Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three and nine month periods ended September 30, 2013 and 2012

(unaudited – expressed in Canadian Dollars)

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CARGOJET INC.
Condensed Consolidated Interim Balance Sheets
As at September 30, 2013 and December 31, 2012
(unaudited, in Canadian dollars)

	Note	September 30, 2013	December 31, 2012
		$	$
ASSETS			
CURRENT ASSETS			
Cash		472,105	149,976
Trade and other receivables		13,595,755	11,245,805
Inventories		539,925	720,756
Prepaid expenses and deposits		2,118,891	2,397,021
Current portion of notes receivable		821,102	821,102
Current portion of finance lease receivable		293,017	293,017
		17,840,795	15,627,677
NON-CURRENT ASSETS			
Property, plant and equipment	3	47,968,847	46,710,150
Notes receivable		951,031	1,719,188
Finance lease receivable		175,898	361,477
Goodwill		46,169,976	46,169,976
Intangible assets		1,000,000	1,000,000
Deposits		736,276	1,853,412
		114,842,823	113,441,880
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		13,574,123	11,755,753
Income taxes payable		900,416	449,927
Dividends payable		1,191,819	1,191,819
Borrowings	4	20,145	885,780
		15,686,503	14,283,279
NON-CURRENT LIABILITIES			
Borrowings	4	6,312,122	2,983,470
Provisions		1,678,362	1,543,784
Convertible debentures	5	25,771,052	25,263,531
Deferred income taxes	6	4,139,389	4,897,545
		53,587,428	48,971,609
EQUITY		61,255,395	64,470,271
		114,842,823	113,441,880

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 nine month periods ended September 30, 2013 and 2012

(unaudited, in Canadian dollars)

		Three months ended September 30,		Nine months ended September 30,	
	Note	2013	2012	2013	2012
		$	$	$	$
REVENUES		43,416,122	41,777,190	126,857,190	122,400,198
DIRECT EXPENSES		37,828,004	34,973,810	110,094,546	102,837,282
		5,588,118	6,803,380	16,762,644	19,562,916
General and administrative expenses		4,062,399	4,131,171	12,573,660	12,530,377
Sales and marketing expenses		109,569	76,332	250,838	293,362
Loss (gain) on disposal of property, plant and equipment	3	147,384	(6,481)	147,384	(6,481)
Loss on impairment of property, plant and equipment	3	-	567,395	281,275	567,395
Finance costs		820,862	770,558	2,427,264	2,673,547
Finance income		(32,968)	(34,896)	(112,247)	(151,199)
Gain on derivative contracts		-	(73,313)	-	(73,313)
Loss on debenture redemption		-	-	-	554,603
		5,107,246	5,430,766	15,568,174	16,388,291
EARNINGS BEFORE INCOME TAXES		480,872	1,372,614	1,194,470	3,174,625
PROVISION FOR (RECOVERY OF) INCOME TAXES	6				
Current		325,000	(2,004)	1,015,000	(2,004)
Deferred		(69,030)	427,202	(758,156)	1,152,458
		255,970	425,198	256,844	1,150,454
NET INCOME AND COMPREHENSIVE INCOME		224,902	947,416	937,626	2,024,171
EARNINGS PER SHARE	8				
- Basic		0.03	0.12	0.12	0.25
- Diluted		0.03	0.12	0.12	0.25

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity

Nine month periods ended September 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		-	-	-	-	937,626	937,626
Treasury shares - net	7	(127,250)	-	-	-	-	(127,250)
Share-based compensation	9	-	(34,139)	-	-	-	(34,139)
Dividends	7	-	-	-	-	(3,991,113)	(3,991,113)
Balance, September 30, 2013		67,202,190	307,415	1,844,538	1,271,503	(9,370,251)	61,255,395
Balance, December 31, 2011		67,341,167	275,643	1,271,503	-	(5,271,930)	63,616,383
Net income and comprehensive income		-	-	-	-	2,024,171	2,024,171
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		-	5,133	-	-	-	5,133
Dividends	7	-	-	-	-	(3,405,195)	(3,405,195)
Balance, September 30, 2012		67,329,440	280,776	1,844,538	1,271,503	(6,652,954)	64,073,303

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows

Nine month periods ended September 30, 2013 and 2012

(unaudited, in Canadian dollars)

	Note	Nine months ended September 30, 2013	2012
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		937,626	2,024,171
Items not affecting cash			
Depreciation of property, plant and equipment	3	8,565,682	6,709,716
Share-based compensation	9	431,486	289,843
Finance costs		2,427,264	2,673,547
Interest paid		(1,785,165)	(2,040,407)
Loss on purchase of debentures		-	554,603
Loss (gain) on disposal of property, plant and equipment		147,384	(6,481)
Impairment on property, plant and equipment	3	281,275	567,395
Non-cash interest on notes receivable		(89,533)	(121,319)
Non-cash interest on finance lease receivable		(22,602)	(17,008)
Income tax provision		256,844	1,150,454
Income tax payments		(564,511)	(731,999)
		10,585,750	11,052,515
Changes in non-cash working capital items and deposits			
Trade and other receivables		(2,349,950)	231,352
Inventories		180,831	287,742
Prepaid expenses and deposits		1,395,266	(85,233)
Trade and other payables		1,818,370	1,811,997
NET CASH GENERATED BY OPERATING ACTIVITIES		11,630,267	13,298,373
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,139,659)	(8,358,056)
Proceeds from borrowings		3,602,676	-
Repayment of debenture		-	(24,655,000)
Purchase of treasury shares		(592,875)	(296,437)
Dividends paid to shareholders		(3,991,113)	(3,349,242)
Repayment of finance leases payable		-	(35,135)
Proceeds from debenture issuance		-	27,305,000
NET CASH USED IN FINANCING ACTIVITIES		(2,120,971)	(9,388,870)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(10,253,039)	(4,838,976)
Proceeds from disposal of property, plant and equipment		-	51,637
Collections of notes receivable		857,690	857,692
Collections of finance lease receivable		208,181	210,377
NET CASH USED IN INVESTING ACTIVITIES		(9,187,168)	(3,719,270)
NET CHANGE IN CASH		322,129	190,233
CASH (OVERDRAFT), BEGINNING OF PERIOD		149,976	(110,235)
CASH, END OF PERIOD		472,105	79,998

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

1. NATURE OF THE BUSINESS

Cargojet Inc. ("Cargojet" or "the Company") operates a domestic overnight air cargo co-load network between 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 November 7, 2013.

2. BASIS OF PRESENTATION

The financial statements have been prepared in accordance with International Accounting Standard ("IAS") *IAS 34, Interim Financial Reporting* as issued by the *International Accounting Standards Board ("IASB").*

These financial statements do not include all of the information required for full annual financial statements by *International Financial Reporting Standards ("IFRS")* 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.

(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. The Company also incurred additional cost of $78,571 on the airframe for its operational modification.

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.

In August 2013, the Company entered into an operating lease agreement with a third party and sold the aircraft engine cores to the lessee and reported a loss of $147,384 on disposal of property, plant and equipment.

Depreciation expense on property, plant and equipment for the three and nine month periods ended September 30, 2013 totaled $2,942,514 and $8,565,682, respectively (2012 - $2,475,974 and $6,709,716, respectively).

4. BORROWINGS

Borrowings consist of the following:

	September 30, 2013	December 31, 2012
	$	$
Revolving credit facility	6,049,995	2,729,592
Fixed loans - Cargojet Airways Ltd.	-	1,139,658
Other borrowings	282,272	-
	6,332,267	3,869,250
Less current portion	20,145	885,780
Long-term portion	6,312,122	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

(unaudited – in Canadian Dollars)

4. BORROWINGS (CONTINUED)

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 September 30, 2013.

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 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 maintained fixed loans with another Canadian chartered bank through its subsidiary, Cargojet Airways Ltd. (“CJA”). The fixed loans bore interest at rates ranging from 8.1% to 8.2%. They were secured by the regional aircraft owned by CJA and the Company’s notes receivable. The loans were repayable in monthly installments plus interest by August 2014. The Company also provided a standby letter of credit of $780,000 to the bank which was held against the fixed loans. During the quarter, the Company fully repaid its loans and accrued interest under the terms of repayment and fully discharged its obligations.

Other borrowings of $282,272 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 other borrowings:

	$
2013	4,822
2014	20,281
2015	21,964
2016	23,787
2017	25,761
after 2017	185,657
	282,272
Less current portion	20,145
Long-term portion	262,127

Interest expense on the borrowings for the three and nine month periods ended September 30, 2013 totaled $236,251 and $522,019, respectively (2012 - $109,790 and $532,591, respectively).

(unaudited – in Canadian Dollars)

5. CONVERTIBLE DEBENTURES

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

	September 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	975,628	468,107
Balance	25,771,052	25,263,531

Interest expense on the debentures for the three and nine month periods ended September 30, 2013 totaled $640,513 and $1,905,245, respectively (2012 - $624,568 and $1,302,726, respectively).

6. INCOME TAXES

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

	Three month periods ended September 30, 2013	Three month periods ended September 30, 2012	Nine month periods ended September 30, 2013	Nine month periods ended September 30, 2012
	$	$	$	$
Earnings before income taxes	480,872	1,372,614	1,194,470	3,174,625
Income tax provision at the combined basic rate of 26.5% (2012 - 26.5%)	127,431	363,743	316,535	841,276
Permanent and other differences	128,539	61,455	(59,691)	309,178
Income tax expense	255,970	425,198	256,844	1,150,454

The tax effect of significant temporary differences is as follows:

	September 30, 2013	December 31, 2012
	$	$
Property, plant and equipment	2,700,360	3,434,901
Intangible assets	(577,011)	(607,359)
Notes receivable	(31,623)	(55,349)
Financing costs	(301,593)	(344,828)
Convertible debentures	789,420	901,598
Provision for lease retirement costs	(178,527)	(335,833)
Finance lease receivable	120,608	173,441
Long-term incentive plan	(81,465)	(90,511)
Deferred heavy maintenance	1,699,220	1,821,485
Net deferred income tax liability	4,139,389	4,897,545

(unaudited – in Canadian Dollars)

7. SHAREHOLDERS' CAPITAL

Share capital

The following table shows the change in shareholders' capital from December 31, 2012 to September 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, September 30, 2013	7,929,811	67,202,190
Consisting of:		
Variable voting shares	376,095	3,187,265
Common voting shares	7,553,716	64,014,925

Dividends

Dividends to shareholders declared for the three and nine month periods ended September 30, 2013 amounted to $1,191,819 ($0.1491 per share) and $3,991,113 ($0.4993 per share), respectively, and for the three and nine month periods ended September 30, 2012 amounted to $1,135,065 ($0.1420 per share) and $3,405,195 ($0.4260 per share), respectively.

8. EARNINGS PER SHARE

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

	Three month periods ended September 30,		Nine month periods ended September 30,	
Basic earnings per share	2013	2012	2013	2012
Net income	$ 224,902	$ 947,416	$ 937,626	$ 2,024,171
Weighted average number of shares	7,993,416	7,993,416	7,993,416	7,993,416
Total basic earnings per share	$ 0.03	$ 0.12	$ 0.12	$ 0.25

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

9. LONG-TERM INCENTIVE PLAN

For the three and nine month periods ended September 30, 2013, share-based compensation expense totaled $85,250 and $536,111, 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 September 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 nine month periods ended September 30, 2013, 41,720 of the treasury shares had vested and $337,750 was transferred from share-based compensation reserve to shareholder’s capital.