CARGOJET INC.

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

For the Three Month and Nine Month Periods Ended September 30, 2014

AMENDED AND RESTATED – DECEMBER 17, 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. ("Cargojet" or the "Company") for the three month and nine month periods ended September 30, 2014. The following also includes a discussion of and comparative operating results for the three month and nine month periods ended September 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 November 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 nine month periods ended September 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)], Adjusted EBITDA [(B)] and Adjusted Free Cash Flow [(C)]

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization. References to "Adjusted EBITDA" are to earnings before interest, income taxes, depreciation and amortization , gain or loss on disposal of capital assets, unrealized foreign exchange gains or losses, and heavy maintenance deposit and aircraft heavy maintenance expenditures. References to "Adjusted Free Cash Flow" is to cash flows from operating activities less changes in working capital and total maintenance capital expenditures net of proceeds from the disposition of capital assets. Non-GAAP measures like EBITDA, Adjusted EBITDA and Adjusted Free Cash Flow, are not earnings measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers.

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with debt covenants. Investors are cautioned that EBITDA, Adjusted 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, Adjusted EBITDA and Adjusted Free Cash Flow are shown on page 13 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 (see page 29 for a more complete discussion of the risks affecting the Company's business).

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

Caution Concerning 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 deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the section "Risk Factors" starting on page 29.

Forward looking statements are based on a number of material factors, expectations or assumptions of the Company which have been used to develop such statements and information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. The statements are based on the following factors: the continued and timely development of infrastructure, continued availability of debt financing and cash flow, future commodity prices; currency, exchange and interest rates; regulatory framework regarding taxes and environmental matters in the jurisdictions in which the Company operates.

This document contains forward-looking statements that reflect management's current expectations related to matters such as future financial performance and liquidity and capital resources of the Company. Specific forward-looking statements in this document include, but are not limited to, statements with respect to:

- Recent Events - Purolator and Canada Post DACNS,
- Recent Events - Strategic Air Cargo Cooperation
- Results of operations for nine month period ended September 30th, 2014 and 2013 - Liquidity and capital resources, and
- Outlook.

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;

Corporate Overview (Continued)

- 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.

During the nine 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. The Company has also signed agreement to purchase two Boeing 757-200ER ("B757") series aircraft.

As at the date of this MD&A, the Company has taken the delivery of two purchased B767-300 and one purchased B757 aircraft. These aircraft entered in service in October 2014. The company expects to take the delivery of one B767-300 aircraft in November 2014, two B767-300 in the first quarter of 2015 and one additional B767-300 in the latter part of 2015. The Company also expects to take the delivery of a second purchased B757 aircraft in November 2014.

As part of its strategic air cargo cooperation agreement with First Air, an arm's length Canadian airline that operates primarily in Northern Canada, the Company has assumed the lease obligation of one B767 extended range freighter aircraft from First Air.

The Company currently operates three leased and one purchased B757 series aircraft, five leased Boeing 767-200ER ("B767") series aircraft and ten owned Boeing 727-200 ("B727") series aircraft. The Company also periodically contracts with 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.

The Company has purchased and received the delivery of five Challenger 601 aircraft that would give the capability to operate emergency medical and other charters. The aircraft are in various stages of maintenance and modification and are expected to be ready during the remaining part of 2014 or early 2015. One aircraft is being held for parts only.

As at the date of this MD&A, the Company owns one regional aircraft, which has been under a finance lease to a third party and accordingly the aircraft has been discontinued as an owned asset.

Recent Events

Long-term Incentive Plan

For the three and nine month periods ended September 30, 2014, share-based compensation expense totaled $89,495 and $532,524, respectively, including withholding taxes of $92,095 paid on behalf of the eligible employees.

Recent Events (Continued)

Long-term Incentive Plan (Continued)

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 September 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 September 30, 2014 was $409,250.

Prior Years' Awards

In the nine month period ended September 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 September 30, 2014 was $232,500.

Purolator and Canada Post DACNS

See Caution Concerning Forward Looking Statements, page 2

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. Based on the estimated volumes provided by CPGOC in its tender documents and the prices quoted by the Company in the MSA, projected revenues are estimated to be approximately $1.0 billion dollars during the initial seven-year agreement.

The Company will provide comprehensive Canada-wide air cargo services for the CPGOC, including Purolator's national air cargo network. Cargojet'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. To fulfill its obligations under the MSA, the Company has added B767-200 and B767-300 aircraft to its fleet and purchased additional ground support equipment, aircraft containers, maintenance tooling and other equipment. The Company has also hired and trained flight crews, maintenance personnel and other personnel to prepare for the start of full service under the MSA at the end of Q1 2015. Cargojet describes these costs as "one-time CPGOC" costs in this MD&A. One-time CPGOC costs include the lease costs of aircraft that were acquired to meet the MSA capacity requirements and also the costs of heavy maintenance ("c-checks") for B727 aircraft that are required for services under the MSA, that have been replaced by B757 in the Company's current domestic overnight network. One-time CPGOC costs also include the salaries and training costs of all personnel hired specifically to meet the requirements of the MSA in preparation for the start of full service at the end of Q1 2015.

As of the effective date of this MD&A, the Company has met all of the critical milestones of the transition plan provisions of the MSA including the increase in fleet capacity and the hiring and training of new staff. Under the terms of the MSA, the Company has also issued a revolving letter of guarantee of $20.0 million to the CPGOC. The Company believes that the transition plan is being executed well and is confident that it will be ready to deliver all services required by the MSA before the contract start date of April 1, 2015.

Recent Events (Continued)

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 terms and conditions related to the credit facility remained the same.

Debenture Conversion

The Company received requests to convert $13,542,000 of 6.5% convertible debentures into common shares and 1,152,496 common shares were issued to the holders at a conversion rate of 85.1064 shares per $1,000 of debentures.

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

Recent Events (Continued)

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

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.

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

	September 30, 2014	December 31, 2013
	$	$
Principal balance	74,000,000	-
Less:		
Issuance costs	(3,265,544)	-
Conversion option at inception	(6,618,078)	-
Accretion	632,327	-
Balance	64,748,705	-

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

See Caution Concerning Forward Looking Statements, page 2

Cargojet and First Air have signed a cooperation agreement that will create significant cost efficiencies for both carriers. Cargojet has assumed the remaining lease obligation of First Air's B767 extended range freighter aircraft 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 nine month period ended September 30, 2014, the Company invested its own funds and entered into finance leases contracts totaling $94,072,931 (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 September 30, 2014, these amounts were classified as "property, plant and equipment under development" due to pending completion of the process to ready the assets for use.

Recent Events (Continued)

Air Cargo Logistics Facility

The Company and the John C. Munro Hamilton International Airport entered into an arrangement in the airport's $12 million Air Cargo Logistics Facility, for which construction began in the third quarter of 2014. The Company will contribute $4.75 million 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 Air Cargo Logistics Facility 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.

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 two finance leases under this MLA including the sales and leaseback of one aircraft completed during the quarter. These leases expire from June 2021to September 2021 and provides for the transfer of ownership of the aircraft at the end of the lease term at a pre-determined price. Accordingly, these leases are classified as a finance lease and corresponding lease obligations were recognized in the financial statements. These lease facilities are arranged in two tranches: A and B, each with its own schedule of principal and interest payment. The estimated effective interest rates ranges from 7.35% to 7.37%. These leases are 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 September 30, 2014.

The Company has agreed to pay an arrangement fee in the amount equal to 0.75% of the amount of the finance leases. The Company also agreed to pay an additional fee in respect of each lease contract in an amount equal to the positive difference between the price of 58,333 shares of Cargojet (CJT-A) being $22.99 per share and the twenty day volume weighted average closing price for such share as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can be given on a day after the first anniversary of the MLA and before the fourth anniversary of such agreement. Additional fees have been accounted for as share based compensation option.

Recent Events (Continued)

Finance Leases (Continued)

The Company has also agreed to pay a success fee in the amount equal to 1.5% of the amount of the finance leases to an independent investment banking firm for its services towards completion of the transaction. The above notes fees are considered as initial direct costs of the finance leases and have been capitalized to the respective finance lease assets.

Finance lease include other borrowings of $262,393 (December 31, 2013 - $277,450), consisting of an obligation under a finance lease and bears an interest rate of 8.0%. The amount is repayable in monthly installments over the period to April 2018.

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligation as at September 30, 2014.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	7,884,258	3,709,095
Later than one year and not later than five years	43,501,349	29,208,875
Later than five years	33,727,461	29,876,457
	85,113,068	62,794,427
Less: interest	22,318,641	-
Obligations under finance leases	62,794,427	62,794,427
Fair value of share based additional fees option	548,700	548,700
Total obligations under finance leases	63,343,127	63,343,127
Less: current portion	4,257,795	4,257,795
Non-current portion	59,085,332	59,085,332

Interest amount on the lease contract for the three and nine month periods ended September 30, 2014 totaled $701,887 and $712,820, respectively (2013 - $nil and $5,709, respectively), of which $695,570 (2013 - $nil) was capitalized to the cost of property, plant and equipment.

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 *adhoc* basis to contract and non-contract customers. Although a significant portion of overnight revenues are fixed due to guaranteed customer allocations, Cargojet's revenues will generally rise and fall with the overall level of customer volume typically expressed in pounds.

Revenues and shipping volumes from the Company's overnight air cargo service are seasonal. Customer demand is highest in the fourth quarter of each year due primarily to the increase in retail activity during the holiday season in December. In comparison, the first quarter of each year is lower than the other quarters due to the decline in retail activity immediately following the peak demand in December.

Revenues (Continued)

The Company's overnight air cargo service operates primarily on Monday to Thursday with a reduced network operating on Friday and on certain weekdays that are adjacent to certain statutory holidays. The Company defines the term "operating day" to refer to the days on which the full overnight air cargo network is in operations. Typically, each fiscal year will have between 197 and 199 operating days depending on the timing of certain statutory holidays and leap years. The variance in number of operating days between quarters and year over year will have an impact on comparative quarterly revenues.

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.

- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends. Adhoc flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc 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. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:

    - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.

    - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 9). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.

- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

Expenses

Direct expenses consist of fixed and variable expenses that are largely driven by the size of the Company's aircraft fleet and the volume of flight activity required by the level of customer demand. Fixed costs include aircraft lease costs, building lease costs, salaries for full-time employees in maintenance, flight operations, and commercial operations, depreciation and amortization, and insurance. Variable costs that are directly related to the volume of flight activity include fuel expense, navigation fees, landing fees and variable aircraft lease reserves related to engines, auxiliary power units, and landing gear.

Flight activity is measured in "block time" and is expressed in "block hours". Block time represents the total duration of a flight from the time the aircraft releases its brakes when it initially moves from the airport parking area prior to flight, to the time the brakes are set when it arrives at the airport parking area after the completion of the flight.

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. Administrative expenses include management bonuses, legal, audit and other consulting fees, bank charges, and data and communication expenses.

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2014	2013	**2014**	2013
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	$	$
Revenue	**47,227**	43,416	**135,278**	126,857
Direct expenses	**43,271**	37,828	**122,294**	110,094
	3,956	5,588	**12,984**	16,763
General and administrative	**6,121**	4,062	**15,705**	12,574
Sales and marketing	**161**	110	**452**	251
(Gain) loss on disposal of property, plant and equipment	**(42)**	147	**(42)**	147
Loss on impairment of property, plant and equipment	**-**	-	**-**	281
Finance costs	**831**	821	**2,937**	2,427
Finance income	**(29)**	(33)	**(111)**	(112)
	7,042	5,107	**18,941**	15,568
(Loss) income before income taxes	**(3,086)**	481	**(5,957)**	1,195
(Recovery of) provision for income taxes				
Current	**-**	325	**-**	1,015
Deferred	**(810)**	(69)	**(1,416)**	(758)
	(810)	256	**(1,416)**	257
Net (loss) income	**(2,276)**	225	**(4,541)**	938
(Loss) earnings per share				
Basic	(0.25)	0.03	(0.52)	0.12
Diluted	(0.25)	0.03	(0.52)	0.12
Average number of shares - basic (in thousands of shares)[1]	**9,090**	7,993	**8,788**	7,993

1. Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results [3]

	Three Month Periods Ended							
	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 47,227	$ 44,335	$ 43,716	$ 48,519	$ 43,416	$ 42,723	$ 40,718	$ 46,370
Net income (loss) from continuing operations (in thousands)	$ (2,276)	$ (689)	$ (1,576)	$ 2,394	$ 225	$ 1,120	$ (407)	$ 1,528
Earnings (loss) per Share								
From continuing and discontinued operations								
- Basic	$ (0.25)	$ (0.08)	$ (0.19)	$ 0.30	$ 0.03	$ 0.14	$ (0.05)	$ 0.19
- Diluted	$ (0.25)	$ (0.08)	$ (0.19)	$ 0.27	$ 0.03	$ 0.14	$ (0.05)	$ 0.19
Average number of shares - basic (in thousands of shares)[1]	9,090	8,949	8,314	7,993	7,993	7,993	7,993	7,993
Average number of shares - diluted (in thousands of shares)[1][2]	9,090	8,949	8,314	10,440	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.

3. Please refer discussion on "Revenue – on page "9" and "Expenses – on page "10".

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

	Three Month Period Ended September 30,		Nine Month Period Ended September 30,	
	2014	2013	**2014**	2013
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Net (loss) income	**(2,276)**	225	**(4,541)**	938
Add:				
Interest	**803**	788	**2,826**	2,315
Provision for current income taxes	**-**	325	**-**	1,015
Recovery of deferred income taxes	**(810)**	(69)	**(1,416)**	(758)
Depreciation and amortization of property, plant and equipment	**2,714**	2,837	**8,226**	8,251
EBITDA	**431**	4,106	**5,095**	11,761
(Gain) loss on disposal of property, plant and equipment	**(42)**	147	**(42)**	147
Unrealized foreign exchange loss (gain)	**157**	(105)	**197**	(49)
Impairment of property, plant and equipment	**-**	-	**-**	281
Aircraft heavy maintenance expenditures	**(529)**	(896)	**(1,674)**	(3,388)
Heavy maintenance deposits [(1)]	**(60)**	-	**(180)**	1,499
ADJUSTED EBITDA	**(43)**	3,252	**3,396**	10,251
	$	$	**$**	$
Cash inflow from operating activities	**6,056**	6,073	**2,609**	11,630
Less Additions to property, plant and equipment (maintenance capex) [(2)]	**(1,650)**	(2,615)	**(6,810)**	(10,253)
Add: Proceeds from disposal of property, plant and equipment	**131**	-	**131**	-
Standardized free cash flow	**4,537**	3,458	**(4,070)**	1,377
Less: Changes in non-cash working capital items and deposits	**(5,851)**	(2,558)	**(1,106)**	(1,045)
Provision for current income taxes	**-**	(325)	**-**	(1,015)
Adjusted free cash flow	**(1,314)**	575	**(5,176)**	(683)

1. In 2014 heavy maintenance deposits were paid to the aircraft lessors on a monthly basis. Cargojet is entitled to a refund of these payments when it incurs actual heavy maintenance expenditures

2. Addition to maintain existing operations- refer to End note (B)

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

NET INCOME FOR THE THREE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013
(Canadian dollars in million except per share figures)

	Q3		CHANGE	
	2014	2013	**$**	**%**
	$	**$**		
Core overnight revenues	33.0	29.3	3.7	12.6%
ACMI revenue	1.4	1.0	0.4	40.0%
All-in charter revenue	3.8	4.0	(0.2)	-5.0%
Total overnight, ACMI and charter revenues	38.2	34.3	3.9	11.4%
FBO revenue	0.2	0.2	-	-
Fuel and other cost pass through revenue	8.4	8.4	-	-
Fuel surcharge and other pass through revenue	8.6	8.6	-	-
Lease and other revenue	0.4	0.5	(0.1)	-20.0%
Total revenue	47.2	43.4	3.8	8.8%
Operating days - (days)	50	50	-	-
Average cargo revenue per operating day	0.76	0.69	0.07	10.1%
Direct expenses				
Fuel costs	14.5	16.0	(1.5)	-9.4%
Depreciation	1.6	1.6	-	-
Aircraft cost	8.0	3.6	4.4	122.2%
Heavy maintenance amortization	1.1	1.1	-	-
Maintenance cost	3.2	2.5	0.7	28.0%
Crew costs	3.9	3.0	0.9	30.0%
Commercial and other costs	11.0	10.0	1.0	10.0%
Total direct expenses	43.3	37.8	5.5	14.6%
Gross margin	3.9	5.6	(1.7)	-30.4%
Selling, general & administrative costs				
Sales costs	0.2	0.1	0.1	100.0%
General and administrative costs	5.8	3.9	1.9	48.7%
General & administrative depreciation	0.3	0.2	0.1	50.0%
Total selling, general & administrative costs	6.3	4.2	2.1	50.0%
Other costs				
(Gain) loss on disposal of Property, plant & equipment	(0.1)	0.1	(0.2)	-
Finance costs	0.8	0.8	-	-
Finance income	-	-	-	-
Total other costs	0.7	0.9	(0.2)	-
(LOSS) INCOME BEFORE INCOME TAXES	**(3.1)**	**0.5**	**(3.6)**	**-**
Income taxes	0.8	(0.3)	1.1	-
Net (loss) income	**(2.3)**	**0.2**	**(2.5)**	**-**
(loss) earning per share				
Basic	(0.25)	0.03	-	-
Diluted	(0.25)	0.03	-	-

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

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

- Total revenue for the three month period ended September 30, 2014 was $47.2 million as compared to $43.4 million for the same period in 2013, representing an increase of $3.8 million or 8.8%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2014 was $0.76 million per operating day as compared to $0.69 million for the same period in 2013, representing an increase of $0.07 million or 10.1%.
- Adjusted EBITDA for the three month period ended September 30, 2014 was negative $0.1 million as compared to $3.3 million for the same period in 2013, a decrease of $3.4 million or 103.0%.
- Adjusted free cash flow was an outflow of $1.3 million for the three month period ended September 30, 2014 as compared to an inflow of $0.6 million for the same period in 2013.

Revenue

Total revenue for the three month period ended September 30, 2014 was $47.2 million, as compared to $43.4 million for the same period in 2013, representing an increase of $3.8 million or 8.8%. The increase in total revenue was due primarily to the $3.7 million increase in core overnight revenues and $0.4 million increase in ACMI revenues partially offset by $0.2 million decrease in adhoc charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2014 was $33.0 million as compared to $29.3 million for the same period in 2013, an increase of $3.7 million or 12.6%. The $3.7 million increase was due primarily to 4.5% increase in shipping volumes and price increases. The increase in shipping volumes and prices increased revenue per operating day by 10.1% and revenue per block hour by 12.0%.

ACMI scheduled and adhoc charter revenue for the three month period ended September 30, 2014 was $1.4 million, as compared to $1.0 million for the same period in 2013, an increase of $0.4 million or 40.0%. The increase of $0.3 million was due to additional ACMI block hours flown for scheduled flights to Northern Canada related to the First Air cooperation agreement. Adhoc ACMI revenues increased by $0.1 million due to higher customer demand.

All in scheduled and adhoc charter revenue for the three month period ended September 30, 2014 was $3.8 million as compared to $4.0 million for the same period in 2013, a decrease of $0.2 million or 5.0%. The decline in all in charter revenue was due to lower customer demand.

Fuel surcharges and other cost pass-through revenues were $8.6 million for the three month period ended September 30, 2014 and remained unchanged for the same period in 2013. During the quarter, the fuel prices decreased by 1.1% as compared to the same period in 2013. The decline in fuel price was offset by an increase in shipping volumes and revenues that attract fuel surcharges. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.2 million for the three month periods ended September 30, 2014 and remained unchanged for the same period in 2013.

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

Revenue (Continued)

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines, and revenues related to the lease of regional aircraft. Other revenues for the three month period ended September 30, 2014 were $0.4 million as compared to $0.5 million for the same period in 2013 due primarily to the termination of a hangar lease contract at the end of 2013 and the sale of a leased regional aircraft in Q3 2014.

Direct Expenses

Total direct expenses were $43.3 million for the three month period ended September 30, 2014 as compared to $37.8 million for the three month period ended September 30, 2013. As a percentage of revenue, direct expenses increased from 87.1% in 2013 to 91.7% for the same period in 2014. The overall increase in direct expenses was due primarily to a $0.7 million increase in maintenance costs, a $4.4 million increase in aircraft costs, a $0.9 million increase in crew costs, and a $1.0 million increase in commercial costs partially offset by a $1.5 million decrease in fuel costs. The direct costs included $4.2 million of expenses incurred on one-time startup costs in relation to the MSA signed with the CPGOC.

Fuel costs were $14.5 million for the three month period ended September 30, 2014 as compared to $16.0 million for the same period in 2013. The $1.5 million or 9.4% decrease in fuel costs was due primarily to the increased use of B767 and B757 aircraft that have replaced B727 aircraft on certain routes. The B767 and B757 aircraft flew 96.5% more block hours compared to the block hours for the same type of aircraft and for the same period in 2013. Total block hours flown on the overnight network were 0.9% higher in 2014. On a cost per payload basis, B767 and B757 aircraft are significantly more fuel efficient than the B727 aircraft. Fuel expense also declined due to a 1.1% decrease in fuel prices versus the prior year. 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 September 30, 2014 and remained unchanged for the same period in 2013.

Aircraft costs were $8.0 million for the three month period ended September 30, 2014 as compared to $3.6 million in 2013, representing an increase of $4.4 million or 122.2%. The increase was due primarily to the $2.4 million of costs associated with the one-time startup costs in relation to the MSA signed with the CPGOC comprised primarily of aircraft lease costs, $0.9 million of lease costs related to the expansion of the B757 fleet, an increase of $0.8 million in the variable lease reserve costs due to the increase in block hours flown using leased B757 aircraft and additional aircraft lease costs of $0.3 million due to variances in the US Dollar exchange rate. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $1.1 million for the three month period ended September 30, 2014 and remained unchanged for the same period in 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.

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

Direct Expenses (Continued)

Maintenance costs were $3.2 million for the three month period ended September 30, 2014 as compared to $2.5 million in 2013, representing an increase of $0.7 million or 28.0%. The increase was due primarily to the $0.4 million increase in aircraft line maintenance costs due to the increase in block hours on the overnight network and a $0.3 million increase in staff costs due to additional hiring of maintenance personnel as part of the start-up costs related to the CPGOC contract.

Total crew costs including salaries, training and positioning were $3.9 million for the three month period ended September 30, 2014 as compared to $3.0 million in 2013, representing an increase of $0.9 million or 30.0%. The increase of $0.9 million was due primarily to the $0.7 million increase in salaries due to the hiring of the additional crews and $0.2 million increase in the training costs as part of the one-time start-up costs in relation to the MSA signed with the CPGOC.

Commercial and other direct operating costs were $11.0 million for the three month period ended September 30, 2014 as compared to $10.0 million for the same period in 2013. The increase of $1.0 million or 10.0% was due primarily to the $0.6 million increase as part of start-up costs in relations to the MSA signed with the CPGOC, $0.4 million increase of navigation costs and $0.3 million increase of landing charges due to the higher utilization of wide body aircraft and growth in core overnight volumes and $0.2 million increase in the aircraft insurance due to fleet expansion.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended September 30, 2014 were $6.3 million as compared to $4.2 million for the same period in 2013, representing an increase of $2.1 million or 50.0%. The increase in SG&A was due primarily to $1.2 million expenses incurred due to one-time start-up costs comprised primarily of salary, bonuses and training costs for new employees related to the CPGOC, $0.8 million increase in annual salaries and $0.2 million foreign exchange losses.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended September 30, 2014 was a negative $0.1 million due to one-time CPGOC start-up costs of $5.8 million or negative 0.2% of revenue as compared to $3.3 million or 7.6% of revenue for the same period in 2013. The decrease in Adjusted EBITDA of $3.4 million or 103.0% was due primarily to the following:

- One time start-up CPGOC costs of $5.8 million partially offset by the increase in core overnight revenues; the CPGOC costs comprise primarily of $2.5 million in the aircraft lease costs, $1.5 million in hiring and training costs of new personnel, $0.6 million of the heavy maintenance costs of aircraft required for the CPGOC contract and $0.8 million in management bonuses.
- The effect of exchange fluctuations on net USD denominated expenditures
- The increase on overnight revenues partially offset by higher lease and operating costs due to the introduction of additional B757 aircraft.

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

Net Finance Costs

Net finance costs were $0.8 million for the three month period ended September 30, 2014 and remained unchanged for the same period in 2013. During the quarter, the Company capitalized $1.7 million of interest costs relating to funds borrowed specifically to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to the specific borrowings, ranging from 7.35% to 8.77%.

Current Income Taxes

The provision for current income taxes for the three month period ended September 30, 2014 was $nil as compared to $0.3 million for the same period in 2013.

Deferred Income Taxes

The deferred income taxes recognized for the three month period ended September 30, 2014 was a recovery of $0.8 million as compared to a recovery of $0.1 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 $1.3 million for the three month period ended September 30, 2014, as compared to an inflow of $0.6 million for the same period in 2013, representing a decrease of $1.9 million. The decrease in adjusted free cash flow was due primarily to the decreased Adjusted EBITDA due to one-time start-up costs and changes in non-cash working capital items and deposits of $2.9 million partially offset by lower property, plant and equipment – maintenance additions by $1.0 million.

Dividends

Total dividends declared for the three month period ended September 30, 2014 were $1,363,656 or $0.1491 per share. In comparison, total dividends declared for the three month period ended September 30, 2013 were $1,191,818 or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 20, 2014	July 3, 2014	-	-	0.1491	1,353,796
September 19, 2014	October 3, 2014	1,363,656	9,145,912	0.1491	-
		1,363,656	-	-	1,353,796

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 20, 2013	July 5, 2013	-	7,993,416	0.1491	1,191,819
September 20, 2013	October 4, 2013	1,191,818	7,993,416	0.1491	-
		1,191,818	-	-	1,191,819

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

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances for the three month period ended September 30, 2014 was $6.1 million and remained unchanged for the same period in 2013.

Cash generated by financing activities during the three month period ended September 30, 2014 was $30.4 million as compared to cash used of $4.0 million for the same period in 2013. The $34.4 million increase was primarily due to the sales and leaseback financing of $31.9 million of an aircraft partially offset by the repayment of the borrowings of $2.2 million in 2013.

Cash used in investing activities during the three month period ended September 30, 2014 was $22.3 million and was primarily due to the additions in property plant and equipment of $22.8 million partially offset by the collection of notes receivable of $0.5 million.

Capital Expenditures

The property, plant and equipment additions of $22.8 million in the current period comprised of property, plant and equipment under development of $13.9 million, hangar construction of $3.0 million, leasehold improvements of $ 1.0 million, rotable assets of $1.5 million and office equipment and other assets of $3.4 million.

Review of Operations for the Nine Month Periods ended September 30, 2014 and 2013

NET INCOME FOR THE NINE MONTH PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

(Canadian dollars in million except per share figures)

	YTD		CHANGE	
	2014	2013	**$**	**%**
	$	$		
Core overnight revenues	93.0	85.3	7.7	9.0%
ACMI revenue	4.5	3.5	1.0	28.6%
All-in charter revenue	9.3	10.2	(0.9)	-8.8%
Total overnight, ACMI and charter revenues	106.8	99.0	7.8	7.9%
FBO revenue	1.0	1.0	-	0.0%
Fuel and other cost pass through revenue	26.2	25.6	0.6	2.3%
Fuel surcharge and other pass through revenue	27.2	26.6	0.6	2.3%
Lease and other revenue	1.3	1.3	-	0.0%
Total revenue	135.3	126.9	8.4	6.6%
Operating days - (days)	149	149	-	0.0%
Average cargo revenue per operating day	0.72	0.66	0.06	9.1%
Direct expenses				
Fuel costs	45.3	46.6	(1.3)	-2.8%
Depreciation	4.8	4.8	-	-
Aircraft cost	18.2	10.5	7.7	73.3%
Heavy maintenance amortization	3.2	3.2	-	-
Maintenance cost	9.0	7.8	1.2	15.4%
Crew costs	10.4	8.2	2.2	26.8%
Commercial and other costs	31.5	29.0	2.5	8.6%
Total direct expenses	122.3	110.1	12.2	11.1%
Gross margin	13.0	16.8	(3.8)	-22.5%
Selling, general & administrative costs				
Sales costs	0.5	0.2	0.3	135.5%
General and administrative costs	15.2	12.0	3.2	78.9%
General and administrative depreciation	0.5	0.6	(0.1)	-8.7%
Total selling, general and administrative costs	16.2	12.8	3.4	26.6%
Other costs				
Loss on impairment of property, plant & equipment	-	0.3	(0.3)	-
Loss on disposal of property, plant & equipment	-	0.2	(0.2)	-
Finance costs	3.0	2.4	0.6	-
Finance income	(0.2)	(0.1)	(0.1)	-
Total other costs	2.8	2.8	-	-
(LOSS) INCOME BEFORE INCOME TAXES	**(6.0)**	**1.2**	**7.2**	-
Income taxes	1.4	(0.3)	(1.7)	-
Net (loss) income	(4.6)	0.9	(5.5)	-
(loss) earning per share				
Basic	(0.52)	0.12	-	-
Diluted	(0.52)	0.12	-	-

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

Highlights for the Nine Month Periods Ended September 30, 2014 and 2013

- Total revenue for the nine month period ended September 30, 2014 was $135.3 million as compared to $126.9 million for the same period in 2013, representing an increase of $8.4 million or 6.6%.
- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2014 was $0.72 million per operating day as compared to $0.66 million per operating day for same period in 2013, representing an increase of $0.06 million or 9.1%.
- Adjusted EBITDA for the nine month period ended September 30, 2014 was $3.4 million as compared to $10.3 million for the same period in 2013, representing a decrease of $6.9 million or 67.0%.
- Adjusted free cash flow was an outflow of $5.2 million for the nine month period ended September 30, 2014 as compared to an outflow of $0.7 million for the same period in 2013, a decrease of $4.5 million.

Revenue

Total revenue for the nine month period ended September 30, 2014 was $135.3 million as compared to $126.9 million for the same period in 2013, representing an increase of $8.4 million or 6.6%. The increase in total revenue was due primarily to the $7.7 million increase in core overnight revenues and a $1.0 million increase in ACMI revenues partially offset by $0.6 million decrease in scheduled and adhoc charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues, for the nine month period ended September 30, 2014 was $93.0 million compared to $85.3 million for the same period in 2013, an increase of $7.7 million or 9.0%. The $7.7 million increase in revenue was due primarily to a 7.4% increase in shipping volumes and price increases. The increase in shipping volumes and prices increased revenue per operating day by 9.1% and revenue per block hour by 8.9%.

ACMI scheduled and adhoc charter revenue for the nine month period ended September 30, 2014 was $4.5 million compared to $3.5 million for the same period in 2013, an increase of $1.0 million or 28.6%. $1.5 million of the increase was due to additional ACMI block hours flown for scheduled flights to Northern Canada related to the First Air cooperation agreement. Adhoc ACMI revenues decreased by $0.5 million due to lower customer demand.

All in scheduled and adhoc charters for the nine month period ended September 30, 2014 was $9.3 million compared to $10.2 million for the same period in 2013, a decrease of $0.9 million or 8.8%. The decline in all in charter revenue was due to lower customer demand.

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

Revenue (Continued)

Fuel surcharges and other cost pass-through revenues were $27.2 million for the nine month period ended September 30, 2014 as compared to $26.6 million for the same period in 2013, representing an increase of $0.6 million or 2.3%. The $0.6 million increase was due primarily to the increase in fuel surcharges billed to customers due to 4.3% increase in fuel prices and 7.4% increase in shipping volumes. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $1.0 million for the nine month period ended September 30, 2014 and remained unchanged for the same period in 2013.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines, and revenues related to the lease of regional aircraft. for the nine month period ended September 30, 2014 was $1.3 million and remained unchanged for the same period in 2013.

Direct Expenses

Total direct expenses were $122.3 million for the nine month period ended September 30, 2014 as compared to $110.1 million for the same period in 2013, representing an increase of $12.2 million or 11.1%. As a percentage of revenue, direct expenses increased from 86.8% in 2013 to 90.4% for the same period in 2014. The overall increase in direct expenses was due primarily to $1.2 million increase in maintenance costs, $7.7 million increase in aircraft costs, $2.2 million increase in crew costs and $ 2.5 million increase in commercial costs due to an increase in core overnight cargo volumes partially offset by $1.3 million of decrease in fuel costs. The direct costs included $5.3 million of expenses incurred on one-time start-up costs in relation to the MSA signed with the CPGOC.

Fuel costs were $45.3 million for the nine month period ended September 30, 2014 as compared to $46.6 million for the same period in 2013. The $1.3 million or 2.8% decrease in fuel costs was due primarily to the increased use of B767 and B757 aircraft that have replaced B727 aircraft on certain routes partially offset by 4.3% increase in fuel prices in the current period. On a cost per payload basis, B767 and B757 aircraft are significantly more fuel efficient than the B727 aircraft. 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 were at $4.8 million for the nine month period ended September 30, 2014 and remained unchanged for the same period in 2013.

Aircraft costs were $18.2 million for the nine month period ended September 30, 2014 as compared to $10.5 million for the same period in 2013. The $7.7 million or 73.3% increase in aircraft costs was due primarily to the $2.4 million of one-time startup costs in relation to the MSA signed with the CPGOC, increase of $2.6 million related to the B757 fleet expansion, an increase of $2.3 million in the variable lease costs due to the increase in block hours flown using the Company's wide body aircraft and additional aircraft lease costs due to variances in the US Dollar exchange rate. All operating aircraft leases are paid in US Dollars.

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

Direct Expenses (Continued)

Heavy maintenance amortization costs were $3.2 million for the nine month period ended September 30, 2014 and remained unchanged for 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 $9.0 million for the nine month period ended September 30, 2014 as compared to $7.8 million for the same period in 2013. The increase of $1.2 million or 15.4% was primarily due to the $0.4 million increase in line maintenance costs due to increased block hours, $0.3 million increase in staff costs due to the hiring of additional maintenance staff as part of start-up costs in relations to the MSA signed with the CPGOC and annual salary increase of $0.5 million.

Crew costs were $10.4 million for the nine month period ended September 30, 2014 as compared to $8.2 million for the same period in 2013. The increase of $2.2 million or 26.8% was primarily due to the $1.4 million increase in crew salaries due to hiring of the additional crews and $0.6 million increase in their training costs as part of the one-time start-up costs in relation to the MSA signed with the CPGOC.

Commercial and other direct operating costs were $31.5 million for the nine month period ended September 30, 2014 as compared to $29.0 million for the same period in 2013. The increase of $2.5 million or 8.6% was due primarily to the $0.5 million increase as part of the start-up costs in relation to the MSA signed with the CPGOC, $0.3 million increase in ground handling costs due to the growth in core overnight volumes, $0.7 increase in the landing costs and $0.2 million increase in the navigation costs due to the usage of wide body aircrafts, $0.3 million increase in de-icing costs due to the weather conditions and $0.2 million increase in aircraft insurance costs due to fleet expansion.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $16.2 million for the nine month period ended September 30, 2014 compared to $12.8 million for the same period in 2013, an increase of $3.4 million or 26.6%. The increase in SG&A was due primarily to $1.2 million expenses incurred due to one-time start-up costs in relation to the MSA signed with the CPGOC, $1.6 million increase in annual salaries, bonuses and the negative effect of exchange fluctuations.

Adjusted EBITDA

Adjusted EBITDA for the nine month period ended September 30, 2014 was $3.4 million due to the non-recurring CPGOC start-up costs of $8.2 million or 2.5% of revenue as compared to Adjusted EBITDA of $10.3 million or 8.1% of revenue for the same period in 2013. The decrease in Adjusted EBITDA of $6.9 million or 67.0% was due primarily to the following:

- One time start-up CPGOC costs of $8.2 million partially offset by the increase in core overnight revenues; the CPGOC costs comprise primarily of $2.4 million of the aircraft lease rent including

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

Adjusted EBITDA (Continued)

additional rent, $2.0 million of hiring and training costs of new personnel, $0.5 million in commercial staff costs, $1.7 million of the heavy maintenance costs of aircraft required for the CPGOC contract and $1.0 million in SG&A costs.

- The effect of exchange fluctuation on net USD denominated expenditures.
- The increase on overnight revenues partially offset by higher lease and operating costs due to the introduction of additional B757 aircraft.

Net Finance Costs

Net finance costs were $2.8 million for the nine month period ended September 30, 2014, compared to $2.3 million for the nine month period ended September 30, 2013. The increase in finance cost was due primarily to the interest expenses on 5.5% convertible debentures. During the year, the Company has capitalized $2.2 million of finance costs on funds borrowed specifically to acquire and modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to the specific borrowings, ranging from 7.35% to 8.77%.

Current Income Taxes

The current income tax provision was $nil for the nine month period ended September 30, 2014 compared to $1.0 million for the same period in 2013.

Deferred Income Taxes

The deferred income tax recovery was $1.4 million for the nine month period ended September 30, 2014 compared to the deferred income tax recovery of $0.8 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 $5.2 million for the nine month period ended September 30, 2014, compared to an outflow of $0.7 million for the nine month period ended September 30, 2013. The decrease of $4.5 million was due primarily to the decreased Adjusted EBITDA of $10.3 million due to one-time start up CPGOC costs partially offset by $3.5 million lower investment in property, plant and equipment – maintenance capex additions as compared to 2013 and no provision of current income tax compared to $1.0 million provision in 2013.

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

Dividends

Total dividends declared for the nine month period ended September 30, 2014 were $4,036,188 or $0.4473 per share. In comparison, total dividends declared for the nine month period ended September 30, 2013 were $3,991,113 or $0.4993 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	1,353,796
September 19, 2014	October 3, 2014	1,363,656	9,145,912	0.1491	-
		4,036,188		0.4473	3,864,351

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2012	January 4, 2013	-	-	-	1,191,818
March 20, 2013	April 5, 2013	1,607,476	7,993,416	0.2011	1,607,476
June 20, 2013	July 5, 2013	1,191,819	7,993,416	0.1491	1,191,819
September 20, 2013	October 4, 2013	1,191,818	7,993,416	0.1491	-
		3,991,113		0.4993	3,991,113

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 generated by operating activities after net changes in non-cash working capital balances for the nine month period ended September 30, 2014 was $2.6 million as compared to cash generated by operating activities of $11.6 million for the same period in 2013. The $9.0 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 nine month period ended September 30, 2014 was $96.0 million and was comprised of net proceeds from the issuance of 5.5% convertible debentures of $70.7 million and proceeds received from the sale and leaseback of an aircraft of $31.9 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 $0.6 million and dividends paid to shareholders of $3.9 million.

Cash used in investing activities during the nine month period ended September 30, 2014 was $74.7 million and was primarily comprised of property, plant and equipment additions.

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

Liquidity and Capital Resources (Continued)

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 September 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.

As at the date of this MD&A, the Company has executed agreements to purchase seven B767-300 series aircraft and two B757 series aircraft. As at the date of this MD&A, the Company has taken delivery of two B767-300 series aircraft and one B757 series aircraft. The Company has firm commitments for the delivery of one B757 series aircraft in Q4 of 2014, one B767-300 series aircraft in Q4 2014 and two B767-300 series aircraft in Q1 of 2015. The total value of these aircraft is approximately $110 million. The Company has financing commitments in place, revolving credit facility and sufficient cash to complete the delivery of these aircraft in Q4 2014 and Q1 2015.

The Company has purchase rights under an executed agreement for two B767-300 series aircraft at fixed prices that are subject to the availability of suitable aircraft in the market and the availability of financing. In the event suitable aircraft or financing arrangements are not available, the Company will extend the lease of its existing leased aircraft. As at the date of this MD&A, the Company is not committed to these additional aircraft deliveries. The total value of these aircraft is approximately $61.0 million.

Note: See Caution Concerning Forward Looking Statements, page 2

Management anticipates that the funds on hand and the funds available under the revolving credit facility, lease arrangements 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.

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

Capital Expenditures

Net capital asset additions excluding assets under finance lease were $75.6 million for the nine month period ended September 30, 2014 as compared to $10.3 million for the same period in 2013. Additions to property, plant and equipment in the current period were comprised of heavy maintenance expenditures of $2.1 million, property, plant and equipment under development of $62.1 million, leasehold improvements of $2.2 million, ground equipment of $1.0 million, rotable assets of $2.8 million, hangar facility of $3.0 million, aircraft engines of $1.1 million and other additions of $1.3 million.

Financial Condition

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

Accounts Receivable

Accounts receivable as at September 30, 2014 amounted to $13.4 million as compared to $15.4 million as at December 31, 2013. The decrease of $2.0 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 September 30, 2014, property, plant and equipment were $145.7 million as compared to $45.8 million as at December 31, 2013. The $99.9 million net increase in property, plant and equipment was primarily due to additions of $108.4 million partially offset by the amortization of $8.5 million.

Trade and Other Payables

Trade and other payables as at September 30, 2014 were $20.6 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 September 30, 2014, representing the difference between total current assets and current liabilities, of $14.5 million, compared to a working capital deficit of $1.2 million as at December 31, 2013. The increase of $15.7 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

The finance leases are in respect of lease of two Boeing 767-300 aircraft. Total finance leases excluding the current portion were $59.1 million as at September 30, 2014 as compared to $0.3 as at December 31, 2013.

Provisions

Provisions excluding the current portion as at September 30, 2014 were $0.3 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 September 30, 2014	Total	2014	2015	2016	2017	Thereafter
(in thousands)	$	$	$	$	$	$
Finance leases	63,343	876	4,090	3,803	4,106	50,468
Provisions	2,237	-	1,958	-	-	279
Convertible Debentures	78,766	-	-	-	14,018	64,748
Operating leases	50,222	5,546	18,063	7,962	5,562	13,089
	194,019	6,422	23,562	11,765	23,686	128,584

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 nine month period ended September 30, 2014, the Company had sales to three customers that represented 52.8% of the total revenues (September 30, 2013 – 55.0%). 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 $21.8 million as at September 30, 2014 out of which a letter of credit of $20.0 million is provided to the 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.

Risk Factors

Risks Related to the Business

Loss of Existing Key Contracts

The Company's ten largest customers accounted for approximately 90% revenues of the Company and the Company's top two customers each accounted for over 10% of the Company's revenues. The loss of any one of these significant contracts of the Company would cause immediate disruption and would adversely affect the Company's revenues. Any such loss of a significant contract would have an adverse effect on the results of operations of the Company and there is no assurance that the Company would be able to replace the loss of any significant contract with another customer on terms as favourable as the Company's

Risk Factors (Continued)

Risks Related to the Business (Continued)

Loss of Existing Key Contracts (Continued)

existing contracts. If the Company's relationship with its customers or the financial health of the customers were to be negatively affected, the Company's financial results could suffer. Most of the Company's contracts with its customers are for a term of three to five years with the ability to terminate generally upon six to twelve months' notice or if the Company is not meeting specified performance targets. When these contracts expire, there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favourable to the Company as existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

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. The terms of contract require the Company to maintain specific on time performance metrics and provide minimum levels of dedicated cargo space. To fulfill its requirements under the contract, the Company has made material investments in its fleet, equipment and the hiring of new personnel. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to the CPGOC. If the Company were unable to achieve the minimum service levels and minimum levels of cargo capacity required by the MSA, the contract may be cancelled by the CPGOC without penalty and the letter of guarantee may be executed. The cancellation of the MSA without penalty would have a material adverse effect on the Company's business, results of operations and financial conditions. If however the MSA is cancelled without cause, the Company would receive sufficient termination payments under the MSA to offset its costs to exit the agreement.

Canada — US Open Skies

The current Canada — US "Open Skies" agreement provides regulation of the airline industry, including the air cargo industry, within Canada and currently provides protection of domestic national carriers in each country. The agreement allows cross-border flights between Canada and the United States but provides major restrictions on carriers from operating flight routes between two points within the other's country. The most recent amendments negotiated between the two countries reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers including the Company to establish domestic routes within the United States. There is no assurance that this "Open Skies" agreement will continue in its present form in the future. Increased competition resulting from the liberalization or revocation of this agreement could affect the Company's ability to compete for a market share, which in turn could have a material adverse effect on the Company's business, results of operations or financial condition.

Risk Factors (Continued)

Risks Related to the Business (Continued)

Competition

The Company competes within the industry of air-cargo courier services with other dedicated air cargo carriers. In addition, the Company competes for market share with motor carriers, express companies and other air couriers and airlines who offer cargo services on their regularly scheduled passenger flights. In addition to competition from competitors, new companies may enter the domestic air cargo industry and may be able to offer services at discounted rates. Concentrating only on the air cargo industry does not allow the Company to compete in different modes of freight transportation which may provide a cheaper alternative to air cargo. A significant decline in air cargo volume will have a material adverse effect on the Company's business, results of operations or financial condition.

Government Regulations

The Company's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals. The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

The Company is routinely audited by various regulatory bodies including Transport Canada and the CTA to ensure compliance with all flight operation and aircraft maintenance requirements. To date, the Company has successfully passed all audits; however, there can be no assurance that the Company will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Company may incur costs to clean up contamination present on, at or under its facilities, even if such contamination was present prior to the commencement of the Company's operations at the facility and was not caused by its activities which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company cannot provide any assurance that existing laws, agreements, treaties or regulations will not be revised or that new laws, agreements, treaties or regulations, which could have an adverse impact on the Company's operations, will not be adopted or become applicable to the Company. For example, the Company's aircraft currently meet Transport Canada and FAA Stage III noise abatement guidelines. Any

Risk Factors (Continued)

Risks Related to the Business (Continued)

Government Regulations (Continued)

future implementation of Stage IV noise abatement guidelines would require the Company to incur expenses to ensure its aircraft meet such guidelines which expenses could negatively impact the Company's earnings. The Company also cannot provide any assurance that it will be able to recover any or all increased costs of compliance from its customers or that the business and financial condition of the Company will not be adversely affected by future changes in applicable laws and regulations.

As of the date of MD&A no proceedings are pending under any federal, provincial or local laws and with any regulatory body.

Insurance

The Company's operations are subject to risks normally inherent in the air-cargo industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by the Company or its agents. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of the Company. There can be no assurance that insurance coverage will be sufficient to cover one or more large claims, or that the applicable insurer will be solvent at the time of any covered loss. There can be no assurance that the Company will be able to obtain insurance at acceptable levels and costs in the future. The Company may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies. The occurrence of an aircraft-related accident or mishap involving the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company does not carry any business interruption insurance. As of the date of MD&A no such liability exists for the Company and we are able to provide adequate coverage to our business.

Maintaining Leased Aircraft and Availability of Future Aircraft

The Company currently owns ten B727, one B757 and has two B767-300 aircraft under finance lease. It also leases five B767-200 and three B757of its aircraft. The success of the Company will depend, in part, on its ability to replace and maintain owned aircraft when necessary and to maintain favorable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favourable leases for its aircraft and such risk could have a material adverse effect on the Company's business, results of operations or financial condition.

Fixed Costs

The Company is subject to a high degree of operating leverage. Since fixed costs comprise a proportion of the operating costs of each flight route, the expenses of each flight route do not vary proportionately with the amount of shipments that the Company carries. Accordingly, a decrease in the Company's revenues could result in a disproportionately higher decrease in the Company's earnings as expenses would remain unchanged.

Risk Factors (Continued)

Risks Related to the Business (Continued)

Fuel Prices

The Company requires significant quantities of fuel for its aircraft. Historically, fuel costs represent 30.0 to 35.0 percent of the Company's direct operating cost. The Company is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to geopolitical conditions, refinery capacity, global demand and supply, refining costs, and the cost of delivering the fuel. Although the Company historically has implemented fuel surcharges to mitigate the earnings impact of unusually high fuel prices, competitive and other pressures may prevent the Company from passing these costs on to its customers in the future. The Company cannot provide any assurance that its supply of fuel will continue uninterrupted, that rationing will not be imposed or that the prices of, or taxes on, fuel will not increase significantly in the future. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought. Increases in prices that the Company is unable to pass on to its customers would have a material adverse effect on the Company's business, results of operations or financial condition.

Costs Related to Mechanical and Maintenance Problems and Replacement of Equipment and Parts

The Company owns and lease aircraft. The maintenance cost of the fleet will increase as the fleet will age. The maintenance program includes airframe, engine and landing gears overhauls. The costs related to maintenance for the Company's leased aircraft have been forecasted and funded pursuant to its leasing arrangements and maintenance agreements; however, the actual costs may be higher than those anticipated. Unexpected repairs relating to mechanical problems and to maintenance of leased and owned aircraft are beyond the control of the Company and may have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the ability of the Company to obtain equipment and replacement parts on satisfactory terms when required is not always certain. Any inability to obtain equipment or parts or to obtain the required equipment or parts on satisfactory terms and on a timely basis could have a material adverse effect on the Company's business, results of operations or financial condition.

Foreign Exchange Fluctuations

The Company is exposed to exchange risks due to its sales and purchase transactions including aircraft maintenance cost, lease payments, crew training and certain operating costs, in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. Changes in the value of the Canadian dollar relative to the United States dollar could have a negative effect on the profitability of the Company. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company's business, results of operations or financial condition. As of the date of this MD&A, we are exposed to fluctuations in the US-dollar exchange rate relating to 5 Boeing 767-300 aircraft purchase commitments and 1 Boeing 757 aircraft purchase commitment. The purchase of our Boeing aircraft is financed by funds drawn in Canadian dollars; however, the aircraft are paid for in U.S. funds at the date of each aircraft delivery. As a result, we are exposed to foreign currency fluctuations prior to each delivery date.

Risk Factors (Continued)

Risks Related to the Business (Continued)

Ability to Maintain Profitability and Manage Growth

There can be no assurance that the Company's business and growth strategy will enable the Company to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including general economic conditions and consumer confidence.

There can be no assurance that the Company will be successful in achieving its strategic plan or that this strategic plan will enable the Company to grow at historical rates or to sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on the Company's business, result of operations or financial condition. There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations or financial condition.

Industry Risk and Economic Sensitivity

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. The Company's revenues are impacted by the health of the economy in the regional markets in which the Company operates. Although the Company cannot specifically correlate the impact of macro-economic conditions on its business activities, the Company believes that a decline in economic conditions in Canada may result in decreased demand for the services the Company provides and, to the extent that this decline continues or increases in severity, the Company's business, results of operations or financial condition could be materially adversely affected. The Company believes that the current world-wide economic recession and financial markets crisis have negatively impacted the Company's shipping volumes.

Terrorist Activity

The terrorists' attacks of September 11, 2001 and their aftermath negatively impacted the air cargo industry. Additional terrorist attacks, the fear of such attacks or increased hostilities could further negatively impact the air cargo industry. The Company could experience a decrease in the use of its air cargo network as a means of transporting goods domestically and internationally and an increase in costs.

Dependence on Key Personnel

The Company's success will be substantially dependent on the continued services of senior management of the Company. The loss of the services of one or more key members of senior management of the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company's continued growth depends on the ability of the Company to attract and retain skilled managers and employees and the ability of its personnel to manage the Company's growth. The inability to attract and retain key personnel could have a material adverse effect on the Company's business, results of operations or financial condition.

Risk Factors (Continued)

Risks Related to the Business (Continued)

Labour Relations

On October 19, 2012, the Company's pilots were certified as a union by the Canadian Industrial Relations Board. The National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada) was certified as the bargaining agent for the Company's pilots. The Company entered into a five year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July 2013. Currently, none of the Company's other employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of a collective bargaining agreement cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. Severe weather during any extended period could prevent shipments from being delivered on a timely basis and could force flight cancellations. Any extended delay in meeting time sensitive shipping deadlines would have a material adverse effect on the Company's business, results of operations or financial condition.

Seasonal Fluctuations

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in the first quarter. Accordingly, the seasonal nature of the business of the Company will affect the quarterly financial results of operation of the Company that will be reported.

Dependence on International Trade

The principal businesses of the Company are indirectly related to, and future performance is dependent upon, the volume of international trade, including cross-border trade between Canada and the US. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, exchange controls, currency fluctuations and Canadian, US and foreign laws relating to duties, trade restrictions, foreign investment and taxation. There can be no assurance that trade-related events beyond the control of the Company, such as failure to reach or adopt trade agreements and an increase in trade restrictions, will not have a material adverse effect on the Company's business, results of operations or financial condition.

Risk Factors (Continued)

Risks Related to the Structure of the Company

Credit Facilities, Restrictive Covenants and Interest rate fluctuations

The ability of the Company and its subsidiaries will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness of those entities (including the Credit Facility). The degree to which the Company is leveraged have important consequences to the company's ability to expand and meet working capital requirement due to the following: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness, thereby reducing funds available for future operations and distribution to the Company; (ii) certain of the Company's borrowings are at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Company's ability to make scheduled payments of principal and interest on, or to refinance, its indebtedness will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness at all or on favourable terms.

The Company's Credit Facility and Master Lease Agreement contain numerous restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, the Credit Facility and Master Lease Agreement contains a number of financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with the obligations in the agreements in respect of the Credit Facility and Master Lease Agreement could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the indebtedness under the Credit Facility and Master Lease Agreement were to be accelerated, there can be no assurance that the Company's assets would be sufficient to repay in full that indebtedness. In addition, the Credit Facility will mature no later than December 31, 2015. There can be no assurance that future borrowing or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to fund the Company's needs.

Income Tax Matters

Company is subject to federal and provincial income taxes. Although the Company is of the view that all expenses to be claimed by the Company and its subsidiaries in the determination of their respective incomes under the Tax Act will be reasonable and deductible by the appropriate entity in accordance with the applicable provisions of the Tax Act, and that the allocations of income and loss of the Partnership and Operating Partnership to be made for purposes of the Tax Act will be reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that CRA or the provincial taxing authority will agree. Counsel can provide no opinion with respect to the reasonableness of any expense or of the allocation of income by a partnership. If CRA or any provincial tax authority successfully challenges the deductibility of expenses or the allocation of income, Company's liability to income tax may increase.

Financial Condition (Continued)

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2

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-nine 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 September 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 experienced growth in its total overnight shipping volumes in the current quarter and each of the previous seven quarters. The average year over year quarterly growth during this period was 6.5%. 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 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 Accounting Judgements and Estimates

The preparation of financial statements in conformity with IFRS requires management to make judgments, 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. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The following judgments are those deemed by management to be material to the preparation of the financial statements.

Financial Condition (Continued)

Judgement

1. **Componentization:** The componentization of the Company's property, plant and equipment is based on judgment in relation to the determination of components is based cost of the component relative to total cost of an asset and whether these components have different useful lives for determination of depreciation.

2. **Impairments**: Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (CGU) is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations.

3. **Lease Classification:** Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in IAS 17 – Leases. The most prevalent leases are those for aircraft.

Critical Estimates

The table below discloses the methodology and assumptions used by management in the assessment of the accounting estimates.

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, and is not subsequently re-measured.
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, intangibles 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.

Financial Condition (Continued)

Critical Estimates (Continued)

Critical Accounting Estimate	Methodology and Assumptions
Impairment of property, plant and equipment and goodwill (Continued)	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. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.
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 assess its recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets 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, current and estimated future aircraft utilization rate, Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to change in timing, cost of maintenance or discount rates.

Financial Condition (Continued)

Outstanding Share Data

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 September 30, 2014:

Capital		Authorized/ Principal	Outstanding	Common Shares underlying Convertible securities
Common Voting Shares		Unlimited	9,047,367	-
Variable Voting Shares		Unlimited	98,545	-
Convertible Debentures - 6.5%	$	15,208,000	-	1,294,298
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.

In connection with the restatement of the Company's management discussion and analysis for the three month and ninth month periods ended September 30, 2014, management of the Company have re-evaluated the effectiveness of the DC&P. As a result of that re-evaluation, the Company's management has determined that the DC&P was not effective as of September 30, 2014. The Company has subsequently implemented a modified disclosure review system to address these deficiencies, which includes increasing the level of legal compliance review for future filings of management discussion and analysis. The Company's management believes these measures will remediate the control deficiencies identified.

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting (Continued)

Except as noted above, there were no changes in internal controls over financial reporting that occurred during the period ended September 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 the following: "depreciation and amortization of aircraft heavy maintenance expenditures, interest on long-term debt, deferred income taxes and provision for current income taxes". 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,), or non-operating (in the case of interest on long-term debt 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.

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

(B) All references to "Adjusted EBITDA" in the Management's Discussion and Analysis exclude 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, impairment of property plant and equipment and unrealized foreign exchange gains or losses. Adjusted EBITDA is the 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. Adjusted EBITDA is 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, unrealized foreign exchange gains

End Notes (Continued)

[B] (Continued)

and losses and deferred income taxes), or non-operating (in the case of interest on long-term debt 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.

Unrealized foreign exchange loss (gain) - the unrealized gain or loss arising from the valuation of the foreign exchange balances at the period end 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.

[C] 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*

End Notes (Continued)

(C) (Continued)

(“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:

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.