Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three month periods ended March 31, 2014 and 2013

(unaudited – expressed in Canadian Dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at March 31, 2014 and December 31, 2013

(unaudited, in Canadian dollars)

	Note	March 31, 2014	December 31, 2013
		$	$
ASSETS			
CURRENT ASSETS			
Cash		49,686	441,506
Trade and other receivables		17,862,565	15,399,458
Inventories		1,110,988	1,062,981
Prepaid expenses and deposits		1,464,248	982,972
Income taxes receivable		192,989	-
Current portion of notes receivable		821,102	821,102
Current portion of finance lease receivable		311,653	311,653
		21,813,231	19,019,672
NON-CURRENT ASSETS			
Property, plant and equipment	3	45,556,265	45,844,731
Notes receivable		568,925	977,224
Finance lease receivable		37,019	98,591
Goodwill		46,169,976	46,169,976
Intangible assets		1,000,000	1,000,000
Deposits		4,935,067	3,040,678
		120,080,483	116,150,872
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		15,750,129	16,797,283
Income taxes payable		-	2,162,510
Provisions	5	239,518	-
Dividends payable		1,318,736	1,191,819
Borrowings	4	20,688	20,280
		17,329,071	20,171,892
NON-CURRENT LIABILITIES			
Borrowings	4	11,795,087	1,932,393
Provisions	5	2,015,882	1,760,916
Convertible debentures	6	17,038,852	25,940,908
Deferred income taxes	7	3,200,741	3,801,932
		51,379,633	53,608,041
EQUITY		68,700,850	62,542,831
		120,080,483	116,150,872

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

Three month periods ended March 31, 2014 and 2013

(unaudited, in Canadian dollars)

	Note	Three months ended March 31, 2014	2013
		$	$
REVENUES		43,715,602	40,717,907
DIRECT EXPENSES		39,879,656	35,852,334
		3,835,946	4,865,573
General and administrative expenses		4,976,957	4,466,895
Sales and marketing expenses		120,158	73,689
Finance costs		692,816	810,945
Finance income		(25,707)	(40,041)
Impairment on property, plant and equipment	3	-	281,275
		5,764,224	5,592,763
LOSS BEFORE INCOME TAXES		(1,928,278)	(727,190)
PROVISION FOR (RECOVERY OF) INCOME TAXES	7		
Current		-	150,000
Deferred		(352,669)	(469,691)
		(352,669)	(319,691)
NET LOSS AND COMPREHENSIVE LOSS		(1,575,609)	(407,499)
LOSS PER SHARE	9		
- Basic		(0.19)	(0.05)
- Diluted		(0.19)	(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, 2014 and 2013
(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, 2013		67,202,190	392,665	1,844,538	1,271,503	(8,168,065)	62,542,831
Net loss and comprehensive loss		-	-	-	-	(1,575,609)	(1,575,609)
Treasury shares - net	8	(59,773)	-	-	-	-	(59,773)
Share-based compensation	8,10	-	(200,567)	-	-	-	(200,567)
Deferred tax on conversion option	7	-	-	-	-	248,522	248,522
Convertible debenture - conversion	6	9,064,182	-	(641,707)	641,707	-	9,064,182
Dividends	8	-	-	-	-	(1,318,736)	(1,318,736)
Balance, March 31, 2014		76,206,599	192,098	1,202,831	1,913,210	(10,813,888)	68,700,850
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		(127,250)	-	-	-	-	(127,250)
Share-based compensation		-	(204,639)	-	-	-	(204,639)
Dividends	8	-	-	-	-	(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

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, 2014 and 2013

(unaudited, in Canadian dollars)

	Note	Three months ended March 31, 2014	2013
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss		(1,575,609)	(407,499)
Items not affecting cash			
Depreciation of property, plant and equipment	3	2,815,425	2,869,394
Share-based compensation	10	261,440	260,986
Finance costs		692,816	810,945
Interest paid		(488,172)	(556,953)
Effects of exchange rates changes on provision		86,459	-
Impairment on property, plant and equipment	3	-	281,275
Non-cash interest on notes receivable		(20,544)	(31,672)
Non-cash interest on finance lease receivable		(4,686)	(8,225)
Income tax recovery		(352,669)	(319,691)
Income tax payments		(2,355,499)	(307,015)
		(941,039)	2,591,545
Changes in non-cash working capital items and deposits			
Trade and other receivables		(2,463,107)	(1,282,458)
Inventories		(48,007)	(103,309)
Prepaid expenses and deposits		(2,375,665)	725,793
Trade and other payables		(1,047,154)	360,730
NET CASH (USED IN) GENERATED BY OPERATING ACTIVITIES		(6,874,972)	2,292,301
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		9,857,586	1,606,027
Purchase of treasury shares		(521,780)	(592,875)
Dividends paid to shareholders		(1,191,819)	(1,191,819)
NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES		8,143,987	(178,667)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(2,095,873)	(2,473,068)
Payment of provision for lease return conditions		(60,063)	-
Collections of notes receivable		428,843	428,846
Collections of finance lease receivable		66,258	75,532
NET CASH USED IN INVESTING ACTIVITIES		(1,660,835)	(1,968,690)
NET CHANGE IN CASH		(391,820)	144,944
CASH, BEGINNING OF PERIOD		441,506	149,976
CASH, END OF PERIOD		49,686	294,920

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

1. NATURE OF THE BUSINESS

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

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 May 13, 2014.

2. BASIS OF PREPARATION

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

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, 2013.

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, 2013.

Accounting standards effective for 2014

Effective January 1, 2014, the following new or amended accounting standards were effective for the Company:

New standards implemented

Financial instruments: Asset and liability offsetting

In December 2011, the International Accounting Standard Board ("IASB") amended IAS 32, *Financial Instruments: Presentation* ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 32 amendments did not have a significant impact on the Company.

2. BASIS OF PREPARATION (CONTINUED)

New standards implemented (continued)

Impairment of assets

In May 2013, the IASB amended IAS 36, *Impairment of Assets* ("IAS 36"), to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 36 amendments did not have a significant impact on the Company.

Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting, Amendments to IAS 39*. This amendment to IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 39 amendments did not have a significant impact on the Company.

Levies

In May 2013, the IASB issued IFRIC Interpretation 21, *Levies* ("IFRIC 21"), which is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The implementation of IFRIC 21 did not have a significant impact on the Company.

Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the three month period ended March 31, 2014, and, accordingly, have not been applied in preparing these interim financial statements.

Financial instruments

In November 2009, the IASB issued IFRS 9, *Financial Instruments* ("IFRS 9"), which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income ("OCI") instead of net income unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed

(unaudited – in Canadian Dollars)

2. BASIS OF PREPARATION (CONTINUED)

Standards, amendments and interpretations issued and not yet adopted (continued)

with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities would not.

In November 2013, the IASB issued a new version of IFRS 9 which incorporates a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting.

IFRS 9 does not have a mandatory effective date. Early adoption is permitted. The Company is assessing the potential impact of this standard.

3. PROPERTY, PLANT AND EQUIPMENT

During the three month period ended March 31, 2014, the Company incurred $993,220 (2013 – $nil) on modification of two newly leased B757-200 aircraft to bring them into operation. As at March 31, 2014, $784,581 of this amount was still classified as an asset under construction due to pending completion of the modifications.

In March 2013, the Company reviewed the carrying value of its used engines and estimated that the recoverable amount was less than the book value. The Company reduced the net book value of the used engines 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, 2014 and 2013 totaled $2,815,425 and $2,869,394, respectively.

4. BORROWINGS

Borrowings consist of the following:

	March 31, 2014	December 31, 2013
	$	$
Revolving credit facility	11,543,244	1,675,223
Other borrowings	272,531	277,450
	11,815,775	1,952,673
Less current portion	20,688	20,280
Long-term portion	11,795,087	1,932,393

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $45.0 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, 2014 and 2013.

(unaudited – in Canadian Dollars)

4. BORROWINGS (CONTINUED)

The credit facility is secured by the following:

- general security agreement over all assets of the Company;
- guarantee and postponement of claim supported by a general security agreement constituting a first ranking security interest in all personal property of certain subsidiaries of the Company including a first ranking security interest in all present and future assets of Cargojet Airways Ltd. located in the province of Quebec; and
- assignment of insurance proceeds, payable to the bank.

Other borrowings of $272,531 are comprised of an obligation under a finance lease and bear an interest rate of 8.0%. The amount is repayable in monthly installments over the period to April 2018.

The following are the future minimum repayments for other borrowings:

	$
2014	15,361
2015	21,965
2016	23,787
2017	25,761
2018	185,657
	272,531
Less current portion	20,688
Long-term portion	251,843

Interest expense on the borrowings for the three month periods ended March 31, 2014 and 2013 totaled $95,335 and $119,725, respectively.

5. PROVISIONS

The Company's aircraft operating lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The Company has estimated that it will incur certain maintenance costs at the end of the lease terms and has recorded a maintenance provision liability for these costs. The change in the carrying amount of the provision is as follows:

	March 31, 2014	March 31, 2013
	$	$
Balance, beginning of period	1,760,916	1,543,784
Recognition of provision for lease return conditions	431,086	-
Accretion	37,002	59,064
Payment of provision for lease return conditions	(60,063)	-
Effects of exchange rate changes on the provision balance	86,459	-
Balance, end of period	2,255,400	1,602,848
Less: current portion	239,518	-
Long-term portion	2,015,882	1,602,848

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and Company specific history.

(unaudited – in Canadian Dollars)

5. PROVISIONS (CONTINUED)

Accretion expense of $37,002 (2013 - $59,064) has been recorded in the period as part of finance costs in the condensed consolidated interim statement of loss. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

6. CONVERTIBLE DEBENTURES

Convertible Debentures – 6.5% due April 30, 2017

The balance of convertible debentures at March 31, 2014 and December 31, 2013 consists of:

	March 31, 2014	December 31, 2013
	$	$
Principal balance	18,748,000	28,750,000
Less:		
Issuance costs	(855,686)	(1,312,192)
Conversion option at inception	(1,723,109)	(2,642,384)
Accretion	869,647	1,145,484
Balance	17,038,852	25,940,908

Interest expense on the debentures for the three month periods ended March 31, 2014 and 2013 totaled $560,182 and $632,157, respectively.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $11.75 per voting share at any time prior to the close of business on the earliest of the business day immediately preceding the maturity date.

During the three month period ended March 31, 2014, convertible debentures with an aggregate principal amount of $10,002,000 were converted, at the holders' discretion, into 851,223 voting shares of the Company ($11.75 per voting share). Accordingly, the Company derecognized $9,064,182 of the liability for convertible debentures, representing the amortized cost carrying amount of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option of $641,707 was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the statement of changes in equity. No gain or loss was recognized upon conversion of the debentures.

(unaudited – in Canadian Dollars)

7. INCOME TAXES

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

	March 31, 2014	March 31, 2013
	$	$
Loss before income taxes	(1,928,278)	(727,190)
Income tax recovery at the combined basic rate of 26.5% (2013 - 26.5%)	(510,994)	(192,705)
Permanent and other differences	158,325	(126,986)
Income tax recovery	(352,669)	(319,691)

The tax effect of significant temporary differences is as follows:

	March 31, 2014	December 31, 2013
	$	$
Property, plant and equipment	2,818,375	2,866,634
Intangible assets	(554,969)	(564,854)
Operating loss carryforward	(167,087)	-
Notes receivable	(19,239)	(24,683)
Financing costs	(248,561)	(272,534)
Convertible debentures	452,924	744,409
Provision for lease retirement costs	301,716	224,703
Finance lease receivable	94,181	108,715
Long-term incentive plan	(51,099)	(104,057)
Deferred heavy maintenance	574,500	823,599
Net deferred income tax liability	3,200,741	3,801,932

The conversion of the Company's 6.5% convertible debentures during the period (Note 6) resulted in a decrease to the temporary difference between the carrying amount of the liability for convertible debentures and the corresponding tax base. Accordingly, the Company recognized the resulting decrease in deferred tax liability of $248,522 directly in deficit.

(unaudited – in Canadian Dollars)

8. SHAREHOLDERS' CAPITAL

Share capital

The following table shows the change in shareholders' capital from December 31, 2013 to March 31, 2014:

	Number	Amount
		$
Variable voting shares	256,395	2,172,852
Common voting shares	7,673,416	65,029,338
Outstanding, December 31, 2013	7,929,811	67,202,190
Changes during the period		
Voting shares issued on conversion of convertible debentures	851,223	9,064,182
Treasury stock purchase	(24,819)	(521,780)
Distributed in connection with share-based compensation	45,076	462,007
Outstanding, March 31, 2014	8,801,291	76,206,599
Consisting of:		
Variable voting shares	175,645	1,520,047
Common voting shares	8,625,646	74,686,552

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the three month periods ended March 31, 2014 and 2013 amounted to $1,318,736 ($0.1491 per share) and $1,607,476 ($0.2011 per share), respectively.

9. LOSS PER SHARE

The following table shows the computation of basic loss per share for the three month periods ended March 31, 2014 and 2013:

Basic loss per share		2014		2013
Net loss	$	(1,575,609)	$	(407,499)
Weighted average number of shares		8,314,464		7,993,416
Total basic loss per share	$	(0.19)	$	(0.05)

The shares held under the long-term incentive plan have been included in the calculation of basic loss per share for the three month periods ended March 31, 2014 and 2013 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted loss per share for the three month periods ended March 31, 2014 and 2013 as the impact would be anti-dilutive.

10. LONG-TERM INCENTIVE PLAN

For the three month periods ended March 31, 2014 and 2013, share-based compensation expense totaled $353,535 and $365,611, respectively, including withholding taxes of $92,095 and $104,625, respectively, paid on behalf of the eligible employees.

2014 Awards

In March 2014, in accordance with the Company's long-term incentive plan (the "Plan" or "LTIP"), an amount of $613,875 was approved to the executive officers and senior management. Accordingly, the Company purchased 24,819 shares from the open market at an average price of $21.02 per share. As at March 31, 2014, 5,353 of these shares had vested and $112,530, net of withholding taxes of $92,095, was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at March 31, 2014 was $409,250.

Prior Years' Awards

In the three month period ended March 31, 2014, 39,723 of the treasury shares had vested and $349,477 was transferred from share-based compensation reserve to shareholder's capital. The balance of LTIP award not vested at March 31, 2014 was $232,500.

11. SUBSEQUENT EVENTS

Subsequent to March 31, 2014, the Company received requests to convert $1,001,000 of convertible debentures into common shares and 85,190 common shares were issued to the holders at a conversion rate of 85.1064 shares per $1,000 of debentures.

In April 2014, $74,000,000 of unsecured subordinated convertible debentures were issued with a term of five years due on June 30, 2019. These debentures bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2014.

The Company entered into agreements to purchase two Boeing 767-300ER ("B767-300") series aircraft and to lease two Boeing 767-200ER series aircraft. The Company also signed letter of intents ("LOI") to purchase one Boeing B757-200ER series aircraft and to lease one B767-300 aircraft.

The Company also executed a LOI for the option to purchase five Challenger 601 aircraft that would give it the capability to operate emergency medical and other charters.