CARGOJET INC.
Management's Discussion and Analysis
Of Financial Condition and Results of Operations

For the Three Month Period Ended March 31, 2014

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. (the "Company") for the three month period ended March 31, 2014. The following also includes a discussion of and comparative operating results for the three month period ended March 31, 2013.

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 May 13, 2014. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three month periods ended March 31, 2014 and 2013 and with the audited annual consolidated financial statements of the Company for the years ended December 31, 2013 and 2012.

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

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, 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 EBITDA and Adjusted Free Cash Flow are shown on page 7 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 the 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 March 6, 2014 with the regulatory authorities.

Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in the Company's AIF, filed March 6, 2014 with the regulatory authorities.

(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.

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 and 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
- Providing specialty charter service across North America, to the Caribbean and to Europe.

The Company operates its business across North America transporting 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 two leased Boeing 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and ten Boeing 727-200 ("B727") series 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.

The Company leased one additional B757 series aircraft, which was delivered in December 2013. The aircraft is scheduled to enter service in April 2014.

During the quarter and in the subsequent period up to the date of this MD&A, the Company entered into agreements to purchase six 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 ("B757") series aircraft and to lease one B757-300 and one B767-300 aircraft.

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

As at the date of this MD&A, the Company owns two regional aircraft. One regional aircraft is under a finance lease to a third party and accordingly the aircraft has been discontinued as an owned asset. The other aircraft is under an operating lease to a third party.

Recent Events

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.

Recent Events (Continued)

Long-term Incentive Plan (Continued)

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.

Purolator and Canada Post DACNS

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options held by the CPGOC. Projected revenues are estimated to be approximately $1.0 billion dollars during the initial seven-year agreement based on the projected volumes. The Company will provide comprehensive Canada-wide air cargo services for the CPGOC, including Purolator's national air cargo network. Cargojet's domestic overnight network will be expanded and enhanced significantly to handle the additional volumes and provide a virtual dedicated air cargo network to the CPGOC. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to CPGOC.

Amendment of Credit Facility

In 2014, the Company amended its revolving credit facility with a Canadian chartered bank. The amendment increased the maximum credit limit from $25.0 million to $45.0 million. All other terms and conditions related to the credit facility remained the same.

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.

Subsequent Events (Continued)

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 the capability to operate emergency medical and other charters.

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 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, aircraft maintenance, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter, ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment costs, building leases, depreciation and amortization.

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, human resources and information systems.

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Periods Ended March 31,	
	2014	2013
	(unaudited)	(unaudited)
	$	$
Revenue	**43,716**	40,718
Direct expenses	**39,880**	35,852
	3,836	4,866
General and administrative expenses	**4,977**	4,467
Sales and marketing expenses	**120**	74
Finance costs	**693**	811
Finance income	**(26)**	(40)
Impairment of property, plant and equipment	**-**	281
	5,764	5,593
Loss before income taxes	**(1,928)**	(727)
Provision for (recovery of) income taxes		
Current	**-**	150
Deferred	**(353)**	(470)
	(353)	(320)
Net loss	**(1,575)**	(407)
Loss per share		
Basic	(0.19)	(0.05)
Diluted	(0.19)	(0.05)
Average number of shares - basic (in thousands of shares)[1]	**8,314**	**7,993**

1. Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 43,716	$ 48,519	$ 43,416	$ 42,723	$ 40,718	$ 46,370	$ 41,777	$ 40,488
Net income (loss) (in thousands)	$ (1,575)	$ 2,394	$ 225	$ 1,120	$ (407)	$ 1,528	$ 947	$ 1,047
Earnings (loss) per share								
- Basic	$ (0.19)	$ 0.30	$ 0.03	$ 0.14	$ (0.05)	$ 0.19	$ 0.12	$ 0.13
- Diluted	$ (0.19)	$ 0.27	$ 0.03	$ 0.14	$ (0.05)	$ 0.19	$ 0.12	$ 0.13
Average number of shares - basic (in thousands of shares)[(1)]	8,314	7,993	7,993	7,993	7,993	7,993	7,993	7,993
Average number of shares - diluted (in thousands of shares)[(1) (2)]	8,314	10,440	7,993	7,993	7,993	7,993	7,993	7,993

1. Average number of shares includes treasury shares.

2. For the purpose of calculating earnings per share – diluted for the three month period ended December 31, 2013, the weighted average number of common shares and the effect of the Company's convertible debentures have been combined.

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

	Three Month Periods Ended March 31, 2014 (unaudited) $	2013 (unaudited) $
Net loss	**(1,575)**	**(407)**
Add:		
Net interest	**667**	**771**
Provision for current income taxes	**-**	**150**
Recovery of deferred income taxes	**(353)**	**(470)**
Impairment of property, plant and equipment	**-**	**281**
Depreciation and amortization of property, plant and equipment	**2,815**	**2,869**
Aircraft heavy maintenance expenditures	**(86)**	**(1,406)**
Heavy maintenance deposits [1]	**(60)**	**945**
Total EBITDA	**1,408**	**2,733**

	$	$
Cash (outflow) inflow from operating activities	**(6,875)**	**2,292**
Less: Additions to property, plant and equipment	**(2,156)**	**(2,473)**
Standardized free cash flow	**(9,031)**	**(181)**
Less: Changes in non-cash working capital items and deposits	**5,934**	**299**
Provision for current income taxes	**-**	**(150)**
Adjusted free cash flow	**(3,097)**	**(32)**

1. In 2013 heavy maintenance deposits were paid to the aircraft lessors on a monthly basis. Cargojet is entitled to a refund of these payments when it incurs actual heavy maintenance expenditures.

Review of Operations for the Three Month Periods ended March 31, 2014 and 2013

Highlights for the Three Month Periods ended March 31, 2014 and 2013

- Total revenue for the three month period ended March 31, 2014 was $43.7 million as compared to $40.7 million for the same period in 2013, representing an increase of $3.0 million or 7.4%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2014 was $0.68 million per operating day as compared to $0.64 million for the same period in 2013, representing an increase of $0.04 million or 6.3%.
- EBITDA for the three month period ended March 31, 2014 was $1.4 million as compared to $2.7 million for the same period in 2013, a decrease of $1.3 million or 48.1%.
- Adjusted free cash flow was an outflow of $3.1 million for the three month period ended March 31, 2014 as compared to an outflow of $0.1 million for the same period in 2013, a decrease of $3.0 million.

Revenue

Total revenue for the three month period ended March 31, 2014 was $43.7 million, as compared to $40.7 million for the same period in 2013, representing an increase of $3.0 million or 7.4%. The increase in total revenue was due primarily to the increase in core overnight volumes and higher charter activities.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2014 was $29.2 million as compared to $27.3 million for the same period in 2013, an increase of $1.9 million or 7.0%. The increase was due primarily to higher volumes on the overnight network.

Revenue related to the ACMI cargo business for the three month period ended March 31, 2014 was $1.5 million, and remained unchanged from 2013.

Revenue related to scheduled and ad-hoc charters for the three month period ended March 31, 2014 was $2.7 million as compared to $2.1 million for the same period in 2013, an increase of $0.6 million or 28.6%. The increase in the revenue was due primarily to higher charter activities.

Fuel surcharges and other cost pass-through revenues were $9.9 million for the three month period ended March 31, 2014 as compared to $9.4 million for the same period in 2013, representing an increase of $0.5 million or 5.3%. The increase in cost pass-through revenue was due primarily to the increase in fuel prices and network volumes. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties for the three month periods ended March 31, 2014 and 2013 were of $0.6 million, respectively.

Other revenues for the three month period ended March 31, 2014 was $0.4 million, and remained unchanged from 2013.

Review of Operations for the Three Month Periods ended March 31, 2014 and 2013 (Continued)

Direct Expenses

Total direct expenses were $39.9 million for the three month period ended March 31, 2014 as compared to $35.8 million for the three month period ended March 31, 2013. As a percentage of revenue, direct expenses increased from 88.0% in 2013 to 91.3% for the same period in 2014. The overall increase in direct expenses was due primarily to an increase in fuel, maintenance, aircraft, crew and commercial costs due to the increase in block hours, an increase in core overnight cargo volumes and the effect of one time start-up costs in relation to the MSA signed with CPGOC.

Fuel costs were $16.2 million for the three month period ended March 31, 2014 as compared to $15.6 million for the same period in 2013. The $0.6 million or 3.8% increase in fuel costs was due primarily to the increase in block hours and the increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $1.5 million for the three month period ended March 31, as compared to $1.6 million for the same period in 2013.

Aircraft costs were $4.4 million for the three month period ended March 31, 2014 as compared to $3.1 million in 2013, representing an increase of $1.3 million or 41.9%. The increase was due primarily to the costs associated with the B757 fleet renewal, an increase in the variable lease costs due to the increase in block hours flown using the Company's wide body aircraft and the negative effect of exchange fluctuations on the USD denominated lease costs.

Heavy maintenance amortization costs were $1.1 million for the three month period ended March 31, 2014 and remained unchanged from 2013. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $2.9 million for the three month period ended March 31, 2014 as compared to $2.5 million in 2013, representing an increase of $0.4 million or 16.0%. The increase was primarily due to the increase in aircraft line maintenance costs due to the increase in block hours and hiring of additional maintenance staff.

Total crew costs including salaries, training and positioning were $3.0 million for the three month period ended March 31, 2014 as compared to $2.5 million in 2013, representing an increase of $0.5 million or 20.0%. The increase was due primarily to the salary increases, hiring of the additional crews and training costs including one time start-up costs in relation to the MSA signed with CPGOC.

Commercial and other direct operating costs were $10.8 million for the three month period ended March 31, 2014 as compared to $9.4 million for the same period in 2013. The increase of $1.4 million or 14.9% was due primarily to the increase in de-icing costs due to weather conditions and an increase in ground handling, landing and navigation charges due to the growth in core overnight volumes.

Review of Operations for the Three Month Periods ended March 31, 2014 and 2013 (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended March 31, 2014 were $5.1 million as compared to $4.5 million for the same period in 2013, representing an increase of $0.6 million or 13.3%. The increase in SG&A was due primarily to the effect of one time start-up costs in relation to the MSA signed with CPGOC, annual salary increases and the hiring of new personnel.

EBITDA

EBITDA for the three month period ended March 31, 2014 was $1.4 million or 3.2% of revenue, as compared to $2.7 million or 6.6% of revenue for the same period in 2013. The decrease in EBITDA of $1.3 million or 48.1% was due primarily to the following:

- The effect of one time start-up costs in relation to the MSA signed with CPGOC;
- Increase in aircraft operating costs, commercial and maintenance costs associated with the increased block hours and the effect of exchange fluctuation on net USD denominated expenditures partially offset by an increase in core overnight revenue and charter activity.

Net Finance Costs

Net finance costs were $0.7 million for the three month period ended March 31, 2014 and remained unchanged from 2013.

Current Income Taxes

The provision for current income taxes for the three month period ended March 31, 2014 was $nil as compared to $0.2 million for the same period in 2013.

Deferred Income Taxes

The deferred income taxes recognized for the three month period ended March 31, 2014 was a recovery of $0.4 million as compared to $0.5 million for the same period in 2013. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of $3.1 million for the three month period ended March 31, 2014, as compared to an outflow of $0.1 million for the three month period ended March 31, 2013. The decrease in adjusted free cash flow for the three month period ended March 31, 2014 was due primarily to the decrease in EBITDA, the effect of one time start-up costs in relation to the MSA signed with CPGOC partially offset by the decrease in capital expenditures.

Review of Operations for the Three Month Periods ended March 31, 2014 and 2013

(Continued)

Dividends

Total dividends declared for the three month period ended March 31, 2014 were $1,318,736 or $0.1491 per share. In comparison, total dividends declared for the three month period ended March 31, 2013 were $1,607,476 or $0.2011 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2013	January 6, 2014	-	7,993,416	0.1491	1,191,819
March 20, 2014	April 7, 2014	1,318,736	8,844,639	0.1491	-
		1,318,736	-	-	1,191,819

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2012	January 4, 2013	-	7,993,416	0.1491	1,191,819
March 20, 2013	April 5, 2013	1,607,476	7,993,416	0.2011	-
		1,607,476	-	-	1,191,819

In 2013, the Company declared a special onetime cash dividend of $0.0520 per share for the period from January 1, 2013 to March 31, 2013.

Liquidity and Capital Resources

Cash used in operating activities after net changes in non-cash working capital balances for the three month period ended March 31, 2014 was $6.9 million as compared to cash generated by operating activities of $2.3 million for the same period in 2013. The $9.2 million decrease in cash was due primarily to the increase in deposits, current tax payments and timing of collections of accounts receivable and settlement of accounts payable.

Cash generated by financing activities during the three month period ended March 31, 2014 was $8.1 million as compared to cash used in financing activities of $0.2 million for the same period in 2013. The $8.3 million increase was primarily due to the increased usage of the revolving credit facility to finance the one time start-up costs and deposits in relation to the MSA signed with CPGOC.

Cash used in investing activities during the three month period ended March 31, 2014 was $1.7 million and was primarily comprised of property, plant and equipment additions.

Capital Expenditures

Net property, plant and equipment additions were $2.1 million for the three month period ended March 31, 2014 as compared to $2.5 million additions in property, plant and equipment for the same period in 2013. The property, plant and equipment additions in the current period were comprised of ground equipment, rotable assets and office equipment.

Financial Condition

The following is a comparison of the financial position of the Company as at March, 31, 2014 to the financial position of the Company as at December 31, 2013.

Accounts Receivable

Accounts receivable as at March 31, 2014 amounted to $17.9 million as compared to $15.4 million as at December 31, 2013. The increase of $2.5 million was due to the timing of cash collections from the customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at March 31, 2014, property, plant and equipment were $45.5 million as compared to $45.8 million as at December 31, 2013. The $0.3 million net decrease in property, plant and equipment was primarily due to the amortization of $2.8 million partially offset by additions of $2.1 million and recognition of deferred heavy maintenance asset of $0.4 million relating to lease return conditions.

Trade and Other Payables

Trade and other payables as at March 31, 2014 were $15.7 million as compared to $16.8 million as at December 31, 2013. The decrease of $1.1 million was due primarily to the timing of supplier payments.

Working Capital Position

The Company had a working capital surplus as at March 31, 2014, representing the difference between total current assets and current liabilities, of $4.5 million, compared to a working capital deficit of $1.2 million as at December 31, 2013. The increase of $5.7 million is primarily due to the current tax payments, increase in deposits, the timing of collection of trade and other receivables and settlement of trade and other payables.

Borrowings

Total borrowings excluding the current portion were $11.8 million as at March 31, 2014 as compared to $1.9 million as at December 31, 2013. The long-term debt consists of the Company's revolving credit facility and an obligation under a finance lease. The increase of $9.9 million is due to the increased usage of the revolving credit facility.

Provisions

Provisions excluding the current portion as at March 31, 2014 were $2.0 million as compared to $1.8 million as at December 31, 2013 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms.

Financial Condition (Continued)

Summary of Contractual Obligations

	Payments due by period					
As at March 31, 2014	Total	2014	2015	2016	2017	Thereafter
(in thousands)	$	$	$	$	$	$
Other borrowings	272	15	22	24	26	185
Revolving credit facility	11,543	-	11,543	-	-	-
Operating leases	35,598	9,614	11,715	4,487	2,395	7,387
	47,413	9,629	23,280	4,511	2,421	7,572

Off-Balance Sheet Arrangements

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

Major Customers

During the three month period ended March 31, 2014, the Company had sales to three customers that represented 53.2% of the total revenues (March 31, 2013 – 57.0%). 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 $21.8 million as at March 31, 2014 out of which a letter of credit of $20.0 million is provided to CPGOC under the terms of the MSA. The other guarantee is provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Financial Condition (Continued)

Outlook

On February 18, 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a MSA with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options. Projected revenues are estimated to be approximately $1.0 billion during the initial seven-year term based on projected volumes beginning in the second quarter of 2015. During the remaining period of 2014 and first quarter of 2015, the Company will continue to incur expenditures in preparation of this contract as startup costs and will expense these costs.

During the period ended March 31, 2014, the Company continued to develop and strengthen its relationships with existing and new customers as evidenced by the increase in demand on its core overnight network. Cargojet continues to retain all of its major customers and expects that demand on its core overnight network will further improve with a stronger economy. The proactive management of its fleet capacity and strong on-time performance provide the Company with an added advantage in this competitive market. Management expects to achieve organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Company continues its efforts to build on its competitive market position.

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. The new CPGOC DACNS contract also has a variable price component that will allow Cargojet to recover any costs related to fuel prices increases.

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 the Company.

Critical Estimates

The preparation of financial statements in conformity with IFRS 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 valuation of financial instruments, the impairment assessment of property, plant and equipment and goodwill, the accounting for deferred taxes, and the estimate of provisions. The table below discloses the methodology and assumptions used by management in the assessment of these accounting estimates.

Financial Condition (Continued)

Critical Estimates (Continued)

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	The issuance or repurchase of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. Estimates are also required for determining the fair values of financial instruments that are not publicly traded for disclosure purposes.
Impairment of property, plant and equipment and goodwill	At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and goodwill 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. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.
Deferred taxes	Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and are 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.
Provisions	The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability.

Financial Condition (Continued)

Outstanding Share Data

Cargojet's common voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" on the Toronto Stock Exchange ("TSX"). The following table sets out the common shares outstanding and securities convertible into common shares as of March 31, 2014:

Capital		Authorized/ Principal	Outstanding	Common Shares underlying Convertible securities
Common Voting Shares		Unlimited	8,668,994	-
Variable Voting Shares		Unlimited	175,645	-
Convertible Debentures - 6.5%	$	18,748,000	-	1,595,574

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.

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.

There were no changes in internal controls over financial reporting that occurred during the period ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

End Notes

(A) All references to "EBITDA" in the Management's Discussion and Analysis exclude some or all of the following: "depreciation and amortization of aircraft heavy maintenance expenditures, interest on long-term debt, deferred income taxes, provision for current income taxes, gain or loss on disposal of property, plant and equipment, amortization of maintenance deposits, gain or loss on disposal of intangible assets and gain or loss on repurchases of debentures". EBITDA is a term used by the Company that does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Company's

End Notes (Continued)

(A) (Continued)

operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of depreciation and amortization of aircraft heavy maintenance expenditures, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of intangible assets, amortization of maintenance deposits and deferred income taxes), or non-operating (in the case of interest on long-term debt, gain or loss on repurchases of debentures and provision for current income taxes). 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.

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.

Deferred income taxes - the calculation of deferred income taxes 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.

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

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

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

Aircraft heavy maintenance amortization - aircraft heavy maintenance amortization represents a non-cash item and is excluded from EBITDA.

Amortization of maintenance deposits – amortization of non-refundable maintenance deposits paid to lessors that exceeds the estimated amounts recoverable, represents a non-cash item and is excluded from 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

End Notes (Continued)

(B) (Continued)

measure of liquidity. All references in the Management's Discussion and Analysis to "Adjusted Free Cash Flow" have the meaning set out in this note.

In November 2010, the Canadian Institute of Chartered Accountants ("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 and free cash flow as they continue 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 CICA, less operating cash flows provided from or used in discontinued operations, changes in working capital, plus the provision for 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.

Changes in working capital - Changes in non-cash working capital items and deposits represent 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 expected cash outflows from the provision of current income tax is deducted to determine cash that is available for dividend distributions as it has priority over dividend distribution.