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, 2014

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. (the "Company") for the three month and six month periods ended June 30, 2014. The following also includes a discussion of and comparative operating results for the three month and six month periods ended June 30, 2013.

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

The effective date of the MD&A is August 6, 2014. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three month and six month periods ended June 30, 2014 and 2013 and with the audited annual consolidated financial statements of the Company for the years ended December 31, 2013 and 2012.

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

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual net expenditures. Non-GAAP measures, EBITDA and Adjusted Free Cash Flow, are not earnings measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA and Adjusted Free Cash Flow are shown on page 10 of the MD&A.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company. For a more complete discussion of the risks affecting the Company's business, reference should be made to the Annual Information Form ("AIF"), filed March 6, 2014 with the regulatory authorities.

Forward Looking Statements

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

(A) Please refer to End Note [(A)] included at the end of this MD&A.
(B) Please refer to End Note [(B)] included at the end of this MD&A.

Corporate Overview

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

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

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

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

During the six month period and in the subsequent period up to the date of this MD&A, the Company entered into agreements to purchase seven Boeing 767-300ER ("B767-300") series aircraft and to lease two B767-200 series aircraft. The Company has also signed an agreement to purchase one B757 series aircraft and to lease one additional B757.

During the six month period and in the subsequent period up to the date of this MD&A, the Company accepted the delivery of two purchased B767-300 aircraft, one B757 purchased aircraft and two B767-200 leased aircraft. These aircraft are at different stages of modifications and are expected to be ready for service by the end of the third quarter of 2014.

During the six month period and in the subsequent period up to the date of this MD&A, the Company has purchased five Challenger 601 aircraft. Three of these aircraft are leased to a third party air operator. One aircraft is under maintenance and modification and one aircraft is being held for parts only.

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

Recent Events

Long-term Incentive Plan

For the three and six month periods ended June 30, 2014, share-based compensation expense totaled $89,494 and $443,029, respectively, including withholding taxes of $92,095 paid on behalf of the eligible employees.

2014 Awards

In March 2014, in accordance with the Company's long-term incentive plan (the "Plan" or "LTIP"), an amount of $613,875 was approved to the executive officers and senior management. Accordingly, the Company purchased 24,819 shares from the open market at an average price of $21.02 per share. As at June 30, 2014, 5,353 of these shares had vested and $112,530, net of withholding taxes of $92,095, was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at June 30, 2014 was $409,250.

Prior Years' Awards

In the six month period ended June 30, 2014, 39,723 of the treasury shares had vested and $349,477 was transferred from share-based compensation reserve to shareholder's capital. The balance of LTIP award not vested at June 30, 2014 was $232,500.

Purolator and Canada Post DACNS

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

Amendment of Credit Facility

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

Debenture Conversion

The Company received requests to convert $12,765,000 of 6.5% convertible debentures into common shares and 1,086,369 common shares were issued to the holders at a conversion rate of 85.1064 shares per $1,000 of debentures.

Recent Events (Continued)

Issuance of Convertible Debenture – 5.5% due June 30, 2019

In April 2014, $74.0 million 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.

On or after June 30, 2017, but prior to June 30, 2018, 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 $28.75 per common share. On or after June 30, 2018, but prior to the maturity date of June 30, 2019, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on June 30, 2019, 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 $28.75 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 $28.75 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 $0.225 per quarter ($0.900 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 and equity components. The carrying amount of the debt component was established by measuring the fair value of a similar liability (with similar terms, credit status and embedded non-equity derivative features) but without an associated equity component. The carrying amount of the equity component, presented separately in the reserve for 'conversion option' in the statement of changes in equity, was then determined by deducting the fair value of the liability component from the fair value of the debentures as a whole.

Recent Events (Continued)

Issuance of Convertible Debenture – 5.5% due June 30, 2019 (Continued)

The debt component is measured at amortized cost. The balance of the debt component as at June 30, 2014 and December 31, 2013 consists of:

	June 30, 2014	December 31, 2013
	$	$
Principal balance	74,000,000	-
Less:		
Issuance costs	(2,960,012)	-
Conversion option at inception	(6,923,610)	-
Accretion	247,671	-
Balance	64,364,049	-

The conversion option, net of related issuance costs of $305,532, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 8.77%.

Strategic Air Cargo Cooperation

The Comapny and First Air have signed a cooperation agreement that will create significant cost efficiencies for both carriers.

The Company intends to assume the remaining lease obligation of First Air's B767-200 extended range freighter aircraft, subject to the approval of the lessor, and will provide scheduled freighter aircraft service to First Air. Both parties will maintain their respective and existing end-user customer relationships but offer enhanced overall reliability and service to all customers.

Acquisition of Property, Plant and Equipment

During the six month period ended June 30, 2014, the Company invested $80,140,633 (2013 – $nil) on the acquisition and modification of newly purchased and/or leased aircrafts and other property, plant and equipment, which are not yet available for use. As at June 30, 2014, these amounts were classified as "property, plant and equipment under development" due to the pending completion of the process to ready the assets for use.

Air Cargo Logistics Facility

The Company and the John C. Munro Hamilton International Airport entered into a long term lease in the airport's $12 million Air Cargo Logistics Facility ("ACLF"), for which construction will begin in the third quarter of 2014. The Company will pay cash and exchange a building owned by it for its share of the facility. The Company will occupy approximately half of the 77,000 square foot facility for both office and dedicated warehouse space. The ACLF is being funded through a joint partnership between the federal and Ontario governments and TradePort International Corporation, with support from Hamilton's municipal government, and slated to be complete in 2015.

Recent Events (Continued)

Finance Leases

The Company executed a Master Capital 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. During the period, the Company completed one finance lease under this MLA. This lease expires in June 2021 and provides for the transfer of ownership of the aircraft at the end of the lease term at a pre-determined price. Accordingly, the lease is classified as a finance lease and a corresponding lease obligation was recognized in the financial statements. The lease facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payment. The estimated effective interest rate is 7.37%. The lease is guaranteed by the Company and its subsidiaries.

The aggregate tranche A comprises 80% of the lease contract amount. 60% of the tranche A principal amount is repayable in equal monthly installments during the 84 month amortization term. The first payment is due on the delivery date and thereafter is due in advance on the first business day of each month. The remaining 40% of the amount in respect of the lease contract is payable at the termination of the contract.

The aggregate tranche B comprises 20% of the lease contract amount. The basic rent due in respect of the lease contract shall be equal to the interest on tranche B amount advanced in respect of the lease contract, compounded monthly and payable quarterly in arrears over the tranche B term of 48 months. The first interest payment is due on the first business day of the month occurring 90 days after the delivery date. It further provides for quarterly payment of a variable amount on account of the principal tranche B amount equal to 50% of the free cash flow generated for the previous fiscal quarter, provided that any such payment shall not exceed 1/16 of the outstanding amount of tranche B for the lease contract. The balance amount of the lease contract is payable at the termination of the contract.

The arrangement includes certain financial covenants with respect to the Company's profitability. The Company was in compliance with all covenants as at June 30, 2014.

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 the Company has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

- The Company provides and operates dedicated aircraft on an ACMI basis. On these contracts, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the routes.

Expenses

Direct expenses consist of fixed and variable expenses including aircraft and ground support, aircraft maintenance, vehicle leases, fuel, ground handling services, aircraft de-icing, sub-charter, ground transportation costs, landing fees, navigation fees, insurance, salaries and benefits, office equipment costs, building leases, depreciation and amortization.

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

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2014	2013	**2014**	2013
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	$	$
Revenue	**44,335**	42,723	**88,051**	83,441
Direct expenses	**39,143**	36,414	**79,023**	72,266
	5,192	6,309	**9,028**	11,175
General and administrative	**4,607**	4,044	**9,584**	8,511
Sales and marketing	**171**	68	**291**	142
Loss on impairment of property, plant and equipment	**-**	-	**-**	281
Finance costs	**1,413**	795	**2,106**	1,606
Finance income	**(57)**	(39)	**(82)**	(79)
	6,134	4,868	**11,899**	10,461
(Loss) income before income taxes	**(942)**	1,441	**(2,871)**	714
(Recovery of) provision for income taxes				
Current	**-**	540	**-**	690
Deferred	**(253)**	(219)	**(606)**	(689)
	(253)	321	**(606)**	1
Net (loss) income	**(689)**	1,120	**(2,265)**	713
(Loss) earnings per share				
Basic	(0.08)	0.14	(0.26)	0.09
Diluted	(0.08)	0.14	(0.26)	0.09
Average number of shares - basic (in thousands of shares)(1)	**8,949**	7,993	**8,634**	7,993

1. Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 44,335	$ 43,716	$ 48,519	$ 43,416	$ 42,723	$ 40,718	$ 46,370	$ 41,777
Net (loss) income from continuing operations (in thousands)	$ (689)	$ (1,576)	$ 2,394	$ 225	$ 1,120	$ (407)	$ 1,528	$ 947
(Loss) earnings per Share								
From continuing and discontinued operations								
- Basic	$ (0.08)	$ (0.19)	$ 0.30	$ 0.03	$ 0.14	$ (0.05)	$ 0.19	$ 0.12
- Diluted	$ (0.08)	$ (0.19)	$ 0.27	$ 0.03	$ 0.14	$ (0.05)	$ 0.19	$ 0.12
Average number of shares - basic (in thousands of shares)[(1)]	8,949	8,314	7,993	7,993	7,993	7,993	7,993	7,993
Average number of shares - diluted (in thousands of shares)[(1)(2)]	8,949	8,314	10,440	7,993	7,993	7,993	7,993	7,993

1. Average number of shares includes treasury shares.

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

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

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2014	2013	**2014**	2013
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Net (loss) income	**(689)**	1,120	**(2,265)**	713
Add:				
Interest	**1,356**	756	**2,023**	1,527
Provision for current income taxes	**-**	540	**-**	690
Recovery of deferred income taxes	**(253)**	(219)	**(606)**	(689)
Impairment of property, plant and equipment	**-**	-	**-**	281
Depreciation and amortization of property, plant and equipment	**2,858**	2,649	**5,673**	5,414
Aircraft heavy maintenance expenditures	**(1,220)**	(1,189)	**(1,306)**	(2,491)
Heavy maintenance deposits [1]	**(60)**	554	**(120)**	1,499
Total EBITDA	**1,992**	4,211	**3,399**	6,944

	$	$	**$**	$
Cash inflow (outflow) from operating activities	**3,428**	3,265	**(3,447)**	5,557
Less :Additions to property, plant and equipment (maintenance capex) [2]	**(3,004)**	(5,165)	**(5,160)**	(7,638)
Standardized free cash flow	**424**	(1,900)	**(8,607)**	(2,081)
Less: Changes in non-cash working capital items and deposits	**(1,189)**	1,214	**4,745**	1,513
Provision for current income taxes	**-**	(540)	**-**	(690)
Adjusted free cash flow	**(765)**	(1,226)	**(3,862)**	(1,258)

1. In 2014 heavy maintenance deposits were paid to the aircraft lessors on a monthly basis. The Company is entitled to a refund of these payments when it incurs actual heavy maintenance expenditures.
2. Addition to maintain existing operations- refer to End note (B)

Review of Operations for the Three Month Periods ended June 30, 2014 and 2013

Highlights for the Three Month Periods ended June 30, 2014 and 2013

- Total revenue for the three month period ended June 30, 2014 was $44.3 million as compared to $42.7 million for the same period in 2013, representing an increase of $1.6 million or 3.7%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2014 was $0.71 million per operating day as compared to $0.66 million for the same period in 2013, representing an increase of $0.05 million or 7.6%.

- EBITDA for the three month period ended June 30, 2014 was $2.0 million as compared to $4.2 million for the same period in 2013, a decrease of $2.2 million or 52.4%.

- Adjusted free cash flow was an outflow of $0.8 million for the three month period ended June 30, 2014 as compared to an outflow of $1.2 million for the same period in 2013.

Revenue

Total revenue for the three month period ended June 30, 2014 was $44.3 million, as compared to $42.7 million for the same period in 2013, representing an increase of $1.6 million or 3.7%. The increase in total revenue was due primarily to the increase in core overnight volumes and higher ACMI revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2014 was $30.8 million as compared to $28.7 million for the same period in 2013, an increase of $2.1 million or 7.3%. The increase was due primarily to higher volumes on the overnight network.

Revenue related to the ACMI cargo business for the three month period ended June 30, 2014 was $1.6 million, as compared to $1.0 million for the same period in 2013, an increase of $0.6 million or 60.0%. The increase in the revenue was due primarily to extra ad-hoc ACMI revenues.

Revenue related to scheduled and ad-hoc charters for the three month period ended June 30, 2014 was $2.9 million as compared to $4.1 million for the same period in 2013, a decrease of $1.2 million or 29.3%. The decrease in the revenue was due primarily to decrease in ad-hoc charter activities.

Fuel surcharges and other cost pass-through revenues were $8.5 million for the three month period ended June 30, 2014 and remained unchanged for the same period in 2013. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.2 million for the three month periods ended June 30, 2014 as compared to $0.4 million for the same period in 2013, respectively.

Other revenues for the three month period ended June 30, 2014 was $0.5 million as compared to $0.4 million for the same period in 2013.

Review of Operations for the Three Month Periods ended June 30, 2014 and 2013 (Continued)

Direct Expenses

Total direct expenses were $39.1 million for the three month period ended June 30, 2014 as compared to $36.4 million for the three month period ended June 30, 2013. As a percentage of revenue, direct expenses increased from 85.2% in 2013 to 88.3% for the same period in 2014. The overall increase in direct expenses was due primarily to an increase in maintenance, aircraft, crew and commercial costs due to an increase in core overnight cargo volumes and the effect of one time start-up costs in relation to the MSA signed with CPGOC.

Fuel costs were $14.6 million for the three month period ended June 30, 2014 as compared to $15.0 million for the same period in 2013. The $0.4 million or 2.7% decrease in fuel costs was due primarily to the higher utilization of fuel efficient B757 aircraft during the quarter. 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 $1.6 million for the three month period ended June 30, 2014 and remained unchanged for the same period in 2013.

Aircraft costs were $5.8 million for the three month period ended June 30, 2014 as compared to $3.8 million in 2013, representing an increase of $2.0 million or 52.6%. The increase was due primarily to the costs associated with the B757 fleet expansion, an increase in the variable lease costs due to the increase in block hours flown using the Company's wide body aircraft, additional sub charter costs and the negative effect of exchange fluctuations on the USD denominated lease costs.

Heavy maintenance amortization costs were $1.0 million for the three month period ended June 30, 2014 and remained unchanged from 2013. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $2.9 million for the three month period ended June 30, 2014 as compared to $2.8 million in 2013, representing an increase of $0.1 million or 3.6%. The increase was due primarily to the increase in aircraft line maintenance costs and hiring of additional maintenance staff.

Total crew costs including salaries, training and positioning were $3.5 million for the three month period ended June 30, 2014 as compared to $2.7 million in 2013, representing an increase of $0.8 million or 29.6%. The increase was due primarily to the salary increases, hiring of the additional crews and training costs including one time start-up costs in relation to the MSA signed with CPGOC.

Commercial and other direct operating costs were $9.7 million for the three month period ended June 30, 2014 as compared to $9.6 million for the same period in 2013. The increase of $0.1 million or 1.0% was due primarily to the increase in ground handling staff costs and landing charges due to the utilization of wide body aircraft and growth in core overnight volumes.

Review of Operations for the Three Month Periods ended June 30, 2014 and 2013 (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended June 30, 2014 were $4.8 million as compared to $4.1 million for the same period in 2013, representing an increase of $0.7 million or 17.1%. The increase in SG&A was due primarily to the effect of one time start-up costs in relation to the MSA signed with CPGOC, annual salary increases and the hiring of new personnel.

EBITDA

EBITDA for the three month period ended June 30, 2014 was $2.0 million or 4.5% of revenue, as compared to $4.2 million or 9.8% of revenue for the same period in 2013. The decrease in EBITDA of $2.2 million or 52.4% was due primarily to the following:

- The effect of one time start-up costs of $2.3 million in relation to the MSA signed with CPGOC partially offset by an increase in core overnight revenue and ACMI revenues;
- The effect of exchange fluctuation on net USD denominated expenditures;
- The increase in SG&A costs.

Net Finance Costs

Net finance costs were $1.4 million for the three month period ended June 30, 2014 as compared to $0.8 million for the same period in 2013. The increase in finance costs was due primarily to the interest expenses on the 5.5% convertible debentures partially offset by reduced usage of the Company's line of credit and lower interest on the 6.5% convertible debentures due to conversions.

Current Income Taxes

The provision for current income taxes for the three month period ended June 30, 2014 was $nil as compared to $0.5 million for the same period in 2013.

Deferred Income Taxes

The deferred income taxes recognized for the three month period ended June 30, 2014 was a recovery of $0.3 million as compared to a recovery of $0.2 million for the same period in 2013. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of $0.8 million for the three month period ended June 30, 2014, as compared to an outflow of $1.2 million for the same period in 2013, representing an increase of $0.4 million or 33.3%. The increase in adjusted free cash flow was due primarily to the provision of current income taxes, higher additions to property, plant and equipment (maintenance capex) in 2013 and changes in non-cash working capital items and deposits.

Review of Operations for the Three Month Periods ended June 30, 2014 and 2013

(Continued)

Dividends

Total dividends declared for the three month period ended June 30, 2014 were $1,353,796 or $0.1491 per share. In comparison, total dividends declared for the three month period ended June 30, 2013 were $1,191,819 or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
March 20, 2014	April 4, 2014	-	8,844,639	0.1491	1,318,736
June 20, 2014	July 3, 2014	1,353,796	9,079,785	0.1491	-
		1,353,796	-	-	1,318,736

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

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

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances for the three month period ended June 30, 2014 was $3.4 million as compared to $3.3 million for the same period in 2013. The $0.1 million increase in cash was due primarily to the timing of collections of accounts receivable and settlement of accounts payable.

Cash generated by financing activities during the three month period ended June 30, 2014 was $57.5 million as compared to $1.4 million for the same period in 2013. The $56.1 million increase was primarily due to the issuance of 5.5% convertible debenture partially offset by the repayment of the revolving credit facility.

Cash used in investing activities during the three month period ended June 30, 2014 was $50.7 million and was primarily comprised of property, plant and equipment additions.

Capital Expenditures

Net property, plant and equipment additions were $50.8 million for the three month period ended June 30, 2014 as compared to $5.2 million additions in property, plant and equipment for the same period in 2013. The property, plant and equipment additions in the current period were comprised of property, plant and equipment under development, leasehold improvements, rotable assets and office equipment.

Review of Operations for the Six Month Periods ended June 30, 2014 and 2013

Highlights for the Six Month Periods Ended June 30, 2014 and 2013

- Total revenue for the six month period ended June 30, 2014 was $88.0 million as compared to $83.4 million for the same period in 2013, representing an increase of $4.6 million or 5.5%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2014 was $0.69 million per operating day as compared to $0.65 million per operating day for same period in 2013, representing an increase of $0.04 million or 6.2%.

- EBITDA for the six month period ended June 30, 2014 was $3.4 million as compared to $6.9 million for the same period in 2013, representing a decrease of $3.5 million or 50.7%.

- Adjusted free cash flow was an outflow of $3.9 million for the six month period ended June 30, 2014 as compared to an outflow of $1.3 million for the same period in 2013, a decrease of $2.6 million.

Revenue

Total revenue for the six month period ended June 30, 2014 was $88.0 million as compared to $83.4 million for the same period in 2013, representing an increase of $4.6 million or 5.5%. The increase in total revenue was due primarily to the increase in core overnight revenues and higher ACMI revenues partially offset by lower ad-hoc charter activities.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues, for the six month period ended June 30, 2014 was $60.0 million compared to $56.0 million for the same period in 2013, an increase of $4.0 million or 7.1%. The increase in revenue was due to higher volumes from the Company’s core overnight network.

ACMI revenue for the six month period ended June 30, 2014 was $3.1 million compared to $2.5 million for the same period in 2013, an increase of $0.6 million or 24.0%. The increase in revenue was due primarily to extra ad-hoc ACMI flights.

Revenue related to scheduled and ad-hoc charters for the six month period ended June 30, 2014 was $5.6 million compared to $6.2 million for the same period in 2013, a decrease of $0.6 million or 9.7%. The decrease in the revenue was due primarily to a decrease in ad-hoc charter activities during the period.

Fuel surcharges and other cost pass-through revenues were $18.4 million for the six month period ended June 30, 2014 as compared to $17.9 million for the same period in 2013, representing an increase of $0.5 million or 2.8%. The increase was due primarily to the increase in fuel surcharges billed to customers due to higher volumes. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.8 million for the six month period ended June 30, 2014 and remain unchanged in 2013.

Other revenues for the six month period ended June 30, 2014 was $0.9 million as compared to $0.8 million for the same period in 2013.

Review of Operations for the Six Month Periods ended June 30, 2014 and 2013 (Continued)

Direct Expenses

Total direct expenses were $79.0 million for the six month period ended June 30, 2014 as compared to $72.3 million for the same period in 2013, representing an increase of $6.7 million or 9.3%. As a percentage of revenue, direct expenses increased from 86.7% in 2013 to 89.8% for the same period in 2014. The overall increase in direct expenses was due primarily to higher line maintenance costs, higher aircraft costs and higher crew costs due to the effect of one time start-up costs in relation to the MSA signed with CPGOC and commercial costs.

Fuel costs were $30.8 million for the six month period ended June 30, 2014 as compared to $30.6 million for the same period in 2013. The $0.2 million or 0.7% increase in fuel costs was due primarily to the higher 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 expenses remained the same at $3.2 million for the six month period ended June 30, 2014 and 2013.

Aircraft costs were $10.2 million for the six month period ended June 30, 2014 as compared to $6.9 million for the same period in 2013. The $3.3 million or 47.8% increase in aircraft costs was due primarily to increased variable lease costs due to the increase in block hours flown using the Company's wide body aircraft, additional sub charter costs and the negative effect of exchange fluctuations on USD denominated lease costs.

Heavy maintenance amortization costs were $2.1 million for the six month period ended June 30, 2014 and remain unchanged from the same period in 2013. 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 $5.8 million for the six month period ended June 30, 2014 as compared to $5.3 million for the same period in 2013. The increase of $0.5 million or 9.4% was primarily due to the increase in line maintenance costs and hiring of additional maintenance staff.

Crew costs were $6.5 million for the six month period ended June 30, 2014 as compared to $5.2 million for the same period in 2013. The increase of $1.3 million or 25.0% was primarily due to the hiring of the additional crews and training costs in relation to the MSA signed with CPGOC.

Commercial and other direct operating costs were $20.4 million for the six month period ended June 30, 2014 as compared to $19.0 million for the same period in 2013. The increase of $1.4 million or 7.4% was due primarily to the increase in head count and ground handling costs due to the growth in core overnight volumes, landing charges due to the usage of wide body aircrafts and higher de-icing costs due to weather conditions.

Review of Operations for the Six Month Periods ended June 30, 2014 and 2013 (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $9.9 million for the six month period ended June 30, 2014 compared to $8.7 million for the same period in 2013, an increase of $1.2 million or 13.8%. The increase in SG&A was due primarily to the effect of one time start-up costs in relation to the MSA signed with CPGOC, annual salary increases and the hiring of new personnel.

EBITDA

EBITDA for the six month period ended June 30, 2014 was $3.4 million or 3.9% of revenue, compared to $6.9 million or 8.3% of revenue for the same period in 2013. The decrease in EBITDA for the six month period ended June 30, 2014 was due primarily to the following:

- The effect of one time start-up costs of $2.6 million in relation to the MSA signed with CPGOC partially offset by an increase in core overnight revenue and ACMI revenues;
- The effect of exchange fluctuation on net USD denominated expenditures;
- The increase in SG&A costs.

Net Finance Costs

Net finance costs were $2.1 million for the six month period ended June 30, 2014, compared to $1.5 million for the six month period ended June 30, 2013. The increase in finance cost was due primarily to the interest expenses on the 5.5% convertible debentures partially offset by the reduced usage of the Company's line of credit and lower interest on the 6.5% convertible debentures due to conversions.

Current Income Taxes

The current income tax provision was $nil for the six month period ended June 30, 2014 compared to $0.7 million for the same period in 2013.

Deferred Income Taxes

The deferred income tax recovery was $0.6 million for the six month period ended June 30, 2014 compared to the deferred income tax recovery of $0.7 million in the same period in 2013. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of $3.9 million for the six month period ended June 30, 2014, compared to an outflow of $1.3 million for the six month period ended June 30, 2013. The decrease of $2.6 million was due primarily to reduced EBITDA due to the one time start-up costs related to the MSA signed with CPGOC and the changes in non-cash working capital items and deposits.

Review of Operations for the Six Month Periods ended June 30, 2014 and 2013 (Continued)

Dividends

Total dividends declared for the six month period ended June 30, 2014 were $2,672,532 or $0.2982 per share. In comparison, total dividends declared for the six month period ended June 30, 2013 were $2,799,294 or $0.3502 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2013	January 6, 2014	-	-	-	1,191,819
March 20, 2014	April 4, 2014	1,318,736	8,844,639	0.1491	1,318,736
June 20, 2014	July 3, 2014	1,353,796	9,079,785	0.1491	-
		2,672,532		0.2982	2,510,555

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2012	January 4, 2013	-	-	-	1,191,819
March 20, 2013	April 4, 2013	1,607,476	7,993,416	0.2011	1,607,476
June 20, 2013	July 4, 2013	1,191,818	7,993,416	0.1491	-
		2,799,294		0.3502	2,799,295

The Company announced a special one-time cash dividend of $0.0520 per share along with the regular dividend of $0.1491 for the period from January 1, 2013 to March 31, 2013. Due to the tax position of certain subsidiaries of the Company, the regular and special dividends were ineligible dividends within the meaning of the Income Tax Act (Canada).

Liquidity and Capital Resources

Cash used in operating activities after net changes in non-cash working capital balances for the six month period ended June 30, 2014 was $3.5 million as compared to cash generated by operating activities of $5.6 million for the same period in 2013. The $9.1 million decrease in cash was due primarily to the operating loss, income tax payment and movement in non-cash working capital items and deposits.

Cash generated by financing activities during the six month period ended June 30, 2014 was $65.6 million and was comprised of net proceeds from the issuance of 5.5% convertible debentures of $70.7 million partially offset by the repayment of borrowings of $1.7 million, the purchase of treasury shares of $0.5 million, repayment of obligations under finance lease of $0.4 million and dividends paid to shareholders of $2.5 million.

Review of Operations for the Six Month Periods ended June 30, 2014 and 2013 (Continued)

Liquidity and Capital Resources (Continued)

Cash used in investing activities during the six month period ended June 30, 2014 was $52.4 million and was primarily comprised of property, plant and equipment additions.

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $45.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2015. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at June 30, 2014 and 2013.

The credit facility is secured by the following:

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

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 $52.9 million for the six month period ended June 30, 2014 as compared to $7.6 million for the same period in 2013. Additions to property, plant and equipment in the current period were comprised of heavy maintenance expenditures, property, plant and equipment under development, leasehold improvements, ground equipment and rotable assets. Heavy maintenance expenditures are due to the two B727 aircraft that will be required for CPGOC contracts.

Financial Condition

The following is a comparison of the financial position of the Company as at June, 30, 2014 to the financial position of the Company as at December 31, 2013.

Accounts Receivable

Accounts receivable as at June 30, 2014 amounted to $13.6 million as compared to $15.4 million as at December 31, 2013. The decrease of $1.8 million was due to the timing of cash collections from the customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at June 30, 2014, property, plant and equipment were $125.9 million as compared to $45.8 million as at December 31, 2013. The $80.1 million net increase in property, plant and equipment was primarily due to additions of $85.7 million partially offset by the amortization of $5.7 million.

Trade and Other Payables

Trade and other payables as at June 30, 2014 were $13.0 million as compared to $16.8 million as at December 31, 2013. The decrease of $3.8 million was due primarily to the timing of supplier payments.

Working Capital Position

The Company had a working capital surplus as at June 30, 2014, representing the difference between total current assets and current liabilities, of $10.8 million, compared to a working capital deficit of $1.2 million as at December 31, 2013. The increase of $12.0 million is primarily due to the cash position of the Company due to the balance funds of 5.5% convertible debenture and the timing of collection of trade and other receivables and settlement of trade and other payables.

Finance Leases

Total finance leases excluding the current portion were $30.5 million as at June 30, 2014 as compared to $0.3 million as at December 31, 2013. The finance leases consist mainly of lease of a Boeing 767-300 aircraft with an equipment finance and leasing company.

Provisions

Provisions excluding the current portion as at June 30, 2014 were $1.9 million as compared to $1.8 million as at December 31, 2013 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms.

Financial Condition (Continued)

Summary of Contractual Obligations

	Payments due by period					
As at June 30, 2014	Total	2014	2015	2016	2017	Thereafter
(in thousands)	$	$	$	$	$	$
Finance leases	32,286	914	1,907	2,050	2,211	25,204
Operating leases	37,829	9,394	14,591	4,358	2,329	7,157
	70,115	10,308	16,498	6,408	4,540	32,361

Off-Balance Sheet Arrangements

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

Major Customers

During the three month period ended June 30, 2014, the Company had sales to three customers that represented 53.1% of the total revenues (June 30, 2013 – 52.0%). These sales are provided under service agreements that expire over various periods to September 2018.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $23.8 million as at June 30, 2014 out of which a letter of credit of $20.0 million is provided to CPGOC under the terms of the MSA. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Financial Condition (Continued)

Outlook

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

During the period ended June 30, 2014, the Company continued to develop and strengthen its relationships with existing and new customers as evidenced by the increase in demand on its core overnight network. The Company continues to retain all of its major customers and expects that demand on its core overnight network will further improve with a stronger economy. The proactive management of its fleet capacity and strong on-time performance provide the Company with an added advantage in this competitive market. Management expects to achieve organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Company continues its efforts to build on its competitive market position.

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

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

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

Critical Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The significant items requiring the use of management estimates are the valuation of financial instruments, the impairment assessment of property, plant and equipment and goodwill, the accounting for deferred taxes, and the estimate of provisions. The table below discloses the methodology and assumptions used by management in the assessment of these accounting estimates.

Financial Condition (Continued)

Critical Estimates (Continued)

Critical Accounting Estimate	**Methodology and Assumptions**
Financial instruments	The issuance or repurchase of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. Estimates are also required for determining the fair values of financial instruments that are not publicly traded for disclosure purposes.
Impairment of property, plant and equipment and goodwill	At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.
Deferred taxes	Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Provisions	The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability.

Financial Condition (Continued)

Outstanding Share Data

The Company's common voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" and "CJT.DB.B" on the Toronto Stock Exchange ("TSX"). The following table sets out the common shares outstanding and securities convertible into common shares as of June 30, 2014:

Capital	Authorized/ Principal	Outstanding	Common Shares underlying Convertible securities
Common Voting Shares	Unlimited	8,981,240	-
Variable Voting Shares	Unlimited	98,545	-
Convertible Debentures - 6.5%	$ 15,985,000	-	1,360,426
Convertible Debentures - 5.5%	$ 74,000,000	-	2,573,913

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted jointly by the Directors of the Company.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

There were no changes in internal controls over financial reporting that occurred during the period ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

End Notes

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

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

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

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

Provision for current income taxes – the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

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

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

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

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

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

End Notes (Continued)

(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 Accountants ("CICA") issued a consultation guidance titled *Reporting Supplementary Financial Measures, General Principles (*"The Guidance"*)*. The Guidance approved the continuation of previously published guidance on EBITDA and free cash flow as they continue to be relevant in the post IFRS environment.

Standardized Free Cash Flow is defined as "Cash flows from operating activities as reported in the IFRS financial statements, including operating cash flows provided from or used in discontinued operations; total maintenance capital expenditures minus proceeds from the disposition of capital assets other than those of discontinued operations, as reported in the IFRS financial statements; and dividends, when stipulated, unless deducted in arriving at cash flows from operating activities."

The Company has adopted a measurement called Adjusted Free Cash Flow to supplement net earnings as a measure of operating performance. Adjusted Free Cash Flow is defined by the Company as Standardized Free Cash Flow as defined by the CICA, less operating cash flows provided from or used in discontinued operations, changes in working capital, plus the provision for current income taxes.

The underlying reasons for the inclusion and exclusion of each item are as follows:

Operating cash flows provided from or used in discontinued operations – As the operating cash flows provided from or used in discontinued operations are not expected to recur in the future, it has been excluded from the calculation of Adjusted Free Cash Flow to enhance the predictive value of the measure.

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

Provision for current income taxes – The expected cash outflows from the provision of current income tax is deducted to determine cash that is available for dividend distributions as it has priority over dividend distribution.

Additions to property, plant and equipment (maintenance capex) - These are any amounts incurred during a reporting period to keep the Company's fleet at the same level required to maintain the services of the existing business. They also include any costs incurred to extend the operational life of the fleet. The growth capital expenditures are not included as the benefits of additional capacity in the form of operational revenue and cash flow will be available in the future periods.