Consolidated Financial Statements of

CARGOJET INC.

For the years ended December 31, 2014 and 2013

This page intentionally left blank

Deloitte.

Deloitte LLP
5140 Yonge Street
Suite 1700
Toronto ON M2N 6L7
Canada

Tel: 416-601-6150
Fax: 416-601-6151
www.deloitte.ca

Independent Auditor's Report

To the Shareholders of
Cargojet Inc.

We have audited the accompanying consolidated financial statements of Cargojet Inc., which comprise the consolidated balance sheets as at December 31, 2014 and December 31, 2013, and the consolidated statements of (loss) income and comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Inc. as at December 31, 2014 and December 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 7, 2015

CARGOJET INC.
Consolidated Balance Sheets
As at December 31, 2014 and 2013
(in Canadian dollars)

	Note	December 31, 2014	December 31, 2013
		$	$
ASSETS			
CURRENT ASSETS			
Cash		-	441,506
Trade and other receivables		19,101,892	15,399,458
Inventories	3	624,713	1,062,981
Prepaid expenses and deposits		3,877,024	982,972
Income taxes receivable	14	2,643,004	-
Current portion of notes receivable	4	651,638	821,102
Current portion of finance lease receivable	5	114,771	311,653
		27,013,042	19,019,672
NON-CURRENT ASSETS			
Property, plant and equipment	6	203,944,786	45,844,731
Notes receivable	4	184,007	977,224
Finance lease receivable	5	-	98,591
Goodwill	7	46,169,976	46,169,976
Intangible assets	8	1,000,000	1,000,000
Deposits		7,022,548	3,040,678
		285,334,359	116,150,872
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9	23,323,465	16,797,283
Income taxes payable		-	2,162,510
Provisions	10	1,725,516	-
Dividends payable		1,367,907	1,191,819
Borrowings	11	504,897	20,280
Finance leases	12	6,782,482	-
		33,704,267	20,171,892
NON-CURRENT LIABILITIES			
Borrowings	11	13,981,944	1,932,393
Finance leases	12	87,592,527	-
Provisions	10	1,290,145	1,760,916
Convertible debentures	13	78,966,406	25,940,908
Deferred income taxes	14	4,375,293	3,801,932
		219,910,582	53,608,041
EQUITY		65,423,777	62,542,831
		285,334,359	116,150,872

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

CARGOJET INC.
Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income
Years ended December 31, 2014 and 2013
(in Canadian dollars)

	Note	2014	2013
		$	$
REVENUES		192,397,768	175,376,217
DIRECT EXPENSES	15	173,624,053	149,947,441
		18,773,715	25,428,776
General and administrative expenses	16	24,984,973	18,338,566
Sales and marketing expenses		809,173	461,303
Finance costs		5,543,814	3,232,204
Finance income		(147,768)	(144,313)
Other losses (gains)	17	609,342	(972,095)
		31,799,534	20,915,665
(LOSS) INCOME BEFORE INCOME TAXES		(13,025,819)	4,513,111
(RECOVERY OF) PROVISION FOR INCOME TAXES	14		
Current		(2,641,816)	2,277,094
Deferred		(859,338)	(1,095,613)
		(3,501,154)	1,181,481
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME		(9,524,665)	3,331,630
(LOSS) EARNINGS PER SHARE	19		
- Basic		(1.07)	0.42
- Diluted		(1.07)	0.42

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

CARGOJET INC.

Consolidated Statements of Changes in Equity

Years ended December 31, 2014 and 2013

(in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Reserve for surplus on debenture repurchases	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, January 1, 2014		67,202,190	392,665	1,844,538	1,271,503	(8,168,065)	62,542,831
Net loss and comprehensive loss		-	-	-	-	(9,524,665)	(9,524,665)
Treasury shares - net	18	(59,773)	-	-	-	-	(59,773)
Share-based compensation	20	-	67,916	-	-	-	67,916
Conversion option on debenture issuance - net	13	-	-	6,618,078	-	-	6,618,078
Deferred tax on conversion option - net	14	-	-	(1,753,791)	-	321,092	(1,432,699)
Convertible debenture - conversion	13	12,616,183	-	(890,575)	890,575	-	12,616,183
Dividends	18	-	-	-	-	(5,404,094)	(5,404,094)
Balance, December 31, 2014		79,758,600	460,581	5,818,250	2,162,078	(22,775,732)	65,423,777
Balance, January 1, 2013		67,329,440	341,554	1,844,538	1,271,503	(6,316,764)	64,470,271
Net Income and comprehensive Income		-	-	-	-	3,331,630	3,331,630
Treasury shares - net		(127,250)	-	-	-	-	(127,250)
Share-based compensation		-	51,111	-	-	-	51,111
Dividends	18	-	-	-	-	(5,182,931)	(5,182,931)
Balance, December 31, 2013		67,202,190	392,665	1,844,538	1,271,503	(8,168,065)	62,542,831

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

CARGOJET INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2014 and 2013
(in Canadian dollars)

	Note	2014	2013
		$	$
CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES			
Net (loss) income		(9,524,665)	3,331,630
Items not affecting cash			
Depreciation of property, plant and equipment	6	12,975,616	11,529,066
Share-based compensation	20	529,923	516,736
Finance costs		5,543,814	3,232,204
Effects of exchange rate changes on provision	10	237,879	110,373
Change in fair value of cash settled share based payment arrangement	17	516,917	-
Loss on disposal of property, plant and equipment		92,425	146,630
Impairment on property, plant and equipment	6	-	281,275
Non-cash portion of lease settlement	17	-	(800,000)
Non-cash interest on notes receivable		(72,300)	(115,724)
Non-cash interest on finance lease receivable		(13,220)	(28,427)
Income tax (recovery) provision		(3,501,154)	1,181,481
		6,785,235	19,385,244
Items affecting cash			
Interest paid		(4,461,586)	(2,375,590)
Income tax payments		(2,163,697)	(564,511)
		159,952	16,445,143
Changes in non-cash working capital items and deposits			
Trade and other receivables		(3,702,434)	(4,153,653)
Inventories		438,268	(342,225)
Prepaid expenses and deposits		(6,875,922)	657,700
Trade and other payables		4,133,349	5,041,530
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(5,846,787)	17,648,495
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES			
Repayment of borrowings		(1,675,223)	(1,989,055)
Proceeds from borrowings	11	14,194,952	-
Repayment of obligations under finance leases		(1,539,512)	-
Proceeds from sale and leaseback of property, plant and equipment	6	31,942,800	-
Purchase of treasury shares		(521,794)	(592,875)
Proceeds from debenture issuance	13	70,734,456	-
Dividends paid to shareholders	18	(5,228,006)	(5,182,931)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		107,907,673	(7,764,861)
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment	6	(104,029,454)	(10,969,169)
Proceeds from disposal of property, plant and equipment		183,388	246,700
Collections of notes receivable		1,034,981	857,688
Collections of finance lease receivable		308,693	272,677
NET CASH USED IN INVESTING ACTIVITIES		(102,502,392)	(9,592,104)
NET CHANGE IN CASH		(441,506)	291,530
CASH, BEGINNING OF YEAR		441,506	149,976
CASH, END OF YEAR		-	441,506

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

1. NATURE OF THE BUSINESS

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

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

These consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on March 7, 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared under International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and the Canadian Accounting Standards Board for publicly-accountable enterprises.

Basis of preparation

The financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cargojet GP Inc. ("CGP"), Cargojet Holdings Limited Partnership ("CHLP"), and CHLP's wholly-owned subsidiaries, Cargojet Holdings Ltd. ("CJH"), CJH's wholly-owned subsidiary 2422311 Ontario Inc., Cargojet Airways Ltd. ("CJA") and Cargojet Partnership ("CJP").

All intra-company balances and transactions are eliminated in full upon consolidation.

Cash

Cash balance consists of cash on hand and demand deposits.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired, and carried at cost as established on the acquisition date of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill (continued)

Goodwill is not amortized but is reviewed for impairment annually on April 1. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the cash-generating unit pro-rata on the basis of the carrying amount of each asset in the cash-generating unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Revenue recognition

Revenue is recognized when the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental service is provided.

Interest revenue is recognized when earned.

Inventories

Fuel inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment.

Property, plant and equipment under development relates to the purchase, construction and/or modification of aircraft and other property, plant and equipment that is not yet available for use. These assets are carried at costs. Cost includes expenditures that are directly attributable to the purchase, or modification of the asset. Borrowing cost attributable to the purchase, construction or modification of qualifying assets is capitalized to the cost of the item until the asset is ready for use. Once the property, plant and equipment are ready for use, the respective cost of property, plant and equipment will be transferred to the qualifying class of assets.

When a significant part of an asset has a different useful life from the overall asset's useful life, it is identified as a separate component and depreciated accordingly.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Spare parts are treated as property, plant and equipment and depreciated on actual usage.

The Company recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized under property, plant and equipment and amortized on a straight-line basis to the next overhaul. Any remaining carrying amount of the cost of the previous inspection is derecognized.

The Company maintains rotable parts as a pool of parts under one group. When the parts are purchased, the cost of the part purchased is added to the pool and depreciated over its useful life of up to 10 years. The cost of repairing the rotable part is recognized in maintenance expense on occurrence basis.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives using the straight-line method. The Company reviews the depreciation methods, useful lives and residual values at each reporting date with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The estimated useful lives are as follows:

Asset	Estimated useful life
Aircraft hull	40 – 45 years from the date of manufacture
Engines	4 - 15 years
Rotable spares	Up to 10 years
Spare parts	Actual usage
Ground equipment	Up to 10 years
Hangar facility	Up to 30 years
Vehicles	Up to 8 years
Computer hardware and software	Up to 5 years
Furniture and fixtures	Up to 10 years
Leasehold improvements	Lesser of useful life and term of lease
Deferred heavy maintenance	Up to the date of the next scheduled heavy maintenance

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases
Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly into profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred. For sale and finance leaseback transactions, any gain or loss on the sale is deferred and amortized over the lease term.

Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a straight-line basis over the shorter of their estimated useful life and the term of the agreement.

Operating leases
Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease agreement. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred. Lease incentives from operating leases are recognized on a straight-line basis over the term of the lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

Intangible assets

Definite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Indefinite life intangible assets, such as licenses, have no foreseeable limit to the period over which they are expected to generate net cash inflows and are carried at cost less accumulated impairment losses and are not amortized.

The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets 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 ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU for which a reasonable and consistent allocation basis can be identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of tangible and intangible assets excluding goodwill (continued)

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The 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 CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Foreign currencies

The functional currency of each subsidiary is Canadian dollars, which is the currency of the primary economic environment in which each subsidiary and the Company operates. The results and financial position of each subsidiary are expressed in Canadian dollars.

Transactions in currencies other than the entity’s functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs specifically attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Borrowing costs, for the funds that are borrowed generally and used for the purpose of obtaining a qualifying asset, are capitalized by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average borrowing rate to the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

Current taxes
The tax currently payable is based on taxable income for the year. Taxable income differs from income as reported in the consolidated statement of (loss) income and comprehensive (loss) income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes
Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income or loss. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes for the period
Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized outside income (such as in other comprehensive income or directly in equity), in which case the current and deferred tax is also recognized outside income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those estimated cash flows.

Share based payments

Equity-settled share-based compensation plans
Equity-settled share-based compensation plans are granted to eligible employees as disclosed in Note 20, which are measured at the market value of the Company's voting shares on the date of the grant based on the units granted to the employees. The Company's voting shares to be distributed to the employees are acquired from the open market and held in trust as treasury shares, and recorded as a reduction of share capital. The cost of the equity-settled share-based compensation plans is recognized as a compensation expense with a corresponding increase in equity over the related service period provided to the Company as vested. Upon the distribution of the Company's voting shares, the Company's voting shares previously held as treasury shares are recorded as an increase in share capital.

Cash-settled share-based compensation options
The Company provides cash-settled share-based compensation options to an equipment finance and leasing company as an additional fee in respect of each lease contact as disclosed in Note 11 and Note 12, respectively. A liability is recognized for the service rendered and is initially measured at the fair value using an option pricing model, and a corresponding amount is capitalized as a part of the acquisition costs of the assets or the transaction costs of the related financial instruments. The liability is re-measured at each reporting period with corresponding adjustments to the value of the assets during the period which costs are eligible for capitalization. Subsequent to the capitalization period, any further re-measurement of the liability due to the change in the fair value of the option is recognized as other gains or losses during the period.

Financial instruments

Financial assets are classified into the following specified categories: fair value through profit or loss ("FVTPL"), held to maturity investments, available for sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All financial liabilities are classified as either FVTPL or other financial liabilities.

The Company's financial assets and financial liabilities are classified and measured as follows:

Asset/Liability	Classification	Measurement
Cash, trade and other receivables, finance lease receivable, notes receivables, and deposits	Loans and receivables	Amortized cost
Bank overdraft, trade and other payables, dividends payable, convertible debentures, finance leases and borrowings	Other financial liabilities	Amortized cost
Derivative financial instruments	Fair value through profit or loss	Fair value

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Loans and receivables and other financial liabilities
Cash, trade and other receivables, finance leases receivable, notes receivable, deposits, trade and other payables, dividends payable, convertible debentures, finance lease obligations and borrowings are initially recognized at fair value and subsequently at amortized cost using the effective interest method less any impairment. Interest is recognized by applying the effective interest rate.

Derivative financial instruments
Derivative financial instruments are utilized by the Company occasionally in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL. All derivative financial instruments are recorded at their fair values.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

Basis of fair values
Assets and liabilities recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

The Company does not have any Level 3 fair value measurements. In addition, there have been no significant transfers between levels.

Impairment of financial assets
Financial assets, other than FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is effective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or economic conditions that correlate with default on global receivables.

De-recognition of financial assets and liabilities
De-recognition is applied for all or part of a financial asset, when the contractual rights making up the asset expire, or the Company substantially transfers most of the significant risks and benefits associated with ownership of the asset. De-recognition is applied for all or part of a financial liability, when the liability is extinguished due to cancellation or expiry of the obligation. When a debt is renegotiated with a lender giving rise to substantially different terms, a new liability is recognized.

Convertible debentures

The component parts of compound instruments issued by the Company 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. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to another equity account. Transaction costs are divided between the liability and equity components in proportion to their values.

On the early redemption or repurchase of convertible debentures, the Company allocates the consideration paid on extinguishment to the liability based on its fair value at the date of the transaction and the residual is allocated to the conversion option. Any resulting gain or loss relating to the liability element is credited or charged to profit or loss and the difference between the carrying amount and the amount considered to be settled relating to the holder option is treated as a capital transaction.

Critical accounting judgments and key sources of estimation uncertainty

In preparing the financial statements, the Company's management is required to make judgments, estimates and assumptions that may affect the reported amount of the assets, liabilities, revenues and expenses. Although these estimates are based on management's best knowledge of the current events and actions that the Company may undertake in the future, actual results may differ from these estimates. Reported amounts which require management to make significant estimates and assumptions include property, plant and equipment, goodwill, deferred taxes, provisions and financial instruments. These items are discussed below.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical judgments in applying accounting policies

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

Impairment of property, plant and equipment and goodwill
Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset of a 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.

Classification of lease
Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of whether or not the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Key sources of estimation uncertainty

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Critical accounting judgments and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Cash settled share based payment arrangement
The cost and related liability of the Company's cash settled share based payment arrangement under a Master Capital Lease Agreement ("MLA") and the credit facility agreement with an equipment finance and leasing company is recognized using a Black-Scholes option pricing model involving assumptions including discount rates and early exercise dates. Due to the long-term nature of these rights, such estimates are subject to significant uncertainty.

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 assesses 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting changes

Accounting standards effective for 2014

Effective January 1, 2014, the following new or amended accounting standards were effective for the Company:

Financial instruments: Asset and liability offsetting In December 2011, the IASB amended IAS 32, *Financial Instruments: Presentation* ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 32 amendments did not have a significant impact on the Company.

Impairment of assets: In May 2013, the IASB amended IAS 36, *Impairment of Assets* ("IAS 36"), to clarify the requirement to disclose information about the recoverable amount of assets for which an impairment loss has been recognized or reversed. The IAS 36 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 36 amendments did not have a significant impact on the Company.

Financial Instruments: Novation of derivatives and continuation of hedge accounting In September 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting, Amendments to IAS 39.* This amendment to IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 39 amendments did not have a significant impact on the Company.

Levies: In May 2013, the IASB issued IFRIC Interpretation 21, *Levies* ("IFRIC 21"), which is an interpretation of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The implementation of IFRIC 21 did not have a significant impact on the Company.

Standards and interpretations issued not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the year ended December 31, 2014, and, accordingly, have not been applied in preparing these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Standards and interpretations issued not yet adopted (continued)

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* ("IFRS 9"), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income ("OCI") instead of net income unless this would create an accounting mismatch. IFRS 9 sets a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting. The standard introduced a new expected loss impairment model. The standard is applied retrospectively with some exceptions related to the hedge accounting requirements and the restatement of prior periods for classification and measurement including impairment. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue from contracts with customers: On May 28, 2014, the IASB and the FASB jointly issued IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"), a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Application of the standard is mandatory and applies to nearly all contracts with customers: the primary exceptions are leases, financial instruments and insurance contracts. The IASB standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2017 and is to be applied using the retrospective or the modified transition approach. The standard will address accounting for loyalty programs, warranties and breakage. Management is currently assessing the impact of this standard.

3. INVENTORIES

	December 31, 2014	December 31, 2013
	$	$
Fuel inventory	624,713	1,062,981

For the years ended December 31, 2014 and 2013, costs of inventory of $61,293,970 and $63,677,569, respectively, were recognized in direct expenses.

4. NOTES RECEIVABLE

On July 14, 2010, the Company sold its 55% interest in Cargojet Regional Partnership (the “Partnership”). Proceeds for the sale included a net $2.5 million non-interest bearing note receivable over five years. The sale agreement also included the sale of the Company’s aircraft spare parts and other operating assets in exchange for a separate non-interest bearing note of $1.8 million receivable over five years. Both notes receivable are secured by a first charge on aircraft owned by the party that the interest of the Partnership was sold to. They are discounted at an annual rate of 6%.

The discounted balance of the notes receivable is comprised of the following as at December 31, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
	$	$
Notes receivable	835,645	1,798,326
Less: notes receivable - current portion	651,638	821,102
Notes receivable - long-term portion	184,007	977,224

Interest revenue of $72,300 was recognized for the year ended December 31, 2014 (2013 – $115,724).

5. FINANCE LEASE RECEIVABLE

In 2011, the Company entered into a lease agreement which transfers the title of one of its regional aircraft to the lessee at nominal value at the end of lease. Accordingly, the lease has been classified as a finance lease.

The finance lease receivable as at December 31, 2014 and December 31, 2013 is as follows:

	December 31, 2014	December 31, 2013
Minimum lease payments	$	$
Not later than one year	116,010	319,080
Later than one year and not later than five years	-	106,360
Finance lease receivable	116,010	425,440
Less: unearned finance income	(1,239)	(15,196)
Present value of minimum lease payments	114,771	410,244
Current portion	114,771	311,653
Long-term portion	-	98,591

The estimated average effective interest rate is 5.17% and $13,220 (2013 - $28,427) of finance income was recognized in the year.

The finance lease receivable is secured by the leased aircraft.

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2014	Additions / Transfers	Disposals / Transfers	Balance as at December 31, 2014
	$	$	$	$
Aircraft hull	13,815,039	73,572,267	(335,911)	87,051,395
Engines	15,179,630	36,624,425	-	51,804,055
Spare parts	1,629,443	459,539	(175,548)	1,913,434
Ground equipment	8,760,539	2,797,543	-	11,558,082
Rotable spares	14,229,426	4,270,247	-	18,499,673
Computer hardware and software	4,452,200	1,787,512	-	6,239,712
Furniture and fixtures	1,309,710	304,508	-	1,614,218
Leasehold improvements	5,353,942	4,703,748	-	10,057,690
Vehicles	991,449	1,175,362	-	2,166,811
Hangar facility	15,768,875	866,346	-	16,635,221
Property, plant and equipment under development	-	35,336,205	-	35,336,205
Deferred heavy maintenance	10,978,704	9,445,129	(2,360,379)	18,063,454
	92,468,957	171,342,831	(2,871,838)	260,939,950

Accumulated Depreciation	Balance as at January 1, 2014	Depreciation	Disposals / Transfers	Impairment	Balance as at December 31, 2014	Net Book Value, December 31, 2014
	$	$	$	$	$	$
Aircraft hull	6,156,053	1,869,653	(244,299)	-	7,781,407	79,269,988
Engines	9,075,550	2,219,384	-	-	11,294,934	40,509,121
Spare parts	-	-	-	-	-	1,913,434
Ground equipment	5,346,265	866,912	-	-	6,213,177	5,344,905
Rotable spares	7,364,973	1,546,985	-	-	8,911,958	9,587,715
Computer hardware and software	3,592,568	446,529	-	-	4,039,097	2,200,615
Furniture and fixtures	801,769	102,652	-	-	904,421	709,797
Leasehold improvements	3,979,918	1,083,037	-	-	5,062,955	4,994,735
Vehicles	575,916	116,452	-	-	692,368	1,474,443
Hangar facility	4,533,939	474,335	-	-	5,008,274	11,626,947
Property, plant and equipment under development	-	-	-	-	-	35,336,205
Deferred heavy maintenance	5,197,275	4,249,677	(2,360,379)	-	7,086,573	10,976,881
	46,624,226	12,975,616	(2,604,678)	-	56,995,164	203,944,786

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Cost	Balance as at January 1, 2013	Additions / Transfers	Disposals / Transfers	Balance as at December 31, 2013
	$	$	$	$
Aircraft hull	12,914,254	1,284,591	(383,806)	13,815,039
Engines	13,730,810	3,226,775	(1,777,955)	15,179,630
Spare parts	1,572,637	56,806	-	1,629,443
Ground equipment	8,359,363	427,371	(26,195)	8,760,539
Rotable spares	13,352,170	873,275	3,981	14,229,426
Computer hardware and software	4,309,223	142,977	-	4,452,200
Furniture and fixtures	1,225,177	84,533	-	1,309,710
Leasehold improvements	4,711,872	642,070	-	5,353,942
Vehicles	763,340	225,030	3,079	991,449
Hangar facility	14,950,992	817,883	-	15,768,875
Deferred heavy maintenance	19,675,588	3,987,858	(12,684,742)	10,978,704
	95,565,426	11,769,169	(14,865,638)	92,468,957

Accumulated Depreciation	Balance as at January 1, 2013	Depreciation	Disposals / Transfers	Impairment	Balance as at December 31, 2013	Net Book Value, December 31, 2013
	$	$	$	$	$	$
Aircraft hull	5,290,057	1,150,784	(284,788)	-	6,156,053	7,658,986
Engines	8,167,395	2,128,656	(1,501,776)	281,275	9,075,550	6,104,080
Spare parts	-	-	-	-	-	1,629,443
Ground equipment	4,538,796	806,391	1,078	-	5,346,265	3,414,274
Rotable spares	5,829,528	1,532,968	2,477	-	7,364,973	6,864,453
Computer hardware and software	3,135,130	458,015	(577)	-	3,592,568	859,632
Furniture and fixtures	691,477	110,332	(40)	-	801,769	507,941
Leasehold improvements	3,607,930	378,922	(6,934)	-	3,979,918	1,374,024
Vehicles	483,775	89,147	2,994	-	575,916	415,533
Hangar facility	4,084,508	449,431	-	-	4,533,939	11,234,936
Deferred heavy maintenance	13,026,680	4,424,420	(12,253,825)	-	5,197,275	5,781,429
	48,855,276	11,529,066	(14,041,391)	281,275	46,624,226	45,844,731

During the year, the Company has sold one aircraft that was previously owned and recorded as property, plant and equipment under development, and leased the aircraft back from an equipment leasing company under the agreement as disclosed in Note 12 for $31,942,800 (2013-$nil).

Property, plant and equipment under development consists of $35,336,205 (2013 - $nil) and relates to the purchase and/or modification primarily of aircraft that are not yet available for use.

During the period $3,199,610 (2013 - $nil) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of $2,600,494 and accretion of $599,116 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 specific borrowings, ranging between 7.35% to 8.77%.

6. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

During the year, the Company also capitalized the fair value of cash settled share based payment arrangement related to the specific finance leases of $1,007,493 (2013 - $nil) to the qualifying assets.

Out of the total additions during the year, the Company paid $104,029,454 in cash, financed $63,469,243 through finance leases, financed $2,392,833 through the accounts payable and the other increase was due to movement in provisions.

In March 2013, the Company reviewed the carrying value of its used engines and estimated that the recoverable amount was less than the book value. The Company reduced the net book value of the used engines to fair value by $281,275 and reported a loss on impairment of property, plant and equipment.

Depreciation expense on property, plant and equipment for the year ended December 31, 2014 totaled $12,975,616 (2013 - $11,529,066).

7. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single cash-generating unit. Goodwill is tested for impairment annually on April 1, or more frequently when there is an indication of potential impairment. The recoverable amount is determined based on a value in use calculation which uses cash flow projections for a five-year period using a steady 2.0% per annum growth rate thereafter (2013 – 2.0%), which has been estimated based on long-term growth rates in cash flow of the Company, and a pre-tax discount rate of approximately 18.0% per annum (2013 – 16.2%). The Company believes that any reasonably possible change in key assumptions on which recoverable amounts are based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

8. INTANGIBLE ASSETS

Intangible assets at December 31, 2014 and 2013 consist of licenses with indefinite lives carried at $1,000,000. The Company believes that licenses have indefinite useful lives as the licenses provide a renewal option, at Transport Canada's discretion, provided that licensing conditions are met. As a result, the Company believes that the licenses have indefinite lives as the Company complies, and will continue to comply, with the licensing conditions specified in the existing laws, agreements, treaties and regulations.

9. TRADE AND OTHER PAYABLES

	December 31, 2014	December 31, 2013
	$	$
Trade payables and accrued charges	20,408,056	14,258,813
Payroll and benefits	2,915,409	2,538,470
Trade and other payables	23,323,465	16,797,283

10. PROVISIONS

The Company's aircraft operating lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The Company has estimated that it will incur certain maintenance costs at the end of the lease terms and has recorded a maintenance provision liability for these costs. The change in the carrying amount of the provision is as follows:

	December 31, 2014	December 31, 2013
	$	$
Balance, beginning of year	1,760,916	1,543,784
Recognition of provision for lease return conditions	860,831	-
Accretion	156,035	106,759
Effects of exchange rate changes on the provision balance	237,879	110,373
Balance, end of year	3,015,661	1,760,916
Less: current portion	1,725,516	-
Non-current portion	1,290,145	1,760,916

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company specific history. Accretion expense of $156,035 (2013 - $106,759) has been recorded in the year as part of finance costs in the consolidated statement of income or loss. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

11. BORROWINGS

Borrowings consist of the following:

	December 31, 2014	December 31, 2013
	$	$
Revolving credit facility	4,827,425	1,675,223
Aircraft facility arrangement	9,402,246	-
Other borrowings	257,170	277,450
	14,486,841	1,952,673
Less current portion	504,897	20,280
Long-term portion	13,981,944	1,932,393

Revolving credit facility

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $60.0 million and bears interest at bank prime plus 1.50% on the utilized facility, and standby fees of 0.69% on unutilized facility position and is repayable on maturity, December 30, 2016. 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, 2014 and 2013.

11. BORROWINGS (CONTINUED)

Revolving credit facility (continued)

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.

Interest expense on the borrowings for the year ended December 31, 2014 totaled $893,129, (2013 - $579,334).

Aircraft facility arrangement

The Company executed first and second Aircraft Facility Agreements (“AFA”) with an equipment finance and leasing company for $25 million available in a non-revolving credit facility to refinance the acquisition of two Boeing 757-200 aircraft. During the year, the Company availed one facility limit under this AFA. These facilities expire in January 2022 and are secured by a transfer of right, title and interest of ownership of the aircraft and all its components and records. These credit facilities are arranged in two tranches: A and B, each with its own schedule of principal and interest payment. The estimated effective interest rate for the facility availed is 8.06%.

The aggregate tranche A comprises 87% of the AFA amount. 60% of the tranche A principal amount is repayable in equal monthly installments during the 84 month amortization term. The payment is due after the closing date of the AFA and thereafter on the first business day of each month. The remaining 40% of the amount in respect of the AFA is payable at maturity.

The aggregate tranche B comprises 13% of the AFA amount. The repayment due in respect of the AFA is equal to the interest on the tranche B amount advanced in respect of the AFA, compounded monthly and payable quarterly in arrears over the tranche B term of 48 months. The first interest payment is due on April 1, 2015. It further provides for quarterly payments of a variable amount less than or 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 AFA. The balance amount of the AFA is payable at maturity.

The Company has agreed to pay an arrangement fee in the amount equal to 0.75% of the amount of the AFA. The Company also agreed to pay an additional fee in respect of the AFA in an amount equal to the positive difference between the price of 30,000 shares of Cargojet (CJT-A) being $25.53 per share and the twenty day volume weighted average closing price for such share as of the date preceding the date on which the lender demands the payment by a written notice, provided that such notice can be given on a day after the first anniversary of the AFA and before the fourth anniversary of such agreement. The additional fees have been accounted for as a cash settled share based compensation option.

The Company has also agreed to pay a success fee in the amount equal to 1.5% of the amount of the AFA to an independent investment banking firm for its services towards completion of the transaction.

11. BORROWINGS (CONTINUED)

Aircraft facility arrangement (continued)

These fees are considered as initial transaction costs of the AFA and have been deducted from the loan to determine its carrying value and will accrete over the contractual life of the loan.

The AFA is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2014.

The following is a schedule of future minimum annual payments under the AFA together with the balance of the obligation as at December 31, 2014.

	$
2015	482,933
2016	629,561
2017	684,956
2018	743,093
2019 and thereafter	6,826,984
Obligations under AFA	9,367,527
Fair value of cash settled share based payment arrangement	34,719
Total obligations under AFA	9,402,246
Less current portion	482,933
Long-term portion	8,919,313

Interest expense on the AFA for the year totaled $16,402 (2013 – nil).

Other borrowings

Other borrowings of $257,150 are comprised of an obligation under a lease arrangement for an office and warehouse premises and bear an interest rate of 8.0%. The amount is repayable in monthly installments over the period to April 2018.

The following are the future minimum borrowing repayments for other borrowings:

	$
2015	21,964
2016	23,787
2017	25,761
2018	185,658
	257,170
Less current portion	21,964
Long-term portion	235,206

12. FINANCE LEASES

The Company executed a 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. The MLA was expanded to a 4th Boeing 767-300 aircraft. During the year, the Company completed three finance leases under this MLA including one sale and leaseback of an aircraft completed during the year. These leases expire from June 2021 to 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 a corresponding lease obligation was 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 rate ranges from 7.35% to 7.37%. These leases are guaranteed by the Company and its subsidiaries.

The aggregate tranche A comprises 85% of the finance lease 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 finance lease is payable at the termination of the contract.

The aggregate tranche B comprises 15% of the finance lease amount. The basic rent due in respect of the finance lease shall be equal to the interest on tranche B amount advanced in respect of the finance lease, 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 less than or 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 finance lease. The balance amount of the finance lease is payable at the termination of the contract.

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 finance lease 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. The additional fees have been accounted for as a cash settled share based compensation option.

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 fees are considered as initial direct costs of the finance leases and have been capitalized to the respective finance lease assets.

The arrangement is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2014.

12. FINANCE LEASES (CONTINUED)

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 December 31, 2014.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	12,001,734	6,782,482
Later than one year and not later than five years	74,802,203	51,261,734
Later than five years	37,761,152	34,841,102
	124,565,089	92,885,318
Less: interest	31,679,771	-
Obligations under finance leases	92,885,318	92,885,318
Fair value of cash settled share based payment arrangement	1,489,691	1,489,691
Total obligations under finance leases	94,375,009	94,375,009
Less: current portion	6,782,482	6,782,482
Non-current portion	87,592,527	87,592,527

Interest amount on the finance lease for the year totaled $2,211,832, (2013 - $23,174), of which $1,031,698 (2013 - $nil) was capitalized to the cost of property, plant and equipment.

13. CONVERTIBLE DEBENTURES

The balances of convertible debentures at December 31, 2014 and December 31, 2013 consists of the following:

	December 31, 2014	December 31, 2013
	$	$
Convertible Debentures - 6.5%	13,802,460	25,940,908
Convertible Debentures - 5.5%	65,163,946	-
Balance	78,966,406	25,940,908

Convertible Debentures – 6.5% due April 30, 2017

In March 2012, $28,750,000 of unsecured subordinated convertible debentures were issued with a term of five years. These debentures bear a fixed interest rate of 6.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing April 30, 2012.

On or after April 30, 2015, but prior to April 30, 2016, 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 $11.75 per common share. After April 30, 2016, but prior to the maturity date of April 30, 2017, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on April 30, 2017, 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.

13. CONVERTIBLE DEBENTURES (CONTINUED)

Convertible Debentures – 6.5% due April 30, 2017 (continued)

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $11.75 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 $11.75 per voting share may be subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.142 per quarter ($0.568 per annum).

In the event of a change in control, as defined in the indenture, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, if a change in control occurs in which 10% or more of the consideration consists of cash, certain equity securities or other property not traded or intended to be traded immediately following such transaction on a recognized exchange, holders of the debentures will be entitled to convert their debentures and, subject to certain limitations, receive an additional amount of voting shares to those that they would otherwise be entitled at the normal conversion rate. The amount of such additional voting shares will depend on the effective date and the price paid per voting share in the transaction constituting the change in control.

During the year, convertible debentures with an aggregate principal amount of $13,881,000 were converted, at the holders' discretion, into 1,181,006 voting shares of the Company. Accordingly, the Company derecognized $12,616,183 of the liability for convertible debentures, representing the amortized cost carrying amount of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option of $890,575 was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the statement of changes in equity. No gain or loss was recognized upon conversion of the debentures.

The balance of convertible debentures at December 31, 2014 and December 31, 2013 consists of the following:

	December 31, 2014	December 31, 2013
	$	$
Principal balance	14,869,000	28,750,000
Less:		
Issuance costs	(678,643)	(1,312,192)
Conversion option at inception	(1,366,595)	(2,642,384)
Accretion	978,698	1,145,484
Balance	13,802,460	25,940,908

13. CONVERTIBLE DEBENTURES (CONTINUED)

Convertible Debentures – 6.5% due April 30, 2017 (continued)

The conversion option, net of related issuance costs of $132,808, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 10.01%.

Interest expense on the debentures for the year ended December 31, 2014 totaled $1,674,982 (2013 - 2,546,129).

Convertible Debentures – 5.5% due June 30, 2019

In April 2014, $74,000,000 of unsecured subordinated convertible debentures were issued with a term of five years. These debentures bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2014.

On or after June 30, 2017, but prior to June 30, 2018, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture plus accrued and unpaid interest, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $28.75 per common share. On or after June 30, 2018, but prior to the maturity date of June 30, 2019, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on June 30, 2019, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $28.75 per voting share at any time prior to the close of business on the earliest of the business day immediately preceding the maturity date; if called for redemption, on the business day immediately preceding the date specified by the Company for redemption of the debentures; or if called for repurchase pursuant to a change of control, on the business day immediately preceding the payment date. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract. The conversion rate of $28.75 per voting share is subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.225 per quarter ($0.900 per annum).

In the event of a change in control, as defined in the indenture, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, if a change in control occurs in which 10% or more of the consideration consists of cash, certain equity securities or other property not traded or intended to be traded immediately following such transaction on a recognized exchange, holders of the debentures will be entitled to convert their debentures and, subject to certain limitations, receive an additional amount of voting shares to those that they would otherwise be entitled at the normal conversion rate. The amount of such additional voting shares will depend on the effective date and the price paid per voting share in the transaction constituting the change in control.

13. CONVERTIBLE DEBENTURES (CONTINUED)

Convertible Debentures – 5.5% due June 30, 2019 (continued)

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

	December 31, 2014	December 31, 2013
	$	$
Principal balance	74,000,000	-
Less:		
Issuance costs	(3,265,544)	-
Conversion option at inception	(6,618,078)	-
Accretion	1,047,568	-
Balance	65,163,946	-

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%.

Interest expense on the debentures for the year ended December 31, 2014 totaled $3,790,636 (2013 - $nil). Interest amount of $2,167,912 (2013 – $nil) was capitalized to the cost of property, plant and equipment.

14. INCOME TAXES

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

	December 31, 2014	December 31, 2013
	$	$
Earnings before income taxes	(13,025,819)	4,513,111
Income tax provision at the combined basic rate of 26.5% (2013 - 26.5%)	(3,451,842)	1,195,974
Permanent and other differences	(49,312)	(14,493)
Income tax expense	(3,501,154)	1,181,481

14. INCOME TAXES (CONTINUED)

The tax effect of significant temporary differences is as follows:

	December 31, 2014	December 31, 2013
	$	$
Property, plant and equipment	3,705,261	2,866,634
Operating loss carryforward	(1,667,841)	-
Intangible assets	(525,315)	(564,854)
Notes receivable	(5,992)	(24,683)
Financing costs	(1,126,787)	(272,534)
Convertible debentures	1,846,047	744,409
Provision for lease retirement costs	330,665	224,703
Finance lease receivable	30,415	108,715
Long-term incentive plan	(122,247)	(104,057)
Deferred heavy maintenance	1,911,087	823,599
Net deferred income tax liability	4,375,293	3,801,932

A deferred tax liability of $1,753,791 was directly recorded in shareholders' equity relating to the value of the conversion option recorded on the issuance of the convertible debentures in April 2014 as disclosed in Note 13. During the year ended December 31, 2014, a deferred tax liability of $321,092 recorded in shareholder's equity was reduced relating to the conversion of convertible debentures into voting shares of the Company as disclosed in Note 13.

15. DIRECT EXPENSES

	December 31, 2014	December 31, 2013
	$	$
Fuel costs	61,293,971	63,677,569
Maintenance costs	12,466,095	10,522,305
Heavy maintenance amortization	4,249,677	4,424,421
Aircraft costs	27,196,698	14,278,128
Crew costs	14,711,061	10,937,092
Direct depreciation	8,063,880	6,402,411
Commercial and other costs	45,642,671	39,705,515
Direct expenses	173,624,053	149,947,441

16. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2014	December 31, 2013
	$	$
Salaries and Benefits	17,995,003	13,106,791
Depreciation and amortization	662,058	679,599
Other General and administrative expenses	6,327,912	4,552,176
General and administrative expenses	24,984,973	18,338,566

17. OTHER LOSSES (GAINS)

Other losses (gains) consist of the following:

	December 31, 2014	December 31, 2013
	$	$
Loss on disposal of property, plant and equipment	92,425	146,630
Loss on impairment of property, plant and equipment	-	281,275
Loss on cash settled share based payment arrangement	516,917	-
Gain on lease termination	-	(1,400,000)
Other losses (gains), net	609,342	(972,095)

In 2013, in settlement of the early termination of a lease, the lessee paid a lease termination fee of $1,400,000 to the Company, consisting of $600,000 cash and the transfer of property, plant and equipment valued at $800,000.

18. SHAREHOLDERS' CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of no par value common voting shares, variable voting shares and preferred shares. The common voting shares are held only by shareholders who are Canadian residents. The variable voting shares are held only by shareholders who are non-Canadian residents. Under the articles of incorporation and bylaws of the Company, any common voting share that is sold to a non-Canadian resident is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian resident is automatically converted to a common voting share.

Variable voting shares carry one vote per share held, except where (i) the number of issued and outstanding variable voting shares exceeds 25% of the total number of all issued and outstanding common and variable voting shares, or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes that may be cast at such meeting.

If either of the above noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act or formality. Under the circumstances described in (i) above, the variable voting shares as a class cannot carry more than 25% of the total voting rights attached to the aggregate number of issued and outstanding common and variable voting shares. Under the circumstances described in (ii) above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% of the total number of votes that may be cast at the meeting.

18. SHAREHOLDERS' CAPITAL (CONTINUED)

b) Issued and outstanding

The following table shows shareholders' capital as at December 31, 2014 and 2013:

	Number	Amount
		$
Variable voting shares	706,745	4,298,548
Common voting shares	7,229,105	63,030,892
Outstanding, January 1, 2013	7,935,850	67,329,440
Changes during the year		
Treasury stock purchase	(61,099)	(592,875)
Distributed in connection with share-based compensation	55,060	465,625
Outstanding, December 31, 2013	7,929,811	67,202,190
Consisting of:		
Variable voting shares	256,395	2,172,852
Common voting shares	7,673,416	65,029,338
Outstanding, December 31, 2013	7,929,811	67,202,190
Changes during the period		
Voting shares issued on conversion of convertible debenture	1,181,346	12,616,183
Treasury stock purchase	(24,819)	(521,794)
Distributed in connection with share-based compensation	45,076	462,021
Outstanding, December 31, 2014	9,131,414	79,758,600
Consisting of:		
Variable voting shares	98,545	860,744
Common voting shares	9,032,869	78,897,856
Outstanding December 31, 2014	9,131,414	79,758,600

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the years ended December 31, 2014 and 2013 amounted to $5,404,094 ($0.5964 per share) and $5,182,931 ($0.6484 per share), respectively.

19. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the years ended December 31, 2014 and 2013:

Basic earnings per share		2014		2013
Net income	$	(9,524,665)	$	3,331,630
Weighted average number of shares		8,878,829		7,993,416
Total basic earnings per share	$	(1.07)	$	0.42

19. EARNINGS PER SHARE (CONTINUED)

The shares held under the long-term incentive plan have been included in the calculation of basic earnings per share for the years ended December 31, 2014 and 2013 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the years ended December 31, 2014 and 2013 as the impact would be anti-dilutive.

20. 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, 2014 and 2013, share-based compensation expense totaled $622,018 and $621,361, respectively, including withholding taxes of $92,095 and $104,625, respectively, paid on behalf of the eligible employees.

2014 Awards

In March 2014, in accordance with the Company's long-term incentive plan (the "Plan" or "LTIP"), an amount of $613,875 was approved to the executive officers and senior management. Accordingly, the Company purchased 24,819 shares from the open market at an average price of $21.02 per share. As at December 31, 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 December 31, 2014 was $409,250.

Prior Years Awards

In 2012, and 2013, the Company purchased a total of 100,374 shares under the Plan. In 2014, 39,723 of these shares had vested and $349,491was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at December 31, 2014 was $232,500 (2013 - $116,250).

20. LONG-TERM INCENTIVE PLAN (CONTINUED)

The following table details the impact of the above transactions on shareholders' capital as at December 31, 2014 and on the consolidated statements of profit or loss for the years ended December 31, 2014 and 2013:

Shares purchased under the Plan	Number	$
Balance, January 1, 2013	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
Shares acquired by Company for long-term incentive plan	24,819	521,794
Shares distributed by Company to long-term incentive plan participants	(45,076)	(462,021)
Balance, December 31, 2014	43,348	641,750

	December 31, 2014	December 31, 2013
Share-based compensation expense	$	$
Shares transferred to long-term incentive plan participants	172,290	175,736
Withholding tax paid for long-term incentive plan participants	92,095	104,625
Share-based compensation, not yet vested	357,633	341,000
Share-based remuneration	622,018	621,361

21. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

	$
Not later than one year	18,500,280
Later than one year and not later than five years	24,239,208
Later than five years	3,114,486
Total	45,853,974

In the normal course of business, the Company has certain commitments for expenditures related to the continuation of the operations and the maintenance and acquisition of property, plant and equipment.

21. COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingencies

The Company has provided irrevocable standby letters of credit totaling $23,361,100 to financial institutions as security for its loan, corporate credit cards and to several vendors as security for the Company's ongoing purchases. The letters of credit expire as follows:

	$
April 29, 2016	20,000,000
March 20, 2015	20,000
June 15, 2015	350,000
July 6, 2015	139,000
July 28, 2015	172,000
July 28, 2015	230,000
December 31, 2015	2,000,000
December 31, 2015	200,000
January 13, 2015	250,000
	23,361,000

22. RELATED PARTY TRANSACTIONS

There were no significant related party transactions in 2014 and 2013.

Compensation of key management personnel

In 2014, the employee benefit expense was $39,770,046 (2013 - $30,294,445) of which $21,775,043 (2013 - $16,981,623) was recorded in direct expenses and $17,995,003 (2013 - $13,312,822) was recorded in general and administrative expenses. The general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2014 and 2013 as follows:

	December 31, 2014	December 31, 2013
	$	$
Short-term benefits	6,817,811	4,205,229
Post-employment benefits	60,976	31,027
Share-based payments	622,018	621,361
Total remuneration	7,500,805	4,857,617

23. ECONOMIC DEPENDENCE

In 2014, the Company had sales to three customers that represented 54.7% of the total revenues (2013 - 54.9%). These sales are provided under service agreements that expire over various periods to September 2018.

24. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the shareholders and debt holders.

24. CAPITAL MANAGEMENT (CONTINUED)

The Company defines capital as the sum of total equity, borrowings, including the current portion, obligations under finance leases, convertible debentures, cash, and the present value of the future operating lease payments.

The Company manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt which may be (with different characteristics), repurchase debt instruments for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Company's approach to capital management during the year.

The Company is subject to financial covenants related to its credit facility, finance leases and aircraft facility arrangement (Note 11 and Note 12, respectively). As at December 31, 2014 and 2013, the Company was in compliance with all financial covenants.

25. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2014.

Fair values

The fair value of the convertible debentures, based on discounted cash flow as at December 31, 2014, was approximately $75,834,000 (December 31, 2013 – $33,925,000). The fair value of the long-term debt as disclosed in Note 11, based on an estimate of market interest rates as at December 31, 2014 and 2013, was approximately equal to its carrying value. The fair values of the notes receivables and finance lease receivable as at December 31, 2014 and 2013 were approximately equal to their carrying values. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

There are no assets or liabilities recorded at fair value as at December 31, 2014 and December 31, 2013.

Credit risk

The Company's principal financial assets that expose it to credit risk are accounts receivable, notes receivable and finance lease receivable.

The Company is subject to risk of non-payment of accounts receivable, finance lease receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's receivables are concentrated among several of its largest customers with approximately 54% (December 31, 2013 – 52%) of total receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

25. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

(a) Only a small portion (0.3%) of trade receivables is outstanding for more than sixty days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. Consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

(b) The Company mitigates credit risk by monitoring the creditworthiness of its customers.

(c) A majority of the Company's major customers are large public corporations with positive credit ratings and history.

The notes receivables as disclosed in Note 4 are secured by a first charge on aircraft sold.

The finance lease receivable is secured by the leased aircraft.

Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $60.0 million. The Company was in compliance with all covenants as at December 31, 2014 and 2013.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2014 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Borrowings and convertible debentures	504,897	5,464,603	96,940,346	445,995	103,355,841
Finance leases	6,782,482	5,672,183	45,341,804	36,578,540	94,375,009
Interest on borrowings (at current rates)	5,967,797	5,649,080	12,137,899	760,575	24,515,351
Interest on finance leases	6,676,888	6,283,422	17,073,357	1,646,104	31,679,771
Trade and other payables	23,323,465	-	-	-	23,323,465
Dividends payable	1,367,907	-	-	-	1,367,907
Total	44,623,436	23,069,288	171,493,406	39,431,214	278,617,344

25. FINANCIAL INSTRUMENTS (CONTINUED)

Liquidity risk (continued)

Total financial liabilities at December 31, 2013 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Borrowings and convertible debentures	-	1,675,222	28,750,000	-	30,425,222
Interest on borrowings (at current rates)	1,890,213	1,888,530	2,539,452	30,722	6,348,917
Trade and other payables	16,797,283	-	-	-	16,797,283
Dividends payable	1,191,819	-	-	-	1,191,819
Total	19,879,315	3,563,752	31,289,452	30,722	54,763,241

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial liability will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt and also leases certain assets with fixed rates.

The Company risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Company's capital structure and is based upon a long term objective of 70% fixed and 30% floating but allows flexibility in the short-term to adjust to prevailing market conditions. These practices aim to minimize the net interest cost volatility. The ratio at December 31, 2014 is 97.4% fixed and 2.6% floating.

Interest expense reflected on the consolidated statements of (loss) income and comprehensive (loss) income relates to financial liabilities recorded at amortized cost.

Foreign exchange risk

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The Company sometimes manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases by buying forward U.S. dollars at fixed rates in future periods.

As at December 31, 2014, the Company had no U.S. dollar forward sale contracts outstanding (2013 - $nil).

Total foreign exchange loss during the year ended December 31, 2014 were $277,734 (2013 – gain of $42,909).

Commodity risk

The Company is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Company does not use derivative instruments to mitigate this risk.

25. FINANCIAL INSTRUMENTS (CONTINUED)

Market risk

In the normal course of business, the financial position of the Company is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-Canadian dollar denominated assets and liabilities, other examples of risk include collectability of accounts receivable.

The Company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Company does not anticipate any material losses from these risks.

To meet disclosure requirements, the Company performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Company’s debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Company’s cash, borrowings, convertible debentures and all derivative financial instruments. To perform the sensitivity analysis, the Company assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

At December 31, 2014 and 2013, 0.5 percent upward movement in interest rates would result in $0.3 million impact on the fair value of the Company’s financial assets and liabilities. Due to the lower market of interest rates, downward movement in interest rates was not considered a reasonable scenario.

At December 31, 2014, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Company’s other net financial assets and liabilities denominated in US dollars by approximately $0.1 million (2013 - $0.1 million). An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2013 - $0.1 million).

At December 31, 2014, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of EURO would increase the value of the Company’s other net financial assets and liabilities denominated in EURO by approximately $0.1 million (2013 - $0.1 million). An increase in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2013 - $0.1 million).

26. GUARANTEES

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company’s primary guarantees are as follows:

(a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Company agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company,

26. GUARANTEES (CONTINUED)

subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

(d) The Company participates in Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operate on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered as part of the Financial Statements of the Company. The Company views this loss potential as remote. The airlines that participates in the FFC guarantee on a pro-rata basis the share of the debt based on system usage.

The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties.

Historically, the Company has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

27. SUBSEQUENT EVENTS

In 2015, the Company purchased all of the shares and certain debt of ACE Air Charter Inc. ("ACE") for a total of $1,000,000. ACE is the parent corporation of ACE Maintenance Ontario Inc., 2166361 Ontario Inc. and Navigatair Inc. Navigatair Inc. has the aircraft operating certificate and other licenses required to operate four of the Challenger 601 aircraft purchased by the Company and leased to Navigatair Inc. in 2014 once the maintenance and certain repairs are completed in respect of these aircraft in early 2015.

In 2015, the Company entered into a series of U.S. dollar forward purchase contracts maturing on a monthly basis from February 2015 to January 2016 for an aggregate total of USD $46.0 million.