

Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three month periods ended March 31, 2017 and 2016

(unaudited - expressed in millions of Canadian dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets As at March 31, 2017 and December 31, 2016

(unaudited, in millions of Canadian dollars)

	Note	March 31, 2017	December 31, 2016
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash		0.5	2.2
Trade and other receivables		24.1	25.7
Inventories		1.0	0.9
Prepaid expenses and deposits		3.0	2.7
Income taxes recoverable		0.1	0.1
Derivative financial instruments	15	3.6	6.8
		<u>32.3</u>	<u>38.4</u>
NON-CURRENT ASSETS			
Property, plant and equipment	3, 4	402.1	371.1
Goodwill		46.4	46.4
Intangible assets		2.0	2.0
Deposits		4.5	4.6
		<u>487.3</u>	<u>462.5</u>
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		27.8	30.4
Provisions	6	0.1	0.7
Dividends payable		2.0	1.9
Borrowings	4	-	35.7
Finance leases	5	55.6	12.7
		<u>85.5</u>	<u>81.4</u>
NON-CURRENT LIABILITIES			
Borrowings	4	47.2	0.2
Finance leases	5	87.7	117.6
Provisions	6	1.7	1.7
Convertible debentures	7	182.0	181.1
Deferred income taxes	8	6.4	5.2
Pension benefit liability		8.9	8.7
		<u>419.4</u>	<u>395.9</u>
EQUITY			
		<u>67.9</u>	<u>66.6</u>
		<u>487.3</u>	<u>462.5</u>

The accompanying notes are an integral component of these condensed consolidated interim financial statements.

CARGOJET INC.

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

Three month periods ended March 31, 2017 and 2016

(unaudited, in millions of Canadian dollars except per share data)

	Note	Three months ended March 31,	
		2017	2016
		\$	\$
REVENUES		87.1	76.9
DIRECT EXPENSES	9	66.2	60.3
		20.9	16.6
General and administrative expenses	10	10.1	8.3
Sales and marketing expenses		0.3	0.5
Finance costs		6.6	7.9
Loss on extinguishment of debt	4	2.2	-
Other gains	11	(2.1)	(6.0)
		17.1	10.7
EARNINGS BEFORE INCOME TAXES		3.8	5.9
PROVISION FOR INCOME TAXES	8		
Deferred		1.2	1.5
NET EARNINGS AND COMPREHENSIVE INCOME		2.6	4.4
EARNINGS PER SHARE	13		
- Basic		\$0.25	\$0.43
- Diluted		\$0.24	\$0.43

The accompanying notes are an integral component of these condensed consolidated interim financial statements.

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity Three month periods ended March 31, 2017 and 2016

(unaudited, in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2017		100.9	3.3	10.0	3.1	(50.7)	66.6
Net earnings and comprehensive income		-	-	-	-	2.6	2.6
Share-based compensation	12,14	-	0.5	-	-	-	0.5
Restricted shares and options vested and exercised	12	1.9	(1.9)	-	-	-	-
Dividend Shares	12,14	0.1	-	-	-	-	0.1
Convertible debenture - conversion	7,12	0.1	-	-	-	-	0.1
Dividends	12	-	-	-	-	(2.0)	(2.0)
Balance, March 31, 2017		103.0	1.9	10.0	3.1	(50.1)	67.9
Balance, January 1, 2016		91.3	1.9	5.2	2.8	(46.4)	54.8
Net loss and comprehensive loss		-	-	-	-	4.4	4.4
Treasury shares - net		0.2	-	-	-	-	0.2
Restricted shares vested		1.3	-	-	-	-	1.3
Share-based compensation		0.3	(0.7)	-	-	-	(0.4)
Deferred tax on conversion option - net		-	-	-	-	0.1	0.1
Convertible debenture - conversion	7	1.8	-	(0.1)	0.1	-	1.8
Dividends	12	-	-	-	-	(1.5)	(1.5)
Balance, March 31, 2016		94.9	1.2	5.1	2.9	(43.4)	60.7

The accompanying notes are an integral component of these condensed consolidated interim financial statements.

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows Three month period ended March 31, 2017 and 2016

(unaudited, in millions of Canadian dollars)

	Note	Three Months ended	
		2017	2016
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		2.6	4.4
Items not affecting cash			
Depreciation of property, plant and equipment	3	10.6	9.6
Share-based compensation	14	0.6	1.1
Finance costs		6.6	7.9
Gain on derecognition of provision for lease return condition		(0.6)	-
Employee pension		0.2	-
Income tax provision	8	1.2	1.5
Other gains		(0.3)	(9.0)
		20.9	15.5
Items affecting cash			
Interest paid		(4.8)	(7.3)
		16.1	8.2
Changes in non-cash working capital items and deposits			
Derivative financial instruments		2.8	-
Trade and other receivables		1.6	(1.1)
Inventories		(0.1)	-
Prepaid expenses and deposits		(0.2)	1.7
Trade and other payables		(2.6)	(2.9)
NET CASH GENERATED FROM OPERATING ACTIVITIES		17.6	5.9
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(35.8)	(3.4)
Proceeds from borrowings		47.0	37.9
Repayment of obligations under finance leases		(5.2)	(5.6)
Dividends paid to shareholders		(1.9)	(1.5)
NET CASH PROVIDED FROM FINANCING ACTIVITIES		4.1	27.4
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(23.4)	(38.7)
Collection of notes receivable		-	0.2
NET CASH USED IN INVESTING ACTIVITIES		(23.4)	(38.5)
EFFECT OF EXCHANGE RATE CHANGES		-	3.0
NET CHANGE IN CASH		(1.7)	(2.2)
CASH, BEGINNING OF PERIOD		2.2	6.0
CASH, END OF PERIOD		0.5	3.8

The accompanying notes are an integral component of these condensed consolidated interim financial statements.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(unaudited - in millions of Canadian dollars except where noted)

1. NATURE OF THE BUSINESS

Cargojet Inc. ("Cargojet" or the "Company") operates a domestic overnight air cargo co-load network between fourteen 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 and Canada and Germany and flights between Canada and Colombia, Mexico and Peru.

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 condensed consolidated interim financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on May 15, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountants of 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").

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., CJH's wholly owned subsidiary, ACE Air Charter Inc. ("ACE"), ACE's wholly owned subsidiaries, ACE Maintenance Ontario Inc. ("ACEM"), 2166361 Ontario Inc. ("ACEO"), and ACEO's wholly owned subsidiary, Navigatair Inc. ("NAVIGATAIR"), CJH's wholly owned subsidiary, Cargojet Airways Ltd. ("CJA") Cargojet Partnership ("CJP") and Aeroship Handling Ltd. ("AH").

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

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these financial statements as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2016.

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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. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January 1, 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 that will replace IAS 18 Revenue and related interpretations. 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 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 and improve guidance for multiple-element arrangements. The IASB standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018. 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, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous lease 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 'capitalized' by recognizing 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 recognizes 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.

IFRS 2, Share-based payments ("IFRS 2"), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The amendments are effective for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of adopting this standard on its consolidated financial statements.

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Notes to the Condensed Consolidated Interim Financial Statements

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3. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at	Additions	Transfers	Fully	Balance as at
	January 1, 2017			Depreciated	March 31, 2017
	\$	\$	\$	\$	\$
Aircraft hull	230.3	7.5	-	-	237.8
Engines	114.4	10.6	-	-	125.0
Spare parts	3.3	0.2	-	-	3.5
Ground equipment	20.5	3.5	-	-	24.0
Rotable spares	28.1	0.9	-	-	29.0
Computer hardware and software	8.6	-	-	-	8.6
Furniture and fixtures	2.5	-	-	-	2.5
Leasehold improvements	11.6	-	-	-	11.6
Vehicles	3.0	-	-	-	3.0
Hangar and cross-dock facilities	23.8	0.1	-	-	23.9
Property, plant and equipment under development	16.3	15.9	-	-	32.2
Deferred heavy maintenance	39.1	2.9	-	-	42.0
	501.5	41.6	-	-	543.1

Accumulated Depreciation	Balance as at	Depreciation	Balance as at	Net Book Value
	January 1, 2017		March 31, 2017	March 31, 2017
	\$	\$	\$	\$
Aircraft hull	32.5	3.1	35.6	202.2
Engines	33.1	3.2	36.3	88.7
Spare parts	-	-	-	3.5
Ground equipment	9.9	0.5	10.4	13.6
Rotable spares	13.0	0.6	13.6	15.4
Computer hardware and software	5.6	0.2	5.8	2.8
Furniture and fixtures	1.3	-	1.3	1.2
Leasehold improvements	8.7	0.1	8.8	2.8
Vehicles	1.2	0.1	1.3	1.7
Hangar and cross-dock facilities	6.2	0.2	6.4	17.5
Property, plant and equipment under development	2.5	-	2.5	29.7
Deferred heavy maintenance	16.4	2.6	19.0	23.0
	130.4	10.6	141.0	402.1

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Notes to the Condensed Consolidated Interim Financial Statements

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Cost	Balance as at January 1, 2016	Additions	Transfers	Fully Depreciated	Balance as at December 31, 2016
	\$	\$	\$		\$
Aircraft hull	200.1	22.4	7.8	-	230.3
Engines	100.6	10.6	3.2	-	114.4
Spare parts	2.6	0.7	-	-	3.3
Ground equipment	20.2	0.3	-	-	20.5
Rotable spares	23.7	4.4	-	-	28.1
Computer hardware and software	7.6	1.0	-	-	8.6
Furniture and fixtures	2.3	0.2	-	-	2.5
Leasehold improvements	10.9	0.4	0.3	-	11.6
Vehicles	2.7	0.3	-	-	3.0
Vehicles under development	23.8	-	-	-	23.8
	17.1	11.1	(11.9)	-	16.3
Deferred heavy maintenance	35.2	8.4	0.6	(5.1)	39.1
	446.8	59.8	-	(5.1)	501.5

Accumulated Depreciation	Balance as at January 1, 2016	Depreciation	Disposals Transfers	Impairment	Balance as at December 2016	Net Book Value December 31, 2016
	\$	\$	\$	\$	\$	\$
Aircraft hull	16.3	14.8	-	1.4	32.5	197.8
Engines	20.8	12.3	-	-	33.1	81.3
Spare parts	-	-	-	-	-	3.3
Ground equipment	7.8	2.1	-	-	9.9	10.6
Rotable spares	10.9	2.1	-	-	13.0	15.1
Computer hardware and Furniture and fixtures	4.7	0.9	-	-	5.6	3.0
	1.1	0.2	-	-	1.3	1.2
Leasehold improvements	7.6	1.1	-	-	8.7	2.9
Vehicles	1.0	0.2	-	-	1.2	1.8
Hangar and cross-dock facilities	5.3	0.9	-	-	6.2	17.6
Property, plant and equipment under development	-	-	-	2.5	2.5	13.8
Deferred heavy maintenance	14.1	7.4	(5.1)	-	16.4	22.7
	89.6	42.0	(5.1)	3.9	130.4	371.1

Property, plant and equipment under development of \$29.7 (2016 - \$13.8) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

During the three months ended March 31, 2017, the Company completed the acquisition of one Boeing 757-200 aircraft after the change in terms of one of its operating lease to be classified as finance lease as disclosed in Note 5. The Company also purchased ground service equipment to permit the Company to provide its own ground handling at certain locations instead of utilizing the services and equipment of third parties.

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Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(unaudited - in millions of Canadian dollars except where noted)

Depreciation expense on property, plant and equipment for the three month period ended March 31, 2017 totaled \$10.6 (three months period ended March 31, 2016 - \$9.6), out of which \$10.4 (2016 - \$9.4) was recorded in direct cost and \$0.2 (2016 - \$0.2) was recorded in general and administrative expenses.

4. BORROWINGS

Borrowings consist of the following:

	March 31, 2017	December 31, 2016
	\$	\$
Revolving credit facility	47.0	-
Aircraft facility arrangement	-	35.7
Other borrowings	0.2	0.2
	47.2	35.9
Less: current portion	-	35.7
Long-term portion	47.2	0.2

Revolving syndicate credit facility and term loan

Effective September 20, 2016, the Company amended its revolving operating credit facility (the "facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things, increasing the maximum credit available from \$100 to \$175 and extending the maturity date by one year to expire on December 16, 2019. The facility 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.

Effective April 07, 2017, the Company amended this facility. For further detail please see note 16.

Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

The facility is secured by the following:

- general security agreement constituting a first ranking security interest over all personal property of Cargojet Airways Ltd., as borrower, subject to certain permitted encumbrances (including those of aircraft financing parties);
- guarantee and postponement of claim supported by a general security agreement constituting a first ranking security interest over all personal property of the Company and its other material subsidiaries subject to certain permitted encumbrances;
- charge over real property of the Company at Hamilton airport;
- security over aircraft owned by the Company which are otherwise unencumbered; and
- assignment of insurance proceeds.

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Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2017 and 2016

(unaudited - in millions of Canadian dollars except where noted)

Advances under the facility are repayable without any prepayment penalties and bear interest based on the prevailing prime rate, US base rate or at a banker's acceptance rate, as applicable, plus an applicable margin to those rates. The facility is subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the Lenders, and restrictions on the Company's ability to pay dividends in certain circumstances. The facility is also subject to the maintenance of a minimum fixed charge coverage ratio and a total adjusted leverage ratio.

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at March 31, 2017 and 2016.

Included in the condensed consolidated interim statement of earnings and comprehensive income for the three month period ended March 31, 2017 was interest expense on the revolving credit facility of \$0.6 (three month period ended March 31, 2016 - \$0.9).

Loan arrangement

In March 2015, the Company executed an aircraft facility loan with a US based lender for USD \$27.5 and drew down on it to finance the acquisition of one Boeing 767-300 aircraft. This facility was expiring in April 2022 and was secured by the related aircraft and all its components and records. On February 1, 2017, the Company prepaid the entire outstanding amount of its loan facility with a US based lender including the prepayment fees using the revolving operating credit facility. The prepayment resulted in a pre-tax loss of \$2.2 including prepayment fees and unamortized costs, which were recorded as a loss on the extinguishment of debt. The prepayment also resulted in the pre-tax exchange loss of \$1.3. On February 14, 2017, the Company cancelled the \$6.6 letter of credit issued to the lender following the prepayment of the loan.

Included in the condensed consolidated interim statement of earnings and comprehensive income for the three month ended March 31, 2017 was interest expense on the loan arrangement of \$0.3 (March 31, 2016 - \$2.8).

5. FINANCE LEASES

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") with an equipment finance and leasing company. As at December 31, 2015, the Company had completed four finance leases to acquire four Boeing 767-300 aircraft under the MLA in the aggregate amount of \$120.0. 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. Accordingly, these leases are classified as finance leases and corresponding lease obligations are recognized in the financial statements. Each lease under the MLA is arranged in two tranches, A and B, each with its own schedule of principal and interest payments. The estimated weighted effective interest rate is 7.26%. The leases under the MLA are guaranteed by the Company and its subsidiaries.

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Notes to the Condensed Consolidated Interim Financial Statements

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Under the terms of the MLA, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and was required to pay additional fees (the “share- based additional fees”) equal to the positive difference between the price of 233,332 Cargojet common voting shares on the TSX on the date of the MLA and the twenty day volume weighted average closing price for such shares as of the date preceding the date on which the lessor demands 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 Company had also paid success fees in an amount equal to 1.5% of the amount advanced under the MLA to an independent investment banking firm for its services towards completion of these transactions.

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at March 31, 2017 and 2016.

As at March 31, 2017 total outstanding balance of the leases under the MLA is \$96 out of which \$8.3 is recognized as current liability on the consolidated balance sheets.

The Company also has a finance lease arrangement for a Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 7.21%. The lease is deemed to be maturing on the early exercisable date of bargain purchase option in March 2018. Accordingly, the outstanding balance of \$29.4 at March 31, 2017 is recognized as current liability on the consolidated balance sheets. .

During the three months ended March 31, 2017, the Company renegotiated the terms of the operating lease of one of the Boeing 757-200 aircraft. Under the revised terms, the Company will buy back the aircraft at the end of the term of the lease in December 2017. Accordingly the lease was classified as finance lease and the balance of \$17.9 at March 31, 2017 is recognized as current liability on the consolidated balance sheets.

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 March 31, 2017.

	Minimum lease payments	Present value of minimum lease payments
	\$	\$
Not later than one year	64.2	55.6
Later than one year and not later than five years	103.0	87.7
	167.2	143.3
Less: interest	23.9	-
Total obligations under finance leases	143.3	143.3
Less: current portion	55.6	55.6
Non-current portion	87.7	87.7

Interest amounts on the finance leases for the three months ended March 31, 2017 totaled \$2.3 (March 31, 2016 - \$2.7).

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6. 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. A reconciliation of the carrying amount of the provision is as follows:

	March 31, 2017	December 31, 2016
	\$	\$
Balance, beginning of year	2.4	2.4
Derecognition of provision for lease return conditions	(0.6)	-
Accretion	-	0.1
Effects of exchange rate changes on the provision balance	-	(0.1)
Balance, end of year	1.8	2.4
Less: current portion	0.1	0.7
Non-current portion	1.7	1.7

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's specific history. The provision has been reduced to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

The amount for derecognition of provision for lease return conditions represents the provision taken against the Boeing 757-200 aircraft which was derecognized as an operating lease and capitalized as a finance lease during the three month period ended March 31, 2017 (see Note 3).

7. CONVERTIBLE DEBENTURES

The balances of convertible debentures as at March 31, 2017 and December 31, 2016 consist of the following :

	March 31, 2017	December 31, 2016
	\$	\$
Convertible debentures - 5.5%	68.8	68.4
Convertible debentures - 4.65%	113.2	112.7
Balance	182.0	181.1

Convertible debentures – 5.5% due June 30, 2019

In April 2014, \$74.0 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.

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During the three months ended March 31, 2017, convertible debentures with an aggregate principal amount of \$0.1 (March 31, 2016 - \$nil) were converted, at the holders' discretion, into 4,624 (2016 – nil) voting shares of the Company. Accordingly, the Company derecognized \$0.1 (2016 - \$nil) of the liability for convertible debentures, representing the amortized carrying cost 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 was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the condensed consolidated interim statements of changes in equity, the amount being immaterial does not show on the statement of equity. No gain or loss was recognized on conversion of the debentures.

On May 10, 2017 the Board of Directors of Cargojet Inc. authorized the redemption of all of the outstanding 5.5% convertible debentures on July 5, 2017. For further details please see note 16

The debt component is measured at amortized cost. The balance of the debt component as at March 31, 2017 and December 31, 2016 consists of the following:

	March 31, 2017	December 31, 2016
Principal balance - beginning of period	\$ 73.8	\$ 74.0
Less:		
Issuance costs	(3.3)	(3.3)
Conversion option at inception	(6.6)	(6.6)
Accretion	5.0	4.5
Converted during the period/ year	(0.1)	(0.2)
Balance	68.8	68.4

Interest expense on the debentures for the three month period ended March 31, 2017 totaled \$1.5, (March 31, 2016 - \$1.4).

Convertible debentures – 4.65% due December 31, 2021

In September 2016, \$125.0 of unsecured subordinated convertible debentures were issued at a price of 1,000 (dollars) per debenture with a term of five years. These debentures bear a fixed interest rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2016. The intended use of the net proceeds of the debentures is to refinance three US dollar denominated aircraft finance loans.

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The debt component is measured at amortized cost. The balance of the debt component as at March 31, 2017 and December 31, 2016 consists of the following:

	March 31, 2017	December 31, 2016
Principal balance - beginning of period	\$ 125.0	\$ 125.0
Less:		
Issuance costs	(5.8)	(5.8)
Conversion option at inception	(7.1)	(7.1)
Accretion	1.1	0.6
Balance	113.2	112.7

Interest expense on the debentures for the three month period ended March 31, 2017 totaled \$2.0 (March 31, 2016 \$nil).

8. INCOME TAXES

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

	March 31, 2017	March 31, 2016
Earnings before income taxes	\$ 3.8	\$ 5.9
Provision for and (recovery of) income taxes		
basic rate of 26.5% (2016 - 26.5%)	1.0	1.6
Exchange (gains) losses on capital loans	(0.1)	(0.6)
Share- based compensation	0.2	0.3
Meals and entertainment	-	0.1
Sundry items	0.1	0.1
Provision for income taxes	1.2	1.5

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The tax effect of significant temporary differences is as follows:

	December 31, 2016	Recognized in equity	Recognized in Profit & Loss	March 31, 2017
	\$			\$
Property, plant and equipment	10.1	-	1.8	11.9
Operating loss carryforward	(10.6)	-	0.1	(10.5)
Licenses	0.3	-	-	0.3
Intangible assets	(0.5)	-	0.1	(0.4)
Derivative contracts	0.4	-	(0.4)	-
Pension costs	(2.3)	-	(0.1)	(2.4)
Financing costs	(0.3)	-	(0.4)	(0.7)
Convertible debentures	2.7	-	(0.1)	2.6
Provision for lease retirement costs	(0.5)	-	0.1	(0.4)
Deferred heavy maintenance	5.9	-	0.1	6.0
Net deferred income tax liability	5.2	-	1.2	6.4

9. DIRECT EXPENSES

	March 31, 2017	March 31, 2016
	\$	\$
Fuel costs	17.2	12.7
Maintenance costs	6.1	5.4
Heavy maintenance amortization	2.5	1.8
Aircraft costs	5.3	8.4
Crew costs	5.8	5.8
Depreciation	7.8	7.6
Commercial and other costs	21.5	18.6
Direct expenses	66.2	60.3

10. GENERAL AND ADMINISTRATIVE EXPENSES

	March 31, 2017	March 31, 2016
	\$	\$
Salaries and benefits	5.2	4.6
Employee pension	0.2	-
Depreciation	0.3	0.3
Net realized foreign exchange losses (gain)	0.9	(0.4)
Bonuses and incentives	0.6	1.1
Audit, legal and consulting	0.2	0.4
IT network and communications	0.5	0.6
Other general and administrative expenses	2.2	1.7
General and administrative expenses	10.1	8.3

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11. OTHER (GAINS) LOSSES

	March 31, 2017	March 31, 2016
	\$	\$
Gain on derecognition of provision for lease return conditions	(0.6)	-
Net loss on forward foreign exchange contracts	0.7	5.4
Gain on cash settled share based payment arrangements and total return swap	(0.3)	(0.4)
Unrealized foreign exchange gain	(1.9)	(11.0)
Other losses (gains) , net	(2.1)	(6.0)

12. 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" as such term is defined in the Canada Transportation Act. The variable voting shares are held only by shareholders who are not Canadian. Under the articles of incorporation and bylaws of the Company, any common voting share that is sold to a non- Canadian is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian 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 the changes in shareholders' capital from December 31, 2016 to March 31, 2017:

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	Number of shares	Amount
		\$
Variable voting shares	234,571	2.2
Common voting shares	10,408,794	98.7
Outstanding- December 31, 2016	10,643,365	100.9
Changes during the period		
Voting shares issued on conversion of convertible debentures	4,624	0.1
Restricted share units settled	56,466	1.5
Dividend Shares	1,439	0.1
Distribution of Treasury shares	38,836	0.4
	10,744,730	103.0
Consisting of:		
Variable voting shares	228,064	2.2
Common voting shares	10,516,666	100.8
Outstanding- March 31, 2017	10,744,730	103.0

Dividends

Dividends to shareholders declared for the three month period ended March 31, 2017 amounted to \$2.0 (\$0.1925 per share) and for the three month period ended March 31, 2016 amounted to \$1.5 (\$0.1491 per share) respectively.

13. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the three month period ended March 31, 2017 and 2016

In \$ millions except per share

	March 31,	March 31,
Basic earnings per share	2017	2016
Net earnings	\$2.6	\$4.4
Weighted average number of shares	10.7	10.1
Dilutive impact of share- based awards	0.2	-
Diluted weighted average number of shares	10.9	10.1
Total basic earnings per share	\$0.25	\$0.43
Total diluted earnings per share	\$0.24	\$0.43

The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the three months ended March 31, 2017 and 2016 as the impact would be anti-dilutive. Diluted earnings includes the potentially dilutive impact of share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

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14. SHARE- BASED COMPENSATION

Restricted Share Units

The Company's restricted share unit plan (the "RSU Plan") and a stock option plan (the "Stock Option Plan") provide the Company the ability to grant restricted share units ("RSUs") and options ("Options") to certain of its executive officers and senior management as part of its long term incentive plan. Each RSU granted entitles the holder to one common voting share or one variable voting share of the Company on the settlement thereof.

On March 24, 2017, 56,466 RSUs granted to Company's executives and senior management in prior years were vested and settled on the same date. Accordingly, an amount of \$1.5 was transferred to share capital from contributed surplus. Prior to vesting, and in accordance with the RSU Plan, the Company accrued notional dividends on the RSUs equivalent to 1,439 RSUs that were issued, vested and settled upon the satisfaction of the RSUs vesting conditions. An amount of \$0.1 was recognized on the notional dividends as share-based compensation with a corresponding increase in the share capital account.

There are 23,000 of the remaining RSUs that will vest in the first quarter of 2018. For the three month period ended March 31, 2017, no new RSUs were granted by the Company to its executives and senior management.

The RSU activity for the three month period ended March 31, 2017 and year ended December 31, 2016 is summarized below:

	Number of RSU's	Fair value \$
Balance at January 1, 2016	108,662	1.5
Granted in the period	29,297	0.8
Share dividend	1,969	-
Share based compensation-Vested and settled	(60,462)	(0.7)
Share based compensation-Unvested and amortized	-	(1.1)
Balance at December 31, 2016	79,466	0.5
Share dividend	1,439	0.1
Share based compensation-Vested and settled	(57,905)	(0.3)
Share based compensation-Unvested and amortized	-	(0.1)
Balance at March 31, 2017	23,000	0.2

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During the three month period ended March 31, 2017, the total share based compensation expense of \$0.3 related to settled and unvested RSUs was included in the consolidated statements of earnings and comprehensive income (March 31, 2016 –\$0.9). Unrecognized share-based compensation expense as at March 31, 2017 related to these RSUs was \$0.2 (March 31, 2016 – \$1.4) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

Options:

The Options activity during the three month period ended March 31, 2017 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in \$
Balance as at January 1, 2017	452,805	\$27.86
Exercised during the period	(89,424)	26.13
Balance as at March 31, 2017	363,381	\$28.29
Vested & exercisable at March 31, 2017	225,259	\$29.65
Unvested at March 31, 2017	138,122	\$26.07

As at March 31, 2017 there were a total of 225,259 vested Options and the weighted average contractual life remaining of the outstanding Options, both vested and non-vested, is 2.9 years.

During the period ending March 31, 2017, 31,728 Options granted on Jun 15, 2015 and 57,696 Options granted on March 28, 2016 were exercised by certain executives when the volume weighted average price per share was \$46.19. The numbers of shares issued were determined based upon the intrinsic value of the Options on the exercise date of \$1.5 that was determined based on the market value of the shares in excess of the Options exercise price. A total of 38,836 shares were issued to the executives and the amount of \$0.4 was transferred to the share capital account. The Company also recognized an expense for the three month period ended March 31, 2017 of \$0.3 (for the three month period ended March 31, 2016 –\$0.2) in respect of the amortization of the Options over the vesting period. The unrecognized value as at March 31, 2017 related to the Options was \$0.6 (March 31, 2016 – \$1.6) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

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Weighted average assumptions

	November 17, 2016	March 28, 2016	June 15, 2015
	Series 3	Series 2	Series 1
Exercise price redemption	\$47.22	\$26.50	\$25.47
Expected volatility	32.96%	32.4%	22.6%
Option life in years	3	5	5
Dividend yield	1.41%	2.5%	2.4%
Risk free rate	1.75%	0.63%	0.94%
Vesting period	immediate	2016-2018	2016-2018
Options granted	38,440	241,966	172,399
Options outstanding	38,440	184,270	140,671
Fair value per option on grant date	\$10.41	\$5.43	\$4.98

There has been no alteration of the terms and conditions of the above share based payment arrangements since the grant date.

15. FINANCIAL INSTRUMENTS

Derivative financial instruments

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

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

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

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Total return swap

The Company had an obligation to pay share-based additional fees under the MLA and Aircraft facility arrangement. 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 pays interest to the financial institution based on Canadian LIBOR on 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.

The total return swap is pending settlement as at March 31, 2017. The fair market value of the swap was \$3.8 in favour of the Company (December 31, 2016 - \$5.3) and is included under derivative financial instruments on the balance sheet and the change during the three month period ended March 31, 2017 of \$0.3 (March 31, 2016 - \$nil) is included as other gains in the condensed consolidated interim statements of earnings and comprehensive income. Total return swap of \$1.8 was settled during the three month period ended March 31, 2017.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the Black Scholes model. This model uses the following inputs: market price of the underlying asset, strike price of the underlying asset, risk free rate, dividend yield and expected volatility. An increase or decrease of 10% in the market price of the underlying asset will result in a gain or loss of \$0.8 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

The Company's Controller performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. The Controller reports directly to the Company's Chief Financial Officer ("CFO") who in turn reports to the Company's Audit Committee ("AC"). Discussions of valuation processes and results are held between the CFO, AC and Controller at least once every three months, in line with the Company's quarterly reporting period.

Fair Values

The fair value of the 5.5% convertible debentures, based on discounted cash flows as at March 31, 2017, was approximately \$76.6 (December 31, 2016 - \$76.0). The fair value of the 4.65% convertible debentures as at March 31, 2017, was approximately \$123.5 (December 31, 2016 - \$125.0). The fair values of the debentures were determined using the discounted cash flow method using the discount rate of 6.75%. The discount rate is determined by using the government of Canada's bench mark bond rate adjusted for the Company's specific credit risk. The fair value of the long-term debt as disclosed in Note 4 was approximately equal to its carrying value. The debts are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in discount rate used for valuation of the debentures will decrease or increase the fair value by \$4.0 respectively.

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The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items. The fair values of the interest rate swap and the forward contracts are the estimated amounts the issuer would receive or pay to terminate the agreement at the reporting date. Unrealized gains on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in the condensed consolidated interim balance sheets.

As at March 31, 2017, the Company had foreign exchange forward contracts outstanding to buy US \$20.7 at a weighted average contracted rate of CAD \$1.3351 per US dollar (December 31, 2016 – US\$ 59.9 at a weighted average contracted rate of CAD \$1.3045 per US dollar). The estimated value of the foreign exchange forward contracts as at March 31, 2017 is a payable of \$0.2 (December 31, 2016 – receivable of \$1.5) and is included under derivative financial instruments on the balance sheet. Foreign exchange contracts of \$30.7 were settled during the three months ended March 31, 2017 resulting in a gain of \$1.0.

The fair values of the forward contracts are the estimated amounts the issuer would receive or pay to terminate the agreement at the reporting date. The forward contracts are categorized as Level 2 under the fair value hierarchy. The fair value of the forward contracts is determined using the observable foreign exchange rate at the balance sheet date. Unrealized gains on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in the consolidated financial statements.

There are no other assets or liabilities recorded at fair value as at March 31, 2017 and December 31, 2016.

16. SUBSEQUENT EVENTS

On April 7, 2017, the Company amended its revolving operating credit facility (the “facility”) availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) by, amongst other things, increasing the maximum revolving credit available from \$175 to \$200 and established a non-revolving \$75 delayed-draw term loan facility (the “DDTL Facility”). The maturity date of the facility is extended to expire on April 7, 2020 and the maturity date of the DDTL Facility is April 7, 2022. The Company can draw the amount under the DDTL Facility until April 06, 2018 known as the availability period. Any undrawn amount under the DDLT Facility at the end of this period will expire and will reduce the amount under the facility. The DDTL Facility can be used to purchase aircraft, refinancing aircraft loans, termination payment of aircraft capital leases and other capital expenditures. As of date, the Company has drawn an amount of \$30 under the DDTL facility. Any advance under the DDTL Facility is repayable by an equal monthly payment based on the amount of the advance and a straight line amortization from the borrowing date to the DDLT Facility maturity date.

On May 10, 2017 the Board of Directors of the Company authorized the redemption of all of the outstanding 5.5% convertible debentures on July 5, 2017, by issuing that number of voting shares of the Company to be obtained by dividing the outstanding principal amount of the 5.5% 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 5.5% debentures.