Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the Three and Nine Month Periods Ended September 30, 2015 and 2014

(unaudited ï expressed in Canadian Dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at September 30, 2015 and December 31, 2014

(unaudited, in Canadian dollars)

	Note	September 30, 2015	December 31, 2014
		$	$
ASSETS			
CURRENT ASSETS			
Cash		645,074	-
Trade and other receivables		22,944,427	19,101,892
Inventories		784,374	624,713
Prepaid expenses and deposits		2,537,508	3,877,024
Income taxes receivable		-	2,643,004
Current portion of notes receivable		173,521	651,638
Current portion of finance lease receivable		-	114,771
		27,084,904	27,013,042
NON-CURRENT ASSETS			
Property, plant and equipment	3	353,015,395	203,944,786
Notes receivable		-	184,007
Goodwill	4	46,434,976	46,169,976
Intangible assets	4	2,000,000	1,000,000
Deposits		4,882,202	7,022,548
		433,417,477	285,334,359
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		24,756,411	23,323,465
Provisions	7	-	1,725,516
Dividends payable		1,504,456	1,367,907
Borrowings	5	3,690,757	504,897
Finance leases	6	12,587,669	6,782,482
		42,539,293	33,704,267
NON-CURRENT LIABILITIES			
Borrowings	5	118,359,688	13,981,944
Finance leases	6	142,132,346	87,592,527
Provisions	7	2,247,078	1,290,145
Convertible debentures	8	70,816,639	78,966,406
Deferred income taxes	9	574,433	4,375,293
		376,669,477	219,910,582
EQUITY		56,748,000	65,423,777
		433,417,477	285,334,359

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss

Three month and nine month periods ended September 30, 2015 and 2014

(unaudited, in Canadian dollars)

	Note	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
		$	$	$	$
REVENUES		75,341,670	47,227,118	204,644,380	135,277,684
DIRECT EXPENSES	10	64,608,659	43,271,218	185,609,512	122,293,863
		10,733,011	3,955,900	19,034,868	12,983,821
General and administrative expenses	11	13,141,107	6,121,212	28,481,717	15,705,311
Sales and marketing expenses		266,916	161,031	904,005	452,405
Finance costs		5,918,220	831,170	16,011,229	2,937,398
Finance income		(2,631)	(29,064)	(33,181)	(111,903)
Other gains	12	(5,841,168)	(42,353)	(4,505,769)	(42,353)
		13,482,444	7,041,996	40,858,001	18,940,858
LOSS BEFORE INCOME TAXES		(2,749,433)	(3,086,096)	(21,823,133)	(5,957,037)
RECOVERY OF INCOME TAXES	9				
Deferred		(586,337)	(810,299)	(5,274,456)	(1,416,146)
NET LOSS AND COMPREHENSIVE LOSS		(2,163,096)	(2,275,797)	(16,548,677)	(4,540,891)
LOSS PER SHARE	14				
- Basic		(0.22)	(0.25)	(1.73)	(0.52)
- Diluted		(0.22)	(0.25)	(1.73)	(0.52)

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity

Nine month periods ended September 30, 2015 and 2014

(unaudited, in Canadian dollars)

	Note	Shareholders' capital	Share-based compensation reserve	Conversion option	Reserve for surplus on debenture repurchases	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, January 1, 2015		79,758,600	460,581	5,818,250	2,162,078	(22,775,732)	65,423,777
Net loss and comprehensive loss		-	-	-	-	(16,548,677)	(16,548,677)
Treasury shares - net	13	437,125	-	-	-	-	437,125
Share-based compensation	15	1,231,436	670,689	-	-	-	1,902,125
Deferred tax on conversion option - net		-	-	-	-	236,545	236,545
Convertible debenture - conversion	8	9,636,831	-	(656,078)	656,078	-	9,636,831
Dividends	13	-	-	-	-	(4,339,726)	(4,339,726)
Balance, September 30, 2015		91,063,992	1,131,270	5,162,172	2,818,156	(43,427,590)	56,748,000
Balance, January 1, 2014		67,202,190	392,665	1,844,538	1,271,503	(8,168,065)	62,542,831
Net loss and comprehensive loss		-	-	-	-	(4,540,891)	(4,540,891)
Treasury shares - net		(59,773)	-	-	-	-	(59,773)
Conversion option on debenture issuance		-	-	6,618,078	-	-	6,618,078
Share-based compensation		-	(21,578)	-	-	-	(21,578)
Deferred tax on conversion option - net		-	-	(1,753,791)	-	328,737	(1,425,054)
Convertible debenture - conversion		12,301,481	-	(868,826)	868,826	-	12,301,481
Dividends		-	-	-	-	(4,036,188)	(4,036,188)
Balance, September 30, 2014		79,443,898	371,087	5,839,999	2,140,329	(16,416,407)	71,378,906

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows
Nine month periods ended September 30, 2015 and 2014
(unaudited, in Canadian dollars)

	Note	Nine months ended September 30, 2015	2014
		$	$
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES			
Net loss		(16,548,677)	(4,540,891)
Depreciation of property, plant and equipment	3	22,929,622	8,467,224
Share-based compensation		2,339,250	440,429
Finance costs		16,011,229	2,937,398
Effects of exchange rate changes on provision		374,889	108,494
Change in fair value of cash settled share based payment arrangement	12	(1,279,255)	-
Gain on disposal of property, plant and equipment		(526,411)	(42,353)
Unrealized gain on foreign exchange forward contracts	12	(2,700,103)	-
Non-cash interest on notes receivable		(20,038)	(55,812)
Non-cash interest on finance lease receivable		(1,298)	(11,309)
Income tax recovery		(5,274,456)	(1,416,146)
		15,304,752	5,887,034
Items affecting cash			
Interest paid		(14,648,937)	(2,217,280)
Income tax refund (payments)		4,088,145	(2,167,092)
		4,743,960	1,502,662
Changes in non-cash working capital items and deposits			
Trade and other receivables		(1,142,432)	2,011,689
Inventories		(159,660)	237,829
Prepaid expenses and deposits		3,479,862	(4,936,862)
Trade and other payables		3,242,697	3,793,475
NET CASH FROM OPERATING ACTIVITIES		10,164,427	2,608,793
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(954,137)	(1,675,223)
Proceeds from borrowings		108,517,741	-
Repayment of obligations under finance leases		(7,843,352)	(647,573)
Proceeds from sale and leaseback of property, plant and equipment		-	31,942,800
Purchase of treasury shares		-	(521,780)
Proceeds from debenture issuance		-	70,734,456
Dividends paid to shareholders	13	(4,203,177)	(3,864,351)
NET CASH FROM FINANCING ACTIVITIES		95,517,075	95,968,329
CASH FLOWS USED IN INVESTING ACTIVITIES			
Payments for property, plant and equipment	3	(105,010,156)	(75,773,730)
Proceeds from disposal of property, plant and equipment		175,497	131,340
Payment of provision for lease return conditions		-	(177,349)
Acquisition of business	4	(1,000,000)	-
Collections of notes receivable		682,162	857,689
Collections of finance lease receivable		116,069	228,890
NET CASH USED IN INVESTING ACTIVITIES		(105,036,428)	(74,733,160)
NET CHANGE IN CASH		645,074	23,843,962
CASH, BEGINNING OF PERIOD		-	441,506
CASH, END OF PERIOD		645,074	24,285,468

1. NATURE OF THE BUSINESS

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

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

These condensed consolidated interim financial statements (the ñfinancial statementsò) were approved and authorized for issuance by the Board of Directors on November 5, 2015.

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards (ñIFRSò), using International Accounting Standard 34*, Interim Financial Reporting* (ñIAS 34ò*)*.

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cargojet GP Inc. (ñCGPò), Cargojet Holdings Limited Partnership (ñCHLPò), and CHLPôs wholly-owned subsidiaries, Cargojet Holdings Ltd. (ñCJHò), CJHôs wholly-owned subsidiary 2422311 Ontario Inc., CJHôs wholly-owned subsidiary ACE Air Charter Inc. (ñACEò), ACEôs wholly-owned subsidiaries ACE Maintenance Ontario Inc. (ñACEMò), 2166361 Ontario Inc. (ñACEOò), and ACEOôs wholly-owned subsidiary Navigatair Inc. (ñNAVIGATAIRò), CJHôs wholly-owned subsidiary Cargojet Airways Ltd. (ñCJAò) and Cargojet Partnership (ñCJPò).

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

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Companyôs audited consolidated financial statements for the year ended December 31, 2014.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these financial statements as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2014.

Accounting policies:

Restricted share units

Restricted share units are granted to non-employee directors and certain key executives which are measured at the market value of the Companyôs voting shares on the date of the grant based on the units granted to the non-employee directors and certain key executives. The cost of the restricted share units are recognized as a compensation expense with a corresponding increase in equity over the related service period provided to the Company as vested.

Stock options

Stock options are granted to non-employee directors and certain key executives which are measured at the market value of the Company's voting shares on the date of the grant based on the options granted to the non-employee directors and certain key executives. The cost of the stock options are recognized as a compensation expense with a corresponding increase in equity over the related service period provided to the Company as vested.

Derivative financial instruments

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

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

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

Standards, amendments and interpretations issued and not yet adopted

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* (ñIFRS 9ò), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* (ñIAS 39ò) 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 (ñOCIò) instead of net income unless this would create an accounting mismatch. IFRS 9 sets a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting. The standard introduced a new expected loss impairment model. The standard is applied retrospectively with some exceptions related to the hedge accounting requirements and the restatement of prior periods for classification and measurement including impairment. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 1 January 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

(unaudited – in Canadian Dollars)

Revenue from contracts with customers: On May 28, 2014, the IASB and the FASB jointly issued *IFRS 15, Revenue from Contracts with Customers* (ñIFRS 15ò), a converged standard on the recognition of revenue from contracts with customers. The core principle of the new standard is for companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the company expects to be entitled in exchange for those goods or services. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. Application of the standard is mandatory and applies to nearly all contracts with customers: the primary exceptions are leases, financial instruments and insurance contracts. The IASB standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018 and is to be applied using the retrospective or the modified transition approach. The standard will address accounting for loyalty programs, warranties and breakage. The Company is currently assessing the impact of this standard.

3. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2015	Additions / Transfers	Disposals / Transfers	Balance as at September 30, 2015
	$	$	$	$
Aircraft hull	87,051,395	109,774,062	-	196,825,457
Engines	51,804,055	48,130,836	(2,240,862)	97,694,029
Spare parts	1,913,434	405,694	-	2,319,128
Ground equipment	11,558,082	6,016,255	-	17,574,337
Rotable spares	18,499,673	4,372,956	(11,623)	22,861,006
Computer hardware and software	6,239,712	1,587,914	-	7,827,626
Furniture and fixtures	1,614,218	643,297	-	2,257,515
Leasehold improvements	10,057,690	791,979	-	10,849,669
Vehicles	2,166,811	601,224	-	2,768,035
Hangar and cross-dock facilities	16,635,221	7,927,533	(1,010,554)	23,552,200
Property, plant and equipment under development	35,336,205	(23,914,228)	-	11,421,977
Deferred heavy maintenance	18,063,454	16,323,418	-	34,386,872
	260,939,950	172,660,940	(3,263,039)	430,337,851

(unaudited – in Canadian Dollars)

Accumulated Depreciation	Balance as at January 1, 2015	Depreciation	Disposals / Transfers	Balance as at September 30, 2015	Net Book Value, September 30, 2015
	$	$	$	$	$
Aircraft hull	7,781,407	5,691,351	-	13,472,758	183,352,699
Engines	11,294,934	6,722,997	(2,240,862)	15,777,069	81,916,960
Spare parts	-	-	-	-	2,319,128
Ground equipment	6,213,177	1,200,369	-	7,413,546	10,160,791
Rotable spares	8,911,958	1,429,728	-	10,341,686	12,519,320
Computer hardware and software	4,039,097	535,975	-	4,575,072	3,252,554
Furniture and fixtures	904,421	104,554	-	1,008,975	1,248,540
Leasehold improvements	5,062,955	1,916,512	-	6,979,467	3,870,202
Vehicles	692,368	190,831	-	883,199	1,884,836
Hangar and cross-dock facilities	5,008,274	490,876	(361,469)	5,137,681	18,414,519
Property, plant and equipment under development	-	-	-	-	11,421,977
Deferred heavy maintenance	7,086,573	4,646,429	-	11,733,002	22,653,869
	56,995,164	22,929,622	(2,602,331)	77,322,454	353,015,395

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

(unaudited – in Canadian Dollars)

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

Property, plant and equipment under development consists of $11,421,977 (2014 - $35,336,205) and relates to the purchase and/or modification primarily of aircraft that are not yet available for use.

During the nine month period ended September 30, 2015, the Company completed the acquisition of one Boeing B767-300 aircraft under the Master Lease Agreement as disclosed in Note 6, one Boeing B767-300 under a lease arrangement classified as a finance lease in accordance with the terms of the lease as disclosed in Note 6, two Boeing B767-300ʼs under two loan agreements with separate commercial lenders as disclosed in Note 5 and one Boeing B757-200 aircraft under the Aircraft Facility Arrangement as disclosed in Note 5.

During the nine month period ended September 30, 2015, the Company acquired a new air cargo logistics facility for a total consideration of $5,750,000 comprised of a cash settlement of $4,750,000 and an exchange of a building owned by it for $1,000,000. A gain of $350,915 was recognized in the period on the exchange of the building.

For the nine month period ended September 30, 2015, $1,509,061 (2014 - $2,205,635) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of $1,180,879 (2014 - $1,800,912) and accretion of $328,182 (2014 - $404,723) relating to funds borrowed specifically to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to specific borrowings, ranging between 7.23% to 8.77% (2014 – 7.35% to 8.77%).

For the nine month period ended September 30, 2015, the Company also capitalized the fair value of cash settled share based payment arrangements related to specific aircraft finance leases of $462,073 (2014 - $nil) to the qualifying assets.

(unaudited – in Canadian Dollars)

Depreciation expense on property, plant and equipment for the three and nine month periods ended September 30, 2015 totaled $8,608,422 and $22,929,622 , respectively (2014 - $2,793,835 and $8,467,224, respectively).

4. BUSINESS COMBINATION

On January 30, 2015, the Company acquired all of the outstanding shares of ACE, thus obtaining control. Cash consideration paid for the acquisition in the first quarter was $1,000,000. The Company determined that the transaction represented a business combination with the Company being identified as an acquirer. The Company accounted for the combination under the acquisition method.

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

	$
Goodwill	265,000
License	1,000,000
Deferred tax liability	(265,000)
Consideration paid	1,000,000

The purchase price allocation is preliminary and based on the Companyǿs managementǿs best estimates. The final purchase price allocation is subject to adjustment pending compilation of additional information related to the transaction.

5. BORROWINGS

Borrowings consist of the following:

	September 30, 2015	December 31, 2014
	$	$
Revolving credit facility	27,081,730	4,827,425
Aircraft facility arrangement	94,727,827	9,402,246
Other borrowings	240,888	257,170
	122,050,445	14,486,841
Less current portion	3,690,757	504,897
Long-term portion	118,359,688	13,981,944

(unaudited – in Canadian Dollars)

Aircraft facility arrangements

In 2014, the Company executed first and second Aircraft Facility Arrangements (ñAFAò) with an equipment finance and leasing company for $25 million available in a non-revolving credit facility to refinance the acquisition of two Boeing 757-200 aircraft. During the nine months periods ended September 30, 2015, the Company availed the second facility limit under this AFA. This facility matures in January 2022 and is secured by a transfer of right, title and interest of ownership of the aircraft and all its components and records. Each loan under this credit facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate for the facility availed during the period is 8.05%.

The AFA is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at September 30, 2015.

In April 2015, the Company also secured a facility with a commercial lending company for USD $27.5 million and withdrew it to finance the acquisition of one Boeing 767-300 aircraft. This facility expires in April 2022 and is secured by the aircraft and all its components and records. The estimated effective interest rate for the facility availed during the period is 8.17%.

In May 2015, the Company secured a firm loan facility of USD $55.0 million and an optional facility of USD $27.5 million with a US based lender to acquire additional B767-300 aircraft. The Company did not exercise the option and as at September 30, 2015 the option has expired. In September 2015, the Company drew down USD $27.5 million under the facility to finance the acquisition of one Boeing 767-300 aircraft. The term of this loan expires in September 2022. The estimated effective interest rate for the facility availed during this period is 9.77%. Under the terms of this facility, each loan will be secured by the purchased aircraft and all of their components and records.

The following is a schedule of future minimum annual payments under the AFA and aircraft loan agreements together with the balance of the obligations as at September 30, 2015.

	$
2015	642,630
2016	3,766,326
2017	6,947,178
2018	8,946,903
2019	11,252,721
Thereafter	62,961,066
Obligations under AFA and loan agreements	94,516,825
Fair value of cash settled share based payment arrangement	211,002
Total obligations under AFA and loan agreements	94,727,827
Less current portion	3,667,440
Long-term portion	91,060,386

Interest expense on the borrowings for the three and nine months period ended September 30, 2015 totaled $1,995,451 and $4,409,773, respectively (2014 - $221,872 and $669,940, respectively).

(unaudited – in Canadian Dollars)

6. FINANCE LEASES

In 2014, the Company executed a Master Lease Agreement (ñMLAò) with an equipment finance and leasing company for up to $100 million in capital lease financing to acquire up to 3 Boeing 767-300 aircraft. The MLA was expanded to a 4th Boeing 767-300 aircraft under the same terms and conditions. During the nine months period ended September 30, 2015, the Company completed the fourth finance lease under this MLA. This lease expires in January 2022 and provides for the transfer of ownership of the aircraft at the end of the lease term at a pre-determined price. Accordingly, this lease is classified as a finance lease and a corresponding lease obligation was recognized in the financial statements. Each lease under this lease facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate is 7.23%. The leases under the MLA are guaranteed by the Company and its subsidiaries.

The arrangement is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at September 30, 2015.

The Company also has a finance lease arrangement for a Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 7.21%. The lease expires on March 2021 and the Company can exercise the bargain purchase option in March 2018.

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligation as at September 30, 2015.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	22,584,438	11,697,741
Later than one year and not later than five years	140,252,743	110,203,124
Later than five years	32,187,848	31,929,221
	195,025,029	153,830,086
Less: interest	41,194,942	-
Obligations under finance leases	153,830,087	153,830,086
Fair value of cash settled share based payment arrangement	889,928	889,928
Total obligations under finance leases	154,720,015	154,720,014
Less: current portion	12,587,669	12,587,669
Non-current portion	142,132,346	142,132,345

Interest amount on the finance leases for the three and nine months period ended September 30, 2015 totaled $2,862,282 (2014 -$701,887) and $8,086,342 (2014 - $712,820), respectively of which $284,281 (2014 - $695,570) was capitalized to the cost of property, plant and equipment.

(unaudited – in Canadian Dollars)

7. PROVISIONS

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

	September 30 2015	September 30 2014
	$	$
Balance, beginning of period	3,015,661	1,760,916
Recognition of provision for lease return conditions	-	431,086
Derecognition of provision for lease return conditions	(909,963)	-
Settlement of provision for lease return conditions	(337,248)	(177,349)
Accretion	103,738	114,180
Effects of exchange rate changes on the provision balance	374,890	108,494
Balance, end of period	2,247,078	2,237,327
Less: current portion	-	1,957,750
Non-current portion	2,247,078	279,577

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company specific history. Accretion expense of $103,738 (2014 - $114,180) has been recorded in the period as part of finance costs in the condensed consolidated interim statement of loss. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

8. CONVERTIBLE DEBENTURES

The balances of convertible debentures at September 30, 2015 and December 31, 2014 consists of the following :

	September 30, 2015	December 31, 2014
	$	$
Convertible Debentures - 6.5%	4,409,405	13,802,460
Convertible Debentures - 5.5%	66,407,234	65,163,946
Balance	70,816,639	78,966,406

Convertible Debentures – 6.5% due April 30, 2017

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

(unaudited – in Canadian Dollars)

During the nine months period ended September 30, 2015, convertible debentures with an aggregate principal amount of $10,226,000 (2014 - $13,542,000) were converted, at the holdersô discretion, into 870,290 (2014 ï 1,152,496) voting shares of the Company. Accordingly, the Company derecognized $9,636,831 (2014 - $12,301,481) of the liability for convertible debentures, representing the amortized carrying cost amount of the liability immediately prior to conversion in respect of the debentures for which the holdersô exercised their right to convert, and recognized shareholdersô capital of the same amount. The corresponding conversion option of $656,078 (2014 - $868,826) was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the statement of changes in equity. No gain or loss was recognized upon conversion of the debentures.

The balances of convertible debentures at September 30, 2015 and December 31, 2014 consists of the following:

	September 30, 2015	December 31, 2014
	$	$
Principal balance	4,643,000	14,869,000
Less:		
Issuance costs	(211,913)	(678,643)
Conversion option at inception	(426,734)	(1,366,595)
Accretion	405,052	978,698
Balance	4,409,405	13,802,460

Interest expense on the debentures for the three and nine months periods ended September 30, 2015 totaled $71,915 and $676,782, respectively (2014 - $363,308 and $1,321,775 respectively).

Convertible Debentures – 5.5% due June 30, 2019

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

The debt component is measured at amortized cost. The balance of the debt component as at September 30, 2015 and December 31, 2014 consists of the following:

	2015	2014
	$	$
Principal balance	74,000,000	74,000,000
Less:		
Issuance costs	(3,265,544)	(3,265,544)
Conversion option at inception	(6,618,078)	(6,618,078)
Accretion	2,290,856	1,047,568
Balance	66,407,234	65,163,946

(unaudited – in Canadian Dollars)

Interest expense on the debentures for the three and nine months periods ended September 30, 2015 totaled $1,431,045 and $4,287,426, respectively (2014 - $1,410,720 and $2,349,534, respectively). For the nine months period ended September 30, 2015 interest amount of $1,224,781 (2014 ï $1,509,065) was capitalized to the cost of property, plant and equipment.

9. INCOME TAXES

The reconciliation between the Companyǿs statutory and effective tax rate is as follows:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2015	2014	2015	2014
	$	$	$	$
Loss before income taxes	(2,749,433)	(3,086,096)	(21,823,133)	(5,957,037)
Recovery of income tax at the combined basic rate of 26.5% (2014 - 26.5%)	(728,600)	(817,815)	(5,783,130)	(1,578,615)
Permanent and other differences	142,263	7,516	508,674	162,469
Recovery of income tax	(586,337)	(810,299)	(5,274,456)	(1,416,146)

The tax effect of significant temporary differences is as follows:

	September 30, 2015	December 31, 2014
	$	$
Property, plant and equipment	3,920,461	3,705,261
Operating loss carryforward	(9,800,596)	(1,667,841)
Licenses	265,000	-
Intangible assets	(497,736)	(525,315)
Derivative contracts	715,527	-
Notes receivable	(681)	(5,992)
Financing costs	(829,866)	(1,126,787)
Convertible debentures	1,400,336	1,846,047
Provision for lease retirement costs	(375,648)	(330,665)
Finance lease receivable	-	30,415
Long-term incentive plan	(42,175)	(122,247)
Deferred heavy maintenance	5,819,811	1,911,087
Net deferred income tax liability	574,433	4,375,293

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

(unaudited – in Canadian Dollars)

10. DIRECT EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2015	2014	2015	2014
	$	$	$	$
Fuel costs	18,127,557	14,496,507	50,541,048	45,262,950
Maintenance costs	4,863,052	3,222,055	15,666,841	8,995,355
Heavy maintenance amortization	1,581,446	898,025	4,535,041	3,158,607
Aircraft costs	8,284,888	8,069,353	27,669,928	18,198,163
Crew costs	6,451,646	3,955,560	17,167,811	10,393,769
Direct depreciation	6,767,050	1,667,896	17,696,272	4,842,708
Commercial and other costs	18,533,020	10,961,822	52,332,571	31,442,311
Direct expenses	64,608,659	43,271,218	185,609,512	122,293,863

11. GENERAL AND ADMINISTRATIVE EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2015	2014	2015	2014
	$	$	$	$
Salaries and benefits	4,552,523	3,742,748	13,416,022	9,789,153
Depreciation and amortization	259,926	168,303	698,308	466,361
Net foreign exchange loss	5,367,207	156,856	5,525,346	196,634
Other general and administrative expenses	2,961,451	2,053,305	8,842,041	5,253,163
General and administrative expenses	13,141,107	6,121,212	28,481,717	15,705,311

12. OTHER GAINS

Other gains consist of the following:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2015	2014	2015	2014
	$	$	$	$
Gain on disposal of property, plant and equipment	(55,000)	(42,353)	(526,411)	(42,353)
Net gain on forward foreign exchange contracts	(4,509,854)	-	(2,700,103)	-
Gain on cash settled share based payment arrangement	(1,276,314)	-	(1,279,255)	-
Other gains, net	(5,841,168)	(42,353)	(4,505,769)	(42,353)

13. SHAREHOLDERS’ CAPITAL

Issued and outstanding

The following table shows the changes in shareholdersô capital from December 31, 2014 to September 30, 2015:

(unaudited – in Canadian Dollars)

	Number	Amount
		$
Variable voting shares	98,545	860,744
Common voting shares	9,032,869	78,897,856
Outstanding December 31, 2014	9,131,414	79,758,600
Changes during the period		
Voting shares issued on conversion of convertible debentures	870,290	9,636,831
Share based compensation (Note 15)	45,189	1,231,436
Distributed in connection with share-based compensation	33,619	437,125
Outstanding September 30, 2015	10,080,512	91,063,992
Consisting of:		
Variable voting shares	101,317	915,267
Common voting shares	9,979,195	90,148,725
Outstanding September 30, 2015	10,080,512	91,063,992

Common voting shares outstanding as at September 30, 2015 excludes treasury shares.

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the three and nine month periods ended September 30, 2015 amounted to $1,504,455 ($0.1491 per share) and $4,339,726 ($0.4473 per share), respectively and for the three and nine month periods ended September 30, 2014 amounted to $1,363,655 ($0.1491 per share) and $4,036,188 ($0.4473 per share), respectively.

14. LOSS PER SHARE

The following table shows the computation of basic loss per share for the three and nine month periods ended September 30, 2015 and 2014:

	Three month periods ended September 30,		Nine month periods ended September 30,	
Basic loss per share	2015	2014	2015	2014
Net loss	$ (2,163,096)	$ (2,275,797)	$ (16,548,677)	$ (4,540,891)
Weighted average number of shares	9,928,233	9,090,495	9,547,374	8,787,550
Total basic loss per share	$ (0.22)	$ (0.25)	$ (1.73)	$ (0.52)

The shares held under the long-term incentive plan have been included in the calculation of basic earnings per share for the three and nine month periods ended September 30, 2015 and 2014 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the three and nine month periods ended September 30, 2015 and 2014 as the impact would be anti-dilutive.

(unaudited – in Canadian Dollars)

15. SHARE BASED COMPENSATION

In 2014, the Company adopted a restricted share unit (ñRSUò) plan and a stock option plan as part of its long term incentive plan.

During the nine month period ended September 30, 2015, in accordance with the plan, the Company granted 147,150 RSUs (nine month periods ended September 30, 2014 ï $nil) to certain key executives. Each RSU granted to key executives was equal to one common share. Each RSU had an average value of $26.83 calculated as the volume weighted average closing price of the common voting shares of the Company for the five trading days prior to the grant date. A total of 38,488 RSUs vested immediately. For the nine month period ended September 30, 2015, the Company recorded share based compensation expense of $1,048,382 with respect to the vested RSUs. Of the remaining 108,662 RSUs granted, 47,332 RSUôs will vest in each of the first quarters of 2016 and 2017 and 13,998 RSUs will vest in first quarter of 2018. Share based compensation expense of $609,242 and $786,581 related to unvested RSUs is included in the condensed consolidated interim statement of loss for the three and nine month period ended September 30, 2015 (for the three and nine month period ended September 30, 2014 ï $nil). Unrecognized share based compensation expense as at September 30, 2015 related to these RSUs was $2,112,552 (September 30, 2014 ï $nil) and will be amortized on a prorated basis in the consolidated statement of income or loss over the vesting period.

During the nine month period ended September 30, 2015, the Company also granted 6,701 RSUs to non-employee directors. Each RSU granted to non-employee directors was equal to one common share and had an average value of $27.38 per RSU calculated as the volume weighted average closing price of the common voting shares of the Company for the five trading days prior to the grant dates. The value of RSUs granted to non-employee directors was determined by reference to the market value for similar services. All 6,701 RSUs vested immediately. For the nine month period ended September 30, 2015, the Company recorded share based compensation expense of $183,054 with respect to the vested RSUs.

During the nine month period ended September 30, 2015, the Company granted 172,399 stock options at an average exercise price of $25.46 which had a fair value of $858,547 or $4.98 for each option (nine month period ended September 30, 2014 - $nil). Each share option granted can be converted to one common share at the exercised price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company for the five trading days prior to the grant date. The options were valued using the Black Scholes option valuation model.

Inputs into the Black Scholes option valuation model were as follows:

Grant date share price	$25.27
Exercise price	$25.46
Expected volatility	22.6%
Option life	5 years
Dividend yield	2.4%
Risk free rate	0.94%

Stock options have a five-year term and vest in each of the first quarters of 2016, 2017 and 2018. Each stock option is exercisable into one common share of the Company at the exercise price specified in the terms of the option agreement. The option based compensation expense will be amortized on a prorated basis in the consolidated statement of income or loss over the vesting period. The Company recognized an expense of $161,034 and $185,540, respectively, for the three and nine month periods ended September 30, 2015 (September 30, 2014 ï $nil) in respect of the amortization of options over the vesting period. The unrecognized value as at September 30, 2015 related to these options was $673,007 (September 30, 2014 ï $nil) and will be amortized on a prorated basis in the consolidated statement of income or loss over the vesting period.

16. FINANCIAL INSTRUMENTS

Derivative financial instruments

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

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

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

Total return swap

The Company has an obligation to pay additional fees under certain aircraft loans and capital leases that are based on the difference between the exercise price of 293,332 shares of Cargojet (CJT-A) and the market price on the date when the rights are exercised by the lender. 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 agreement, the Company will pay interest to the financial institution based on Canadian LIBOR and the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares.

The Company did not designate the total return swap agreement as a cash flow hedge for accounting purposes. As at September 30, 2015, the swap was not effective, therefore the fair value of the swap was not determined.

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Fair values

The fair value of the convertible debentures, based on discounted cash flow as at September 30, 2015, was approximately $73,600,000 (December 31, 2014 ï $75,834,000). The fair value of the long-term debt as disclosed in Note 5 was approximately equal to its carrying value. The fair values of the notes receivables and finance lease receivable as at September 30, 2015 and December 31, 2014 were approximately equal to their carrying values. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

At September 30, 2015, the Company had foreign exchange forward contracts outstanding to buy US$ 52.5 million at a weighted average contracted rate of 1.2770 (December 31, 2014 ï nil). The derivative contracts are recorded at fair market value, which fair value is classified as Level 2 under the fair value hierarchy. The estimated net loss on the foreign exchange forward contracts of $2,700,103 for the period is included in other losses on the condensed consolidated interim statement of loss.

There are no other assets or liabilities recorded at fair value as at September 30, 2015 and December 31, 2014.

17. SUBSEQUENT EVENTS:

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