

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

For the Three and Twelve Month Periods Ended December 31, 2011

CARGOJET INC.

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For the Three and Twelve Month Periods Ended December 31, 2011

Page 1 of 39

The following is the Management's Discussion and Analysis (MD&A), of the consolidated financial condition and results of operations of Cargojet Inc. (the "Company") for the three and twelve month periods ended December 31, 2011. The following also includes a discussion of and comparative operating results for the three and twelve month periods ended December 31, 2010.

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

The effective date of the MD&A is February 24, 2012. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS") *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") and with all the applicable International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB"), that includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations. As these financial statements are prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") have been included in the Company's consolidated financial statements ("consolidated financial statements") for the comparative annual period. This MD&A should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2011 and 2010.

EBITDA^(A) and Adjusted Free Cash Flow^(B)

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, non-controlling interest, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual net expenditures. Non-GAAP measures, EBITDA and Adjusted Free Cash Flow, are not earnings measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Adjusted Free Cash Flow and EBITDA are shown on page 10 of the MD&A.

Key Factors Affecting the Business

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 2 of 39

Forward Looking Statements

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

Corporate Overview

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

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

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

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

As at the date of this MD&A, the Company owns three regional aircraft. One aircraft is under lease to a third party. Another leased aircraft is classified as finance lease due to the terms set in the lease agreement and accordingly, discontinued as an owned asset. The third regional aircraft is held for sale or lease.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 3 of 39

Recent Events

Income Trust Conversion

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

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

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

If either of the above-noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act or formality. Under the circumstances described in (i) above, the variable voting shares as a class cannot carry more than 25% of the total voting rights attached to the aggregate number of issued and outstanding common and variable voting shares. Under the circumstances described in (ii) above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% of the total number of votes that may be cast at the meeting.

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

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 4 of 39

Recent Events (Continued)

Sale of Cargojet Regional Partnership (the "Partnership")

On July 14, 2010, the Company entered into an agreement with Skylink Express to sell its 55% interest in the Partnership. The Partnership operated the Company's regional air cargo business segment that provided service to thirty-three smaller cities in Ontario, Quebec and the Maritime provinces. 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 payable over five years.

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 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.

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)

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.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 5 of 39

Recent Events (Continued)

Dissolution of Prince Edwards Air Ltd.

The Company operated its regional business under its subsidiary Prince Edwards Air Ltd. ("PEAL"). On December 22, 2011 under the authority of sub-section 74(2) of The Companies Act R.S.P.E.I. 1988, Chapter-C-14, surrender of PEAL's charter was accepted and order of its cancellation was passed. The date was also fixed as the date upon and from which the Company was dissolved. Upon dissolution of PEAL, the assets and liabilities were rolled over to a subsidiary of the Company, its sole shareholding company, without any effect on the financial statements of the Company.

Asset 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.

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.

Fleet restructuring

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.

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:

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 6 of 39

Recent Events (Continued)

Finance lease receivable (continued)

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.

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 reserves 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.

The following table details the impact of the above transactions on the balance sheet as at December 31, 2011 and on the income statement for the three and twelve month periods 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

	Three months ended December 31, 2011	Twelve months 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	68,913	275,643
Share-based remuneration	68,913	497,143

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 7 of 39

Revenues

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

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.
- To further enhance its revenues, the Company offers a specialty charter service, typically in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe.
- The Company operates an international route operating between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.
- The Company provides and operates dedicated aircraft on an ACMI basis. On these contracts, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the routes.

Expenses

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

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 8 of 39

Results of Operations and Supplementary Financial Information (in thousands)

	Three Month Period Ended December 31,		Twelve Month Period Ended December 31,	
	2011 (unaudited)	2010 (unaudited)	2011 (audited)	2010 (audited)
	\$	\$	\$	\$
Revenue	42,914	42,923	165,511	156,205
Direct expenses	35,860	32,583	135,675	120,859
	7,054	10,340	29,836	35,346
Selling, general and administrative expenses				
General and administrative	5,215	5,304	18,956	19,169
Sales and marketing	189	251	587	815
Loss on impairment of property, plant and equipment	626	-	1,765	-
Loss on disposal of property, plant and equipment	533	-	1,164	-
Finance cost	877	895	3,323	3,487
Finance income	(64)	(30)	(235)	(56)
Loss (gain) on derivative contracts	-	569	(678)	208
Distributions to Trust and Exchangeable LP Unitholders	-	1,007	-	4,029
Unrealized loss (gain) on Trust Units	-	5,021	-	(3,622)
Unrealized loss (gain) on Exchangeable LP Units	-	1,214	-	(1,573)
Unrealized loss on Conversion Option	-	166	-	834
Loss on debenture redemption	-	-	-	321
	7,376	14,397	24,882	23,612
Earnings (loss) before income taxes and discontinued operations	(322)	(4,057)	4,954	11,734
Provision for (recovery of) income taxes				
Current	56	249	1,485	1,636
Deferred	(170)	10	(496)	869
	(114)	259	989	2,505
Income (loss) from continuing operations	(208)	(4,316)	3,965	9,229
Loss from discontinued operations	(33)	(806)	(168)	(3,243)
Net income (loss)	(241)	(5,122)	3,797	5,986
Earnings (Loss) per share				
Basic	(0.03)	(0.64)	0.48	0.79
Diluted	(0.03)	(0.64)	0.48	0.79
Average number of shares - basic (in thousands of shares)⁽¹⁾	7,942		7,956	
Average number of trust units - basic (in thousands of units)		7,993		7,993
Average number of trust units - diluted (in thousands of units)⁽²⁾		7,993		9,534

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

² For the purpose of calculating earnings per trust unit – diluted for the twelve month periods ended December 31, 2010, the weighted average numbers of Trust Unit, the weighted average number of Exchangeable LP units and the effect of the Fund's convertible debentures have been combined. For the purpose of calculating earnings per trust unit – diluted for the three month period ended December 31, 2010 the weighted average number of Trust units and weight average number of Exchangeable LP units have been combined.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 9 of 39

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31	September 30	June 30	March 31	December 31	September 30	June 30	March 31
	2011	2011	2011	2011	2010	2010	2010	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)⁽²⁾	\$ 42,914	\$ 40,307	\$ 41,182	\$ 41,108	\$ 42,923	\$ 38,765	\$ 37,751	\$ 36,766
Net income (loss) from continuing operations (in thousands)⁽²⁾	\$ (208)	\$ 1,482	\$ 1,407	\$ 1,283	\$ (4,316)	\$ (9,063)	\$ 16,535	\$ 6,072
Net loss from discontinued operations (in thousands)⁽²⁾	\$ (33)	\$ (136)	\$ -	\$ -	\$ (806)	\$ (674)	\$ (1,251)	\$ (511)
Earnings (loss) per Share / Trust Unit⁽²⁾								
From continuing and discontinued operations								
- Basic	(0.03)	0.17	0.18	0.16	(0.64)	(1.22)	1.92	0.72
- Diluted	(0.03)	0.17	0.18	0.16	(0.64)	(1.22)	1.66	0.65
From continuing operations								
- Basic	(0.03)	0.19	0.18	0.16	(0.54)	(1.13)	2.07	0.76
- Diluted	(0.03)	0.19	0.18	0.16	(0.54)	(1.13)	1.78	0.69
Average number of trust units - basic (in thousands of units)⁽¹⁾	-	-	-	-	7,993	7,993	7,993	7,993
Average number of trust units - diluted⁽¹⁾ (in thousands of units)⁽¹⁾	-	-	-	-	7,993	7,993	9,534	9,534
Average number of shares - basic (in thousands of shares)⁽³⁾	7,942	7,942	7,942	7,984	-	-	-	-
Average number of shares - diluted (in thousands of shares)⁽³⁾	7,942	7,942	7,942	7,984	-	-	-	-

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

2. The revenue, net income and earning per share from continuing and discontinued operations are based on figures in compliance with IFRS.

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 10 of 39

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

	Three Month Periods Ended		Twelve Month Periods Ended	
	December 31		December 31	
	2011	2010	2011	2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Calculation of EBITDA ^(A):				
Net income from continuing operations	(208)	(4,316)	3,965	9,229
Add:				
Interest	813	865	3,088	3,431
Provision for current income taxes	56	249	1,485	1,636
Provision for (recovery of) future income taxes	(170)	10	(496)	869
Loss on disposal of property, plant and equipment	533	-	1,164	-
Impairment on property, plant and equipment	626	-	1,765	-
Change in fair value on non-hedge derivatives	-	569	(466)	466
Distributions to Trust and Exchangeable LP Unitholders	-	1,007	-	4,029
Unrealized (gain) loss on Trust Units	-	5,021	-	(3,622)
Unrealized (gain) loss on Exchangeable LP Units	-	1,214	-	(1,573)
Unrealized loss on conversion option	-	166	-	834
Loss on debenture redemption	-	-	-	322
Depreciation of property, plant and equipment	2,167	2,607	9,068	9,413
Aircraft heavy maintenance expenditures	(69)	(205)	(3,423)	(3,210)
Heavy maintenance deposits ⁽¹⁾	(510)	(492)	(941)	(1,882)
EBITDA from continuing operations	3,238	6,695	15,209	19,942
EBITDA from discontinued operations	(45)	108	(234)	(23)
Total EBITDA ^(A)	3,193	6,803	14,975	19,919
Calculation of Adjusted Free Cash Flow ^(B):				
Cash inflow from operating activities from continuing operations	1,847	2,217	15,172	12,471
Additions to property, plant and equipment	(4,336)	(403)	(11,250)	(4,904)
Proceeds from disposal of property, plant and equipment	-	-	959	257
Standardized free cash flow	(2,489)	1,814	4,881	7,824
Repayment of long-term debt	(1,494)	(3,131)	(7,998)	(6,676)
Repayment of finance lease	(21)	(53)	(156)	(237)
Repurchase of convertible debentures	-	-	-	(7,668)
Provision for current income taxes	(56)	(249)	(1,485)	(1,636)
Changes in non-cash working capital items and deposits	1,322	3,481	(370)	3,638
Adjusted free cash flow ^(B)	(2,738)	1,862	(5,128)	(4,755)

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

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

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 11 of 39

Review of Operations for the Three Month Periods ended December 31, 2011 and 2010

Highlights for the Three Month Periods ended December 31, 2011 and 2010

- Total revenue for the three month period ended December 31, 2011 was \$42.9 million as compared to \$42.9 million for the same period in 2010.
- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2011 was \$0.67 million per operating day as compared to \$0.71 million per operating day for same period in 2010, representing a decrease of 5.6%.
- EBITDA for the three month period ended December 31, 2011 was \$3.2 million as compared to \$6.7 million for the same period in 2010, a decrease of \$3.5 million or 52.2%.
- Adjusted free cash flow was an outflow of \$2.7 million for the three month period ended December 31, 2011 as compared to an inflow of \$1.9 million for the same period in 2010, a decrease of \$4.6 million.

Revenue

Total revenue for the three month period ended December 31, 2011 was \$42.9 million, remain unchanged from \$42.9 million for the same period in 2010.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues, for the three month period ended December 31, 2011 was \$28.1 million compared to \$31.7 million for the same period in 2010, a decrease of \$3.6 million or 11.4%.

Revenue related to the ACMI cargo business for the three month period ended December 31, 2011 was \$2.3 million compared to \$2.4 million for the same period in 2010, a decrease of \$0.1 million or 4.2%. The decrease in ACMI revenues was due primarily to the cancellation of one of the Company's ACMI routes at the end of previous quarter, partially offset by an increase in ad-hoc ACMI flights.

Revenue related to the scheduled and ad-hoc charter revenue for the three month period ended December 31, 2011 was \$2.5 million compared to \$0.5 million for the same period in 2010, an increase of \$2.0 million or 400%. On August 1, 2011 the Company entered into an agreement to provide scheduled air cargo services to destinations in the northern regions of Canada. Under this agreement, the Company initially operates two flights per week on a fixed costs basis that is inclusive of fuel, navigation and landing fees. Any fuel cost increases are recovered through a fuel surcharge similar to our core overnight network. These flights are operated during the day, thus increasing the utilization of the Company's aircraft fleet.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 12 of 39

Review of Operations for the Three Month Periods ended December 31, 2011 and 2010 (Continued)

Revenue (Continued)

Fuel surcharges and other cost pass-through revenues were \$9.7 million for the three month period ended December 31, 2011 as compared to \$7.7 million for the same period in 2010, representing an increase of \$2.0 million or 26.0%. The increase was due primarily to higher fuel prices that were passed onto customers and an increase in charter block hours. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of \$0.5 million for the three month period ended December 31, 2011 remained unchanged from \$0.5 million for the same period in 2010.

Other revenues were \$0.3 million for the three month period ended December 31, 2011 as compared to \$0.6 million for the same period in 2010, a decrease of \$0.3 million or 50.0%. The decrease is primarily due to the reduced number of leased regional aircraft.

Direct Expenses

Total direct expenses were \$35.9 million for the three month period ended December 31, 2011 as compared to \$32.6 million for the same period in 2010, representing an increase of \$3.3 million or 10.1%. As a percentage of revenue, direct expenses increased from 76.0% in 2010 to 83.7% for the same period in 2011. The overall increase in direct expenses was due primarily to higher fuel prices, increased maintenance and crew costs partially offset by reduced aircraft costs and commercial costs.

Fuel costs were \$16.0 million for the three month period ended December 31, 2011 as compared to \$11.8 million for the same period in 2010. The \$4.2 million or 35.6% increase in fuel costs were due to higher fuel prices and the increase in block hours due to charter flights offset partially by lower hours on the Company's overnight network. The cost incurred by the Company due to higher fuel prices was passed on to customers as an increase in their fuel surcharges.

Depreciation expense decreased from \$1.7 million in 2010 to \$1.2 million in 2011, a decrease of \$0.5 million or 29.4%. The decrease is primarily due to the decrease in fixed assets as a result of the disposal of aircraft used in the Company's regional operations.

Aircraft costs decreased from \$4.7 million in 2010 to \$4.4 million in 2011, a decrease of \$0.3 million or 6.4%. The decrease was primarily due to the decrease in regional aircraft lease costs and US dollar denominated aircraft lease costs as a result of the strengthening Canadian Dollar.

Heavy maintenance amortization costs increased from \$0.7 million in 2010 to \$0.8 million in 2011, an increase of \$0.1 million or 14.3%. The increase was primarily due to the higher scheduled maintenance in 2011 as compare to 2010. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by Company and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Maintenance costs were \$2.6 million for the three month period ended December 31, 2011 as compared to \$2.3 million for the same period in 2010. The increase of \$0.3 million or 13% was primarily due to the increase in line maintenance expenses.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 13 of 39

Review of Operations for the Three Month Periods ended December 31, 2011 and 2010 (Continued)

Direct Expenses (Continued)

Total crew costs including salaries, training and positioning were \$2.3 million for the three month period ended December 31, 2011 and \$2.0 million for the same period in 2010, an increase of \$0.3 million or 15.0%. The increase in cost was due primarily to salary and the timing of crew training.

Commercial and other direct operating costs were \$8.5 million for the three month period ended December 31, 2011 as compared to \$9.3 million for the same period in 2010. The decrease of \$0.8 million or 8.6% was due primarily to the decrease in landing, linehaul, interline linehaul and navigation charges due to lower volumes, reduced overnight block hours and the reduction in aircraft insurance.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$5.3 million for the three month period ended December 31, 2011 compared to \$5.2 million for the same period in 2010, an increase of \$0.1 million or 1.9%. The increase was due primarily to impairment losses of regional aircraft and one B727 that was removed from service, PEAL dissolution expenses, and the payment of severance to terminated employees. These amounts were partially offset by the loss on foreign exchange contracts and income trust conversion costs incurred in 2010.

EBITDA

EBITDA for the three month period ended December 31, 2011 was \$3.2 million or 7.5% of revenue, compared to \$6.7 million or 15.6% of revenue for the same period in 2010. The decrease in EBITDA of \$3.5 million or 52.2% was due primarily to the following:

- A decrease in volumes and yields on the overnight network partially offset by increased ad-hoc and scheduled charters.
- Higher direct costs due primarily to an increase in fuel price and an increase in charter block hours.
- Payment of severance to terminated employees

Amortization

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 14 of 39

Review of Operations for the Three Month Periods ended December 31, 2011 and 2010 (Continued)

Finance Costs

Finance costs were \$0.8 million for the three month period ended December 31, 2011, compared to \$0.9 million for the three month period ended December 31, 2010.

Unrealized gain on Trust Units, Exchangeable LP Units, and conversion option

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

Current Income Taxes

The current income taxes for the three month periods ended December 31, 2010 were a charge of \$0.1 million and as compared to a charge of \$0.2 million for the same period in 2011. Effective January 1, 2011 the Company converted from an income fund to a corporate structure. Earlier provisions for income taxes were due to certain subsidiaries of the Company that are taxable.

Deferred Income Taxes

Deferred income taxes for the three month period ended December 31, 2011 were a recovery of \$0.2 million as compared to a charge of \$0.01 million for the same period in 2010. Deferred taxes represent the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Non-controlling Interests

As a result of the Company converting from an income trust structure to corporate structure, all non-controlling interests were converted to common shareholders. As such, there are no non-controlling interests in the Company as at December 31, 2011.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of \$2.7 million for the three month period ended December 31, 2011, compared to an inflow of \$1.9 million for the three month period ended December 31, 2010.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 15 of 39

Review of Operations for the Three Month Periods ended December 31, 2011 and 2010 (Continued)

Dividends/Distributions

Total dividends declared for the three month period ended December 31, 2011 were \$1,079,112 or \$0.135 per share. In comparison, total distributions declared for the three month period ended December 31, 2010 were \$1,007,170 or \$0.126 per unit.

Record Date	Paid/Payable	Declared	Number of Shares	Per Share	Paid
		\$		\$	\$
September 20, 2011	October 5, 2011	-	-	-	1,079,111
December 20, 2011	January 5, 2012	1,079,112	7,993,416	0.1350	-
		1,079,112		0.1350	1,079,111

Record Date	Date Distribution Paid/Payable	Unitholders		Exchangeable LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		\$	\$	\$	\$	\$	\$	\$
September 30, 2010	October 15, 2010	-	270,359	-	65,365	-	-	335,724
October 31, 2010	November 15, 2010	270,358	270,358	65,365	65,365	335,723	0.0420	335,723
November 30, 2010	December 15, 2010	270,358	270,358	65,366	65,366	335,724	0.0420	335,724
December 31, 2010	January 15, 2011	270,358	-	65,365	-	335,723	0.0420	-
		811,074	811,075	196,096	196,096	1,007,170	0.1260	1,007,171

The Company began paying dividends of \$0.135 per share on a quarterly basis effective with the three month period ended June 30, 2011.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2011 was \$2.0 million as compared to \$3.0 million for the same period in 2010. The \$1.0 million decrease in cash was due primarily to the timing of accounts receivable, increase in prepayments and payment of taxes.

Cash provided by financing activities during the three month period ended December 31, 2011 was \$2.7 million and was comprised of net proceeds from the line of credit of \$3.8 million offset by dividends paid to shareholders of \$1.1 million.

Cash used in investing activities during the three month period ended December 31, 2011 was \$4.2 million and was comprised of net capital asset additions of \$4.3 million offset by \$0.1 million of proceeds from installments of finance lease receivables of regional aircraft.

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 16 of 39

Review of Operations for the Three Month Periods ended December 31, 2011 and 2010 (Continued)

Liquidity and Capital Resources (Continued)

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 favor 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 aircraft owned by Skylink Express. The loans are repayable in monthly installments plus interest and will mature by January 2015. The Company has also provided a standby letter of credit of \$780,000 to the bank which is held against the fixed loans.

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

Capital Expenditures

Net capital asset additions were \$4.3 million for the three month period ended December 31, 2011 as compared to \$0.4 million for the same period in 2010. The capital asset additions in the current period were comprised of purchases of three aircrafts that were previously leased, engines and rotatable assets. The prior period increase was primarily comprised of spare parts, leasehold improvements and furniture and fixtures.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 17 of 39

Review of Operations for the Twelve Month Periods Ended December 31, 2011 and 2010

Highlights for the Twelve Month Periods ended December 31, 2011 and 2010

- Total revenue for the twelve month period ended December 31, 2011 was \$165.5 million as compared to \$156.2 million for the same period in 2010, representing an increase of \$9.3 million or 6.0%.
- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2011 was \$0.64 million per operating day, unchanged from \$0.64 million per operating day for same period in 2010.
- EBITDA for the twelve month period ended December 31, 2011 was \$15.2 million as compared to \$19.9 million for the same period in 2010.
- Adjusted free cash flow was an outflow of \$5.1 million for the twelve month period ended December 31, 2011 as compared to an outflow of \$4.8 million for the same period in 2010, a decrease of \$0.3 million.

Revenue

Total revenue for the twelve month period ended December 31, 2011 was \$165.5 million as compared to \$156.2 million for the same period in 2010, representing an increase of \$9.3 million or 6.0%. The increase in revenues was due primarily to the increase in fuel pass-through, charter and ACMI revenues, partially offset by lower volumes and yields from the Company's core overnight network and cancellation of an ACMI route.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues, for the twelve month period ended December 31, 2011 was \$110.3 million compared to \$116.1 million for the same period in 2010, a decrease of \$5.8 million or 5.0%.

Revenue related to the ACMI cargo business for the twelve month period ended December 31, 2011 was \$9.6 million compared to \$8.9 million for the same period in 2010, an increase of \$0.7 million or 7.9%. The increase in ACMI revenues was due primarily to an increase in ad-hoc ACMI flights, partially offset by the cancellation of one of the Company's ACMI routes effective August 2011.

Revenue related to the scheduled and ad-hoc charter revenue for the twelve month period ended December 31, 2011 was \$6.5 million compared to \$2.8 million for the same period in 2010, an increase of \$3.7 million or 132.1%. On August 1, 2011 the Company entered into an agreement to provide scheduled air cargo services to destinations in the northern regions of Canada. Under this agreement, the Company initially operates two flights per week on a fixed costs basis that is inclusive of fuel, navigation and landing fees. Any fuel cost increases are recovered through a fuel surcharge similar to our core overnight network. These flights are operated during the day, thus increasing the utilization of the Company's aircraft fleet.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 18 of 39

Review of Operations for the Twelve Month Periods ended December 31, 2011 and 2010 (Continued)

Revenue (Continued)

Fuel surcharges and other cost pass-through revenues were \$37.7 million for the twelve month period ended December 31, 2011 as compared to \$26.4 million for the same period in 2010, representing an increase of \$11.3 million or 42.8%. The increase was due primarily to higher fuel prices that were passed onto customers and an increase in charter block hours. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of \$1.8 million for the twelve month period ended December 31, 2011, as compared to \$0.8 million for the same period in 2010.

Other revenues were \$1.4 million for the twelve month period ended December 31, 2011 compared to \$2.0 million for the same period in 2010. The decrease is primarily due to the reduced number of leased regional aircraft.

Direct Expenses

Total direct expenses were \$135.7 million for the twelve month period ended December 31, 2011 as compared to \$120.9 million for the same period in 2010, representing an increase of \$14.8 million or 12.2%. As a percentage of revenue, direct expenses increased from 77.4% in 2010 to 82% for the same period in 2011. The overall increase in direct expenses was due primarily to higher fuel prices, increased commercial and crew costs and heavy maintenance amortization.

Fuel costs were \$56.9 million for the twelve month period ended December 31, 2011 as compared to \$40.7 million for the same period in 2010. The \$16.2 million or 39.8% increase in fuel costs were due to higher fuel prices and an increase in block hours flown due to charter flights offset partially by lower hours on the Company's overnight network. The cost incurred by the Company due to higher fuel prices was passed on to customers as an increase in their fuel surcharges.

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

Depreciation expense decreased from \$6.1 million in 2010 to \$4.9 million in 2011, a decrease of \$1.2 million or 19.7%. The decrease is primarily due to the decrease in fixed assets as a result of the disposal of aircraft used in the Company's regional operations.

Aircraft costs decreased from \$17.8 million in 2010 to \$16.2 million in 2011, a decrease of \$1.6 million or 9.0%. The decrease was primarily due to the decrease in regional aircraft lease costs and US dollar denominated aircraft lease costs as a result of a stronger Canadian Dollar compared to same period in 2010.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 19 of 39

Review of Operations for the Twelve Month Periods ended December 31, 2011 and 2010 (Continued)

Direct Expenses (Continued)

Heavy maintenance amortization costs were \$3.4 million for the twelve month period ended December 31, 2011 as compared to \$2.7 million for the same period in 2010, an increase of \$0.7 million or 25.9%. The variance was due to the higher scheduled maintenance in 2011 as compared to 2010. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by Company and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Maintenance costs were \$10.0 million for the twelve month period ended December 31, 2010 and remain unchanged at \$10.0 million for the same period in 2011.

Total crew costs including salaries, training and positioning were \$9.3 million for the twelve month period ended December 31, 2011 as compared to \$8.9 million for the same period in 2010, an increase of \$0.4 million or 4.5%. The increase in cost was due to the increase in salary and crew training costs.

Commercial and other direct operating costs were \$34.9 million for the twelve month period ended December 31, 2011 as compared to \$34.5 million for the same period in 2010. The increase of \$0.4 million or 1.2% was due primarily to increased block hours and higher interline expenses.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$18.8 million for the twelve month period ended December 31, 2011 compared to \$19.1 million for the same period in 2010. The decrease of \$0.3 million in SG&A expenses was due primarily to the loss on foreign exchange contracts, income trust conversion costs and impairment losses of regional aircraft recorded in 2010. This decrease was partially offset by an increase in expenses in 2011 that included impairment losses of regional aircraft, impairment losses of one B727 that was removed from service and the payment of severance to terminated employees.

EBITDA

EBITDA for the twelve month period ended December 31, 2011 was \$15.2 million or 9.2% of revenue, compared to \$19.9 million or 12.7% of revenue for the same period in 2010. The decrease of \$4.7 million in EBITDA was due primarily to the following:

- A decrease in gross margin due primarily to lower volumes and yields on the overnight network, partially offset by an increase in charter and ad-hoc ACMI revenue.
- Higher direct costs due primarily to higher fuel prices and an increase in charter block hours.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 20 of 39

Review of Operations for the Twelve Month Periods ended December 31, 2011 and 2010 (Continued)

Amortization

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

Finance Costs

Net finance costs were \$3.1 million for the twelve month period ended December 31, 2011, compared to \$3.4 million for the twelve month period ended December 31, 2010. The decrease of \$0.3 million or 8.8% was due to the decrease in long-term debt.

Unrealized gain on Trust Units, Exchangeable LP Units, and conversion option

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

Current Income Taxes

The current income taxes for the twelve month periods ended December 31, 2010 were a charge of \$1.6 million as compared to \$1.5 million for the same period in 2011. Effective January 1, 2011 the Company converted from an income fund to corporate structure. Earlier provisions for income taxes were due to certain subsidiaries of the Company that are taxable.

Deferred Income Taxes

The deferred income tax recovery of \$0.5 million for the twelve month period ended December 31, 2011 compared to the deferred income tax provision of \$0.9 million for the same period in 2010 represents the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 21 of 39

Review of Operations for the Twelve Month Periods ended December 31, 2011 and 2010 (Continued)

Non-controlling Interests

As a result of the Company converting from an income trust structure to a corporate structure, all non-controlling interests were converted to common shareholders. Non-controlling interest for the twelve month period ended December 31, 2010 was \$292,357.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of \$5.1 million for the twelve month period ended December 31, 2011, compared to an outflow of \$4.8 million for the twelve month period ended December 31, 2010. The decrease of \$0.3 million for the twelve month period ended December 31, 2011 was due primarily to the increase in cash inflow from operations, partially offset by higher maintenance capital expenditure and repayment of long term debt in 2011 and repurchase of convertible debenture of \$ 7.7 million in 2010.

Dividends/Distributions

Total dividends declared for the twelve month period ended December 31, 2011 were \$4,244,504 million or \$0.531 per share. In comparison, total distributions declared for the twelve month period ended December 31, 2010 were \$4,028,684 million or \$0.504 per unit.

Record Date	Date Dividends / Distribution Paid/Payable	Declared	Number of Shares	Per Share	Paid
		\$		\$	\$
December 31, 2010	January 15, 2011	-	7,993,416	-	335,723
January 31, 2011	February 15, 2011	335,723	7,993,416	0.0420	335,723
February 28, 2011	March 15, 2011	335,724	7,993,416	0.0420	335,724
March 31, 2011	April 15, 2011	335,723	7,993,416	0.0420	335,723
June 20, 2011	July 5, 2011	1,079,111	7,993,416	0.1350	1,079,111
September 20, 2011	October 5, 2011	1,079,111	7,993,416	0.1350	1,079,111
December 20, 2011	January 5, 2012	1,079,112	7,993,416	0.1350	-
		4,244,504		0.5310	3,501,115

Record Date	Distribution Paid/Payable	Unitholders		LP Unitholders		Total		
		Declared	Paid	Declared	Paid	Declared	Per Unit	Paid
		\$	\$	\$	\$	\$	\$	\$
December 31, 2009	January 15, 2010		241,939		93,784	-		335,723
January 31, 2010	February 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
February 28, 2010	March 15, 2010	241,939	241,939	93,784	93,784	335,723	0.0420	335,723
March 31, 2010	April 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
April 30, 2010	May 14, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
May 31, 2010	June 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
June 30, 2010	July 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
July 31, 2010	August 13, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
August 31, 2010	September 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
September 30, 2010	October 15, 2010	270,359	270,359	65,365	65,365	335,724	0.0420	335,724
October 31, 2010	November 15, 2010	270,358	270,358	65,365	65,365	335,723	0.0420	335,723
November 30, 2010	December 15, 2010	270,358	270,358	65,366	65,366	335,724	0.0420	335,724
December 31, 2010	January 15, 2011	270,358	-	65,365	-	335,723	0.0420	-
		3,187,465	3,159,046	841,219	869,638	4,028,684	0.5040	4,028,684

The Company began paying dividends of \$0.135 per share on a quarterly basis effective with the three month period ended June 30, 2011.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 22 of 39

Review of Operations for the Twelve Month Periods ended December 31, 2011 and 2010 (Continued)

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2011 was \$15.4 million as compared to \$12.5 million for the same period in 2010. The \$2.9 million increase in cash for the twelve month period of 2011 as compared to the same period in 2010 was due primarily to the timing of customer receipts and vendor payments.

Cash used in financing activities during the twelve month period ended December 31, 2011 was \$6.2 million and was comprised of the net repayment of the line of credit of \$2.1 million, purchase of treasury shares of \$0.6 million and dividends paid to shareholders of \$3.5 million.

Cash used in investing activities during the twelve month period ended December 31, 2011 was \$9.5 million and was primarily comprised of net capital asset additions.

The Company renewed its revolving credit facility with a Canadian chartered bank on December 31, 2010. The credit facility is to a maximum of \$25.0 million, bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at 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 aircraft owned by Skylink Express. The loans are repayable in monthly installments plus interest and will mature by January 2015. The Company has also provided a standby letter of credit of \$780,000 to the bank which is held against the fixed loans.

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 23 of 39

Capital Expenditures

Net capital asset additions were \$10.3 million for the twelve month period ended December 31, 2011 as compared to \$4.6 million for the same period in 2010.

Financial Condition

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

Accounts Receivable

Accounts receivable as at December 31, 2011 amounted to \$10.7 million as compared to \$11.3 million as at December 31, 2010. The reduction of \$0.6 million was due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remains excellent.

Property, Plant and Equipment

As at December 31, 2011 property, plant, and equipment were \$44.0 million as compared to \$46.0 million as at December 31, 2010. The \$2.0 million net decrease in property, plant, and equipment was due primarily to amortization of capital assets of \$9.1 million, disposals of \$2.2 million, transfer of \$1.0 million to finance lease, and impairment charges of \$1.8 million for regional aircraft offset by capital asset additions of \$12.1 million.

Trade and other payables

Accounts payable and accrued charges as at December 31, 2011 were \$10.6 million as compared to \$11.1 million as at December 31, 2010. The decrease of \$0.5 million was due primarily to the timing of supplier payments.

Working Capital Position

The Company had a working capital surplus as at December 31, 2011, representing the difference between total current assets and current liabilities, of \$1.6 million, compared to a working capital surplus of \$1.7 million as at December 31, 2010. The decrease of \$0.1 million is primarily due to the timing of customer receipts and vendor payments and deferred heavy maintenance deposits that were expensed during the period.

Borrowings

Total borrowings excluding the current portion were \$10.6 million as at December 31, 2011 as compared to \$12.2 million as at December 31, 2010. The long-term debt consists of Cargojet's revolving credit facility and fixed loans related to CJA, rolled over upon dissolution of PEAL on December 22, 2011. The decrease of \$1.6 million is due to the early payment of fixed loan related to CJA.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 24 of 39

Financial Condition (Continued)

Convertible Debentures

In April 2008, \$35.7 million of unsecured subordinated debentures were issued with a term of five years. These debentures bear a fixed interest rate of 7.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2008. On or after May 1, 2011, but prior to April 30, 2012, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least \$1,000 per debenture provided that the current market price (as defined below) of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of \$16.00 per common shares. After May 1, 2012, but prior to the maturity date of April 30, 2013, the debentures are redeemable at a price equal to \$1,000 per debenture plus accrued and unpaid interest. The term "current market price" is defined in the indenture to mean the weighted average trading price of the common shares on the Toronto Stock Exchange for the twenty (20) consecutive days ending on the fifth trading day preceding the date of redemption or maturity.

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

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

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

The balance of the Company's convertible debentures at 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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 25 of 39

Financial Condition (Continued)

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.

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

Summary of Contractual Obligations

As at December 31, 2011	Payments due by period						
	Total	2012	2013	2014	2015	2016	Thereafter
(in thousands)	\$	\$	\$	\$	\$	\$	\$
Fixed Loans – PEAL	2,388	870	909	568	41	-	-
Credit Facility	9,123	-	9,123	-	-	-	-
Capital Lease Obligations	35	35	-	-	-	-	-
Operating Leases	42,989	10,900	10,556	10,416	9,001	1,745	371
	54,535	11,805	20,588	10,984	9,042	1,745	371

Off-Balance Sheet Arrangements

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 26 of 39

Financial Condition (Continued)

Transactions with Related Parties

During the year ended December 31, 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 under sales and marketing costs was paid on account of advertising and promotional expenses.

Major Customers

During the twelve month period ended December 31, 2011, the Company had sales to three customers that represented 48.0% of the total revenues (December 31, 2010 -55.0%). These sales are provided under service agreements that expire over various periods to September 2018.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately \$2.1 million to financial institutions as security for its loans, corporate credit cards, and to a number of vendors as security for the Company's ongoing purchases.

Financial Instruments

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Company has managed its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods. On January 1, 2010, the Company discontinued hedge accounting and is recognizing the deferred loss on the outstanding foreign exchange contracts as at January 1, 2010 over the period to October 2011 in the same periods in which the hedged anticipated transactions would affect net income. During the twelve month period ended December 31, 2011, a loss of \$144,274 (net of taxes of \$71,210) was recognized and transferred from accumulated other comprehensive income to net income.

In August 2010, October 2010, and January 2011, the Company entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from September 2010 to December 2012 for an aggregate total of USD \$38.5 million. These forward contracts were given to bank with a positive contract value of \$0.20 million. The realized gain from the forward contracts was recorded in income for the twelve month period ended December 31, 2011.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 27 of 39

Financial Condition (Continued)

Outlook

Cargojet experienced strong demand for its charter and ACMI services, while customer demand on its core overnight network continues to be limited by the current volatile economic conditions. Cargojet continues to retain all of its major customers and expects that demand on its core overnight network will improve with a stronger economy.

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

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

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

Critical Estimates

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 28 of 39

Financial Condition (Continued)

Critical Estimates (Continued)

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	All financial instruments are initially measured at their fair value plus in the case of a financial asset or financial liability not at FVTPL, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method except for financial liabilities at FVTPL.
Impairment of tangible and intangible assets excluding goodwill	<p>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.</p> <p>Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.</p>
Deferred taxes	Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Inventories	Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Company reviews the estimated selling price and the estimated costs necessary to make the sale at each reporting period to determine the net realizable value.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 29 of 39

Financial Condition (Continued)

Deferred Income Taxes

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

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Directors of the Company.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

An evaluation of the effectiveness of the Company's disclosure controls and procedures and design of internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2011 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

International Financial Reporting Standards ("IFRS")

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 30 of 39

Financial Reporting Update (Continued)

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

a) Elected exemptions from full retrospective application

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

(i) Business Combinations

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

(ii) Borrowing Costs

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

(iii) Leases

The Company elected to apply the transitional provisions in *IFRS Interpretation 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.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 31 of 39

Financial Reporting Update (Continued)

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

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

The following is a reconciliation of the Company's equity reported in accordance with Canadian GAAP to its 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 (deficiency) 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)

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

For the Three and Twelve Month Periods Ended December 31, 2011

Page 32 of 39

Financial Reporting Update (Continued)

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 Unit holders' equity. However, the Trust Units are considered a financial liability under IFRS as they are puttable to the entity at any time by the Unit holders to a maximum of \$50,000 per month.
- iii. Reclassification of conversion option on convertible debentures from equity to liability
As the conversion options are convertible into Trust Units at the debenture 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 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.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 33 of 39

Financial Reporting Update (Continued)

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 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.

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

For the Three and Twelve Month Periods Ended December 31, 2011

Page 34 of 39

Financial Reporting Update (Continued)

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.

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

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

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 35 of 39

Financial Reporting Update (Continued)

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

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

	Note	Year ended December 31, 2010	
Comprehensive income as reported under Canadian GAAP		4,256,171	\$
Reclassification of non-controlling interests under IFRS	(i)	722,556	
Increase in net income	(ii)	1,223,895	
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 (loss) 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")*.

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

For the Three and Twelve Month Periods Ended December 31, 2011

Page 36 of 39

Financial Reporting Update (Continued)

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.

CARGOJET INC.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 37 of 39

Financial Reporting Update (Continued)

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

Standards and Interpretations in issue not yet adopted (continued)

(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.

End Notes

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

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

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

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

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

**Management's Discussion and Analysis of Financial Condition
and Results of Operations**

For the Three and Twelve Month Periods Ended December 31, 2011

Page 38 of 39

End Notes (continued)

(A) (continued)

Non-controlling interests - non-controlling interests represent a direct non-controlling interest of the non-controlling shareholders of Cargojet Regional Partnership. Accordingly, non-controlling interest represents a different class of expense than those included in EBITDA.

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

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

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

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

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

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

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

Management's Discussion and Analysis of Financial Condition
and Results of Operations

For the Three and Twelve Month Periods Ended December 31, 2011

Page 39 of 39

End Notes (continued)

(B) (continued)

In November 2010, CICA issued a consultation guidance titled *reporting Supplementary Financial Measures, General Principles (The Guidance)*. The guidance approved the continuation of previously published guidance on EBITDA, Free cash flow and Distributable cash as it is continued to be relevant in the post IFRS environment.

Standardized Free Cash Flow is defined as "Cash flows from operating activities as reported in the IFRS financial statements, including operating cash flows provided from or used in discontinued operations; total capital expenditures minus proceeds from the disposition of capital assets other than those of discontinued operations, as reported in the IFRS financial statements; and dividends, when stipulated, unless deducted in arriving at cash flows from operating activities."

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

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

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

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

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

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

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