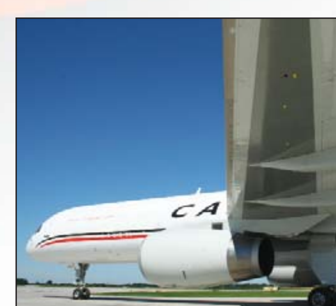
CARGOJET

2013 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 50% of Canada's domestic overnight air cargo capacity. Cargojet's network consolidates cargo received from over 400 customers and carries over 750,000 pounds of cargo each business night across its North American network. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. In 2013, Cargojet operated approximately 7,000 flights of which more than 98% arrived at destination within 15 minutes of scheduled arrival. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.



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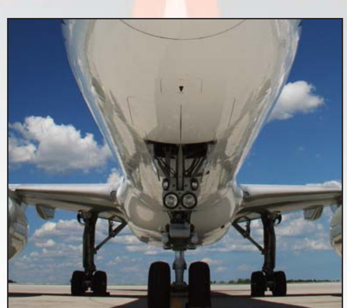
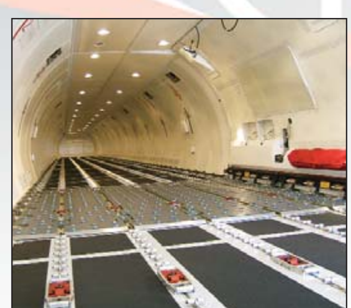
Financial Highlights

Supplementary Financial Information (In thousands of dollars)	Year Ended December 31 2012	Three Month Period Ended March 31 2013	June 30 2013	September 30 2013	December 31 2013	Year Ended December 31 2013
Revenues	168,771	40,718	42,723	43,416	48,519	175,376
Direct Expenses	140,426	35,852	36,414	37,828	39,853	149,947
EBITDA	16,873	2,733	4,211	3,356	6,932	17,232
Dividends declared	4,597	1,607	1,192	1,192	1,192	5,183
Direct expenses as percentage of revenue	83%	88%	85%	87%	82%	86%
EBITDA as percentage of revenue	10%	7%	10%	8%	14%	10%





Message To Shareholders

Message to Shareholders,

The past year revealed a strong growth in core domestic overnight revenues and adhoc air cargo charter revenues, particularly in the last half of the year. The enhancement and expansion of our domestic network in Eastern Canada, has resulted in better than expected volume and revenue growth that continues into this year.

Cargojet continues to position itself as a dominant global air cargo charter operator and we experienced significant growth in this sector in 2013 by utilizing aircraft assets during traditional down-time in the day and on weekends. Cargojet is able to compete effectively in this market with our lower cost business model.

The strong revenue finish to the year when combined with the continued aggressive cost management programs has resulted in improved overall financial performance. Consistent operational performance and safety continue to be the priority and Cargojet achieved over 98% on-time arrival within fifteen minutes of scheduled arrival time on almost 7,000 flight legs operated during the year.

In January 2014, Cargojet was awarded the Domestic Air Cargo Network Services contract and have signed a Master Services Agreement with the Canada Post Group of Companies (CPGOC) for an initial seven-year (7) term with three (3) thirty-six month (36) renewal options. Projected revenues are estimated to be approximately one billion dollars during the initial seven-year agreement based on projected volumes.

Cargojet will provide comprehensive Canada-wide air cargo services for the Group of Companies, including Purolator's national air cargo network. Cargojet's domestic overnight network will be expanded and enhanced significantly to handle the additional volumes and provide a virtual dedicated Air Cargo Network to the Canada Post Group of Companies.

Cargojet will focus on the transition of this new business in 2014 and are scheduled to begin operating for the Canada Post Group of Companies April 1, 2015.

We will continue to manage our costs and seek out new revenue opportunities and our consistent cash flows will continue to provide value to shareholders through our consistent dividend policy. Excess cash will be primarily used to pay down debt, increase dividends when warranted and to strengthen our overall balance sheet.

We have positioned ourselves strategically to take advantage of new revenue growth opportunities when and where they occur. Cargojet continues to manage its capacity including aircraft fleet requirements in a prudent and cost-effective manner and will deploy the necessary assets as required.

Cargojet is committed to providing a safe and secure and highly reliable level of service to our Customers at all times. We cannot do this without the dedication, loyalty and commitment of every single member of the Cargojet team.

The Board of Directors of Cargojet Inc. determines dividend policy and any future dividend payments will be determined by the Board in accordance with the company's financial results and cash requirements.

In conclusion and on behalf of the Board of Directors, I would like to thank our Customers for their on-going loyalty and support; our Shareholders for their confidence in our business; and every member of the Cargojet Team for their dedication, hard work and support.

Dr. Ajay K. Virmani
President & Chief Executive Officer

Ajay Virmani

March 2014

CHARTER OF THE CORPORATE GOVERNANCE COMMITTEE

I. Purpose

The Corporate Governance Committee's mandate is to generally assume the responsibility for developing the approach of Cargojet Inc. (the "**Corporation**") to matters of corporate governance.

II. Composition

The Corporate Governance Committee will be comprised of at least three directors of the Corporation, a majority of whom, subject to any exemptions set out in National Instrument 52-110 Audit Committees ("**NI 52-110**"), will be independent. An "independent" director is a director who has no direct or indirect material relationship with the Corporation. A "material relationship" is a relationship that could, in the view of the Board of Directors of the Corporation, be reasonably expected to interfere with the exercise of the director's independent judgement or a relationship deemed to be a material relationship pursuant to NI 52-110.

III. Responsibilities

Responsibilities of the Corporate Governance Committee generally include, but are not limited to, the undertaking of the following tasks:

1. Annually reviewing the charters of the Board of Directors of the Corporation, Audit Committee, Corporate Governance Committee and the Compensation and Nominating Committee and after consulting with the Board of Directors of the Corporation and the members of each committee, recommending such amendments to those charters as the Corporate Governance Committee believes are necessary or desirable.

2. Annually reviewing the performance of management of the Corporation and its subsidiaries, the effectiveness of the Board of Directors, the effectiveness of the Board of Directors as a whole and the contribution of individual Directors.

3. Assisting the Independent Chairman of the Corporation in carrying out his responsibilities, including without limitation:

   (a) ensuring that the responsibilities of the Board of Directors of the Corporation are well understood by the Board of Directors and management, and that the boundaries between board and management responsibilities are clearly understood and respected;

   (b) ensuring that the Board of Directors of the Corporation works as a cohesive team and providing the leadership essential to achieve this;

   (c) ensuring that the resources available to the Board of Directors of the Corporation (in particular timely and relevant information) are adequate to support its work; and

   (d) adopting procedures to ensure that the Board of Directors of the Corporation can conduct its work effectively and efficiently, including committee structure and composition, scheduling, and management of meetings.

4. Supervising and evaluating the Corporation's securities compliance procedures and reporting to the Board of Directors of the Corporation on the necessary changes to such procedures and on the adoption of any additional procedures.

5. Considering and, if thought fit, approving requests from directors or committee members for the engagement of special advisors from time to time.

6. Preparing and recommending to the Board of Directors of the Corporation, annually, a “Statement of Corporate Governance Practices”. The Statement of Corporate Governance Practices will discuss the process used by the Board of Directors of the Corporation and Corporate Governance Committee to fulfill their functions as required.

7. Recommending procedures to permit the Board of Directors of the Corporation to meet on a regular basis without management being present.

8. Considering, and providing a recommendation to the Directors on any transaction involving the Corporation or any subsidiary or affiliate thereof before such transaction is approved by the Board of Directors.

IV. Meetings

The Corporate Governance Committee will meet regularly at times necessary to perform the duties described above in a timely manner, but not less than two times a year. Meetings may be held at any time deemed appropriate by the Corporate Governance Committee.

At the discretion of the Corporate Governance Committee, meetings may be held with representatives of appropriate members of management.

The Chairman of the Corporate Governance Committee will report periodically to the Board of Directors of the Corporation.



CARGOJET INC.

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

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

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

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

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

EBITDA (A) AND ADJUSTED FREE CASH FLOW (B)

References to "EBITDA" are to earnings before interest, income taxes, depreciation, amortization, gain or loss on disposal of capital assets and after adjusting aircraft heavy maintenance amounts to actual net expenditures. Non-GAAP measures, EBITDA and Adjusted Free Cash Flow, are not earnings measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. Investors are cautioned that EBITDA and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA and Adjusted Free Cash Flow are shown on page 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. For a more complete discussion of the risks affecting the Company's business, reference should be made to the Annual Information Form ("AIF"), filed March 8, 2013 with the regulatory authorities.

FORWARD LOOKING STATEMENTS

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

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

CORPORATE OVERVIEW

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

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

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

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

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

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

RECENT EVENTS

Property, plant and equipment

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

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

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

Long-term Incentive Plan

The Company's long-term incentive plan (the "Plan" or "LTIP") provides certain of its executive officers and senior management of the Company with compensation opportunities tied to the performance of the Company. Company incentive bonuses, in the form of shares, are provided to eligible employees on an annual basis where the earnings of the Company exceed a pre-determined base (the "Base Target"). The Base Target is set annually by the Compensation Committee of the Company's Board of Directors in accordance with the terms of the Plan.

If the Company's earnings exceed the Base Target, a percentage of the excess is contributed by the Company into a long-term incentive pool. Shares are then purchased on the open market by the Company and held by the Company until they vest. Vesting of the shares will occur on the basis of one-third of the total grant at the time of granting, and one-third on each of the first and second anniversary dates.

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

2013 Awards

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

Prior Years Awards

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

RECENT EVENTS (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

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

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

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

COLLECTIVE AGREEMENT

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

HANGAR LEASE AGREEMENT

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

SUBSEQUENT EVENTS

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options held by the CPGOC. Projected revenues are estimated to be approximately $1.0 billion dollars during the initial seven-year agreement based on projected volumes. The Company will provide comprehensive Canada-wide air cargo services for the CPGOC, including Purolator's national air cargo network. Cargojet's domestic overnight network will be expanded and enhanced significantly to handle the additional volumes and provide a virtual dedicated air cargo network to the CPGOC. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to CPGOC.

On February 20, 2014, the Company amended its revolving credit facility with a Canadian chartered bank. The amendment increased the maximum credit limit from $25.0 million to $45.0 million. All other terms and conditions related to the credit facility remained the same.

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

REVENUE

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

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

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

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

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

EXPENSES

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

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

Results of Operations and Supplementary Financial Information (in thousands)

	Three Month Period Ended December 31		Twelve Month Period Ended December 31	
	2013	2012	**2013**	2012
	(unaudited)	(unaudited)	**(audited)**	(audited)
	$	$	$	$
Revenue	**48,519**	46,370	**175,376**	168,771
Direct expenses	**39,853**	37,589	**149,947**	140,426
	8,666	8,781	**25,429**	28,345
General and administrative expenses	**5,765**	5,587	**18,339**	18,115
Sales and marketing expenses	**210**	542	**461**	835
Finance costs	**805**	830	**3,232**	3,504
Finance income	**(32)**	(59)	**(144)**	(210)
Other losses (gains)	**(1,400)**	(10)	**(972)**	1,035
	5,348	6,890	**20,916**	23,279
Earnings before income taxes	**3,318**	1,891	**4,513**	5,066
Provision for (recovery of) income taxes				
Current	**1,262**	529	**2,277**	528
Deferred	**(338)**	(166)	**(1,096)**	986
	924	363	**1,181**	1,514
Net Income	**2,394**	1,528	**3,332**	3,552
Earnings per share				
Basic	0.30	0.19	0.42	0 .44
Diluted	0.27	0.19	0.42	0 .44
Average number of shares - basic (in thousands of shares)[1]	**7,993**	**7,993**	**7,993**	**7,993**
Average number of shares - diluted (in thousands of shares)[1][2]	**10,440**	**7,993**	**7,993**	**7,993**

[1] Average number of shares includes treasury shares.

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

Summary of Most Recently Completed Consolidated Quarterly Results

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

(1) Average number of shares includes treasury shares.

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

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

	Three Month Period Ended December 31,		Twelve Month Period Ended December 31,	
	2013	2012	**2013**	2012
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Net income	**2,394**	1,528	**3,332**	3,552
Add:				
Net Interest	**773**	771	**3,088**	3,294
Provision for current income taxes	**1,262**	529	**2,277**	528
Provision for (recovery of) deferred income taxes	**(338)**	(166)	**(1,096)**	986
Loss (gain) on disposal of property, plant and equipment	**-**	(81)	**147**	(87)
Loss on impairment of property, plant and equipment	**-**	-	**281**	567
Gain on derivative contracts	**-**	72	**-**	(2)
Loss on debenture redemption	**-**	-	**-**	555
Depreciation and amortization of property, plant and equipment	**2,860**	2,686	**11,111**	9,618
Aircraft heavy maintenance expenditures	**(19)**	136	**(3,407)**	(1,381)
Heavy maintenance deposits [(1)]	**-**	(26)	**1,499**	(757)
Total EBITDA	**6,932**	5,449	**17,232**	16,873
	$	$	**$**	$
Cash inflow from operating activities	**6,018**	7,057	**17,648**	20,355
Less: Additions to property, plant and equipment	**(716)**	(2,887)	**(10,969)**	(7,726)
Add: Proceeds from disposal of property, plant and equipment	**247**	237	**247**	289
Standardized free cash flow	**5,549**	4,407	**6,926**	12,918
Less: Changes in non-cash working capital items and deposits	**(159)**	(1,980)	**(1203)**	(4,226)
Provision for current income taxes	**(1,262)**	(529)	**(2,277)**	(528)
Adjusted free cash flow	**4,128**	1,898	**3,446**	8,164

(1) In 2012 heavy maintenance deposits were paid to the aircraft lessors on a monthly basis. Cargojet is entitled to a refund of these payments when it incurs actual heavy maintenance expenditures.

REVIEW OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

HIGHLIGHTS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

- Total revenue for the three month period ended December 31, 2013 was $48.5 million as compared to $46.4 million for the same period in 2012, representing an increase of $2.1 million or 4.5%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2013 was $0.79 million per operating day as compared to $0.75 million for the same period in 2012, representing an increase of $0.04 million or 5.3%.

- EBITDA for the three month period ended December 31, 2013 was $6.9 million as compared to $5.4 million for the same period in 2012, an increase of $1.5 million or 27.8%.

- Adjusted free cash flow was an inflow of $4.1 million for the three month period ended December 31, 2013 as compared to an inflow of $1.9 million for the same period in 2012, an increase of $2.2 million.

REVENUE

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

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

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

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

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

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

REVIEW OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (continued)

DIRECT EXPENSES

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

Fuel costs were $17.1 million for the three month period ended December 31, 2013 as compared to $16.7 million for the same period in 2012. The $0.4 million or 2.4% increase in fuel costs was due primarily to the increase in block hours partially offset by lower fuel expenses related to fuel sales to third parties. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $1.7 million for the three month period ended December 31, 2013 as compared to $1.6 million for the same period in 2012, representing an increase of $0.1 million or 6.3%. The increase was due primarily to the acquisition of engines and aircraft in May 2013.

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

Heavy maintenance amortization costs were $1.2 million for the three month period ended December 31, 2013 as compared to $0.9 million for the same period in 2012, representing an increase of $0.3 million or 33.3%. The increase was due primarily to the increase in number of heavy maintenance activities in 2013. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $2.7 million for the three month period ended December 31, 2013 as compared to $2.2 million in 2012, representing an increase of $0.5 million or 22.7%. The increase was primarily due to the increase in aircraft line maintenance costs due to the increase in block hours and hiring of additional maintenance staff.

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

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

EBITDA

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

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

REVIEW OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (continued)

NET FINANCE COSTS

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

CURRENT INCOME TAXES

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

DEFERRED INCOME TAXES

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

ADJUSTED FREE CASH FLOW

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

REVIEW OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (continued)

DIVIDENDS

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

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

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 20, 2012	October 5, 2012	-	7,993,416	-	1,135,065
December 20, 2012	January 15, 2013	1,191,819	7,993,416	0.1491	-
		1,191,819		0.1491	1,135,065

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

CAPITAL EXPENDITURES

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

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

HIGHLIGHTS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012

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

REVENUE

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

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

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

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

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

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

DIRECT EXPENSES

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

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (continued)

DIRECT EXPENSES (continued)

Fuel costs were $63.7 million for the twelve month period ended December 31, 2013 as compared to $62.4 million for the same period in 2012. The $1.3 million or 2.1% increase in fuel costs was due primarily to the increase in block hours due to the increased volume on overnight cargo network and the expansion of Cargojet's network in Eastern Canada partially offset by lower fuel prices and lower fuel expenses related to fuel sales to third parties. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expenses were $6.4 million for the twelve month period ended December 31, 2013 as compared to $5.8 million for the same period in 2012. The $0.6 million or 10.3% increase in depreciation expenses was due primarily to the acquisition of engines and aircraft in May 2013.

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

Heavy maintenance amortization costs were $4.4 million for the twelve month period ended December 31, 2013 as compared to $3.5 million for the same period in 2012, an increase of $0.9 million or 25.7%. The increase was due to the amortization of heavy maintenance deposits that began in the third quarter of 2012. Heavy maintenance of aircraft occurs at regular and predetermined intervals and costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $10.5 million for the twelve month period ended December 31, 2013 as compared to $9.0 million for the same period in 2012. The increase of $1.5 million or 16.7% was primarily due to the increase in line maintenance costs due to the increase in block hours and hiring of additional maintenance staff.

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

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

EBITDA

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

- Increase in core overnight volumes and the expansion of Cargojet's network in Eastern Canada offset by reduction in ACMI revenue, Charter activities and increased direct costs;

- Gain due to early lease termination by a lessee;

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (continued)

NET FINANCE COSTS

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

CURRENT INCOME TAXES

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

DEFERRED INCOME TAXES

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

ADJUSTED FREE CASH FLOW

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

DIVIDENDS

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

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

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2011	January 5, 2012	-	-	-	1,079,112
March 20, 2012	April 5, 2012	1,135,064	7,993,416	0 .1420	1,135,064
June 20, 2012	July 5, 2012	1,135,065	7,993,416	0.1420	1,135,065
September 20, 2012	October 5, 2012	1,135,065	7,993,416	0.1420	1,135,065
December 20, 2012	January 4, 2013	1,191,819	7,993,416	0.1491	-
		4,597,013		0.5751	4,484,306

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

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2013 AND 2012 (continued)

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $25.0 million, bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2015. Subsequent to December 31, 2013, the credit facility was increased to $45.0 million. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2013 and 2012.

The credit facility is secured by the following:

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

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

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

CAPITAL EXPENDITURES

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

FINANCIAL CONDITION

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

ACCOUNTS RECEIVABLE

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

PROPERTY, PLANT AND EQUIPMENT

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

TRADE AND OTHER PAYABLES

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

WORKING CAPITAL POSITION

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

BORROWINGS

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

PROVISIONS

Provisions as at December 31, 2013 were $1.8 million as compared to $1.5 million as at December 31, 2012 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms.

SUMMARY OF CONTRACTUAL OBLIGATIONS

	Payments due by period					
As at December 31, 2013	Total	2014	2015	2016	2017	Thereafter
(in thousands)	$	$	$	$	$	$
Other borrowings (finance lease)	277	20	22	24	26	185
Revolving credit facility	1,675	-	1,675	-	-	-
Operating leases	37,959	12,757	11,396	4,346	2,323	7,137
	39,911	12,777	13,093	4,370	2,349	7,322

OFF-BALANCE SHEET ARRANGEMENTS

The Company does not have any off-balance sheet arrangements other than those disclosed under “Summary of Contractual Obligations”.

MAJOR CUSTOMERS

During the twelve month period ended December 31, 2013, the Company had sales to three customers that represented 54.9% of the total revenues (December 31, 2012 - 54.5%). These sales are provided under service agreements that expire over various periods to September 2018.

CONTINGENCIES

The Company has provided irrevocable standby letters of credit totaling approximately $1.8 million as at December 31, 2013 to financial institutions as security for its corporate credit cards, and to a number of vendors as security for the Company's ongoing leases and purchases.

In 2014, the Company was awarded the Domestic Air Cargo Network Services (“DACNS”) contract and signed a Master Services Agreement (“MSA”) with the Canada Post Group of Companies (“CPGOC”) for an initial seven-year term with three thirty-six month renewal options. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to the CPGOC.

OUTLOOK

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

During the year ended December 31, 2013, Cargojet experienced strong customer demand on its core overnight network due to improved economic conditions. Cargojet continues to retain all of its major customers and expects that demand on its core overnight network will further improve with a stronger economy. The proactive management of its fleet capacity and strong on-time performance provide the Company with an added advantage in this competitive market. Management expects to achieve organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Company continues its efforts to build on its competitive market position.

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

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

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

CRITICAL ESTIMATES

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

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

ACCOUNTING CHANGES

ACCOUNTING STANDARDS EFFECTIVE FOR 2013

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

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

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

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

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

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

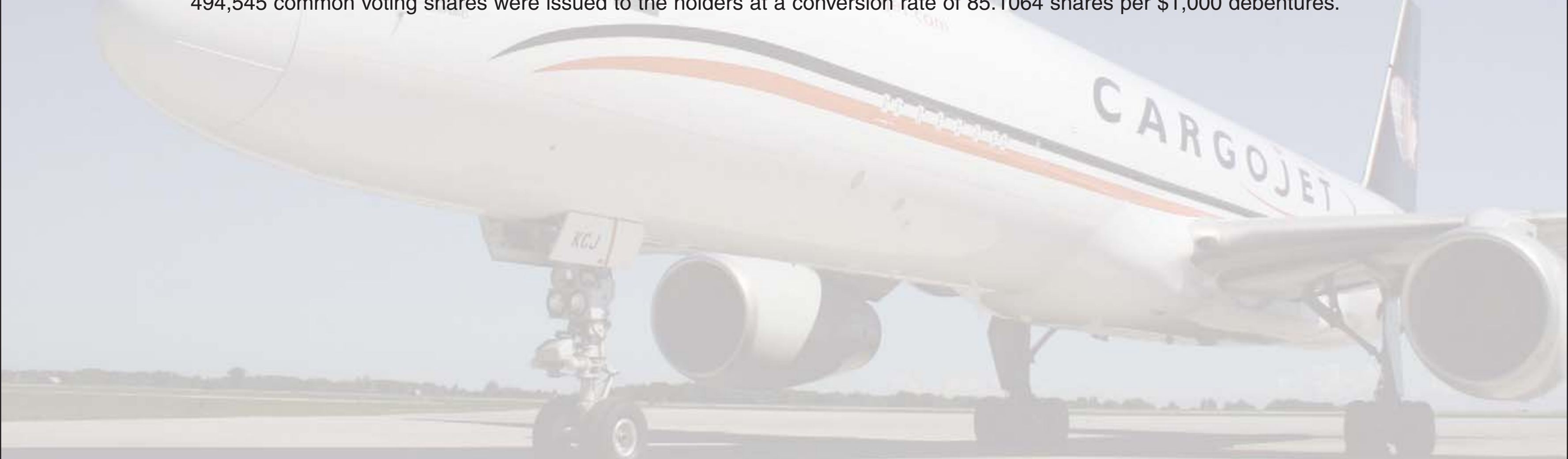
The adoption of these standards had no impact on the Company's results of operations, financial position or disclosures.

OUTSTANDING SHARE DATA

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

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

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



INFORMATION DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2013 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This Management Discussion and Analysis was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

END NOTES

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

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

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

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

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

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

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

END NOTES (CONTINUED)

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

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

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

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

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

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

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

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

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

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

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

Management's Report to the Shareholders

The consolidated financial statements of Cargojet Inc. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of Cargojet has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The Board of Directors carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the corporation's annual consolidated financial statements and recommends their approval by the Board of Directors.

These financial statements have been audited by the external auditors, Deloitte LLP, Chartered Professional Accountants, Chartered Accountants, and Licensed Public Accountants whose report follows.

Dr. Ajay K. Virmani

President and Chief Executive Officer
March 2014

Independent Auditor's Report

Deloitte.

To the Shareholders of
Cargojet Inc.

We have audited the accompanying consolidated financial statements of Cargojet Inc., which comprise the consolidated balance sheets as at December 31, 2013 and December 31, 2012, and the consolidated statements of income and comprehensive income, consolidated statements of changes in equity, and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Inc. as at December 31, 2013 and December 31, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
March 4, 2014
Toronto, Canada

Consolidated Financial Statements of

CARGOJET INC.

For the years ended
December 31, 2013 and 2012

CARGOJET INC.
Consolidated Balance Sheets
As at December 31, 2013 and 2012 (in Canadian dollars)

	Note	December 31, 2013	December 31, 2012
		$	$
ASSETS			
CURRENT ASSETS			
Cash		441,506	149,976
Trade and other receivables		15,399,458	11,245,805
Inventories	3	1,062,981	720,756
Prepaid expenses and deposits		982,972	2,397,021
Current portion of notes receivable	4	821,102	821,102
Current portion of finance lease receivable	5	311,653	293,017
		19,019,672	15,627,677
NON-CURRENT ASSETS			
Property, plant and equipment	6	45,844,731	46,710,150
Notes receivable	4	977,224	1,719,188
Finance lease receivable	5	98,591	361,477
Goodwill	7	46,169,976	46,169,976
Intangible assets	8	1,000,000	1,000,000
Deposits		3,040,678	1,853,412
		116,150,872	113,441,880
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9	16,797,283	11,755,753
Income taxes payable		2,162,510	449,927
Dividends payable		1,191,819	1,191,819
Borrowings	10	20,280	885,780
		20,171,892	14,283,279
NON-CURRENT LIABILITIES			
Borrowings	10	1,932,393	2,983,470
Provisions	11	1,760,916	1,543,784
Convertible debentures	12	25,940,908	25,263,531
Deferred income taxes	13	3,801,932	4,897,545
		53,608,041	48,971,609
EQUITY		62,542,831	64,470,271
		116,150,872	113,441,880

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

John P. Webster
Trustee

Dr. Ajay K. Virmani
President and Chief Executive Officer

CARGOJET INC.
Consolidated Statements Income and Comprehensive Income
Years ended December 31, 2013 and 2012 (in Canadian dollars)

	Note	2013	2012
		$	$
REVENUES		175,376,217	168,770,688
DIRECT EXPENSES		149,947,441	140,425,837
		25,428,776	28,344,851
General and administrative expenses		18,338,566	18,115,242
Sales and marketing expenses		461,303	835,435
Finance costs		3,232,204	3,504,211
Finance income		(144,313)	(210,459)
Other losses (gains)	14	(972,095)	1,034,362
		20,915,665	23,278,791
EARNINGS BEFORE INCOME TAXES		4,513,111	5,066,060
PROVISION FOR (RECOVERY OF) INCOME TAXES	13		
Current		2,277,094	527,528
Deferred		(1,095,613)	986,353
		1,181,481	1,513,881
NET INCOME AND COMPREHENSIVE INCOME		3,331,630	3,552,179
EARNINGS PER SHARE	16		
- Basic		0.42	0.44
- Diluted		0.42	0.44

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

CARGOJET INC.
Consolidated Statements of Changes in Equity
Years ended December 31, 2013 and 2012 (in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Reserve for surplus on debenture repurchases	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, December 31, 2012		67,329,440	341,554	1,844,538	1,271,503	(6,316,764)	64,470,271
Net income and comprehensive income		-	-	-	-	3,331,630	3,331,630
Treasury shares - net	17	(127,250)	-	-	-	-	(127,250)
Share-based compensation	17	-	51,111	-	-	-	51,111
Dividends	15	-	-	-	-	(5,182,931)	(5,182,931)
Balance, December 31, 2013		67,202,190	392,665	1,844,538	1,271,503	(8,168,065)	62,542,831
Balance, December 31, 2011		67,341,167	275,643	1,271,503	-	(5,271,930)	63,616,383
Net income and comprehensive income		-	-	-	-	3,552,179	3,552,179
Conversion option on debenture redemption	12	-	-	(1,271,503)	1,271,503	-	-
Conversion option on debenture issuance	12	-	-	2,509,576	-	-	2,509,576
Deferred tax on conversion option	13	-	-	(665,038)	-	-	(665,038)
Treasury shares - net	17	(11,727)	-	-	-	-	(11,727)
Share-based compensation	17	-	65,911	-	-	-	65,911
Dividends	15	-	-	-	-	(4,597,013)	(4,597,013)
Balance, December 31, 2012		67,329,440	341,554	1,844,538	1,271,503	(6,316,764)	64,470,271

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

CARGOJET INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012 (in Canadian dollars)

	Note	2013	2012
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		3,331,630	3,552,179
Items not affecting cash			
Depreciation of property, plant and equipment	6	11,529,066	9,827,694
Share-based compensation	17	516,736	350,619
Finance costs		3,232,204	3,504,211
Interest paid		(2,375,590)	(2,659,693)
Effects of exchange rates changes on provision	11	110,373	17,670
Loss on purchase of debentures	12,14	-	554,603
Loss (gain) on disposal of property, plant and equipment	6,14	146,630	(87,636)
Impairment on property, plant and equipment	6,14	281,275	567,395
Non-cash portion of lease settlement	14	(800,000)	-
Non-cash interest on notes receivable		(115,724)	(158,314)
Non-cash interest on finance lease receivable		(28,427)	(41,353)
Income tax provision		1,181,481	1,513,881
Income tax payments		(564,511)	(811,601)
		16,445,143	16,129,655
Changes in non-cash working capital items and deposits			
Trade and other receivables		(4,153,653)	(501,779)
Inventories		(342,225)	(20,130)
Prepaid expenses and deposits		657,700	3,571,844
Trade and other payables		5,041,530	1,175,671
NET CASH GENERATED BY OPERATING ACTIVITIES		17,648,495	20,355,261
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(1,989,055)	(7,594,406)
Purchase of treasury shares		(592,875)	(296,437)
Proceeds from debenture issuance	12	-	27,305,000
Dividends paid to shareholders		(5,182,931)	(4,484,306)
Repayment of finance leases payable		-	(35,135)
Repayment of debentures	12	-	(24,655,000)
NET CASH USED IN FINANCING ACTIVITIES		(7,764,861)	(9,760,284)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(10,969,169)	(11,785,116)
Proceeds from disposal of property, plant and equipment		246,700	289,087
Collections of notes receivable		857,688	857,694
Collections of finance lease receivable		272,677	303,569
NET CASH USED IN INVESTING ACTIVITIES		(9,592,104)	(10,334,766)
NET CHANGE IN CASH		291,530	260,211
CASH (OVERDRAFT), BEGINNING OF YEAR		149,976	(110,235)
CASH, END OF YEAR		441,506	149,976

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

1. NATURE OF THE BUSINESS

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

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

These consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on March 4, 2014.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

Cash

Cash balance consists of cash on hand and demand deposits.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

Revenue recognition

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

Revenue from ACMI cargo services is recorded when the cargo aircraft has been provided exclusively to a customer at a fixed daily rate operating on a specific route that may include cost of fuel and other commercial activities.

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

Revenue from fuelling services is billed on the basis of prevailing rates at the time of sale and recorded when the sale is completed.

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

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

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment. Borrowing costs related to the acquisition, construction or production of qualifying assets is capitalized to the cost of the item until the asset is ready for use.

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

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

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

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits will flow to the Company and can be reliably measured. The carrying amount of the replaced part is derecognized. Gains and losses on the disposal of an item of property, plant and equipment are determined by comparing the proceeds on disposal to the carrying amount of the property, plant and equipment and are recognized in income. The cost of day-to-day servicing of the property, plant and equipment is expensed as incurred in income.

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

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

When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The estimated useful lives are as follows:

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

Leases

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

Finance leases

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

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred.

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

Amounts due from lessees under finance leases are recognized as receivables at the amount of the net investment in the lease. Finance lease income is recognized so as to reflect a constant periodic rate of return on the net investment outstanding in respect of the leases.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Operating leases

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

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

Arrangements containing a lease
In compliance with *IFRIC 4, Determining if an Arrangement Contains a Lease, ("IFRIC 4")* the Company identifies agreements that convey the right to use an asset or group of specific assets to the purchaser although they do not have the legal form of a lease contract, as the purchaser in the arrangement benefits from a substantial share of the asset's production and payment is not dependent on production or market price. Such arrangements are treated as leases, and analyzed with reference to *IAS 17, Leases ("IAS 17")* for classification as either finance or operating leases.

Intangible assets

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

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

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of tangible and intangible assets excluding goodwill (continued)

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in income.

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

Foreign currencies

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

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

Exchange differences are recognized in income in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in income in the period in which they are incurred.

Income taxes

Current taxes

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes (continued)

Deferred taxes

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

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

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

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

Current and deferred taxes for the period

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

Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

Asset/Liability	Classification	Measurement
Cash, trade and other receivables, finance lease receivable, notes receivables, and deposits	Loans and receivables	Amortized cost
Trade and other payables, dividends payable, convertible debentures and borrowings	Other financial liabilities	Amortized cost
Foreign exchange forward contracts	Fair value through profit or loss	Fair value

Loans and receivables and other financial liabilities

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

Derivative financial instruments

Derivative financial instruments are utilized by the Company occasionally in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative financial instruments are recorded at their fair values.

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

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets

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

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

De-recognition of financial assets and liabilities

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

The Company periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in the Canadian/U.S. exchange rate on its purchase transactions denominated in U.S. dollars. These contracts require the exchange of currencies on maturity of the contracts.

Convertible debentures

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, and is not subsequently re-measured. Transaction costs are divided between the liability and equity components in proportion to their values.

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting judgments and use of estimates

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

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

Impairment of property, plant and equipment and goodwill

Impairment tests on property, plant and equipment and goodwill are sensitive to the macro-economic and other assumptions used, and long-term financial forecasts. The Company therefore revises the underlying estimates and assumptions based on regularly updated information.

Deferred taxes

Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable income 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 which is 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 the lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments and Company-specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability.

Financial instruments

The issuance or repurchase of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. Estimates are also required for determining the fair values of financial instruments that are not publicly traded for disclosure purposes.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting changes

Accounting standards effective for 2013

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

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

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

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

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

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

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

Standards and interpretations issued not yet adopted

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective for the year ended December 31, 2013 and, accordingly, have not been applied in preparing these financial statements. The more significant standards are noted below. The Company has not yet assessed the potential impact of these standards on its financial reporting.

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 will be applied retrospectively for annual periods beginning on or after January 1, 2014.

Financial instruments: Asset and liability offsetting

In December 2011, the IASB amended IAS 32, *Financial Instruments: Presentation ("IAS 32")* to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments will be applied retrospectively for annual periods beginning on or after January 1, 2014.

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 years beginning on or after January 1, 2014 and must be applied retrospectively.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued not yet adopted (continued)

Financial instruments

IFRS 9, *Financial Instruments: Classification and Measurement* (“IFRS 9”), was issued by the IASB in November 2009 and will replace 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 the Company’s credit risk are presented in other comprehensive income instead of net income unless this would create an accounting mismatch. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The effective date for implementation of this standard has been deferred pending the finalization of the impairment, classification and measurement requirements.

3. INVENTORIES

	December 31, 2013	December 31, 2012
	$	$
Fuel inventory	1,062,981	720,756

For the years ended December 31, 2013 and 2012, costs of inventory of $63,677,569 and $62,436,152, respectively, were recognized in direct expenses..

4. NOTES RECEIVABLE

On July 14, 2010, the Company entered into an agreement with Skylink Express to sell its 55% interest in Cargojet Regional Partnership (the “Partnership”). The Partnership operated the Company’s regional air cargo business segment that provided service to thirty-three smaller cities in Ontario, Quebec and the Maritime provinces. Skylink Express held the other 45% interest in the Partnership. Proceeds for the sale included a $3.2 million non-interest bearing note receivable (“First Note Receivable”) over five years, that was reduced by approximately $0.7 million to account for the difference between the amounts due to Cargojet and Skylink Express from the Partnership, net of the total cash losses of the Partnership since its inception relative to the proportionate ownership of the Company and Skylink Express.

The sale agreement also included the sale of the Company’s aircraft spare parts and other operating assets that were required by Skylink Express in the operation of the Partnership, which were sold to Skylink Express on December 20, 2010 in exchange for a separate non-interest bearing note (“Second Note Receivable”) of $1.8 million receivable over five years.

Both notes receivable due from Skylink Express are secured by a first charge on aircraft owned by Skylink Express. They are discounted at an annual rate of 6%.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

4. NOTES RECEIVABLE (continued)

The discounted balance of the notes receivable is comprised of the following as at December 31, 2013 and December 31, 2012:

	December 31,2013	December 31, 2012
	$	$
Notes receivable	1,798,326	2,540,290
Less: notes receivable - current portion	821,102	821,102
Notes receivable - long-term portion	977,224	1,719,188

Interest revenue of $115,724 was recognized for the year ended December 31, 2013 (2012 - $158,314).

5. FINANCE LEASE RECEIVABLE

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

The finance lease receivable as at December 31, 2013 and December 31, 2012 is as follows:

	December 31, 2013	December 31, 2012
Minimum lease payments	$	$
Not later than one year	319,080	300,000
Later than one year and not later than five years	106,360	396,431
Finance lease receivable	425,440	696,431
Less: unearned finance income	(15,196)	(41,937)
Present value of minimum lease payments	410,244	654,494
Current portion	311,653	293,017
Long-term portion	98,591	361,477

The estimated average effective interest rate is 5.17% and $28,427 (2012 - $41,353) of finance income was recognized in the year.

The finance lease receivable is secured by the leased aircraft.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

6. PROPERTY, PLANT AND EQUIPMENT

	Balance as at January 1, 2013	Additions / Transfers	Disposals / Transfers	Balance as at December 31, 2013
Cost				
	$	$	$	$
Aircraft hull	12,914,254	1,284,591	(383,806)	13,815,039
Engines	13,730,810	3,226,775	(1,777,955)	15,179,630
Spare parts	1,572,637	56,806	-	1,629,443
Ground equipment	8,359,363	427,371	(26,195)	8,760,539
Rotable spares	13,352,170	873,275	3,981	14,229,426
Computer hardware and software	4,309,223	142,977	-	4,452,200
Furniture and fixtures	1,225,177	84,533	-	1,309,710
Leasehold improvements	4,711,872	642,070	-	5,353,942
Vehicles	763,340	225,030	3,079	991,449
Hangar facility	14,950,992	817,883	-	15,768,875
Deferred heavy maintenance	19,675,588	3,987,858	(1 2,684,742)	10,978,704
	95,565,426	11,769,169	(14,865,638)	92,468,957

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

6. PROPERTY, PLANT AND EQUIPMENT (continued)

	Balance as at January 1, 2012	Additions / Transfers	Disposals / Transfers	Balance as at December 31, 2012
Cost				
	$	$	$	$
Aircraft hull	11,691,346	1,222,908	-	12,914,254
Engines	12,270,371	1,617,199	(156,760)	13,730,810
Spare parts	1,405,468	167,169	-	1,572,637
Ground equipment	7,436,634	922,729	-	8,359,363
Rotable spares	12,198,047	1,154,123	-	13,352,170
Computer hardware and software	3,739,004	570,219	-	4,309,223
Furniture and fixtures	1,051,833	173,344	-	1,225,177
Leasehold improvements	4,379,545	111,750	220,577	4,711,872
Vehicles	607,288	158,673	(2,621)	763,340
Hangar facility	14,950,992	-	-	14,950,992
Deferred heavy maintenance	12,758,453	7,164,597	(247,462)	19,675,588
	82,488,981	13,262,711	(186,266)	95,565,426

	Balance as at January 1, 2012	Depreciation	Disposals / Transfers	Impairment	Balance as at December 31, 2012	Net Book Value, December 31, 2012
Accumulated Depreciation						
	$	$	$	$	$	$
Aircraft hull	4,418,680	871,377	-	-	5,290,057	7,624,197
Engines	5,899,055	1,700,945	-	567,395	8,167,395	5,563,415
Spare parts	-	-	-	-	-	1,572,637
Ground equipment	3,910,170	628,626	-	-	4,538,796	3,820,567
Rotable spares	4,061,863	1,767,665	-	-	5,829,528	7,522,642
Computer hardware and software	2,718,586	416,544	-	-	3,135,130	1,174,093
Furniture and fixtures	596,435	95,042	-	-	691,477	533,700
Leasehold improvements	3,221,008	306,712	80,210	-	3,607,930	1,103,942
Vehicles	443,843	42,240	(2,308)	-	483,775	279,565
Hangar facility	3,655,193	429,315	-	-	4,084,508	10,866,484
Deferred heavy maintenance	9,564,547	3,569,228	(107,095)	-	13,026,680	6,648,908
	38,489,380	9,827,694	(29,193)	567,395	48,855,276	46,710,150

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

In July 2012, the Company purchased a Boeing 727 aircraft for total consideration of $1,224,925. The costs were segregated into three components consisting of engines totaling $540,630, aircraft hull totaling $619,295 and deferred heavy maintenance totaling $65,000.

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

In August 2013, the Company entered into an operating lease agreement with a third party and sold certain aircraft engines to the lessee and reported a loss of $146,630 (2012 – gain of $87,636) on disposal of property, plant and equipment.

In August 2012, the Company reviewed the carrying value of its used engines and estimated that the recoverable amount was less than the book value. The Company reduced the net book value of the used engines to fair value by $567,395 and reported a loss on impairment of property, plant and equipment.

Depreciation expense on property, plant and equipment for the year ended December 31, 2013 totaled $11,529,066 (2012 - $9,827,694).

7. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single cash-generating unit. Goodwill is tested for impairment annually on April 1, or more frequently when there is an indication of potential impairment. The recoverable amount is determined based on a value in use calculation which uses cash flow projections for a three-year period based on historical results and using a steady 2.0% per annum growth rate thereafter (2012 - 2.0%), which has been estimated based on long-term growth rates in cash flow of the Company, and a pre-tax discount rate of approximately 16.2% per annum (2012 - 16.1%). The Company believes that any reasonably possible change in key assumptions on which recoverable amounts are based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

8. INTANGIBLE ASSETS

Intangible assets at December 31, 2013 and 2012 consist of licenses with indefinite lives carried at $1,000,000. The Company believes that licenses have indefinite useful lives as the licenses provide a renewal option, at Transport Canada's discretion, provided that licensing conditions are met. As a result, the Company believes that the licenses have indefinite lives as the Company complies, and will continue to comply, with the licensing conditions specified in the existing laws, agreements, treaties and regulations.

9. TRADE AND OTHER PAYABLES

	December 31, 2013	December 31, 2012
	$	$
Trade payables and accrued charges	14,258,813	10,846,168
Payroll and benefits	2,538,470	909,585
Trade and other payables	16,797,283	11,755,753

10. BORROWINGS

Borrowings consist of the following:

	December 31, 2013	December 31, 2012
	$	$
Revolving credit facility	1,675,223	2,729,592
Fixed loans - Cargojet Airways Ltd.	-	1,139,658
Other borrowings	277,450	-
	1,952,673	3,869,250
Less current portion	20,280	885,780
Long-term portion	1,932,393	2,983,470

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $25.0 million and bears interest at bank prime plus 1.75% and is repayable on maturity, December 31, 2015. Subsequent to December 31, 2013, the credit facility was increased to $45.0 million (refer to Note 24). The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2013 and 2012.

The credit facility is secured by the following:

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

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

10. BORROWINGS (continued)

Other borrowings of $277,450 are comprised of an obligation under a finance lease and bear an interest rate of 8.0%. The amount is repayable in monthly installments over the period to April 2018.

The following are the future minimum repayments for other borrowings:

	$
2014	20,280
2015	21,965
2016	23,787
2017	25,761
2018	185,657
	277,450
Less current portion	20,280
Long-term portion	257,170

Interest expense on the borrowings for the year ended December 31, 2013 totaled $579,334, (2012 - $800,551).

11. PROVISIONS

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

	December 31, 2013	December 31, 2012
	$	$
Balance, beginning of year	1,543,784	-
Recognition of provision for lease return conditions	-	1,476,973
Accretion	106,759	49,141
Effects of exchange rate changes on the provision balance	110,373	17,670
Balance, end of year	1,760,916	1,543,784

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and Company specific history. Accretion expense of $106,759 (2012 - $49,141) has been recorded in the year as part of finance costs in the consolidated statement of income. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2013 and 2012

12. CONVERTIBLE DEBENTURES

Convertible Debentures - 6.5% due April 30, 2017

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

On or after April 30, 2015, but prior to April 30, 2016, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture plus accrued and unpaid interest, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $11.75 per common share. After April 30, 2016, but prior to the maturity date of April 30, 2017, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on April 30, 2017, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $11.75 per voting share at any time prior to the close of business on the earliest of the business day immediately preceding the maturity date; if called for redemption, on the business day immediately preceding the date specified by the Company for redemption of the debentures; or if called for repurchase pursuant to a change of control, on the business day immediately preceding the payment date. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract. The conversion rate of $11.75 per voting share may be subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.142 per quarter ($0.568 per annum).

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

The principal amount of the debentures has been allocated between its debt component and the conversion option and has been classified separately on the balance sheet. The fair value of the debt component was determined using an estimated market rate for a similar liability without an equity component and the residual was allocated to the conversion option.

CARGOJET INC.
Notes to the Consolidated Financial Statements
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12. CONVERTIBLE DEBENTURES (continued)

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

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

	December 31, 2013	December 31, 2012
	$	$
Principal balance	28,750,000	28,750,000
Less:		
Issuance costs	(1,312,192)	(1,312,192)
Conversion option at inception	(2,642,384)	(2,642,384)
Accretion	1,145,484	468,107
Balance	25,940,908	25,263,531

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

Interest expense on the debentures for the year ended December 31, 2013 totaled $2,546,129 (2012 - $1,927,272).

Convertible Debentures – 7.5%

In May 2012, the Company redeemed the outstanding $24,655,000 principal amount of the convertible debentures issued in 2008 ($24,100,397 net of the related unamortized issuance costs and the portion allocated to the conversion option) at par or $1,000 per convertible debenture. At redemption, the Company allocated the full $24,655,000 purchase price to the liability component redeemed and the equity component of $1,271,503 was reclassified from conversion option to reserve for surplus on debenture repurchases in shareholders' equity. The redemption of the convertible debentures resulted in a loss of $554,603.

Interest expense on the debentures for the years ended December 31, 2013 was $nil (2012 - $802,030).

13. INCOME TAXES

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

	December 31, 2013	December 31, 2012
	$	$
Earnings before income taxes	4,513,111	5,066,060
Income tax provision at the combined basic rate of 26.5% (2012 - 26.5%)	1,195,974	1,342,506
Permanent and other differences	(14,493)	171,375
Income tax expense	1,181,481	1,513,881

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13. INCOME TAXES (continued)

The tax effect of significant temporary differences is as follows:

	December 31, 2013	December 31, 2012
	$	$
Property, plant and equipment	2,866,634	3,019,272
Intangible assets	(564,854)	(607,359)
Notes receivable	(24,683)	(55,349)
Financing costs	(272,534)	(344,828)
Convertible debentures	744,409	901,598
Provision for lease retirement costs	224,703	335,833
Finance lease receivable	108,715	173,441
Long-term incentive plan	(104,057)	(90,511)
Deferred heavy maintenance	823,599	1,565,448
Net deferred income tax liability	3,801,932	4,897,545

In 2012, a deferred tax liability of $665,038 was recorded in shareholders' equity relating to the value of the conversion option recorded on the issuance of the convertible debentures in March 2012.

14. OTHER LOSSES (GAINS)

Other losses (gains) consist of the following:

	December 31, 2013	December 31, 2012
	$	$
Loss (gain) on disposal of property, plant and equipment (Note 6)	146,630	(87,636)
Loss on impairment of property, plant and equipment (Note 6)	281,275	567,395
Loss on debenture redemption (Note 12)	-	554,603
Gain on lease termination	(1,400,000)	-
Other losses (gains), net	(972,095)	1,034,362

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

15. SHAREHOLDERS' CAPITAL

a) Authorized

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

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

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

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15. SHAREHOLDERS' CAPITAL (continued)

b) Issued and outstanding

The following table shows shareholders' capital as at December 31, 2013 and 2012:

	Number	Amount
		$
Variable voting shares	238,145	2,019,470
Common voting shares	7,755,271	65,764,697
Outstanding, January 1, 2011	7,993,416	67,784,167
Treasury stock purchase	(65,984)	(564,825)
Distributed share-based compensation	14,238	121,825
Outstanding, December 31, 2011	7,941,670	67,341,167
Consisting of:		
Variable voting shares	225,445	1,911,655
Common voting shares	7,716,225	65,429,512
Outstanding December 31, 2011	7,941,670	67,341,167
Changes during the period		
Treasury stock purchase	(39,275)	(296,437)
Distributed in connection with share-based compensation	33,455	284,710
Outstanding, December 31, 2012	7,935,850	67,329,440
Consisting of:		
Variable voting shares	706,745	4,298,548
Common voting shares	7,229,105	63,030,892
Outstanding, December 31, 2012	7,935,850	67,329,440
Changes during the year		
Treasury stock purchase	(61,099)	(592,875)
Distributed in connection with share-based compensation	55,060	465,625
Outstanding, December 31, 2013	7,929,811	67,202,190
Consisting of:		
Variable voting shares	256,395	2,172,852
Common voting shares	7,673,416	65,029,338

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the years ended December 31, 2013 and 2012 amounted to $5,182,931 ($0.6484 per share) and $4,597,013 ($0.5751 per share), respectively.

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16. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the years ended December 31, 2013 and 2012:

Basic earnings per share	2013	2012
Net income	$ 3,331,630	$ 3,552,179
Weighted average number of shares	7,993,416	7,993,416
Total basic earnings per share	$ 0.42	$ 0.44

The shares held under the long-term incentive plan have been included in the calculation of basic earnings per share for the years ended December 31, 2013 and 2012 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the years ended December 31, 2013 and 2012 as the impact would be anti-dilutive.

17. LONG-TERM INCENTIVE PLAN

The Company's long-term incentive plan (the "Plan" or "LTIP") provides certain of its executive officers and senior management of the Company with compensation opportunities tied to the performance of the Company. Company incentive bonuses, in the form of shares, are provided to eligible employees on an annual basis where the earnings of the Company exceed a pre-determined base (the "Base Target"). The Base Target is set annually by the Compensation Committee of the Company's Board of Directors in accordance with the terms of the Plan.

If the Company's earnings exceed the Base Target, a percentage of the excess is contributed by the Company into a long-term incentive pool. Shares are then purchased on the open market by the Company and held by the Company until they vest. Vesting of the shares will occur on the basis of one-third of the total grant at the time of granting, and one-third on each of the first and second anniversary dates.

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

2013 Awards

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

Prior Years Awards

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
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17. LONG-TERM INCENTIVE PLAN (continued)

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

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

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

18. COMMITMENTS AND CONTINGENCIES

Commitments

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

	$
Not later than one year	12,756,901
Later than one year and not later than five years	20,160,335
Later than five years	5,042,174
Total	37,959,410

CARGOJET INC.
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18. COMMITMENTS AND CONTINGENCIES (continued)

Commitments (continued)

The Company has provided irrevocable standby letters of credit totaling $1,795,100 to financial institutions as security for its loan, corporate credit cards and to several vendors as security for the Company's ongoing purchases. The letters of credit expire as follows:

	$
March 20, 2014	20,000
June 15, 2014	350,000
July 6, 2014	127,600
July 28, 2014	368,500
December 31, 2014	200,000
December 31, 2014	479,000
January 13, 2015	250,000
Total	1,795,100

In 2014, the Company has issued a letter of guarantee of $20.0 million to a customer (refer to Note 24).

19. RELATED PARTY TRANSACTIONS

In 2012, the Company entered into a transaction with a related party, First Take Entertainment Ltd., a company controlled by one of the Company's executive officers. The transaction was in the normal course of business and measured at the exchange amount, which is the amount of consideration established and agreed by the parties. The amount of $150,000 included in sales and marketing costs was paid on account of advertising and promotion expenses. There were no significant related party transactions in 2013.

Compensation of key management personnel

In 2013, the employee benefit expense was $30,294,445 (2012 - $28,579,598) of which $16,981,623 (2012 - $15,428,713) was recorded in direct expenses and $13,312,822 (2012 - $13,150,885) 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, 2013 and 2012 as follows:

	December 31, 2013	December 31, 2012
	$	$
Short-term benefits	4,205,229	4,363,779
Post-employment benefits	31,027	31,500
Share-based payments	621,361	402,932
Total remuneration	4,857,617	4,798,211

CARGOJET INC.
Notes to the Consolidated Financial Statements
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20. ECONOMIC DEPENDENCE

TIn 2013, the Company had sales to three customers that represented 54.9% of the total revenues (2012 -54.5%). These sales are provided under service agreements that expire over various periods to September 2018.

21. CAPITAL MANAGEMENT

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

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

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

The Company is subject to financial covenants related to its credit facility (Note 10). As at December 31, 2013 and 2012, the Company was in compliance with all financial covenants.

22. FINANCIAL INSTRUMENTS

Risk management policies

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2013.

Fair values

The fair value of the convertible debentures, based on quoted market prices as at December 31, 2013, was approximately $33,925,000 (December 31, 2012 - $29,612,500). The fair value of the long-term debt, based on an estimate of market interest rates as at December 31, 2013 and 2012, was approximately equal to its carrying value. The fair values of the notes receivables and finance lease receivable as at December 31, 2013 and 2012 were approximately equal to their carrying values. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

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22. FINANCIAL INSTRUMENTS (continued)

Fair values (continued)

The Company does not have any Level 3 fair value measurements and thus no continuity schedule has been presented. In addition, there have been no significant transfers between levels.

There are no assets or liabilities recorded at fair value as at December 31, 2013 and December 31, 2012.

Credit risk

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

The Company is subject to risk of non-payment of accounts receivable, finance lease receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's receivables are concentrated among several of its largest customers with approximately 48% (December 31, 2012 - 52%) of total receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (0.8%) of trade receivables is outstanding for more than sixty days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. Consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

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

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

The notes receivable due from Skylink Express are secured by a first charge on Skylink Express aircraft.

The finance lease receivable is secured by the leased aircraft.

Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $25.0 million. Subsequent to December 31, 2013, the credit facility was increased to $45.0 million (refer to Note 24). The Company was in compliance with all covenants as at December 31, 2013 and 2012.

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22. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2013 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Borrowings and convertible debentures	20,280	1,697,187	28,827,448	157,757	30,702,672
Interest on borrowings (at current rates)	1,890,213	1,888,530	2,539,452	30,722	6,348,917
Trade and other payables	16,797,283	-	-	-	16,797,283
Dividends payable	1,191,819	-	-	-	1,191,819
Total	19,899,595	3,585,717	31,366,900	188,479	55,040,691

Total financial liabilities at December 31, 2012 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	$	$	$	$	$
Borrowings and convertible debentures	885,780	253,878	31,479,592	-	32,619,250
Interest on borrowings (at current rates)	1,933,021	1,878,493	4,357,003	-	8,168,517
Trade and other payables	11,755,753	-	-	-	11,755,753
Dividends payable	1,191,819	-	-	-	1,191,819
Total	15,766,373	2,132,371	35,836,595	-	53,735,339

Foreign exchange risk

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

As at December 31, 2013, the Company had no U.S. dollar forward sale contracts outstanding (2012 - $1,000,000). As at December 31, 2012, the contracts had a positive value of $1,831 which was recorded as an asset in trade and other receivables.

Total foreign exchange gains during the year ended December 31, 2013 were $42,909 (2012 - $121,262).

Commodity risk

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

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22. FINANCIAL INSTRUMENTS (continued)

Market risk

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

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

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

At December 31, 2013 and 2012, movements in interest rates would not have any significant impact on the fair value of the Company's financial assets and liabilities.

At December 31, 2013, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately $0.1 million (2012 - $0.1 million). An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2012 - $0.1 million).

At December 31, 2013, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by approximately $0.1 million (2012 - $0.1 million). An increase in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2012 - $0.1 million).

23. GUARANTEES

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

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

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

CARGOJET INC.
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23. GUARANTEES (continued)

(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.

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.

24. SUBSEQUENT EVENTS

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

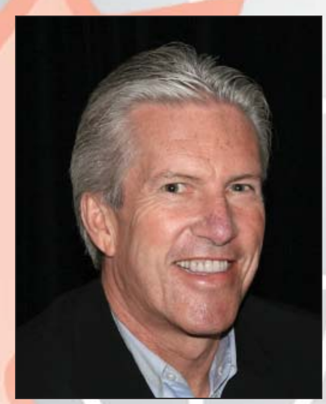
In February 2014, the Company was awarded the Domestic Air Cargo Network Services (“DACNS”) contract and signed a master services agreement with the Canada Post Group of Companies (“CPGOC”) for an initial seven-year term with three thirty-six month renewal options held by the CPGOC.

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

On February 20, 2014, the Company amended its revolving credit facility with a Canadian chartered bank. The amendment increased the maximum credit limit from $25.0 million to $45.0 million. All other terms and conditions related to the credit facility remained the same.

Directors and Officers of Cargojet

Dr. Ajay K. Virmani, MBA
President,
Chief Executive Officer
Chairman of the Board



Jamie Porteous
Executive
Vice-President

Directors and Officers of Cargojet

John P. Webster
Lead Director

Paul V. Godfrey
Director

Terence M. Francis
Director

Officers of Cargojet

John Kim, CA
Chief Financial Officer
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