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

For the Three Month and Six Month Periods Ended June 30, 2012

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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 and six month periods ended June 30, 2012. The following also includes a discussion of and comparative operating results for the three month and six month periods ended June 30, 2011.

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 August 9, 2012. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard ("IFRS"). This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three month and six month periods ended June 30, 2012 and 2011 and with the audited annual financial statements for the years ended December 31, 2011 and 2010.

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

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual net expenditures. Non-GAAP measures, EBITDA and Adjusted Free Cash Flow, are not earnings measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of Adjusted Free Cash Flow and EBITDA are shown on page 9 of the MD&A.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of management of the Company. For a more complete discussion of the risks affecting the Company's business, reference should be made to the Annual Information Form ("AIF"), filed February 27, 2012 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 February 27, 2012 with the regulatory authorities.

Corporate Overview

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

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

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

The Company currently operates one leased 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and 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.

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

Recent Events

Purchase of B727 Aircraft

On July 26, 2012 the Company purchased a B727 aircraft for $1.2 million. The aircraft will be used to provide additional spare capacity on Cargojet's domestic overnight network.

Issuance of Convertible Debentures – 6.5%

In March 2012, $28.8 million 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.

Recent Events (continued)

Issuance of Convertible Debentures – 6.5% (continued)

On or after April 30, 2015, but prior to April 30, 2016, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture plus accrued and unpaid interest, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $11.75 per common share. After April 30, 2016, but prior to the maturity date of April 30, 2017, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on April 30, 2017, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $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; if called for redemption, on the business day immediately preceding the date specified by the Company for redemption of the debentures; or if called for repurchase pursuant to a change of control, on the business day immediately preceding the payment date. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract.

The conversion rate of $11.75 per voting share is subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.142 per quarter ($0.568 per annum).

In the event of a change in control, as defined in the indenture, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, if a change in control occurs in which 10% or more of the consideration consists of cash, certain equity securities or other property not traded or intended to be traded immediately following such transaction on a recognized exchange, holders of the debentures will be entitled to convert their debentures and, subject to certain limitations, receive an additional amount of voting shares to those that they would otherwise be entitled at the normal conversion rate. The amount of such additional voting shares will depend on the effective date and the price paid per voting share in the transaction constituting the change in control.

The principal amount of the debentures has been allocated between its debt component and the conversion option and has been classified separately on the balance sheet. The fair value of the debt component was determined using an estimated market rate for a similar liability without an equity component and the residual was allocated to the conversion option.

Recent Events (continued)

Issuance of Convertible Debentures – 6.5% (continued)

The debt component is measured at amortized cost. The balance of the debt component at June 30, 2012 consisted of the following:

	June 30, 2012
	$
Principal balance	28,750,000
Less:	
Issuance costs	(1,312,192)
Conversion option at inception	(2,642,384)
Accretion	161,049
Balance	24,956,473

The conversion option, net of related issuance costs of $132,808, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 10.01%.

Interest expense on the debentures for the three and six month periods ended June 30, 2012 totaled $460,788 and $517,106, respectively.

Redemption of Convertible Debentures – 7.5%

In May 2012, the Company redeemed $24,655,000 principal amount of the convertible debentures ($24,100,397 net of the related unamortized issuance cost and the portion allocated to the conversion option) at par or $1,000 per convertible debenture. At redemption, the Company allocated $24,655,000 to the liability component redeemed. The redemption of the convertible debenture resulted in a loss of $554,603.

Interest expense on the debentures for the three and six month periods ended June 30, 2012 totaled $157,160 and $618,175, respectively (2011 - $461,015 and $916,963, respectively).

Long-term Incentive Plan

The Company's long-term incentive plan (the "Plan" or "LTIP") provides certain of its executive officers and senior management of the Company with compensation opportunities tied to the performance of the Company. Company incentive bonuses, in the form of shares, are provided to eligible employees on an annual basis where the earnings of the Company exceed a pre-determined base (the "Base Target"). The Base Target is set annually by the Compensation Committee of the Company's Board of Directors in accordance with the terms of the Plan.

If the Company's earnings exceed the Base Target, a percentage of the excess is contributed by the Company into a long-term incentive pool. Shares are then purchased on the open market by the Company and held by the Company until they vest. Vesting of the shares will occur on the basis of one-third of the total grant at the time of granting, and one-third on each of the first and second anniversary dates.

Recent Events (continued)

Long-term Incentive Plan (continued)

For the three and six month periods ended June 30, 2012, share-based compensation expense totaled $60,777 and $281,377, respectively, including withholding taxes of $52,313 paid on behalf of the eligible employees. For the three and six month periods ended June 30, 2011, share-based compensation expense totaled $68,911 and $359,231, respectively, including withholding taxes of $99,675 paid on behalf of the eligible employees.

2012 Awards

In March 2012, pursuant to the Company's LTIP, an amount of $348,750 was approved to the executive officers and senior management. Accordingly, the Company purchased 39,275 shares from the open market at an average price of $7.55. As at June 30, 2012, 7,580 of these shares had vested and $63,210 was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested as at June 30, 2012 was $233,227.

2011 Awards

In the six month period ended June 30, 2012, 25,875 of the treasury shares had vested and $221,500 was transferred from share-based compensation reserve to shareholders' capital.

The following table details the impact of the above transactions on shareholders' capital as at June 30, 2012 and on the statement of income for the six month period ended June 30, 2012:

Shares purchased under the Plan	Number	$
Balance, January 1, 2012	51,746	443,000
Shares acquired by Company for long-term incentive plan	39,275	296,437
Shares distributed by Company to long-term incentive plan participants	(33,455)	(284,710)
Balance, June 30, 2012	57,566	454,727

	Six month periods ended	
	June 30, 2012	June 30, 2011
Share-based compensation expense	$	$
Shares transferred to long-term incentive plan participants	284,710	121,735
Less: vested shares expensed prior year	(177,200)	-
Shares transferred to plan participants for current year	107,510	121,735
Withholding tax paid for long-term incentive plan participants	52,313	99,675
Share-based compensation, not yet vested	121,554	137,821
Share-based remuneration	281,377	359,231

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, 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 and building leases.

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

Results of Operations and Supplementary Financial Information (in thousands)

	Three Month Period June 30,		Six Month Period June 30,	
	2012	2011	**2012**	2011
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	$	$
Revenue	**40,487**	41,182	**80,623**	82,290
Direct expenses	**33,260**	33,264	**67,863**	67,121
	7,227	7,918	**12,760**	15,169
General and administrative	**3,882**	5,031	**8,399**	9,481
Sales and marketing	**116**	83	**217**	255
Loss on disposal of plant, property and equipment	**-**	166	**-**	213
Finance costs	**970**	815	**1,903**	1,614
Finance income	**(58)**	(55)	**(116)**	(123)
Gain (loss) on derivative contracts	**-**	(74)	**-**	568
Loss on debenture redemption	**555**	-	**555**	-
	5,465	5,966	**10,958**	12,008
Earnings before income taxes	**1,762**	1,952	**1,802**	3,161
Provision for (recovery of) income taxes				
Current	**-**	600	**-**	900
Deferred	**714**	(55)	**725**	(429)
	714	545	**725**	471
Net Income	**1,048**	1,407	**1,077**	2,690
Earnings per share				
Basic	0.13	0.18	0.13	0.34
Diluted	0.13	0.18	0.13	0.34
Average number of shares - basic (in thousands of shares)[1]	**7,993**	**7,993**	**7,993**	**7,993**

1. Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	June 30 2012	March 31 2012	December 31 2011	September 30 2011	June 30 2011	March 31 2011	December 31 2010	September 30 2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 40,487	$ 40,136	$ 42,914	$ 40,307	$ 41,182	$ 41,108	$ 42,923	$ 38,765
Net income (loss) from continuing operations (in thousands)	$ 1,048	$ 30	$ (208)	$ 1,482	$ 1,407	$ 1,283	$ (4,316)	$ (9,063)
Net loss from discontinued operations (in thousands)	$ -	$ -	$ (33)	$ (136)	$ -	$ -	$ (806)	$ (674)
Earnings (loss) per Share / Trust Unit								
From continuing and discontinued operations								
- Basic	$ 0.13	$ -	$ (0.03)	$ 0.17	$ 0.18	$ 0.16	$ (0.64)	$ (1.22)
- Diluted	$ 0.13	$ -	$ (0.03)	$ 0.17	$ 0.18	$ 0.16	$ (0.64)	$ (1.22)
From continuing operations								
- Basic	$ 0.13	$ -	$ (0.03)	$ 0.19	$ 0.18	$ 0.16	$ (0.54)	$ (1.13)
- Diluted	$ 0.13	$ -	$ (0.03)	$ 0.19	$ 0.18	$ 0.16	$ (0.54)	$ (1.13)
Average number of trust units - basic (in thousands of units)[1]	-	-	-	-	-	-	7,993	7,993
Average number of trust units - diluted [1] (in thousands of units)[1]	-	-	-	-	-	-	7,993	7,993
Average number of shares - basic (in thousands of shares)[2]	7,993	7,993	7,993	7,993	7,993	7,993	-	-
Average number of shares - diluted	7,993	7,993	7,993	7,993	7,993	7,993	-	-
(in thousands of shares)[2]							-	-

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

2. Average number of shares includes treasury shares.

Calculation of EBITDA [(A)] and Adjusted Free Cash Flow [(B)]:

(in thousands)

	Three Month Period Ended June 30		Six Month Period Ended June 30	
	2012	2011	**2012**	2011
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Net income from continuing operations	**1,048**	1,407	**1,077**	2,690
Add:				
Interest	**912**	760	**1,787**	1,491
Provision for current income taxes	**-**	600	**-**	900
Provision for (recovery of) deferred income taxes	**714**	(55)	**725**	(429)
Loss on disposal of property, plant and equipment	**-**	166	**-**	213
Change in fair value on non-hedge derivatives	**-**	(74)	**-**	568
Loss on debenture redemption	**555**	-	**555**	-
Depreciation of property, plant and equipment	**1,422**	1,353	**2,862**	2,898
Aircraft heavy maintenance amortization	**524**	866	**1,372**	1,822
Aircraft heavy maintenance expenditures	**(520)**	(1,231)	**(1,280)**	(2,810)
Heavy maintenance deposits [(1)]	**(202)**	(509)	**(729)**	257
Total EBITDA [(A)]	**4,452**	3,283	**6,368**	7,600

	$	$	**$**	$
Cash inflow from operating activities	**3,458**	4,930	**7,486**	8,857
Less: Additions to plant, property and equipment	**(1,703)**	(2,328)	**(2,827)**	(5,214)
Add: Proceeds from disposal of capital assets	**-**	163	**45**	910
Standardized free cash flow	**1,755**	2,765	**4,704**	4,553
Add: Changes in non-cash working capital items and deposits	**1,027**	(453)	**(1,006)**	(1,243)
Adjusted free cash flow [(B)]	**2,782**	2,312	**3,698**	3,310

1. Heavy maintenance deposits are 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.

(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.

Review of Operations for the Three Month Period ended June 30, 2012 and 2011

Highlights for the Three Month Period ended June 30, 2012 and 2011

- Total revenue for the three month period ended June 30, 2012 was $40.5 million as compared to $41.2 million for the same period in 2011, representing a decrease of $0.7 million or 1.7%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2012 and June 30, 2011 remained the same at $0.63 million per operating day.

- EBITDA for the three month period ended June 30, 2012 was $4.5 million as compared to $3.3 million for the same period in 2011, an increase of $1.2 million or 36.4%.

- Adjusted free cash flow was an inflow of $2.8 million for the three month period ended June 30, 2012 as compared to an inflow of $2.3 million for the same period in 2011, an increase of $0.5 million or 21.7%.

Revenue

Total revenue for the three month period ended June 30, 2012 was $40.5 million, as compared to $41.2 million for the same period in 2011, representing a decrease of $0.7 million or 1.7%. The reduction in total revenue was due primarily to the reduction in core overnight volumes, ACMI revenues and fuel pass-through revenues partially offset by the increase in scheduled and ad-hoc charter activity.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues, for the three month period ended June 30, 2012 was $26.2 million compared to $27.6 million for the same period in 2011, a decrease of $1.4 million or 5.1%.

Revenue related to the ACMI cargo business for the three month period ended June 30, 2012 was $1.6 million compared to $2.2 million for the same period in 2011, a decrease of $0.6 million or 27.3%. The decrease in ACMI revenues was due primarily to the cancellation of an ACMI route in 2011 by one of Cargojet's customers who exited the North American air cargo market.

Revenue related to scheduled and ad-hoc charters for the three month period ended June 30, 2012 was $3.5 million compared to $1.2 million for the same period in 2011, an increase of $2.3 million or 191.7%. On August 1, 2011 the Company entered into an agreement to provide scheduled air cargo services to destinations in the northern regions of Canada. Under this agreement, the Company operates two flights per week on a fixed costs basis that is inclusive of fuel, navigation and landing fees. Any fuel cost increases are recovered through a fuel surcharge similar to the Company's core overnight network. These flights are operated during the day, thus increasing the utilization of the Company's aircraft fleet.

Review of Operations for the Three Month Period ended June 30, 2012 and 2011 (continued)

Revenue (continued)

Fuel surcharges and other cost pass-through revenues were $8.9 million for the three month period ended June 30, 2012 as compared to $9.8 million for the same period in 2011, representing a decrease of $0.9 million or 9.2%. The decrease was due primarily to lower fuel prices and a decrease in fuel surcharges billed to customers due to lower volumes. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.8 million for the three month period ended June 30, 2012 as compared to $0.6 million for the same period in 2011, an increase of $0.2 million or 33.3%

Other revenues were $0.3 million for the three month period ended June 30, 2012 as compared to $0.4 million for the same period in 2011, a decrease of $0.1 million or 25.0%. The decrease is primarily due to the reduced number of leased regional aircraft.

Direct Expenses

Total direct expenses remained the same at $33.3 million for the three month period ended June 30, 2012 and June 30, 2011. As a percentage of revenue, direct expenses increased from 80.8% in 2011 to 82.2% for the same period in 2012.

Fuel costs were $14.9 million for the three month period ended June 30, 2012 as compared to $14.0 million for the same period in 2011. The $0.9 million or 6.4% increase in fuel costs were due to an increase in block hours related to charter flights, offset partially by lower 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 $1.3 million for the three month period ended June 30, 2012 as compared to $1.2 million in 2011, representing an increase of $0.1 million or 8.3%. The increase is due primarily to the acquisition of previously leased aircraft in the last quarter of 2011, partially offset by the sale of regional aircraft.

Aircraft costs were $3.9 million for the three month period ended June 30, 2012 as compared to $4.1 million in 2011, representing a decrease of $0.2 million or 4.9%. The decrease is due primarily to the acquisition of previously leased aircraft in the last quarter of 2011, offset partially by engine lease costs due to unscheduled engine maintenance on the Company's B767 aircraft

Heavy maintenance amortization costs were $0.5 million for the three month period ended June 30, 2012 as compared to $0.9 million in 2011, a decrease of $0.4 million or 44.4%.The decrease was primarily due to the elimination of heavy maintenance charges related to the regional fleet. Heavy maintenance of aircraft occurs at regular and predetermined intervals and 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 $2.2 million for the three month period ended June 30, 2012 as compared to $2.3 million for the same period in 2011. The decrease of $0.1 million or 4.3% was primarily due to the decrease in maintenance staff.

Review of Operations for the Three Month Period ended June 30, 2012 and 2011 (continued)

Direct Expenses (continued)

Total crew costs including salaries, training and positioning were $2.4 million for the three month period ended June 30, 2012 and $2.3 million for the same period in 2011, an increase of $0.1 million or 4.3%. The increase in cost was due primarily to the increase in ad-hoc charter and ACMI flights .

Commercial and other direct operating costs were $8.1 million for the three month period ended June 30, 2012 as compared to $8.5 million for the same period in 2011. The decrease of $0.4 million or 4.7% was due primarily to the decrease in landing, interline linehaul and navigation charges due to lower volumes on the overnight network, a reduction in staff and lower aircraft insurance costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $3.9 million for the three month period ended June 30, 2012 compared to $5.0 million for the same period in 2011, a decrease of $1.1 million or 22.0%. The decrease was due primarily to staff reductions and foreign exchange losses in the prior year.

EBITDA

EBITDA for the three month period ended June 30, 2012 was $4.5 million or 11.0% of revenue, compared to $3.3 million or 8.0% of revenue for the same period in 2011. The increase in EBITDA of $1.2 million or 36.4% was due primarily to the following:

- Increased ad-hoc and scheduled charters partially offset by a decrease in volumes on the overnight network.
- Lower direct and administrative costs due primarily to head count reductions and foreign exchange losses in the prior year.
- Reduced net heavy maintenance expenditure and deposits.

Finance Costs

Finance costs were $0.9 million for the three month period ended June 30, 2012, compared to $0.8 million for the three month period ended June 30, 2011. The increase of $0.1 million or 12.5% was due primarily to the interest on debentures for an overlapping period due to the timing of the issuance of new debentures and redemption of old debentures.

Current Income Taxes

There was no provision made for current income taxes for the three month period ended June 30, 2012 compared to the charge of $0.6 million for the same period in 2011. The Company is carrying forward taxable losses from prior years which are eligible to be set-off against the current years' taxable profits.

Review of Operations for the Three Month Period ended June 30, 2012 and 2011 (continued)

Deferred Income Taxes

Deferred income taxes for the three month period ended June 30, 2012 were a charge of $0.7 million as compared to a recovery of $0.1 million for the same period in 2011. 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 inflow of $2.8 million for the three month period ended June 30, 2012, compared to an inflow of $2.3 million for the three month period ended June 30, 2011. The increase in adjusted free cash flow for the three month period ended June 30, 2012 was due primarily to the increase in EBITDA and changes in working capital.

Dividends

Total dividends declared for the three month period ended June 30, 2012 were $1,135,065 or $0.142 per share. In comparison, total dividends declared for the three month period ended June 30, 2011 were $1,079,111 or $0.135 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
March 31, 2012	April 4, 2012	-	-	-	1,135,065
June 30, 2012	July 5, 2012	1,135,065	7,993,416	0.1420	-
		1,135,065		0.1420	1,135,065

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
March 31, 2011	April 15, 2011	-	-	-	335,723
June 30, 2011	July 5, 2011	1,079,111	7,993,416	0.1350	-
		1,079,111		0.1350	335,723

The Company increased its dividend to $0.142 per share from $0.135 per share on a quarterly basis effective with the three month period ended March 31, 2012.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended June 30, 2012 was $3.5 million as compared to $4.9 million for the same period in 2011. The $1.4 million decrease in cash was due primarily to the timing of collections of accounts receivable and settlement of accounts payable.

Review of Operations for the Three Month Period ended June 30, 2012 and 2011 (continued)

Liquidity and Capital Resources (continued)

Cash used in financing activities during the three month period ended June 30, 2012 was $21.9 million as compared to $4.0 million for the same period in 2011. The $17.9 million decrease was due to repayment of convertible debentures and dividends paid to shareholders partially offset by bank borrowings.

Cash used in investing activities during the three month period ended June 30, 2012 was $1.6 million and was due primarily to the net capital asset additions.

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $25.0 million, bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at June 30, 2012.

The credit facility is secured by the following:

- general security agreement over all assets of the Company;
- guarantee and postponement of claim to a maximum of $35.0 million in favor of Cargojet Partnership (wholly-owned subsidiary of the Company) and certain other entities of the Company; and
- assignment of insurance proceeds, payable to the bank.

The Company also maintains fixed loans with another Canadian chartered bank through its subsidiary Cargojet Airways Ltd. ("CJA"). The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the regional aircraft owned by CJA and the Company's notes receivable. The loans are repayable in monthly installments plus interest and will mature by August 2014. The Company also has provided a standby letter of credit of $780,000 to the bank which is held against the fixed loans.

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

Capital Expenditures

Net capital asset additions were $1.7 million for the three month period ended June 30, 2012 as compared to $2.2 million for the same period in 2011. The capital asset additions in the current period were comprised of heavy maintenance expenditures, purchases of spare parts and rotable assets.

Review of Operations for the Six Month Period ended June 30, 2012 and 2011

Highlights for the Six Month Period Ended June 30, 2012 and 2011

- Total revenue for the six month period ended June 30, 2012 was $80.6 million as compared to $82.3 million for the same period in 2011, representing a decrease of $1.7 million or 2.1%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2012 was $0.61 million per operating day as compared to $0.63 million per operating day for same period in 2011, representing a decrease of 3.2%.

- EBITDA for the six month period ended June 30, 2012 was $6.4 million as compared to $7.6 million for the same period in 2011, representing a decrease of $1.2 million or 15.8%.

- Adjusted free cash flow was an inflow of $3.7 million for the six month period ended June 30, 2012 as compared to an inflow of $3.3 million for the same period in 2011, an increase of $0.4 million or 12.1%

Revenue

Total revenue for the six month period ended June 30, 2012 was $80.6 million as compared to $82.3 million for the same period in 2011, representing a decrease of $1.7 million or 2.1%. The decrease in revenue was due primarily to the decrease in core overnight volumes, ACMI revenues and fuel pass-through revenues partially offset by higher charter revenues.

Revenue related to the core overnight, charter and ACMI cargo businesses excluding fuel surcharges and other cost pass-through revenues, for the six month period ended June 30, 2012 was $61.2 million compared to $62.4 million for the same period in 2011, a decrease of $1.2 million or 1.9%. The decrease in revenue was due to reduced volumes from the Company's core overnight network and the cancellation of an ACMI contract in 2011 by one of Cargojet's customers who exited the North American air cargo market, partially offset by higher charter activity.

Fuel surcharges and other cost pass-through revenues were $18.8 million for the six month period ended June 30, 2012 as compared to $19.1 million for the same period in 2011, representing a decrease of $0.3 million or 1.6%. The decrease was due primarily to a decrease in fuel surcharges billed to customers due to lower volumes partially offset by an increase in third party fuel sales. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $2.2 million for the six month period ended June 30, 2012, as compared to $1.2 million for the same period in 2011, an increase of $1.0 million or $83.3%.

Other revenues were $0.6 million for the six month period ended June 30, 2012 as compared to $0.8 million for the same period in 2011. The decrease of $0.2 million or 25.0% is primarily due to the reduced number of leased regional aircraft.

Review of Operations for the Six Month Period ended June 30, 2012 and 2011 (continued)

Direct Expenses

Total direct expenses were $67.9 million for the six month period ended June 30, 2012 as compared to $67.1 million for the same period in 2011, representing an increase of $0.8 million or 1.2%. As a percentage of revenue, direct expenses increased from 81.5% in 2011 to 84.2% for the same period in 2012. The overall increase in direct expenses was due primarily to higher fuel costs due to the increase in charter activity, partially offset by cost savings from reduced headcount.

Fuel costs were $30.1 million for the six month period ended June 30, 2012 as compared to $27.4 million for the same period in 2011. The $2.7 million or 9.9% increase in fuel costs were due to the increase in charter activity. 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 increased from $2.4 million in 2011 to $2.6 million in 2012, an increase of $0.2 million or 8.3%. The increase is due primarily to the acquisition of previously leased aircraft in the last quarter of 2011 partially offset by the sale of the regional fleet.

Aircraft costs remained unchanged and were $7.9 million in 2012 and 2011. Higher costs due primarily to the lease of 767 engines due to unscheduled engine maintenance were offset by lower lease costs due to the acquisition of previously leased aircraft in the last quarter of 2011.

Heavy maintenance amortization costs were $1.4 million for the six month period ended June 30, 2012 as compared to $1.8 million for the same period in 2011, a decrease of $0.4 million or 22.2%. The decrease was primarily due to the elimination of heavy maintenance charges related to the regional fleet. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by the Company and amortized over a period of 18 to 24 months until the next scheduled heavy maintenance.

Maintenance costs were $4.5 million for the six month period ended June 30, 2012 as compared to $4.9 million for the same period in 2011. The decrease of $0.4 million or 8.2% was primarily due to the decrease in maintenance staff.

Total crew costs including salaries, training and positioning for the six month period ended June 30, 2012 and June 30, 2011 remained constant at $4.7 million.

Commercial and other direct operating costs were $16.6 million for the six month period ended June 30, 2012 as compared to $18.0 million for the same period in 2011. The decrease of $1.4 million or 7.8% was due primarily to reduced deicing costs due to weather related activities in 2012, reduced employee cost due to staff reductions, reduced landing, linehaul, navigation and interline linehaul expenses due to lower volumes and reduced overnight block hours, and a reduction in aircraft insurance.

Review of Operations for the Six Month Period ended June 30, 2012 and 2011 (continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $8.4 million for the six month period ended June 30, 2012 compared to $9.5 million for the same period in 2011, a decrease of $1.1 million or 11.6%. The decrease was due primarily to headcount reductions and foreign exchange losses in the prior year.

EBITDA

EBITDA for the six month period ended June 30, 2012 was $6.4 million or 7.9% of revenue, compared to $7.6 million or 9.2% of revenue for the same period in 2011. The decrease in EBITDA for the six month period ended June 30, 2012 was due primarily to the following:

- A decrease in volumes and revenues on the overnight network partially offset by increased ad-hoc and scheduled charters.
- Savings from headcount reductions offset partially by severance costs.
- Reduced net heavy maintenance expenditures and deposits.

Finance Costs

Net finance costs were $1.8 million for the six month period ended June 30, 2012, compared to $1.5 million for the six month period ended June 30, 2011. The increase of $0.3 million or 20.0% was due primarily to the interest on debentures for an overlapping period due to timing of the issuance of new debentures and redemption of old debentures.

Current Income Taxes

There was no provision made for current income taxes for the six month period ended June 30, 2012 compared to the charge of $0.9 million for the same period in 2011. The Company is carrying forward taxable losses from prior years which are eligible to be set-off with the current years' taxable profits.

Deferred Income Taxes

The deferred income tax provision of $0.7 million for the six month period ended June 30, 2012 compared to the deferred income tax recovery of $0.4 million in the same period in 2011. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Review of Operations for the Six Month Period ended June 30, 2012 and 2011 (continued)

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $3.7 million for the six month period ended June 30, 2012, compared to an inflow of $3.3 million for the six month period ended June 30, 2011. The improvement of $0.4 million was due primarily to the decrease in capital expenditures partially offset by lower EBITDA.

Dividends/Distributions

Total dividends declared for the six month period ended June 30, 2012 were $2,270,130 or $0.284 per share. In comparison, total dividends declared for the six month period ended June 30, 2011 were $2,086,281 or $0.261 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 31, 2011	January 15, 2012	-	-	-	1,079,112
March 31, 2012	April 4, 2012	1,135,065	7,993,416	0.1420	1,135,065
June 30, 2012	July 5, 2012	1,135,065	7,993,416	0.1420	-
		2,270,130		0.2840	2,214,177

Record Date	Date Dividends / Distribution Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 31, 2010	January 15, 2011	-	-	-	335,723
January 31, 2011	February 15, 2011	335,723	7,993,416	0.0420	335,723
February 28, 2011	March 15, 2011	335,724	7,993,416	0.0420	335,724
March 31, 2011	April 15, 2011	335,723	7,993,416	0.0420	335,723
June 30, 2011	July 5, 2011	1,079,111	7,993,416	0.1350	-
		2,086,281		0.2610	1,342,893

The Company started paying dividends on a quarterly basis starting with the three-month period ending June 30, 2011.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the six month period ended June 30, 2012 was $7.5 million as compared to $8.9 million for the same period in 2011. The $1.4 million decrease in cash for the six month period of 2012 as compared to the same period in 2011 was due primarily to the decrease in EBITDA.

Cash used in financing activities during the six month period ended June 30, 2012 was $5.3 million and was comprised of net repayment of long-term debt of $5.4 million, redemption of debenture of $24.7 million and dividends paid to shareholders of $2.2 million partially offset by proceeds from issuance of debenture of $27.3 million.

Review of Operations for the Six Month Periods ended June 30, 2012 and 2011 (continued)

Liquidity and Capital Resources (continued)

Cash used in investing activities during the six month period ended June 30, 2012 was $2.2 million and was primarily comprised of net capital asset additions.

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $25.0 million, bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2013. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at June 30, 2012.

The credit facility is secured by the following:

- general security agreement over all assets of the Company;
- guarantee and postponement of claim to a maximum of $35.0 million in favor of Cargojet Partnership (wholly-owned subsidiary of the Company) and certain other entities of the Company; and
- assignment of insurance proceeds, payable to the bank.

The Company also maintains fixed loans with another Canadian chartered bank through its subsidiary Cargojet Airways Ltd. ("CJA"). The fixed loans bear interest at rates ranging from 8.1% to 8.2%. They are secured by the regional aircraft owned by CJA and the Company's notes receivable. The loans are repayable in monthly installments plus interest and will mature by August 2014. The Company also has provided a standby letter of credit of $780,000 to the bank which is held against the fixed loans.

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

Capital Expenditures

Net capital asset additions were $2.8 million for the six month period ended June 30, 2012 as compared to $4.3 million for the same period in 2011.

Financial Condition

The following is a comparison of the financial position of the Company as at June 30, 2012 to the financial position of the Company as at December 31, 2011.

Accounts Receivable

Accounts receivable as at June 30, 2012 amounted to $10.0 million as compared to $10.7 million as at December 31, 2011. The reduction of $0.7 million was due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remains excellent.

Property, Plant and Equipment

As at June 30, 2012 property, plant and equipment were $42.6 million as compared to $44.0 million as at December 31, 2011. The $1.4 million net decrease in property, plant and equipment was due primarily to amortization of capital assets of $4.2 million offset by capital asset additions of $2.8 million.

Trade and Other Payables

Trade and other payables as at June 30, 2012 were $11.6 million as compared to $10.6 million as at December 31, 2011. The increase of $1.0 million was due primarily to the timing of supplier payments.

Working Capital Position

The Company had a working capital surplus as at June 30, 2012, representing the difference between total current assets and current liabilities, of $1.4 million, compared to a working capital surplus of $1.6 million as at December 31, 2011. The decrease of $0.2 million is primarily due to the timing of collection of trade and other receivables and settlement of trade and other payables partially offset by an increase in prepayments.

Borrowings

Total borrowings excluding the current portion were $5.1 million as at June 30, 2012 as compared to $10.6 million as at December 31, 2011. The long-term debt consists of Cargojet's revolving credit facility and fixed loans. The decrease of $5.5 million is due to the reduced usage of the revolving credit facility and partial repayment of the fixed loans.

Financial Condition (continued)

Summary of Contractual Obligations

	Payments due by period						
As at June 30, 2012	Total	2012	2013	2014	2015	2016	Thereafter
(in thousands)	$	$	$	$	$	$	$
Fixed Loans	5,958	442	5,176	340	-	-	-
USD Forward Sale Contracts	2,500	2,500	-	-	-	-	-
Capital Lease Obligations	5	5	-	-	-	-	-
Operating Leases	36,962	5,280	10,415	10,278	8,935	1,708	346
	45,425	8,227	15,591	10,618	8,935	1,708	346

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 and six month periods ended June 30, 2012, the Company had sales to three customers that represented 47% and 47%, of the total revenues, respectively (June 30, 2011 – 49% and 48% respectively). These sales are provided under service agreements that expire over various periods to September 2018.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $2.5 million to financial institutions as security for its loans, corporate credit cards, and to a number of vendors as security for the Company's ongoing purchases.

Financial Condition (continued)

Outlook

Cargojet experienced strong demand for its charter and ACMI services, while customer demand on its core overnight network continues to be limited by the current volatile economic conditions. Cargojet continues to retain all of its major customers and expects that demand on its core overnight network will improve with a stronger economy. The pro-active management of its fleet capacity, strong on-time performance and control over its cost structure will give added advantage to the Company 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 is making efforts to build on its competitive market position. Continued efforts to expand business have created opportunities in Eastern Canada that will result in long-term enhancements to overnight volumes and revenue.

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

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

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

Critical Estimates

The preparation of financial statements in conformity with 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 tangible and intangible assets, the accounting for deferred taxes and the valuation of inventories. The table below discloses the methodology used by management in the assessment of these accounting estimates.

Financial Condition (continued)

Critical Estimates (continued)

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	All financial instruments are initially measured at their fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. After initial recognition, financial instruments are measured at amortized cost using the effective interest method except for financial instruments at FVTPL.
Impairment of tangible and intangible assets	At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired. 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 reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Inventories	Inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Company reviews the estimated selling price and the estimated costs necessary to make the sale at each reporting period to determine the net realizable value.

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 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 control over financial reporting that occurred during the period ended June 30, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

End Notes

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

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

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

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

End Notes (continued)

(A) (continued)

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

Aircraft heavy maintenance depreciation - aircraft heavy maintenance depreciation represents a non-cash item and 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 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 Accounts ("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 provision or recovery of current income taxes.

End Notes (continued)

(B) (continued)

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

Provision for current income taxes – The 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 distribution.