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

For the Three Month and Twelve Month Periods Ended December 31, 2013

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. (the "Company") for the three month and twelve month periods ended December 31, 2013. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 2012.

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 March 4, 2014. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the consolidated financial statements of the Company for the years ended December 31, 2013 and 2012.

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

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

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company. For a more complete discussion of the risks affecting the Company's business, reference should be made to the Annual Information Form ("AIF"), filed March 8, 2013 with the regulatory authorities.

Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations, which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations, as detailed in the Company's AIF, filed March 8, 2013 with the regulatory authorities.

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

Corporate Overview

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

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

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

The Company currently operates one leased 757-200ER ("B757") series aircraft, two leased 767-200ER ("B767") series aircraft and ten Boeing 727-200 ("B727") series aircraft, owned by the Company. The Company also periodically contracts other airlines on an ACMI or sub-charter basis to temporarily operate aircraft on the Company's behalf. This provides added capacity to its overall network to meet new business and/or peak period demands.

The Company recently leased two additional 757-200ER ("B757") series aircraft, which were delivered in December 2013 and January, 2014, respectively. These aircraft are scheduled to enter service in March 2014.

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

Recent Events

Property, plant and equipment

In May 2013, the Company purchased a Boeing 727 aircraft for total consideration of $1,327,902. The costs were segregated into three components consisting of engines totaling $378,724, aircraft hull totaling $377,172 and deferred heavy maintenance totaling $572,006. The Company also incurred additional costs of $78,571 on the aircraft hull for its operational modification.

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

Recent Events (Continued)

Property, plant and equipment (Continued)

In August 2013, the Company entered into an operating lease agreement with a third party and sold the aircraft engines to the lessee and reported a loss of $146,630 on disposal of property, plant and equipment.

Long-term Incentive Plan

The Company's long-term incentive plan (the "Plan" or "LTIP") provides certain of its executive officers and senior management of the Company with compensation opportunities tied to the performance of the Company. Company incentive bonuses, in the form of shares, are provided to eligible employees on an annual basis where the earnings of the Company exceed a pre-determined base (the "Base Target"). The Base Target is set annually by the Compensation Committee of the Company's Board of Directors in accordance with the terms of the Plan.
If the Company's earnings exceed the Base Target, a percentage of the excess is contributed by the Company into a long-term incentive pool. Shares are then purchased on the open market by the Company and held by the Company until they vest. Vesting of the shares will occur on the basis of one-third of the total grant at the time of granting, and one-third on each of the first and second anniversary dates.

For the years ended December 31, 2013 and 2012, share-based compensation expense totaled $621,361 and $402,932, respectively, including withholding taxes of $104,625 and $52,313, respectively, paid on behalf of the eligible employees.

2013 Awards

In March 2013, in accordance with the Plan, an amount of $697,500 was approved to the executive officers and senior management. Accordingly, the Company purchased 61,099 shares from the open market at an average price of $9.70 per share. As at December 31, 2013, 13,340 of these shares had vested and $127,875, net of withholding taxes of $104,625, was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at December 31, 2013 was $465,000.

Prior Years Awards

In 2011 and 2012, the Company purchased a total of 105,529 shares under the Plan. In 2012, 33,455 of these shares had vested and $284,710 was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at December 31, 2013 was $116,250 (2012 - $454,727).

Recent Events (Continued)

Long-term Incentive Plan (Continued)

The following table details the impact of the above transactions on shareholders' capital as at December 31, 2013 and on the consolidated statements of income for the years ended December 31, 2013 and 2012:

Shares purchased under the Plan	Number	$
Balance, December 31, 2011	51,746	443,000
Shares acquired by Company for long-term incentive plan	39,275	296,437
Shares distributed by Company to long-term incentive plan participants	(33,455)	(284,710)
Balance, December 31, 2012	57,566	454,727
Shares acquired by Company for long-term incentive plan	61,099	592,875
Shares distributed by Company to long-term incentive plan participants	(55,060)	(465,625)
Balance, December 31, 2013	63,605	581,977

	December 31, 2013	December 31, 2012
Share-based compensation expense	$	$
Shares transferred to long-term incentive plan participants	175,736	107,507
Withholding tax paid for long-term incentive plan participants	104,625	52,313
Share-based compensation, not yet vested	341,000	243,112
Share-based remuneration	621,361	402,932

Collective agreement

The Company entered into a five year collective agreement with UNIFOR, formerly known as the National Automobile, Aerospace, Transportation and General Workers Union of Canada ("CAW"), a union representing the Company's pilots. The pilots ratified the agreement in July 2013.

Hangar lease agreement

The Company had leased one of its hangars on an operating lease to a third party. In October 2013, the lessee made a representation to terminate the lease prematurely. Accordingly, the Company signed an agreement with the lessee to discharge the lease before the end of its term. The Company received cash and leasehold improvements totaling $1,400,000 as lease termination fees.

Recent Events (Continued)

Subsequent events

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options held by the CPGOC. Projected revenues are estimated to be approximately $1.0 billion dollars during the initial seven-year agreement based on projected volumes. 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. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to CPGOC.

On February 20, 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.

In 2014, the Company received requests to convert $5,811,000 of convertible debentures into common voting shares and 494,545 common voting shares were issued to the holders at a conversion rate of 85.1064 shares per $1,000 debentures.

Revenues

The Company's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Company's network and a corresponding guaranteed daily revenue amount is paid to the Company for this space and weight allocation. Remaining capacity is sold on an *ad-hoc* basis to contract and non-contract customers. The Company also generates revenue from a variety of other air cargo services:

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.

- To further enhance its revenues, the Company offers a specialty charter service, typically in the daytime and on weekends. The charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe.

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

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

Expenses

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

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

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended December 31,		Twelve Month Period Ended December 31,	
	2013	2012	**2013**	2012
	(unaudited)	(unaudited)	**(audited)**	(audited)
	$	$	$	$
Revenue	**48,519**	46,370	**175,376**	168,771
Direct expenses	**39,853**	37,589	**149,947**	140,426
	8,666	8,781	**25,429**	28,345
General and administrative expenses	**5,765**	5,587	**18,339**	18,115
Sales and marketing expenses	**210**	542	**461**	835
Finance costs	**805**	830	**3,232**	3,504
Finance income	**(32)**	(59)	**(144)**	(210)
Other losses (gains)	**(1,400)**	(10)	**(972)**	1,035
	5,348	6,890	**20,916**	23,279
Earnings before income taxes	**3,318**	1,891	**4,513**	5,066
Provision for (recovery of) income taxes				
Current	**1,262**	529	**2,277**	528
Deferred	**(338)**	(166)	**(1,096)**	986
	924	363	**1,181**	1,514
Net income	**2,394**	1,528	**3,332**	3,552
Earnings per share				
Basic	0.30	0.19	0.42	0.44
Diluted	0.27	0.19	0.42	0.44
Average number of shares - basic (in thousands of shares)[1]	**7,993**	**7,993**	**7,993**	**7,993**
Average number of shares - diluted (in thousands of shares)[1][2]	**10,440**	**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.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31 2013	September 30 2013	June 30 2013	March 31 2013	December 31 2012	September 30 2012	June 30 2012	March 31 2012
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 48,519	$ 43,416	$ 42,723	$ 40,718	$ 46,370	$ 41,777	$ 40,488	$ 40,136
Net income (loss) (in thousands)	$ 2,394	$ 225	$ 1,120	$ (407)	$ 1,528	$ 947	$ 1,047	$ 30
Earnings (loss) per share								
- Basic	$ 0.30	$ 0.03	$ 0.14	$ (0.05)	$ 0.19	$ 0.12	$ 0.13	$ -
- Diluted	$ 0.27	$ 0.03	$ 0.14	$ (0.05)	$ 0.19	$ 0.12	$ 0.13	$ -
Average number of shares - basic (in thousands of shares)[(1)]	7,993	7,993	7,993	7,993	7,993	7,993	7,993	7,993
Average number of shares - diluted (in thousands of shares)[(1)(2)]	10,440	7,993	7,993	7,993	7,993	7,993	7,993	7,993

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

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

	Three Month Periods Ended December 31,		Twelve Month Periods Ended December 31,	
	2013	2012	**2013**	2012
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Net income	**2,394**	1,528	**3,332**	3,552
Add:				
Net interest	**773**	771	**3,088**	3,294
Provision for current income taxes	**1,262**	529	**2,277**	528
Provision for (recovery of) deferred income taxes	**(338)**	(166)	**(1,096)**	986
Loss (gain) on disposal of property, plant and equipment	**-**	(81)	**147**	(87)
Loss on impairment of property, plant and equipment	**-**	-	**281**	567
Gain on derivative contracts	**-**	72	**-**	(2)
Loss on debenture redemption	**-**	-	**-**	555
Depreciation and amortization of property, plant and equipment	**2,860**	2,686	**11,111**	9,618
Aircraft heavy maintenance expenditures	**(19)**	136	**(3,407)**	(1,381)
Heavy maintenance deposits [1]	**-**	(26)	**1,499**	(757)
Total EBITDA	**6,932**	5,449	**17,232**	16,873
	$	$	**$**	$
Cash inflow from operating activities	**6,018**	7,057	**17,648**	20,355
Less: Additions to property, plant and equipment	**(716)**	(2,887)	**(10,969)**	(7,726)
Add: Proceeds from disposal of property, plant and equipment	**247**	237	**247**	289
Standardized free cash flow	**5,549**	4,407	**6,926**	12,918
Less: Changes in non-cash working capital items and deposits	**(159)**	(1,980)	**(1,203)**	(4,226)
Provision for current income taxes	**(1,262)**	(529)	**(2,277)**	(528)
Adjusted free cash flow	**4,128**	1,898	**3,446**	8,164

1. In 2012 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.

Review of Operations for the Three Month Periods ended December 31, 2013 and 2012

Highlights for the Three Month Periods ended December 31, 2013 and 2012

- Total revenue for the three month period ended December 31, 2013 was $48.5 million as compared to $46.4 million for the same period in 2012, representing an increase of $2.1 million or 4.5%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2013 was $0.79 million per operating day as compared to $0.75 million for the same period in 2012, representing an increase of $0.04 million or 5.3%.
- EBITDA for the three month period ended December 31, 2013 was $6.9 million as compared to $5.4 million for the same period in 2012, an increase of $1.5 million or 27.8%.
- Adjusted free cash flow was an inflow of $4.1 million for the three month period ended December 31, 2013 as compared to an inflow of $1.9 million for the same period in 2012, an increase of $2.2 million.

Revenue

Total revenue for the three month period ended December 31, 2013 was $48.5 million, as compared to $46.4 million for the same period in 2012, representing an increase of $2.1 million or 4.5%. The increase in total revenue was due primarily to the increase in core overnight volumes partially offset by lower ad-hoc charter revenues and fewer scheduled ACMI flights.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2013 was $33.3 million compared to $30.3 million for the same period in 2012, an increase of $3.0 million or 9.9%. The increase was due primarily to higher volumes on the overnight network.

Revenue related to the ACMI cargo business for the three month period ended December 31, 2013 was $1.3 million compared to $1.8 million for the same period in 2012, a decrease of $0.5 million or 27.8%. The decrease in revenue was due primarily to fewer scheduled ACMI flights.

Revenue related to scheduled and ad-hoc charters for the three month period ended December 31, 2013 was $3.5 million compared to $3.9 million for the same period in 2012, a decrease of $0.4 million or 10.3%. The decrease in the revenue was due primarily to lower average yields.

Fuel surcharges and other cost pass-through revenues were $10.0 million for the three month period ended December 31, 2013 as compared to $10.1 million for the same period in 2012, representing a decrease of $0.1 million or 1.0%. The decrease in cost pass-through revenue was due primarily to the decrease in fuel sales to third parties partly offset by an increase in cost pass-through revenue due primarily to the increase in block hours and network volumes. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.4 million for the three month period ended December 31, 2013 as compared to $0.8 million for the same period in 2012, a decrease of $0.4 million or 50.0%.

Other revenues for the three month period ended December 31, 2013 were $0.4 million as compared to $0.3 million for the same period in 2012, representing an increase of $0.1 million.

Review of Operations for the Three Month Periods ended December 31, 2013 and 2012 (Continued)

Direct Expenses

Total direct expenses were $39.9 million for the three month period ended December 31, 2013 as compared to $37.6 million for the three month period ended December 31, 2012. As a percentage of revenue, direct expenses increased from 81.0% in 2012 to 82.3% for the same period in 2013. The overall increase in direct expenses was due primarily to an increase in fuel, maintenance, crew and commercial costs due to the increase in block hours and an increase in core overnight cargo volumes.

Fuel costs were $17.1 million for the three month period ended December 31, 2013 as compared to $16.7 million for the same period in 2012. The $0.4 million or 2.4% increase in fuel costs was due primarily to the increase in block hours partially offset by lower fuel expenses related to fuel sales to third parties. 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 $1.7 million for the three month period ended December 31, 2013 as compared to $1.6 million for the same period in 2012, representing an increase of $0.1 million or 6.3%. The increase was due primarily to the acquisition of engines and aircraft in May 2013.

Aircraft costs were $3.8 million for the three month period ended December 31, 2013 as compared to $3.7 million in 2012, representing an increase of $0.1 million or 2.7%. The increase was due primarily to the increase in variable lease cost partially offset by the reduction in sub-charter costs due to Cargojet's network expansion in Eastern Canada.

Heavy maintenance amortization costs were $1.2 million for the three month period ended December 31, 2013 as compared to $0.9 million for the same period in 2012, representing an increase of $0.3 million or 33.3%. The increase was due primarily to the increase in number of heavy maintenance activities 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 $2.7 million for the three month period ended December 31, 2013 as compared to $2.2 million in 2012, representing an increase of $0.5 million or 22.7%. The increase was primarily due to the increase in aircraft line maintenance costs due to the increase in block hours and hiring of additional maintenance staff.

Total crew costs including salaries, training and positioning were $2.7 million for the three month period ended December 31, 2013 as compared to $2.4 million in 2012, representing an increase of $0.3 million or 12.5%. The increase was due primarily to the hiring of the additional crews, salary increases, training costs and increased crew positioning costs.

Commercial and other direct operating costs were $10.7 million for the three month period ended December 31, 2013 as compared to $10.2 million for the same period in 2012. The increase of $0.5 million or 4.9% was due primarily to the increase in de-icing costs due to weather conditions and increase in ground handling, landing and navigation charges due to the growth in core overnight volumes.

Review of Operations for the Three Month Periods ended December 31, 2013 and 2012 (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2013 were $6.0 million as compared to $6.1 million for the same period in 2012, representing a decrease of $0.1 million or 1.6%. The decrease in SG&A was due primarily to a reduction of executive bonuses.

EBITDA

EBITDA for the three month period ended December 31, 2013 was $6.9 million or 14.2% of revenue, compared to $5.4 million or 11.6% of revenue for the same period in 2012. The increase in EBITDA of $1.5 million or 27.8% was due primarily to the following:

- Increase in core overnight revenue due to strong seasonal demand;
- Gain due to early lease termination by a lessee;
- Reduction in executive bonuses in 2013.

Net Finance Costs

Net finance costs were $0.8 million for the three month period ended December 31, 2013 and remain unchanged from 2012.

Current Income Taxes

The provision for current income taxes for the three month period ended December 31, 2013 was a charge of $1.3 million as compared to $0.5 million for the same period in 2012. In 2012, the Company was carrying forward taxable losses from some of its subsidiaries that were offset against the taxable profits.

Deferred Income Taxes

The provision for deferred income taxes for the three month period ended December 31, 2013 was a recovery of $0.3 million as compared to a recovery of $0.2 million for the same period in 2012. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $4.1 million for the three month period ended December 31, 2013, compared to an inflow of $1.9 million for the three month period ended December 31, 2012. The increase in adjusted free cash flow for the three month period ended December 31, 2013 was due primarily to the increased EBITDA and the decrease in capital expenditures.

Review of Operations for the Three Month Periods ended December 31, 2013 and 2012 (Continued)

Dividends

Total dividends declared for the three month period ended December 31, 2013 were $1,191,819 or $0.1491 per share. In comparison, total dividends declared for the three month period ended December 31, 2012 were $1,191,819 or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 20, 2013	October 4, 2013	-	7,993,416	-	1,191,819
December 20, 2013	January 6, 2014	1,191,819	7,993,416	0.1491	
		1,191,819		0.1491	1,191,819

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 20, 2012	October 5, 2012	-	7,993,416	-	1,135,065
December 20, 2012	January 4, 2013	1,191,819	7,993,416	0.1491	
		1,191,819		0.1491	1,135,065

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2013 was $6.0 million as compared to $7.1 million for the same period in 2012. The $1.1 million decrease in cash was due primarily to the timing of collections of accounts receivable and settlement of accounts payable.

Cash used in financing activities during the three month period ended December 31, 2013 was $5.6 million as compared to $0.4 million for the same period in 2012. The $5.2 million decrease was primarily due to the additional repayment of borrowings.

Cash used in investing activities during the three month period ended December 31, 2013 was $0.4 million and was primarily comprised of property, plant and equipment additions.

Capital Expenditures

Net property, plant and equipment additions were $0.5 million for the three month period ended December 31, 2013 as compared to $6.7 million additions in property, plant and equipment for the same period in 2012. The property, plant and equipment additions in the current period were comprised of heavy maintenance expenditures, ground equipment, rotable assets and acquisition of hangar leasehold improvements upon termination of lease.

Review of Operations for the Twelve Month Periods ended December 31, 2013 and 2012

Highlights for the Twelve Month Periods Ended December 31, 2013 and 2012

- Total revenue for the twelve month period ended December 31, 2013 was $175.4 million as compared to $168.8 million for the same period in 2012, representing an increase of $6.6 million or 3.9%.
- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2013 was $0.70 million per operating day as compared to $0.66 million per operating day for same period in 2012, representing an increase of $0.04 million or 6.1%.
- EBITDA for the twelve month period ended December 31, 2013 was $17.2 million as compared to $16.9 million for the same period in 2012, representing an increase of $0.3 million or 1.8%.
- Adjusted free cash flow was an inflow of $3.4 million for the twelve month period ended December 31, 2013 as compared to an inflow of $8.2 million for the same period in 2012, a decrease of $4.8 million.

Revenue

Total revenue for the twelve month period ended December 31, 2013 was $175.4 million as compared to $168.8 million for the same period in 2012, representing an increase of $6.6 million or 3.9%. The increase in total revenue was due primarily to the increase in core overnight revenues, the expansion of Cargojet's network in Eastern Canada partially offset by a decrease in ad-hoc charter revenues, lower ACMI revenues and a decrease in fuel sales to third parties.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2013 was $118.6 million compared to $109.4 million for the same period in 2012, an increase of $9.2 million or 8.4%. The increase in revenue was due to higher volumes from the Company's core overnight network and the expansion of Cargojet's network in Eastern Canada.

ACMI revenue for the twelve month period ended December 31, 2013 was $4.8 million compared to $6.5 million for the same period in 2012, a decrease of $1.7 million or 26.2%. The decrease in revenue was due primarily to fewer scheduled ACMI flights.

Revenue related to scheduled and ad-hoc charters for the twelve month period ended December 31, 2013 was $13.7 million compared to $14.2 million for the same period in 2012, a decrease of $0.5 million or 3.5%. The decrease in the revenue was due primarily to lower average yields.

Fuel surcharges and other cost pass-through revenues were $36.5 million for the twelve month period ended December 31, 2013 as compared to $37.2 million for the same period in 2012, representing a decrease of $0.7 million or 1.9%. The decrease was due primarily to a decrease in third party fuel sales partially offset by an increase in fuel surcharges billed to customers due to higher volumes. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $1.4 million for the twelve month period ended December 31, 2013 as compared to $3.3 million for the same period in 2012, a decrease of $1.9 million or 57.6%.

Review of Operations for the Twelve Month Periods ended December 31, 2013 and 2012 (Continued)

Revenue (Continued)

Other revenues for the twelve month period ended December 31, 2013 were $1.8 million as compared to $1.5 million for the same period in 2012, representing an increase of $0.3 million or 20.0%.

Direct Expenses

Total direct expenses were $150.0 million for the twelve month period ended December 31, 2013 as compared to $140.4 million for the same period in 2012, representing an increase of $9.6 million or 6.8%. As a percentage of revenue, direct expenses increased from 83.2% in 2012 to 85.5% for the same period in 2013. The overall increase in direct expenses was due primarily to higher fuel costs, line maintenance costs, crew costs and other variable operating costs due to the increase in core overnight volumes and the expansion of Cargojet's network in Eastern Canada.

Fuel costs were $63.7 million for the twelve month period ended December 31, 2013 as compared to $62.4 million for the same period in 2012. The $1.3 million or 2.1% increase in fuel costs was due primarily to the increase in block hours due to the increased volume on overnight cargo network and the expansion of Cargojet's network in Eastern Canada partially offset by lower fuel prices and lower fuel expenses related to fuel sales to third parties. 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 $6.4 million for the twelve month period ended December 31, 2013 as compared to $5.8 million for the same period in 2012. The $0.6 million or 10.3% increase in depreciation expenses was due primarily to the acquisition of engines and aircraft in May 2013.

Aircraft costs were $14.4 million for the twelve month period ended December 31, 2013 as compared to $14.8 million for the same period in 2012. The $0.4 million or 2.7% decrease in aircraft costs was due primarily to lower sub-charter costs due to Cargojet's network expansion in Eastern Canada partially offset by increased variable lease costs due to the increase in block hours flown using the Company's wide body aircraft on the overnight network.

Heavy maintenance amortization costs were $4.4 million for the twelve month period ended December 31, 2013 as compared to $3.5 million for the same period in 2012, an increase of $0.9 million or 25.7%. The increase was due to the amortization of heavy maintenance deposits that began in the third quarter of 2012. 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 $10.5 million for the twelve month period ended December 31, 2013 as compared to $9.0 million for the same period in 2012. The increase of $1.5 million or 16.7% was primarily due to the increase in line maintenance costs due to the increase in block hours and hiring of additional maintenance staff.

Crew costs were $10.9 million for the twelve month period ended December 31, 2013 as compared to $9.6 million for the same period in 2012. The increase of $1.3 million or 13.5% was primarily due to the hiring of additional crews, salary increases, training costs and increased crew positioning costs.

Review of Operations for the Twelve Month Periods ended December 31, 2013 and 2012 (Continued)

Direct Expenses (Continued)

Commercial and other direct operating costs were $39.7 million for the twelve month period ended December 31, 2013 as compared to $35.3 million for the same period in 2012. The increase of $4.4 million or 12.5% was due primarily to the increase in ground handling costs, landing charges, navigation charges, linehaul expenses and cartage costs due to the growth in core overnight volumes, the expansion of Cargojet's network in Eastern Canada, high de-icing costs due to weather conditions and the increased use of wide-body aircraft on the overnight network.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $18.8 million for the twelve month period ended December 31, 2013 as compared to $18.9 million for the same period in 2012.

EBITDA

EBITDA for the twelve month period ended December 31, 2013 was $17.2 million or 9.8% of revenue, compared to $16.9 million or 10.0% of revenue for the same period in 2012. The increase in EBITDA for the twelve month period ended December 31, 2013 was due primarily to the following:

- Increase in core overnight volumes and the expansion of Cargojet's network in Eastern Canada offset by reduction in ACMI revenue, charter activities and increased direct costs;
- Gain due to early lease termination by a lessee;

Net Finance Costs

Net finance costs were at $3.1 million for the twelve month periods ended December 31, 2013 as compared to $3.3 million for the same period in 2012. The $0.2 million or 6.1% decrease was due primarily to the reduced rate of interest on debentures compared to the previously outstanding debentures which were redeemed in 2012.

Current Income Taxes

The current income tax provision was $2.3 million for the twelve month period ended December 31, 2013 compared to $0.5 for the same period in 2012. In the prior year, the Company carried forward taxable losses from some of its subsidiaries that were offset against its taxable income.

Deferred Income Taxes

The deferred income tax recovery was $1.1 million for the twelve month period ended December 31, 2013 compared to the deferred income tax provision of $1.0 million for the same period in 2012. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Review of Operations for the Twelve Month Periods ended December 31, 2013 and 2012 (Continued)

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $3.4 million for the twelve month period ended December 31, 2013, compared to an inflow of $8.2 million for the twelve month period ended December 31, 2012. The reduction of $4.8 million was due primarily to the increase in capital expenditures and provision for current taxes.

Dividends

Total dividends declared for the twelve month period ended December 31, 2013 were $5,182,931 or $0.6484 per share. In comparison, total dividends declared for the twelve month period ended December 31, 2012 were $4,597,013 or $0.5751 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2012	January 4, 2013	-	-	-	1,191,819
March 20, 2013	April 4, 2013	1,607,476	7,993,416	0.2011	1,607,476
June 20, 2013	July 4, 2013	1,191,818	7,993,416	0.1491	1,191,818
September 20, 2013	October 4, 2013	1,191,818	7,993,416	0.1491	1,191,818
December 20, 2013	January 6, 2014	1,191,819	7,993,416	0.1491	-
		5,182,931		0.6484	5,182,931

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2011	January 5, 2012	-	-	-	1,079,112
March 20, 2012	April 5, 2012	1,135,064	7,993,416	0.1420	1,135,064
June 20, 2012	July 5, 2012	1,135,065	7,993,416	0.1420	1,135,065
September 20, 2012	October 5, 2012	1,135,065	7,993,416	0.1420	1,135,065
December 20, 2012	January 4, 2013	1,191,819	7,993,416	0.1491	-
		4,597,013		0.5751	4,484,306

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). Future dividends are expected to be eligible dividends.

Liquidity and Capital Resources

Cash provided by operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2013 was $17.6 million as compared to $20.4 million for the same period in 2012. The $2.8 million decrease in cash generated was due primarily to the movement in non-cash working capital items and deposits.

Review of Operations for the Twelve Month Periods ended December 31, 2013 and 2012 (Continued)

Liquidity and Capital Resources (Continued)

Cash used in financing activities during the twelve month period ended December 31, 2013 was $7.8 million and was comprised of dividends paid to shareholders of $5.2 million, repayment of borrowings of $2.0 million and the purchase of treasury shares of $0.6 million.

Cash used in investing activities during the twelve month period ended December 31, 2013 was $9.6 million and was primarily comprised of net capital asset additions.

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $25.0 million, bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2015. Subsequent to December 31, 2013, the credit facility was increased to $45.0 million. 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 December 31, 2013 and 2012.

The credit facility is secured by the following:

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

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

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

Capital Expenditures

Net capital asset additions were $10.7 million for the twelve month period ended December 31, 2013 as compared to $11.5 million for the same period in 2012, representing a decrease on $0.8 million or 7.0%. Additions to property, plant and equipment in the current period were comprised of heavy maintenance expenditures, a B727 aircraft, B727 engines, leasehold improvements, ground equipment and rotable assets.

Financial Condition

The following is a comparison of the financial position of the Company as at December 31, 2013 to the financial position of the Company as at December 31, 2012.

Accounts Receivable

Accounts receivable as at December 31, 2013 amounted to $15.4 million as compared to $11.2 million as at December 31, 2012. The increase of $4.2 million was due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at December 31, 2013, property, plant and equipment were $45.9 million as compared to $46.7 million as at December 31, 2012. The $0.8 million net decrease in property, plant and equipment was primarily due to the additions of $10.9 million partially offset by amortization of $11.5 million, asset impairment and loss on disposal of property, plant and equipment of $0.4 million and proceeds from disposal of $0.2 million.

Trade and Other Payables

Trade and other payables as at December 31, 2013 were $16.8 million as compared to $11.8 million as at December 31, 2012. The increase of $5.0 million was due primarily to the timing of supplier payments.

Working Capital Position

The Company had a working capital deficit as at December 31, 2013, representing the difference between total current assets and current liabilities, of $1.2 million, compared to a working capital surplus of $1.3 million as at December 31, 2012. The decrease of $2.5 million is primarily due to the current tax provisions, the timing of collection of trade and other receivables and settlement of trade and other payables.

Borrowings

Total borrowings excluding the current portion were $1.9 million as at December 31, 2013 as compared to $3.0 million as at December 31, 2012. The long-term debt consists of the Company's revolving credit facility and its fixed loans. The decrease of $1.1 million is due to the reduced usage of the revolving credit facility and repayment of the fixed loans.

Provisions

Provisions as at December 31, 2013 were $1.8 million as compared to $1.5 million as at December 31, 2012 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 December 31, 2013	Total	2014	2015	2016	2017	Thereafter
(in thousands)	$	$	$	$	$	$
Other borrowings (finance lease)	277	20	22	24	26	185
Revolving credit facility	1,675	-	1,675	-	-	-
Operating leases	37,959	12,757	11,396	4,346	2,323	7,137
	39,911	12,777	13,093	4,370	2,349	7,322

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 twelve month period ended December 31, 2013, the Company had sales to three customers that represented 54.9% of the total revenues (December 31, 2012 – 54.5%). 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 $1.8 million as at December 31, 2013 to financial institutions as security for its corporate credit cards, and to a number of vendors as security for the Company's ongoing leases and purchases.

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. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to the CPGOC.

Financial Condition (Continued)

Outlook

On February 18th, 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a master services agreement with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options. Projected revenues are estimated to be approximately $1.0 billion during the initial seven-year term based on projected volumes beginning in the second quarter of 2015.

During the year ended December 31, 2013, Cargojet experienced strong customer demand on its core overnight network due to improved economic conditions. Cargojet 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 Cargojet to recover any costs related to fuel prices increases.

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

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

Critical Estimates

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

Financial Condition (Continued)

Critical Estimates (Continued)

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

Financial Condition (Continued)

Accounting changes

Accounting standards effective for 2013

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

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

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

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

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

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

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

Outstanding Share Data

Cargojet's common voting shares are listed under the symbol "CJT", varable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" on the Toronto Stock Exchange ("TSX"). The following table sets out the common shares outstanding and securities convertible into common shares as of December 31, 2013:

Capital	Authorized/ Principal	Outstanding	Common Shares underlying Convertible securities
Common Voting Shares	Unlimited	7,737,021	-
Variable Voting Shares	Unlimited	256,395	-
Convertible Debentures - 6.5%	$ 28,750,000	-	2,446,809

Financial Condition (Continued)

Outstanding Share Data (Continued)

In 2014, the Company received requests to convert $5,811,000 of convertible debentures into common voting shares and 494,545 common voting shares were issued to the holders at a conversion rate of 85.1064 shares per $1,000 debentures.

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.

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2013 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. 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.

End Notes

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

End Notes (Continued)

(A) (Continued)

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

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

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

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

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

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

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

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

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

(B) Adjusted Free Cash Flow is a term, which does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures used by other Companies. The objective of presenting this non-IFRS measure is to calculate the amount, which is available for dividend distributions to shareholders. Adjusted Free Cash Flow is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "Adjusted Free Cash Flow" have the meaning set out in this note.

In November 2010, the Canadian Institute of Chartered Accountants ("CICA") issued a consultation guidance titled *Reporting Supplementary Financial Measures, General Principles* ("The Guidance"). The Guidance approved the continuation of previously published guidance on EBITDA and free cash flow as they continue to be relevant in the post IFRS environment.

End Notes (Continued)

(B) (Continued)

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

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

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

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

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

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