

Condensed Consolidated Interim Financial Statements of
CARGOJET INC.

For the three month periods ended March 31, 2013 and 2012

(unaudited – expressed in Canadian Dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at March 31, 2013 and December 31, 2012

(unaudited, in Canadian dollars)

	Note	March 31, 2013 \$	December 31, 2012 \$
ASSETS			
CURRENT ASSETS			
Cash		294,920	149,976
Trade and other receivables		12,528,263	11,245,805
Inventories		824,065	720,756
Prepaid expenses and deposits		1,654,608	2,397,021
Current portion of notes receivable		821,102	821,102
Current portion of finance lease receivable		293,017	293,017
		<u>16,415,975</u>	<u>15,627,677</u>
NON-CURRENT ASSETS			
Property, plant and equipment		46,032,549	46,710,150
Notes receivable		1,322,014	1,719,188
Finance lease receivable		294,170	361,477
Goodwill		46,169,976	46,169,976
Intangible assets		1,000,000	1,000,000
Deposits		1,870,032	1,853,412
		<u>113,104,716</u>	<u>113,441,880</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		12,116,483	11,755,753
Income taxes payable		292,912	449,927
Dividends payable		1,607,476	1,191,819
Borrowings	4	772,159	885,780
		<u>14,789,030</u>	<u>14,283,279</u>
NON-CURRENT LIABILITIES			
Borrowings	4	4,726,677	2,983,470
Provisions		1,602,848	1,543,784
Convertible debentures	5	25,434,900	25,263,531
Deferred income taxes	6	4,427,854	4,897,545
		<u>50,981,309</u>	<u>48,971,609</u>
EQUITY			
		<u>62,123,407</u>	<u>64,470,271</u>
		<u>113,104,716</u>	<u>113,441,880</u>

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)

Three month periods ended March 31, 2013 and 2012

(unaudited, in Canadian dollars)

		Three months ended	
		March 31,	
	Note	2013	2012
		\$	\$
REVENUES		40,717,907	40,135,928
DIRECT EXPENSES		35,852,334	34,603,372
		<u>4,865,573</u>	<u>5,532,556</u>
General and administrative expenses		4,466,895	4,516,215
Sales and marketing expenses		73,689	100,736
Loss on impairment of property, plant and equipment	3	281,275	-
Finance costs		810,945	932,589
Finance income		(40,041)	(58,179)
		<u>5,592,763</u>	<u>5,491,361</u>
EARNINGS (LOSS) BEFORE INCOME TAXES		(727,190)	41,195
PROVISION FOR (RECOVERY OF) INCOME TAXES	6		
Current		150,000	-
Deferred		(469,691)	11,163
		<u>(319,691)</u>	<u>11,163</u>
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		<u>(407,499)</u>	<u>30,032</u>
EARNINGS (LOSS) PER SHARE	8		
- Basic		(0.05)	-
- Diluted		(0.05)	-

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity

Three month periods ended March 31, 2013 and 2012

(unaudited, in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Reserve for surplus on debenture repurchases	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$	\$
Balance, December 31, 2012		67,329,440	341,554	1,844,538	1,271,503	(6,316,764)	64,470,271
Net loss and comprehensive loss		-	-	-	-	(407,499)	(407,499)
Treasury shares - net	7	(127,250)	-	-	-	-	(127,250)
Share-based compensation	9	-	(204,639)	-	-	-	(204,639)
Dividends	7	-	-	-	-	(1,607,476)	(1,607,476)
Balance, March 31, 2013		67,202,190	136,915	1,844,538	1,271,503	(8,331,739)	62,123,407
Balance, December 31, 2011		67,341,167	275,643	-	1,271,503	(5,271,930)	63,616,383
Net income and comprehensive income		-	-	-	-	30,032	30,032
Conversion option		-	-	1,882,182	-	-	1,882,182
Treasury shares - net		220,708	-	-	-	-	220,708
Share-based compensation		-	(116,422)	-	-	-	(116,422)
Dividends	7	-	-	-	-	(1,135,065)	(1,135,065)
Balance, March 31, 2012		67,561,875	159,221	1,882,182	1,271,503	(6,376,963)	64,497,818

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows

Three month periods ended March 31, 2013 and 2012

(unaudited, in Canadian dollars)

	Note	Three months ended	
		March 31,	
		2013	2012
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)		(407,499)	30,032
Items not affecting cash			
Depreciation of property, plant and equipment	3	2,869,394	2,288,152
Share-based compensation	9	260,986	168,287
Finance costs		810,945	932,589
Interest paid		(556,953)	(731,867)
Impairment on property, plant and equipment	3	281,275	-
Non-cash interest on notes receivable		(31,672)	(42,163)
Non-cash interest on finance lease receivable		(8,225)	(11,436)
Income tax provision (recovery)		(319,691)	11,163
Income tax payments		(307,015)	(649,041)
		2,591,545	1,995,716
Changes in non-cash working capital items and deposits			
Trade and other receivables		(1,282,458)	1,369,082
Inventories		(103,309)	10,199
Prepaid expenses and deposits		725,793	(408,944)
Trade and other payables		360,730	1,062,280
NET CASH GENERATED BY OPERATING ACTIVITIES		2,292,301	4,028,333
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(324,860)	(9,543,538)
Proceeds from borrowings		1,930,887	-
Purchase of treasury shares		(592,875)	(64,002)
Dividends paid to shareholders		(1,191,819)	(1,079,112)
Repayment of finance leases payable		-	(16,120)
Proceeds from debenture issuance		-	27,305,000
NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES		(178,667)	16,602,228
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(2,473,068)	(1,123,941)
Proceeds from disposal of property, plant and equipment		-	45,000
Collections of notes receivable		428,846	428,845
Collections of finance lease receivable		75,532	75,000
NET CASH USED IN INVESTING ACTIVITIES		(1,968,690)	(575,096)
NET CHANGE IN CASH		144,944	20,055,465
CASH (OVERDRAFT), BEGINNING OF PERIOD		149,976	(110,235)
CASH, END OF PERIOD		294,920	19,945,230

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

(unaudited – in Canadian Dollars)

1. NATURE OF THE BUSINESS

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

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

These condensed consolidated interim financial statements (the “financial statements”) were approved and authorized for issuance by the Board of Directors on April 30, 2013.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), using International Accounting Standard (“IAS”) *IAS 34, Interim Financial Reporting*.

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2012.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these financial statements as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2012.

Adoption of new accounting standards

Effective January 1, 2013, the following new or amended accounting standards were effective for the Company:

IFRS 10, Consolidated Financial Statements, together with *IFRS 11, Joint Arrangements*, *IFRS 12, Disclosure of Interests in Other Entities*, *IAS 27 (Revised), Separate Financial Statements* and *IAS 28 (Revised), Investments in Associates or Joint Ventures*, which establish a framework for identifying control and accounting and disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13, Fair Value Measurement, which establishes a single framework for measuring fair value essentially based on exit price, i.e., the price that would be expected to be received to sell an asset or to be paid to transfer a liability.

IAS 19 (Revised), Employee Benefits, which revises the accounting for defined benefit plans.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

(unaudited – in Canadian Dollars)

2. BASIS OF PRESENTATION (CONTINUED)

Adoption of new accounting standards (continued)

IAS 1, Presentation of Financial Statements, which requires separate grouping of items of other comprehensive income into items that may be reclassified to income in future periods and items that will not be reclassified to income in future periods.

IFRS 7, Financial Instruments Disclosures, which sets out new disclosure requirements related to the offsetting of financial assets and liabilities.

The adoption of these standards had no impact on the Company's results of operations, financial position or disclosures.

3. PROPERTY, PLANT AND EQUIPMENT

The Company reduced the net book value of used engine cores to fair value by \$281,275 and reported a loss on impairment of property, plant and equipment.

Depreciation expense on property, plant and equipment for the three month periods ended March 31, 2013 and 2012 totaled \$2,869,394 and \$2,288,152, respectively.

4. BORROWINGS

Borrowings consist of the following:

	March 31, 2013	December 31, 2012
	\$	\$
Revolving credit facility	4,660,479	2,729,592
Fixed loans - Cargojet Airways Ltd.	838,357	1,139,658
	5,498,836	3,869,250
Less current portion	772,159	885,780
Long-term portion	4,726,677	2,983,470

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of \$25.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2015. 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 March 31, 2013.

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 (a wholly-owned subsidiary of the Company) and certain other entities of the Company; and
- assignment of insurance proceeds, payable to the bank.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

(unaudited – in Canadian Dollars)

4. BORROWINGS (CONTINUED)

The Company also maintains fixed loans with another Canadian chartered bank through its subsidiary Cargojet Airways Ltd. (“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 the Company’s notes receivable. The loans are repayable in monthly installments plus interest and will mature by August 2014. The Company also has provided a standby letter of credit of \$780,000 to the bank which is held against the fixed loans.

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

	\$
2013	616,721
2014	221,636
	<hr/> 838,357
Less current portion	772,159
Long-term portion	<hr/> 66,198

Interest expense on the borrowings for the three month periods ended March 31, 2013 and 2012 totaled \$119,725 and \$256,674, respectively.

5. CONVERTIBLE DEBENTURES

The balance of convertible debentures at March 31, 2013 and December 31, 2012 consists of:

	March 31, 2013	December 31, 2012
	\$	\$
Principal balance	28,750,000	28,750,000
Less:		
Issuance costs	(1,312,192)	(1,312,192)
Conversion option at inception	(2,642,384)	(2,642,384)
Accretion	639,476	468,107
Balance	<hr/> 25,434,900	<hr/> 25,263,531

Interest expense on the debentures for the three month periods ended March 31, 2013 and March 31, 2012 totaled \$632,157 and \$76,629, respectively.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

(unaudited – in Canadian Dollars)

6. INCOME TAXES

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

	March 31, 2013	March 31, 2012
	\$	\$
Earnings (loss) before income taxes	(727,190)	41,195
Income tax provision (recovery) at the combined basic rate of 26.5% (2012 - 26.5%)	(192,705)	10,917
Permanent and other differences	(126,986)	246
Income tax expense	(319,691)	11,163

The tax effect of significant temporary differences is as follows:

	March 31, 2013	December 31, 2012
	\$	\$
Property, plant and equipment	2,873,557	3,019,272
Intangible assets	(597,236)	(607,359)
Notes receivable	(46,957)	(55,349)
Financing costs	(332,970)	(344,828)
Convertible debentures	857,542	901,598
Provision for lease retirement costs	(108,245)	79,796
Finance lease receivable	156,691	173,441
Long-term incentive plan	(36,414)	(90,511)
Deferred heavy maintenance	1,661,886	1,821,485
Net deferred income tax liability	4,427,854	4,897,545

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

(unaudited – in Canadian Dollars)

7. SHAREHOLDERS' CAPITAL

Share capital

The following table shows the change in shareholders' capital from December 31, 2012 to March 31, 2013:

	Number	Amount
		\$
Variable voting shares	706,745	4,298,548
Common voting shares	7,229,105	63,030,892
Outstanding, December 31, 2012	7,935,850	67,329,440
Changes during the period		
Treasury stock purchase	(61,099)	(592,875)
Distributed in connection with share-based compensation	55,060	465,625
Outstanding, March 31, 2013	7,929,811	67,202,190
Consisting of:		
Variable voting shares	609,395	5,164,395
Common voting shares	7,320,416	62,037,795

Dividends

Dividends to shareholders declared for the three month periods ended March 31, 2013 and 2012 amounted to \$1,607,476 (\$0.201 per share) and \$1,135,065 (\$0.142 per share), respectively.

8. EARNINGS (LOSS) PER SHARE

The following table shows the computation of basic earnings (loss) per share for the three month periods ended March 31, 2013 and 2012:

Basic earnings (loss) per share	2013	2012
Net income (loss)	\$ (407,499)	\$ 30,032
Weighted average number of shares	7,993,416	7,993,416
Total basic earnings (loss) per share	\$ (0.05)	\$ -

The shares held under the long-term incentive plan have been included in the calculation of basic earnings (loss) per share for the three month periods ended March 31, 2013 and 2012 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted earnings (loss) per share for the three month periods ended March 31, 2013 and 2012 as the impact would be anti-dilutive.

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Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2013 and 2012

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9. LONG-TERM INCENTIVE PLAN

Long-term Incentive Plan

For the three month period ended March 31, 2013, share-based compensation expense totaled \$365,611 including withholding taxes of \$104,625 paid on behalf of the eligible employees.

2013 Awards

In March 2013, pursuant to the Company's long-term incentive plan ("LTIP"), an amount of \$697,500 was approved as LTIP to the executive officers and senior management. Accordingly, the Company purchased 61,099 shares from the open market at an average price of \$9.70 per share. As at March 31, 2013, 13,340 of these shares had vested and \$127,875, net of withholding taxes of \$104,625, was transferred from share-based compensation reserve to shareholders' capital.

Prior Years Awards

In the three month period ended March 31, 2013, 41,720 of the treasury shares had vested and \$337,750 was transferred from share-based compensation reserve to shareholder's capital.