CARGOJET INC.

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

For the Three Month and Twelve Month Periods Ended December 31, 2014

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three month and twelve month periods ended December 31, 2014. The following also includes a discussion of and comparative operating results for the three month and twelve month periods ended December 31, 2013.

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

The effective date of the MD&A is March 7, 2015. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2014 and 2013.

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

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

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with debt covenants. Investors are cautioned that EBITDA, Adjusted EBITDA and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA, Adjusted EBITDA and Adjusted Free Cash Flow are shown on page 15 of the MD&A.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company (see page 33 for a more complete discussion of the risks affecting the Company's business).

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

Caution Concerning Forward Looking Statements

This discussion includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the section "Risk Factors" starting on page 33.

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

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

- Fleet Overview – Page 4,
- Recent Events - Purolator and Canada Post DACNS – Page 6,
- Recent Events - Air Cargo Cooperation agreement with First Air – Page 8,
- Results of operations for twelve month period ended December 31th, 2014 and 2013 - Liquidity and capital resources – Page 28, and
- Outlook – Page 42.

Overview

Financial Information and Operating Statistics Highlights
(Canadian dollars in million, except where indicated)

	Three Month Periods Ended December 31,			Twelve Month Periods Ended December 31,		
	2014	2013	CHANGE	**2014**	2013	CHANGE
Financial information	**$**	**$**		**$**	**$**	
Revenue	**57.1**	48.5	8.6	**192.4**	175.4	17.0
Direct expenses	**51.3**	39.9	11.4	**173.6**	150.0	23.6
Gross margin	**5.8**	8.6	(2.8)	**18.8**	25.4	(6.6)
Gross margin - %	**10.2%**	17.7%	-42.7%	**9.8%**	14.5%	-32.5%
Selling, general & administrative expenses	**9.7**	6.0	3.7	**25.8**	18.8	7.0
Other general & administrative expenses	**3.2**	(0.7)	3.9	**6.0**	2.1	3.9
(Loss) income before income taxes	**(7.1)**	3.3	(10.4)	**(13.0)**	4.5	(17.5)
Income taxes	**2.1**	(0.9)	3.0	**3.5**	(1.2)	(4.7)
Net (loss) income	**(5.0)**	2.4	(7.4)	**(9.5)**	3.3	(12.8)
(loss) earning per share - CAD$						
Basic	**(0.54)**	0.30	(0.84)	**(1.07)**	0.42	(1.49)
Diluted	**(0.54)**	0.27	(0.81)	**(1.07)**	0.42	(1.49)
EBITDA (1)	**0.1**	7.1	(7.0)	**5.3**	19.1	(13.8)
EBITDA margin - %	**0.2%**	14.6%	-98.8%	**2.8%**	10.9%	-74.7%
Adjusted EBITDA (1)	**0.6**	6.9	(6.3)	**4.0**	17.2	(13.2)
Adjusted EBITDA - %	**1.1%**	14.2%	-92.6%	**2.1%**	9.8%	-78.8%
Adjusted free cash flow (1)	**(0.4)**	4.1	(4.5)	**(5.5)**	3.4	(8.9)
Operating statistics						
Operating days (2)	**49**	48	1	**198**	197	1
Average cargo revenue per operating day (3)	**0.98**	0.79	24.1%	**0.78**	0.70	11.4%
Block hours	**4,512**	3,847	665	**14,861**	14,364	497
Aircraft in operating fleet						
B727-200	**9**	11	(2)	**9**	11	(2)
B757-200	**4**	1	3	**4**	1	3
B767-200	**5**	2	3	**5**	2	3
B767-300	**3**	-	3	**3**	-	3
Average Volumes per operating Day - lbs.	**804,273**	741,281	8.5%	**689,859**	644,306	7.1%
Number of full-time equivalent employees	**509**	382	127	**509**	382	127

Overview (Continued)

Financial Information and Operating Statistics Highlights (Continued)

1. EBITDA, Adjusted EBITDA and Adjusted free cash flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer page1of this MD&A for detailed discussion.
2. Operating days refer to the Company's overnight air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.
3. Average cargo revenue per operating day refers to total overnight, ACMI and charter revenues earned by the company per operating day.

Corporate Overview

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

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

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

Fleet Overview

The Company initiated a fleet expansion program early in 2014 to replace four of its Boeing 727-200 ("B727") aircraft with Boing 757-200ER ("B757") aircraft due to increased customer demand on its core overnight network. The fleet was further expanded with Boeing 767-200ER ("B767") and Boing 767-300ER ("B767-300") aircraft to provide the required cargo capacity to the CPGOC under the MSA commencing at the end of Q1 of 2015.

See Caution Concerning Forward Looking Statements, page 2

The table below set forth the Company's operating fleet as at December 31, 2012, 2013 and 2014 as well as the Company's planned operating fleet as at December 31, 2015:

Overview (Continued)

Fleet Overview

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs)	Range (miles)
			Actual			Plan		
			2012	2013	2014	2015		
B767-300[(1)]	Finance Lease	21	-	-	3	4	116,000	6000
B767-300[(2)]	Operating Lease	21	-	-	-	1	116,000	6000
B767-300[(3)]	Owned	21	-	-	-	3	116,000	6000
B767-200[(4)]	Operating Lease	30	2	2	5	3	100000	5000
B757-200[(5)]	Owned	27	-	-	1	2	80000	3900
B757-200[(6)]	Operating Lease	25	1	1	3	3	80000	3900
B727-200[(7)]	Owned	35	10	11	9	6	60000	1800
Challenger 601[(8)]	Owned	28	-	-	-	4	6,000	3,300
Total Aircraft			13	14	21	29		

(1) During 2014, Cargojet took delivery of three B767-300 aircraft and one B767-300 aircraft in January, 2015 under finance leases.

(2) Cargojet is expected to take delivery of one B767-300 aircraft in early March, 2015 under an operating lease with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price.

(3) In 2014, Cargojet entered into an agreement to purchase four converted B767-300 aircraft and took delivery of one such aircraft under finance lease. Cargojet is scheduled to take delivery of the three remaining aircraft in April, August and November, 2015. The financing of these aircraft is currently under negotiation with identified potential lenders.

(4) In 2014, Cargojet assumed the lease of one B767-200 aircraft from a Canadian airline. This sublease expires in June 2018. In addition, two B767-200 aircraft were leased on a short term basis to meet the requirements of the MSA with CPGOC. These two short-term leases expire in mid-2015 and are renewable at Cargojet's options for an additional 24 months. Two other B767-200 aircraft are currently under long term operating leases that expire in Q1 of 2016.

(5) In 2014, Cargojet purchased one previously leased B757-200 aircraft and purchased an additional B757-200 that underwent conversion from a passenger aircraft to freighter aircraft and became operational in early 2015.

(6) In 2014, Cargojet leased two additional B757-200 aircraft and extended the lease of its existing B757-200 aircraft. The leases of the B757-200 aircraft expire respectively at the end of 2015, in 2020 and 2022. Cargojet has an option to renew the lease of the B757-200 aircraft that expires at the end of 2015 for another two years.

Overview (Continued)

Fleet Overview (continued)

(7) Cargojet plans to take three B727-200 aircraft out of regular service in 2015.
(8) In 2014, Cargojet purchased five Challenger 601 aircraft. Four of the five aircraft are in various stages of maintenance and modification and are expected to be operational in early 2015. One aircraft is being held for parts only.

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

Recent Events

Purolator and Canada Post DACNS

See Caution Concerning Forward Looking Statements, page 2

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options held by the CPGOC. Based on the estimated volumes provided by the CPGOC in its tender documents and the prices quoted by the Company in the MSA, projected revenues are estimated to be approximately $1.0 billion dollars during the initial seven-year agreement.

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

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

Recent Events (Continued)

Amendment of Credit Facility

In 2014, the Company amended its revolving credit facility with a Canadian chartered bank. The amendment increased the maximum credit limit from $25.0 million to $60.0 million. All other terms and conditions related to the credit facility remained the same.

Debenture Conversion

The Company received requests to convert $13,881,000 of 6.5% convertible debentures into common shares and 1,181,346 common shares were issued to the holders at a conversion rate of 85.1064 shares per $1,000 of debentures.

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

In April 2014, $74.0 million of unsecured subordinated convertible debentures were issued with a term of five years. These debentures bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2014.

On or after June 30, 2017, but prior to June 30, 2018, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture plus accrued and unpaid interest, provided that the current market price of the common shares of the

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

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

In the event of a change in control, as defined in the indenture, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, if a change in control occurs in which 10% or more of the consideration consists of cash, certain equity securities or other property not traded or intended to be traded immediately following such transaction on a recognized exchange, holders of the debentures will be

Recent Events (Continued)

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

entitled to convert their debentures and, subject to certain limitations, receive an additional amount of voting shares to those that they would otherwise be entitled at the normal conversion rate. The amount of such additional voting shares will depend on the effective date and the price paid per voting share in the transaction constituting the change in control.

The principal amount of the debentures has been allocated between its debt and equity components. The carrying amount of the debt component was established by measuring the fair value of a similar liability (with similar terms, credit status and embedded non-equity derivative features) but without an associated equity component. The carrying amount of the equity component, presented separately in the reserve for 'conversion option' in the statement of changes in equity, was then determined by deducting the fair value of the liability component from the fair value of the debentures as a whole.

The debt component is measured at amortized cost. The balance of the debt component as at December 31, 2014 and December 31, 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%.

Air Cargo Cooperation agreement with First Air

See Caution Concerning Forward Looking Statements, page 2

Cargojet and First Air have signed a cooperation agreement that will create significant cost efficiencies for both carriers. Cargojet has assumed the remaining lease obligation of First Air's B767 extended range freighter aircraft and has started to provide scheduled freighter aircraft service to First Air. Both parties will maintain their respective and existing end-user customer relationships but offer enhanced overall reliability and service to all customers.

Acquisition of Property, plant and equipment

During the twelve month period ended December 31, 2014, the Company invested its own funds and entered into finance lease contracts totaling $171,342,831(2013 – $11,769,169) on the acquisition and modification of newly purchased and/or leased aircrafts and other property, plant and equipment, out of which $35,336,205(2013 - $nil) are under development as at December 31, 2014 and accordingly, were classified as "property, plant and equipment under development" due to pending completion of the process to ready the assets for use.

Recent Events (Continued)

Air Cargo Logistics Facility

The Company and the John C. Munro Hamilton International Airport entered into an arrangement in the airport's $12 million Air Cargo Logistics Facility, for which construction began in the third quarter of 2014. The Company will contribute $4.75 million and exchange a building owned by it for its share of the facility. The Company will occupy approximately half of the 77,000 square foot facility for both office and dedicated warehouse space. The Air Cargo Logistics Facility is being funded through a joint partnership between the Federal and Ontario governments and TradePort International Corporation, with support from Hamilton's municipal government, and slated to be complete in 2015.

Aircraft Finance Leases and Loans

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") and two aircraft loan agreements (the "Loan Agreements") with a Canadian equipment leasing and financing company. As of March 5, 2015, the Company completed four finance leases to acquire four B767-300 aircraft under the MLA in the aggregate amount of $120 million and refinanced two B757-300 aircraft owned by the Company under the Loan Agreements in the aggregate amount of $25.5 million. The Company is required to purchase the aircraft financed under the MLA at the end of the term of each advance at a predetermined price.

The amounts advanced under the MLA and the Loan Agreements were advanced in two tranches, A and B, with tranche A under the MLA being 84% of the amounts advanced thereunder and under the Loan Agreements being 91% of the amounts advanced thereunder and tranche B in each case being equal to the balance of the amounts advanced. In each case, 60% of tranche A is repayable in equal monthly installments over 84 months, with the first payment being payable on the date of each advance. The balance of each tranche A is to be repaid at the end of the 84 month period. Under the MLA, the date of each advance is the date of delivery of the aircraft which is being financed. The amounts advanced under the Loan Agreements were advanced in December, 2014 and January, 2015. Interest on each tranche B is compounded monthly and payable quarterly in arrears over 48 months from the date of the advance, with the first interest payment being payable 90 days after the date of the advance. In addition, the Company must also make quarterly payments of a variable amount less than or equal to 50 % of the Company's free cash flow generated for the previous fiscal quarter, provided that any such payment shall not exceed 1/16 of the outstanding amount of the tranche B. The balance owing on account of each tranche B is payable at the end of the 48 month period. The estimated effective interest rate in respect of the MLA and Loan Agreements ranges from 7.35% to 8.06%.

Under the MLA and the Loan Agreements, the Company is required to pay arrangement fees in an amount equal to 0.75% of the amounts advanced and additional fees equal to the positive difference between the price of a certain number of Cargojet shares on the TSX on the date of or immediately prior to the date of the MLA or the Loan Agreements as the case may be 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 only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The additional fees have been accounted for as cash settled share based compensation option. In respect of the MLA, the number of shares used to calculate the amount payable for each lease under this option is 58,333 and the initial price per share was $22.99. In respect of the

Recent Events (Continued)

Aircraft Finance Leases and Loans (Continued)

Loan Agreement, the number of shares used to calculate the amount payable for each loan under this option is 30,000 and the initial price per share was $25.53.

The Company has also agreed to pay success fees in the amount equal to 1.5% of the amount advanced under the MLA and the Loan Agreements to an independent investment banking firm for its services towards completion of these transactions. These fees are considered as initial transaction costs of the MLA and the Loan Agreements and have been deducted from the amounts advanced to determine their carrying value and will accrete over the contractual life of each finance lease or loan, as the case may be.

Long-term Incentive Plan

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).

Subsequent Event

These events have taken place subsequent to December 31, 2014 and have not been included in the calculations and discussions in this MD&A:-

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.

Recent Events (Continued)

Subsequent Event (Continued)

In 2015, the Company purchased all of the shares and certain debt of ACE Air Charter Inc. ("ACE") for a total of $1 million. 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. These aircraft will allow the Company to operate emergency medical and other charters as well as assist the Company in emergency positioning of its crew and parts transportation for the Company's main fleet.

Revenues

The Company's revenues are primarily generated from its overnight air cargo service between thirteen major Canadian cities each business night. Customers pre-purchase a guaranteed space and weight allocation on the Company's network and a corresponding guaranteed daily revenue amount is paid to the Company for this space and weight allocation. Remaining capacity is sold on an *adhoc* basis to contract and non-contract customers. Although a significant portion of overnight revenues are fixed due to guaranteed customer allocations, Cargojet's revenues will generally rise and fall with the overall level of customer volume typically expressed in pounds.

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

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

The Company also generates revenue from a variety of other air cargo services:

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

- The Company provides dedicated aircraft to customers on an *adhoc* and scheduled basis typically in the daytime and on weekends. *Adhoc* flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The *adhoc* charter business targets

Revenues (Continued)

livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. *Adhoc* and scheduled flights are sold either on an "all in" basis or on an ACMI basis:

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

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

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

Expenses

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

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

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Company's business that include functions such as load scheduling, flight operations coordination, client relations, administration, accounting, human resources and information systems. Administrative expenses include management bonuses, legal, audit and other consulting fees, bank charges, and data and communication expenses.

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended December 31,		Twelve Month Period Ended December 31,	
	2014	2013	**2014**	2013
	(unaudited)	(unaudited)	**(audited)**	(audited)
	$	$	$	$
Revenue	**57,120**	48,519	**192,398**	175,376
Direct expenses	**51,330**	39,853	**173,624**	149,947
	5,790	8,666	**18,774**	25,429
General and administrative	**9,280**	5,765	**24,985**	18,339
Sales and marketing	**357**	210	**809**	461
Finance costs	**2,606**	805	**5,544**	3,232
Finance income	**(36)**	(32)	**(147)**	(144)
Other losses (gains)	**652**	(1,400)	**609**	(972)
	12,859	5,348	**31,800**	20,916
(Loss) income before income taxes	**(7,069)**	3,318	**(13,026)**	4,513
(Recovery of) provision for income taxes				
Current	**(2,642)**	1,262	**(2,642)**	2,277
Deferred	**557**	(338)	**(859)**	(1,096)
	(2,085)	924	**(3,501)**	1,181
Net (loss) income	**(4,984)**	2,394	**(9,525)**	3,332
(Loss) earnings per share				
Basic	(0.54)	0.30	(1.07)	0.42
Diluted	(0.54)	0.27	(1.07)	0.42
Average number of shares - basic (in thousands of shares)[1]	**9,150**	7,993	**8,879**	7,993
Average number of shares - diluted (in thousands of shares)[1]	**9,150**	10,440	**8,879**	7,993

1. Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31 2014	September 30 2014	June 30 2014	March 31 2014	December 31 2013	September 30 2013	June 30 2013	March 31 2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue (in thousands)	$ 57,120	$ 47,227	$ 44,335	$ 43,716	$ 48,519	$ 43,416	$ 42,723	$ 40,718
Net income (loss) from continuing operations (in thousands)	$ (4,984)	$ (2,276)	$ (689)	$ (1,576)	$ 2,394	$ 225	$ 1,120	$ (407)
Earnings (loss) per Share								
- Basic	$ (0.54)	$ (0.25)	$ (0.08)	$ (0.19)	$ 0.30	$ 0.03	$ 0.14	$ (0.05)
- Diluted	$ (0.54)	$ (0.25)	$ (0.08)	$ (0.19)	$ 0.27	$ 0.03	$ 0.14	$ (0.05)
Average number of shares - basic (in thousands of shares)[1]	9,150	9,090	8,949	8,314	7,993	7,993	7,993	7,993
Average number of shares - diluted (in thousands of shares)[1]	9,150	9,090	8,949	8,314	10,440	7,993	7,993	7,993

1. Average number of shares includes treasury shares.

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

3. Please refer discussion on "Revenue – on page "11" and "Expenses – on page "12".

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

	Three Month Period Ended December 31,		Twelve Month Period Ended December 31,	
	2014	2013	**2014**	2013
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Net (loss) income	**(4,984)**	2,394	**(9,525)**	3,332
Add:				
Interest	**2,570**	773	**5,396**	3,088
Provision for current income taxes	**(2,642)**	1,262	**(2,642)**	2,277
Recovery of deferred income taxes	**557**	(338)	**(859)**	(1,096)
Depreciation and amortization of property, plant and equipment	**4,508**	2,963	**12,976**	11,529
EBITDA	**9**	7,054	**5,346**	19,130
(Gain) loss on disposal of property, plant and equipment	**134**	-	**92**	147
Unrealized foreign exchange loss (gain)	**227**	-	**424**	(49)
Impairment of property, plant and equipment	**-**	-	**-**	281
Change in fair value on non-hedge derivatives	**517**	-	**517**	-
Aircraft heavy maintenance expenditures	**(248)**	(19)	**(1,923)**	(3,407)
Lease return costs for aircraft usage	**(243)**	(103)	**(485)**	(418)
Heavy maintenance deposits [(1)]	**180**	-	**-**	1,499
ADJUSTED EBITDA	**576**	6,932	**3,971**	17,183
	$	$	**$**	$
Cash (outflow) inflow from operating activities	**(8,456)**	6,018	**(5,847)**	17,648
Less Additions to property, plant and equipment (maintenance capex) [(2)]	**(1,712)**	(716)	**(8,522)**	(10,969)
Add: Proceeds from disposal of property, plant and equipment	**52**	247	**183**	247
Standardized free cash flow	**(10,116)**	5,549	**(14,186)**	6,926
Less: Changes in non-cash working capital items and deposits	**7,113**	(159)	**6,007**	(1,203)
Recovery (provision) for current income taxes	**2,642**	(1,262)	**2,642**	(2,277)
Adjusted free cash flow	**(361)**	4,128	**(5,537)**	3,446

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

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

Review of Operations for the Three Month Periods ended December 31, 2014 and 2013

NET INCOME FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2014 AND 2013
(Canadian dollars in million, except where indicated)

	Q4		CHANGE	
	2014 $	2013 $	$	%
Core Overnight Revenues	**40.4**	33.3	7.1	21.3%
ACMI Revenue	**2.7**	1.3	1.4	107.7%
All-in Charter Revenue	**5.1**	3.5	1.6	45.7%
Total Overnight, ACMI and Charter Revenues	**48.2**	38.1	10.1	26.5%
Total Revenue - FBO	**0.1**	0.4	(0.3)	-75.0%
Total Fuel and Other Cost Pass Through	**8.6**	9.6	(1.0)	-10.4%
Fuel Surcharge and Other Passthrough Revenue	**8.7**	10.0	(1.3)	-13.0%
Lease and Other Revenue	**0.2**	0.4	(0.2)	-50.0%
Total Revenue	**57.1**	48.5	8.6	17.7%
Operating Days - days	**49**	48	1	2.1%
Average cargo revenue per operating day	**0.98**	0.79	0.19	24.1%
Direct Expenses				
Fuel Costs	**16.0**	17.1	(1.1)	-6.4%
COS Depreciation	**3.4**	1.7	1.7	100.0%
Aircraft Cost	**8.9**	3.8	5.1	134.2%
Heavy Maintenance Amortization	**1.1**	1.2	(0.1)	-8.3%
Maintenance Cost	**3.5**	2.7	0.8	29.6%
Crew Costs	**4.3**	2.7	1.6	59.3%
Commercial and other costs	**14.1**	10.7	3.4	31.8%
Total direct expenses	**51.3**	39.9	11.4	28.6%
Gross Margin	**5.8**	8.6	(2.8)	-32.6%
SG&A & Marketing				
Sales Costs	**0.3**	0.2	0.1	50.0%
General and Administrative Costs	**9.2**	5.6	3.6	64.3%
G&A Depreciation	**0.2**	0.2	-	-
Total SG&A & Marketing expenses	**9.7**	6.0	3.7	61.7%
Other SG&A				
Other losses (gains)	**0.6**	(1.4)	2.0	
Finance Costs	**2.6**	0.8	1.8	
Total other SG&A	**3.2**	(0.6)	3.8	
(loss) income before income taxes	**(7.1)**	3.4	(10.5)	
Income taxes	**2.1**	(1.0)	3.1	
Net (loss) income	**(5.0)**	2.4	(7.4)	
(loss) earning per share - CAD$				
Basic	**(0.54)**	0.30		
Diluted	**(0.54)**	0.27		

Review of Operations for the Three Month Periods ended December 31, 2014 and 2013 (Continued)

Highlights for the Three Month Periods ended December 31, 2014 and 2013

- Total revenue for the three month period ended December 31, 2014 was $57.1 million as compared to $48.5 million for the same period in 2013, representing an increase of $8.6 million or 17.7%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2014 was $0.98 million per operating day as compared to $0.79 million for the same period in 2013, representing an increase of $0.19 million or 24.1%.
- Adjusted EBITDA for the three month period ended December 31, 2014 was $0.6 million as compared to $6.9 million for the same period in 2013, a decrease of $6.3 million or 91.3%.
- Adjusted free cash flow was an outflow of $0.4 million for the three month period ended December 31, 2014 as compared to an inflow of $4.1 million for the same period in 2013.

Revenue

Total revenue for the three month period ended December 31, 2014 was $57.1 million, as compared to $48.5 million for the same period in 2013, representing an increase of $8.6 million or 17.7%. The increase in total revenue was due primarily to the $7.1 million increase in core overnight revenues, $1.6 million increase in all in charter and $1.4 million increase in ACMI revenues partially offset by $1.3 million decrease in fuel surcharge and other pass through revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2014 was $40.4 million as compared to $33.3 million for the same period in 2013, an increase of $7.1 million or 21.3%. The $7.1 million increase was due primarily to a 8.5% increase in shipping volumes and a price increase that included an adjustment for inflation. The increase in shipping volumes and prices increased revenue per operating day by 24.1% and revenue per block hour by 12.0%.

ACMI scheduled and adhoc charter revenue for the three month period ended December 31, 2014 was $2.7 million, as compared to $1.3 million for the same period in 2013, an increase of $1.4 million or 107.7%. The increase of $0.8 million was due to additional ACMI block hours flown for scheduled flights to Northern Canada related to the First Air cooperation agreement. Adhoc ACMI revenues increased by $0.6 million due to higher customer demand.

All in scheduled and adhoc charter revenue for the three month period ended December 31, 2014 was $5.1 million as compared to $3.5 million for the same period in 2013, an increase of $1.6 million or 45.7%. The increase in all in charter revenue was due to higher adhoc charter customer demand.

Fuel surcharges and other cost pass-through revenues were $8.7 million for the three month period ended December 31, 2014 as compared to $10.0 million for the same period in 2013. During the quarter, the fuel prices decreased by 12.6% as compared to the same period in 2013 and block hours of fuel efficient B757 has increased by 184.0%. The decline in fuel price was partially offset by an increase in shipping volumes and revenues that attracted fuel surcharges. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.1 million for the three month period ended December 31, 2014 as compared to $0.4 million for the same period in 2013.

Review of Operations for the Three Month Periods ended December 31, 2014 and 2013 (Continued)

Revenue (Continued)

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines, and revenues related to the lease of regional aircraft. Other revenues for the three month period ended December 31, 2014 were $0.2 million as compared to $0.4 million for the same period in 2013, due primarily to the termination of a hangar lease contract at the end of 2013 and the sale of a leased regional aircraft in Q3 of 2014.

Direct Expenses

Total direct expenses were $51.3 million for the three month period ended December 31, 2014 as compared to $39.9 million for the three month period ended December 31, 2013. As a percentage of revenue, direct expenses increased from 82.3% in 2013 to 89.8% for the same period in 2014. The overall increase in direct expenses was due primarily to a $0.8 million increase in maintenance costs, a $5.1 million increase in aircraft costs, a $1.6 million increase in crew costs, $1.7 million increase in depreciation and a $3.4 million increase in commercial costs partially offset by a $1.1 million decrease in fuel costs and $0.1 million decrease in heavy maintenance amortization. The direct costs included $7.1 million of expenses incurred on one-time startup costs in relation to the MSA signed with the CPGOC.

Fuel costs were $16.0 million for the three month period ended December 31, 2014 as compared to $17.1 million for the same period in 2013. The $1.1 million or 6.4% decrease in fuel costs was due primarily to the increased usage of B767 and B757 aircraft that have replaced B727 aircraft on certain routes. On a cost per payload basis, B767 and B757 aircraft are significantly more fuel efficient than the B727 aircraft. Fuel expense also declined due to a 12.6% decrease in fuel prices versus the prior year. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $3.4 million for the three month period ended December 31, 2014 as compared to $1.7 million for the same period in 2013. The $1.7 million or 100.0% increase in depreciation expenses was due primarily to the capitalization of three B767 aircraft and one B757 aircraft in 2014.

Aircraft costs were $8.9 million for the three month period ended December 31, 2014 as compared to $3.8 million in 2013, representing an increase of $5.1 million or 134.2%. The increase was due primarily to the $3.5 million of costs associated with the one-time startup costs in relation to the MSA signed with the CPGOC comprised primarily of aircraft lease costs, $0.5 million of lease costs related to the expansion of the B757 fleet and an increase of $0.8 million in the variable lease reserve costs due to the increase in block hours flown using leased B757 aircraft and additional aircraft lease costs of $0.3 million due to variances in the US Dollar exchange rate. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $1.1 million for the three month period ended December 31, 2014 as compared to $1.2 million for the same period in 2013, representing a decrease of $0.1 million or 8.3%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Review of Operations for the Three Month Periods ended December 31, 2014 and 2013 (Continued)

Direct Expenses (Continued)

Maintenance costs were $3.5 million for the three month period ended December 31, 2014 as compared to $2.7 million in 2013, representing an increase of $0.8 million or 29.6%. The increase was due primarily to the $0.2 million increase in aircraft line maintenance costs due to the increase in block hours on the overnight network and a $0.6 million increase in staff costs due to additional hiring of maintenance personnel as part of the start-up costs related to the CPGOC contract.

Total crew costs including salaries, training and positioning were $4.3 million for the three month period ended December 31, 2014 as compared to $2.7 million in 2013, representing an increase of $1.6 million or 59.3%. The increase of $1.6 million was due primarily to the $1.3 million increase in salaries due to the hiring of the additional crews and $0.3 million increase in the training costs as part of the one-time start-up costs in relation to the MSA signed with the CPGOC.

Commercial and other direct operating costs were $14.1 million for the three month period ended December 31, 2014 as compared to $10.7 million for the same period in 2013. The increase of $3.4 million or 31.8% was due primarily to the $1.4 million increase as part of start-up costs in relations to the MSA signed with the CPGOC, $0.8 million increase of navigation costs, $0.5 million increase of landing charges and $0.5 million increase of ground handling costs due to the higher utilization of wide body aircraft and growth in core overnight volumes and $0.2 million increase in the aircraft insurance due to fleet expansion.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2014 were $9.7 million as compared to $6.0 million for the same period in 2013, representing an increase of $3.7 million or 61.7%. The increase in SG&A was due primarily to $0.7 million expenses incurred due to one-time start-up costs comprised primarily of salary and training costs for new employees related to the CPGOC, $1.6 million increase in annual salaries and bonuses and the receipt of $1.4 million of lease termination fees recorded in 2013.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended December 31, 2014 was $0.6 million due to one-time CPGOC start-up costs of $7.8 million or 1.1% of revenue as compared to $6.9 million or 14.2% of revenue for the same period in 2013. The decrease in Adjusted EBITDA of $6.3 million or 91.3% was due primarily to the following:

- One time start-up CPGOC costs of $7.8 million partially offset by the increase in gross profit due to higher core overnight revenues. The CPGOC costs were comprised primarily of $3.5 million in the aircraft lease costs, $1.5 million in hiring and training costs of new personnel, $0.2 million of the heavy maintenance costs of aircraft required for the CPGOC contract, $0.8 million in the maintenance costs, $1.4 million in commercial costs and $0.4 million in administrative costs,
- The effect of exchange fluctuations on net USD denominated expenditures,
- Higher lease and operating costs due to the introduction of additional B757 aircraft partially offset by a decrease in fuel costs related to lower per block hour fuel consumption of these aircraft,
- Lower fuel costs due to a 12.6% decline in fuel prices in 2014.

Review of Operations for the Three Month Periods ended December 31, 2014 and 2013 (Continued)

Net Finance Costs

Net finance costs were $2.6 million for the three month period ended December 31, 2014 as compared to $0.8 million for the same period in 2013. During the quarter, the Company capitalized $1.0 million of interest costs relating to funds borrowed specifically or generally to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to the specific borrowings, ranging from 7.35% to 8.77%.

Current Income Taxes

The recovery for current income taxes for the three month period ended December 31, 2014 was $2.6 million as compared to the provision of $1.3 million for the same period in 2013. The current period recovery was due to the losses, the Company incurred during the period.

Deferred Income Taxes

The deferred income taxes recognized for the three month period ended December 31, 2014 was a provision of $0.3 million as compared to a recovery of $0.4 million for the same period in 2013. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of $0.4 million for the three month period ended December 31, 2014, as compared to an inflow of $4.1 million for the same period in 2013, representing a decrease of $4.5 million. The decrease in adjusted free cash flow was due primarily to the decreased Adjusted EBITDA due to one-time start-up costs, changes in non-cash working capital items and deposits of $7.1 million, and higher maintenance capex additions by $1.0 million.

Dividends

Total dividends declared for the three month period ended December 31, 2014 were $1,367,907 or $0.1491 per share. In comparison, total dividends declared for the three month period ended December 31, 2013 were $1,191,818 or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 19, 2014	October 3, 2014	-	9,145,915	0.1491	1,363,656
December 19, 2014	January 3, 2015	1,367,907	9,174,427	0.1491	-
		1,367,907	-	-	1,363,656

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 20, 2013	October 4, 2013	-	7,993,416	0.1491	1,191,819
December 20, 2013	January 6, 2014	1,191,818	7,993,416	0.1491	-
		1,191,818	-	-	1,191,819

Review of Operations for the Three Month Periods ended December 31, 2014 and 2013 (Continued)

Liquidity and Capital Resources

Cash used by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2014 was $8.5 million as compared to cash generated by operating activities of $6.0 million for the same period in 2013, a difference of $14.5 million. $7.8 million of the difference was primarily due to one-time start-up CPGOC costs. The remaining difference was primarily due to an increase in prepaid deposits related to the construction of a new cross dock facility at the Hamilton International Airport, and the timing of the collection of receivables and the settlement of payables.

Cash generated by financing activities during the three month period ended December 31, 2014 was $11.9 million as compared to cash used of $5.6 million for the same period in 2013. The $17.5 million increase was primarily due to additional borrowings of $18.6 million, partially offset by the repayment of obligations under finance lease of $0.9 million and a $0.2 million increase in dividend payments.

Cash used in investing activities during the three month period ended December 31, 2014 was $27.7 million and was primarily due to additions in property plant and equipment of $28.0 million, partially offset by the collection of notes and finance lease receivables of $0.3 million.

Capital Expenditures

The property, plant and equipment additions of $28.0 million in the current period comprised of aircraft, facility and other equipment. Out of the total additions, $12.8 million was part of property, plant and equipment under development.

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013

NET INCOME FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2014 AND 2013

(Canadian dollars in million, except where indicated)

	YTD		CHANGE	
	2014 $	2013 $	$	%
Core Overnight Revenues	**133.4**	118.6	14.8	12.5%
ACMI Revenue	**7.2**	4.8	2.4	50.0%
All-in Charter Revenue	**14.4**	13.7	0.7	5.1%
Total Overnight, ACMI and Charter Revenues	**155.0**	137.1	17.9	13.1%
Total Revenue - FBO	**1.1**	1.4	(0.3)	-21.4%
Total Fuel and Other Cost Pass Through	**34.7**	35.1	(0.4)	-1.1%
Fuel Surcharge and Other Passthrough Revenue	**35.8**	36.5	(0.7)	-1.9%
Lease and Other Revenue	**1.6**	1.8	(0.2)	-11.1%
Total Revenue	**192.4**	175.4	17.0	9.7%
Operating Days - days	**198**	197	1	0.5%
Average cargo revenue per operating day	**0.78**	0.70	0.08	11.4%
Direct Expenses				
Fuel Costs	**61.3**	63.7	(2.4)	-3.8%
COS Depreciation	**8.1**	6.4	1.7	26.6%
Aircraft Cost	**27.2**	14.4	12.8	88.9%
Heavy Maintenance Amortization	**4.2**	4.4	(0.2)	-4.5%
Maintenance Cost	**12.5**	10.5	2.0	19.0%
Crew Costs	**14.7**	10.9	3.8	34.9%
Commercial and Other Costs	**45.6**	39.7	5.9	14.9%
Total direct expenses	**173.6**	150.0	23.6	15.7%
Gross Margin	**18.8**	25.4	(6.6)	-26.0%
SG&A & Marketing				
Sales Costs	**0.8**	0.5	0.3	60.0%
General and Administrative Costs	**24.3**	17.6	6.7	38.1%
G&A Depreciation	**0.7**	0.7	-	-
Total SG&A & Marketing expenses	**25.8**	18.8	7.0	37.2%
Other SG&A				
Other losses (gains)	**0.6**	(1.0)	1.6	
Finance Costs	**5.5**	3.2	2.3	
Finance Income	**(0.1)**	(0.2)	0.1	
Total other SG&A	**6.0**	2.1	3.9	
(Loss) income before income taxes	**(13.0)**	**4.5**	**17.5**	
Income taxes	**3.5**	(1.2)	(4.7)	
Net (loss) income	**(9.5)**	**3.3**	**(12.8)**	
(loss) earning per share - CAD$				
Basic	**(1.07)**	0.42		
Diluted	**(1.07)**	0.42		

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Highlights for the Twelve Month Periods Ended December 31, 2014 and 2013

- Total revenue for the twelve month period ended December 31, 2014 was $192.4 million as compared to $175.4 million for the same period in 2013, representing an increase of $17.0 million or 9.7%.
- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2014 was $0.78 million per operating day as compared to $0.70 million per operating day for same period in 2013, representing an increase of $0.08 million or 11.4%.
- Adjusted EBITDA for the twelve month period ended December 31, 2014 was $4.0 million as compared to $17.2 million for the same period in 2013, representing a decrease of $13.2 million or 76.7%.
- Adjusted free cash flow was an outflow of $5.5 million for the twelve month period ended December 31, 2014 as compared to an inflow of $3.4 million for the same period in 2013, a decrease of $8.9 million.

Revenue

Total revenue for the twelve month period ended December 31, 2014 was $192.4 million as compared to $175.4 million for the same period in 2013, representing an increase of $17.0 million or 9.7%. The increase in total revenue was due primarily to the $14.8 million increase in core overnight revenues, $2.4 million increase in ACMI revenues and $0.7 million increase in scheduled and adhoc charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues, for the twelve month period ended December 31, 2014 was $133.4 million compared to $118.6 million for the same period in 2013, an increase of $14.8 million or 12.5%. The $14.8 million increase in revenue was due primarily to a 7.1% increase in shipping volumes and a price increase that included an adjustment for inflation. The increase in shipping volumes and prices increased revenue per operating day by 11.4% and revenue per block hour by 11.2%.

ACMI scheduled and adhoc charter revenue for the twelve month period ended December 31, 2014 was $7.2 million compared to $4.8 million for the same period in 2013, an increase of $2.4 million or 50.0%. $1.2 million of the increase was due to additional ACMI block hours flown for scheduled flights to Northern Canada related to the First Air cooperation agreement. Adhoc ACMI revenues increased by $1.2 million due to higher customer demand.

All in scheduled and adhoc charters for the twelve month period ended December 31, 2014 was $14.4 million compared to $13.7 million for the same period in 2013, an increase of $0.7 million or 5.1%. The increase in all in charter revenue was due to higher customer demand.

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Revenue (Continued)

Fuel surcharges and other cost pass-through revenues were $35.8 million for the twelve month period ended December 31, 2014 as compared to $36.5 million for the same period in 2013, representing a decrease of $0.7 million or 1.9%. The $0.7 million decrease was due primarily to the decrease in fuel surcharges billed to customers due to 130.7% higher usage of fuel efficient B757 aircraft partially offset by 0.4% increase in fuel prices. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $1.1 million for the twelve month period ended December 31, 2014 as compared to $1.4 million for the same period in 2013.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines, and revenues related to the lease of regional aircraft. Other revenues for the twelve month period ended December 31, 2014 was $1.6 million as compared to $1.8 million for the same period in 2013 due primarily to the termination of a hangar lease contract at the end of 2013 and the sale of a leased regional aircraft in Q3 of 2014.

Direct Expenses

Total direct expenses were $173.6 million for the twelve month period ended December 31, 2014 as compared to $150.0 million for the same period in 2013, representing an increase of $23.6 million or 15.7%. As a percentage of revenue, direct expenses increased from 85.5% in 2013 to 90.2% for the same period in 2014. The overall increase in direct expenses was due primarily to a $2.0 million increase in maintenance costs, $12.8 million increase in aircraft costs, $3.8 million increase in crew costs, $1.7 million increase in depreciation costs and $ 5.9 million increase in commercial costs due to an increase in core overnight cargo volumes partially offset by a $2.4 million decrease in fuel costs and a $0.2 million decrease in heavy maintenance amortization. The direct costs included $16.1 million of expenses incurred on one-time start-up costs in relation to the MSA signed with the CPGOC.

Fuel costs were $61.3 million for the twelve month period ended December 31, 2014 as compared to $63.7 million for the same period in 2013. The $2.4 million or 3.8% decrease in fuel costs was due primarily to the increased use of B767 and B757 aircraft that have replaced B727 aircraft on certain routes and 0.4% decrease in fuel prices in the current period. On a cost per payload basis, B767 and B757 aircraft are significantly more fuel efficient than the B727 aircraft. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expenses were at $8.1 million for the twelve month period ended December 31, 2014 as compared to $6.4 million for the same period in 2013. The $1.7 million or 26.6% increase in depreciation expenses was due primarily to the capitalization of three B767 aircraft and one B757 aircraft in 2014.

Aircraft costs were $27.2 million for the twelve month period ended December 31, 2014 as compared to $14.4 million for the same period in 2013. The $12.8 million or 88.9% increase in aircraft costs was due primarily to the $5.9 million of one-time startup costs in relation to the MSA signed with the CPGOC, increase of $2.9 million related to the B757 fleet expansion, an increase of $3.5 million in the variable lease costs due to the increase in block hours flown using the Company's wide body aircraft and additional aircraft lease costs due to variances in the US Dollar exchange rate and a $0.5 million increase in sub-charter costs. All operating aircraft leases are paid in US Dollars.

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Direct Expenses (Continued)

Heavy maintenance amortization costs were $4.2 million for the twelve month period ended December 31, 2014 as compared to $4.4 million for the same period in 2013. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $12.5 million for the twelve month period ended December 31, 2014 as compared to $10.5 million for the same period in 2013. The increase of $2.0 million or 19.0% was primarily due to $0.7 million increase in the line maintenance costs due to increased block hours, $1.0 million increase in staff costs due to the hiring of additional maintenance staff as part of start-up costs in relations to the MSA signed with the CPGOC and annual salary increase of $0.3 million.

Crew costs were $14.7 million for the twelve month period ended December 31, 2014 as compared to $10.9 million for the same period in 2013. The increase of $3.8 million or 34.9% was primarily due to $2.5 million increase in the crew salaries due to hiring of the additional crews and $0.9 million increase in their training costs as part of the one-time start-up costs in relation to the MSA signed with the CPGOC and $0.4 million increase in crew positioning costs.

Commercial and other direct operating costs were $45.6 million for the twelve month period ended December 31, 2014 as compared to $39.7 million for the same period in 2013. The increase of $5.9 million or 14.9% was due primarily to $2.1 million increase as part of the start-up costs in relation to the MSA signed with the CPGOC, $0.5 million in annual salary increases, $0.6 million increase in ground handling costs and $0.4 million in ground equipment costs due to the growth in core overnight volumes, $1.0 increase in the landing costs and $0.7 million increase in the navigation costs due to the usage of wide body aircrafts, $0.2 million increase in de-icing costs due to the weather conditions and $0.4 million increase in aircraft insurance costs due to fleet expansion.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $25.8 million for the twelve month period ended December 31, 2014 compared to $18.8 million for the same period in 2013, an increase of $7.0 million or 37.2%. The increase in SG&A was due primarily to $1.8 million expenses incurred due to one-time start-up costs in relation to the MSA signed with the CPGOC, $3.8 million increase in annual salaries and bonuses and $1.4 million of lease termination fees recorded in 2013.

Adjusted EBITDA

Adjusted EBITDA for the twelve month period ended December 31, 2014 was $4.0 million due to the non-recurring CPGOC start-up costs of $16.1 million or 2.1% of revenue as compared to Adjusted EBITDA of $17.2 million or 9.8% of revenue for the same period in 2013. The decrease in Adjusted EBITDA of $13.2 million or 76.7% was due primarily to the following:

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Adjusted EBITDA (Continued)

- One time start-up CPGOC costs of $16.1 million partially offset by the net increase in gross profit due to the increase in core overnight revenues. The CPGOC costs were comprised primarily of $5.9 million of aircraft lease rent including additional rent, $5.2 million of hiring and training costs of new personnel, $1.6 million in commercial costs, $1.9 million of the heavy maintenance costs of aircraft required for the CPGOC contract and $1.5 million in SG&A costs,
- The effect of exchange fluctuation on net USD denominated expenditures,
- Higher lease and operating costs due to the introduction of additional B757 aircraft partially offset by a decrease in fuel costs related to lower per block hour fuel consumption on these aircraft.

Net Finance Costs

Net finance costs were $5.5 million for the twelve month period ended December 31, 2014, compared to $3.0 million for the twelve month period ended December 31, 2013. The increase in finance cost was due primarily to the interest expense on 5.5% convertible debentures. During the year, the Company has capitalized $3.2 million of finance costs on funds borrowed specifically or generally to acquire and modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to the specific borrowings, ranging from 7.35% to 8.77%.

Current Income Taxes

The current income tax recovery was $2.6 million for the twelve month period ended December 31, 2014 compared to the provision of $2.3 million for the same period in 2013. The current year recovery was due to the losses, the Company incurred during the year.

Deferred Income Taxes

The deferred income tax recovery was $0.9 million for the twelve month period ended December 31, 2014 compared to the deferred income tax recovery of $1.1 million in the same period in 2013. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an outflow of $5.5 million for the twelve month period ended December 31, 2014, compared to an inflow of $3.4 million for the twelve month period ended December 31, 2013. The decrease of $8.9 million was due primarily to the decreased Adjusted EBITDA of $13.2 million partially offset by the lower maintenance capex additions by $2.5 million as compared to 2013 and a recovery of $2.6 million of current income tax as compared to $2.3 million provision in 2013.

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Dividends

Total dividends declared for the twelve month period ended December 31, 2014 were $5,404,094 or $0.5964 per share. In comparison, total dividends declared for the twelve month period ended December 31, 2013 were $5,182,931 or $0.6484 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2013	January 6, 2014	-	-	-	1,191,818
March 20, 2014	April 4, 2014	1,318,736	8,844,639	0.1491	1,318,736
June 20, 2014	July 3, 2014	1,353,796	9,079,785	0.1491	1,353,796
September 19, 2014	October 3, 2014	1,363,656	9,145,912	0.1491	1,363,656
December 19, 2014	January 5, 2015	1,367,906	9,174,422	0.1491	-
		5,404,094		0.5964	5,228,006

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

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

Liquidity and Capital Resources

Cash used in operating activities after net changes in non-cash working capital balances for the twelve month period ended December 31, 2014 was $5.8 million as compared to cash generated by operating activities of $17.6 million for the same period in 2013. The $23.4 million decrease in cash was due primarily to the operating loss due to one-time start-up costs of $16.1 million in relation to the MSA signed with the CPGOC, income tax payments, interest payments and the change in non-cash working capital items and deposits.

Cash generated by financing activities during the twelve month period ended December 31, 2014 was $107.9 million and was comprised of net proceeds from the issuance of 5.5% convertible debentures of $70.7 million and proceeds received from the sale and leaseback of an aircraft of $31.9 million, the net proceeds from borrowings of $12.5 million partially offset by the purchase of treasury shares of $0.5 million, repayment of obligations under finance lease of $1.5 million and dividends paid to shareholders of $5.2 million.

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Liquidity and Capital Resources (Continued)

Cash used in investing activities during the twelve month period ended December 31, 2014 was $102.5 million and was primarily comprised of property, plant and equipment additions.

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $60.0 million and bears interest at bank prime plus 1.50% on the utilized facility and standby fees of 0.69% on the 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.

The credit facility is secured by the following:

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

As at the date of this MD&A, the Company has executed agreements to purchase seven B767-300 series aircraft and two B757 series aircraft. As at the date of this MD&A, the Company has taken delivery of four B767-300 series aircraft under financial lease arrangements and two B757 series aircraft under loan arrangements. The Company has firm commitments for the delivery of four additional B767-300 series aircraft in 2015 as follows:

- Q1 2015: one B767-300 series aircraft under a 6-year lease with a buyout option at the end of the third year of the lease term.
- Q2 2015, one B767-300 series aircraft
- Q3 2015, one B767-300 series aircraft
- Q4 2015, one B767-300 series aircraft

The total value of these aircraft is approximately $135 million. As at the date of this MD&A, the Company is negotiating a loan with a financial institution to finance the delivery of the B767-300 aircraft scheduled for delivery in Q2 2015. As at the date of this MD&A, the Company is also in negotiations with another financial institution to finance the delivery of the two remaining B767-300 aircraft to be delivered in Q3 and Q4 of 2015.

Note: See Caution Concerning Forward Looking Statements, page 2

The Company had a working capital deficit as at December 31, 2014, representing the difference between total current assets and current liabilities, of $6.7 million, compared to a working capital deficit of $1.2 million as at December 31, 2013. The decrease of $5.5 million is primarily due to the current portion of the finance leases and borrowings payments in the next twelve months and the timing of the collection of trade

Review of Operations for the Twelve Month Periods ended December 31, 2014 and 2013 (Continued)

Liquidity and Capital Resources (Continued)

and other receivables and settlement of trade and other payables. During the year, the Company incurred cash losses due to onetime startup CPGOC costs. Management anticipates that the cash flow from operations once the full CPGOC operation begins and the balance of unutilized revolving credit facility of $40.8 million as at December 31, 2014 will be adequate to manage the operations of the Company. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Company's ability to undertake any transaction which is essential to the Company's operations.

Capital Expenditures

Net capital asset additions excluding assets under finance lease were $103.8 million for the twelve month period ended December 31, 2014 as compared to $10.7 million for the same period in 2013, comprised of aircraft, facilities and equipment. Out of which $35.3 million was part of property, plant and equipment under development.

Selected Annual Information
(Canadian dollars in million, except where indicated)

	Twelve Month Periods Ended December 31,		
	2014	2013	2012
	$	**$**	**$**
Revenue	**192.4**	175.4	168.8
Direct expenses	**173.6**	150.0	140.4
Gross margin	**18.8**	25.4	28.4
Selling, general & administrative expenses and income taxes	**28.3**	22.1	24.8
Net (loss) income	**(9.5)**	3.3	3.6
(loss) earning per share - CAD$			
Basic	**(1.07)**	0.42	0.44
Diluted	**(1.07)**	0.42	0.44
EBITDA (1)	**5.3**	19.1	13.2
Adjusted EBITDA (1)	**4.0**	17.2	16.9
Adjusted free cash flow (1)	**(5.5)**	3.4	8.2
Cash, cash equivalents and short term investments	**-**	0.4	0.1
Total assets	**285.3**	116.2	113.4
Total long-term liabilities	**186.2**	33.4	34.7
Total liabiities	**219.9**	53.6	49.0
Dividends per share - CAD$	**$0.5964**	$0.6484	$0.5751

(1) EBITDA, Adjusted EBITDA and Adjusted free cash flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer page1of this MD&A for detailed discussion.

Financial Condition

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

Accounts Receivable

Accounts receivable as at December 31, 2014 amounted to $19.1 million as compared to $15.4 million as at December 31, 2013. The increase of $3.7 million was due to the timing of cash collections from the customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at December 31, 2014, property, plant and equipment were $203.9 million as compared to $45.8 million as at December 31, 2013. The $158.1 million net increase in property, plant and equipment was primarily due to additions of $171.1 million partially offset by amortization of $13.0 million.

Trade and Other Payables

Trade and other payables as at December 31, 2014 were $23.3 million as compared to $16.8 million as at December 31, 2013. The increase of $6.5 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of three Boeing 767-300 aircraft. Total finance leases excluding the current portion were $87.6 million as at December 31, 2014 as compared to $nil as at December 31, 2013.

Provisions

Provisions excluding the current portion as at December 31, 2014 were $1.3 million as compared to $1.8 million as at December 31, 2013 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms.

Summary of Contractual Obligations

	Payments due by period					
As at December 31, 2014	Total	2015	2016	2017	2018	Thereafter
(in thousands)	$	$	$	$	$	$
Finance leases	94,375	6,783	5,696	6,149	5,474	70,273
Provisions	3,016	1,726	-	-	-	1,290
Borrowings	14,487	505	5,504	731	788	6,959
Convertible Debentures	78,966	-	-	13,802	-	65,164
Operating leases	45,854	18,500	8,075	5,732	5,347	8,200
	236,698	27,514	19,275	26,414	11,609	151,886

Financial Condition (Continued)

Off-Balance Sheet Arrangements

The Company's primary off-balance sheet arrangements 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 lessors of aircraft and facilities 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, 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 six 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 part of the Financial Statements of the Company and are not consolidated. The airlines that participate in FFC guarantee on a pro-rata basis of this debt based on system usage. The total assets of these FFC are $214 million and the total debt is $186 million as at December 31, 2014. The Company's pro rata share of the FFC's assets and debt is 2.2%. The Company views the potential for losses in respect of the FFC as remote.

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.

Major Customers

During the twelve month period ended December 31, 2014, the Company had sales to three customers that represented 54.7% of the total revenues (December 31, 2013 – 54.9%). These sales are provided under service agreements that expire over various periods to September 2018.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $23.4 million as at December 31, 2014 out of which a letter of credit of $20.0 million is provided to the CPGOC under the terms of the MSA. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

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

Risk Factors

Risks Related to the Business

Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 67% of 2014 revenues of the Company and the Company's top two customers each accounted for over 10% of the Company's 2014 revenues. The loss of any one of these contracts of the Company would cause immediate disruption and would adversely affect the Company's revenues. Any such loss could have a material adverse effect on the results of operations of the Company and there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as the existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

Risk Factors (Continued)

Risks Related to the Business (Continued)

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

In 2014, the Company was awarded the DACNS contract and signed the MSA with CPGOC for an initial seven-year term with three thirty-six month renewal options held by the CPGOC. The terms of contract require the Company to maintain specific on time performance metrics and provide minimum levels of dedicated cargo space. To fulfill its requirements under the contract, the Company has made material investments in its fleet, equipment and the hiring of new personnel. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to the CPGOC. If the Company were unable to achieve the minimum service levels and minimum levels of cargo capacity required by the MSA, the contract may be cancelled by the CPGOC without penalty and the letter of guarantee may be executed. The cancellation of the MSA without penalty would have a material adverse effect on the Company's business, results of operations and financial conditions.

Credit Facilities, Finance Lease and Loan Agreement and their Restrictive Covenants

The ability of the Company to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness and finance lease obligations. The degree to which the Company is leveraged could have important consequences to the shareholders, including: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness and amounts payable under the finance leases, thereby reducing funds available for future operations and distribution to the Company; (ii) certain of the Company's borrowings and finance lease obligations will be at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Company's ability to make scheduled payments of principal and interest and other amounts on, or to refinance, its indebtedness and finance lease obligations will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness and finance lease obligations at all or on favorable terms.

The instruments governing the Company's indebtedness and finance lease obligations contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, such instruments contain financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with these obligations could result in an event of

Risk Factors (Continued)

Risks Related to the Business (Continued)

default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the obligations under these instruments were to be accelerated, there can be no assurance that the Company's assets would be sufficient to satisfy such obligations in full. In addition, there can be no assurance that future borrowing or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to fund the Company's refinancing needs and other obligations arising on the maturity of such instruments, including the obligations to purchase the aircraft subject to the finance leases.

The Company has committed to purchase three B767-300 aircraft in 2015 and is currently negotiating the financing of such aircraft with identified potential lenders. There is no assurance that the financing of these aircraft will be completed.

Canada — US Open Skies

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

Competition

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

Government Regulations

The Company's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals.

Risk Factors (Continued)

Risks Related to the Business (Continued)

The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

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

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

The Company cannot provide any assurance that existing laws, agreements, treaties or regulations will not be revised or that new laws, agreements, treaties or regulations, which could have an adverse impact on the Company's operations, will not be adopted or become applicable to the Company. For example, the Company's aircraft currently meet Transport Canada and FAA Stage III noise abatement guidelines. Any future implementation of Stage IV noise abatement guidelines would require the Company to incur expenses to ensure its aircraft meet such guidelines which expenses could negatively impact the Company's earnings. The Company also cannot provide any assurance that it will be able to recover any or all increased costs of compliance from its customers or that the business and financial condition of the Company will not be adversely affected by future changes in applicable laws and regulations.

Insurance

The Company's operations are subject to risks normally inherent in the air-cargo industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by the Company or its agents. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of the Company . There can be no assurance that insurance coverage will be sufficient to cover one or more large claims, or that the applicable insurer will be solvent at the time of any covered loss. There can be no assurance that the Company will be able to obtain insurance at acceptable levels and costs in the future. The Company may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under

Risk Factors (Continued)

Risks Related to the Business (Continued)

its policies. The occurrence of an aircraft-related accident or mishap involving the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company does not carry any business interruption insurance.

Maintaining Leased Aircraft and Availability of Future Aircraft

The Company currently owns nine B727-200, two B757-200 and has four B767-300 aircraft under finance lease. It also leases five B767-200 and three B757-200 aircraft. The Company also acquired five Challenger 601 aircraft during the year. It also entered into purchase agreement to purchase three additional B767-300 aircraft and lease one B767-300 aircraft with expected deliveries during 2015. The success of the Company will depend, in part, on its ability to replace owned aircraft when necessary and to maintain favorable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favorable leases for its aircraft or be able to arrange financing for its current commitment of aircraft purchases or future replacements and expansions. Such risk could have a material adverse effect on the Company's business, results of operations or financial condition. See "Business of Cargojet – Overview" and "Business of Cargojet – Cargojet Fleet".

Fixed Costs

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

Fuel Prices

The Company requires significant quantities of fuel for its aircraft. Historically, fuel costs represented 30% to 35% of the Company's direct operating cost. The Company is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. Although the Company historically has implemented fuel surcharges to mitigate the earnings impact of unusually high fuel prices, competitive and other pressures may prevent the Company from passing these costs on to its customers in the future. The Company cannot provide any assurance that its supply of fuel will continue uninterrupted, that rationing will not be imposed or that the prices of, or taxes on, fuel will not increase significantly in the future. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought. Increases in prices that the Company is unable to pass on to its customers could have a material adverse effect on the Company's business, results of operations or financial condition.

Risk Factors (Continued)

Risks Related to the Business (Continued)

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

Maintenance costs will increase as our fleet ages. It includes overhaul of engines, landing gears, APUs and airframes in addition to ongoing maintenance requirements. The Company has a maintenance program schedule and monitors the maintenance of aircraft for owned and leased aircraft. Although costs related to mechanical problems and to maintenance for the Company's aircraft have been forecasted and funded pursuant to its leasing arrangements and maintenance agreements, the actual costs may be higher than those anticipated. Unexpected repairs relating to mechanical problems and to maintenance are beyond the control of the Company and may have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the ability of the Company to obtain equipment and replacement parts on satisfactory terms when required is not always certain. Any inability to obtain equipment or parts, or to obtain the required equipment or parts on satisfactory terms and on a timely basis could have a material adverse effect on the Company's business, results of operations or financial condition.

Foreign Exchange Fluctuations

The Company undertakes sales and purchase transactions including aircraft maintenance cost, lease payments, crew training and certain operating costs, in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. Changes in the value of the Canadian dollar relative to the United States dollar could have a negative effect on the profitability of the Company. For the year ended December 31, 2014, the Company had net expense exposure to the United States dollar of approximately U.S. $39 million and to the Euro of approximately €1 million. As of the date of this AIF, we are exposed to fluctuations in the US-dollar exchange rate relating to 4 Boeing 767-300 aircraft purchase agreements. The purchase of our Boeing aircraft is financed by funds drawn in Canadian dollars; however, the aircraft are paid for in U.S. funds at the date of each aircraft delivery. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company's business, results of operations or financial condition.

Ability to Maintain Profitability and Manage Growth

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

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

Risk Factors (Continued)

Risks Related to the Business (Continued)

There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations or financial condition.

Industry Risk and Economic Sensitivity

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

Terrorist Activity

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

Dependence on Key Personnel

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

Labour Relations

On October 19, 2012 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board. As of the date hereof, 113 of the Company's pilots are certified as a union by the Canadian Industrial Relations Board. The National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada) was certified as the bargaining agent for the Company's pilots. The Company entered into a five year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July 2013. Currently, none of the Company's other

Risk Factors (Continued)

Risks Related to the Business (Continued)

employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of a collective bargaining agreement cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

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

Seasonal Fluctuations

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

Dependence on International Trade

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

Future Sales of Voting Shares by the directors and officers of Cargojet

The directors and officers of Cargojet indirectly hold in aggregate 1,722,683 Voting Shares, or approximately 19.61% of the outstanding Voting Shares. If the directors and officers of Cargojet sell substantial amounts of Voting Shares in the public market, the market price of the Voting Shares could decrease. The perception among the public that these sales will occur could also produce such an effect.

Risk Factors (Continued)

Risks Related to the Business (Continued)

Income Tax Matters

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

Increase in Interest Rates

One of the factors that may influence the price of the Voting Shares in public trading markets will be the annual cash-on-cash return from dividends by the Company on the Voting Shares as compared to cash-on-cash returns on other financial instruments. Thus, an increase in market interest rates will result in higher cash-on-cash returns on other financial instruments, which could adversely affect the market price of the Voting Shares.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2

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

During the period ended December 31, 2014, the Company continued to develop and strengthen its relationships with existing and new customers as evidenced by the increase in demand on its core overnight network. The Company experienced growth in its total overnight shipping volumes in the current quarter and each of the previous eight quarters. The average year over year quarterly growth during this period was 7.6%. The Company continues to retain all of its major customers and expects that demand on its core overnight network will further improve with a stronger economy. The proactive management of its fleet capacity and strong on-time performance provide the Company with an added advantage in this competitive market. Management expects to achieve organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Company continues its efforts to build on its competitive market position.

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

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

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

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The following judgments are those deemed by management to be material to the preparation of the financial statements.

Financial Condition (Continued)

Critical accounting judgments

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 is based cost of the component relative to total cost of an asset and whether these components have different useful lives for determination of depreciation.

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

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

Critical Estimates

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

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.
Impairment of property, plant and equipment and goodwill	At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Financial Condition (Continued)

Critical Estimates (Continued)

Critical Accounting Estimate	Methodology and Assumptions
Impairment of property, plant and equipment and goodwill (Continued)	Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.
Deferred taxes	Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and assess its recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Provisions	The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to change in timing, cost of maintenance or discount rates.
Cash settled share based payment arrangement	The cost and related liability of the Company's stock appreciation rights under a MLA with an equipment finance and leasing company recognized using 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.

Financial Condition (Continued)

Outstanding Share Data

Company's common voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" and "CJT.DB.B" on the Toronto Stock Exchange ("TSX"). The following table sets out the common shares outstanding and securities convertible into common shares as of December 31, 2014:

Capital		Authorized/ Principal	Outstanding	Common Shares underlying Convertible securities
Common Voting Shares		Unlimited	9,076,217	-
Variable Voting Shares		Unlimited	98,545	-
Convertible Debentures - 6.5%	$	14,869,000	-	1,265,447
Convertible Debentures - 5.5%	$	74,000,000	-	2,573,913

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2014 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

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 International Accounting Standard Board ("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

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

Standards and interpretations issued not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the nine month period ended September 30, 2014, and, accordingly, have not been applied in preparing these interim financial statements.

Financial Reporting Update (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.

End Notes

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

End Notes (Continued)

(A) (Continued)

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

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

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

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

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

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

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

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

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

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

End Notes (Continued)

(B) (Continued)

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

Unrealized foreign exchange loss (gain) - the unrealized gain or loss arising from the valuation of the foreign exchange balances at the period end is a non-cash item and has no impact on the determination of EBITDA.

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

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

Lease return costs for aircraft usage-The estimated costs of completing lease retirement obligations per aircraft operating lease agreements which require leased aircraft to be returned to the lessor in a specified operating condition are deducted as period costs based on aircraft usage.

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

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

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

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

End Notes (Continued)

[C] (Continued)

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

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

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

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