Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three month periods ended March 31, 2015 and 2014

(unaudited – expressed in Canadian Dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at March 31, 2015 and December 31, 2014

(unaudited, in Canadian dollars)

	Note	March 31, 2015	December 31, 2014
		$	$
ASSETS			
CURRENT ASSETS			
Cash		264,193	-
Trade and other receivables		23,730,856	19,101,892
Inventories		753,738	624,713
Prepaid expenses and deposits		2,750,609	3,877,024
Income taxes receivable		2,643,004	2,643,004
Current portion of notes receivable		591,064	651,638
Current portion of finance lease receivable		31,516	114,771
		30,764,980	27,013,042
NON-CURRENT ASSETS			
Property, plant and equipment	3	288,509,272	203,944,786
Notes receivable		-	184,007
Goodwill	4	46,434,976	46,169,976
Intangible assets	4	2,000,000	1,000,000
Deposits		8,600,139	7,022,548
		376,309,367	285,334,359
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		24,753,549	23,323,465
Provisions		-	1,725,516
Dividends payable		1,409,579	1,367,907
Borrowings	5	1,952,845	504,897
Finance leases	6	12,857,682	6,782,482
		40,973,655	33,704,267
NON-CURRENT LIABILITIES			
Borrowings	5	49,626,266	13,981,944
Finance leases	6	146,625,425	87,592,527
Provisions	7	2,072,869	1,290,145
Convertible debentures	8	76,414,258	78,966,406
Deferred income taxes	9	1,648,072	4,375,293
		317,360,545	219,910,582
EQUITY		58,948,822	65,423,777
		376,309,367	285,334,359

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, 2015 and 2014

(unaudited, in Canadian dollars)

	Note	Three months ended March 31, 2015	2014
		$	$
REVENUES		54,078,306	43,715,602
DIRECT EXPENSES	10	53,105,850	39,879,656
		972,456	3,835,946
General and administrative expenses	11	7,134,637	4,976,957
Sales and marketing expenses		315,535	120,158
Finance costs		4,223,260	692,816
Finance income		(21,596)	(25,707)
Other losses	12	535,258	-
		12,187,094	5,764,224
LOSS BEFORE INCOME TAXES		(11,214,638)	(1,928,278)
RECOVERY OF INCOME TAXES	9		
Deferred		(2,916,349)	(352,669)
NET LOSS AND COMPREHENSIVE LOSS		(8,298,289)	(1,575,609)
LOSS PER SHARE	14		
- Basic		(0.90)	(0.19)
- Diluted		(0.90)	(0.19)

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, 2015 and 2014
(unaudited, in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Reserve for surplus on debenture repurchases	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, January 1, 2015		79,758,600	460,581	5,818,250	2,162,078	(22,775,732)	65,423,777
Net loss and comprehensive loss		-	-	-	-	(8,298,289)	(8,298,289)
Treasury shares - net	13	437,125	-	-	-	-	437,125
Share-based compensation		-	(347,631)	-	-	-	(347,631)
Deferred tax on conversion option - net		-	-	-	-	75,872	75,872
Convertible debenture - conversion	8	3,067,547	-	(210,438)	210,438	-	3,067,547
Dividends	13	-	-	-	-	(1,409,579)	(1,409,579)
Balance, March 31, 2015		83,263,272	112,950	5,607,812	2,372,516	(32,407,728)	58,948,822
Balance, January 1, 2014		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		(59,773)	-	-	-	-	(59,773)
Share-based compensation		-	(200,567)	-	-	-	(200,567)
Deferred tax on conversion option - net		-	-	-	-	248,522	248,522
Convertible debenture - conversion		9,064,182	-	(641,707)	641,707	-	9,064,182
Dividends		-	-	-	-	(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

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, 2015 and 2014

(unaudited, in Canadian dollars)

	Note	Three months ended March 31, 2015	2014
		$	$
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES			
Net loss		(8,298,289)	(1,575,609)
Items not affecting cash			
Depreciation of property, plant and equipment	3	6,026,673	2,815,425
Share-based compensation		89,494	261,440
Finance costs		4,223,260	692,816
Effects of exchange rate changes on provision		260,796	86,459
Change in fair value of cash settled share based payment arrangement	12	(105,527)	-
Gain on disposal of property, plant and equipment		(52,336)	-
Unrealized loss on foreign exchange forward contracts	12	693,121	-
Non-cash interest on notes receivable		(8,736)	(20,544)
Non-cash interest on finance lease receivable		(962)	(4,686)
Income tax recovery		(2,916,349)	(352,669)
		(88,855)	1,902,632
Items affecting cash			
Interest paid		(3,814,291)	(488,173)
Income tax payments		-	(2,355,499)
		(3,903,146)	(941,039)
Changes in non-cash working capital items and deposits			
Trade and other receivables		(4,628,964)	(2,463,107)
Inventories		(129,025)	(48,007)
Prepaid expenses and deposits		(451,175)	(2,375,665)
Trade and other payables		736,963	(1,047,154)
NET CASH USED IN FROM OPERATING ACTIVITIES		(8,375,347)	(6,874,972)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(568,773)	-
Proceeds from borrowings		36,523,497	9,857,586
Repayment of obligations under finance leases		(1,803,861)	-
Purchase of treasury shares		-	(521,780)
Dividends paid to shareholders	13	(1,367,902)	(1,191,819)
NET CASH FROM FINANCING ACTIVITIES		32,782,961	8,143,987
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment	3	(23,533,291)	(2,095,873)
Proceeds from disposal of property, plant and equipment		52,336	-
Payment of provision for lease return conditions		-	(60,063)
Acquisition of Business	4	(1,000,000)	-
Collections of notes receivable		253,317	428,843
Collections of finance lease receivable		84,217	66,258
NET CASH USED IN INVESTING ACTIVITIES		(24,143,421)	(1,660,835)
NET CHANGE IN CASH		264,193	(391,820)
CASH, BEGINNING OF PERIOD		-	441,506
CASH, END OF PERIOD		264,193	49,686

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 fourteen 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 6, 2015.

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 include the accounts of the Company and its wholly-owned subsidiaries, Cargojet GP Inc. ("CGP"), Cargojet Holdings Limited Partnership ("CHLP"), and CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd. ("CJH"), CJH's wholly-owned subsidiary 2422311 Ontario Inc., CJH's wholly-owned subsidiary ACE Air Charter Inc. ("ACE"), ACE's wholly-owned subsidiaries ACE Maintenance Ontario Inc. ("ACEM"), 2166361 Ontario Inc. ("ACEO"), and ACEO's wholly-owned subsidiary Navigatair Inc. ("NAVIGATAIR"), Cargojet Airways Ltd. ("CJA") and Cargojet Partnership ("CJP").

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

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, 2014.

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, 2014.

Standards, amendments and interpretations issued and not yet adopted

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* ("IFRS 9"), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety.

2. BASIS OF PREPARATION (CONTINUED)

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

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. IFRS 9 sets 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. The standard introduced a new expected loss impairment model. The standard is applied retrospectively with some exceptions related to the hedge accounting requirements and the restatement of prior periods for classification and measurement including impairment. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue from contracts with customers: On May 28, 2014, the IASB and the FASB jointly issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Application of the standard is mandatory and applies to nearly all contracts with customers: the primary exceptions are leases, financial instruments and insurance contracts. The IASB standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 and is to be applied using the retrospective or the modified transition approach. The standard will address accounting for loyalty programs, warranties and breakage. Management is currently assessing the impact of this standard.

(unaudited – in Canadian Dollars)

3. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2015	Additions / Transfers	Disposals / Transfers	Balance as at March 31, 2015
	$	$	$	$
Aircraft hull	87,051,395	61,540,259	-	148,591,654
Engines	51,804,055	26,195,030	(2,240,862)	75,758,223
Spare parts	1,913,434	142,045	-	2,055,479
Ground equipment	11,558,082	1,412,162	-	12,970,244
Rotable spares	18,499,673	1,325,534	-	19,825,207
Computer hardware and software	6,239,712	380,875	-	6,620,588
Furniture and fixtures	1,614,218	9,733	-	1,623,951
Leasehold improvements	10,057,690	-	-	10,057,690
Vehicles	2,166,811	41,122	-	2,207,933
Hangar facility	16,635,221	10,868	-	16,646,089
Property, plant and equipment under development	35,336,205	(7,991,447)	-	27,344,758
Deferred heavy maintenance	18,063,454	7,524,977	-	25,588,431
	260,939,950	90,591,158	(2,240,862)	349,290,247

Accumulated Depreciation	Balance as at January 1, 2015	Depreciation	Disposals / Transfers	Impairment	Balance as at March 31, 2015	Net Book Value, March 31, 2015
	$	$	$	$	$	$
Aircraft hull	7,781,407	1,322,028	-	-	9,103,435	139,488,219
Engines	11,294,934	1,654,815	(2,240,862)	-	10,708,887	65,049,336
Spare parts	-	-	-	-	-	2,055,479
Ground equipment	6,213,177	215,382	-	-	6,428,559	6,541,685
Rotable spares	8,911,958	482,259	-	-	9,394,217	10,430,990
Computer hardware and software	4,039,097	156,107	-	-	4,195,204	2,425,384
Furniture and fixtures	904,421	29,888	-	-	934,309	689,642
Leasehold improvements	5,062,955	668,679	-	-	5,731,634	4,326,056
Vehicles	692,368	68,692	-	-	761,060	1,446,873
Hangar facility	5,008,274	120,995	-	-	5,129,269	11,516,820
Property, plant and equipment under development	-	-	-	-	-	27,344,758
Deferred heavy maintenance	7,086,573	1,307,828	-	-	8,394,401	17,194,030
	56,995,164	6,026,673	(2,240,862)	-	60,780,975	288,509,272

(unaudited – in Canadian Dollars)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Cost	Balance as at January 1, 2014	Additions / Transfers	Disposals / Transfers	Balance as at December 31, 2014
	$	$	$	$
Aircraft hull	13,815,039	73,572,267	(335,911)	87,051,395
Engines	15,179,630	36,624,425	-	51,804,055
Spare parts	1,629,443	459,539	(175,548)	1,913,434
Ground equipment	8,760,539	2,797,543	-	11,558,082
Rotable spares	14,229,426	4,270,247	-	18,499,673
Computer hardware and software	4,452,200	1,787,512	-	6,239,712
Furniture and fixtures	1,309,710	304,508	-	1,614,218
Leasehold improvements	5,353,942	4,703,748	-	10,057,690
Vehicles	991,449	1,175,362	-	2,166,811
Hangar facility	15,768,875	866,346	-	16,635,221
Property, plant and equipment under development	-	35,336,205	-	35,336,205
Deferred heavy maintenance	10,978,704	9,445,129	(2,360,379)	18,063,454
	92,468,957	171,342,831	(2,871,838)	260,939,950

Accumulated Depreciation	Balance as at January 1, 2014	Depreciation	Disposals / Transfers	Impairment	Balance as at December 31, 2014	Net Book Value, December 31, 2014
	$	$	$	$	$	$
Aircraft hull	6,156,053	1,869,653	(244,299)	-	7,781,407	79,269,988
Engines	9,075,550	2,219,384	-	-	11,294,934	40,509,121
Spare parts	-	-	-	-	-	1,913,434
Ground equipment	5,346,265	866,912	-	-	6,213,177	5,344,905
Rotable spares	7,364,973	1,546,985	-	-	8,911,958	9,587,715
Computer hardware and software	3,592,568	446,529	-	-	4,039,097	2,200,615
Furniture and fixtures	801,769	102,652	-	-	904,421	709,797
Leasehold improvements	3,979,918	1,083,037	-	-	5,062,955	4,994,735
Vehicles	575,916	116,452	-	-	692,368	1,474,443
Hangar facility	4,533,939	474,335	-	-	5,008,274	11,626,947
Property, plant and equipment under development	-	-	-	-	-	35,336,205
Deferred heavy maintenance	5,197,275	4,249,677	(2,360,379)	-	7,086,573	10,976,881
	46,624,226	12,975,616	(2,604,678)	-	56,995,164	203,944,786

Property, plant and equipment under development consists of $27,344,758 (2014 - $35,336,205) and relates to the purchase and/or modification primarily of aircraft that are not yet available for use.

During the period, the Company completed the acquisition of one Boeing B767-300 aircraft under the Master Lease Agreement as disclosed in Note 6, one Boeing B757-200 aircraft under the Aircraft Facility Arrangement as disclosed in Note 5 and one Boeing B767-300 under a lease arrangement classified as a finance lease in accordance with the terms of the lease as disclosed in Note 6.

(unaudited – in Canadian Dollars)

3. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

For the three month period ended March 31, 2015, $797,838 (2014 - $nil) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of $649,060 and accretion of $148,778 relating to funds borrowed specifically to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to specific borrowings, ranging between 7.23% to 8.77%.

For the three month period ended March 31, 2015, the Company also capitalized the fair value of cash settled share based payment arrangement related to the specific finance leases of $462,073 (2014 - $nil) to the qualifying assets.

Depreciation expense on property, plant and equipment for the three month period ended March 31, 2015 totaled $6,026,673 (2014 - $2,815,425).

4. BUSINESS COMBINATION

On January 30, 2015, the Company acquired all of the outstanding shares of ACE, thus obtaining control. Cash consideration paid for the acquisition in first quarter was $1,000,000. The Company determined that the transaction represented a business combination with Company being identified as an acquirer. The Company accounted for the combination under the acquisition method.

The Company acquired intangibles assets comprised of an air operator certificate and certain licenses. The Company recognized goodwill on this acquisition because of the recognition of a deferred tax liability for the difference between the assigned values and the tax base of license acquired. The Company's purchase price allocation for the acquisition is as follows:

	$
Goodwill	265,000
License	1,000,000
Deferred tax liability	(265,000)
Consideration paid	1,000,000

The purchase price allocation is preliminary and based on the Company's management's best estimates. The final purchase price allocation is subject to adjustment pending compilation of additional information related to the transaction.

5. BORROWINGS

Borrowings consist of the following:

	March 31 2015	December 31, 2014
	$	$
Revolving credit facility	26,968,641	4,827,425
Aircraft facility arrangement	24,358,627	9,402,246
Other borrowings	251,843	257,170
	51,579,111	14,486,841
Less current portion	1,952,845	504,897
Long-term portion	49,626,266	13,981,944

Interest expense on the borrowings for the three months period ended March 31, 2015 totaled $682,335, (2014 - $95,535).

(unaudited – in Canadian Dollars)

5. BORROWINGS (CONTINUED)

Aircraft facility arrangement

In 2014, the Company executed first and second Aircraft Facility Arrangements ("AFA") with an equipment finance and leasing company for $25 million available in a non-revolving credit facility to refinance the acquisition of two Boeing 757-200 aircraft. During the current period, the Company availed the second facility limit under this AFA. This facility expires in January 2022 and is secured by a transfer of right, title and interest of ownership of the aircraft and all its components and records. This credit facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate for the facility availed during the period is 8.04%.

The AFA is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at March 31, 2015.

The following is a schedule of future minimum annual payments under the AFA together with the balance of the obligation as at March 31, 2015.

	$
2015	1,504,128
2016	1,589,586
2017	1,729,233
2018	1,875,868
2019	3,791,419
Thereafter	13,830,083
Obligations under AFA	24,320,317
Fair value of cash settled share based payment arrangement	38,310
Total obligations under AFA	24,358,627
Less current portion	1,930,440
Long-term portion	22,428,187

Interest expense on the AFA for the period totaled $507,246 (2014 – $nil).

6. FINANCE LEASES

In 2014, the Company executed a Master Lease Agreement ("MLA") with an equipment finance and leasing company for up to $100 million in capital lease financing to acquire up to 3 Boeing 767-300 aircraft. The MLA was expanded to a 4th Boeing 767-300 aircraft under the same terms and conditions. During the current period, the Company completed the fourth finance lease under this MLA. This lease expires in January 2022 and provides for the transfer of ownership of the aircraft at the end of the lease term at a pre-determined price. Accordingly, this lease is classified as a finance lease and a corresponding lease obligation was recognized in the financial statements. This lease facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate is 7.23%. The leases under the MLA are guaranteed by the Company and its subsidiaries.

The arrangement is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at March 31, 2015.

The Company also has a finance lease arrangement for a Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for the lease facility availed during the period is 7.20%. The lease is deemed to be maturing on the early exercisable date of bargain purchase option in March 2018.

(unaudited – in Canadian Dollars)

6. FINANCE LEASES

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligation as at March 31, 2015.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	22,454,900	11,015,036
Later than one year and not later than five years	133,539,068	99,995,727
Later than five years	48,259,314	46,629,698
	204,253,282	157,640,461
Less: interest	46,612,821	-
Obligations under finance leases	157,640,461	157,640,461
Fair value of cash settled share based payment arrangement	1,842,646	1,842,646
Total obligations under finance leases	159,483,107	159,483,107
Less: current portion	12,857,682	12,857,682
Non-current portion	146,625,425	146,625,425

Interest amount on the finance leases for the period totaled $2,359,943 (2014 - $nil), of which $284,281 (2014 - $nil) was capitalized to the cost of property, plant and equipment.

7. 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 related to the revision of timing of future cash outflow of one underlying asset and settlement of the obligation of second underlying asset. A reconciliation of the carrying amount of provision is as follows:

	March 31 2015	March 31 2014
	$	$
Balance, beginning of period	3,015,661	1,760,916
Recognition of provision for lease return conditions	-	431,086
Derecognition of provision for lease return conditions	(909,963)	-
Settlement of provision for lease return conditions	(337,248)	-
Accretion	43,623	37,002
Effects of exchange rate changes on the provision balance	260,796	86,459
Balance, end of period	2,072,869	2,315,463
Less: current portion	-	239,518
Non-current portion	2,072,869	2,075,945

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 the Company specific history. Accretion expense of $43,623 (2014 - $37,002) has been recorded in the period as part of finance costs in the condensed consolidated interim statement of income or 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.

(unaudited – in Canadian Dollars)

8. CONVERTIBLE DEBENTURES

The balances of convertible debentures at March 31, 2015 and December 31, 2014 consists of the following:

	March 31, 2015	December 31, 2014
	$	$
Convertible Debentures - 6.5%	10,841,001	13,802,460
Convertible Debentures - 5.5%	65,573,257	65,163,946
Balance	76,414,258	78,966,406

Convertible Debentures – 6.5% due April 30, 2017

In March 2012, $28,750,000 of unsecured subordinated convertible debentures were issued with a term of five years. These debentures bear a fixed interest rate of 6.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing April 30, 2012.

During the period, convertible debentures with an aggregate principal amount of $3,280,000 (2014 - $10,002,000) were converted, at the holders' discretion, into 279,145 (2014 – 851,223) voting shares of the Company. Accordingly, the Company derecognized $3,067,547 (2014 - $9,064,182) of the liability for convertible debentures, representing the amortized carrying cost 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 $210,438 (2014 - $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.

The balance of convertible debentures at March 31, 2015 and December 31, 2014 consists of the following:

	March 31 2015	December 31, 2014
	$	$
Principal balance	11,589,000	14,869,000
Less:		
Issuance costs	(528,939)	(678,643)
Conversion option at inception	(1,065,134)	(1,366,595)
Accretion	846,074	978,698
Balance	10,841,001	13,802,460

Interest expense on the debentures for the period ended March 31, 2015 totaled $335,385 (2014 - $560,182).

Convertible Debentures – 5.5% due June 30, 2019

In April 2014, $74,000,000 of unsecured subordinated convertible debentures were issued with a term of five years. 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.

(unaudited – in Canadian Dollars)

8. CONVERTIBLE DEBENTURES (CONTINUED)

Convertible Debentures – 5.5% due June 30, 2019

The debt component is measured at amortized cost. The balance of the debt component as at March 31, 2015 and December 31, 2014 consists of the following:

	March 31 2015	December 31, 2014
	$	$
Principal balance	74,000,000	74,000,000
Less:		
Issuance costs	(3,265,544)	(3,265,544)
Conversion option at inception	(6,618,078)	(6,618,078)
Accretion	1,456,879	1,047,568
Balance	65,573,257	65,163,946

Interest expense on the debentures for the three month period ended March 31, 2015 totaled $1,412,873 (2014 - $nil). Interest amount of $513,559 (2014 – $nil) was capitalized to the cost of property, plant and equipment.

9. INCOME TAXES

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

	March 31, 2015	March 31, 2014
	$	$
Loss before income taxes	(11,214,638)	(1,928,278)
Recovery of income tax at the combined basic rate of 26.5% (2014 - 26.5%)	(2,971,879)	(510,994)
Permanent and other differences	55,530	158,325
Recovery of income tax	(2,916,349)	(352,669)

The tax effect of significant temporary differences is as follows:

	March 31 2015	December 31, 2014
	$	$
Property, plant and equipment	2,964,093	3,705,261
Operating loss carryforward	(5,299,961)	(1,667,841)
Licenses	265,000	-
Intangible assets	(516,122)	(525,315)
Derivative contracts	(183,677)	-
Notes receivable	(4,002)	(5,992)
Financing costs	(1,554,839)	(1,126,787)
Convertible debentures	1,687,701	1,846,047
Provision for lease retirement costs	(308,094)	(468,485)
Finance lease receivable	6,597	30,415
Long-term incentive plan	(30,125)	(122,247)
Deferred heavy maintenance	4,621,501	2,710,237
Net deferred income tax liability	1,648,072	4,375,293

(unaudited – in Canadian Dollars)

9. INCOME TAXES (CONTINUED)

The Company acquired all of the outstanding shares of ACE as disclosed in Note 4 and recognized a deferred tax liability for the difference between the assigned values and the tax base of license acquired.

10. DIRECT EXPENSES

	March 31 2015	March 31 2014
	$	$
Fuel costs	12,543,644	16,202,951
Maintenance costs	5,645,765	2,913,479
Heavy maintenance amortization	1,308,124	1,185,972
Aircraft costs	9,159,775	4,315,589
Crew costs	4,879,480	2,965,706
Direct depreciation	4,506,580	1,539,621
Commercial and other costs	15,062,482	10,756,338
Direct expenses	53,105,850	39,879,656

11. GENERAL AND ADMINISTRATIVE EXPENSES

	March 31 2015	March 31 2014
	$	$
Salaries and benefits	4,427,037	2,961,957
Depreciation and amortization	211,965	149,895
Other general and administrative expenses	2,495,635	1,865,105
General and administrative expenses	7,134,637	4,976,957

12. OTHER LOSSES

Other losses consist of the following:

	March 31 2015	March 31 2014
	$	$
Gain on disposal of property, plant and equipment	(52,336)	-
Net loss on forward foreign exchange contracts	693,121	-
Gain on cash settled share based payment arrangement	(105,527)	-
Other losses, net	535,258	-

(unaudited – in Canadian Dollars)

13. SHAREHOLDERS' CAPITAL

Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2014 to March 31, 2015:

	Number	Amount
		$
Variable voting shares	98,545	860,744
Common voting shares	9,032,869	78,897,856
Outstanding December 31, 2014	9,131,414	79,758,600
Changes during the period		
Voting shares issued on conversion of convertible debentures	279,145	3,067,547
Distributed in connection with share-based compensation	33,619	437,125
Outstanding, March 31, 2015	9,444,178	83,263,272
Consisting of:		
Variable voting shares	318,646	2,809,298
Common voting shares	9,125,532	80,453,974
Outstanding March 31, 2015	9,444,178	83,263,272

Common voting shares outstanding as at March 31, 2015 excludes treasury shares.

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the three month periods ended March 31, 2015 and 2014 amounted to $1,409,579 ($0.1491 per share) and $1,318,736 ($0.1491 per share), respectively.

14. LOSS PER SHARE

The following table shows the computation of basic loss per share for the three month periods ended March 31, 2015 and 2014:

Basic loss per share		2015		2014
Net loss	$	(8,298,289)	$	(1,575,609)
Weighted average number of shares		9,223,714		8,314,464
Total basic loss per share	$	(0.90)	$	(0.19)

The shares held under the long-term incentive plan have been included in the calculation of basic earnings per share for the three month periods ended March 31, 2015 and 2014 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the three month periods ended March 31, 2015 and 2014 as the impact would be anti-dilutive.

15. FINANCIAL INSTRUMENTS

Fair values

The fair value of the convertible debentures, based on discounted cash flow as at March 31, 2015, was approximately $76,132,414 (December 31, 2014 – $75,834,000). The fair value of the long-term debt as disclosed in Note 5 was approximately equal to its carrying value. The fair values of the notes receivables and finance lease receivable as at March 31, 2015 and December 31, 2014 were approximately equal to their carrying values. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

At March 31, 2015, the Company had foreign exchange forward contracts outstanding to buy US$ 73.2 million at a weighted average contracted rate of 1.2712 (December 31, 2014 – nil). The derivative contracts are recorded at fair market value. The estimated net loss on the foreign exchange forward contracts of $693,121 for the period is included in other losses on the statement of loss.

There are no other assets or liabilities recorded at fair value as at March 31, 2015 and December 31, 2014.

16. SUBSEQUENT EVENT

The Company executed a loan agreement on March 31, 2015 with a US based lender for $27.5 million to acquire a Boeing 767-300 aircraft. The loan expires in April 2022 and is secured by a transfer of right, title and interest of ownership of the aircraft and all its components and records. The funds under the loan were received on April 8, 2015.