

Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three and six month periods ended June 30, 2013 and 2012

(unaudited – expressed in Canadian Dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at June 30, 2013 and December 31, 2012

(unaudited, in Canadian dollars)

	Note	June 30, 2013 \$	December 31, 2012 \$
ASSETS			
CURRENT ASSETS			
Cash		-	149,976
Trade and other receivables		13,222,216	11,245,805
Inventories		624,558	720,756
Prepaid expenses and deposits		2,591,406	2,397,021
Current portion of notes receivable		821,102	821,102
Current portion of finance lease receivable		293,017	293,017
		<u>17,552,299</u>	<u>15,627,677</u>
NON-CURRENT ASSETS			
Property, plant and equipment	3	48,443,752	46,710,150
Notes receivable		1,353,686	1,719,188
Finance lease receivable		224,684	361,477
Goodwill		46,169,976	46,169,976
Intangible assets		1,000,000	1,000,000
Deposits		453,748	1,853,412
		<u>115,198,145</u>	<u>113,441,880</u>
LIABILITIES			
CURRENT LIABILITIES			
Overdraft		113,496	-
Trade and other payables		10,917,222	11,755,753
Income taxes payable		804,530	449,927
Dividends payable		1,191,819	1,191,819
Borrowings	4	645,365	885,780
		<u>13,672,432</u>	<u>14,283,279</u>
NON-CURRENT LIABILITIES			
Borrowings	4	7,892,824	2,983,470
Provisions		1,685,842	1,543,784
Convertible debentures	5	25,601,567	25,263,531
Deferred income taxes	6	4,208,419	4,897,545
		<u>53,061,084</u>	<u>48,971,609</u>
EQUITY			
		<u>62,137,061</u>	<u>64,470,271</u>
		<u>115,198,145</u>	<u>113,441,880</u>

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

CARGOJET INC.
Condensed Consolidated Interim Statements of Income
and Comprehensive Income

Three month and six month periods ended June 30, 2013 and 2012
(unaudited, in Canadian dollars)

	Note	Three months ended		Six months ended	
		June 30,		June 30,	
		2013	2012	2013	2012
		\$	\$	\$	\$
REVENUES		42,723,161	40,487,080	83,441,068	80,623,008
DIRECT EXPENSES		36,414,208	33,260,100	72,266,542	67,863,472
		6,308,953	7,226,980	11,174,526	12,759,536
General and administrative expenses		4,044,366	3,882,264	8,511,261	8,399,206
Sales and marketing expenses		67,580	116,294	141,269	217,030
Loss on impairment of property, plant and equipment	3	-	-	281,275	-
Finance costs		795,457	970,400	1,606,402	1,902,989
Finance income		(39,238)	(58,124)	(79,279)	(116,303)
Loss on debenture redemption		-	554,603	-	554,603
		4,868,165	5,465,437	10,460,928	10,957,525
EARNINGS BEFORE INCOME TAXES		1,440,788	1,761,543	713,598	1,802,011
PROVISION FOR (RECOVERY OF) INCOME TAXES	6				
Current		540,000	-	690,000	-
Deferred		(219,435)	714,093	(689,126)	725,256
		320,565	714,093	874	725,256
NET INCOME AND COMPREHENSIVE INCOME		1,120,223	1,047,450	712,724	1,076,755
EARNINGS PER SHARE	8				
- Basic		0.14	0.13	0.09	0.13
- Diluted		0.14	0.13	0.09	0.13

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CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity

Six month periods ended June 30, 2013 and 2012

(unaudited, in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Reserve for surplus on debenture repurchases	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$	\$
Balance, December 31, 2012		67,329,440	341,554	1,844,538	1,271,503	(6,316,764)	64,470,271
Net income and comprehensive income		-	-	-	-	712,724	712,724
Treasury shares - net	7	(127,250)	-	-	-	-	(127,250)
Share-based compensation	9	-	(119,389)	-	-	-	(119,389)
Dividends	7	-	-	-	-	(2,799,295)	(2,799,295)
Balance, June 30, 2013		67,202,190	222,165	1,844,538	1,271,503	(8,403,335)	62,137,061
Balance, December 31, 2011		67,341,167	275,643	1,271,503	-	(5,271,930)	63,616,383
Net income and comprehensive income		-	-	-	-	1,076,755	1,076,755
Conversion option on debenture redemption		-	-	(1,271,503)	1,271,503	-	-
Conversion option on debenture issuance		-	-	2,509,576	-	-	2,509,576
Deferred tax on conversion option		-	-	(665,038)	-	-	(665,038)
Treasury shares - net		(11,727)	-	-	-	-	(11,727)
Share-based compensation		-	(55,645)	-	-	-	(55,645)
Dividends	7	-	-	-	-	(2,270,130)	(2,270,130)
Balance, June 30, 2012		67,329,440	219,998	1,844,538	1,271,503	(6,465,305)	64,200,174

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows

Six month periods ended June 30, 2013 and 2012

(unaudited, in Canadian dollars)

		Six months ended	
		June 30,	
	Note	2013	2012
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		712,724	1,076,755
Items not affecting cash			
Depreciation of property, plant and equipment	3	5,623,168	4,233,741
Share-based compensation	9	346,236	229,064
Finance costs		1,606,402	1,902,989
Interest paid		(1,085,387)	(1,486,388)
Loss on purchase of debentures		-	554,603
Impairment on property, plant and equipment	3	281,275	-
Non-cash interest on notes receivable		(63,344)	(84,325)
Non-cash interest on finance lease receivable		(15,845)	(22,872)
Income tax provision		874	725,256
Income tax payments		(335,397)	(648,663)
		7,070,706	6,480,160
Changes in non-cash working capital items and deposits			
Trade and other receivables		(1,976,411)	756,676
Inventories		96,198	120,026
Prepaid expenses and deposits		1,205,279	(913,177)
Trade and other payables		(838,531)	1,042,194
NET CASH GENERATED BY OPERATING ACTIVITIES		5,557,241	7,485,879
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	(5,433,773)
Proceeds from borrowings		4,628,018	-
Repayment of debenture		-	(24,655,000)
Purchase of treasury shares		(592,875)	(296,437)
Dividends paid to shareholders		(2,799,295)	(2,214,176)
Repayment of finance leases payable		-	(30,067)
Proceeds from debenture issuance		-	27,305,000
NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES		1,235,848	(5,324,453)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(7,638,045)	(2,827,000)
Proceeds from disposal of property, plant and equipment		-	45,000
Collections of notes receivable		428,846	428,845
Collections of finance lease receivable		152,638	150,832
NET CASH USED IN INVESTING ACTIVITIES		(7,056,561)	(2,202,323)
NET CHANGE IN CASH		(263,472)	(40,897)
CASH (OVERDRAFT), BEGINNING OF PERIOD		149,976	(110,235)
OVERDRAFT, END OF PERIOD		(113,496)	(151,132)

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2013 and 2012

(unaudited – in Canadian Dollars)

1. NATURE OF THE BUSINESS

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

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

These condensed consolidated interim financial statements (the “financial statements”) were approved and authorized for issuance by the Board of Directors on August 8, 2013.

2. BASIS OF PRESENTATION

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

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

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

Adoption of new accounting standards

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

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

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

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2013 and 2012

(unaudited – in Canadian Dollars)

2. BASIS OF PRESENTATION (CONTINUED)

Adoption of new accounting standards (continued)

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

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

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

3. PROPERTY, PLANT AND EQUIPMENT

In May 2013, the Company purchased a Boeing 727 aircraft for total consideration of \$1,327,902. The costs were segregated into three components consisting of engines totaling \$378,724, airframe totaling \$377,172 and deferred heavy maintenance totaling \$572,006.

In March 2013, the Company reduced the net book value of used engine cores to fair value by \$281,275 and reported a loss on impairment of property, plant and equipment.

Depreciation expense on property, plant and equipment for the three and six month periods ended June 30, 2013 totaled \$2,753,774 and \$5,623,168, respectively (2012 - \$1,945,589 and \$4,233,741, respectively).

4. BORROWINGS

Borrowings consist of the following:

	June 30, 2013	December 31, 2012
	\$	\$
Revolving credit facility	7,625,312	2,729,592
Fixed loans - Cargojet Airways Ltd.	625,877	1,139,658
Other borrowings	287,000	-
	8,538,189	3,869,250
Less current portion	645,365	885,780
Long-term portion	7,892,824	2,983,470

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of \$25.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2015. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at June 30, 2013.

The credit facility is secured by the following:

- general security agreement over all assets of the Company;

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2013 and 2012

(unaudited – in Canadian Dollars)

4. BORROWINGS (CONTINUED)

- guarantee and postponement of claim to a maximum of \$35.0 million in favour of Cargojet Partnership (a wholly-owned subsidiary of the Company) and certain other entities of the Company; and
- assignment of insurance proceeds, payable to the bank.

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 June 2014. The Company also has provided a standby letter of credit of \$780,000 to the bank which is held against the fixed loans.

Other borrowings of \$287,000 are comprised of an obligation under a finance lease and bear an interest rate of 8.0%. The amount is repayable in monthly installments over the period to April 2018.

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

	\$
2013	417,060
2014	242,187
2015	22,257
2016	24,105
2017	26,105
after 2017	181,163
	<u>912,877</u>
Less current portion	<u>645,365</u>
Long-term portion	<u>267,512</u>

Interest expense on the borrowings for the three and six month periods ended June 30, 2013 totaled \$166,043 and \$285,768, respectively (2012 - \$171,915 and \$425,589, respectively).

5. CONVERTIBLE DEBENTURES

The balance of convertible debentures at June 30, 2013 and December 31, 2012 consists of:

	June 30, 2013	December 31, 2012
	\$	\$
Principal balance	28,750,000	28,750,000
Less:		
Issuance costs	(1,312,192)	(1,312,192)
Conversion option at inception	(2,642,384)	(2,642,384)
Accretion	806,143	468,107
Balance	<u>25,601,567</u>	<u>25,263,531</u>

Interest expense on the debentures for the three and six month periods ended June 30, 2013 totaled \$632,575 and \$1,264,732, respectively (2012 - \$603,861 and \$678,158, respectively).

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2013 and 2012

(unaudited – in Canadian Dollars)

6. INCOME TAXES

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

	Three month periods ended June 30,		Six month periods ended June 30,	
	2013	2012	2013	2012
	\$	\$	\$	\$
Earnings before income taxes	1,440,788	1,761,543	713,598	1,802,011
Income tax provision at the combined basic rate of 26.5% (2012 - 26.5%)	381,809	466,809	189,103	477,533
Permanent and other differences	(61,244)	247,284	(188,229)	247,723
Income tax expense	320,565	714,093	874	725,256

The tax effect of significant temporary differences is as follows:

	June 30,	December 31,
	2013	2012
	\$	\$
Property, plant and equipment	3,068,382	3,434,901
Intangible assets	(587,130)	(607,359)
Notes receivable	(38,563)	(55,349)
Financing costs	(308,777)	(344,828)
Convertible debentures	834,335	901,598
Provision for lease retirement costs	(422,649)	(335,833)
Finance lease receivable	138,766	173,441
Long-term incentive plan	(58,874)	(90,511)
Deferred heavy maintenance	1,582,929	1,821,485
Net deferred income tax liability	4,208,419	4,897,545

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2013 and 2012

(unaudited – in Canadian Dollars)

7. SHAREHOLDERS' CAPITAL

Share capital

The following table shows the change in shareholders' capital from December 31, 2012 to June 30, 2013:

	Number	Amount
		\$
Variable voting shares	706,745	4,298,548
Common voting shares	7,229,105	63,030,892
Outstanding, December 31, 2012	7,935,850	67,329,440
Changes during the period		
Treasury stock purchase	(61,099)	(592,875)
Distributed in connection with share-based compensation	55,060	465,625
Outstanding, June 30, 2013	7,929,811	67,202,190
Consisting of:		
Variable voting shares	387,595	3,284,723
Common voting shares	7,542,216	63,917,467

Dividends

Dividends to shareholders declared for the three and six month periods ended June 30, 2013 amounted to \$1,191,818 (\$0.1491 per share) and \$2,799,294 (\$0.3502 per share), respectively, and for the three and six month periods ended June 30, 2012 amounted to \$1,135,065 (\$0.1420 per share) and \$2,270,130 (\$0.2840 per share), respectively.

8. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the three and six month periods ended June 30, 2013 and 2012:

Basic earnings per share	Three month periods ended		Six month periods ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net income	\$ 1,120,223	\$ 1,047,450	\$ 712,724	\$ 1,076,755
Weighted average number of shares	7,993,416	7,993,416	7,993,416	7,993,416
Total basic earnings per share	\$ 0.14	\$ 0.13	\$ 0.09	\$ 0.13

The shares held under the long-term incentive plan have been included in the calculation of basic earnings per share for the three and six month periods ended June 30, 2013 and 2012 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 and six month periods ended June 30, 2013 and 2012 as the impact would be anti-dilutive.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2013 and 2012

(unaudited – in Canadian Dollars)

9. LONG-TERM INCENTIVE PLAN

Long-term Incentive Plan

For the three and six month periods ended June 30, 2013, share-based compensation expense totaled \$85,250 and \$450,861, respectively, including withholding taxes of \$104,625 paid on behalf of the eligible employees.

2013 Awards

In March 2013, pursuant to the Company's long-term incentive plan ("LTIP"), an amount of \$697,500 was approved as LTIP to the executive officers and senior management. Accordingly, the Company purchased 61,099 shares from the open market at an average price of \$9.70 per share. As at June 30, 2013, 13,340 of these shares had vested and \$127,875, net of withholding taxes of \$104,625, was transferred from share-based compensation reserve to shareholders' capital.

Prior Years Awards

In the three and six month periods ended June 30, 2013, 41,720 of the treasury shares had vested and \$337,750 was transferred from share-based compensation reserve to shareholder's capital.