CARGOJET INC.

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

For the Three and Six Month Periods Ended June 30, 2017

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three and six month period ended June 30, 2017. The following also includes a discussion of and comparative operating results for the three and six month period ended June 30, 2016.

Cargojet is publicly listed with shares and convertible debentures traded on the Toronto Stock Exchange ("TSX"). The Company is incorporated in Ontario and domiciled in Canada and the registered office is located at 2281 North Sheridan Way, Mississauga, L5K 2S3 Ontario.

The effective date of the MD&A is August 8, 2017. The condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant 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"*).* This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three and six month periods ended June 30, 2017 and 2016 and with audited consolidated financial statements of the Company for the years ended December 31, 2016 and 2015.

All amounts in the MD&A are expressed in Canadian dollars unless otherwise noted.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company (see the MD&A for the three month period and the year ended December 31, 2016 dated March 9, 2017 which was filed with SEDAR at www.sedar.com for a more complete discussion of the risks affecting the Company's business).

Caution Concerning Forward Looking Statements

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the "Risk Factors" section of the MD&A for the three month period and year ended December 31, 2016 dated March 9, 2017 which was filed with SEDAR at www.sedar.com and the Company is not aware of any significant changes to its risk factors from those disclosed at that time.

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

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

- Fleet Overview – Page 5.
- Direct expenses for three month period ended June 30, 2017 – Page 17.
- Off balance sheet arrangements – Page 29.
- Outlook – Page 31.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended June 30,				Six Month Period Ended June 30,			
	2017	2016	Change	%	**2017**	2016	Change	%
Financial information								
Revenues	**$88.2**	$79.3	$8.9	11.2%	**$175.3**	$156.2	$19.1	12.2%
Direct expenses	**$64.9**	$58.4	$6.5	11.1%	**$131.1**	$118.7	$12.4	10.4%
Gross margin	**$23.3**	$20.9	$2.4	11.5%	**$44.2**	$37.5	$6.7	17.9%
Gross margin - %	**26.4%**	26.4%			**25.2%**	24.0%	1.2%	
Selling, general & administrative expenses	**$10.1**	$8.9	$1.2	13.5%	**$20.5**	$17.7	$2.8	15.8%
Net finance costs & other gains and losses	**$7.2**	$7.4	($0.2)	-2.7%	**$13.9**	$9.3	$4.6	49.5%
Earnings before income taxes	**$6.0**	$4.6	$1.4	30.4%	**$9.8**	$10.5	($0.7)	-6.7%
Income taxes	**($1.6)**	($0.8)	($0.8)	100.0%	**($2.8)**	($2.3)	($0.5)	21.7%
Net earning	**$4.4**	$3.8	$0.6	15.8%	**$7.0**	$8.2	($1.2)	-14.6%
Earnings per share - $CAD								
Basic	**$0.40**	$0.36	$0.04	11.1%	**$0.64**	$0.80	($0.16)	-20.0%
Diluted	**$0.39**	$0.36	$0.03	8.3%	**$0.63**	$0.78	($0.15)	-19.2%
EBITDA(1)	**$24.4**	$23.0	$1.4	6.1%	**$45.4**	$46.4	($1.0)	-2.2%
EBITDA margin - %	**27.7%**	29.0%	-1.3%		**25.9%**	29.7%	-3.8%	
Adjusted EBITDA(1)	**$24.6**	$22.5	$2.1	9.3%	**$46.9**	$39.9	$7.0	17.5%
Adjusted EBITDA margin - %	**27.9%**	28.4%	-0.5%		**26.8%**	25.5%	1.3%	
EBITDAR(1)	**$28.1**	$27.4	$0.7	2.6%	**$53.2**	$58.1	($4.9)	-8.4%
EBITDAR margin - %	**31.9%**	34.6%	-2.7%		**30.3%**	37.2%	-6.9%	
Adjusted EBITDAR(1)	**$28.3**	$26.9	$1.4	5.2%	**$54.7**	$51.6	$3.1	6.0%
Adjusted EBITDAR margin - %	**32.1%**	33.9%	-1.8%		**31.2%**	33.0%	-1.8%	
Adjusted Free Cash flow(1)	**$5.6**	$14.4	($8.8)	-61.1%	**$17.8**	$22.7	($4.9)	-21.6%
Operating statistics								
Operating days(2)	**50**	50	-	-	**100**	100	-	-
Average cargo revenue per operating day(3)	**$1.34**	$1.23	$0.11	8.9%	**$1.32**	$1.21	$0.11	9.1%
Block hours	**7,092**	5,909	1,183	20.0%	**14,171**	11,942	2,229	18.7%
Aircraft in operating fleet								
B727-200	**3**	6	(3)		**3**	6	(3)	
B757-200	**6**	5	1		**6**	5	1	
B767-200	**1**	1	-		**1**	1	-	
B767-300	**8**	8	-		**8**	8	-	
Challenger 601	**2**	1	1		**2**	1	1	
	20	**21**	**(1)**	-4.8%	**20**	**21**	**(1)**	-4.8%
Average volume per operating day (lbs.)	**1,145,969**	1,102,472	43,497	3.9%	**1,129,304**	1,093,238	36,066	3.3%
Average head count	838	711	127	17.9%	838	711	127	17.9%

1. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer to page 13 of this MD&A for detailed discussion.
2. Operating days refer to the Company's overnight air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.
3. Average cargo revenue per operating day refers to total overnight, ACMI and charter revenues earned by the Company per operating day.

Corporate Overview

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

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

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

Fleet Overview

Note: See Caution Concerning Forward Looking Statements, page 2.

The table below sets forth the Company's operating fleet as at December 2015, 2016 and June 30, 2017 as well as the Company's planned operating fleet for the year ending December 31, 2017:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service – Actual – December 31, 2015	December 31, 2016	June 30, 2017	Plan – December 31, 2017	Maximum Payload (lbs.)	Range (miles)
B767-300(1)	Finance Lease	23	5	5	5	6	125,000	6,000
B767-300(2)	Owned	23	2	3	3	3	125,000	6,000
B767-200(3)	Operating Lease	31	3	1	1	1	100,000	5,000
B757-200(4)(5)	Owned	29	2	2	3	4	80,000	3,900
B757-200(5)	Finance Lease	29	-	-	1	-	80,000	3,900
B757-200(5)(6)	Operating Lease	27	3	3	2	2	80,000	3,900
B727-200(7)	Owned	37	7	6	3	3	60,000	1,800
Challenger 601(8)	Owned	30	1	2	2	2	6,000	3,300
Total Aircraft			23	22	20	21		

1. Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement ("MLA"). The fifth aircraft was acquired in March 2015 under a lease with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price. Cargojet expects to exercise the purchase option in March 2018 and has recorded the lease as a finance lease. In June 2017 Cargojet executed a letter of intent to purchase one B767-300 aircraft under a lease with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price, this lease agreement is expected to close in Q3 2017.
2. The three B767-300 aircraft in operation at June 30, 2017 are owned by Cargojet. In February 2017 Cargojet executed an agreement to purchase one B767-300 passenger aircraft as feed stock for future freighter conversions. The aircraft has been scheduled for cargo conversion with an expected delivery date in early 2018. This aircraft is not included in the table above.
3. The B767-200 aircraft in operation at June 30, 2017 is under a lease that terminates in June 2018.
4. The three B757-200 aircraft in operation at June 30, 2017 are owned by Cargojet In February 2017 Cargojet executed a letter of intent to purchase two additional B757-200 passenger aircraft as feed stock for future freighter conversions and engine replacements. These aircraft have not been included in the table above. As of June 30, 2017 the Company has taken delivery of one aircraft fuselage and three engines. Two of these engines have been installed on B757-200 currently in operation to replace engines that are due for restoration shop visits. The cost of the two purchased engines has been classified as maintenance capital expenditures. The Company expects to take delivery of the remaining engine and aircraft fuselage in before end of 2017.
5. In Q1 2017 the Company renegotiated the terms of the operating lease of one of the B757-200 aircraft and 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.
6. The leases of the two B757-200 aircraft expire at the end of 2020 and 2022 respectively.
7. Cargojet expects to retire the remaining B727-200 aircraft by the end of 2019 due to regulatory requirements that will prevent the aircraft from being flown in North America.
8. The Company has entered into a charter agreement with a third party to operate and manage two aircraft to provide individual and corporate charter services. Cargojet owns two other aircraft that are not in operation and are being considered for cargo operations.

Recent Events

New Scheduled ACMI Contract

On April 23, 2017 Cargojet began operating a new scheduled ACMI route between Canada and the USA under a 3-year contract. Under this contract, Cargojet operates 6 flights per week with a dedicated B767-300 aircraft. Annual revenues are expected to be approximately $11 million.

Redemption of 5.5% debentures

On May 15, 2017 the Company issued a redemption notice pursuant to the convertible debenture indenture dated April 29, 2014 (the "Indenture") to redeem all of the outstanding debentures issued under the Indenture (the "5.5% Debentures") on July 5, 2017. Pursuant to the Indenture, the Company elected to satisfy its obligation to pay the redemption price of the 5.5% Debentures due at redemption by issuing that number of voting shares of the Company 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. From December 31, 2016 to July 4, 2017, $72.4 million of the outstanding 5.5% Debentures were converted to 2,518,911 common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining $1.4 million of the outstanding 5.5% Debentures were redeemed by issuing 30,788 common voting shares of the Company and paying accrued and unpaid interest in cash to the holders thereof.

Syndicated Operating Facility and Term Loan

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 million to $200 million and established a non-revolving $75 million 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. 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, make termination payments of aircraft capital leases and other capital expenditures. Any advance under the DDTL Facility is repayable in equal monthly payments based on the amount of the advance and a straight line amortization from the borrowing date to the DDLT Facility maturity date. As of the date of the MD&A, the Company has drawn $30 million under the DDTL Facility. The balance outstanding of the date of MD&A is $28.5 million.

New Head Office

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly and beneficially owned by one of the Company's executive officers and directors. (the "Interested Party").The transaction is in the normal course of business and will be measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The lease was negotiated on behalf of the Company by an independent director of the Company after an independent appraisal and review by outside counsel to ensure the lease was on markets terms and appraised by the directors other than the Interested Party. Entering into the lease is not subject to minority shareholder approval nor valuation requirements of Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* as neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the lease, insofar as it involves the Interested Party, does not exceed 25 per cent of the Company's current market capitalization.

The lease term is for a period of 15 years. The annual rental payments will be approximately $1.0 million plus taxes, maintenance and insurance costs. The basic rent is subject to revision every five years at a predetermined rate per the terms of the lease.

Acquisition of Property, Plant and Equipment

During the six month period ended June 30, 2017, the Company completed the acquisition of one B757-200 aircraft and two B757-200 engines and also renegotiated the terms of the operating lease of one of the B757-200 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 a finance lease. 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.

Aircraft Loans

The Company executed a loan agreement on March 31, 2015 with a US based lender for USD $27.5 million to acquire a B767-300 aircraft. The estimated effective annual interest rate for this loan agreement was 8.52%. On February 1, 2017, the Company prepaid the entire outstanding amount in respect of this loan agreement including the prepayment fees using the Company's revolving operating credit facility. The prepayment resulted in a pre-tax loss of $2.3 million including prepayment fees and unamortized costs, which were recorded as a loss on the extinguishment of debt. The settlement also resulted in the pre-tax exchange loss of $1.3 million.

Total Return Swap

The Company had an obligation to pay share-based additional fees under a Master Capital Lease Agreement and Aircraft Loan Facility Agreements with a Canadian equipment leasing and finance Company. 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 fair value of the underlying shares pending settlement as at June 30, 2017 was $2.0 million in favour of the Company and are included under derivative financial instruments on the balance sheet. The net change in the fair value of the swap pending settlement as at June 30, 2017 was $0.5 million and is included as other gains in the consolidated statements of earnings and comprehensive income. Total return swap of $2.0 million and $3.8 million was settled during the three and six month periods ended June 30, 2017.

Foreign Exchange Forward Contracts

As at June 30, 2017, the Company had foreign exchange forward contracts outstanding to buy US $38.3 million at a weighted average contracted rate of CAD $1.3325 per US dollar. The estimated value of the foreign exchange forward contracts as at June 30, 2017 is a payable of $1.3 million and is included under derivative financial instruments on the balance sheet. Foreign exchange contracts of $nil and $30.7 million were settled during the three and six months periods ended June 30, 2017 resulting in a gain of $1.0 million.

Revenues

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

Revenues and shipping volumes from the Company's overnight air cargo service are seasonal. Customer demand is highest in the fourth quarter of each year due primarily to the increase in retail activity during the holiday season in December.

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

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

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

- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends. Adhoc flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:
  - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
  - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 10). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.

- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs. Effective June 10, 2016 the Company commenced all cargo flights under contract between Canada and Colombia, Peru and Mexico with B767-300F aircraft. Starting November 19, 2016 the Company expanded this contract to include one flight per week between Canada and Frankfurt, Germany.

Expenses

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

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

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

Results of Operations and Supplementary Financial Information

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

	Three month period ended June 30,		Six month period ended June 30,	
	2017	2016	**2017**	2016
	(unaudited	(unaudited)	(unaudited	(unaudited)
	$	$	$	$
Revenues	**88.2**	79.3	**175.3**	156.2
Direct expenses	**64.9**	58.4	**131.1**	118.7
	23.3	20.9	**44.2**	37.5
General and administrative expenses	**9.7**	8.2	**19.8**	16.5
Sales and marketing expenses	**0.4**	0.7	**0.7**	1.2
Finance costs	**7.3**	7.9	**13.9**	15.8
Loss on extinguishment of debt	**0.1**	-	**2.3**	-
Other gains	**(0.2)**	(0.5)	**(2.3)**	(6.5)
	17.3	16.3	**34.4**	27.0
EARNINGS BEFORE INCOME TAXES	**6.0**	4.6	**9.8**	10.5
Provision for income taxes				
Deferred	**1.6**	0.8	**2.8**	2.3
Net earnings	**4.4**	3.8	**7.0**	8.2
Earnings per share				
Basic	**$0.40**	$0.36	**$0.64**	$0.80
Diluted	**$0.39**	$0.36	**$0.63**	$0.78
Average number of shares - basic (in thousands of shares)	**11,098**	10,476	**10,890**	10,310
Average number of shares - diluted (in thousands of shares)	**11,321**	10,640	**11,113**	10,474

Summary of Most Recently Completed Consolidated Quarterly Results (unaudited)

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

	Three Month Periods Ended							
	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015
Revenues	$88.2	$87.1	$94.1	$80.7	$79.3	$76.9	$84.3	$75.3
Net earnings (Loss) from continuing operations	$4.4	$2.6	$(1.0)	$(4.8)	$3.8	$4.4	$(1.5)	$(2.2)
Earnings (Loss) per Share								
From continuing operations								
- Basic	$0.40	$0.25	$(0.09)	$(0.46)	$0.36	$0.43	$(0.15)	$(0.22)
- Diluted	$0.39	$0.25	$(0.09)	$(0.46)	$0.36	$0.43	$(0.15)	$(0.22)
Average number of shares - basic (in thousands of shares)	11,098	10,655	10,643	10,540	10,476	10,135	10,094	9,928
Average number of shares - diluted (in thousands of shares)	11,321	10,820	10,643	10,778	10,640	10,135	10,094	9,928

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

Non-GAAP measures like EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are not earning measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers.

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods and improve comparability between other companies including other airlines. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with its debt covenants. Investors are cautioned that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are shown on page 14 of the MD&A.

(A) Please refer to End Note (A) included at the end of this MD&A.
(B) Please refer to End Note (B) included at the end of this MD&A.
(C) Please refer to End Note (C) included at the end of this MD&A.
(D) Please refer to End Note (D) included at the end of this MD&A.
(E) Please refer to End Note (E) included at the end of this MD&A.

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

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2017	2016	**2017**	2016
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net earnings	**4.4**	3.8	**7.0**	8.2
Add:				
Interest	**7.3**	7.9	**13.9**	15.8
Provision of deferred taxes	**1.6**	0.8	**2.8**	2.3
Depreciation of property, plant and equipment	**11.1**	10.5	**21.7**	20.1
EBITDA	**24.4**	23.0	**45.4**	46.4
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**1.0**	-
Gain on derecognition of provision for lease return conditions	**-**	-	**(0.6)**	-
Unrealized foreign exchange gain	**(1.1)**	(0.7)	**(3.0)**	(11.7)
Loss on extinguishment of debt	**0.1**	-	**2.3**	-
Unrealized loss on forward foreign exchange contracts	**1.1**	0.1	**1.8**	5.5
(Gain) loss on cash settled share based payment arrangements and total	**(0.2)**	0.1	**(0.5)**	(0.3)
Employee pension	**0.3**	-	**0.5**	-
Adjusted EBITDA	**24.6**	22.5	**46.9**	39.9
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**24.4**	23.0	**45.4**	46.4
Aircraft rent	**3.7**	4.4	**7.8**	11.7
EBITDAR	**28.1**	27.4	**53.2**	58.1
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**1.0**	-
Gain on derecognition of provision for lease return conditions	**-**	-	**(0.6)**	-
Unrealized foreign exchange gain	**(1.1)**	(0.7)	**(3.0)**	(11.7)
Loss on extinguishment of debt	**0.1**	-	**2.3**	-
Unrealized loss on forward foreign exchange contracts	**1.1**	0.1	**1.8**	5.5
(Gain) loss on cash settled share based payment arrangements and total	**(0.2)**	0.1	**(0.5)**	(0.3)
Employee pension	**0.3**	-	**0.5**	-
Adjusted EBITDAR	**28.3**	26.9	**54.7**	51.6
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES[1]	**18.9**	20.2	**33.7**	34.7
Add : Effects of exchange rate changes	**1.0**	(0.6)	**1.0**	(6.2)
Less: Maintenance capital expenditures[2]	**(14.1)**	(1.4)	**(18.0)**	(4.3)
Standardized free cash flow	**5.8**	18.2	**16.7**	24.2
Changes in non-cash working capital items and deposits	**(0.2)**	(3.8)	**1.1**	(1.5)
Adjusted Free Cash flow	**5.6**	14.4	**17.8**	22.7

1. Proceeds from total return swap & settlement of derivative financial instrument has been reclassed from cash generated from operating activities to cash generated/used in investing activities, accordingly amounts have been restated
2. Refer to the definition of maintenance capital expenditure in End note (E).

Review of Operations for the Three Month Periods ended June 30, 2017 and 2016

Net earnings for the three month periods ended June 30, 2017 and 2016

(Canadian dollars in millions except where indicated)

	Q2		CHANGE	
	2017	2016	$	%
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**52.1**	51.1	1.0	2.0%
ACMI Revenues	**11.4**	7.0	4.4	62.9%
All-in Charter Revenues	**3.3**	3.5	(0.2)	-5.7%
Total overnight, ACMI and charter revenues	**66.8**	61.6	5.2	8.4%
Total Revenue - FBO	**0.2**	0.1	0.1	100.0%
Total fuel and other cost pass through	**20.3**	17.1	3.2	18.7%
Fuel surcharge and other pass through revenues	**20.5**	17.2	3.3	19.2%
Lease and other revenue	**0.9**	0.5	0.4	80.0%
Total revenues	**88.2**	79.3	8.9	11.2%
Operating Days	**50**	50	-	-
Average cargo revenue per operating day	**1.34**	1.23	0.11	8.9%
Direct expenses				
Fuel Costs	**16.6**	13.7	2.9	21.2%
Depreciation	**8.7**	8.5	0.2	2.4%
Aircraft Cost	**5.6**	5.5	0.1	1.8%
Heavy Maintenance Amortization	**2.1**	1.7	0.4	23.5%
Maintenance Cost	**5.9**	5.6	0.3	5.4%
Crew Costs	**6.2**	5.3	0.9	17.0%
Commercial and Other Costs	**19.8**	18.1	1.7	9.4%
Total direct expenses	**64.9**	58.4	6.5	11.1%
Gross margin	**23.3**	20.9	2.4	11.5%
Gross margin %	**26.4%**	26.4%	-	
SG&A & Marketing				
General and Administrative Costs	**9.4**	8.0	1.4	17.5%
Sales costs	**0.4**	0.7	(0.3)	-42.9%
Depreciation	**0.3**	0.2	0.1	50.0%
Total SG&A & Marketing expenses	**10.1**	8.9	1.2	13.5%
Other SG&A				
Other gains and loss on extinguishment of debt	**(0.1)**	(0.5)	0.4	-80.0%
Finance costs	**7.3**	7.9	(0.6)	-7.6%
Total other SG&A	**7.2**	7.4	(0.2)	-2.7%
EARNING BEFORE INCOME TAXES	**6.0**	4.6	1.4	30.4%
Income Taxes-Deferred	**(1.6)**	(0.8)	(0.8)	100.0%
Net EARNING	**4.4**	3.8	0.6	15.8%
Earning per share - $ CAD				
Basic	$0.40	$0.36	$0.04	11.1%
Diluted	$0.39	$0.36	$0.03	8.3%

Highlights for the Three Month Periods ended June 30, 2017 and 2016

- Total revenue for the three month period ended June 30, 2017 was $88.2 million compared to $79.3 million for the same period in 2016, representing an increase of $8.9 million or 11.2%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2017 was $1.34 million per operating day compared to $1.23 million for the same period in 2016, representing an increase of $0.11 million or 8.9%.

- Adjusted EBITDA for the three month period ended June 30, 2017 was $24.6 million compared to $22.5 million for the same period in 2016, an increase of $2.1 million or 9.3%.

- Adjusted EBITDAR for the three month period ended June 30, 2017 was $28.3 million compared to $26.9 million for the same period in 2016, an increase of $1.4 million or 5.2%.

- Adjusted Free Cash Flow was an inflow of $5.6 million for the three month period ended June 30, 2017 compared to an inflow of $14.4 million for the same period in 2016, a decrease of $8.8 million or 61.1%.

Revenue

Total revenue for the three month period ended June 30, 2017 was $88.2 million, compared to $79.3 million for the same period in 2016, representing an increase of $8.9 million or 11.2%. The increase in total revenue was due primarily to a $1.0 million increase in core overnight revenues, $4.4 million increase in ACMI revenues, a $3.3 million increase in fuel surcharge and other cost pass-through revenues, and a $0.4 million increase in other revenues. The increase was partially offset by a $0.2 million decrease in all-in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2017 was $52.1 million compared to $51.1 million for the same period in 2016, an increase of $1.0 million or 2.0%. The increases were primarily due to increased volumes from existing customers and contractual annual price increases related to the Consumer Price Index. The increase in shipping volumes and prices during the period resulted in a 8.9% increase in average revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended June 30, 2017 were $11.4 million, compared to $7.0 million for the same period in 2016, an increase of $4.4 million or 62.9%. The increase of $4.4 million was primarily due to a new scheduled route to the USA that started in April 2017.

All-in scheduled and adhoc charter revenues for the three month period ended June 30, 2017 were $3.3 million compared to $3.5 million for the same period in 2016, a decrease of $0.2 million or 5.7%. The decrease in all-in charter revenue was due primarily to lower adhoc charter activity.

Fuel surcharges and other cost pass-through revenues were $20.5 million for the three month period ended June 30, 2017 compared to $17.2 million for the same period in 2016. During the quarter, fuel surcharges increased due primarily to a 13.7% increase in fuel prices and higher customer volumes.

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines and passenger revenues from charter flights using its Challenger aircraft that started in 2016. Other revenues were $0.9 million for the three month period ended June 30, 2016 compared to $0.5 million for the same period in 2016, an increase of $0.4 million or 80.0%.

Direct Expenses

Total direct expenses were $64.9 million for the three month period ended June 30, 2017 compared to $58.4 million for the same period in 2016, representing an increase of $6.5 million or 11.1%. As a percentage of revenue, direct expenses remain same from 73.6% in 2016 to 73.6% for the same period in 2017. The overall increase in direct expenses was due primarily to a $2.9 million increase in fuel costs, a $0.2 million increase in depreciation, a $0.1 million increase in aircraft cost, a $0.4 million increase in heavy maintenance costs, a $0.3 million increase in maintenance costs, a $0.9 million increase in crew costs and a $1.7 million increase in commercial and other costs.

Fuel costs were $16.6 million for the three month period ended June 30, 2017 compared to $13.7 million for the same period in 2016. The $2.9 million or 21.2% increase in fuel costs was due primarily to a 5.8% increase in block hours on the overnight and day networks and a 13.7% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $8.7 million for the three month period ended June 30, 2017 compared to $8.5 million for the same period in 2016. The $0.2 million or 2.4% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $5.6 million for the three month period ended June 30, 2017 compared to $5.5 million in 2016, representing an increase of $0.1 million or 1.8%. The increase was due primarily to higher sub charter costs due to the charter agreement with third party to operate and manage two Challenger aircraft to provide individual and corporate services, partially offset by lower fixed lease rental costs and variable lease costs due to return of the two B767-200 aircraft at the expiry of their lease terms in 2016 and the conversion of one B757-200 aircraft operating lease to a finance lease.

Heavy maintenance amortization costs were $2.1 million for the three month period ended June 30, 2017 compared to $1.7 million in 2016, representing an increase of $0.4 million or 23.5%. The increase was due primarily to the timing of c-checks that started ahead of schedule. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance. The heavy maintenance component of the newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $5.9 million for the three month period ended June 30, 2017 compared to $5.6 million in 2016, representing an increase of $0.3 million or 5.4%. The increase in costs was due primarily to higher block hours and additional hiring of maintenance personnel.

Total crew costs including salaries, training and positioning was $6.2 million for the three month period ended June 30, 2017 compared to $5.3 million in 2016 representing an increase of $0.9 or 17.0%. This increase was due to the hiring of additional crew, annual salary increases and increased training costs.

Commercial and other direct operating costs were $19.8 million for the three month period ended June 30, 2017 compared to $18.1 million in 2016, representing an increase of $1.7 million or 9.4% This increase was due primarily to a $0.8 million of the increase in commercial salaries due to the hiring of additional personnel and annual wage increases, $0.6 million higher landing, navigation, parking, deicing and ground service equipment costs due to increased activity in 2017, $0.2 million higher warehouse rent costs, and a $0.4 million net increase in cartage and ground linehaul costs due to an increase in number of landings on the overnight network. This increase was partially offset by $0.3 million reduced ground handling costs due to the Company providing its own ground handling services during the three month period ended June 30, 2017 at one of its locations.

Note: See Caution Concerning Forward Looking Statements, page 2.

The Company plans to provide its own ground handling services on most of its locations by end of the year.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended June 30, 2017 were $10.1 million compared to $8.9 million for the same period in 2016, representing an increase of $1.2 million or 13.5%. The increase was primarily due to a $0.8 million increase in salaries and benefits due to increased head count and annual salary increases, a $0.2 million increase in pension benefit costs, a $0.3 million increase in office rent expenses, a $0.5 million increase in other SG&A expenses, partially offset by a $0.3 million decrease in sales and marketing costs, and a $0.3 million decrease in bonuses and incentives.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended June 30, 2017 were $7.2 million compared to $7.4 million for the same period in 2016, representing a decrease of $0.2 million or 2.7%. The decrease was due primarily to a $0.6 million of reduced finance costs, partially offset by a $0.4 million decrease in other gains.

Other gains and loss on extinguishment of debt

Other gains for the three month period ended June 30, 2017 were $0.1 million compared to a gain of $0.5 million for the same period in 2016, representing an decrease of $0.4 million or 80.0%. The decrease was due to a $1.0 million increase loss on forward foreign exchange contracts, and $0.1 million increase in loss on extinguishment of debt related to repayment of loans , partially offset by $0.4 million increase in unrealized foreign exchange gain, and a $0.3 million increase in gain on the total return swap.

Finance costs

Finance costs for the three month period June 30, 2017 were $7.3 million compared to $7.9 million for the same period in 2016, representing a decrease of $0.6 million or 7.6%. The decrease was due primarily to the repayment of aircraft loans.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended June 30, 2017 was $24.6 million compared to EBITDA of $22.5 million for the same period in 2016. The increase in Adjusted EBITDA of $2.1 million was due primarily to the following:

- Increase on core overnight network and ACMI revenues
- Conversion of a B757-200 aircraft operating lease to a finance lease
- Return of lease aircraft in 2016 at the expiry of their lease term.

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended June 30, 2017 was $28.3 million compared to $26.9 million for the same period in 2016, representing an increase of $1.4 million or 5.2%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to the expiry of the aircraft leases later in 2016 and the conversion of one aircraft operating lease to a finance lease.

Current Income Taxes

No provision for current income taxes was made for the three month period ended June 30, 2017 and same period in 2016.

Deferred Income Taxes

The deferred income taxes for the three month period ended June 30, 2017 was a provision of $1.6 million compared to a provision of $0.8 million for the same period in 2016. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $5.6 million for the three month period ended June 30, 2017, compared to an inflow of $14.4 million for the same period in 2016, representing an decrease of $8.8 million. The decrease in Adjusted Free Cash Flow was due primarily to changes in non-cash working capital items and higher maintenance capital expenditures partially offset by the increase in Adjusted EBITDA.

Dividends

Total dividends declared for the three month period ended June 30, 2017 were $2.4 million or $0.1925 per share. In comparison, total dividends declared for the three month period ended June 30, 2016 were $1.6 million or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
March 20, 2017	April 05, 2017	-	10,647,989	0.1925	2,049,738
June 20, 2017	July 05, 2017	2,432,302	12,635,336	0.1925	-
		2,432,302	-	-	2,049,738

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
March 21, 2016	April 05, 2016	-	10,161,982	0.1491	1,515,152
June 20, 2016	July 05, 2016	1,570,865	10,535,645	0.1491	-
		1,570,865	-	-	1,515,152

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances and the effect of exchange rate changes for the three month period ended June 30, 2017 was $19.9 million compared to cash generated by operating activities of $19.6 million for the same period in 2016. The $0.3 million increase in cash was due primarily to the increase in EBITDA partially offset by changes in non-cash working capital items and deposits.

Cash provided from financing activities during the three month period ended June 30, 2017 was $11.5 million (June 30, 2016 - Cash used of $20.2 million) and was comprised of proceeds from borrowings during the three month period ended on June 30, 2017 $20.1 (June 30,2016- $0.1 million) and repayment of borrowings of $nil (June 30, 2016- $12.7 million), repayment of obligations under finance lease of $6.6 million (June 30, 2016 - $6.1 million), dividends paid to shareholders of $2.0 million (June 30, 2016 - $1.5 million.

Cash used in investing activities during the three month period ended June 30, 2017 was $31.1 million (June 30, 2016 - $2.9 million) and was comprised of property, plant and equipment additions of $33.1 million (June 30, 2016 - $2.9 million), and proceeds from total return swap and settlement of derivatives of $2.0 million (June 30, 2016 -$nil).

Capital Expenditures

The property, plant and equipment additions of $33.1 million in the current period (June 30, 2016 - $2.9 million) were primarily comprised of additions to aircraft and ground services equipments.

Review of Operations for the Six Month Periods ended June 30, 2017 and 2016

NET EARNINGS FOR THE SIX MONTH PERIODS ENDED JUNE 30, 2017 AND 2016

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2017	2016	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	105.0	100.4	4.6	4.6%
ACMI Revenues	20.2	13.8	6.4	46.4%
All-in Charter Revenues	6.5	7.0	(0.5)	-7.1%
Total overnight, ACMI and charter revenues	131.7	121.2	10.5	8.7%
Total Revenue - FBO	0.3	0.2	0.1	50.0%
Total fuel and other cost pass through	41.6	33.7	7.9	23.4%
Fuel surcharge and other pass through revenues	41.9	33.9	8.0	23.6%
Lease and other revenue	1.7	1.1	0.6	54.5%
Total revenues	175.3	156.2	19.1	12.2%
Operating Days	100	100	-	-
Average cargo revenue per operating day	1.32	1.21	0.11	9.1%
Direct expenses				
Fuel Costs	33.8	26.4	7.4	28.0%
Depreciation	16.5	16.1	0.4	2.5%
Aircraft Cost	10.9	13.9	(3.0)	-21.6%
Heavy Maintenance Amortization	4.6	3.5	1.1	31.4%
Maintenance Cost	12.0	11.0	1.0	9.1%
Crew Costs	12.0	11.1	0.9	8.1%
Commercial and Other Costs	41.3	36.7	4.6	12.5%
Total direct expenses	131.1	118.7	12.4	10.4%
Gross margin	44.2	37.5	6.7	17.9%
Gross margin %	25.2%	24.0%	1.2%	
SG&A & Marketing				
General and Administrative Costs	19.2	16.0	3.2	20.0%
Sales costs	0.7	1.2	(0.5)	-41.7%
Depreciation	0.6	0.5	0.1	20.0%
Total SG&A & Marketing expenses	20.5	17.7	2.8	15.8%
Other SG&A				
Other gains and loss on extinguishment of debt	-	(6.5)	6.5	-100.0%
Finance costs	13.9	15.8	(1.9)	-12.0%
Total other SG&A	13.9	9.3	4.6	49.5%
EARNINGS BEFORE INCOME TAXES	9.8	10.5	(0.7)	-6.7%
Income Taxes-Deferred	(2.8)	(2.3)	(0.5)	21.7%
Net earnings	7.0	8.2	(1.2)	-14.6%
Earnings per share - $ CAD				
Basic	0.64	0.80	(0.16)	-20.0%
Diluted	0.63	0.78	(0.15)	-19.2%

Highlights for the six month ended June 30, 2017 and 2016

- Total revenue for the six month period ended June 30, 2017 was $175.3 million compared to $156.2 million for the same period in 2016, representing an increase of $19.1 million or 12.2%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2017 was $1.32 million per operating day compared to $1.21 million for the same period in 2016, representing an increase of $0.11 million per operating day or 9.1%.
- Adjusted EBITDA for the six month period ended June 30, 2017 was $46.9 million compared to $39.9 million for the same period in 2016, an increase of $7.0 million or 17.5%.
- Adjusted EBITDAR for the six month period ended June 30, 2017 was $54.7 million compared to $51.6 million for the same period in 2016, an increase of $3.1 million or 6.0%.
- Adjusted Free Cash Flow was an inflow of $17.8 million for the six month period ended June 30, 2017 compared to an inflow of $22.7 million for the same period in 2016, an decrease of $4.9 million or 21.6%.

Revenue

Total revenue for the six month period ended June 30, 2017 was $175.3 million, compared to $156.2 million for the same period in 2016, representing an increase of $19.1 million or 12.2%. The increase in total revenue was due primarily to a $4.6 million increase in core overnight revenues, a $6.4 million increase in ACMI revenues, a $8.0 million increase in fuel surcharges and other cost pass-through revenues and a $0.6 million increase in lease and other revenue partially offset by $0.5 million decrease in all-in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2017 was $105.0 million compared to $100.4 million for the same period in 2016, an increase of $4.6 million or 4.6%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the consumer price index. The increase in shipping volumes and prices during the period resulted in 9.1% increase in average revenue per operating day.

ACMI scheduled and adhoc charter revenue for the six month period ended June 30, 2017 was $20.2 million, compared to $13.8 million for the same period in 2016, an increase of $6.4 million or 46.4%. The increase was due primarily to additional block hours flown to the USA, South America, Northern Canada and to Europe.

All-in scheduled and adhoc charter revenue for the six month period ended June 30, 2017 was $6.5 million compared to $7.0 million for the same period in 2016, a decrease of $0.5 million or 7.1%. The decrease in all-in charter revenue was due primarily to lower adhoc charter activity.

Fuel surcharges and other cost pass-through revenues were $41.9 million for the six month period ended June 30, 2017 compared to $33.9 million for the same period in 2016. During the period, fuel surcharges increased due to a 4.6% increase in the shipping volumes and revenues from new and existing customers that attracted fuel surcharges and 23.4% increase in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.3 million for the six month period ended June 30, 2017 compared to $0.2 million for the same period in 2016 an increase of $0.1 million or 50%.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines and passenger revenue on Challenger series of aircraft. Other revenues for the six month period ended June 30, 2017 were $1.7 million compared to $1.1 million for the same period in 2016.

Direct Expenses

Total direct expenses were $131.1 million for the six month period ended June 30, 2017 compared to $118.7 million for the six month period ended June 30, 2016. As a percentage of revenue, direct expenses decreased from 76.0% in 2016 to 74.8% for the same period in 2017. The overall increase in direct expenses was due primarily to a $7.4 million increase in fuel costs, a $0.4 million increase in depreciation, a $1.1 million increase in heavy maintenance amortization, a $1.0 million increase in maintenance costs, a $0.9 million increase in crew cost, a $4.6 million increase in commercial and other costs, partially offset by a $3.0 million decrease in aircraft costs. For the six month period ended June 30, 2017 there were no one-time startup costs related to the CPGOC contract compared to $1.1 million for the same period in 2016.

Fuel costs were $33.8 million for the six month period ended June 30, 2017 compared to $26.4 million for the same period in 2016. The $7.4 million or 28.0% increase in fuel costs was due primarily to a 6.7% increase in block hours on the overnight and day network and a 23.4% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $16.5 million for the six month period ended June 30, 2017 compared to $16.1 million for the same period in 2016. The $0.4 million or 2.5% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $10.9 million for the six month period ended June 30, 2017 compared to $13.9 million in 2016, representing a decrease of $3.0 million or 21.6%. The decrease in aircraft costs was due primarily to lower fixed lease costs of $3.5 million and lower variable lease reserve costs of $0.3 million due to the return of the two B767-200 aircraft at the expiry of their lease terms and the conversion of one B757-200 aircraft operating lease to a finance lease. This decrease was partially offset by $0.8 million of higher sub-charter costs due to the charter agreement with a third party to operate and manage two Challenger aircraft. For the six month period ended June 30, 2017, aircraft costs included no one-time startup costs related to the CPGOC contract compared to $1.1 million for the same period in 2016. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $4.6 million for the six month period ended June 30, 2017 compared to $3.5 million for the same period in 2016, representing an increase of $1.1 million or 31.4%. The increase was due primarily to the timing of heavy maintenance "c-checks" that started ahead of schedule. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance. The heavy maintenance component of the newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $12.0 million for the six month period ended June 30, 2017 compared to $11.0 million in 2016, representing an increase of $1.0 million or 9.1%. $0.3 million of the increase was due to the hiring of additional maintenance personnel and a $0.7 million increase in higher line maintenance costs primarily due to the expansion of the fleet.

Total crew costs including salaries, training and positioning were $12.0 million for the six month period ended June 30, 2017 compared to $11.1 million in 2016, representing increase of $0.9 million or 8.1%.This increase was due primarily to hiring of additional crew, annual salary increases and increased training costs.

Commercial and other direct operating costs were $41.3 million for the six month period ended June 30, 2017 compared to $36.7 million for the same period in 2016, representing an increase of $4.6 million or 12.5%. This increase was comprised primarily of a $1.5 million increase in commercial salaries due to hiring of additional personnel and annual wage increases, $1.3 million higher landing, parking deicing and navigation costs due to increased activity in 2017, $0.3 million of higher warehouse rent, $0.8 million higher linehaul and cartage costs, 0.4 million higher ground service equipment costs, and $0.3 million higher ground handling costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the six month period ended June 30, 2017 were $20.5 million compared to $17.7 million for the same period in 2015, representing an increase of $2.8 million or 15.8%. This increase was primarily due to a $1.3 million increase in salaries and allowances due to increased headcount and annual salary increases, a $0.5 million of increase in pension benefit costs, a $0.6 million increase in travel meals and entertainment costs, a $1.3 million increase in realized foreign exchange losses primarily due to prepayment of loan facility with a US based lender, a $0.4 million increase in other SG&A costs, partially offset by a $0.5 million decrease in sales and marketing costs, and a $0.8 million decrease in bonuses and incentives.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the six month period ended June 30, 2017 were $13.9 million compared to $9.3 million for the same period in 2016, representing an increase of $4.6 million or 49.5%. The increase was due primarily to a $6.5 million decrease in other gains, partially offset by a $1.9 million reduced finance costs.

<u>Other gains and loss on extinguishment of debt</u>

Other gains for the six month period ended June 30, 2017 were $nil compared to gain of $6.5 million for the same period in 2016, representing a decrease of $6.5 million or 100.0%. This decrease was comprised primarily of $2.3 million loss on extinguishment of debt due to prepayment of aircraft loans, $5.0 million decrease in other gains related primarily to foreign exchange, partially offset by a $0.6 million increase in gain on de-recognition of lease return costs related to the conversion a B757-200 aircraft operating lease to a finance lease, and a $0.2 million increase in gain on the total return swap

<u>Finance costs</u>

Finance costs for the six month period ended June 30, 2017 were $13.9 million compared to $15.8 million for the same period in 2016, representing a decrease of $1.9 million or 12.0%. This decrease was due primarily to the repayment of loans.

Adjusted EBITDA

Adjusted EBITDA for the six month period ended June 30, 2017 was $46.9 million compared to $39.9 million for the same period in 2016. The increase in Adjusted EBITDA of $7.0 million or 17.5% was due primarily to the following:

- Increases on core overnight network and ACMI revenues
- Increase in gross margin
- Elimination of start-up costs related to the CPGOC contract
- Conversion of a B757-200 aircraft operating lease to a finance lease
- Return of lease aircraft in 2016 at the expiry of their lease term.

Adjusted EBITDAR

Adjusted EBITDAR for the six month period ended June 30, 2017 was $54.7 million compared to $51.6 million for the same period in 2016, representing an increase of $3.1 million or 6.0%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to the expiry of the aircraft leases later in 2016 and the conversion of one aircraft operating lease to a finance lease.

Current Income Taxes

The provision for current income taxes for the six month period ended June 30, 2017 was $nil and was same for the same period in 2016.

Deferred Income Taxes

The deferred income taxes recognized for the six month period ended June 30, 2017 was a provision of $2.8 million compared to a provision of $2.3 million for the same period in 2016. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $17.8 million for the six month period ended June 30, 2017, compared to an inflow of $22.7 million for the same period in 2016, representing a decrease of $4.9 million. The decrease in Adjusted Free Cash flow was due primarily due to changes in non-cash working capital items and deposits and higher maintenance capital expenditure partially offset by the increase in Adjusted EBITDA.

Dividends

Total dividends declared for the six month period ended June 30, 2017 were $4.5 million or $0.3850 per share. In comparison, total dividends declared for the six month period ended June 30, 2016 were $3.1 million or $0.2982 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2016	January 05, 2017		10,643,365	0.1750	1,862,589
March 20, 2017	April 05, 2017	2,049,738	10,647,989	0.1925	2,049,738
June 20, 2017	July 05, 2017	2,432,302	12,635,336	0.1925	-
		4,482,040	-	-	3,912,327

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 18, 2015	January 5, 2016	-	10,108,457	0.1491	1,507,171
March 21, 2016	April 5, 2015	1,515,152	10,161,982	0.1491	1,515,152
June 20, 2016	July 5, 2016	1,570,865	10,535,645	0.1491	-
		3,086,017	-	-	3,022,323

Liquidity and Capital Resources

Cash generated in operating activities after net changes in non-cash working capital balances and the effect of exchange rate changes for the six month period ended June 30, 2017 was $34.7 million compared to cash generated in operating activities of $28.5 million for the same period in 2016. The $6.2 million increase in cash was due primarily to the increase in EBITDA and changes in non-cash working capital items and deposits.

Cash provided in financing activities during the six month period ended June 30, 2017 was $15.6 million (June 30, 2016 cash provided from financing activities – $7.2 million) comprised of proceeds from borrowings of $67.1 million (June 30, 2016 – $38.0 million). The proceeds were partially offset by repayment of borrowings $35.8 (June 30, 2016 - $16.1 million), repayment of obligations under finance lease of 11.8 million (June 30, 2016 – $11.7 million), and dividends paid to shareholders of $3.9 million (June 30, 2016 – $3.0 million).

Cash used in investing activities during the six month period ended June 30, 2017 was $51.7 million (June 30, 2016- $41.4 million) and was comprised of property, plant and equipment additions of $56.5 million (June 30, 2016 - $41.6 million), and proceeds from total return swap and settlement of derivatives of $4.8 million (June 30, 2016 -$nil).

The Company had a working capital deficit as at June 30, 2017, representing the difference between total current assets and current liabilities, of $56.9 million, compared to a working capital deficit of $43.0 million as at December 31, 2016. The increase of $13.9 million is primarily due to an increase in the current portion of finance lease, increase in dividends payable, decrease in cash, decrease in the fair value of derivative financial instrument and decrease in trade and other receivables due to timing of collections, partially offset by decrease in borrowings, decrease in trade and other payables and provisions and increase in deposits.

Note: See Caution Concerning Forward Looking Statements, page 2.

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

Capital Expenditures

The property, plant and equipment additions of $56.5 million in the current year were primarily comprised of additions to aircraft, engines, ground equipment, leasehold improvements, heavy maintenance and other equipment.

Financial Condition

The following is a comparison of the financial position of the Company as at June 30, 2017 to the financial position of the Company as at December 31, 2016.

Accounts Receivable

Accounts receivable as at June 30, 2017 amounted to $24.7 million compared to $25.7 million as at December 31, 2016. The decrease of $1.0 million was due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at June 30, 2017, property, plant and equipment were $424.1 million compared to $371.1 million as at December 31, 2016. The $53.0 million net increase in property, plant and equipment was primarily due to additions of $74.7 million partially offset by depreciation of $21.7 million.

Trade and Other Payables

Trade and other payables as at June 30, 2017 were $29.3 million compared to $30.4 million as at December 31, 2016. The decrease of $1.1 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of five B767-300 and one B757-200 aircraft. Total finance leases including the current portion were $136.7 million as at June 30, 2017 compared to 130.3 million as at December 31, 2016. The change was due to the conversion of a B757-200 aircraft operating lease to a finance lease, partially offset by scheduled monthly repayments made in the current period. The leases of one B767-300 and one B757-200 aircraft expire within the next twelve months of the balance sheet date these are classified under the current portion.

Provisions

Provisions as at June 30, 2017 were $1.8 million compared to $2.4 million at December 31, 2016 and comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms. The change in provision was due to derecognition of provision due to conversion of one B757-200 aircraft operating lease to a finance lease.

Summary of Contractual Obligations

		Payments due by Year				
As at June 30, 2017	Total	2017	2018	2019	2020	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Finance leases	136.7	23.0	43.5	11.3	9.7	49.2
Provisions	1.8	-	-	-	-	1.8
Borrowings	67.3	-	-	-	67.3	-
Convertible Debentures	129.2	15.5	-	-	-	113.7
Operating leases	42.7	5.6	9.2	7.2	5.4	15.3
	377.7	44.1	52.7	18.5	82.4	180.0

Off-Balance Sheet Arrangements

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

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

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

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

Note: See Caution Concerning Forward Looking Statements, page 2.

(d) The Company participates in six Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operates on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered part of the Financial Statements of the Company and are not consolidated. The airlines that participate in FFC guarantee on a pro-rata basis of this debt based on system usage. There is no major change in the total assets and total debts of these FFC as disclosed in the MD&A for the year ended December 31, 2016. The Company's pro rata share of the FFC's assets and debt is approximately 8% before taking into consideration the value of assets that secure the obligations and cost sharing that would occur among other participating airlines. The Company views the potential for losses in respect of the FFC as remote.

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

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

Major Customers

During the six month period ended June 30, 2017, the Company had sales to three customers that represented 64.8% of the total revenues (June 30, 2016 – 64.2%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $12.8 million as at June 30, 2017. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Related Party Transactions

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly beneficially owned by one of the Company's executive officers and directors. See Page 8 Recent Events for further details.

Risk Factors

Risks Related to the Business

A detailed description of risk factors associated with the Company's business is given in the "Risk Factors" section of the MD&A for the three month and year ended December 31, 2016 dated March 9, 2017 which was filed with SEDAR at www.sedar.com. The Company is not aware of any significant changes to its risk factors from those disclosed at that time.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2

During the quarter ended June 30, 2017, the Company experienced growth over all revenue streams by 11.2% compared to the same period in 2016. The Company anticipates that revenues will continue to sustain growth due to the continued development and strengthening of its relationships with existing customers and establishing new relationships with national and international carriers to establish new ACMI routes to the USA and South America and adhoc charters. The Company continues to retain all of its major customers. Since 2014, the Company has been adding aircraft, staff and network capacity to accommodate the growing demand on its overnight core network. The Company continues to optimize its overnight network to match customer demand and will continue to do so going forward. This improved the gross margin and EBITDA by optimizing costs of its current operation. The Company will continue to evaluate its investments in fixed assets to ensure high returns on its investments and are in balance with its outlook of global economic conditions.

The Company proactively manages its fleet capacity and maintains strong on-time performance. Management expects to achieve organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Company continues its efforts to build on its competitive market position.

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

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

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

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The critical accounting judgment and estimations used in preparation of the Company's unaudited financial statements are described in the "Critical accounting judgments and key sources of estimation uncertainty" section of the MD&A for the three month period and year ended December 31, 2016 dated March 9, 2017 which was filed with SEDAR at www.sedar.com.

Outstanding Share Data

The Company's common voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.B" and "CJT.DB.C" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding and securities convertible into shares of the Company as of June 30, 2017:

Capital	Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares	Unlimited	12,503,310	-
Variable Voting Shares	Unlimited	242,555	-
Convertible Debentures - 5.5%	$ 16,402,000	-	570,504
Convertible Debentures - 4.65%	$ 125,000,000	-	2,131,287

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2016 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This MD&A was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

Standards, amendments and interpretations issued and not yet adopted

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* ("IFRS 9"), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety.

IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income ("OCI") instead of net income unless this would create an accounting mismatch. 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: IFRS 15, Revenue from Contracts with Customers ("IFRS 15") which was issued by the IASB on May 28, 2014 outlines a single comprehensive model to account for revenue arising from contracts with customers and will replace the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. IFRS 15 applies to nearly all contracts with customers, unless covered by another standard, such as leases, financial instruments and insurance contracts. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue. The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. To date, management has developed an adoption plan, identified major revenue streams to be assessed, and identified detailed information on major contracts that may be impacted by the changes at the transition date. Based on the assessment performed no material impact has been identified. The Company continues to evaluate any other possible impacts of this standard on its consolidated financial statements.

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.

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 does not expect the adoption of this standard to have a significant impact on the Company's disclosures as it does not have any debt instruments that are measured at fair value.

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. IFRS 2 is 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.

End Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gain or loss on forward foreign exchange contracts- the gain or loss arising from the forward foreign exchange contracts is a non-cash item and has no impact on the determination of Adjusted EBITDA. Any cash surrendered value on settlement of forward contact is added back to EBITDA.

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

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

Loss on settlement of cash settled share based payment arrangement - the loss arising from the settlement of cash settled share based payment arrangement is a function of the Company's treasury/financing activities and represents a different class of expense than those included in Adjusted EBITDA.

Gain on settlement of total return swap - the gain arising from the settlement of total return swap is a function of the Company's treasury/financing activities and represents a different class of expense than those included in Adjusted EBITDA.

Loss on extinguishment of debts –The loss on extinguishment of a long term debt is a function of the company's treasury/financing activities and represents a different loss of expense than those included in Adjusted EBITDTA.

Employee Pension – the provision for employee pension is a non-cash item and represents a different class of expense than those included in EBITDA.

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

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

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

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

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

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

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

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

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

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