
Exchangeable LP Units	20,386,879	-	-	20,386,879
Conversion option on convertible debentures	-	1,374,768	-	1,374,768
Foreign exchange contracts	-	538,713	-	538,713

Credit risk

The Company's principal financial assets that expose it to credit risk are accounts receivable, notes receivable, finance lease receivable and foreign exchange derivative contracts.

The Company is subject to risk of non-payment of accounts receivable, finance lease receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's receivables are concentrated among several of its largest customers with approximately 69% (December 31, 2010 – 58%) of total receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (0.5%) of trade receivables is outstanding for more than sixty days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. Consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

(b) The Company mitigates credit risk by monitoring the creditworthiness of its customers.

(c) A majority of the Company's major customers are large public corporations with positive credit ratings and history.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

The notes receivable due from Skylink Express are secured by a first charge on Skylink Express aircraft.

The finance lease receivable is secured by the leased aircraft.

Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $25.0 million.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2011 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Borrowings and convertible debentures	905,133	34,687,470	609,291	-	36,201,894
Interest on borrowings (at current rates)	2,023,849	697,677	26,099		2,747,625
Trade and other payables	10,657,082	-	-	-	10,657,082
Dividends payable	1,079,112	-	-	-	1,079,112
Total	14,665,176	35,385,147	635,390	-	50,685,713

Total financial liabilities at December 31, 2010 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Borrowings and convertible debentures	1,615,840	830,129	35,403,630	659,823	38,509,422
Interest on borrowings (at current rates)	345,245	271,792	415,175	42,309	1,074,521
Trade and other payables	11,086,280	-	-	-	11,086,280
Distributions payable	335,723	-	-	-	335,723
Derivative contracts	465,699	-	-	-	465,699
Total	13,848,787	1,101,921	35,818,805	702,132	51,471,645

Foreign exchange risk

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 sometimes 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.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk (continued)

As at December 31, 2009, the Company recorded outstanding U.S. dollar forward contracts with a negative fair value of $538,713 as a liability. These forward exchange purchase contracts had been designated as cash flow hedges and, accordingly, the fair value of the contracts, net of a deferred income tax asset of $178,022, had been recorded in accumulated other comprehensive loss.

On January 1, 2010, the Company discontinued hedge accounting and recognized 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 year ended December 31, 2011, a loss of $144,274 (net of taxes of $71,210) and for December 31, 2010, a loss of $216,417 (net of taxes $106,813) was recognized and transferred from other comprehensive income to net income.

In August and October of 2010, the Company entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from September 2010 to December 2011 for an aggregate total of USD $23.5 million. In 2011, the Company sold all of its outstanding U.S. dollars forward purchase contracts. A pre-tax gain of $ 212,450 was realized from the sale of these contracts. These contracts had a negative fair value of $465,699 as at December 31, 2010.

Total other foreign exchange losses during the year ended December 31, 2011 were $594,197 (2010 – $241,530).

Commodity risk

The Company is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Company does not use derivative instruments to mitigate this risk.

Market risk

In the normal course of business, the financial position of the Company is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-Canadian dollar denominated assets and liabilities, other examples of risk include collectability of accounts receivable.

The Company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Company does not anticipate any material losses from these risks.

To meet disclosure requirements, the Company performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Company's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Company's cash, borrowings, convertible debentures and all derivative financial instruments. To perform the sensitivity analysis, the Company assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

At December 31, 2011 and 2010, movements in interest rates would not have any significant impact on the fair value of the Company's financial assets and liabilities.

24. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk (continued)

At December 31, 2011, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately $0.1 million (2010 - $0.5 million). An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2010 - $0.5 million).

25. GUARANTEES

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

(a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Company agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits, and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties. Historically, the Company has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.