

Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three and six month periods ended June 30, 2016 and
2015

(unaudited – expressed in millions of Canadian Dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at June 30, 2016 and December 31, 2015

(unaudited, in millions of Canadian dollars)

| | Note | June 30, 2016 | December 31, 2015 |
|-------------------------------------|------|------------------|----------------------|
| | | \$ | \$ |
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash | | 0.3 | 6.0 |
| Trade and other receivables | | 20.1 | 28.8 |
| Inventories | | 0.9 | 0.8 |
| Prepaid expenses and deposits | | 3.8 | 4.7 |
| Income taxes receivable | | 0.1 | 0.1 |
| Current portion of notes receivable | | - | 0.2 |
| | | 25.2 | 40.6 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 3 | 378.7 | 357.2 |
| Goodwill | 4 | 46.4 | 46.4 |
| Intangible assets | 4 | 2.0 | 2.0 |
| Deposits | | 3.8 | 4.5 |
| | | 456.1 | 450.7 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | | 22.0 | 27.0 |
| Dividends payable | | 1.6 | 1.5 |
| Borrowings | 5 | 6.7 | 4.0 |
| Finance leases | 6 | 14.7 | 13.4 |
| | | 45.0 | 45.9 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 5 | 144.2 | 133.5 |
| Finance leases | 6 | 125.9 | 140.2 |
| Provisions | 7 | 2.3 | 2.4 |
| Convertible debentures | 8 | 67.7 | 71.1 |
| Deferred income taxes | 9 | 5.0 | 2.8 |
| | | 390.1 | 395.9 |
| EQUITY | | | |
| | | 66.0 | 54.8 |
| | | 456.1 | 450.7 |

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

CARGOJET INC.

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

Three and six month periods ended June 30, 2016 and 2015

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

| | | Three months ended | | Six months ended | |
|---|------|--------------------|----------|------------------|----------|
| | Note | June 30, | June 30, | June 30, | June 30, |
| | | 2016 | 2015 | 2016 | 2015 |
| | | \$ | \$ | \$ | \$ |
| REVENUES | | 79.3 | 75.2 | 156.2 | 129.3 |
| DIRECT EXPENSES | 10 | 58.4 | 67.9 | 118.7 | 121.0 |
| | | 20.9 | 7.3 | 37.5 | 8.3 |
| General and administrative expenses | 11 | 8.2 | 8.7 | 16.5 | 16.2 |
| Sales and marketing expenses | | 0.7 | 0.3 | 1.2 | 0.6 |
| Net finance costs | | 7.9 | 5.9 | 15.8 | 10.1 |
| Other (gains) losses | 12 | (0.5) | 0.3 | (6.5) | 0.5 |
| | | 16.3 | 15.2 | 27.0 | 27.4 |
| EARNINGS (LOSS) BEFORE INCOME TAXES | | 4.6 | (7.9) | 10.5 | (19.1) |
| PROVISION (RECOVERY) OF INCOME TAXES | 9 | | | | |
| Deferred | | 0.8 | (1.8) | 2.3 | (4.7) |
| NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) | | 3.8 | (6.1) | 8.2 | (14.4) |
| EARNINGS (LOSS) PER SHARE | 14 | | | | |
| - Basic | | \$0.36 | \$(0.64) | \$0.80 | \$(1.54) |
| - Diluted | | \$0.36 | \$(0.64) | \$0.78 | \$(1.54) |

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity Six month periods ended June 30, 2016 and 2015

(unaudited, in millions of Canadian dollars)

| | Note | Shareholders' capital | Share-based compensation reserve | Conversion option | Reserve for surplus on debenture repurchases | Deficit | Total shareholders' equity |
|---|-------|--------------------------|--|----------------------|---|---------------|----------------------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, January 1, 2016 | | 91.3 | 1.9 | 5.2 | 2.8 | (46.4) | 54.8 |
| Net income and comprehensive income | | - | - | - | - | 8.2 | 8.2 |
| Treasury shares - net | 13 | 0.2 | - | - | - | - | 0.2 |
| Share-based compensation | 13,15 | 0.3 | (0.1) | - | - | - | 0.2 |
| Restricted shares vested | 13,15 | 1.3 | - | - | - | - | 1.3 |
| Deferred tax on conversion option - net | | - | - | - | - | 0.1 | 0.1 |
| Convertible debenture - conversion | 8,13 | 4.3 | - | (0.3) | 0.3 | - | 4.3 |
| Dividends | 13 | - | - | - | - | (3.1) | (3.1) |
| Balance, June 30, 2016 | | 97.4 | 1.8 | 4.9 | 3.1 | (41.2) | 66.0 |
| Balance, January 1, 2015 | | 79.8 | 0.5 | 5.8 | 2.2 | (22.8) | 65.5 |
| Net loss and comprehensive loss | | - | - | - | - | (14.4) | (14.4) |
| Treasury shares - net | | 0.4 | - | - | - | - | 0.4 |
| Share-based compensation | | 1.2 | (0.1) | - | - | - | 1.1 |
| Deferred tax on conversion option - net | | - | - | - | - | 0.1 | 0.1 |
| Convertible debenture - conversion | 8 | 3.8 | - | (0.3) | 0.3 | - | 3.8 |
| Dividends | 13 | - | - | - | - | (2.8) | (2.8) |
| Balance, June 30, 2015 | | 85.2 | 0.4 | 5.5 | 2.5 | (39.9) | 53.7 |

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows Six month periods ended June 30, 2016 and 2015

(unaudited, in millions of Canadian dollars)

| | Note | Six months ended June 30, | |
|---|------|------------------------------|---------------|
| | | 2016 | 2015 |
| | | \$ | \$ |
| CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES | | | |
| Net Income (loss) | | 8.2 | (14.4) |
| Depreciation of property, plant and equipment | 3 | 20.1 | 14.3 |
| Share-based compensation | 15 | 1.7 | 1.6 |
| Finance costs | | 15.8 | 10.1 |
| Income tax provision (recovery) | 9 | 2.3 | (4.7) |
| Unrealized foreign exchange (gains) losses | | (6.2) | 1.0 |
| Other non cash operating (income) expenses | | (0.3) | 0.6 |
| | | 41.6 | 8.5 |
| Items affecting cash | | | |
| Interest paid | | (14.6) | (9.2) |
| | | 27.0 | (0.7) |
| Changes in non-cash working capital items and deposits | | | |
| Trade and other receivables | | 5.6 | (5.3) |
| Inventories | | (0.1) | (0.2) |
| Prepaid expenses and deposits | | 1.6 | 2.0 |
| Trade and other payables | | (5.6) | 3.3 |
| NET CASH FROM (USED IN) OPERATING ACTIVITIES | | 28.5 | (0.9) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of borrowings | | (16.1) | (0.2) |
| Proceeds from borrowings | | 38.0 | 77.7 |
| Repayment of obligations under finance leases | | (11.7) | (5.1) |
| Dividends paid to shareholders | 13 | (3.0) | (2.8) |
| NET CASH FROM FINANCING ACTIVITIES | | 7.2 | 69.6 |
| CASH FLOWS USED IN INVESTING ACTIVITIES | | | |
| Payments for property, plant and equipment | 3 | (41.6) | (68.1) |
| Proceeds from disposal of property, plant and equipment | | - | 0.1 |
| Acquisition of business | 4 | - | (1.0) |
| Collections of notes receivable | | 0.2 | 0.2 |
| Collections of finance lease receivable | | - | 0.1 |
| NET CASH USED IN INVESTING ACTIVITIES | | (41.4) | (68.7) |
| NET CHANGE IN CASH | | (5.7) | - |
| CASH, BEGINNING OF PERIOD | | 6.0 | - |
| CASH, END OF PERIOD | | 0.3 | - |

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2016 and 2015

(unaudited – in millions of Canadian Dollars except where noted)

1. BASIS OF PREPARATION

These 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”).

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”) and Cargojet Partnership (“CJP”).

All intra-company balances and transactions are eliminated in full upon 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, 2015.

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, 2015.

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.

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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.

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited – in millions of Canadian Dollars except where noted)

2. 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 August 15, 2016.

3. PROPERTY, PLANT AND EQUIPMENT

| Cost | Balance as at | Additions | Transfers | Disposals | Balance as at |
|---|--------------------|-------------|-----------|-----------|------------------|
| | January 1, 2016 | | | | June 30, 2016 |
| | \$ | \$ | \$ | \$ | \$ |
| Aircraft hull | 200.1 | 21.6 | 5.1 | - | 226.8 |
| Engines | 100.6 | 10.4 | 2.6 | - | 113.6 |
| Spare parts | 2.6 | 0.2 | - | - | 2.8 |
| Ground equipment | 20.2 | 0.2 | - | - | 20.4 |
| Rotable spares | 23.7 | 1.8 | - | - | 25.5 |
| Computer hardware and software | 7.6 | 0.7 | - | - | 8.3 |
| Furniture and fixtures | 2.3 | - | - | - | 2.3 |
| Leasehold improvements | 10.9 | - | 0.3 | - | 11.2 |
| Vehicles | 2.7 | - | - | - | 2.7 |
| Hangar and cross-dock facilities | 23.8 | - | - | - | 23.8 |
| Property, plant and equipment under development | 17.1 | 1.0 | (8.6) | - | 9.5 |
| Deferred heavy maintenance | 35.2 | 5.7 | 0.6 | - | 41.5 |
| | <u>446.8</u> | <u>41.6</u> | <u>-</u> | <u>-</u> | <u>488.4</u> |

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June 30, 2016 and 2015

(unaudited – in millions of Canadian Dollars except where noted)

| Accumulated Depreciation | Balance as at January 1, 2016 | Depreciation | Balance as at June 30, 2016 | Net Book Value June 30, 2016 |
|--|----------------------------------|--------------|--------------------------------|---------------------------------|
| | \$ | \$ | \$ | \$ |
| Aircraft hull | 16.3 | 7.0 | 23.3 | 203.5 |
| Engines | 20.8 | 6.0 | 26.8 | 86.8 |
| Spare parts | - | - | - | 2.8 |
| Ground equipment | 7.8 | 1.1 | 8.9 | 11.5 |
| Rotable spares | 10.9 | 0.9 | 11.8 | 13.7 |
| Computer hardware and software | 4.7 | 0.4 | 5.1 | 3.2 |
| Furniture and fixtures | 1.1 | 0.1 | 1.2 | 1.1 |
| Leasehold improvements | 7.6 | 0.6 | 8.2 | 3.0 |
| Vehicles | 1.0 | 0.1 | 1.1 | 1.6 |
| Hangar and cross-dock facilities | 5.3 | 0.4 | 5.7 | 18.1 |
| Property, plant and equipment under development | - | - | - | 9.5 |
| Deferred heavy maintenance | 14.1 | 3.5 | 17.6 | 23.9 |
| | 89.6 | 20.1 | 109.7 | 378.7 |

| Cost | Balance as at January 1, 2015 | Additions | Transfers | Disposals | Balance as at December 31, 2015 |
|--|-------------------------------------|-----------|-----------|-----------|---------------------------------------|
| | \$ | \$ | \$ | \$ | \$ |
| Aircraft hull | 87.1 | 93.5 | 19.6 | (0.1) | 200.1 |
| Engines | 51.8 | 37.8 | 11.0 | - | 100.6 |
| Spare parts | 1.9 | 0.7 | - | - | 2.6 |
| Ground equipment | 11.6 | 8.6 | - | - | 20.2 |
| Rotable spares | 18.5 | 5.5 | - | (0.3) | 23.7 |
| Computer hardware and software | 6.2 | 1.4 | - | - | 7.6 |
| Furniture and fixtures | 1.6 | 0.7 | - | - | 2.3 |
| Leasehold improvements | 10.0 | 0.9 | - | - | 10.9 |
| Vehicles | 2.2 | 0.5 | - | - | 2.7 |
| Hangar facility | 16.6 | 8.2 | - | (1.0) | 23.8 |
| Property, plant and equipment under development | 35.3 | 13.6 | (31.8) | - | 17.1 |
| Deferred heavy maintenance | 18.1 | 15.9 | 1.2 | - | 35.2 |
| | 260.9 | 187.3 | - | (1.4) | 446.8 |

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Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited – in millions of Canadian Dollars except where noted)

| Accumulated Depreciation | Balance as at January 1, 2015 | | Disposals / Transfers | Balance as at December 31, 2015 | Net Book Value December 31, 2015 |
|--|-------------------------------------|-------------|--------------------------|---------------------------------------|---|
| | \$ | \$ | \$ | \$ | \$ |
| Aircraft hull | 7.8 | 8.6 | (0.1) | 16.3 | 183.8 |
| Engines | 11.3 | 9.5 | - | 20.8 | 79.8 |
| Spare parts | - | - | - | - | 2.6 |
| Ground equipment | 6.2 | 1.6 | - | 7.8 | 12.4 |
| Rotable spares | 8.9 | 2.0 | - | 10.9 | 12.8 |
| Computer hardware and Furniture and fixtures | 4.0 | 0.7 | - | 4.7 | 2.9 |
| Leasehold improvements | 0.9 | 0.2 | - | 1.1 | 1.2 |
| Vehicles | 5.1 | 2.5 | - | 7.6 | 3.3 |
| Hangar facility | 0.7 | 0.3 | - | 1.0 | 1.7 |
| Property, plant and equipment under development | 5.0 | 0.7 | (0.4) | 5.3 | 18.5 |
| Deferred heavy maintenance | - | - | - | - | 17.1 |
| | 7.1 | 7.0 | - | 14.1 | 21.1 |
| | <u>57.0</u> | <u>33.1</u> | <u>(0.5)</u> | <u>89.6</u> | <u>357.2</u> |

Property, plant and equipment under development of \$9.5 (2015- \$17.1) relates to the purchase and/or modification primarily of aircraft that are not yet available for use.

During the six month period ended June 30, 2016, the Company completed the acquisition of one Boeing 767-300 aircraft under the Aircraft facility arrangement as disclosed in Note 5.

For the six month period ended June 30, 2016, no interest costs were capitalized to property, plant and equipment under development relating to funds borrowed specifically to acquire and/or modify certain assets. For the six month period ended June 30, 2015, \$1.2 of interest costs were capitalized to property, plant and equipment under development that includes paid interest of \$0.9 and accretion of \$0.3 relating to funds borrowed specifically to acquire and/or modify certain assets

For the six month period ended June 30, 2016, the Company also capitalized the fair value of cash settled share based payment arrangements related to specific aircraft finance leases of \$nil (2015 - \$0.5) to the qualifying assets.

Depreciation expense on property, plant and equipment for the three and six month periods ended June 30, 2016 totaled \$10.5 and \$20.1 (2015 - \$8.3 and \$14.3 respectively).

4. BUSINESS COMBINATION

On January 30, 2015, the Company acquired all of the outstanding shares of ACE Air Charter Inc. ("ACE"), thus obtaining control. Cash consideration paid for the acquisition was \$1.0. The Company determined that the transaction represented a business combination with the Company being identified as the acquirer. The Company accounted for the combination under the acquisition method.

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The Company acquired intangibles assets comprised of an air operator certificate and certain licenses. The Company recognized goodwill on this acquisition because of the recognition of a deferred tax liability for the difference between the assigned values and the tax base of the license acquired. The Company's purchase price allocation for the acquisition was as follows:

| | \$ |
|------------------------|-------|
| Goodwill | 0.3 |
| License | 1.0 |
| Deferred tax liability | (0.3) |
| Consideration paid | 1.0 |

5. BORROWINGS

Borrowings consist of the following:

| | June 30, 2016 | December 31, 2015 |
|-------------------------------|------------------|----------------------|
| | \$ | \$ |
| Revolving credit facility | 28.6 | 41.2 |
| Aircraft facility arrangement | 122.1 | 96.1 |
| Other borrowings | 0.2 | 0.2 |
| | 150.9 | 137.5 |
| Less current portion | 6.7 | 4.0 |
| Long-term portion | 144.2 | 133.5 |

Revolving credit 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 facility. The facility is to a maximum of \$100 and allows for an increase of \$25 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.

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;

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- security over B727 aircraft owned by the Company; and
- assignment of insurance proceeds.

Advances under the facility are repayable without any prepayment penalties and bear interest based on the prevailing prime rate, U.S. 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. 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 June 30, 2016.

Included in the statement of Income (loss) and comprehensive Income (loss) for the three and six month periods ended June 30, 2016 was interest expense on the revolving credit facility of \$0.8 and \$1.7 respectively (2015 - \$1.7 and \$2.4 respectively).

Aircraft facility and loan arrangements

In 2014, the Company executed two Aircraft Facility Agreements ("AFAs") with a Canadian equipment finance and leasing company for \$25.0 in total available in a non-revolving credit facility to refinance the acquisition of two Boeing 757-200 aircraft. This facility matures in January 2022 and is secured by a transfer of right, title and interest of ownership of the aircraft and all its components and records. Each loan under the AFAs is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate for the facility is 8.04%.

Under the terms of 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 60,000 Cargojet common voting shares on the TSX on the date of the AFAs and the twenty day volume weighted average closing price for such shares as of the date preceding the date on which the lender 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.

Until the day the right is exercised by the lender, the Company continues to re-measure its liability at the end of each reporting period using the Black-Scholes option pricing model with changes in the liability being recorded in the statement of income (loss) and comprehensive income (loss). Accordingly, during the six month period ending June 30, 2016, an amount of \$0.6 (2015-\$0.5) was recorded under the current portion of borrowings and a net unrealized loss of \$0.2 (2015-\$nil) was recognized as other losses on the re-measurement of the share based additional fees.

The AFAs are subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at June 30, 2016.

In March 2015, the Company executed a loan facility 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 expires in April 2022 and is secured by the related aircraft and all its components and records. The estimated effective interest rate for this facility is 8.52%.

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In May 2015, the Company secured a loan facility of USD \$55.0 with another US based lender to acquire additional Boeing 767-300 aircraft. In September 2015, the Company drew down USD \$27.5 under this loan facility to finance the acquisition of one Boeing 767-300 aircraft. The term of this loan expires in September 2022. The estimated effective interest rate for the facility is 10.15%. In January 2016, the Company drew down the balance of USD \$27.5 to finance the acquisition of a second Boeing 767-300 aircraft. The term of this second loan expires in December 2022. The estimated effective interest rate for the second facility is 10.31%. Under the terms of this facility, each loan will be secured by the purchased aircraft and all of their components and records.

The Company has paid success fees in the amounts equal to 1.5% of the amounts advanced under the AFAs and other aircraft loan arrangements to an independent investment banking firm for its services towards completion of these transactions.

The following is a schedule of future minimum annual payments under the AFAs and other aircraft loan arrangements together with the balance of the obligations as at June 30, 2016.

| | \$ |
|---|-------|
| 2016 | 2.7 |
| 2017 | 8.4 |
| 2018 | 10.4 |
| 2019 | 12.3 |
| 2020 | 11.6 |
| Thereafter | 76.1 |
| Obligations under AFAs and other aircraft loan arrangements | 121.5 |
| Fair value of cash settled share based payment arrangement | 0.6 |
| Total obligations under AFA and loan agreements | 122.1 |
| Less current portion | 6.7 |
| Long-term portion | 115.4 |

Interest expense on the AFA and loan arrangements for the three and six month periods ended June 30, 2016 totaled \$2.9 and \$5.7 respectively (2015 - \$1.1 and \$1.7 respectively).

6. FINANCE LEASES

In 2014, the Company entered into a Master Capital Lease Agreement (“MLA”) with an equipment finance and leasing company. As of 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 were 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 effective interest rate is 7.26%. The leases under the MLA are guaranteed by the Company and its subsidiaries.

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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 may be 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 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 Company has also paid success fees in the 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.

Until the day the right is exercised by the lessor, the Company continues to re-measure its liability at the end of each reporting period using the Black-Scholes option pricing model with changes in the liability being recorded in the statement of income (loss) and comprehensive income (loss). Accordingly, an amount of \$2.6 (2015-\$1.9) was recognized under the current portion of finance lease obligations and a net unrealized loss of \$1.0 (2015-\$nil) was recognized as other losses on the re-measurement of the share based additional fees.

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at June 30, 2016.

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 expires on March 2021 and the Company can exercise the bargain purchase option in March 2018.

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 June 30, 2016.

| | Minimum lease payments | Present value of minimum lease payments |
|--|---------------------------|--|
| | \$ | \$ |
| Not later than one year | 21.8 | 12.2 |
| Later than one year and not later than five years | 147.9 | 125.9 |
| | 169.7 | 138.1 |
| Less: interest | 31.6 | - |
| Obligations under finance leases | 138.1 | 138.1 |
| Fair value of cash settled share based payment arrangement | 2.5 | 2.5 |
| Total obligations under finance leases | 140.6 | 140.6 |
| Less: current portion | 14.7 | 14.7 |
| Non-current portion | 125.9 | 125.9 |

Interest amount on the finance leases for the three and six months periods ended June 30, 2016 totaled \$2.5 and \$5.2 respectively (2015 -\$2.8 and \$5.2 respectively) of which \$nil (2015 - \$0.3) was capitalized to the cost of property, plant and equipment.

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7. PROVISIONS

The Company's aircraft operating lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The Company has estimated that it will incur certain maintenance costs at the end of the lease terms and has recorded a maintenance provision liability for these costs. The change in the carrying amount of the provision is due to the revision of timing of future cash outflow of one underlying asset and settlement of the obligation of second underlying asset. A reconciliation of the carrying amount of the provision is as follows:

| | June 30 2016 | December 31, 2015 |
|---|-----------------|----------------------|
| | \$ | \$ |
| Balance, beginning of period | 2.4 | 3.0 |
| Derecognition of provision for lease return conditions | - | (0.9) |
| Settlement of provision for lease return conditions | - | (0.3) |
| Accretion | 0.1 | - |
| Effects of exchange rate changes on the provision balance | (0.2) | 0.6 |
| Balance, end of period | 2.3 | 2.4 |
| Non-current portion | 2.3 | 2.4 |

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company specific history. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

8. CONVERTIBLE DEBENTURES

The balances of convertible debentures at June 30, 2016 and December 31, 2015 consists of the following

| | June 30, 2016 | December 31, 2015 |
|-------------------------------|------------------|----------------------|
| | \$ | \$ |
| Convertible Debentures - 6.5% | - | 4.2 |
| Convertible Debentures - 5.5% | 67.7 | 66.9 |
| Balance | 67.7 | 71.1 |

Convertible Debentures – 6.5% due April 30, 2017

In March 2012, \$28.8 of unsecured subordinated convertible debentures were issued with a term of five years. These debentures bear a fixed interest rate of 6.5% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing April 30, 2012.

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During the six month period ended June 30, 2016, convertible debentures with an aggregate principal amount of \$4.4 (2015 - \$4.0) were converted, at the holders' discretion, into 366,730 (2015 – 342,037) voting shares of the Company. Accordingly, the Company derecognized \$4.3 (2015 - \$3.8) 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 of \$0.3 (2015 - \$0.3) was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the statement of changes in equity. No gain or loss was recognized upon conversion of the debentures.

The balances of convertible debentures at June 30, 2016 and December 31, 2015 consists of the following :

| | June 30, 2016 | December 31, 2015 |
|--------------------------------|------------------|----------------------|
| | \$ | \$ |
| Principal balance | - | 4.4 |
| Less: | | |
| Issuance costs | - | (0.2) |
| Conversion option at inception | - | (0.4) |
| Accretion | - | 0.4 |
| Balance | - | 4.2 |

Interest expense on the debentures for the three and six month periods ended June 30, 2016 totaled \$0.1 and \$0.2 respectively (2015 - \$0.3 and \$0.6 respectively).

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 \$0.2 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 \$0.2 of the outstanding 6.5% Debentures were redeemed by issuing 8,184 common voting shares of the Company and paying accrued and unpaid interest in cash to the holders thereof.

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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The debt component is measured at amortized cost. The balance of the debt component as at June 30, 2016 and December 31, 2015 consists of the following:

| | June 30, 2016 | December 31, 2015 |
|--------------------------------|------------------|----------------------|
| Principal balance | \$ 74.0 | \$ 74.0 |
| Less: | | |
| Issuance costs | (3.3) | (3.3) |
| Conversion option at inception | (6.6) | (6.6) |
| Accretion | 3.6 | 2.8 |
| Balance | 67.7 | 66.9 |

Interest expense on the debentures for the three and six month periods ended June 30, 2016 totaled \$1.5 and \$2.9 respectively (2015 - \$1.4 and 2.9 respectively). For the six month period ended June 30, 2016 interest amount of \$nil (2015 – \$0.9) was capitalized to the cost of property, plant and equipment.

9. INCOME TAXES

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

| | Three month periods ended | | Six month periods ended | |
|--|---------------------------|----------|-------------------------|-----------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Income (loss) before income taxes | \$ 4.6 | \$ (7.9) | \$ 10.5 | \$ (19.1) |
| Provision (recovery) of income tax at the combined basic rate of 26.5% (2015 - 26.5%) | 1.2 | (2.1) | 2.8 | (5.1) |
| Permanent and other differences | (0.4) | 0.3 | (0.5) | 0.4 |
| Provision (recovery) of income tax | 0.8 | (1.8) | 2.3 | (4.7) |

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The tax effect of significant temporary differences is as follows:

| | As at | |
|--------------------------------------|------------------|----------------------|
| | June 30, 2016 | December 31, 2015 |
| | \$ | \$ |
| Property, plant and equipment | 12.1 | 4.1 |
| Operating loss carryforward | (12.0) | (8.2) |
| Licenses | 0.3 | 0.3 |
| Intangible assets | (0.5) | (0.5) |
| Derivative contracts | (1.5) | 1.3 |
| Financing costs | (0.2) | (0.3) |
| Convertible debentures | 1.1 | 1.3 |
| Provision for lease retirement costs | (0.5) | (0.5) |
| Unrealized capital loss | - | (0.1) |
| Deferred heavy maintenance | 6.2 | 5.4 |
| Net deferred income tax liability | 5.0 | 2.8 |

The Company acquired all of the outstanding shares of ACE as disclosed in Note 4 and recognized a deferred tax liability for the difference between the assigned values and the tax base of the license acquired.

10. DIRECT EXPENSES

| | Three month periods ended | | Six month periods ended | |
|--------------------------------|---------------------------|------|-------------------------|-------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Fuel costs | 13.7 | 19.9 | 26.4 | 32.4 |
| Maintenance costs | 5.6 | 5.2 | 11.0 | 10.8 |
| Heavy maintenance amortization | 1.7 | 1.7 | 3.5 | 3.0 |
| Aircraft costs | 5.5 | 10.2 | 13.9 | 19.4 |
| Crew costs | 5.3 | 5.8 | 11.1 | 10.7 |
| Depreciation | 8.5 | 6.4 | 16.1 | 10.9 |
| Commercial and other costs | 18.1 | 18.7 | 36.7 | 33.8 |
| Direct expenses | 58.4 | 67.9 | 118.7 | 121.0 |

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11. GENERAL AND ADMINISTRATIVE EXPENSES

| | Three month periods ended | | Six month periods ended | |
|---|---------------------------|------|-------------------------|------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Salaries and benefits | 4.8 | 4.5 | 9.4 | 8.9 |
| Depreciation | 0.2 | 0.2 | 0.5 | 0.4 |
| Net Realized foreign exchange loss (gain) | 0.1 | 0.3 | (0.3) | 1.0 |
| Bonuses and incentives | 0.6 | 1.4 | 1.7 | 1.5 |
| Audit, legal and consulting | 0.3 | 0.4 | 0.7 | 0.7 |
| IT network and communications | 0.6 | 0.4 | 1.2 | 0.9 |
| Other general and administrative expenses | 1.6 | 1.5 | 3.3 | 2.8 |
| General and administrative expenses | 8.2 | 8.7 | 16.5 | 16.2 |

12. OTHER (GAINS) LOSSES

Other (gains) losses consist of the following:

| | Three month periods ended | | Six month periods ended | |
|--|---------------------------|-------|-------------------------|-------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| | \$ | \$ | \$ | \$ |
| Gain on disposal of property, plant and equipment | - | (0.4) | - | (0.5) |
| Net loss on forward foreign exchange contracts | 0.1 | 1.1 | 5.5 | 1.8 |
| Loss (gain) on cash settled share based payment arrangements | 0.1 | 0.1 | (0.3) | - |
| Unrealized foreign exchange (gain) loss others | (0.1) | 0.3 | (0.3) | - |
| Unrealized foreign exchange gain on leases and loans | (0.6) | (0.8) | (11.4) | (0.8) |
| Other (gains) losses, net | (0.5) | 0.3 | (6.5) | 0.5 |

13. SHAREHOLDERS' CAPITAL

Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2015 to June 30, 2016:

| | Number of shares | Amount |
|--|------------------|--------|
| | | \$ |
| Variable voting shares | 101,164 | 0.9 |
| Common voting shares | 9,997,560 | 90.4 |
| Outstanding December 31, 2015 | 10,098,724 | 91.3 |
| Changes during the period | | |
| Voting shares issued on conversion of convertible debentures | 366,730 | 4.3 |
| Restricted share units settled | 60,462 | 1.6 |
| Distributed in connection with share-based compensation | 9,729 | 0.2 |

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| | | |
|---------------------------|------------|------|
| Outstanding June 30, 2016 | 10,535,645 | 97.4 |
| Consisting of: | | |
| Variable voting shares | 93,572 | 0.9 |
| Common voting shares | 10,442,073 | 96.5 |
| Outstanding June 30, 2016 | 10,535,645 | 97.4 |

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the three and six month periods ended June 30, 2016 amounted to \$1.6 (\$0.1491 per share) and \$3.1 (\$0.2982 per share) respectively and for the three and six month periods ended June 30, 2015 amounted to \$1.4 (\$0.1491 per share) and \$2.8 (\$0.2982 per share) respectively.

14. EARNINGS (LOSS) PER SHARE

The following table shows the computation of basic earnings (loss) per share for the three and six month periods ended June 30, 2016 and 2015:

| | Three month periods ended | | Six month periods ended | |
|---|---------------------------|----------|-------------------------|----------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Basic earnings (loss) per share | | | | |
| Net Income (loss) | \$3.8 | (\$6.1) | \$8.2 | (\$14.4) |
| Weighted average number of shares | 10.5 | 9.5 | 10.3 | 9.4 |
| Dilutive impact of share based awards | 0.2 | - | 0.2 | - |
| Diluted weighted average number of shares | 10.7 | 9.5 | 10.5 | 9.4 |
| Total basic earnings (loss) per share | \$0.36 | (\$0.64) | \$0.80 | (\$1.54) |
| Total diluted earnings (loss) per share | \$0.36 | (\$0.64) | \$0.78 | (\$1.54) |

The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the three and six month periods ended June 30, 2016 and 2015 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 upon the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

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15. 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 to key executives entitled the holder to one common voting share of the Company on the settlement thereof.

During the six month period ended June 30, 2016, in accordance with the RSU Plan, the Company granted 26,690 RSUs 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 in each of the first quarters of 2017 and 2018.

During the six month period ended June 30, 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 net of taxes of \$0.02 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 of tax was remitted by the Company. The transaction is classified as 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 six month period ended June 30, 2016, 47,333 RSUs granted to executives in 2015 vested and were settled and an amount of \$1.3 was transferred to share capital account from contributed surplus. Since inception, in accordance with the RSU Plan, the RSUs granted to executives accrued notional dividend equivalents 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 was recognized as share based compensation.

The RSUs activity for the comparative periods is summarized below:

| RSUs | Six month periods ended June 30, | |
|---|----------------------------------|----------|
| | 2016 | 2015 |
| Balance as at the beginning of the period | 108,662 | - |
| Granted in the period | 28,954 | 153,851 |
| Share dividend | 1,969 | - |
| Settled during the period | (60,462) | (45,189) |
| Outstanding at the end of the period | 79,123 | 108,662 |

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During the three and six month periods ended June 30, 2016, the total share based compensation expenses of \$0.3 and \$1.3, respectively, related to settled and unvested RSUs is included in the condensed consolidated interim statement of income (loss) and comprehensive income (loss) (for the three and six month periods ended June 30, 2015 – \$1.4 and \$1.4, respectively). Unrecognized share based compensation expense as at June 30, 2016 related to these RSUs was \$1.1 (June 30, 2015 – \$2.7) 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 240,292 Options in accordance with the Stock Option Plan at an average exercise price of \$26.50 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 each Option 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 each Option 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 thereof. 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 June 30, 2016 there were a total of 137,563 vested Options and the weighted average contractual life remaining of the outstanding Options, both vested and non-vested, is 4.4 years.

The Options activity during the period ended June 30, 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 | 240,292 | \$26.50 |
| Balance as at June 30, 2016 | 412,691 | \$26.07 |

During the three and six month periods ending June 30, 2016, the Company recognized an expense of \$0.2 and \$0.4 (for the three and six month periods ended June 30, 2015 – \$nil and \$nil, respectively) in respect of the amortization of Options over the vesting period. The unrecognized value as at June 30, 2016 related to the Options was \$1.4 (June 30, 2015 – \$0.8) and will be amortized on a prorated basis in the consolidated statement of income (loss) over the vesting period.

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16. 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 re-measured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in income immediately.

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

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 June 30, 2016, the fair value of the swap was \$2.7 in favour of the Company and the change during the three and six month period of \$1.1 and \$1.8 respectively (for the three and six month periods ended June 30, 2015 – \$nil and \$nil, respectively) 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 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 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.

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Fair values

The fair value of the convertible debentures, based on discounted cash flow as at June 30, 2016, was approximately \$72.0 (December 31, 2015 – \$74.5). The fair value of the long-term debt as disclosed in Note 5 was approximately equal to its carrying value. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items. The fair value of the interest rate swap and the forward contracts are the estimated amount that 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.

At June 30, 2016, the Company had foreign exchange forward contracts outstanding to buy US \$59.0 at a weighted average contracted rate of CAD \$1.2997 per US dollar (December 31, 2015 – US\$ 71.9 at a weighted average contracted rate of CAD \$1.3007 per US dollar). The derivative contracts are recorded at fair market value, which fair value is classified as Level 2 under the fair value hierarchy. The estimated value of the foreign exchange forward contracts as at June 30, 2016 is a liability of \$0.5 (December 31, 2015 – receivable of \$4.9)

There are no other assets or liabilities recorded at fair value as at June 30, 2016 and December 31, 2015.

17. SUBSEQUENT EVENTS

On July 5, 2016, the Company cancelled \$20 of letter of credit issued to the Canada Post Group of Companies (“CPGOC”) under the terms of the Master Service Agreement (“MSA”) after successfully completing the performance conditions specified in the MSA.