CARGOJET INC.

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

For the Three Month Period Ended March 31, 2016

This page intentionally left blank

CARGOJET INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Three Month Period Ended March 31, 2016

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 period ended March 31, 2016. The following also includes a discussion of and comparative operating results for the three month period ended March 31, 2015.

Cargojet is publicly listed with shares and convertible debentures traded on the Toronto Stock Exchange ("TSX"). The Company is incorporated in Ontario 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 May 12, 2016. The condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the CPA Canada Handbook – Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34*, Interim Financial Reporting* ("IAS 34"*).* This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three month period ended March 31, 2016 and 2015 and with the audited consolidated financial statements of the Company for the years ended December 31, 2015 and 2014.

EBITDA (A), Adjusted EBITDA (B), EBITDAR (C), Adjusted EBITDAR (D) and Adjusted Free Cash Flow (E)

Non-GAAP measures like EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are not earning measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR 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 and improve comparability between other companies including other airlines. 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 its debt covenants. Investors are cautioned that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR 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, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are shown on page 15 of the MD&A.

(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.
(D) Please refer to End Note (D) included at the end of this MD&A.
(E) Please refer to End Note (E) included at the end of this 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 the MD&A for the three month period and the year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com for a more complete discussion of the risks affecting the Company's business.)

Caution Concerning Forward Looking Statements

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "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 "Risk Factors" section of the MD&A for the three month period and year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com and the Company is not aware of any significant changes to its risk factors from those disclosed at that time.

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

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

- Fleet Overview – Page 4,
- Results of operations for three month period ended March 31, 2016 - Liquidity and capital resources – Page 21,
- Off balance sheet arrangements – Page 22, and
- Outlook – Page 24.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended March 31,			
	2016	2015	Change	%
Financial information				
Revenue	**$76.9**	$54.1	$22.8	42.1%
Direct expenses	**$60.3**	$53.1	$7.2	13.6%
Gross margin	**$16.6**	$1.0	$15.6	1560.0%
Gross margin - %	**21.6%**	1.8%	68.4%	
Selling, general & administrative expenses	**$8.8**	$7.8	$1.0	12.8%
Net finance costs & other gains and losses	**$1.9**	$4.4	($2.5)	-56.8%
Earnings (loss) before income taxes	**$5.9**	($11.2)	$17.1	152.7%
Income taxes	**($1.5)**	$2.9	($4.4)	-151.7%
Net Income (loss)	**$4.4**	($8.3)	$12.7	153.0%
Earnings (loss) per share - $CAD				
Basic	**$0.43**	($0.90)	$1.33	147.8%
Diluted	**$0.43**	($0.90)	$1.33	147.8%
EBITDA(1)	**$23.4**	($1.0)	$24.4	2440.0%
EBITDA margin - %	**30.4%**	-1.8%	32.2%	
Adjusted EBITDA(1)	**$17.4**	($0.8)	$18.2	
Adjusted EBITDA margin - %	**22.6%**	-1.5%	24.1%	
EBITDAR(1)	**$30.7**	$8.0	$22.7	283.8%
EBITDAR margin - %	**39.9%**	14.8%	25.1%	
Adjusted EBITDAR(1)	**$24.7**	$8.2	$16.5	201.2%
Adjusted EBITDAR margin - %	**32.1%**	15.2%	16.9%	
Adjusted free cash flow(1)	**$8.3**	($8.5)	$16.8	197.7%
Operating statistics				
Operating days(2)	**50**	49	1	2.0%
Average cargo revenue per operating day(3)	**$1.19**	$0.93	$0.26	28.0%
Block hours	**6,033**	4,625	1,408	30.4%
Aircraft in operating fleet				
B727-200	**7**	9	(2)	
B757-200	**5**	5	-	
B767-200	**2**	5	(3)	
B767-300	**8**	5	3	
	22	24	(2)	-8.3%
Average Volumes per operating day (lbs.)	**1,189,567**	761,925	427,642	56.1%
Average number of full-time equivalent employees	**649**	585	64	10.9%

1. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted free cash flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer to page 1 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 fourteen 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 ("B767-200") and Boeing 767-300ER ("B767-300") aircraft to provide additional required cargo capacity to its customers.

See Caution Concerning Forward Looking Statements, page 2

The table below sets forth the Company's operating fleet as at December 31, 2014, 2015 and as at March 31, 2016 as well as the Company's planned operating fleet as at December 31, 2016:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs.)	Range (miles)
			Actual			Plan		
			December 31,		March 31,	December 31,		
			2014	2015	2016	2016		
B767-300(1) (2)	Finance Lease	22	3	5	5	5	125,000	6,000
B767-300(2)	Owned	22	-	2	3	3	125,000	6,000
B767-200(3)	Operating Lease	30	5	3	2	1	100,000	5,000
B757-200(4)	Owned	28	1	2	2	2	80,000	3,900
B757-200(5)	Operating Lease	26	3	3	3	3	80,000	3,900
B727-200(6)	Owned	36	9	7	7	6	60,000	1,800
Challenger 601(7)	Owned	29	-	1	1	2	6,000	3,300
Total Aircraft			21	23	23	22		

1. In 2014, Cargojet took delivery of three B767-300 aircraft that were financed under the MLA (as defined on page 7 of this MD&A under "Aircraft Finance Leases and Loans"). In January 2015, Cargojet took delivery of one B767-300 aircraft financed under the MLA. Cargojet took delivery of one B767-300 aircraft in March 2015 under a 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 and was classified as a finance lease.
2. Cargojet took delivery of one B767-300 aircraft in April 2015, one B767-300 aircraft in September 2015 and one B767-300 aircraft in January 2016. These aircraft were financed by loans.
3. In 2014, Cargojet subleased one B767-200 aircraft from a Canadian airline. This sublease expired in March 2016 and the aircraft was returned in April 2016. Two B767-200 aircraft were leased on a short term basis to meet the requirements of the MSA with CPGOC (as defined on page 6 of this MD&A under "Purolator and Canada Post DACNS"). These leases expired in July and August of 2015. Of the two remaining B767-200 aircraft under lease, one aircraft lease was extended to June 2018 and the other aircraft was returned to the lessor at the end of March 2016 after the expiry of the lease.
4. 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.
5. 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 2017, in 2020 and 2022.
6. Cargojet took two B727-200 aircraft out of regular service in 2015 and plans to retire one B727-200 aircraft in 2016.
7. In 2014, Cargojet purchased five Challenger 601 aircraft. The Company entered into a charter agreement with a third party to operate and manage two of these aircraft to provide the aircraft for individual and corporate charterers. One of these aircraft is currently in operation and the other is scheduled to be in operation in 2016. Two of these aircraft are being converted for cargo operations and the fifth aircraft is being held for parts.

Recent Events

Redemption of 6.5% Convertible Debentures

On March 10, 2016 the Company issued a redemption notice pursuant to the convertible debenture indenture dated March 21, 2012 (the "Indenture") to redeem all of the outstanding debentures issued under the Indenture (the "6.5% Debentures") on April 28, 2016. Pursuant to the Indenture, the Company elected to satisfy its obligation to pay the redemption price of the 6.5% Debentures due at redemption by issuing that number of voting shares of the Company obtained by dividing the outstanding principal amount of the 6.5% Debentures by 95% of the volume weighted average trading price of the common voting shares on the TSX for the 20 consecutive trading days ending five trading days before the redemption date and to pay accrued and unpaid interest thereon up to but excluding the redemption date in cash to the holders of the 6.5% Debentures.

From December 31, 2015 to April 27, 2016 all but $216,000 of the outstanding 6.5% Debentures were converted to common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining $216,000 of the outstanding 6.5% Debentures were redeemed by issuing 8,184 common voting shares of the Company and paying accrued and unpaid interest of $6,885 in cash to the holders thereof.

Syndicated Operating Facility

Effective December 16, 2015, the Company entered into a new extendable revolving operating credit facility (the "facility") through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") replacing the previous $60.0 million facility . The facility is to a maximum of $100.0 million and allows for an increase of $25.0 million upon request by the Company subject to approval by the Lenders. The facility has a term of three years, which can be extended annually with the consent of the Lenders, and bears interest, payable monthly, at the lead Lender's prime lending rate / US base rate plus 150 basis points to 200 basis points, dependent on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity.

Air Cargo Logistics Facility

The Company and the John C. Munro Hamilton International Airport entered into an arrangement in respect of the airport's $12.0 million Air Cargo Logistics Facility, for which construction began in the third quarter of 2014. The Company contributed $4.75 million and exchanged a building owned by it for its share of the facility. The building was completed in June 2015 and the Company took the possession of the new facility at such time. The Company occupies approximately half of the 77,000 square foot facility for both office and dedicated warehouse space. The construction of the Air Cargo Logistics Facility was funded through a joint partnership between the federal and Ontario governments and Trade Port International Corporation, the operator of the airport, with support from Hamilton's municipal government.

Purolator and Canada Post DACNS

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.

The Company started providing preliminary services under the CPGOC contract in the middle of March 2015. The full services under the contract began on April 1, 2015. The Company provides comprehensive Canada-wide air cargo services for the CPGOC, including Purolator's national air cargo network. The Company'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 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. 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 aircraft 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.

Acquisition of Property, Plant and Equipment

During the three month period ended March 31, 2016, the Company invested $38.7 million (March 31, 2015 – $90.6 million) on the acquisition of property, plant and equipment. Additions included the acquisition and modification of newly purchased/leased aircraft of $21.2 million (March 31, 2015 - $61.5 million), engines of $10.4 million (March 31, 2015 - $26.2 million), rotable assets of $1.5 million (March 31, 2015 - $1.3 million), ground equipment of $0.1 million (March 31, 2015 - $1.4 million) and other property, plant and equipment of $5.5 million (March 31, 2015 - $0.2 million). As at March 31, 2016, assets of $9.5 million (March 31, 2015 - $27.3 million) are under development and accordingly, were classified as "property, plant and equipment under development" due to pending completion of the process to ready the assets for use.

Aircraft Finance Leases and Loans

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") and two aircraft loan facility agreements (the "AFAs") with a Canadian equipment leasing and financing company. The Company is required to purchase the aircraft financed under the MLA at the end of the term of each lease at a predetermined price. As of December 31, 2015, the Company had completed four finance leases to acquire four B767-300 aircraft under the MLA in the aggregate amount of $120.0 million and refinanced two B757-200 aircraft owned by the Company under the AFAs in the aggregate amount of $25.0 million. Each lease under the MLA and each loan under the AFAs have a term of seven years. The AFAs are secured by the related aircraft and all their components and records.

The amounts advanced under the MLA and the AFAs were advanced in two tranches, A and B, with tranche A under the MLA being 84% of the amounts advanced thereunder and under the AFAs being 91% of the amounts advanced thereunder. Tranche B in each case was equal to the balance of the total amounts advanced.

The estimated effective interest rate in respect of the MLA is 7.23%. The estimated effective interest rate in respect of the AFAs is 8.05%.

The MLA and the AFAs are subject to certain financial covenants. The Company was in compliance with all such covenants as at March 31, 2016.

Under the MLA and the AFAs, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and may be required to pay additional fees (the "share based additional fees") equal to the positive difference between the price of 293,332 Cargojet common voting shares (233,332 with respect to the MLA and 60,000 with respect to the AFAs) on the TSX on the date of the MLA or the AFAs 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 share based additional fees have been accounted for as cash settled share based compensation options. The Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements (please see Page 11 under "Total Return Swap" in this regard). The Company has also paid 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.

In respect of the share based additional fees arising from the MLA, in the three month period ending March 31, 2016, an amount of $1.6 million was recognized under the current portion of finance lease obligations and a net unrealized loss of $0.2 million was recognized as other losses on the re-measurement of the share based additional fees.

In respect of the share based additional fees arising from the AFAs, during the three month period ending March 31, 2016, an amount of $0.4 million was recognized under the current portion of borrowings and a net unrealized loss of $0.1 million was recognized as other losses on the re-measurement of the share based additional fees.

The Company also has a finance lease arrangement for a B767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for the lease facility during the period is 7.21%. The lease is expected to mature on the early exercisable date of the bargain purchase option in March 2018.

The Company executed a separate loan agreement on March 31, 2015 with a US based lender for USD $27.5 million to acquire a B767-300 aircraft. The loan matures in April 2022 and is secured by the related aircraft and all its components and records. The funds under the loan were received on April 8, 2015. The estimated effective interest rate for this loan agreement is 8.52%.

In May 2015, the Company secured a firm loan facility of USD $55.0 million and an optional facility of USD $27.5 million with a US based lender to acquire additional B767-300 aircraft. In September 2015, the Company drew down USD $27.5 million under the facility to finance the acquisition of one B767-300 aircraft. The term of this loan expires in September 2022. The estimated effective interest rate for the facility availed during this period is 9.93%, which is subject to the US dollar LIBOR variable interest rate. In January 2016, the Company drew down the balance of USD $27.5 million to finance the acquisition of a second B767-300 aircraft. The term of this second loan expires in December 2022. The estimated effective interest rate for the second facility availed is 10.3%. Under the terms of this facility, each loan will be secured by the purchased aircraft and all of their components and records. The loan facility is subject to certain financial covenants. The Company was in compliance with all such covenants as at March 31, 2016.

Share Based Compensation

In 2014, the Company adopted a restricted share unit plan (the "RSU Plan") pursuant to which the Company may grant restricted share units ("RSUs") and a stock option plan (the "Stock Option Plan"), pursuant to which the Company may grant stock options ("Options"), as part of its long term incentive plan. Each RSU granted entitles the holder thereof to one common voting share of the Company on the settlement and vesting thereof.

During the three month period ended March 31, 2016, in accordance with the RSU Plan, the Company granted 26,690 RSUs (three month periods ended March 31, 2015 – $nil) to certain key executives. Each RSU had an average value of $26.50 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. Of these RSUs granted, 8,896 RSUs vested and were settled on the grant date. Of the remaining 17,794 RSUs granted, 8,897 RSUs will vest and settle in each of the first quarters of 2017 and 2018.

During the three month period ended March 31, 2016, the Company also granted 2,264 RSUs to two non-employee directors. Each RSU had an average value of $26.50 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant dates. All 2,264 RSUs vested and were settled on the grant date. A third non-employee and non-Canadian director was paid $0.02 million net of taxes of $0.02 million to acquire 700 variable voting shares of the Company from the open market at an average value of $26.96 per share. The withheld amount of $0.02 million of tax was remitted by the Company. The transaction is classified as a cash settled share based transaction. The value of RSUs granted to non-employee directors was determined by reference to the market value for similar services.

During the three month period ended March 31, 2016, 47,333 RSUs granted to executives in 2015 vested and were settled and an amount of $1.3 million was transferred to the share capital account from contributed surplus. Since inception, in accordance with the RSU Plan, the RSUs granted to executives accrued notional dividends equivalent to 1,969 RSUs that were issued, vested and were settled upon the satisfaction of the vesting conditions of the related RSUs during the quarter. An amount of $0.05 million was recognized as share based compensation.

The RSUs activity during the period ended March 31, 2016 is summarized below:

RSUs	**Number of RSUs**
Balance as at January 1, 2016	108,662
Granted in the period	28,954
Share dividend	1,969
Vested during the period	(60,462)
Balance as at March 31, 2016	79,123

The total share based compensation expenses of $0.9 million related to vested and unvested RSUs is included in the condensed consolidated interim statement of income (loss) and comprehensive income (loss) for the year ended March 31, 2016, (March 31, 2015 – $nil). Unrecognized share based compensation expenses as at March 31, 2016 related to these RSUs was $1.4 million (March 31, 2015 – $nil) and will be amortized on a prorated basis in the consolidated statement of income (loss) and comprehensive income (loss) over the vesting period.

Effective March 28, 2016, the Company granted 231,176 Options in accordance with the Stock Option Plan at an average exercise price of $26.5 which had a fair value of $1.3 or $5.43 for each Option. Each Option granted is exercisable for one common voting share of the Company at the exercise price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. The fair value of the Options was determined using the Black- Scholes option valuation model, with the following assumptions: (i) grant date share price $26.50; (ii) exercise price $26.50; (iii) expected volatility 32.4%; (iv) option life 5 years; (v) dividend yield 2.5%; (vi) risk free rate 0.63%.

The Options have a five-year term and vest in each of the first quarters of 2017, 2018 and 2019.

Effective June 16, 2015, the Company granted 172,399 Options in accordance with the Stock Option Plan at an average exercise price of $25.46 which had a fair value of $0.9 or $4.98 for each Option. The Options have a five-year term and vest in each of the first quarters of 2016, 2017 and 2018. The fair value of the Options was determined using the Black- Scholes option valuation model with the following assumptions: (i) grant date share price $25.27; (ii) exercise price $25.46; (iii) expected volatility 22.6%; (iv) option life 5 years; (v) dividend yield 2.4%; (vi) risk free rate 0.94%.

Each Option is exercisable into one common voting share of the Company at the exercise price specified in the terms of the option agreement. The option based compensation expenses will be amortized on a prorated basis in the consolidated statement of income or loss over the vesting period.

As at March 31, 2016 there were a total of 118,939 vested Options and the weighted average contractual life remaining of the outstanding Options, both vested and non-vested, is 4.66 years.

The Options activity during the period ended March 31, 2016 is summarized below:

OPTIONS	**Number of Options**	**Weighted average exercise price**
Balance as at January 1, 2016	172,399	$25.46
Granted in the period	231,176	$26.50
Balance as at March 31, 2016	403,575	$26.06

The Company recognized an expense of $0.2 million for the period ended March 31, 2016 (March 31, 2015 – $nil) in respect of the amortization of Options over the vesting period. The unrecognized value as at March 31, 2015 related to the Options was $1.6 million (March 31, 2015 – $nil) and will be amortized on a prorated basis in the consolidated statement of income (loss) over the vesting period.

Total return swap

The Company has an obligation to pay share based additional fees under the MLA and AFAs. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company will pay interest to the financial institution based on Canadian LIBOR and the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares.

The Company did not designate the total return swap agreement as a cash flow hedge for accounting purposes. As at March 31, 2016, the fair value of the swap was $1.6 million in favour of the Company and the change during the three month period of $0.7 million is included as other gains in the condensed consolidated interim statements of Income (loss) and comprehensive Income (loss).

Interest swap

On October 1, 2015, the Company entered into an interest rate cap agreement with a financial institution to manage interest rate fluctuations that was related to the aircraft loan of USD $27.5 million which the Company closed on September 18, 2015. On February 12, 2016, the Company entered into a second interest rate cap agreement with a financial institution to manage interest rate fluctuations that was related to the aircraft loan of USD $27.5 million which the Company closed on February 16, 2016. These agreements cap the US dollar LIBOR variable interest rate at 3% and expire in two years. The Company did not designate the interest rate cap agreements as a cash flow hedge for accounting purposes.

Revenues

The Company's revenues are primarily generated from its overnight air cargo service between fourteen major Canadian cities each business night. Most 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.

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

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

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

- The Company provides dedicated aircraft to customers on an *adhoc* and scheduled basis typically in the daytime and on weekends. *Adhoc* flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The *adhoc* charter business targets 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 14). 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, aircraft maintenance planning and engineering, 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

(Canadian dollars in millions, except where indicated or an amount per share)

	Three Month Period Ended March 31,	
	2016	2015
	(unaudited)	(unaudited)
	$	$
Revenues	**76.9**	54.1
Direct expenses	**60.3**	53.1
	16.6	**1.0**
General and administrative expenses	**8.3**	7.5
Sales and marketing expenses	**0.5**	0.3
Net finance costs	**7.9**	4.2
Other (gains) losses	**(6.0)**	0.2
	10.7	12.2
Earnings (loss) before income taxes	**5.9**	(11.2)
Provision (recovery) of income taxes		
Deferred	**1.5**	(2.9)
Net Income (loss)	**4.4**	(8.3)
Earnings (loss) per share		
Basic	**$0.43**	$(0.90)
Diluted	**$0.43**	$(0.90)
Average number of shares - basic (in thousands of shares)	**10,135**	9,224
Average number of shares - diluted (in thousands of shares)	**10,135**	9,224

Summary of Most Recently Completed Consolidated Quarterly Results (unaudited)
(Canadian dollars in millions, except where indicated or an amount per share)

	Three Month Periods Ended							
	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014	Sep 30 2014	Jun 30 2014
Revenues	$76.9	$84.4	$75.3	$75.2	$54.1	$57.1	$47.2	$44.3
Net income (loss) from continuing operations	$4.4	$(1.5)	$(2.2)	$(6.1)	$(8.3)	$(5.0)	$(2.3)	$(0.7)
Earnings (loss) per Share From continuing operations								
- Basic	$0.43	$(0.15)	$(0.22)	$(0.64)	$(0.90)	$(0.54)	$(0.25)	$(0.08)
- Diluted	$0.43	$(0.15)	$(0.22)	$(0.64)	$(0.90)	$(0.54)	$(0.25)	$(0.08)
Average number of shares - basic (in thousands of shares)(1)	10,135	10,094	9,928	9,482	9,224	9,150	9,090	8,949
Average number of shares - diluted (in thousands of shares)(1)	10,135	10,094	9,928	9,482	9,224	9,150	9,090	8,949

Calculation of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, Standardized Free Cash Flow and Adjusted Free Cash Flow

(Canadian dollars in millions, except where indicated)

	March 31,	
	2016	2015
	(unaudited)	(unaudited)
	$	$
Calculation of EBITDA and Adjusted EBITDA		
Net Income (loss)	**4.4**	(8.3)
Add:		
Interest	**7.9**	4.2
Provision (recovery) of deferred income taxes	**1.5**	(2.9)
Depreciation of property, plant and equipment	**9.6**	6.0
EBITDA	**23.4**	(1.0)
Add:		
Gain on disposal of property, plant and equipment	**-**	(0.1)
Unrealized foreign exchange gain	**(11.0)**	(0.3)
Unrealized loss on forward foreign exchange contracts	**5.4**	0.7
Change in fair value on cash settled share based payment arrangement	**(0.4)**	(0.1)
Adjusted EBITDA	**17.4**	(0.8)
Calculation of EBITDAR and Adjusted EBITDAR		
EBITDA	**23.4**	(1.0)
Aircraft rent	**7.3**	9.0
EBITDAR	**30.7**	8.0
Add:		
Gain on disposal of property, plant and equipment	**-**	(0.1)
Unrealized foreign exchange gain	**(11.0)**	(0.3)
Unrealized loss on forward foreign exchange contracts	**5.4**	0.7
Change in fair value on cash settled share based payment arrangement	**(0.4)**	(0.1)
Adjusted EBITDAR	**24.7**	8.2
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow		
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**8.9**	(8.4)
Less: Maintenance capital expenditures(1)	**(2.9)**	(4.6)
Add: Proceeds from disposal of property, plant and equipment	**-**	0.1
Standardized free cash flow	**6.0**	(12.9)
Changes in non-cash working capital items and deposits	**2.3**	4.4
Adjusted free cash flow	**8.3**	(8.5)

1. Refer to the definition of maintenance capital expenditure in End note (E).

Review of Operations for the Three Month Period ended March 31 2016 and 2015

NET INCOME (LOSS) FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2016 AND 2015

(Canadian dollars in millions except where indicated)

	Q1		CHANGE	
	2016	2015	$	%
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**49.3**	38.6	10.7	27.7%
ACMI Revenues	**6.8**	3.3	3.5	106.1%
All-in Charter Revenues	**3.5**	3.9	(0.4)	-10.3%
Total overnight, ACMI and charter revenues	**59.6**	45.8	13.8	30.1%
Total Revenue - FBO	**0.1**	0.1	-	-
Total fuel and other cost pass through	**16.6**	7.8	8.8	112.8%
Fuel surcharge and other passthrough revenues	**16.7**	7.9	8.8	111.4%
Lease and other revenue	**0.6**	0.4	0.2	50.0%
Total revenues	**76.9**	54.1	22.8	42.1%
Operating Days	**50**	49	1	2.0%
Average cargo revenue per operating day	**1.19**	0.93	0.26	28.0%
Direct expenses				
Fuel Costs	**12.7**	12.5	0.2	1.6%
Depreciation	**7.6**	4.5	3.1	68.9%
Aircraft Cost	**8.4**	9.2	(0.8)	-8.7%
Heavy Maintenance Amortization	**1.8**	1.3	0.5	38.5%
Maintenance Cost	**5.4**	5.6	(0.2)	-3.6%
Crew Costs	**5.8**	4.9	0.9	18.4%
Commercial and Other Costs	**18.6**	15.1	3.5	23.2%
Total direct expenses	**60.3**	53.1	7.2	13.6%
Gross margin	**16.6**	1.0	15.6	1560.0%
SG&A & Marketing				
General and Administrative Costs	**8.0**	7.3	0.7	9.6%
Sales costs	**0.5**	0.3	0.2	66.7%
Depreciation	**0.3**	0.2	0.1	50.0%
Total SG&A & Marketing expenses	**8.8**	7.8	1.0	12.8%
Other SG&A				
Other (gains) losses	**(6.0)**	0.2	(6.2)	-3100.0%
Finance costs	**7.9**	4.2	3.7	88.1%
Total other SG&A	**1.9**	4.4	(2.5)	-56.8%
EARNINGS (LOSS) BEFORE INCOME TAXES	**5.9**	(11.2)	17.1	152.7%
Income Taxes	**(1.5)**	2.9	(4.4)	-151.7%
Net Income (loss)	**4.4**	(8.3)	12.7	153.0%
Earnings (loss) per share - $ CAD				
Basic	**0.43**	(0.90)	1.33	147.8%
Diluted	**0.43**	(0.90)	1.33	147.8%

Highlights for the Three Month Period ended March 31, 2016 and 2015

- Total revenue for the three month period ended March 31, 2016 was $76.9 million compared to $54.1 million for the same period in 2015, representing an increase of $22.8 million or 42.1%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2016 was $1.19 million per operating day compared to $0.93 million for the same period in 2015, representing an increase of $0.26 million or 28.0%.

- Adjusted EBITDA for the three month period ended March 31, 2016 was $17.4 million compared to a negative EBITDA of $0.8 million for the same period in 2015, an increase of $18.2 million.

- Adjusted EBITDAR for the three month period ended March 31, 2016 was $24.7 million compared to $8.2 million for the same period in 2015, an increase of $16.5 million or 201.2%.

- Adjusted free cash flow was an inflow of $8.3 million for the three month period ended March 31, 2016 compared to an outflow of $8.5 million for the same period in 2015.

Revenue

Total revenue for the three month period ended March 31, 2016 was $76.9 million, compared to $54.1 million for the same period in 2015, representing an increase of $22.8 million or 42.1%. The increase in total revenue was due primarily to the $10.7 million increase in core overnight revenues, $3.5 million increase in ACMI revenues and $8.8 million increase in fuel surcharge and other cost pass through revenues partially offset by $0.4 million decrease in all-in charter revenue.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2016 was $49.3 million compared to $38.6 million for the same period in 2015, an increase of $10.7 million or 27.7%. The increase was primarily due to the 56.1% increase in volumes from the new CPGOC contract and other existing customers. The full services under the CPGOC contract began on April 1, 2015. The increase in shipping volumes during the period resulted in a 28.0% increase in revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended March 31, 2016 were $6.8 million, compared to $3.3 million for the same period in 2015, an increase of $3.5 million or 106.1%. The increase of $3.6 million was due to additional ACMI block hours flown to the USA. This increase was offset by $0.1 million decrease in adhoc ACMI revenue due primarily to the lower customer demand.

All-in scheduled and adhoc charter revenues for the three month period ended March 31, 2016 were $3.5 million compared to $3.9 million for the same period in 2015, a decrease of $0.4 million or 10.3%. The decrease in all-in charter revenue was due primarily to the lower charter activity.

Fuel surcharges and other cost pass-through revenues were $16.7 million for the three month period ended March 31, 2016 compared to $7.9 million for the same period in 2015. During the quarter, fuel surcharges increased due to an increase in shipping volumes from the new CPGOC contract and the existing customers which increased revenues that attracted fuel surcharges. The increase in fuel surcharges was partially offset by 37.3% decline in fuel prices. Fuel surcharges and other cost pass-through revenues of $0.1 million fuel sales to third parties remained same for the three month periods ended March 31, 2016 and 2015.

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines. Other revenues were $0.6 million compared to $0.4 million for the same period in 2015, an increase of $0.2 million or 50%.

Direct Expenses

Total direct expenses were $60.3 million for the three month period ended March 31, 2016 compared to $53.1 million for the same period in 2015. As a percentage of revenue, direct expenses decreased from 98.2% in 2015 to 78.4% for the same period in 2016. The overall increase in direct expenses was due primarily to a $0.2 million increase in fuel costs, a $3.1 million increase in depreciation, a $0.5 million increase in heavy maintenance amortization, a $0.9 million increase in crew costs, a $3.5 million increase in commercial costs and other costs, partially offset by a $0.2 million decrease in maintenance costs and a $0.8 million decrease in aircraft costs. For the three month period ended March 31, 2016 direct expenses included $1.1 million of one-time startup costs related to the CPGOC contract compared to $7.6 million for the same period in 2015.

Fuel costs were $12.7 million for the three month period ended March 31, 2016 compared to $12.5 million for the same period in 2015. The $0.2 million or 1.6% increase in fuel costs was due primarily to a 30.4% increase in block hours due to the start of full CPGOC services from April 1, 2015. The increase in fuel costs were partially offset by 37.3% decline in fuel prices. 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 $7.6 million for the three month period ended March 31, 2016 compared to $4.5 million for the same period in 2015. The $3.1 million or 68.9% increase in depreciation expenses was due primarily to the addition of aircraft and other assets.

Aircraft costs were $8.4 million for the three month period ended March 31, 2016 compared to $9.2 million in 2015, representing a decrease of $0.8 million or 8.7%. The decrease was due primarily to the lower fixed lease rental costs and variable lease costs during the three month period due to return of the two B767-200 aircraft at the expiry of their lease terms. This decrease was partially offset by the effect of unfavorable variances in US Dollar exchange rates and sub charter costs related to a new route on the overnight network started in Q2 of 2015. For the three month period ended March 31, 2016 aircraft costs included $1.1 million of one-time startup costs related to the CPGOC contract compared to $3.7 million for the same period in 2015. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $1.8 million for the three month period ended March 31, 2016 compared to $1.3 million for the same period in 2015, representing an increase of $0.5 million or 38.5%. 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. The heavy maintenance component of the newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $5.4 million for the three month period ended March 31, 2016 compared to $5.6 million in 2015, representing a decrease of $0.2 million or 3.6%. $0.2 million of the decrease was primarily due to an unscheduled maintenance event that occurred in 2015 and additional costs of $1.6 million incurred during the period on one time start-up costs related to the CPGOC contract. This decrease was partially offset by the higher maintenance costs in 2016 due to additional block hours as required by the expanded network.

Total crew costs including salaries, training and positioning were $5.8 million for the three month period ended March 31, 2016 compared to $4.9 million in 2015, representing an increase of $0.9 million or 18.4%. This increase was due primarily to additional crew salaries and positioning costs required by the expanded network. For the three month period ended March 31, 2016 crew costs did not include any one-time startup costs related to the CPGOC contract compared to $1.5 million for the same period in 2015.

Commercial and other direct operating costs were $18.6 million for the three month period ended March 31, 2016 compared to $15.1 million for the same period in 2015, representing an increase of $3.5 million or 23.2%. This increase primarily comprises of $0.9 million due to commercial salaries, $1.4 million higher navigation costs due to additional block hours, $1.3 million higher landing, parking and deicing costs, $0.8 million of higher ground handling costs as a result of increase in volume partially offset by $0.9 million decrease in line haul expenses. For the three month period ended March 31, 2016 commercial costs did not include any costs related to the startup costs for CPGOC contract compared to $1.7 million for the same period in 2015.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended March 31, 2016 were $8.8 million compared to $7.8 million for the same period in 2015, representing an increase of $1.0 million or 12.8%. $1.0 million of the increase in SG&A is comprised of share based compensation expense related to the amortization of deferred expense of RSUs and Options granted in 2015 and RSUs granted and settled in 2016, $0.2 million increase in sales and marketing costs, partially offset by $0.2 million decrease in other administrative costs. SG&A expenses did not include any costs related to the CPGOC contract compared to $0.5 million for the same period in 2015.

Other Selling, General and Administrative Expenses

Other selling general and administration costs for the three month period ended March 31, 2016 were $1.9 million compared to $4.4 million for the same period in 2015, representing a decrease of $2.5 million or 56.8%. The decrease was primarily due to net $6.2 million of unrealized exchange gain on the valuation of USD currency borrowings in form of leases and loans partially offset by $3.7 million of higher finance costs on these borrowings.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended March 31, 2016 was $17.4 million compared to negative EBITDA of $0.8 million for the same period in 2015. The increase in Adjusted EBITDA of $18.2 million was due primarily to the following:

- Increase in core overnight revenues and fuel surcharges due to the full service startup of the CPGOC contract on April 1, 2015
- Lower startup costs related to the CPGOC contract costs in 2016

partially offset by:

- Higher operating costs due to higher block hours and increase in fleet size required by the CPGOC contract
- The effect of exchange fluctuations on net USD denominated expenditures.

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended March 31, 2016 was $24.7 million compared to $8.2 million for the same period in 2015, representing an increase of $16.5 million or 201.2%. The increase in adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to the expiry of the aircraft leases in 2015.

Current Income Taxes

No provision for current income taxes were made for the three month period ended March 31, 2016 and 2015 due to net taxable loss position.

Deferred Income Taxes

The deferred income taxes recognized for the three month period ended March 31, 2016 was an expense of $1.5 million compared to a recovery of $2.9 million for the same period in 2015. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $8.3 million for the three month period ended March 31, 2016, compared to an outflow of $8.5 million for the same period in 2015, representing an increase of $16.8 million. The increase in adjusted free cash flow was due primarily to the increase in adjusted EBITDA, changes in non-cash working capital items and lower maintenance capital expenditures.

Dividends

Total dividends declared for the three month period ended March 31, 2016 were $1,515,152 or $0.1491 per share. In comparison, total dividends declared for the three month period ended March 31, 2015 were $1,409,579 or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
December 18, 2015	January 05, 2016	-	-	0.1491	1,507,171
March 21, 2016	April 05, 2016	1,515,152	10,161,982	0.1491	
		1,515,152	-	-	1,507,171

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
December 19, 2014	January 05,2015	-	-	0.1491	1,367,906
March 20, 2015	October 03, 2014	1,409,579	9,453,907	0.1491	-
		1,409,579	-	-	1,367,906

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances for the three month period ended March 31, 2016 was $8.9 million compared to cash used in operating activities of $8.4 million for the same period in 2015. The $17.3 million increase in cash was due primarily to the increase in revenue activities and the changes in non-cash working capital items and deposits.

Cash generated by financing activities during the three month period ended March 31, 2016 was $27.4 million (March 31, 2015 - $32.7 million) and was comprised of net proceeds from borrowings of $34.5 million (March 31, 2015 - $35.9 million) partially offset by the repayment of obligations under finance lease of $5.6 million (March 31, 2015 - $1.8 million) and dividends paid to shareholders of $1.5 million (March 31, 2015 - $1.4 million).

Cash used in investing activities during the three month period ended March 31, 2016 was $38.5 million (March 31, 2015 - $24.0 million) and was primarily comprised of property, plant and equipment additions.

Note: See Caution Concerning Forward Looking Statements, page 2

Management anticipates that the cash flow from operations and the unutilized balance of the Company's credit facility 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

The property, plant and equipment additions of $38.7 million in the current period (March 31, 2015 - $23.5 million) were primarily comprised of additions to aircraft, engines, heavy maintenance and other equipment.

Financial Condition

The following is a comparison of the financial position of the Company as at March 31, 2016 to the financial position of the Company as at December 31, 2015.

Accounts Receivable

Accounts receivable as at March 31, 2016 amounted to $25.4 million compared to $28.8 million as at December 31, 2015. The decrease of $3.4 million was due to the timing of cash collections from the customers and adjustments in the value of derivatives. 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 March 31, 2016, property, plant and equipment were $386.3 million compared to $357.2 million as at December 31, 2015. The $29.1 million net increase in property, plant and equipment was primarily due to additions of $38.7 million partially offset by amortization of $9.6 million.

Trade and Other Payables

Trade and other payables as at March 31, 2016 were $24.6 million compared to $27.0 million as at December 31, 2015. The decrease of $2.4 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of five B767-300 aircraft. Total finance leases excluding the current portion were $132.2 million as at March 31, 2016 compared to $140.2 as at December 31, 2015. The change was due to the scheduled monthly installments and the lump sum repayment made in the current quarter.

Provisions

Provisions excluding the current portion as at March 31, 2016 were $2.2 million compared to $2.4 million as at December 31, 2015 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms. The change was due to the effect of currency fluctuation on the USD denominated provisions.

Summary of Contractual Obligations

		Payments due by Year				
As at March 31, 2016	Total	2016	2017	2018	2019	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Finance leases	145.8	8.9	12.7	50.8	14.6	58.8
Provisions	2.2	-	-	-	-	2.2
Borrowings	163.6	4.5	8.5	49.6	12.5	88.5
Convertible Debentures	76.5	2.5	-	-	74.0	-
Operating leases	35.9	7.4	9.6	7.5	5.6	5.8
	424.0	23.3	30.8	107.9	106.7	155.3

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 aircraft. 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, losses, 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) Indemnities have 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 favour 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.

See Caution Concerning Forward Looking Statements, page 2

(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 operates 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. There is no major change in the total assets and total debts of these FFC as disclosed in the MD&A for the year ended December 31, 2015. The Company's pro rata share of the FFC's assets and debt is approximately 8% before taking into consideration the value of assets that secure the obligations and cost sharing that would occur among other participating airlines. 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 three month period ended March 31, 2016, the Company had sales to three customers that represented 60.7% of the total revenues (March 31, 2015 – 55.0%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $39.7 million as at March 31, 2016 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

At March 31, 2016, the Company had no transactions with related parties except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

Risk Factors

Risks Related to the Business

A detailed description of risk factors associated with the Company's business is given in the "Risk Factors" section of the MD&A for the three month and year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com. The Company is not aware of any significant changes to its risk factors from those disclosed at that time.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2

During the period ended March 31, 2016, the Company experienced growth in all of its revenue streams, thereby increasing its total overnight, charter and ACMI business by 30.1% compared to the same period in 2015.The increase was primarily due to the start of the CPGOC contract and the continued development and strengthening of its relationships with existing and new customers. The Company experienced growth in its total overnight shipping volumes in the current quarter and each of the previous eight quarters. 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 Company has added aircraft, staff and network capacity to accommodate the growing demand in its overnight core network and to operate the new CPGOC contract.

The Company proactively manages its fleet capacity and maintains its strong on-time performance. 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 contract also has a variable price component that will allow Company to recover costs related to fuel prices increases.

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

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

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The critical accounting judgment and estimations used in preparation of the Company's unaudited financial statements are described in the "Critical accounting judgments and key sources of estimation uncertainty" section of the MD&A for the three month period and year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com.

Outstanding Share Data

The 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 shares of the Company outstanding and securities convertible into shares of the Company as of March 31, 2016:

Capital		Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares		Unlimited	10,247,737	-
Variable Voting Shares		Unlimited	83,813	-
Convertible Debentures - 6.5% (1)	$	25,180,000	-	214,298
Convertible Debentures - 5.5%	$	74,000,000	-	2,573,913

(1) These debentures were redeemed on April 28, 2016. See page 6 of this MD&A under "Redemption of 6.5% Convertible Debentures" for more information.

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2015 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 MD&A was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

Standards, amendments and interpretations issued and not yet adopted

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, 2018 and is to be applied using the retrospective or the modified transition approach. The standard will address accounting for loyalty programs, warranties and breakage. The Company is currently assessing the impact of this standard.

Leases: In January 2016, the IASB issued IFRS 16, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie. the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are 'capitalised' by recognising the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Statement of Cash flow: IAS 7 has been revised to incorporate amendments issued by the IASB in January 2016. The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of this standard.

Income taxes: IAS 12 has been revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company is currently assessing the potential impact of this standard.

End Notes

(A) "EBITDA" is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is calculated as net income or loss excluding the following: depreciation, and aircraft heavy maintenance amortization, 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) "Adjusted EBITDA" is defined as earnings before interest, taxes, depreciation, amortization, and other adjustments. Adjusted EBITDA is calculated as net income or loss excluding the following: depreciation, aircraft heavy maintenance amortization, 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 aircraft heavy maintenance amortization, 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 adjusted 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 adjusted 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 adjusted EBITDA.

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

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

Gain or loss on forward foreign exchange contracts- the gain or loss arising from the forward foreign exchange contracts is a non-cash item and has no impact on the determination of adjusted EBITDA.

Gain or loss on fair value of cash settled share based payment arrangement - the gain or loss arising from the fair value of cash settled share based payment arrangement is a non-cash item and has no impact on the determination of adjusted EBITDA.

(C) "EBITDAR" is defined as earnings before interest, taxes, depreciation amortization and aircraft rent. EBITDAR is calculated as EBITDA excluding aircraft rents. EBITDAR is a measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft.

(D) "Adjusted EBITDAR" is defined as earnings before interest, taxes, depreciation amortization, other adjustments and aircraft rent. Adjusted EBITDAR is calculated as Adjusted EBITDA excluding aircraft rents. Adjusted EBITDAR is a measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft.

(E) "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.

Maintenance capital expenditures - These are defined as any fixed assets acquired during a reporting period to maintain the Company's aircraft fleet and other assets at the level required to continue operating the existing business. They also include any capital expenditure required to extend the operational life of the fleet including heavy maintenance. Maintenance capital expenditures exclude any capital expenditures that result in new and additional capacity required to grow operational revenue and cash flows.