CARGOJET INC.

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

For the Three and Nine Month
Periods Ended September 30, 2016

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three and nine month periods ended September 30, 2016. The following also includes a discussion of and comparative operating results for the three and nine month periods ended September 30, 2015.

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

The effective date of the MD&A is November 7, 2016. The condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34*, Interim Financial Reporting* ("IAS 34"*).* This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three and nine month periods ended September 30, 2016 and 2015 and with audited consolidated financial statements of the Company for the year ended December 31, 2015 and 2014.

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

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

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods and improve comparability between other companies including other airlines. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with its debt covenants. Investors are cautioned that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are shown on page 16 of the MD&A.

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

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company. (See the MD&A for the three month period and the year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com for a more complete discussion of the risks affecting the Company's business.)

Caution Concerning Forward Looking Statements

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the "Risk Factors" section of the MD&A for the three month period and year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com and the Company is not aware of any significant changes to its risk factors from those disclosed at that time.

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

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

- Fleet Overview – Page 4,
- Results of operations for nine month period ended September 30, 2016 - Liquidity and capital resources – Page 29,
- Off balance sheet arrangements – Page 31, and
- Outlook – Page 33.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended September 30,				Nine Month Period Ended September 30,			
	2016	2015	Change	%	**2016**	2015	Change	%
Financial information								
Revenues	**$80.7**	$75.3	$5.4	7.2%	**$236.9**	$204.6	$32.3	15.8%
Direct expenses	**$59.9**	$64.6	($4.7)	-7.3%	**$178.6**	$185.6	($7.0)	-3.8%
Gross margin	**$20.8**	$10.7	$10.1	94.4%	**$58.3**	$19.0	$39.3	206.8%
Gross margin - %	**25.8%**	14.2%	11.6%		**24.6%**	9.3%	15.3%	
Selling, general & administrative expenses	**$8.8**	$7.9	$0.9	11.4%	**$26.5**	$24.6	$1.9	7.7%
Net finance costs & other gains and losses	**$18.7**	$5.6	$13.1	233.9%	**$28.0**	$16.3	$11.7	71.8%
(Loss) earnings before income taxes	**($6.7)**	($2.8)	($3.9)	-139.3%	**$3.8**	($21.9)	$25.7	117.4%
Income taxes	**$1.9**	$0.6	$1.3	216.7%	**($0.4)**	$5.3	($5.7)	-107.5%
Net (loss) earning	**($4.8)**	($2.2)	($2.6)	-118.2%	**$3.4**	($16.6)	$20.0	120.5%
(Loss) earnings per share - $CAD								
Basic	**($0.46)**	($0.22)	($0.24)	-109.1%	**$0.33**	($1.73)	$2.06	119.1%
Diluted	**($0.46)**	($0.22)	($0.24)	-109.1%	**$0.32**	($1.73)	$2.05	118.5%
EBITDA[1]	**$12.0**	$11.8	$0.2	1.7%	**$58.4**	$17.1	$41.3	241.5%
EBITDA margin - %	**14.9%**	15.7%	-0.8%		**24.7%**	8.4%	16.3%	
Adjusted EBITDA[1]	**$25.3**	$11.5	$13.8	120.0%	**$65.2**	$17.3	$47.9	276.9%
Adjusted EBITDA margin - %	**31.4%**	15.3%	16.1%		**27.5%**	8.5%	19.0%	
EBITDAR[1]	**$16.1**	$19.0	($2.9)	-15.2%	**$74.2**	$42.4	$31.8	75.0%
EBITDAR margin - %	**20.0%**	25.2%	-5.2%		**31.3%**	20.7%	10.6%	
Adjusted EBITDAR[1]	**$29.4**	$18.7	$10.7	57.2%	**$81.0**	$42.6	$38.4	90.1%
Adjusted EBITDAR margin - %	**36.4%**	24.8%	11.6%		**34.2%**	20.8%	13.4%	
Adjusted free cash flow[1]	**$8.2**	$4.2	$4.0	95.3%	**$30.9**	($3.9)	$34.8	892.3%
Operating statistics								
Operating days[2]	**50**	50	-	-	**150**	149	1	0.7%
Average cargo revenue per operating day[3]	**$1.22**	$1.11	$0.11	9.9%	**$1.22**	$1.05	$0.17	16.2%
Block hours	**6,151**	5,842	309	5.3%	**18,093**	16,632	1,461	8.8%
Aircraft in operating fleet								
B727-200	**6**	8	(2)		**6**	8	(2)	
B757-200	**5**	5	-		**5**	5	-	
B767-200	**1**	3	(2)		**1**	3	(2)	
B767-300	**8**	7	1		**8**	7	1	
Challenger 601	**2**	-	2		**2**	-	2	
	22	**23**	**(1)**	-4.3%	**22**	**23**	**(1)**	-4.3%
Average volume per operating day (lbs.)	**1,096,248**	1,144,148	(47,900)	-4.2%	**1,094,242**	1,007,435	86,807	8.6%
Average number of full-time equivalent employees	665	650	15	2.3%	665	650	15	2.3%

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

Corporate Overview

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

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

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

Fleet Overview

The Company initiated a fleet expansion program early in 2014 to replace four of its Boeing 727-200 ("B727") aircraft with Boeing 757-200ER ("B757") aircraft due to increased customer demand on its core overnight network. The fleet was further expanded with Boeing 767-200ER ("B767-200") and Boeing 767-300ER ("B767-300") aircraft to provide additional required cargo capacity to its customers.

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

The table below sets forth the Company's operating fleet as at December 31, 2014, 2015 and as at September 30, 2016 as well as the Company's planned operating fleet as at December 31, 2016:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs.)	Range (miles)
			Actual			Plan		
			December 31,		September 30,	December 31,		
			2014	2015	2016	2016		
B767-300[(1) (2)]	Finance Lease	22	3	5	5	5	125,000	6,000
B767-300[(2)]	Owned	22	-	2	3	3	125,000	6,000
B767-200[(3)]	Operating Lease	30	5	3	1	1	100,000	5,000
B757-200[(4)]	Owned	28	1	2	2	2	80,000	3,900
B757-200[(5)]	Operating Lease	26	3	3	3	3	80,000	3,900
B727-200[(6)]	Owned	36	9	7	6	6	60,000	1,800
Challenger 601[(7)]	Owned	29	-	1	2	2	6,000	3,300
Total Aircraft			21	23	22	22		

1. In 2014, Cargojet took delivery of three B767-300 aircraft that were financed under the MLA (as defined on page 8 of this MD&A under "Aircraft Finance Leases and Loans"). In January 2015, Cargojet took delivery of one B767-300 aircraft financed under the MLA. Cargojet took delivery of one B767-300 aircraft in March 2015 under a lease with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price and was classified as a finance lease.
2. Cargojet took delivery of one B767-300 aircraft in April 2015, one B767-300 aircraft in September 2015 and one B767-300 aircraft in January 2016. These aircraft were financed by loans. Two of these loans were repaid in September 2016 (refer to page 8 under "Aircraft Finance Leases and Loans").
3. In 2014, Cargojet subleased one B767-200 aircraft from a Canadian airline. This sublease expired in March 2016 and the aircraft was returned in April 2016. Two B767-200 aircraft were leased on a short term basis that expired in July and August of 2015. Of the two remaining B767-200 aircraft under lease, one aircraft lease was extended to June 2018 and the other aircraft was returned to the lessor at the end of March 2016 after the expiry of the lease.
4. In 2014, Cargojet purchased one previously leased B757-200 aircraft and purchased an additional B757-200 that underwent conversion from a passenger aircraft to freighter aircraft and became operational in early 2015.
5. In 2014, Cargojet leased two additional B757-200 aircraft and extended the lease of its existing B757-200 aircraft. The leases of the B757-200 aircraft expire respectively at the end of 2017, in 2020 and 2022.
6. Cargojet took two B727-200 aircraft out of regular service in 2015 and retired one B727-200 aircraft in 2016.
7. In 2014, Cargojet purchased five Challenger 601 aircraft. The Company entered into a charter agreement with a third party to operate and manage two of these aircraft to provide the aircraft for individual and corporate charterers. Two of these aircraft are currently in operation. Two of these aircraft are being considered for conversion to cargo operations and the fifth aircraft is being held for parts.

Recent Events

Convertible Debentures – 4.65% due December 31, 2021

In September 2016, $125 million of unsecured subordinated convertible debentures were issued at a price of $1,000 per debenture with a term of five years. These debentures bear a fixed interest rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2016. The intended use of the net proceeds of the debentures is to refinance three US dollar denominated aircraft finance loans .

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 per debenture plus accrued and unpaid interest, provided that 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) per share.

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.

Private Placement of Shares

On September 28, 2016 the Company completed the private placement of 100,000 variable shares to one of its director. The Company intends to use the proceeds from such placement for general corporate and working capital purposes.

New Flights

Starting on June 10, 2016 the Company commenced cargo flights under an ACMI contract with another Canadian airline. The Company operates two flights per week between Canada and Mexico, and one flight per week between Canada and Colombia and Peru.

Redemption of 6.5% Convertible Debentures

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

From December 31, 2015 to April 27, 2016 all but $216,000 of the outstanding 6.5% Debentures were converted to common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining $216,000 of the outstanding 6.5% Debentures were redeemed by issuing 8,184 common voting shares of the Company and paying accrued and unpaid interest of $6,885 in cash to the holders thereof.

Syndicated Operating 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 million to $175 million and extending the maturity date by one year to expire on December 16, 2019. The facility is restricted to $150 million until the debt of $35 million 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.

Canada Post Letter of Credit

On July 5, 2016, the Company cancelled a $20 million of letter of credit issued to the Canada Post Group Of Companies ("CPGOC") under the terms of the Master Services Agreement ("MSA") after successfully completing the performance conditions specified in the MSA.

Acquisition of Property, Plant and Equipment

During the nine month period ended September 30, 2016, the Company completed the modification of one of its Challenger 601 aircraft for $3.0 million and financed the acquisition of one B767-300 aircraft for USD $27.5 million pursuant to a USD $55.0 million facility with a US based lender. This facility was repaid in September 2016. See Page 8 under "Aircraft Finance Leases and Loans" for more details.

Impairment of Challenger Aircraft

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 costs 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.

Aircraft Finance Leases and Loans

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") and two aircraft loan facility agreements (the "AFAs") with a Canadian equipment leasing and financing company. 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. The Company completed four finance leases to acquire four B767-300 aircraft under the MLA in the aggregate amount of $120.0 million and refinanced two B757-200 aircraft owned by the Company under the AFAs in the aggregate amount of $25.0 million. Each lease under the MLA and each loan under the AFAs have a term of seven years. The AFAs are secured by the related aircraft and all their components and records.

The amounts advanced under the MLA and the AFAs were advanced in two tranches, A and B, with tranche A under the MLA being 84% of the amounts advanced thereunder and under the AFAs being 91% of the amounts advanced thereunder. Tranche B in each case was equal to the balance of the total amounts advanced.

The estimated effective interest rate in respect of the MLA is 7.26%. The estimated effective interest rate in respect of the AFAs is 8.04%.

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

Under the MLA and the AFAs, 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 293,332 Cargojet common voting shares (233,332 with respect to the MLA and 60,000 with respect to the AFAs) on the TSX on the date of the MLA or the AFAs as the case may be and the twenty day volume weighted average closing price for such share as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The share based additional fees have been accounted for as cash settled share based compensation options. The Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements (please see Page 12 under "Total Return Swap" in this regard). The Company has also paid success fees in the amount equal to 1.5% of the amount advanced under the MLA and the AFAs to an independent investment banking firm for its services towards completion of these transactions.

In September 2016, the Company received a written demand to pay the share based additional fees under the MLA and AFAs and paid $4.6 million in full satisfaction thereof. As at September 2016, the total return swap having a fair value of $5.2 million in favor of the Company was not settled.

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 million including prepayment fees and unamortized transaction costs and recorded them as a loss on the extinguishment of debt.

The Company also has a finance lease arrangement for a B767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for the lease facility during the period is 7.21%. The lease is expected to mature on the early exercisable date of the bargain purchase option in March 2018.

The Company executed a separate loan agreement on March 31, 2015 with a US based lender for USD $27.5 million to acquire a B767-300 aircraft. The loan matures in April 2022 and is secured by the related aircraft and all its components and records. The funds under the loan were received on April 8, 2015. The estimated effective interest rate for this loan agreement is 8.52%. The Company is looking to repay this loan in the first half of year 2017.

In May 2015, the Company secured a loan facility of USD $55.0 million with another US based lender to acquire two additional B767-300 aircraft. The Company drew down this loan facility to finance the acquisition of two B767-300 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 million 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 such debenture were significantly different from the original loan facility, therefore any costs associated with the prepayment were classified and recorded as loss on the extinguishment of debt.

Share-Based Compensation

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

During the 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 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 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 million net of taxes of $0.02 million to acquire 700 variable voting shares of the Company from the open market at an average value of $26.96 per share. The withheld amount of $0.02 million 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 million 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 million was recognized as the share-based compensation.

The RSU activity for the comparative periods is summarized below:

	Nine month periods ending 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

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

Effective March 28, 2016, the Company granted 240,292 Options in accordance with the Stock Option Plan at an average exercise price of $26.50, which had a fair value of $1.3 million or $5.43 for each Option. Each Option granted is exercisable for one common voting share of the Company at the exercise price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. The fair value of the Options was determined using the Black- Scholes option valuation model, with the following assumptions: (i) grant date share price $26.50; (ii) exercise price $26.50; (iii) expected volatility 32.4%; (iv) option life 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, which had a fair value of $0.9 million or $4.98 for each Option. The Options have a five-year term and vest in each of the first quarters of 2016, 2017 and 2018. The fair value of the Options was determined using the Black- Scholes option valuation model with the following assumptions: (i) grant date share price $25.27; (ii) exercise price $25.46; (iii) expected volatility 22.6%; (iv) option life 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 specified in the terms of the option agreement. 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 $**
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 million and $0.7 million respectively (for the three and nine month periods ended September 30, 2015 – $0.2 million and $0.2 million, 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 $1.4 million (September 30, 2015 – $0.7 million) and will be amortized on a pro-rated basis in the consolidated statement of earnings (loss) and comprehensive income (loss) over the vesting period.

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 pay 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 to pay the share based additional fees by paying $4.6 million. The total return swap is pending settlement as at September 30, 2016. The fair market value of the swap was $5.2 million in favour of the Company under trade and receivables on the balance sheet and the change during the three and nine month period of $2.4 million and $4.2 million 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.

Revenues

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

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

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

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

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

- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends. Adhoc flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:
    - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
    - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 13). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.

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

Expenses

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

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

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

Results of Operations and Supplementary Financial Information

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

	Three month period ended September 30, 2016		**Nine month period ended September 30, 2016**	
	2016	2015	**$**	$
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	$	$
Revenues	**80.7**	75.3	**236.9**	204.6
Direct expenses	**59.9**	64.6	**178.6**	185.6
	20.8	10.7	**58.3**	19.0
General and administrative expenses	**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	**3.9**	-	**3.9**	-
Finance costs	**7.7**	5.9	**23.5**	16.0
Loss on extinguishment of debt	**6.0**	-	**6.0**	-
Other losses (gains)	**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 of income taxes				
Deferred	**(1.9)**	(0.6)	**0.4**	(5.3)
Net (Loss) Income	**(4.8)**	(2.2)	**3.4**	(16.6)
(Loss) earnings per share				
Basic	**$(0.46)**	$(0.22)	**$0.33**	$(1.73)
Diluted	**$(0.46)**	$(0.22)	**$0.32**	$(1.73)
Average number of shares - basic (in thousands of shares)	**10,540**	9,928	**10,386**	9,547
Average number of shares - diluted (in thousands of shares)	**10,778**	9,928	**10,622**	9,547

Summary of Most Recently Completed Consolidated Quarterly Results (unaudited)

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

	Three Month Periods Ended							
	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	Dec 31 2014
Revenues	$80.7	$79.3	$76.9	$84.4	$75.3	$75.2	$54.1	$57.1
Net (loss) income from continuing operations	$(4.8)	$3.8	$4.4	$(1.5)	$(2.2)	$(6.1)	$(8.3)	$(5.0)
(Loss) Earnings per Share								
From continuing operations								
- Basic	$(0.46)	$0.36	$0.43	$(0.15)	$(0.22)	$(0.64)	$(0.90)	$(0.54)
- Diluted	$(0.46)	$0.36	$0.43	$(0.15)	$(0.22)	$(0.64)	$(0.90)	$(0.54)
Average number of shares - basic (in thousands of shares)	10,540	10,476	10,135	10,094	9,928	9,482	9,224	9,150
Average number of shares - diluted (in thousands of shares)	10,778	10,640	10,135	10,094	9,928	9,482	9,224	9,150

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

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended September		**Nine Month Period Ended September**	
	2016	2015	**2016**	2015
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net (loss) Income	**(4.8)**	(2.2)	**3.4**	(16.5)
Add:				
Interest	**7.7**	5.9	**23.5**	16.0
(Recovery) provision of deferred taxes	**(1.9)**	(0.6)	**0.4**	(5.3)
Depreciation of property, plant and equipment	**11.0**	8.6	**31.1**	22.9
EBITDA	**12.0**	11.8	**58.4**	17.1
Add:				
Gain on disposal of property, plant and equipment	**-**	-	**-**	(0.5)
Impairment of property, plant and equipment	**3.9**	-	**3.9**	-
Unrealized foreign exchange loss (gain)	**5.4**	5.5	**(6.3)**	4.7
Loss on extinguishment of debt	**6.0**	-	**6.0**	-
Unrealized (gain) loss on forward foreign exchange contracts	**(1.0)**	(4.5)	**4.5**	(2.7)
Change in fair value on cash settled share-based payment	**(1.0)**	(1.3)	**(1.3)**	(1.3)
Adjusted EBITDA	**25.3**	11.5	**65.2**	17.3
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**12.0**	11.8	**58.4**	17.1
Aircraft rent	**4.1**	7.2	**15.8**	25.3
EBITDAR	**16.1**	19.0	**74.2**	42.4
Add:				
Gain on disposal of property, plant and equipment	**-**	-	**-**	(0.5)
Impairment of property, plant and equipment	**3.9**	-	**3.9**	-
Unrealized foreign exchange loss (gain)	**5.4**	5.5	**(6.3)**	4.7
Loss on extinguishment of debt	**6.0**	-	**6.0**	-
Unrealized (gain) loss on forward foreign exchange contracts	**(1.0)**	(4.5)	**4.5**	(2.7)
Change in fair value on cash settled share-based payment	**(1.0)**	(1.3)	**(1.3)**	(1.3)
Adjusted EBITDAR	**29.4**	18.7	**81.0**	42.6
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Fl				
NET CASH GENERATED FROM OPERATING ACTIVITIES	**12.0**	11.0	**40.5**	10.2
Less: Maintenance capital expenditures[(1)]	**(2.3)**	(1.3)	**(6.6)**	(8.7)
Add: Proceeds from disposal of property, plant and equipment	**-**	-	**-**	0.1
Standardized free cash flow	**9.7**	9.7	**33.9**	1.6
Changes in non-cash working capital items and deposits	**(1.5)**	(5.6)	**(3.0)**	(5.4)
Adjusted free cash flow	**8.2**	4.2	**30.9**	(3.9)

1. Refer to the definition of maintenance capital expenditure in End note (E).

Review of Operations for the Three Month Periods ended September 30, 2016 and 2015

Net loss for the three month periods ended September 30, 2016 and 2015

(Canadian dollars in millions except where indicated)

	Q3		CHANGE	
	2016	2015	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**50.6**	49.4	1.2	2.4%
ACMI Revenues	**7.8**	2.6	5.2	200.0%
All-in Charter Revenues	**2.8**	3.6	(0.8)	-22.2%
Total overnight, ACMI and charter revenues	**61.2**	55.6	5.6	10.1%
Total Revenue - FBO	**0.1**	-	0.1	-
Total fuel and other cost pass through	**18.4**	19.4	(1.0)	-5.2%
Fuel surcharge and other pass through revenues	**18.5**	19.4	(0.9)	-4.6%
Lease and other revenue	**1.0**	0.4	0.6	150.0%
Total revenues	**80.7**	75.3	5.4	7.2%
Operating Days	**50**	50	-	-
Average cargo revenue per operating day	**1.22**	1.11	0.11	9.9%
Direct expenses				
Fuel Costs	**14.4**	18.1	(3.7)	-20.4%
Depreciation	**8.8**	6.8	2.0	29.4%
Aircraft Cost	**5.4**	8.3	(2.9)	-34.9%
Heavy Maintenance Amortization	**2.0**	1.5	0.5	33.3%
Maintenance Cost	**5.1**	4.9	0.2	4.1%
Crew Costs	**5.7**	6.5	(0.8)	-12.3%
Commercial and Other Costs	**18.5**	18.5	-	-
Total direct expenses	**59.9**	64.6	(4.7)	-7.3%
Gross margin	**20.8**	10.7	10.1	94.4%
Gross margin %	**25.8%**	14.2%	11.6%	
SG&A & Marketing				
General and Administrative Costs	**8.3**	7.3	1.0	13.7%
Sales costs	**0.3**	0.3	-	0.0%
Depreciation	**0.2**	0.3	(0.1)	-33.3%
Total SG&A & Marketing expenses	**8.8**	7.9	0.9	11.4%
Other SG&A				
Other losses (gains)	**11.0**	(0.3)	11.3	-3766.7%
Finance costs	**7.7**	5.9	1.8	30.5%
Total other SG&A	**18.7**	5.6	13.1	233.9%
(LOSS) BEFORE INCOME TAXES	**(6.7)**	(2.8)	(3.9)	-139.3%
Income Taxes-Deferred	**1.9**	0.6	1.3	225.1%
Net (loss)	**(4.8)**	(2.2)	(2.6)	118.7%
(Loss) per share - $ CAD				
Basic	(0.46)	(0.22)	(0.24)	-109.1%
Diluted	(0.46)	(0.22)	(0.24)	-109.1%

Highlights for the Three Month Periods ended September 30, 2016 and 2015

- Total revenue for the three month period ended September 30, 2016 was $80.7 million compared to $75.3 million for the same period in 2015, representing an increase of $5.4 million or 7.2%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2016 was $1.22 million per operating day compared to $1.11 million for the same period in 2015, representing an increase of $0.11 million or 9.9%.
- Adjusted EBITDA for the three month period ended September 30, 2016 was $25.3 million compared to adjusted EBITDA of $11.5 million for the same period in 2015, an increase of $13.8 million or 120.0%.
- Adjusted EBITDAR for the three month period ended September 30, 2016 was $29.4 million compared to $18.7 million for the same period in 2015, an increase of $10.7 million or 57.2%.
- Adjusted free cash flow was an inflow of $8.2 million for the three month period ended September 30, 2016 compared to an inflow of $4.2 million for the same period in 2015, an increase of $4.0 million or 95.2%.

Revenue

Total revenue for the three month period ended September 30, 2016 was $80.7 million, compared to $75.3 million for the same period in 2015, representing an increase of $5.4 million or 7.2%. The increase in total revenue was due primarily to the $1.2 million increase in core overnight revenues, $5.2 million increase in ACMI revenues and $0.6 million increase in other revenues. The increase was partially offset by a $0.8 million decrease in all-in charter revenues and a $0.9 million decrease in fuel surcharge and other cost pass-through revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2016 was $50.6 million compared to $49.4 million for the same period in 2015, an increase of $1.2 million or 2.4%. The increases were primarily due to revenue from contractual Consumer Price Index ("CPI") increases and revenue from new customers.

ACMI scheduled and adhoc charter revenues for the three month period ended September 30, 2016 were $7.8 million, compared to $2.6 million for the same period in 2015, an increase of $5.2 million or 200.0%. The increase of $5.2 million was primarily due to a new scheduled daily route to the USA. Starting in June 2016 Cargojet began flying additional ACMI flights to Colombia, Mexico and Peru.

All-in scheduled and adhoc charter revenues for the three month period ended September 30, 2016 were $2.8 million compared to $3.6 million for the same period in 2015, a decrease of $0.8 million or 22.2%. The decrease in all-in charter revenue was due primarily to lower adhoc charter activity.

Fuel surcharges and other cost pass-through revenues were $18.5 million for the three month period ended September 30, 2016 compared to $19.4 million for the same period in 2015. During the quarter, fuel surcharges decreased due primarily to a 9.7% decline in fuel prices partially offset by an increase in pass-through revenues related to ACMI charters. Fuel surcharges and other cost pass-through revenues include $0.1 million of fuel sales to third parties for the three month period ended September 30, 2016 compared to $nil for the same period in 2015.

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines and passenger revenues from charter flights using its Challenger aircraft that started in 2016. Other revenues were $1.0 million for the three month period ended September 30, 2016 compared to $0.4 million for the same period in 2015, an increase of $0.6 million or 150.0%.

Direct Expenses

Total direct expenses were $59.9 million for the three month period ended September 30, 2016 compared to $64.6 million for the same period in 2015. As a percentage of revenue, direct expenses decreased from 85.8% in 2015 to 74.2% for the same period in 2016. The overall decrease in direct expenses was due primarily to a $3.7 million decrease in fuel costs, a $2.9 million decrease in aircraft costs, a $0.8 million decrease in crew costs, partially offset by a $0.2 million increase in maintenance costs, a $0.5 million increase in heavy maintenance costs and a $2.0 million increase in depreciation. For the three month period ended September 30, 2016 there were no one-time startup costs related to the CPGOC contract compared to $2.4 million for the same period in 2015.

Fuel costs were $14.4 million for the three month period ended September 30, 2016 compared to $18.1 million for the same period in 2015. The $3.7 million or 20.4% decrease in fuel costs was due primarily to a 14% decrease in block hours on the overnight network due to the optimization of capacity on the overnight network and a 9.7% decline in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $8.8 million for the three month period ended September 30, 2016 compared to $6.8 million for the same period in 2015. The $2.0 million or 29.4% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $5.4 million for the three month period ended September 30, 2016 compared to $8.3 million in 2015, representing a decrease of $2.9 million or 34.9%. The decrease was due primarily to the lower fixed lease rental costs and variable lease costs during the three month period due to return of the four B767-200 aircraft at the expiry of their lease terms. This decrease was partially offset by higher sub charter costs. For the three month period ended September 30, 2016 there were no one-time startup costs related to the CPGOC contract compared to $1.7 million for the same period in 2015. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $2.0 million for the three month period ended September 30, 2016 compared to $1.5 million in 2015, representing an increase of $0.5 million or 33.3%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance. The heavy maintenance component of the newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $5.1 million for the three month period ended September 30, 2016 compared to $4.9 million in 2015, representing an increase of $0.2 million or 4.1%. $0.2 million of the increase was primarily due to the salary increases and hiring of additional maintenance staff for the new and existing stations of the network.

Total crew costs including salaries, training and positioning were $5.7 million for the three month period ended September 30, 2016 compared to $6.5 million in 2015, representing a decrease of $0.8 million or 12.3%. This decrease was due primarily to one time higher training costs required by the expanded network at the early stages of the CPGOC contract in 2015. For the three month period ended September 30, 2016, crew costs did not include any one-time startup costs related to the CPGOC contract compared to $0.7 million for the same period in 2015.

Commercial and other direct operating costs were $18.5 million for the three month period ended September 30, 2016 and 2015.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended September 30, 2016 were $8.8 million compared to $7.9 million for the same period in 2015, representing an increase of $0.9 million or 11.4%. The increase was primarily due to one-time settlement of stock appreciation rights of $2.9 million, $1.1 million increase in management bonuses, $0.2 million increase in salaries partially offset by $2.9 million net realized exchange gain on extinguishment of USD denominated debt, $0.1 million lower consulting and legal charges, $0.1 million lower depreciation and $0.2 million lower other SG&A costs.

Other Gains & Losses and Finance Costs

Other losses and finance costs for the nine month period ended September 30, 2016 were $18.7 million compared to $5.6 million for the same period in 2015, representing an increase of $13.1 million or 233.9%. The increase was due primarily to $1.8 million higher finance costs due to debt related to aircraft acquisitions, $3.9 million higher impairment charges recognized for the shortfall in recoverable value of Challenger aircraft below its carrying value. $4.0 million net increase in unrealized exchange losses on foreign exchange contracts, USD denominated aircraft debts and USD denominated balance sheet items due to exchange fluctuation, $6.0 million loss on settlement of debt comprising of prepayment penalties and write-off of transaction costs partially offset by $2.6 million gain on cash settled share based payment arrangements.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended September 30, 2016 was $25.3 million compared to EBITDA of $11.5 million for the same period in 2015. The increase in Adjusted EBITDA of $13.8 million was due primarily to the following:

- Increase on core overnight network and ACMI revenues
- Decrease in direct costs due to the optimization of the capacity on the overnight network
- Elimination of start-up costs related to the CPGOC contract
- Realized exchange gain on the debt extinguishment.

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended September 30, 2016 was $29.4 million compared to $18.7 million for the same period in 2015, representing an increase of $10.7 million or 57.2%. The increase in adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to the expiry of the aircraft leases later in 2015 and in the first quarter of 2016.

Current Income Taxes

No provision for current income taxes were made for the three month period ended September 30, 2016 and 2015 due to net taxable trade loss position.

Deferred Income Taxes

The deferred income taxes for the three month period ended September 30, 2016 was recovery of $1.9 million compared to a recovery of $0.6 million for the same period in 2015. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $8.2 million for the three month period ended September 30, 2016, compared to an inflow of $4.2 million for the same period in 2015, representing an increase of $4.0 million. The increase in adjusted free cash flow was due primarily to the increase in adjusted EBITDA, changes in non-cash working capital items partially offset by higher maintenance capital expenditures.

Dividends

Total dividends declared for the three month period ended September 30, 2016 were $1.8 million or $0.1750 per share. In comparison, total dividends declared for the three month period ended September 30, 2015 were $1.5 million or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 20, 2016	July 05, 2016		10,535,645	0.1491	1,570,865
September 20, 2016	September 20, 2016	1,845,053	10,543,331	0.1750	-
		1,845,053	-	-	1,570,865

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 19, 2015	July 03, 2015	-	9,561,988	0.1491	1,425,692
September 18, 2015	October 05, 2015	1,504,455	10,090,241	0.1491	-
		1,504,455	-	-	1,425,692

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances for the three month period ended September 30, 2016 was $12.0 million compared to cash generated in operating activities of $11.0 million for the same period in 2015. The $1.0 million increase in cash was due primarily to the increase in EBITDA partially offset by the changes in non-cash working capital items and deposits.

Cash generated in financing activities during the three month period ended September 30, 2016 was $15.1 million (September 30, 2015 - Cash generated of $26.0 million) and was comprised of repayment of borrowings of $99.9 million (September 30, 2015- $0.7 million), net proceeds from issuance of 4.65% convertible debentures of $119.3 million (September 30, 2015- $nil), repayment of obligations under finance lease of $6.0 million (September 30, 2015 - $2.7 million), proceeds from private placement of shares of $3.3 million (September 30, 2015 -$nil) and dividends paid to shareholders of $1.6 million (September 30, 2015 - $1.4 million). There were no proceeds from borrowings during the three month period ended on September 30, 2016 (September 30, 2015- $30.8 million).

Cash used in investing activities during the three month period ended September 30, 2016 was $3.3 million (September 30, 2015 - $36.4 million) and was primarily comprised of property, plant and equipment additions.

Capital Expenditures

The property, plant and equipment additions of $3.3 million in the current period (September 30, 2015 - $37.5 million) were primarily comprised of additions to leasehold improvements, heavy maintenance and other equipment.

Review of Operations for the Nine Month Periods ended September 30, 2016 and 2015
Net earnings (loss) for the nine month periods ended September 30, 2016 and 2015

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2016	2015	$	%
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	151.0	137.0	14.0	10.2%
ACMI Revenues	21.6	8.5	13.1	154.1%
All-in Charter Revenues	9.8	10.9	(1.1)	-10.1%
Total overnight, ACMI and charter revenues	182.4	156.4	26.0	16.6%
Total Revenue - FBO	0.3	0.2	0.1	50.0%
Total fuel and other cost pass through	52.1	46.7	5.4	11.6%
Fuel surcharge and other pass through revenues	52.4	46.9	5.5	11.7%
Lease and other revenue	2.1	1.3	0.8	61.5%
Total revenues	236.9	204.7	32.2	15.7%
Operating Days	150	149	1	0.7%
Average cargo revenue per operating day	1.22	1.05	0.17	16.2%
Direct expenses				
Fuel Costs	40.8	50.5	(9.7)	-19.2%
Depreciation	24.9	17.7	7.2	40.7%
Aircraft Cost	19.3	27.7	(8.4)	-30.3%
Heavy Maintenance Amortization	5.5	4.5	1.0	22.2%
Maintenance Cost	16.1	15.7	0.4	2.5%
Crew Costs	16.8	17.2	(0.4)	-2.3%
Commercial and Other Costs	55.2	52.3	2.9	5.5%
Total direct expenses	178.6	185.6	(7.0)	-3.8%
Gross margin	58.3	19.0	39.3	206.8%
Gross margin %	24.6%	9.3%	15.3%	
SG&A & Marketing				
General and Administrative Costs	24.3	23.0	1.3	5.7%
Sales costs	1.5	0.9	0.6	66.7%
Depreciation	0.7	0.7	-	0.0%
Total SG&A & Marketing expenses	26.5	24.6	1.9	7.7%
Other SG&A				
Other losses	4.5	0.3	4.2	1400.0%
Finance costs	23.5	16.0	7.5	46.9%
Total other SG&A	28.0	16.3	11.7	71.8%
EARNINGS (LOSS) BEFORE INCOME TAXES	3.8	(21.9)	25.7	117.4%
Income Taxes-Deferred	(0.4)	5.3	(5.7)	-107.6%
Net Income (loss)	3.4	(16.6)	20.0	-120.5%
Earnings (loss) per share - $ CAD				
Basic	0.33	(1.73)	2.06	119.1%
Diluted	0.33	(1.73)	2.06	119.1%

Highlights for the Nine Month Periods ended September 30, 2016 and 2015

- Total revenue for the nine month period ended September 30, 2016 was $236.9 million compared to $204.7 million for the same period in 2015, representing an increase of $32.2 million or 15.7%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2016 was $1.22 million per operating day compared to $1.05 million for the same period in 2015, representing an increase of $0.17 million per operating day or 16.2%.
- Adjusted EBITDA for the nine month period ended September 30, 2016 was $65.2 million compared to $17.3 million for the same period in 2015, an increase of $47.9 million or 276.9%.
- Adjusted EBITDAR for the nine month period ended September 30, 2016 was $81.0 million compared to $42.6 million for the same period in 2015, an increase of $38.4 million or 90.1%.
- Adjusted free cash flow was an inflow of $30.9 million for the nine month period ended September 30, 2016 compared to an outflow of $3.9 million for the same period in 2015, an increase of $34.8 million or 892.3%.

Revenue

Total revenue for the nine month period ended September 30, 2016 was $236.9 million, compared to $204.7 million for the same period in 2015, representing an increase of $32.2 million or 15.7%. The increase in total revenue was due primarily to the $14.0 million increase in core overnight revenues, $13.1 million increase in ACMI revenues, $5.5 million increase in fuel surcharge and other cost pass-through revenues and $0.8 million increase in lease and other revenue partially offset by $1.1 million decrease in all-in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2016 was $151.0 million compared to $137.0 million for the same period in 2015, an increase of $14.0 million or 10.2%. The increase was primarily due to the 8.6% increase in volumes from the new CPGOC contract that began on April 1, 2015 and other existing customers.

ACMI scheduled and adhoc charter revenue for the nine month period ended September 30, 2016 was $21.6 million, compared to $8.5 million for the same period in 2015, an increase of $13.1 million or 154.1%. The increase of $13.4 million was due to additional block hours flown to the USA, South America, Northern Canada and to Europe. Adhoc ACMI revenues decreased by $0.3 million due to lower customer demand.

All-in scheduled and adhoc charter revenue for the nine month period ended September 30, 2016 was $9.8 million compared to $10.9 million for the same period in 2015, a decrease of $1.1 million or 10.1%. The decrease in all-in charter revenue was due primarily to lower adhoc charter activity.

Fuel surcharges and other cost pass-through revenues were $52.4 million for the nine month period ended September 30, 2016 compared to $46.9 million for the same period in 2015. During the period, fuel surcharges increased due to a 8.6% increase in the shipping volumes and revenues from new and existing customers that attracted a fuel surcharges. The increase in fuel surcharges was partially offset by a 19.2% decline in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.3 million for the nine month period ended September 30, 2016 compared to $0.2 million for the same period in 2015.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines and passenger revenue on challenger series of aircraft. Other revenues for the nine month period ended September 30, 2016 were $2.1 million compared to $1.3 million for the same period in 2015.

Direct Expenses

Total direct expenses were $178.6 million for the nine month period ended September 30, 2016 compared to $185.6 million for the nine month period ended September 30, 2015. As a percentage of revenue, direct expenses ratio decreased from 90.7% in 2015 to 75.4% for the same period in 2016. The overall decrease in direct expenses was due primarily to a $9.7 million decrease in fuel costs, $8.4 million decrease in aircraft costs, $0.4 million decrease in crew cost, partially offset by a $7.2 million increase in depreciation, $2.9 million increase in commercial and other costs, $1.0 million increase in heavy maintenance amortization, and $0.4 million increase in maintenance costs. For the nine month period ended September 30, 2016 direct expenses included $1.1 million of one-time startup costs related to the CPGOC contract compared to $13.9 million for the same period in 2015.

Fuel costs were $40.8 million for the nine month period ended September 30, 2016 compared to $50.5 million for the same period in 2015. The $9.7 million or 19.2% decrease in fuel costs was due primarily to a 19.2% decline in fuel prices and the optimization of capacity on the overnight network resulting in lower block hours. Partially offset by the increase in block hours due to the start of the CPGOC contract on April 1, 2015. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $24.9 million for the nine month period ended September 30, 2016 compared to $17.7 million for the same period in 2015. The $7.2 million or 40.7% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $19.3 million for the nine month period ended September 30, 2016 compared to $27.7 million in 2015, representing a decrease of $8.4 million or 30.3%. The decrease in aircraft costs was due primarily to lower fixed lease costs of $7.0 million due to the return of the four B767-200 aircraft at the expiry of their lease terms and a decrease of $2.6 million in the variable lease reserve costs due to the decrease in block hours flown. This decrease was partially offset by $1.0 million of higher sub charter costs related to a new route on the overnight network and a $0.2 million temporary engine lease cost. For the nine month period ended September 30, 2016 aircraft costs included $1.1 million of one-time startup costs related to the CPGOC contract compared to $9.4 million for the same period in 2015. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $5.5 million for the nine month period ended September 30, 2016 compared to $4.5 million for the same period in 2015, representing an increase of $1.0 million or 22.2%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $16.1 million for the nine month period ended September 30, 2016 compared to $15.7 million in 2015, representing an increase of $0.4 million or 2.5%. $1.2 million of the increase was due to the hiring of additional maintenance personnel primarily due to the expansion of the fleet and a $0.4 million increase in rental costs due to new and expanded maintenance facilities partially offset by $1.2 million lower line maintenance costs due to an unscheduled maintenance event that occurred in 2015. For the nine month period ended September 30, 2016 maintenance costs did not include any one-time startup costs related to the CPGOC contract compared to $0.6 million for the same period in 2015.

Total crew costs including salaries, training and positioning were $16.8 million for the nine month period ended September 30, 2016 compared to $17.2 million in 2015, representing a decrease of $0.4 million or 2.3%.This decrease was due primarily to the costs of onetime startup training incurred in 2015 partially offset by additional crew salaries and positioning costs required by the new ACMI routes in 2016. For the nine month period ended September 30, 2016 crew costs did not include any one-time startup costs related to the CPGOC contract compared to $2.6 million for the same period in 2015.

Commercial and other direct operating costs were $55.2 million for the nine month period ended September 30, 2016 compared to $52.3 million for the same period in 2015, representing an increase of $2.9 million or 5.5%. This increase comprised primarily of $1.7 million of the increase in commercial salaries, $0.8 million higher navigation costs due to additional block hours, $1.5 million higher landing, parking and deicing costs, $0.5 million of warehouse rent partially offset by $0.9 million decrease in linehaul and cartage costs, $0.3 million decrease in insurance cost and $0.4 million of decrease in Ground handling costs. For the nine month period ended September 30, 2016 commercial costs did not include any one-time startup costs related to the CPGOC contract compared to $1.3 million for the same period in 2015.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the nine month period ended September 30, 2016 were $26.5 million compared to $24.6 million for the same period in 2015, representing an increase of $1.9 million or 7.7%. $2.9 million of increase was due primarily to a one time settlement of stock appreciation rights, $0.7 million of increase in salaries and allowances, $0.3 million increase in the communication costs, $0.6 million increase in sales and marketing costs, $1.4 million increase in bonuses and incentives and $0.3 million increase in other SG&A costs. This increase was partially offset by a $4.2 million net realized exchange gain on the settlement of USD denominated debt and valuation of monetary assets and liabilities and, a $0.1 million decrease in audit, legal and consulting costs. For the nine month period ended September 30, 2016 SG&A expenses did not include any one-time startup costs related to the CPGOC contract compared to $0.9 million for the same period in 2015.

Other Gains & Losses and Finance Costs

Other gains & losses and finance costs for the nine month period ended September 30, 2016 were $28.0 million compared to $16.3 million for the same period in 2015 representing an increase of $11.7 million or 71.8%. This increase comprised primarily of $7.5 million increase in finance costs, $6.0 million increase due to loss on extinguishment of debt and $3.9 million higher impairment charges recognized for the shortfall in recoverable value of Challenger aircraft below its carrying value, $0.5 million of gain on disposal of property, plant and equipment in 2015. The increase was partially offset by $3.3 million net unrealized exchange gains on USD denominated aircraft debt and foreign exchange contracts and $2.9 million gain on cash settled share based payment arrangements.

Adjusted EBITDA

Adjusted EBITDA for the nine month period ended September 30, 2016 was $65.2 million compared to $17.3 million for the same period in 2015. The increase in Adjusted EBITDA of $47.9 million or 276.9% was due primarily to the following:

- The increase in core overnight revenues and fuel surcharges due to the full service start-up of the CPGOC contract on April 1, 2015
- Increase in ACMI revenues and higher charter activities
- Decrease in direct costs due to the optimization of capacity on the overnight network
- Lower startup costs in 2016 related to the CPGOC contract
- Realized exchange gain on settlement of debt in USD currency

partially offset by:

- The higher operating costs due to higher block hours and increase in fleet size required by the CPGOC contract

Adjusted EBITDAR

Adjusted EBITDAR for the nine month period ended September 30, 2016 was $81.0 million compared to $42.6 million for the same period in 2015, representing an increase of $38.4 million or 90.1%. The increase in adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by the return of four B767-200 aircraft at the end of their lease terms.

Net Finance Costs

Net finance costs were $23.5 million for the nine month period ended September 30, 2016 compared to $16.0 million for the same period in 2015. The increase is primarily due to the interest costs relating to funds borrowed specifically or generally to acquire and/or modify aircraft and other assets.

Current Income Taxes

The provision for current income taxes for the nine month period ended September 30, 2016 was $nil and remained same for the same period in 2015.

Deferred Income Taxes

The deferred income taxes recognized for the nine month period ended September 30, 2016 was a provision of $0.4 million compared to a recovery of $5.3 million for the same period in 2015. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $30.9 million for the nine month period ended September 30, 2016, compared to outflow of $3.9 million for the same period in 2015, representing an increase of $34.8 million. The increase in adjusted free cash flow was due primarily due to the increase in adjusted EBITDA, a decrease in maintenance capital expenditures and changes in non-cash working capital items and deposits.

Dividends

Total dividends declared for the nine month period ended September 30, 2016 were $4.9 million or $0.4732 per share. In comparison, total dividends declared for the nine month period ended September 30, 2015 were $4.3 million or $0.4473 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
December 18, 2015	January 5, 2016	-	10,108,457		1,507,171
March 21, 2016	April 5, 2016	1,515,152	10,161,982	0.1491	1,515,152
June 20, 2016	July 5, 2016	1,570,865	10,535,645	0.1491	1,570,865
September 20, 2016	October 5, 2016	1,845,053	10,543,331	0.1750	-
		4,931,070	-	0.4732	4,593,188

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
December 19, 2014	January 5, 2015	-	9,174,427		1,367,906
March 20, 2015	April 3, 2015	1,409,579	9,453,907	0.1491	1,409,579
June 19, 2015	July 3, 2015	1,425,692	9,561,988	0.1491	1,425,692
September 18, 2015	October 5, 2015	1,504,455	10,090,241	0.1491	-
		4,339,726	-	0.4473	4,203,177

Liquidity and Capital Resources

Cash generated in operating activities after net changes in non-cash working capital balances for the nine month period ended September 30, 2016 was $40.5 million compared to cash generated in operating activities of $10.2 million for the same period in 2015. The $30.3 million increase in cash was due primarily to the increase in EBITDA and changes in non-cash working capital items and deposits.

Cash generated by financing activities during the nine month period ended September 30, 2016 was $22.4 million (September 30, 2015 – $95.5 million) and was comprised of repayment of borrowings $116.0 (September 30, 2015-$1.0 million), proceeds from borrowings of $38.0 million (September 30, 2015 – $108.5 million), repayment of obligations under finance lease of $17.6 million (September 30, 2015 – $7.8 million), proceeds from debenture issuance of $119.3 million (September 30, 2015 $nil), proceeds from private placements of $3.3 million (September 30, 2015 $nil) and dividends paid to shareholders of $4.6 million (September 30, 2015 – $4.2 million).

Cash used in investing activities during the nine month period ended September 30, 2016 was $44.7 million (September 30, 2015- $105.0 million) and was primarily comprised of property, plant and equipment additions.

The Company had a working capital deficit as at September 30, 2016, representing the difference between total current assets and current liabilities, of $42.3 million, compared to a working capital deficit of $5.3 million as at December 31, 2015. The increase of $37.0 million is primarily due to the increase in the current portion of the borrowings, decrease in deposits, decrease in trade and other receivables due to timing of the collections partially offset by an increase in the cash balance and decrease in the trade and other payables.

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

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

Capital Expenditures

The property, plant and equipment additions of $44.9 million in the current period were primarily comprised of additions to aircraft, engines, hangar and cross-dock facilities, ground equipment, leasehold improvements, heavy maintenance and other equipment.

Financial Condition

The following is a comparison of the financial position of the Company as at September 30, 2016 to the financial position of the Company as at December 31, 2015.

Accounts Receivable

Accounts receivable as at September 30, 2016 amounted to $26.4 million compared to $28.8 million as at December 31, 2015. The decrease of $2.4 million was due to the timing of cash collections from the customers and adjustments in the value of the derivatives. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at September 30, 2016, property, plant and equipment were $367.1 million compared to $357.2 million as at December 31, 2015. The $9.9 million net increase in property, plant and equipment was primarily due to additions of $44.9 million partially offset by amortization of $31.1 million and impairment of $3.9 million. .

Trade and Other Payables

Trade and other payables as at September 30, 2016 were $26.3 million compared to $27.0 million as at December 31, 2015. The decrease of $0.7 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of five B767-300 aircraft. Total finance leases excluding the current portion were $121.7 million as at September 30, 2016 compared to $140.2 as at December 31, 2015. The change was due to the scheduled monthly installments and prepayments made in the current period.

Provisions

Provisions excluding the current portion as at September 30, 2016 were $2.3 million compared to $2.4 million as at December 31, 2015 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms. The change was due to the effect of currency fluctuation on the USD denominated provisions and the periodic accretion cost.

Summary of Contractual Obligations

	Payments due by Year					
As at September 30, 2016	Total	2016	2017	2018	2019	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Finance leases	134.1	3.0	12.7	47.4	12.1	58.9
Provisions	2.3	-	-	-	-	2.3
Borrowings	56.2	21.1	34.9	0.2	-	-
Convertible Debentures	198.8	-	-	-	73.8	125
Operating leases	34.5	2.7	10.6	8.5	6.5	6.2
	425.9	26.8	58.2	56.1	92.4	192.4

Off-Balance Sheet Arrangements

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

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

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

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

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

(d) The Company participates in six Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operates on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered part of the Financial Statements of the Company and are not consolidated. The airlines that participate in FFC guarantee on a pro-rata basis of this debt based on system usage. There is no major change in the total assets and total debts of these FFC as disclosed in the MD&A for the year ended December 31, 2015. The Company's pro rata share of the FFC's assets and debt is approximately 8% before taking into consideration the value of assets that secure the obligations and cost sharing that would occur among other participating airlines. The Company views the potential for losses in respect of the FFC as remote.

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

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

Major Customers

During the nine month period ended September 30, 2016, the Company had sales to three customers that represented 64.3% of the total revenues (September 30, 2015 – 59.5%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $24.1 million as at September 30, 2016. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Related Party Transactions

At September 30, 2016, the Company had no transactions with related parties except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

Risk Factors

Risks Related to the Business

A detailed description of risk factors associated with the Company's business is given in the "Risk Factors" section of the MD&A for the three month and year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com. The Company is not aware of any significant changes to its risk factors from those disclosed at that time.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2

During the quarter ended September 30, 2016, the Company experienced growth in all of its revenue streams, thereby increasing its total overnight, charter and ACMI business by 7.2% compared to the same period in 2015. The Company anticipates that the revenues will continue to sustain growth due to the continued development and strengthening of its relationships with existing customers and establishing new relationship with national/international carriers to establish new ACMI routes to the USA and South America and adhoc charters.The Company continues to retain all of its major customers. Since 2014, the Company has been adding aircraft, staff and network capacity to accommodate the growing demand in its overnight core network. The Company continues to redesign its overnight network to optimize capacity to match customer demand and will continue to do so going forward. This improved the gross margin and EBITDA by optimizing costs of its current operation. The Company will continue to evaluate its investments in fixed assets to ensure high returns on its investments and are in balance with its outlook of global economic conditions.

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

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

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

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

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The critical accounting judgment and estimations used in preparation of the Company's unaudited financial statements are described in the "Critical accounting judgments and key sources of estimation uncertainty" section of the MD&A for the three month period and year ended December 31, 2015 dated March 7, 2016 which was filed with SEDAR at www.sedar.com.

Outstanding Share Data

The Company's common voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" and "CJT.DB.B" and "CJT.DB.C" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding and securities convertible into shares of the Company as of September 30, 2016:

Capital		Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares		Unlimited	10,441,109	-
Variable Voting Shares		Unlimited	202,222	-
Convertible Debentures - 5.5%	$	73,779,000	-	2,566,226
Convertible Debentures - 4.65%	$	125,000,000	-	2,131,287

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2015 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This MD&A was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

Standards, amendments and interpretations issued and not yet adopted

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* ("IFRS 9"), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income ("OCI") instead of net income unless this would create an accounting mismatch. 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 leases standard, IAS 17 Leases, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are '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.

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

End Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gain or loss on forward foreign exchange contracts- the gain or loss arising from the forward foreign exchange contracts is a non-cash item and has no impact on the determination of adjusted EBITDA.

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

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

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

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

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

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

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

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

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

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

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

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