CARGOJET

2014 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 85% of Canada's domestic overnight air cargo capacity. Cargojets' network consolidates cargo received from over 400 customers and carries over a 1,000,000 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. 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	Three Month Period Ended				Year Ended
	December 31 2013	March 31 2014	June 30 2014	September 30 2014	December 31 2014	December 31 2014
Revenues	175,376	43,716	44,335	47,227	57,120	192,398
Direct Expenses	149,947	39,880	39,143	43,271	51,330	173,624
ADJUSTED EBITDA	17,183	1,408	2,030	(43)	576	3,971
Dividends declared	5,183	1,319	1,354	1,363	1,368	5,404
Direct expenses as percentage of revenue	86%	91%	88%	92%	90%	90%
EBITDA as percentage of revenue	10%	3%	4%	0%	1%	2%

Message To Shareholders

Message to Shareholders,

The past year revealed very strong revenue growth in our core domestic overnight and air cargo charter segments. It was also a year of transformation, as we added the necessary resources, to allow for the planned expansion and enhancement of our domestic overnight air cargo network in early 2015.

Key drivers of revenue continue to be the accelerated growth of e-commerce activity and overall positive economic growth. Cargojet is the leading provider of premium air cargo services in Canada. We also continue to position Cargojet as a dominant global air cargo charter operator by utilizing aircraft assets during traditional down-time in the day and on weekends.

Cargojet's all-cargo aircraft fleet increased to twenty-two (22) aircraft at year end 2014 providing the additional capacity required as we transition to our enhanced overnight network in early 2015. Consistent operational performance and safety continue to be our priority and Cargojet achieved over a reliability level of 98% on-time arrivals within fifteen minutes of scheduled arrival time on approximately 15,000 block hours flown during the year.

In February 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 has been expanded and enhanced significantly to handle the additional volumes and provide a virtual dedicated Air Cargo Network to the Canada Post Group of Companies.

We will continue to manage our costs prudently and to seek out new revenue opportunities within Canada and around the world, in order to provide consistent cash flows and 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.

Cargojet is committed to providing a safe, 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.

We also welcome Mr. Jim Crane to the Board of Directors of Cargojet and will seek his guidance and contributions to the continued growth of Cargojet. We are excited to have Jim as a member of our Board; his valuable insights will be significant to Cargojet's continued growth strategy in the years to come. I would also like to thank Terry Francis for his contributions to Cargojet and wish him the very best in his future endeavors.

The Board of Directors of Cargojet Inc. determines its 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

March 2015

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 Month and Twelve Month
Periods Ended December 31, 2014

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

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

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

EBITDA[A], ADJUSTED EBITDA[B] AND ADJUSTED FREE CASH FLOW[C]

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

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

KEY FACTORS AFFECTING THE BUSINESS

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company (see page 36 for a more complete discussion of the risks affecting the Company's business).

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

CAUTION CONCERNING FORWARD LOOKING STATEMENTS

This discussion includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may deemed to be forward-looking statements including those identified by the expressions “anticipate”, “believe”, “plan”, “estimate”, “expect”, “intend”, “project” and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet’s current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the section “Risk Factors” starting on page 36.

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

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

- Fleet Overview - Page 11,
- Recent Events - Purolator and Canada Post DACNS - Page 13,
- Recent Events - Air Cargo Cooperation agreement with First Air - Page 15,
- Results of operations for twelve month period ended December 31th, 2014 and 2013 - Liquidity and capital resources - Page 32, and
- Outlook - Page 42.

Overview

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

[1] EBITDA, Adjusted EBITDA and Adjusted free cash flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer page 8 of this MD&A for detailed discussion.

[2] Operating days refer to the Company's overnight air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.

[3] Average cargo revenue per operating day refers to total overnight, ACMI and charter revenues earned by the company per operating day.

CORPORATE OVERVIEW

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

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

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

FLEET OVERVIEW

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

See Caution Concerning Forward Looking Statements, page 9

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

Overview (Continued)

Fleet Overview (Continued)

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs)	Range (miles)
			Actual			Plan		
			2012	2013	2014	2015		
B767-300 [1]	Finance Lease	21	-	-	3	4	116,000	6,000
B767-300 [2]	Operating Lease	21	-	-	-	1	116,000	6,000
B767-300 [3]	Owned	21	-	-	-	3	116,000	6,000
B767-200 [4]	Operating Lease	30	2	2	5	3	100,000	5,000
B757-200 [5]	Owned	27	-	-	1	2	80,000	3,900
B757-200 [6]	Operating Lease	25	1	1	3	3	80,000	3,900
B727-200 [7]	Owned	35	10	11	9	6	60,000	1,800
Challenger 601 [8]	Owned	28	-	-	-	4	6,000	3,300
Total Aircraft			13	14	21	29		

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

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

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

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

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

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

(7) Cargojet plans to take three B727-200 aircraft out of regular service in 2015.

(8) In 2014, Cargojet purchased five Challenger 601 aircraft. Four of the five aircraft are in various stages of maintenance and modification and are expected to be operational in early 2015. One aircraft is being held for parts only.

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

RECENT EVENTS

Purolator and Canada Post DACNS

See Caution Concerning Forward Looking Statements, page 9

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

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

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

Amendment of Credit Facility

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

Debenture Conversion

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

RECENT EVENTS (CONTINUED)

ISSUANCE OF CONVERTIBLE DEBENTURE - 5.5% DUE JUNE 30, 2019

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

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

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

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

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

RECENT EVENTS (CONTINUED)

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

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

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

The conversion option, net of related issuance costs of $305,532, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 8.77%.

Air Cargo Cooperation agreement with First Air

See Caution Concerning Forward Looking Statements, page 9

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

Acquisition of Property, plant and equipment

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

Air Cargo Logistics Facility

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

RECENT EVENTS (CONTINUED)

Aircraft Finance Leases and Loans

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

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

Under the MLA and the Loan Agreements, the Company is required to pay arrangement fees in an amount equal to 0.75% of the amounts advanced and additional fees equal to the positive difference between the price of a certain number of Cargojet shares on the TSX on the date of or immediately prior to the date of the MLA or the Loan Agreements as the case may be and the twenty day volume weighted average closing price for such share as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The additional fees have been accounted for as cash settled share based compensation option. In respect of the MLA, the number of shares used to calculate the amount payable for each lease under this option is 58,333 and the initial price per share was $22.99. In respect of the Loan Agreement, the number of shares used to calculate the amount payable for each loan under this option is 30,000 and the initial price per share was $25.53.

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

RECENT EVENTS (CONTINUED)

LONG-TERM INCENTIVE PLAN

For the years ended December 31, 2014 and 2013, share-based compensation expense totaled $622,018 and $621,361, respectively, including withholding taxes of $92,095 and $104,625, respectively, paid on behalf of the eligible employees.

2014 Awards

In March 2014, in accordance with the Company's long-term incentive plan (the "Plan" or "LTIP"), an amount of $613,875 was approved to the executive officers and senior management. Accordingly, the Company purchased 24,819 shares from the open market at an average price of $21.02 per share. As at December 31, 2014, 5,353 of these shares had vested and $112,530, net of withholding taxes of $92,095, was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at December 31, 2014 was $409,250.

Prior Years Awards

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

SUBSEQUENT EVENT

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

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

In 2015, the Company purchased all of the shares and certain debt of ACE Air Charter Inc. ("ACE") for a total of $1 million. ACE is the parent corporation of ACE Maintenance Ontario Inc., 2166361 Ontario Inc. and Navigatair Inc. Navigatair Inc. has the aircraft operating certificate and other licenses required to operate four of the Challenger 601 aircraft purchased by the Company and leased to Navigatair Inc. in 2014 once the maintenance and certain repairs are completed in respect of these aircraft in early 2015. These aircraft will allow the Company to operate emergency medical and other charters as well as assist the Company in emergency positioning of its crew and parts transportation for the Company's main fleet.

REVENUES

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

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

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

RECENT EVENTS (CONTINUED)

Revenues (continued)

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

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

- The Company provides dedicated aircraft to customers on an *adhoc* and scheduled basis typically in the daytime and on weekends. *Adhoc* flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The *adhoc* charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. *Adhoc* and scheduled flights are sold either on an "all in" basis or on an ACMI basis:

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

- Under an ACMI *adhoc* or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 16). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.

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

Expenses

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

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

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

Results of Operations and Supplementary Financial Information **(in thousands)**

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

1. Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results

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

(1) Average number of shares includes treasury shares.

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

(3) Please refer discussion on “Revenue - on page “17” and “Expenses - on page “18”.

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

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

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

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

REVIEW OF OPERATIONS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2014 AND 2013

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

(Canadian dollars in million, except where indicated)

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

HIGHLIGHTS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2014 AND 2013

- Total revenue for the three month period ended December 31, 2014 was $57.1 million as compared to $48.5 million for the same period in 2013, representing an increase of $8.6 million or 17.7%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2014 was $0.98 million per operating day as compared to $0.79 million for the same period in 2013, representing an increase of $0.19 million or 24.1%.

- Adjusted EBITDA for the three month period ended December 31, 2014 was $0.6 million as compared to $6.9 million for the same period in 2013, a decrease of $6.3 million or 91.3%.

- Adjusted free cash flow was an outflow of $0.4 million for the three month period ended December 31, 2014 as compared to an inflow of $4.1 million for the same period in 2013.

REVENUE

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

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

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

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

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

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

DIRECT EXPENSES

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

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

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

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

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

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

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

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

ADJUSTED EBITDA

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

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

NET FINANCE COSTS

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

CURRENT INCOME TAXES

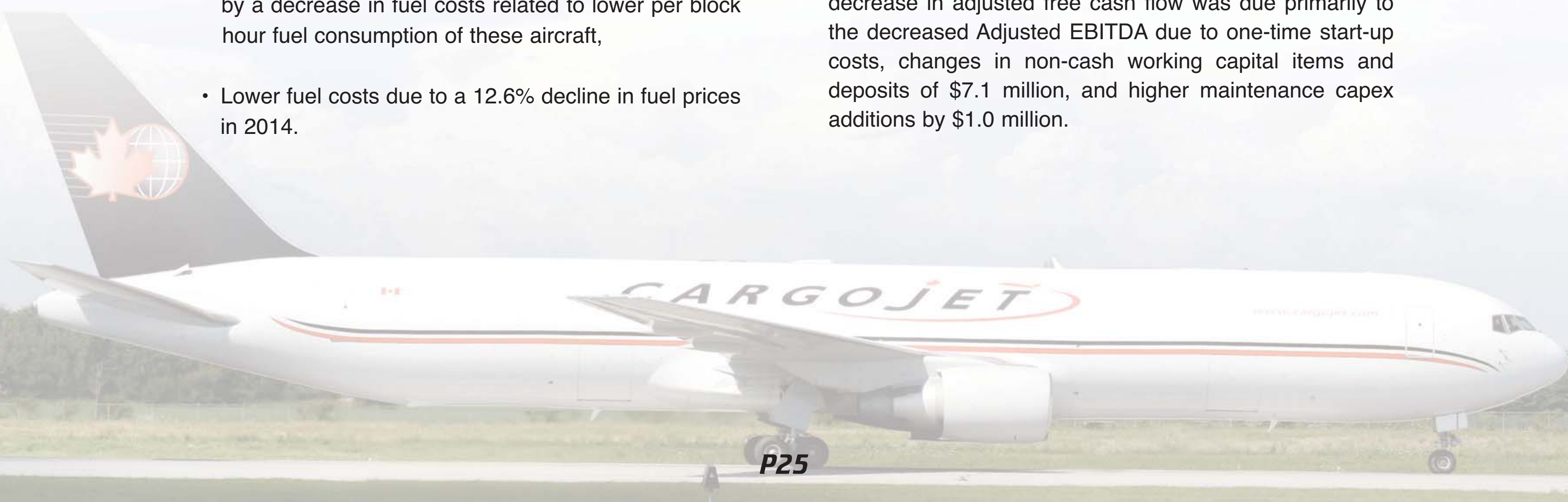
The recovery for current income taxes for the three month period ended December 31, 2014 was $2.6 million as compared to the provision of $1.3 million for the same period in 2013. The current period recovery was due to the losses, the Company incurred during the period.

DEFERRED INCOME TAXES

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

ADJUSTED FREE CASH FLOW

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



DIVIDENDS

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

CAPITAL EXPENDITURES

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

REVIEW OF OPERATIONS FOR THE TWELVE MONTH PERIODS ENDED DECEMBER 31, 2014 AND 2013

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

(Canadian dollars in million, except where indicated)

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

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

- Total revenue for the twelve month period ended December 31, 2014 was $192.4 million as compared to $175.4 million for the same period in 2013, representing an increase of $17.0 million or 9.7%.

- Average core overnight daily cargo revenue excluding fuel surcharges and other cost pass-through revenues for the twelve month period ended December 31, 2014 was $0.78 million per operating day as compared to $0.70 million per operating day for same period in 2013, representing an increase of $0.08 million or 11.4%.

- Adjusted EBITDA for the twelve month period ended December 31, 2014 was $4.0 million as compared to $17.2 million for the same period in 2013, representing a decrease of $13.2 million or 76.7%.

- Adjusted free cash flow was an outflow of $5.5 million for the twelve month period ended December 31, 2014 as compared to an inflow of $3.4 million for the same period in 2013, a decrease of $8.9 million.

REVENUE

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

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

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

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

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

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

DIRECT EXPENSES

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

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

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

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

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

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

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

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

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

ADJUSTED EBITDA

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

- One time start-up CPGOC costs of $16.1 million partially offset by the net increase in gross profit due to the increase in core overnight revenues. The CPGOC costs were comprised primarily of $5.9 million of aircraft lease rent including additional rent, $5.2 million of hiring and training costs of new personnel, $1.6 million in commercial costs, $1.9 million of the heavy maintenance costs of aircraft required for the CPGOC contract and $1.5 million in SG&A costs,

- The effect of exchange fluctuation on net USD denominated expenditures,

- Higher lease and operating costs due to the introduction of additional B757 aircraft partially offset by a decrease in fuel costs related to lower per block hour fuel consumption on these aircraft.

NET FINANCE COSTS

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

CURRENT INCOME TAXES

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

DEFERRED INCOME TAXES

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

ADJUSTED FREE CASH FLOW

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

DIVIDENDS

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

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

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

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $60.0 million and bears interest at bank prime plus 1.50% on the utilized facility and standby fees of 0.69% on the unutilized facility position and is repayable on maturity, December 30, 2016. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2014 and 2013.

LIQUIDITY AND CAPITAL RESOURCES

The credit facility is secured by the following:

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

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

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

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

Note: See Caution Concerning Forward Looking Statements, page 9

The Company had a working capital deficit as at December 31, 2014, representing the difference between total current assets and current liabilities, of $6.7 million, compared to a working capital deficit of $1.2 million as at December 31, 2013. The decrease of $5.5 million is primarily due to the current portion of the finance leases and borrowings payments in the next twelve months and the timing of the collection of trade and other receivables and settlement of trade and other payables. During the year, the Company incurred cash losses due to onetime startup CPGOC costs. Management anticipates that the cash flow from operations once the full CPGOC operation begins and the balance of unutilized revolving credit facility of $40.8 million as at December 31, 2014 will be adequate to manage the operations of the Company. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Company's ability to undertake any transaction which is essential to the Company's operations.

CAPITAL EXPENDITURES

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

SELECTED ANNUAL INFORMATION
(Canadian dollars in million, except where indicated)

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

[(1)] EBITDA, Adjusted EBITDA and Adjusted free cash flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer page 8 of this MD&A for detailed discussion.

FINANCIAL CONDITION

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

ACCOUNTS RECEIVABLE

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

PROPERTY, PLANT AND EQUIPMENT

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

TRADE AND OTHER PAYABLES

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

FINANCE LEASES

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

PROVISIONS

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

SUMMARY OF CONTRACTUAL OBLIGATIONS

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

OFF-BALANCE SHEET ARRANGEMENTS

The Company's primary off-balance sheet arrangements are as follows:

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

(b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

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

(d) The Company participates in six Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operate on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered part of the Financial Statements of the Company and are not consolidated. The airlines that participate in FFC guarantee on a pro-rata basis of this debt based on system usage. The total assets of these FFC are $214 million and the total debt is $186 million as at December 31, 2014. The Company's pro rata share of the FFC's assets and debt is 2.2%. The Company views the potential for losses in respect of the FFC as remote.

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

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

MAJOR CUSTOMERS

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

CONTINGENCIES

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

RELATED PARTY TRANSACTIONS

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

RELATED PARTY TRANSACTIONS (Continued)

COMPENSATION OF KEY MANAGEMENT PERSONNEL

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

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

RISK FACTORS

RISKS RELATED TO THE BUSINESS

Loss of Customer Contracts

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

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

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

RISK FACTORS (Continued)

RISKS RELATED TO THE BUSINESS (Continued)

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

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

The instruments governing the Company's indebtedness and finance lease obligations contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, such instruments contain financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the obligations under these instruments were to be accelerated, there can be no assurance that the Company's assets would be sufficient to satisfy such obligations in full. In addition, there can be no assurance that future borrowing or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to fund the Company's refinancing needs and other obligations arising on the maturity of such instruments, including the obligations to purchase the aircraft subject to the finance leases.

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

Canada - US Open Skies

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

RISK FACTORS (Continued)

RISKS RELATED TO THE BUSINESS (Continued)

Competition

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

Government Regulations

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

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

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

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

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

RISK FACTORS (Continued)

RISKS RELATED TO THE BUSINESS (Continued)

Insurance

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

Maintaining Leased Aircraft and Availability of Future Aircraft

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

Fixed Costs

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

Fuel Prices

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

RISK FACTORS (Continued)

RISKS RELATED TO THE BUSINESS (Continued)

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

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

Foreign Exchange Fluctuations

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

Ability to Maintain Profitability and Manage Growth

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

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

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

Industry Risk and Economic Sensitivity

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

RISK FACTORS (Continued)

RISKS RELATED TO THE BUSINESS (Continued)

Terrorist Activity

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

Dependence on Key Personnel

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

Labour Relations

On October 19, 2012 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board. As of the date hereof, 113 of the Company's pilots are certified as a union by the Canadian Industrial Relations Board. The National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW - Canada) was certified as the bargaining agent for the Company's pilots. The Company entered into a five year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July 2013. Currently, none of the Company's other employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of a collective bargaining agreement cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

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

Seasonal Fluctuations

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

Dependence on International Trade

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

RISK FACTORS (Continued)

RISKS RELATED TO THE BUSINESS (Continued)

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

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

Income Tax Matters

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

Increase in Interest Rates

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

OUTLOOK

Note: See Caution Concerning Forward Looking Statements, page 9

On February 18, 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a MSA with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-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 first quarter of 2015. During the remaining period of 2014 and first quarter of 2015, the Company will continue to incur expenditures in preparation of this contract as startup costs and will expense these costs.

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

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

OUTLOOK (Continued)

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

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

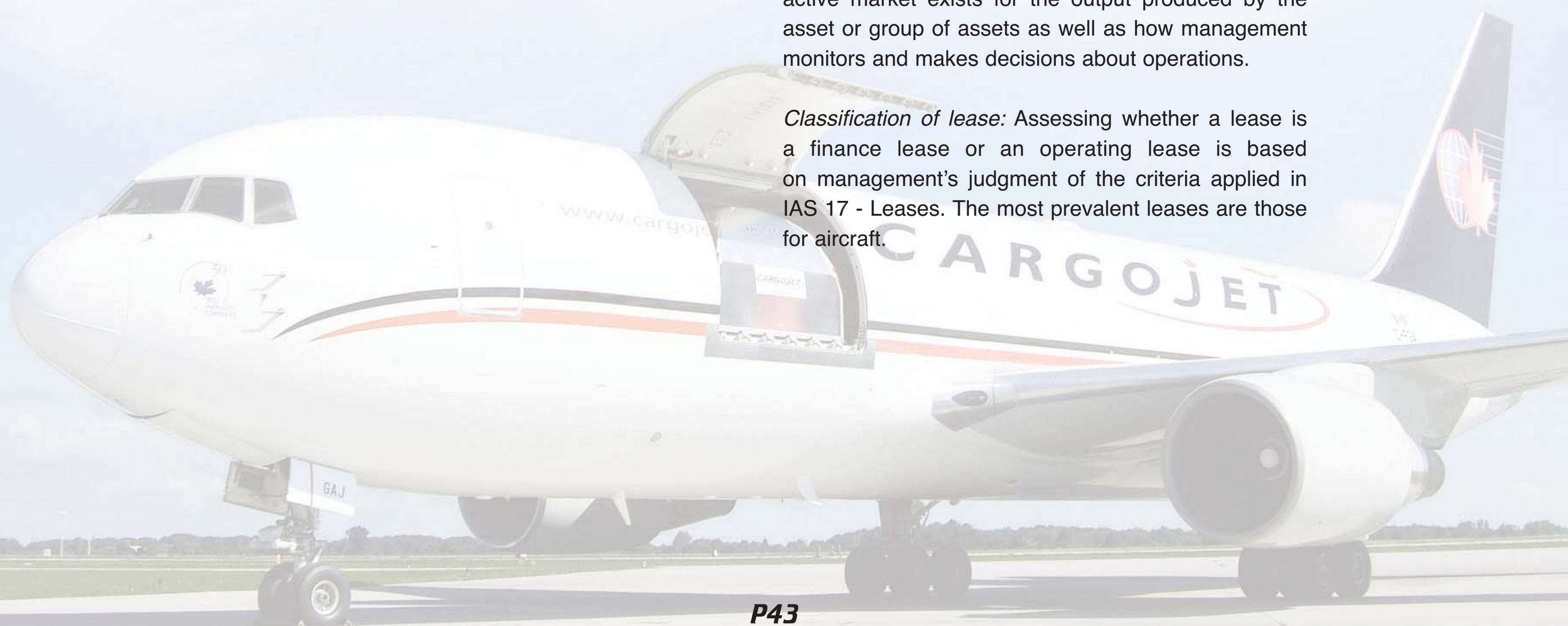
CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

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



CRITICAL ESTIMATES

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

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.
Impairment of property, plant and equipment and goodwill	At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.

CRITICAL ESTIMATES (Continued)

Critical Accounting Estimate	Methodology and Assumptions
Deferred taxes	Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and assess its recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.
Provisions	The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to change in timing, cost of maintenance or discount rates.
Cash settled share based payment arrangement	The cost and related liability of the Company's stock appreciation rights under a MLA with an equipment finance and leasing company recognized using Black-Scholes option pricing model involving assumptions including discount rates and early exercise dates. Due to the long-term nature of these rights, such estimates are subject to significant uncertainty.

OUTSTANDING SHARE DATA

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

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

INFORMATION DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

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

ACCOUNTING CHANGES

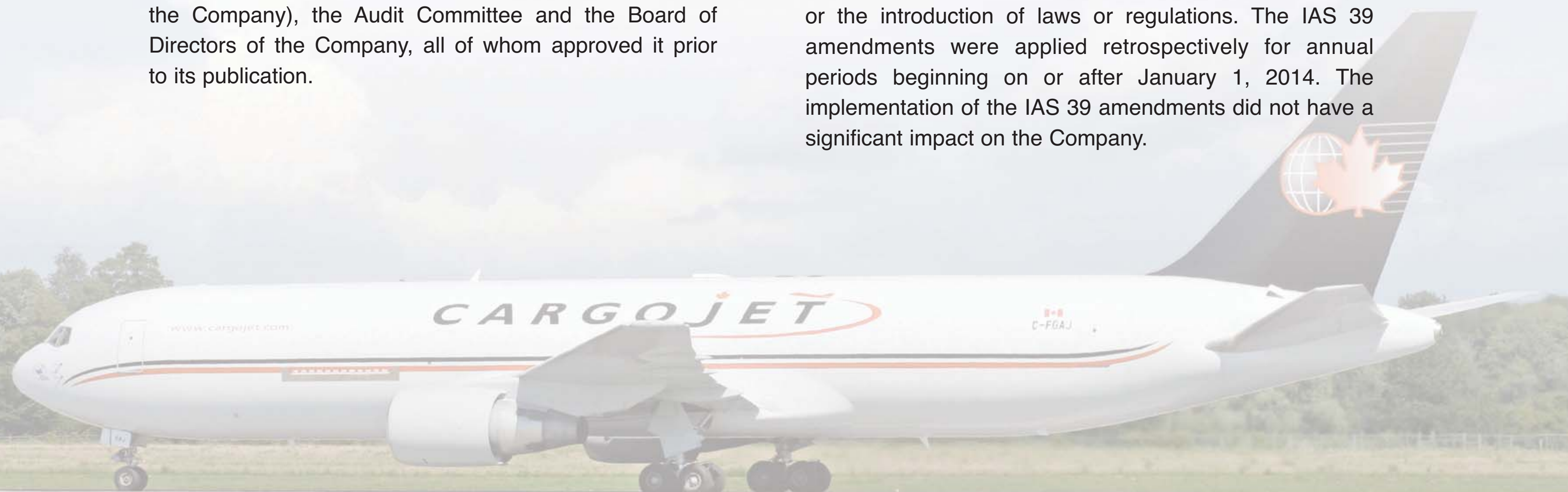
ACCOUNTING STANDARDS EFFECTIVE FOR 2014

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

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

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

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



ACCOUNTING CHANGES (Continued)

ACCOUNTING STANDARDS EFFECTIVE FOR 2014 (Continued)

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

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

STANDARDS AND INTERPRETATIONS ISSUED NOT YET ADOPTED

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

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

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

END NOTES

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

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

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

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

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

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

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

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

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

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

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

END NOTES (CONTINUED)

(B) continued

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

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

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

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

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

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

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

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

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

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

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

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

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

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 2015

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, 2014 and December 31, 2013, and the consolidated statements of (loss) income and comprehensive (loss) income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte LLP

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

Consolidated Financial Statements of

CARGOJET INC.

For the years ended
December 31, 2014 and 2013

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

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

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

John P. Webster
Lead Trustee

Dr. Ajay K. Virmani
President and Chief Executive Officer

CARGOJET INC.

Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income

Years ended December 31, 2014 and 2013 (in Canadian dollars)

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

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

CARGOJET INC.
Consolidated Statements of Changes in Equity
Years ended As at December 31, 2014 and 2013 (in Canadian dollars)

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

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

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

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

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013

1. NATURE OF THE BUSINESS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

Cash

Cash balance consists of cash on hand and demand deposits.

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

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

Revenue recognition

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

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

Interest revenue is recognized when earned.

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 any recognized impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment.

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

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

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

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

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

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

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

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

Leases

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

Finance leases

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Operating leases

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

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

Intangible assets

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

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

Foreign currencies

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

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

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

Borrowing costs

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

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

Income taxes

Current taxes

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

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

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

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

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

Current and deferred taxes for the period

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

Provisions

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments

Equity-settled share-based compensation plans

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

Cash-settled share-based compensation options

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

Financial instruments

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Loans and receivables and other financial liabilities

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

Derivative financial instruments

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

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

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

Basis of fair values

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
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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.

Convertible debentures

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgements in applying accounting policies

Componentization of property, plant and equipment

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

Impairment of property, plant and equipment and goodwill

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

Classification of lease

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

Key sources of estimation uncertainty

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty *(continued)*

Impairment of property, plant and equipment and goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.

Cash settled share based payment arrangement

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

Deferred taxes

Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and assesses its recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Provisions

The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The Company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to change in timing, cost of maintenance or discount rates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertainty *(continued)*

Financial instruments

The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.

Accounting changes

Accounting standards effective for 2014

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards and interpretations issued not yet adopted

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

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

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

3. INVENTORIES

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

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
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4. NOTES RECEIVABLE

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

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

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

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

5. FINANCE LEASE RECEIVABLE

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

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

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

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

The finance lease receivable is secured by the leased aircraft.

CARGOJET INC.
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6. PROPERTY, PLANT AND EQUIPMENT

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

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2014 and 2013

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

6. PROPERTY, PLANT AND EQUIPMENT (continued)

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

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

During the period $3,199,610 (2013 - $nil) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of $2,600,494 and accretion of $599,116 relating to funds borrowed specifically to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to specific borrowings, ranging between 7.35% to 8.77%.

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

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

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

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

7. GOODWILL

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

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8. INTANGIBLE ASSETS

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

9. TRADE AND OTHER PAYABLES

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

10. PROVISIONS

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

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

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

11. BORROWINGS

Borrowings consist of the following:

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

Revolving credit facility

The Company has a revolving credit facility with a Canadian chartered bank. The credit facility is to a maximum of $60.0 million and bears interest at bank prime plus 1.50% on the utilized facility, and standby fees of 0.69% on unutilized facility position and is repayable on maturity, December 30, 2016. The credit facility is subject to customary terms and conditions for borrowers of this nature, including, for example, limits on incurring additional indebtedness and granting liens or selling assets without the consent of the lenders. The credit facility is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2014 and 2013.

The credit facility is secured by the following:

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

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

11. BORROWINGS (continued)

Aircraft facility arrangement

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

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

The aggregate tranche B comprises 13% of the AFA amount. The repayment due in respect of the AFA is equal to the interest on the tranche B amount advanced in respect of the AFA, compounded monthly and payable quarterly in arrears over the tranche B term of 48 months. The first interest payment is due on April 1, 2015. It further provides for quarterly payments of a variable amount less than or equal to 50 % of the free cash flow generated for the previous fiscal quarter, provided that any such payment shall not exceed 1/16 of the outstanding amount of tranche B for the AFA. The balance amount of the AFA is payable at maturity.

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

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

11. BORROWINGS (continued)

Aircraft facility arrangement (continued)

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

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

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

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

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

Other borrowings

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

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

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

12. FINANCE LEASES

The Company executed a MLA with an equipment finance and leasing company for up to $100 million in capital lease financing to acquire up to 3 Boeing 767-300 aircraft. The MLA was expanded to a 4th Boeing 767-300 aircraft. During the year, the Company completed three finance leases under this MLA including one sale and leaseback of an aircraft completed during the year. These leases expire from June 2021 to September 2021 and provides for the transfer of ownership of the aircraft at the end of the lease term at a pre-determined price. Accordingly, these leases are classified as a finance lease and a corresponding lease obligation was recognized in the financial statements. These lease facilities are arranged in two tranches: A and B, each with its own schedule of principal and interest payment. The estimated effective interest rate ranges from 7.35% to 7.37%. These leases are guaranteed by the Company and its subsidiaries.

The aggregate tranche A comprises 85% of the finance lease amount. 60% of the tranche A principal amount is repayable in equal monthly installments during the 84 month amortization term. The first payment is due on the delivery date and thereafter is due in advance on the first business day of each month. The remaining 40% of the amount in respect of the finance lease is payable at the termination of the contract.

The aggregate tranche B comprises 15% of the finance lease amount. The basic rent due in respect of the finance lease shall be equal to the interest on tranche B amount advanced in respect of the finance lease, compounded monthly and payable quarterly in arrears over the tranche B term of 48 months. The first interest payment is due on the first business day of the month occurring 90 days after the delivery date. It further provides for quarterly payment of a variable amount less than or equal to 50 % of the free cash flow generated for the previous fiscal quarter, provided that any such payment shall not exceed 1/16 of the outstanding amount of tranche B for the finance lease. The balance amount of the finance lease is payable at the termination of the contract.

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

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

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

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12. FINANCE LEASES (continued)

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligation as at December 31, 2014.

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

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

13. CONVERTIBLE DEBENTURES

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

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

Convertible Debentures - 6.5% due April 30, 2017

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

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

13. CONVERTIBLE DEBENTURES (continued)

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

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

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

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

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

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

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

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

13. CONVERTIBLE DEBENTURES (continued)

Convertible Debentures - 5.5% due June 30, 2019

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

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

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

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

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

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

13. CONVERTIBLE DEBENTURES (continued)

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

The conversion option, net of related issuance costs of $305,532, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 8.77%.

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

14. INCOME TAXES

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

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

The tax effect of significant temporary differences is as follows:

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

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

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15. DIRECT EXPENSES

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

16. GENERAL AND ADMINISTRATIVE EXPENSES

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

17. OTHER LOSSES (GAINS)

Other losses (gains) consist of the following:

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

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

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18. SHAREHOLDERS' CAPITAL

a) Authorized

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

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

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

b) Issued and outstanding

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

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

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18. SHAREHOLDERS' CAPITAL (continued)

b) Issued and outstanding (continued)

No preferred shares are issued or outstanding.

Dividends

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

19. EARNINGS PER SHARE

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

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

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

20. LONG-TERM INCENTIVE PLAN

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

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

For the years ended December 31, 2014 and 2013, share-based compensation expense totaled $622,018 and $621,361, respectively, including withholding taxes of $92,095 and $104,625, respectively, paid on behalf of the eligible employees.

2014 Awards

In March 2014, in accordance with the Company's long-term incentive plan (the "Plan" or "LTIP"), an amount of $613,875 was approved to the executive officers and senior management. Accordingly, the Company purchased 24,819 shares from the open market at an average price of $21.02 per share. As at December 31, 2014, 5,353 of these shares had vested and $112,530, net of withholding taxes of $92,095, was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at December 31, 2014 was $409,250.

20. LONG-TERM INCENTIVE PLAN (continued)

Prior Years Awards

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

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

Shares purchased under the Plan	Number	$
Balance, January 1, 2013	57,566	454,727
Shares acquired by Company for long-term incentive plan	61,099	592,875
Shares distributed by Company to long-term incentive plan participants	(55,060)	(465,625)
Balance, December 31, 2013	63,605	581,977
Shares acquired by Company for long-term incentive plan	24,819	521,794
Shares distributed by Company to long-term incentive plan participants	(45,076)	(462,021)
Balance, December 31, 2014	43,348	641,750

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

21. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

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21. COMMITMENTS AND CONTINGENCIES (continued)

Contingencies

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

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

22. RELATED PARTY TRANSACTIONS

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

Compensation of key management personnel

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

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

23. ECONOMIC DEPENDENCE

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

24. CAPITAL MANAGEMENT

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

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

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

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

25. FINANCIAL INSTRUMENTS

Risk management policies

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

Fair values

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

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

25. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

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

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

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

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

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

The finance lease receivable is secured by the leased aircraft.

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25. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

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

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

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

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

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

Interest rate risk

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

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

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

25. FINANCIAL INSTRUMENTS (continued)

Foreign exchange risk

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

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

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

Commodity risk

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

Market risk

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

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

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

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

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

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

26. GUARANTEES

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

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

(b) Indemnity has been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

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

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

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

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

27. SUBSEQUENT EVENTS

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

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

Directors and Officers of Cargojet

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Chief Executive Officer
Chairman of the Board

Jamie B. Porteous
Executive Vice-President
& Chief Commercial Officer

Directors and Officers of Cargojet

John P. Webster
Lead Director

Paul V. Godfrey
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James R. Crane
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