Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three and nine month periods ended September 30, 2016 and 2015

(unaudited – expressed in millions of Canadian dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets
As at September 30, 2016 and December 31, 2015

(unaudited, in millions of Canadian dollars)

	Note	September 30, 2016	December 31, 2015
		$	$
ASSETS			
CURRENT ASSETS			
Cash		24.2	6.0
Trade and other receivables		26.4	28.8
Inventories		0.7	0.8
Prepaid expenses and deposits		2.8	4.7
Income taxes recoverable		0.1	0.1
Current portion of notes receivable		-	0.2
		54.2	40.6
NON-CURRENT ASSETS			
Property, plant and equipment	3, 4	367.1	357.2
Goodwill		46.4	46.4
Intangible assets		2.0	2.0
Deposits		4.9	4.5
		474.6	450.7
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		26.3	27.0
Dividends payable		1.8	1.5
Borrowings	4	56.0	4.0
Finance leases	5	12.4	13.4
		96.5	45.9
NON-CURRENT LIABILITIES			
Borrowings	4	0.2	133.5
Finance leases	5	121.7	140.2
Provisions	6	2.3	2.4
Convertible debentures	7	180.8	71.1
Deferred income taxes	8	4.9	2.8
		406.4	395.9
EQUITY		68.2	54.8
		474.6	450.7

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

CARGOJET INC.

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

Three and nine month periods ended September 30, 2016 and 2015

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

	Note	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
		$	$	$	$
REVENUES		80.7	75.3	236.9	204.6
DIRECT EXPENSES	9	59.9	64.6	178.6	185.6
		20.8	10.7	58.3	19.0
General and administrative expenses	10	8.5	7.6	25.0	23.7
Sales and marketing expenses		0.3	0.3	1.5	0.9
Impairment of property, plant and equipment	3	3.9	-	3.9	-
Finance costs		7.7	5.9	23.5	16.0
Loss on extinguishment of debt	4	6.0	-	6.0	-
Other losses (gains)	11	1.1	(0.3)	(5.4)	0.3
		27.5	13.5	54.5	40.9
(LOSS) EARNINGS BEFORE INCOME TAXES		(6.7)	(2.8)	3.8	(21.9)
(RECOVERY) PROVISION FOR INCOME TAXES	8				
Deferred		(1.9)	(0.6)	0.4	(5.3)
NET (LOSS) EARNINGS AND COMPREHENSIVE (LOSS)		(4.8)	(2.2)	3.4	(16.6)
(LOSS) EARNINGS PER SHARE	13				
- Basic		$(0.46)	$(0.22)	$0.33	$(1.73)
- Diluted		$(0.46)	$(0.22)	$0.32	$(1.73)

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

CARGOJET INC.

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

(unaudited, in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, January 1, 2016		91.3	1.9	5.2	2.8	(46.4)	54.8
Net earnings and comprehensive income		-	-	-	-	3.4	3.4
Treasury shares - net	12	0.2	-	-	-	-	0.2
Restricted shares vested	12,14	1.6	0.4	-	-	-	2.0
Private placement of shares		3.3	-	-	-	-	3.3
Conversion option on debenture		-	-	6.6	-	-	6.6
Deferred tax on conversion option - net		-	-	(1.8)	-	0.1	(1.7)
Convertible debenture - conversion	7,12	4.5	-	(0.3)	0.3	-	4.5
Dividends	12	-	-	-	-	(4.9)	(4.9)
Balance, September 30, 2016		100.9	2.3	9.7	3.1	(47.8)	68.2
Balance, January 1, 2015		79.8	0.5	5.8	2.2	(22.8)	65.5
Net loss and comprehensive loss		-	-	-	-	(16.6)	(16.6)
Treasury shares - net		0.4	-	-	-	-	0.4
Share-based compensation		1.2	0.7	-	-	-	1.9
Deferred tax on conversion option - net		-	-	-	-	0.2	0.2
Convertible debenture - conversion	7	9.6	-	(0.7)	0.7	-	9.6
Dividends	12	-	-	-	-	(4.3)	(4.3)
Balance, September 30, 2015		91.0	1.2	5.1	2.9	(43.5)	56.7

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows
Nine month periods ended September 30, 2016 and 2015

(unaudited, in millions of Canadian dollars)

	Note	Nine months ended September 30, 2016	2015
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings (loss)		3.4	(16.6)
Items not affecting cash			
Depreciation of property, plant and equipment	3	31.1	22.9
Share-based compensation	14	2.2	2.3
Finance costs		23.5	16.0
Gain on disposal of property, plant and equipment		-	(0.5)
Impairment of property, plant and equipment	3	3.9	-
Income tax provision (recovery)	8	0.4	(5.3)
Unrealized foreign exchange gains		(1.2)	(2.2)
Gain on cash settled share-based payment arrangements		(4.2)	(1.3)
		59.1	15.3
Items affecting cash			
Interest paid		(21.6)	(14.6)
Income tax receipts		-	4.1
		37.5	4.8
Changes in non-cash working capital items and deposits			
Trade and other receivables		2.1	(1.1)
Inventories		0.1	(0.2)
Prepaid expenses and deposits		1.5	3.5
Trade and other payables		(0.7)	3.2
NET CASH GENERATED FROM OPERATING ACTIVITIES		40.5	10.2
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(116.0)	(1.0)
Proceeds from borrowings		38.0	108.5
Repayment of obligations under finance leases		(17.6)	(7.8)
Proceeds from debenture issuance		119.3	-
Proceeds from private placement		3.3	-
Dividends paid to shareholders	12	(4.6)	(4.2)
NET CASH FROM FINANCING ACTIVITIES		22.4	95.5
CASH FLOWS USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	3	(44.9)	(105.0)
Proceeds from disposal of property, plant and equipment		-	0.2
Acquisition of business		-	(1.0)
Collection of notes receivable		0.2	0.7
Collection of finance lease receivable		-	0.1
NET CASH USED IN INVESTING ACTIVITIES		(44.7)	(105.0)
NET CHANGE IN CASH		18.2	0.7
CASH, BEGINNING OF PERIOD		6.0	-
CASH, END OF PERIOD		24.2	0.7

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

1. BASIS OF PREPARATION

These, 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 Accountants of Canada Handbook – Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34*, Interim Financial Reporting* ("IAS 34"*).*

These, condensed consolidated interim financial statements include the accounts of Cargojet Inc. ("Cargojet" or the "Company") and Cargojet owned subsidiaries, Cargojet GP Inc. ("CGP"), Cargojet Holdings Limited Partnership ("CHLP"), and CHLP's wholly owned subsidiaries, Cargojet Holdings Ltd. ("CJH"), CJH's wholly owned subsidiary, 2422311 Ontario Inc., CJH's wholly owned subsidiary, ACE Air Charter Inc. ("ACE"), ACE's wholly owned subsidiaries, ACE Maintenance Ontario Inc. ("ACEM"), 2166361 Ontario Inc. ("ACEO"), and ACEO's wholly owned subsidiary, Navigatair Inc. ("NAVIGATAIR"), CJH's wholly owned subsidiary, Cargojet Airways Ltd. ("CJA") and Cargojet Partnership ("CJP").

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

These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2015.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these condensed consolidated interim financial statements as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2015.

Standards, amendments and interpretations issued and not yet adopted

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

IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income ("OCI") instead of net income unless this would create an accounting mismatch. IFRS 9 sets a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting. The standard introduced a new expected loss impairment model. The standard is applied retrospectively with some exceptions related to the hedge accounting requirements and the restatement of prior periods for classification and measurement including impairment. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January, 1 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

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

Leases: In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, 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.

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

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

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

2. NATURE OF THE BUSINESS

The Company operates a domestic overnight air cargo co-load network between fourteen major Canadian cities. The Company also provides dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis, operating between points in Canada and the USA. As well, the Company operates scheduled international routes for multiple cargo customers between the USA and Bermuda and Canada and Germany and flights between Canada and Colombia, Mexico and Peru.

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

These condensed consolidated interim financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on November 7, 2016.

3. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2016	Additions	Transfers	Disposals	Balance as at September 30, 2016
	$	$	$	$	$
Aircraft hull	200.1	22.1	7.8	-	230.0
Engines	100.6	10.6	3.2	-	114.4
Spare parts	2.6	0.5	-	-	3.1
Ground equipment	20.2	0.2	-	-	20.4
Rotable spares	23.7	2.9	-	-	26.6
Computer hardware and software	7.6	0.7	-	-	8.3
Furniture and fixtures	2.3	0.1	-	-	2.4
Leasehold improvements	10.9	-	0.3	-	11.2
Vehicles	2.7	0.2	-	-	2.9
Hangar and cross-dock facilities	23.8	-	-	-	23.8
Property, plant and equipment under development	17.1	1.3	(11.9)	-	6.5
Deferred heavy maintenance	35.2	6.3	0.6	-	42.1
	446.8	44.9	-	-	491.7

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

Accumulated Depreciation	Balance as at January 1, 2016	Depreciation	Impairment	Balance as at September 30, 2016	Net Book Value September 30, 2016
	$	$	$	$	$
Aircraft hull	16.3	11.2	1.4	28.9	201.1
Engines	20.8	9.1	-	29.9	84.5
Spare parts	-	-	-	-	3.1
Ground equipment	7.8	1.6	-	9.4	11.0
Rotable spares	10.9	1.3	-	12.2	14.4
Computer hardware and software	4.7	0.6	-	5.3	3.0
Furniture and fixtures	1.1	0.1	-	1.2	1.2
Leasehold improvements	7.6	0.8	-	8.4	2.8
Vehicles	1.0	0.2	-	1.2	1.7
Hangar and cross-dock facilities	5.3	0.7	-	6.0	17.8
Property, plant and equipment under development	-	-	2.5	2.5	4.0
Deferred heavy maintenance	14.1	5.5	-	19.6	22.5
	89.6	31.1	3.9	124.6	367.1

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

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

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

Property, plant and equipment under development of $4.0 (2015 - $17.1) 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, 2016, the Company completed the modification of one of its Challenger 601 aircraft and the acquisition of one Boeing 767-300 aircraft under the Aircraft facility arrangement as disclosed in Note 4.

For the nine month period ended September 30, 2016, no interest costs were capitalized to property, plant and equipment under development relating to funds borrowed specifically to acquire and/or modify certain assets. For the nine month period ended September 30, 2015, $1.5 of interest costs were capitalized to property, plant and equipment under development that includes interest paid of $1.2 and accretion of $0.3 relating to funds borrowed specifically to acquire and/or modify certain assets.

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

During the nine month period ended September 30, 2016, the Company reviewed the carrying value of the two operational Challenger 601 aircraft capitalized as property, plant and equipment and estimated that the aircraft's recoverable value was less than its carrying value. The recoverable amount was determined on a fair value less cost to sell basis, fair value being the market value for similar aircraft. As a result, the Company reported a loss of $1.4 million on impairment of property, plant and equipment for the nine month period ended September 30, 2016.

The Company also reviewed the carrying value of the other three Challenger 601 aircraft included in property, plant and equipment under development and determined that the recoverable amount was less than the carrying amount. Accordingly an impairment loss of $2.5 million has been recognized on these assets for the nine month period ended September 30, 2016.

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

Depreciation expense on property, plant and equipment for the three and nine month periods ended September 30, 2016 totaled $11.0 and $31.1 (2015 - $8.6 and $22.9 , respectively).

4. BORROWINGS

Borrowings consist of the following:

	September 30, 2016	December 31, 2015
	$	$
Revolving credit facility	-	41.2
Aircraft facility arrangement	56.0	96.1
Other borrowings	0.2	0.2
	56.2	137.5
Less: current portion	56.0	4.0
Long-term portion	0.2	133.5

Revolving credit facility

Effective September 20, 2016, the Company amended its revolving operating credit facility (the “facility”) availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) by, amongst other things, increasing the maximum credit available from $100 to $175 and extending the maturity date by one year to expire on December 16, 2019. The facility is restricted to $150 until the debt of $35 owing under the B767-300 aircraft loan agreement dated March 31, 2015 with a US lender is repaid and the security provided in respect thereof is released and discharged. The facility can be extended annually with the consent of the Lenders, and bears interest, payable monthly, at the lead Lender’s prime lending rate / US base rate plus 150 basis points to 200 basis points, dependent on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity.

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

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at September 30, 2016.

Included in the condensed consolidated statement of (loss) earnings and comprehensive (loss) income for the three and nine month periods ended September 30, 2016 was interest expense on the revolving credit facility of $0.6 and $2.4, respectively (2015 - $0.8 and $1.6, respectively).

Aircraft facility and loan arrangements

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

Under the terms of the AFAs, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and would be required to pay additional fees (the "share- based additional fees") equal to the positive difference between the price of 60,000 Cargojet common voting shares on the TSX on the date of the AFAs and the twenty- day volume weighted average closing price for such shares as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement.

In September 2016, the Company received a written demand to pay the cash settled share-based additional fees and paid $0.8 in full satisfaction thereof.

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

On October 7, 2016, the Company prepaid the entire outstanding amount of the two AFAs including the prepayment fees. Accordingly, the outstanding balance of the loan as at September 30, 2016 is presented as a current liability on the condensed consolidated interim balance sheets. (See Note 16, Subsequent Events)

In March 2015, the Company executed a loan facility with a US based lender for USD $27.5 and drew down on it to finance the acquisition of one Boeing 767-300 aircraft. This facility expires in April 2022 and is secured by the related aircraft and all its components and records. The estimated effective interest rate for this facility is 8.52%. The Company plans to prepay this loan in full during the first half of 2017. Accordingly, the outstanding balance of this loan as at September 30, 2016 is presented as a current liability on the condensed consolidated interim balance sheets.

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

In May 2015, the Company secured a loan facility of USD $55.0 with another US based lender to acquire two additional Boeing 767-300 aircraft. The Company drew down this loan facility to finance the acquisition of two Boeing 767-300 aircraft, one in September 2015 and the second in January 2016. On September 19, 2016, the Company prepaid the entire amount of these loans including the prepayment fees. The prepayment resulted in a pre-tax loss of $6.0 including prepayment fees and unamortized transaction costs. The Company used the proceeds of the convertible debenture issued in September 2016 to pay these loans. The terms of the new unsecured debenture were significantly different from the original loan facility, therefore any costs associated with the settlement were classified and recorded as loss on the extinguishment of debt.

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

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

	$
2016	22.0
2017	34.0
Total obligations under AFA and loan agreements	56.0
Less: current portion	56.0
Long-term portion	-

Interest expense on the AFAs and loan arrangements for the three and nine month periods ended September 30, 2016 totaled $2.7 and $8.4, respectively (2015 - $1.9 and $4.4, respectively).

5. FINANCE LEASES

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

Under the terms of the MLA, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and was required to pay additional fees (the “share- based additional fees”) equal to the positive difference between the price of 233,332 Cargojet common voting shares on the TSX on the date of the MLA and the twenty- day volume weighted average closing price for such shares as of the date preceding the date on which the lessor demands payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The Company had also paid success fees in an amount equal to 1.5% of the amount advanced under the MLA to an independent investment banking firm for its services towards completion of these transactions.

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

In September 2016, the Company received a written demand to pay the cash settled share- based additional fees and paid $3.8 in full satisfaction thereof.

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

The Company also has a finance lease arrangement for a Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 7.21%. The lease expires in 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, 2016.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	21.7	12.4
Later than one year and not later than five years	141.3	121.7
	163.0	134.1
Less: interest	28.9	-
Total obligations under finance leases	134.1	134.1
Less: current portion	12.4	12.4
Non-current portion	121.7	121.7

Interest amounts on the finance leases for the three and nine month periods ended September 30, 2016 totaled $2.5 and $7.7, respectively (2015 -$2.9 and $8.1,respectively) of which $nil (2015 - $0.3) was capitalized to the cost of property, plant and equipment.

6. PROVISIONS

The Company's aircraft operating lease agreements require leased aircraft to be returned to the lessor in a specified operating condition. The Company has estimated that it will incur certain maintenance costs at the end of the lease terms and has recorded a maintenance provision liability for these costs. A reconciliation of the carrying amount of the provision is as follows:

	September 30, 2016	December 31, 2015
	$	$
Balance, beginning of period	2.4	3.0
Derecognition of provision for lease return conditions	-	(0.9)
Settlement of provision for lease return conditions	-	(0.3)
Accretion	0.1	0.1
Effects of exchange rate changes on the provision balance	(0.2)	0.5
Balance, end of period	2.3	2.4
Non-current portion	2.3	2.4

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

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company's specific history. The provision has been 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.

7. CONVERTIBLE DEBENTURES

The balances of convertible debentures as at September 30, 2016 and December 31, 2015 consist of the following

	September 30, 2016	December 31, 2015
	$	$
Convertible debentures - 6.5%	-	4.2
Convertible debentures - 5.5%	68.0	66.9
Convertible debentures - 4.65%	112.8	-
Balance	180.8	71.1

Convertible debentures – 6.5% due April 30, 2017

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

During the nine month period ended September 30, 2016, convertible debentures with an aggregate principal amount of $4.4 (2015 - $10.2) were converted, at the holders' discretion, into 366,730 (2015 – 870,290) voting shares of the Company. Accordingly, the Company derecognized $4.3 (2015 - $9.6) of the liability for convertible debentures, representing the amortized carrying cost of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option of $0.3 (2015 - $0.7) was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the condensed consolidated interim statements of changes in equity. No gain or loss was recognized on conversion of the debentures.

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

The balances of convertible debentures as at September 30, 2016 and December 31, 2015 consist of the following :

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

Interest expense on the debentures for the three and nine month periods ended September 30, 2016 totaled $ nil and $0.2, respectively (2015 - $0.1 and $0.7, respectively).

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

From December 31, 2015 to April 27, 2016 all but $0.2 of the outstanding 6.5% Debentures were converted into common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining $0.2 of the outstanding 6.5% Debentures were redeemed by issuing 8,184 common voting shares of the Company and paying accrued and unpaid interest in cash to the holders thereof.

Convertible debentures – 5.5% due June 30, 2019

In April 2014, $74.0 of unsecured subordinated convertible debentures were issued with a term of five years. These debentures bear a fixed interest rate of 5.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2014.

During the nine month period ended September 30, 2016, convertible debentures with an aggregate principal amount of $0.2 (2015 - $nil) were converted, at the holders' discretion, into 7,696 (2015 – nil) voting shares of the Company. Accordingly, the Company derecognized $0.2 (2015 - $nil) of the liability for convertible debentures, representing the amortized carrying cost of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the condensed consolidated interim statements of changes in equity. No gain or loss was recognized on conversion of the debentures.

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

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

	September 30, 2016	December 31, 2015
	$	$
Principal balance	73.8	74.0
Less:		
Issuance costs	(3.3)	(3.3)
Conversion option at inception	(6.6)	(6.6)
Accretion	4.1	2.8
Balance	68.0	66.9

Interest expense on the debentures for the three and nine month periods ended September 30, 2016 totaled $1.5 and $4.4, respectively (2015 - $1.4 and $4.3 respectively). For the nine month period ended September 30, 2016 interest of $nil (2015 – $1.2) was capitalized to the cost of property, plant and equipment.

Convertible debentures – 4.65% due December 31, 2021

In September 2016, $125.0 of unsecured subordinated convertible debentures were issued at a price of $1000 per debeture with a term of five years. These debentures bear a fixed interest rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2016. The intended use of the net proceeds of the debentures is to refinance three US dollar denominated aircraft finance loans .

On or after December 31, 2019, but prior to December 31, 2020, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to their principal amount plus accrued and unpaid interest, provided the current market price of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $58.65 per common share. On or after December 31, 2020, but prior to the maturity date of December 31, 2021, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on December 31, 2021, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $58.65 per voting share at any time prior to the close of business on the earliest of the business day immediately preceding the maturity date; if called for redemption, on the business day immediately preceding the date specified by the Company for redemption of the debentures; or if called for repurchase pursuant to a change of control, on the business day immediately preceding the payment date. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract. The conversion rate of $58.65 per voting share is subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.25 per quarter ($1.0 per annum).

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

In the event of a change in control, as defined in the indenture, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 100% of the principal amount plus accrued and unpaid interest. In addition, if a change in control occurs in which 10% or more of the consideration consists of cash, certain equity securities or other property not traded or intended to be traded immediately following such transaction on a recognized exchange, holders of the debentures will be entitled to convert their debentures and, subject to certain limitations, receive an additional amount of voting shares to those that they would otherwise be entitled at the normal conversion rate. The amount of such additional voting shares will depend on the effective date and the price paid per voting share in the transaction constituting the change in control.

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

	September 30, 2016	December 31, 2015
	$	$
Principal balance	125.0	-
Less:		
Issuance costs	(5.3)	-
Conversion option at inception	(6.9)	-
Accretion	-	-
Balance	112.8	-

Interest expense on the debentures for the three and nine month periods ended September 30, 2016 totaled $0.3 and $0.3, respectively (2015 - $nil and $nil, respectively).

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

8. INCOME TAXES

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

	Three- month periods September 30,		Nine- month periods September 30,	
	2016	2015	2016	2015
	$	$	$	$
(Loss) earnings before income taxes	(6.7)	(2.8)	3.8	(21.9)
(Recovery of) and provision for income taxes at the basic rate of 26.5% (2015 - 26.5%)	(1.8)	(0.7)	1.0	(5.8)
Permanent and other differences	(0.1)	0.1	(0.6)	0.5
(Recovery of) and provision for income taxes	(1.9)	(0.6)	0.4	(5.3)

The tax effect of significant temporary differences is as follows:

	As at September 30, 2016	December 31, 2015
	$	$
Property, plant and equipment	8.7	4.1
Operating loss carry forward	(11.5)	(8.2)
Licences	0.3	0.3
Intangible assets	(0.5)	(0.5)
Derivative contracts	0.1	1.3
Financing costs	(0.4)	(0.3)
Convertible debentures	2.8	1.3
Provision for lease retirement costs	(0.5)	(0.5)
Unrealized capital loss	-	(0.1)
Deferred heavy maintenance	5.9	5.4
Net deferred income tax liability	4.9	2.8

9. DIRECT EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Fuel costs	14.4	18.1	40.8	50.5
Maintenance costs	5.1	4.9	16.1	15.7
Heavy maintenance amortization	2.0	1.5	5.5	4.5
Aircraft costs	5.4	8.3	19.3	27.7
Crew costs	5.7	6.5	16.8	17.2
Depreciation	8.8	6.8	24.9	17.7
Commercial and other costs	18.5	18.5	55.2	52.3
Direct expenses	59.9	64.6	178.6	185.6

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

10. GENERAL AND ADMINISTRATIVE EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Salaries and benefits	4.7	4.5	14.1	13.4
Depreciation	0.2	0.3	0.7	0.7
Net realized foreign exchange (gain) loss	(3.1)	(0.2)	(3.4)	0.8
Bonuses and incentives	2.1	1.0	3.8	2.4
Audit, legal and consulting	0.3	0.4	1.0	1.1
IT network and communications	0.5	0.5	1.7	1.4
Other general and administrative expenses	3.8	1.1	7.1	3.9
General and administrative expenses	8.5	7.6	25.0	23.7

11. OTHER LOSSES (GAINS)

Other losses (gains) consist of the following:

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2016	2015	2016	2015
	$	$	$	$
Gain on disposal of property, plant and equipment	-	-	-	(0.5)
Net (gain) loss on forward foreign exchange contracts	(1.0)	(4.6)	4.5	(2.7)
Gain on cash settled share- based payment arrangements	(3.9)	(1.3)	(4.2)	(1.3)
Unrealized foreign exchange loss- other	0.1	0.7	(0.2)	0.7
Unrealized foreign exchange loss (gain) on leases and loans	5.9	4.9	(5.5)	4.1
Other losses (gains) , net	1.1	(0.3)	(5.4)	0.3

12. SHAREHOLDERS' CAPITAL

Issued and outstanding

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

	Number of shares	Amount
		$
Variable voting shares	101,164	0.9
Common voting shares	9,997,560	90.4
Outstanding- December 31, 2015	10,098,724	91.3
Changes during the period		
Voting shares issued on conversion of convertible debentures	374,416	4.5
Private placement of shares	100,000	3.3
Restricted share units settled	60,462	1.6
Distribution of Treasury shares	9,729	0.2

Outstanding- September 30, 2016	10,643,331	100.9
Consisting of:		
Variable voting shares	202,222	1.9
Common voting shares	10,441,109	99.0
Outstanding- September 30, 2016	10,643,331	100.9

Dividends

Dividends to shareholders declared for the three and nine month periods ended September 30, 2016 amounted to $1.8 ($0.1750 per share) and $4.9 ($0.4732 per share), respectively, and for the three and nine month periods ended September 30, 2015 amounted to $1.5 ($0.1491 per share) and $4.3 ($0.4473 per share), respectively.

13. (LOSS) EARNINGS PER SHARE

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

In millions except per share	Three month periods ended September 30,		Nine month periods ended September 30,	
Basic (loss) earnings per share	2016	2015	2016	2015
Net (loss) earnings	($4.8)	($2.2)	$3.4	($16.6)
Weighted average number of shares	10.5	9.9	10.4	9.5
Dilutive impact of share- based awards	0.2	-	0.2	-
Diluted weighted average number of shares	10.7	9.9	10.6	9.5
Total basic (loss) earnings per share	($0.46)	($0.22)	$0.33	($1.73)
Total diluted (loss) earnings per share	($0.46)	($0.22)	$0.32	($1.73)

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, 2016 and 2015 as the impact would be anti-dilutive. Diluted earning includes the potentially dilutive impact of share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

14. SHARE- BASED COMPENSATION

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

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

During the nine month period ended September 30, 2016, in accordance with the RSU Plan, the Company granted 26,690 RSUs to certain key executives. Each RSU had an average value of $26.50 Dollars calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. Of these RSUs granted, 8,896 RSUs vested and were settled on the grant date. Of the remaining 17,794 RSUs granted, 8,897 RSUs will vest in each of the first quarters of 2017 and 2018.

During the nine month period ended September 30, 2016, the Company also granted 2,264 RSUs to two non-employee directors. Each RSU had an average value of $26.50 Dollars calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant dates. All 2,264 RSUs vested and were settled on the grant date. A third non-employee and non-Canadian director was paid $0.02 net of taxes of $0.02 to acquire 700 variable voting shares of the Company from the open market at an average value of $26.96 Dollars per share. The withheld amount of $0.02 of tax was remitted by the Company. The transaction is classified as a cash settled share-based transaction. The value of RSUs granted to non-employee directors was determined by reference to the market value for similar services.

During the nine month period ended September 30, 2016, 47,333 RSUs granted to executives in 2015 vested and were settled and an amount of $1.3 was transferred to the share capital account from contributed surplus. Since inception, in accordance with the RSU Plan, the RSUs granted to executives accrued notional dividend equivalents to 1,969 RSUs that were issued, vested and were settled upon the satisfaction of the vesting conditions of the related RSUs during the quarter. An amount of $0.05 was recognized as share-based compensation.

The RSU activity for the comparative periods is summarized below:

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

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

During the three and nine month periods ended September 30, 2016, the total share based compensation expenses of $0.3 and $1.6, respectively, related to settled and unvested RSUs is included in the condensed consolidated interim statements of earnings (loss) and comprehensive income (loss) (for the three and nine month periods ended September 30, 2015 – $0.6 and $2.0, respectively). Unrecognized share-based compensation expense as at September 30, 2016 related to these RSUs was $0.8 (September 30, 2015 – $2.1) and will be amortized on a pro-rated basis in the consolidated statements of earnings (loss) and comprehensive income (loss) over the vesting period.

Effective March 28, 2016, the Company granted 240,292 options in accordance with the Stock Option Plan at an average exercise price of $26.50 Dollars which had a fair value of $1.3 (or $5.43 Dollars for each Option). Each Option granted is exercisable for one common voting share of the Company at the exercise price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. The fair value of each Option was determined using the Black- Scholes option valuation model, with the following assumptions: (i) grant date share price $26.50 Dollars; (ii) exercise price $26.50 Dollars; (iii) expected volatility 32.4%; (iv) option life five years; (v) dividend yield 2.5%; and (vi) risk free rate 0.63%.

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

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

Each Option is exercisable into one common voting share of the Company at the exercise price thereof. The option based compensation expenses will be amortized on a pro-rated basis in the consolidated statements of earnings or (loss) over the vesting period.

As at September 30, 2016 there were a total of 137,563 vested Options and the weighted average contractual life remaining of the outstanding Options, both vested and non-vested, is 4.4 years.

The Options activity during the period ended September 30, 2016 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in $
Balance as at January 1, 2016	172,399	$25.46
Granted in the period	240,292	$26.50
Balance as at September 30, 2016	412,691	$26.07

During the three and nine month periods ending September 30, 2016, the Company recognized an expense of $0.3 and $0.7, respectively (for the three and nine month periods ended September 30, 2015 – $0.2 and $0.2, respectively) in respect of the amortization of Options over the vesting period. The unrecognized value as at September 30, 2016 related to the Options was $1.1 (September 30, 2015 – $0.8) and will be amortized on a pro-rated basis in the consolidated statements of earnings (loss) over the vesting period.

15. FINANCIAL INSTRUMENTS

Derivative financial instruments

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

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

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

Total return swap

The Company had an obligation to pay share-based additional fees under the MLA and AFAs. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company 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.

On September 30, 2016, the Company settled its obligation under the cash settled stock appreciation rights by paying $4.6. The total return swap is pending settlement as at September 30, 2016. The fair market value of the swap was $5.2 in favour of the Company and is included under trade and receivables on the balance sheet and the change during the three and nine month period of $2.4 and $4.2, respectively (for the three and nine month periods ended September 30, 2015 ($nil and $nil, respectively) is included as other gains in the condensed consolidated interim statements of (loss) earnings and comprehensive (loss) income.

Fair values

The fair value of the 5.5% convertible debentures, based on discounted cash flow as at September 30, 2016, was approximately $76.0 (December 31, 2015 – $74.5). The fair value of the 4.65% convertible debentures as at September 30, 2016, was approximately equal to its carrying value (December 31, 2015 - $nil). The fair value of the long-term debt as disclosed in Note 4 was approximately equal to its carrying value. The debts are categorized as Level 3 under the fair value hierarchy. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items. The fair values of the interest rate swap and the forward contracts are the estimated amounts the issuer would receive or pay to terminate the agreement at the reporting date. Unrealized gains on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in the condensed consolidated interim balance sheets.

As at September 30, 2016, the Company had foreign exchange forward contracts outstanding to buy US $53.5 at a weighted average contracted rate of CAD $1.2978 per US dollar (December 31, 2015 – US$ 71.9 at a weighted average contracted rate of CAD $1.3007 per US dollar). The derivative contracts are recorded at fair value; fair value is classified as Level 2 under the fair value hierarchy. The estimated value of the foreign exchange forward contracts as at September 30, 2016 is a receivable of $0.4 (December 31, 2015 – receivable of $4.9)

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

16. SUBSEQUENT EVENTS

On October 7, 2016, the Company prepaid the entire outstanding amount of its two AFAs with a Canadian equipment and leasing company including the prepayment fees. The prepayment resulted in a pre-tax loss of $1.6 including prepayment fees and unamortized transaction costs, which was recorded as a loss on the extinguishment of debt.