Consolidated Financial Statements of

# CARGOJET INC.

For the years ended December 31, 2015 and 2014

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Deloitte.

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# Independent Auditor's Report

To the Shareholders of
Cargojet Inc.

We have audited the accompanying consolidated financial statements of Cargojet Inc., which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Inc. as at December 31, 2015 and December 31, 2014, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 7, 2016

# CARGOJET INC.
## Consolidated Balance Sheets
## As at December 31, 2015 and December 31, 2014
**(in Canadian dollars)**

| | Note | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| | | $ | $ |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash | | 5,981,853 | - |
| Trade and other receivables | | 28,757,420 | 19,101,892 |
| Inventories | 3 | 824,347 | 624,713 |
| Prepaid expenses and deposits | | 4,676,514 | 3,877,024 |
| Income taxes receivable | | 104,868 | 2,643,004 |
| Current portion of notes receivable | 4 | 176,086 | 651,638 |
| Current portion of finance lease receivable | | - | 114,771 |
| | | 40,521,088 | 27,013,042 |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 5 | 357,258,917 | 203,944,786 |
| Notes receivable | 4 | - | 184,007 |
| Goodwill | 6,8 | 46,434,976 | 46,169,976 |
| Intangible assets | 7,8 | 2,000,000 | 1,000,000 |
| Deposits | | 4,514,052 | 7,022,548 |
| | | 450,729,033 | 285,334,359 |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 9 | 26,998,733 | 23,323,465 |
| Provisions | 10 | - | 1,725,516 |
| Dividends payable | 19 | 1,507,171 | 1,367,907 |
| Borrowings | 11 | 4,060,623 | 504,897 |
| Finance leases | 12 | 13,479,917 | 6,782,482 |
| | | 46,046,444 | 33,704,267 |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 11 | 133,503,220 | 13,981,944 |
| Finance leases | 12 | 140,219,127 | 87,592,527 |
| Provisions | 10 | 2,363,851 | 1,290,145 |
| Convertible debentures | 13 | 71,081,618 | 78,966,406 |
| Deferred income taxes | 14 | 2,764,241 | 4,375,293 |
| | | 395,978,501 | 219,910,582 |
| **EQUITY** | | 54,750,532 | 65,423,777 |
| | | 450,729,033 | 285,334,359 |

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

# CARGOJET INC.

## Consolidated Statements of Loss and Comprehensive Loss

## Years ended December 31, 2015 and 2014

**(in Canadian dollars)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | $ | $ |
| REVENUES | | 288,999,556 | 192,397,768 |
| DIRECT EXPENSES | 3,15 | 250,701,534 | 173,624,053 |
| | | 38,298,022 | 18,773,715 |
| General and administrative expenses | 16 | 42,234,371 | 24,984,973 |
| Sales and marketing expenses | | 1,525,881 | 809,173 |
| Finance costs | 17 | 22,885,856 | 5,543,814 |
| Finance income | | (38,112) | (147,768) |
| Other (gains)/losses | 18 | (7,065,561) | 609,342 |
| | | 59,542,435 | 31,799,534 |
| LOSS BEFORE INCOME TAXES | | (21,244,413) | (13,025,819) |
| RECOVERY OF INCOME TAXES | 14 | | |
| Current income taxes | | (114,762) | (2,641,816) |
| Deferred | | (3,087,776) | (859,338) |
| | | (3,202,538) | (3,501,154) |
| NET LOSS AND COMPREHENSIVE LOSS | | (18,041,875) | (9,524,665) |
| LOSS PER SHARE | 20 | | |
| - Basic | | (1.86) | (1.07) |
| - Diluted | | (1.86) | (1.07) |

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

# CARGOJET INC.

## Consolidated Statements of Changes in Equity

## Years ended December 31, 2015 and 2014

**(in Canadian dollars)**

| | Note | Shareholders' capital | Share-based compensation reserve | Conversion option | Reserve for surplus on debenture repurchases | Deficit | Total shareholders' equity |
|---|---|---|---|---|---|---|---|
| | | $ | $ | $ | $ | $ | $ |
| Balance, January 1, 2015 | | 79,758,600 | 460,581 | 5,818,250 | 2,162,078 | (22,775,732) | 65,423,777 |
| Net loss and comprehensive loss | | - | - | - | - | (18,041,875) | (18,041,875) |
| Treasury shares - net | 21 | 437,125 | - | - | - | - | 437,125 |
| Share-based compensation | 22 | 1,231,436 | 1,463,703 | - | - | - | 2,695,139 |
| Deferred tax on conversion option - net | 14 | - | - | - | - | 241,495 | 241,495 |
| Convertible debenture - conversion | 13 | 9,841,767 | - | (669,808) | 669,808 | - | 9,841,767 |
| Dividends | 19 | - | - | - | - | (5,846,896) | (5,846,896) |
| **Balance, December 31, 2015** | | 91,268,928 | 1,924,284 | 5,148,442 | 2,831,886 | (46,423,008) | 54,750,532 |
| | | | | | | | |
| Balance, January 1, 2014 | | 67,202,190 | 392,665 | 1,844,538 | 1,271,503 | (8,168,065) | 62,542,831 |
| Net loss and comprehensive loss | | - | - | - | - | (9,524,665) | (9,524,665) |
| Treasury shares - net | 21 | (59,773) | - | - | - | - | (59,773) |
| Conversion option on debenture issuance | 13 | - | - | 6,618,078 | - | - | 6,618,078 |
| Share-based compensation | 22 | - | 67,916 | - | - | - | 67,916 |
| Deferred tax on conversion option - net | 14 | - | - | (1,753,791) | - | 321,092 | (1,432,699) |
| Convertible debenture - conversion | 13 | 12,616,183 | - | (890,575) | 890,575 | - | 12,616,183 |
| Dividends | | - | - | - | - | (5,404,094) | (5,404,094) |
| **Balance, December 31, 2014** | | 79,758,600 | 460,581 | 5,818,250 | 2,162,078 | (22,775,732) | 65,423,777 |

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

# CARGOJET INC.
## Consolidated Statements of Cash Flows
## Years ended December 31, 2015 and 2014
**(in Canadian dollars)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| | | $ | $ |
| **CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES** | | | |
| Net loss | | (18,041,875) | (9,524,665) |
| Depreciation of property, plant and equipment | 5 | 33,007,949 | 12,975,616 |
| Share-based compensation | | 3,132,264 | 529,923 |
| Finance costs | | 22,885,856 | 5,543,814 |
| Effects of exchange rate changes on provision | | 459,246 | 237,879 |
| Change in fair value of cash settled share based payment arrangement | 18 | (651,207) | 516,917 |
| Gain on disposal of property, plant and equipment | 18 | (567,453) | 92,425 |
| Unrealized gain on foreign exchange forward contracts | 18 | (4,899,081) | - |
| Non-cash interest on notes receivable | | (22,603) | (72,300) |
| Non-cash interest on finance lease receivable | | (1,298) | (13,220) |
| Income tax recovery | | (3,202,538) | (3,501,154) |
| Exchange loss on finance lease | | 2,730,977 | - |
| Change in fair value on non-hedge derivatives | 18 | (947,820) | - |
| Unrealized loss on foreign exchange loans | | 4,866,664 | - |
| | | 38,749,081 | 6,785,235 |
| Items affecting cash | | | |
| Interest paid | | (20,883,978) | (4,461,586) |
| Income tax refund/(payments) | | 4,106,118 | (2,163,697) |
| | | 21,971,221 | 159,952 |
| Changes in non-cash working capital items and deposits | | | |
| Trade and other receivables | | (3,808,627) | (3,702,434) |
| Inventories | | (199,634) | 438,268 |
| Prepaid expenses and deposits | | 1,709,006 | (6,875,922) |
| Trade and other payables | | 3,675,268 | 4,133,349 |
| **NET CASH FROM (USED IN) OPERATING ACTIVITIES** | | 23,347,234 | (5,846,787) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Repayment of borrowings | | (1,339,802) | (1,675,223) |
| Proceeds from borrowings | | 119,259,204 | 14,194,952 |
| Repayment of obligations under finance leases | | (10,230,966) | (1,539,512) |
| Proceeds from sale and leaseback of property, plant and equipment | | - | 31,942,800 |
| Purchase of treasury shares | | - | (521,794) |
| Proceeds from debenture issuance | | - | 70,734,456 |
| Dividends paid to shareholders | 19 | (5,707,632) | (5,228,006) |
| **NET CASH FROM FINANCING ACTIVITIES** | | 101,980,804 | 107,907,673 |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | | |
| Payments for property, plant and equipment | 5 | (119,383,929) | (104,029,454) |
| Proceeds from disposal of property, plant and equipment | | 239,513 | 183,388 |
| Acquisition of business | 8 | (1,000,000) | - |
| Collections of notes receivable | | 682,162 | 1,034,981 |
| Collections of finance lease receivable | | 116,069 | 308,693 |
| **NET CASH USED IN INVESTING ACTIVITIES** | | (119,346,185) | (102,502,392) |
| **NET CHANGE IN CASH** | | 5,981,853 | (441,506) |
| **CASH, BEGINNING OF YEAR** | | - | 441,506 |
| **CASH, END OF YEAR** | | 5,981,853 | - |

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

### 1. NATURE OF THE BUSINESS

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

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

These consolidated financial statements (the “financial statements”) were approved and authorized for issuance by the Board of Directors on March 7, 2016.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Statement of compliance**

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada (“GAAP”), as set out in the CPA Canada Handbook - Accounting (“CPA Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

**Basis of preparation**

The financial statements are presented in Canadian dollars and have been prepared on the historical cost basis except for financial instruments measured at fair value through profit or loss. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

These financial statements include the accounts of the Company and its wholly-owned subsidiaries, Cargojet GP Inc. (“CGP”), Cargojet Holdings Limited Partnership (“CHLP”), and CHLP’s wholly-owned subsidiaries, Cargojet Holdings Ltd. (“CJH”), CJH’s wholly-owned subsidiary 2422311 Ontario Inc., CJH’s wholly-owned subsidiary ACE Air Charter Inc. (“ACE”), ACE’s wholly-owned subsidiaries ACE Maintenance Ontario Inc. (“ACEM”), 2166361 Ontario Inc. (“ACEO”), and ACEO’s wholly-owned subsidiary Navigatair Inc. (“NAVIGATAIR”), CJH’s wholly-owned subsidiary Cargojet Airways Ltd. (“CJA”) and Cargojet Partnership (“CJP”).

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

**Cash**

Cash balance consists of cash on hand and demand deposits.

**Goodwill**

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired, and carried at cost as established on the acquisition date of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but is reviewed for impairment annually on April 1. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the cash-generating unit pro-rata on the basis of the carrying amount of each asset in the cash-generating unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

**Revenue recognition**

Revenue is recognized when the transportation services are complete. Revenue from overnight cargo services is recorded based on actual volume of cargo at agreed upon rates when the cargo services have been provided. Minimum guaranteed contract revenue is billed in the event that the actual volumes do not exceed the guaranteed minimum volumes. Amounts billed include surcharges. Ad hoc revenue for non-contract customers is recorded at the time the cargo services have been provided.

Revenue from the lease of aircraft is billed on the basis of a contracted rate and recorded when the lease rental service is provided.

Interest revenue is recognized when earned.

**Inventories**

Fuel inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale.

**Property, plant and equipment**

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment.

Property, plant and equipment under development relates to the purchase, construction and/or modification of aircraft and other property, plant and equipment that is not yet available for use. These assets are carried at costs. Cost includes expenditures that are directly attributable to the purchase, or modification of the asset. Borrowing cost attributable to the purchase, construction or modification of qualifying assets is capitalized to the cost of the item until the asset is ready for use. Once the property, plant and equipment are ready for use, the respective cost of property, plant and equipment will be transferred to the qualifying class of assets.

When a significant part of an asset has a different useful life from the overall asset's useful life, it is identified as a separate component and depreciated accordingly.

Spare parts are treated as property, plant and equipment and depreciated based on actual usage.

The Company recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized under property, plant and equipment and amortized on a straight-line basis over the period to the next overhaul. Any remaining carrying amount of the cost of the previous inspection is derecognized.

The Company maintains rotable parts as a pool of parts under one group. When the parts are purchased, the cost of the part purchased is added to the pool and depreciated over its useful life of up to 10 years. The cost of repairing the rotable part is recognized in maintenance expense when incurred.

Depreciation is recognized so as to write off the cost of assets less their residual values over their useful lives using the straight-line method. The Company reviews the depreciation methods, useful lives and residual values at each reporting date with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

The estimated useful lives are as follows:

| Asset | Estimated useful life |
|---|---|
| Aircraft hull | 40 – 45 years from the date of manufacture |
| Engines | 4 - 15 years |
| Rotable spares | Up to 10 years |
| Spare parts | Actual usage |
| Ground equipment | Up to 10 years |
| Hangar facility | Up to 30 years |
| Vehicles | Up to 8 years |
| Computer hardware and software | Up to 5 years |
| Furniture and fixtures | Up to 10 years |
| Leasehold improvements | Lesser of useful life and term of lease |
| Deferred heavy maintenance | Up to the date of the next scheduled heavy maintenance |

**Leases**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

*Finance leases*
Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly into profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred. For sale and finance leaseback transactions, any gain or loss on the sale is deferred and amortized over the lease term.

Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a straight-line basis over the shorter of their estimated useful life and the term of the agreement.

*Operating leases*
Payments made under operating leases are charged to profit or loss on a straight-line basis over the term of the lease agreement. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred. Lease incentives from operating leases are recognized on a straight-line basis over the term of the lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

**Intangible assets**

Definite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Indefinite life intangible assets, such as licenses, have no foreseeable limit to the period over which they are expected to generate net cash inflows and are carried at cost less accumulated impairment losses and are not amortized.

The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

**Impairment of tangible and intangible assets excluding goodwill**

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

**Foreign currencies**

The functional currency of each subsidiary is Canadian dollars, which is the currency of the primary economic environment in which each subsidiary and the Company operates. The results and financial position of each subsidiary are expressed in Canadian dollars.

Transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in profit or loss in the period in which they arise.

**Borrowing costs**

Borrowing costs specifically attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Borrowing costs, for the funds that are borrowed generally and used for the purpose of obtaining a qualifying asset, are capitalized by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average borrowing rate to the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

**Income taxes**

*Deferred taxes*
Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income or loss. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

*Current and deferred taxes for the period*
Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized outside income (such as in other comprehensive income or directly in equity), in which case the current and deferred tax is also recognized outside income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

**Provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those estimated cash flows.

**Share based payments**

*Equity-settled share-based compensation plans*
Equity-settled share-based compensation plans are granted to eligible employees as disclosed in Note 22, which are measured at the market value of the Company's voting shares on the date of the grant based on the units granted to the employees. The Company's voting shares to be distributed to the employees are acquired from the open market and held in trust as treasury shares, and recorded as a reduction of share capital. The cost of the equity-settled share-based compensation plans is recognized as a compensation expense with a corresponding increase in equity over the related service period provided to the Company as vested. Upon the distribution of the Company's voting shares, the Company's voting shares previously held as treasury shares are recorded as an increase in share capital.

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

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

*Cash-settled share-based compensation options*
The Company provides cash-settled share-based compensation options to an equipment finance and leasing company as an additional fee in respect of each lease contract as disclosed in Note 11 and Note 12, respectively. A liability is recognized for the service rendered and is initially measured at the fair value using an option pricing model, and a corresponding amount is capitalized as a part of the acquisition costs of the assets or the transaction costs of the related financial instruments.

The liability is re-measured at each reporting period with corresponding adjustments to the value of the assets during the period for costs that are eligible for capitalization. Subsequent to the capitalization period, any further re-measurement of the liability due to the change in the fair value of the option is recognized as other gains or losses during the period.

**Financial instruments**

Financial assets are classified into the following specified categories: fair value through profit or loss (“FVTPL”), held to maturity investments, available for sale (“AFS”) financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All financial liabilities are classified as either FVTPL or other financial liabilities.

The Company’s financial assets and financial liabilities are classified and measured as follows:

| Asset/Liability | Classification | Measurement |
|---|---|---|
| Cash, trade and other receivables, finance lease receivable, notes receivables, and deposits | Loans and receivables | Amortized cost |
| Trade and other payables, dividends payable, finance lease obligations, borrowings and convertible debentures | Other financial liabilities | Amortized cost |
| Derivative financial instruments | Fair value through profit or loss | Fair value |

*Loans and receivables and other financial liabilities*
Cash, trade and other receivables, finance leases receivable, notes receivable, deposits, trade and other payables, dividends payable, convertible debentures, finance lease obligations and borrowings are initially recognized at fair value and subsequently at amortized cost using the effective interest method less any impairment. Interest is recognized by applying the effective interest rate.

*Derivative financial instruments*
Derivative financial instruments are utilized by the Company occasionally in the management of its foreign currency exposures. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at FVTPL. All derivative financial instruments are recorded at their fair values.

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

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

*Basis of fair values*
Assets and liabilities recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs that are quoted prices of similar instruments in active markets; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - valuation techniques with significant unobservable market inputs.

The Company does not have any Level 3 fair value measurements. In addition, there have been no significant transfers between levels in the period.

*Impairment of financial assets*
Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is effective evidence that as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the assets have been affected.

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment could include the Company's past experience of collecting payments, an increase in the number of delayed payments past the average credit period, as well as observable changes in national or economic conditions that correlate with default on global receivables.

*De-recognition of financial assets and liabilities*
De-recognition is applied for all or part of a financial asset, when the contractual rights making up the asset expire, or the Company substantially transfers most of the significant risks and benefits associated with ownership of the asset. De-recognition is applied for all or part of a financial liability, when the liability is extinguished due to cancellation or expiry of the obligation. When a debt is renegotiated with a lender giving rise to substantially different terms, a new liability is recognized.

**Convertible debentures**

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date. The equity component is recognized and included in equity, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to another equity account. Transaction costs are divided between the liability and equity components in proportion to their values.

On the early redemption or repurchase of convertible debentures, the Company allocates the consideration paid on extinguishment to the liability based on its fair value at the date of the transaction and the residual is allocated to the conversion option. Any resulting gain or loss relating to the liability element is credited or charged to profit or loss and the difference between the carrying amount and the amount considered to be settled relating to the holder option is treated as a capital transaction.

**Critical accounting judgments and key sources of estimation uncertainty**

In preparing the financial statements, the Company’s management is required to make judgments, estimates and assumptions that may affect the reported amount of the assets, liabilities, revenues and expenses. Although these estimates are based on management’s best knowledge of the current events and actions that the Company may undertake in the future, actual results may differ from these estimates. Reported amounts which require management to make significant estimates and assumptions include property, plant and equipment, goodwill, deferred taxes, provisions and financial instruments. These items are discussed below.

**Critical judgments in applying accounting policies**

*Componentization of property, plant and equipment*
The componentization of the Company’s property, plant and equipment is based on judgment in relation to the determination of components which is based on the cost of the component in relation to the total cost of an asset and whether these components have different useful lives for determination of depreciation.

*Impairment of property, plant and equipment and goodwill*
Assessment of impairment is based on management’s judgment of whether there are sufficient internal and external factors that would indicate that an asset of a CGU is impaired. The determination of CGUs is also based on management’s judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations.

*Classification of leases*
Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of whether or not the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

**Key sources of estimation uncertainty**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

*Impairment of property, plant and equipment and goodwill*
At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.

*Cash settled share based payment arrangement*
The cost and related liability of the Company's cash settled share based payment arrangement under a Master Capital Lease Agreement ("MLA") and the credit facility agreement with an equipment finance and leasing company is recognized using a Black-Scholes option pricing model involving assumptions including discount rates and early exercise dates. Due to the long-term nature of these rights, such estimates are subject to significant uncertainty.

*Deferred taxes*
Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and assesses recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

*Provisions*
The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, the Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The Company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to a change in timing, cost of maintenance or discount rates.

*Financial instruments*
The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.

**Accounting changes**

**Accounting standards effective for 2015**

There were no changes to the accounting standards in the current year.

**Standards, amendments and interpretations issued and not yet adopted**

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

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

*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 potential impact of this standard.

*Leases:* On January 13, 2016, the IASB issued IFRS 16, leases which will replace IAS 17, Leases. The new standard will be mandatorily effective for fiscal years beginning on or after January 1, 2019. Earlier application is permitted. Under the new standard, all leases will be on the balance sheet of lessees, except those that meet limited exception criteria. The Company is currently assessing the potential impact of this standard.

## 3. INVENTORIES

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Fuel Inventory | 771,581 | 528,381 |
| Glycol Inventory | 52,766 | 96,332 |
| Total Inventory | 824,347 | 624,713 |

For the years ended December 31, 2015 and 2014, costs of fuel inventory of $68,240,553 and $61,293,970, respectively, and costs of glycol inventory of $212,043 and $226,393, respectively, were recognized in direct expenses.

### 4. NOTES RECEIVABLE

On July 14, 2010, the Company sold its 55% interest in Cargojet Regional Partnership (the "Partnership"). Proceeds for the sale included a net $2.5 million non-interest bearing note receivable over five years. The sale agreement also included the sale of the Company's aircraft spare parts and other operating assets in exchange for a separate non-interest bearing note of $1.8 million receivable over five years. Both notes receivable are secured by a first charge on aircraft owned by the party that the interest of the Partnership was sold to. Both notes are discounted at an annual rate of 6%.

Interest revenue on the notes receivable of $22,603 was recognized in the statement of loss and comprehensive loss for the year ended December 31, 2015 (2014 - $72,300)

The discounted balance of the notes receivable is comprised of the following as at December 31, 2015 and 2014:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Notes receivable | 176,086 | 835,645 |
| Less: notes receivable - current portion | 176,086 | 651,638 |
| Notes receivable - long-term portion | - | 184,007 |

### 5. PROPERTY, PLANT AND EQUIPMENT

| **Cost** | Balance as at January 1, 2015 | Additions / Transfers | Disposals / Transfers | Balance as at December 31, 2015 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Aircraft hull | 87,051,395 | 113,177,979 | (139,918) | 200,089,456 |
| Engines | 51,804,055 | 48,793,611 | 55,407 | 100,653,073 |
| Spare parts | 1,913,434 | 641,159 | - | 2,554,593 |
| Ground equipment | 11,558,082 | 8,614,387 | - | 20,172,469 |
| Rotable spares | 18,499,673 | 5,495,750 | (324,921) | 23,670,502 |
| Computer hardware and software | 6,239,712 | 1,312,501 | - | 7,552,213 |
| Furniture and fixtures | 1,614,218 | 671,582 | - | 2,285,800 |
| Leasehold improvements | 10,057,690 | 870,330 | - | 10,928,020 |
| Vehicles | 2,166,811 | 520,364 | - | 2,687,175 |
| Hangar and cross-dock facilities | 16,635,221 | 8,212,037 | (1,010,554) | 23,836,704 |
| Property, plant and equipment under development | 35,336,205 | (18,190,077) | - | 17,146,128 |
| Deferred heavy maintenance | 18,063,454 | 17,146,672 | - | 35,210,126 |
| | 260,939,950 | 187,266,295 | (1,419,986) | 446,786,259 |

| **Accumulated Depreciation** | Balance as at January 1, 2015 | Depreciation | Disposals / Transfers | Balance as at December 31, 2015 | Net Book Value December 31, 2015 |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Aircraft hull | 7,781,407 | 8,613,991 | (139,918) | 16,255,480 | 183,833,976 |
| Engines | 11,294,934 | 9,460,682 | 55,407 | 20,811,023 | 79,842,050 |
| Spare parts | - | - | - | - | 2,554,593 |
| Ground equipment | 6,213,177 | 1,606,329 | - | 7,819,506 | 12,352,963 |
| Rotable spares | 8,911,958 | 1,966,105 | (29,791) | 10,848,272 | 12,822,230 |
| Computer hardware and software | 4,039,097 | 741,944 | - | 4,781,041 | 2,771,172 |
| Furniture and fixtures | 904,421 | 156,565 | - | 1,060,986 | 1,224,814 |
| Leasehold improvements | 5,062,955 | 2,480,146 | - | 7,543,101 | 3,384,919 |
| Vehicles | 692,368 | 284,845 | - | 977,213 | 1,709,962 |
| Hangar and cross-dock facilities | 5,008,274 | 707,921 | (361,469) | 5,354,726 | 18,481,978 |
| Property, plant and equipment under development | - | - | - | - | 17,146,128 |
| Deferred heavy maintenance | 7,086,573 | 6,989,421 | - | 14,075,994 | 21,134,132 |
| | 56,995,164 | 33,007,949 | (475,771) | 89,527,342 | 357,258,917 |

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

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

Property, plant and equipment under development consists of $17,146,128 (2014 - $35,336,205 ) and relates to the purchase and/or modification primarily of aircraft that are not yet available for use.

During the year ended December 31, 2015, the Company completed the acquisition of one Boeing B767-300 aircraft under the Master Lease Agreement as disclosed in Note 12, one Boeing B767-300 under a lease arrangement classified as a finance lease in accordance with the terms of the lease as disclosed in Note 12, two Boeing B767-300's under two loan agreements with separate commercial lenders as disclosed in Note 11 and one Boeing B757-200 aircraft under the Aircraft Facility Arrangement as disclosed in Note 11. The Company also completed the modification of one of its Challenger 601 aircraft.

During the year ended December 31, 2015, the Company acquired a new air cargo logistics facility for a total consideration of $5,750,000 comprised of a cash settlement of $4,750,000 and an exchange of a building owned by it for $1,000,000. A gain of $350,915 was recognized in the statement of loss and comprehensive loss for the exchange of the building.

For the year ended December 31, 2015, $1,948,870 (2014 - $3,199,610) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of $1,462,623 (2014 - $2,600,494) and accretion of $486,247 (2014 - $599,116) relating to funds borrowed specifically to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to specific borrowings, ranging between 7.23% to 8.77% (2014 – 7.35% to 8.77%).

For the year ended December 31, 2015, the Company also capitalized the fair value of cash settled share based payment arrangements related to specific aircraft finance leases of $462,073 (2014 - $1,007,493) to the qualifying assets.

Depreciation expense on property, plant and equipment for the year ended December 31, 2015 totaled $33,007,949 (2014 - $12,975,616 ).

## 6. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single cash-generating unit. Goodwill is tested for impairment annually on April 1, or more frequently when there is an indication of potential impairment. The recoverable amount is determined based on a value in use calculation which uses cash flow projections for a five-year period using a steady 3.0% per annum growth rate thereafter (2014 – 2.0%), which has been estimated based on long-term growth rates in the cash flow of the Company, and a pre-tax discount rate of approximately 17.0% per annum (2014 – 18.0%). The Company believes that any reasonably possible change in key assumptions on which recoverable amounts are based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

## 7. INTANGIBLE ASSETS

Intangible assets at December 31, 2015 and 2014 consist of licenses with indefinite lives carried at $2,000,000 (2014 - $1,000,000). The Company believes that licenses have indefinite useful lives as the licenses provide a renewal option, at Transport Canada's discretion, provided that licensing conditions are met and the Company complies with the licensing conditions specified in the existing laws, agreements, treaties and regulations.

## 8. BUSINESS COMBINATION

On January 30, 2015, the Company acquired all of the outstanding shares and certain debt of ACE Air Charter Inc. ("ACE"), thus obtaining control. Cash consideration paid for the acquisition was $1,000,000. The Company determined that the transaction represented a business combination with the Company being identified as the acquirer. The Company accounted for the combination under the acquisition method.

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

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

### 9. TRADE AND OTHER PAYABLES

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Trade payables and accrued charges | 23,829,084 | 20,408,056 |
| Payroll and benefits | 3,169,649 | 2,915,409 |
| Trade and other payables | 26,998,733 | 23,323,465 |

### 10. PROVISIONS

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

| | December 31 2015 | December 31 2014 |
|---|---|---|
| | $ | $ |
| Balance, beginning of year | 3,015,661 | 1,760,916 |
| Recognition of provision for lease return conditions | - | 860,831 |
| Derecognition of provision for lease return conditions | (909,963) | - |
| Settlement of provision for lease return conditions | (337,248) | - |
| Accretion | 136,155 | 156,035 |
| Effects of exchange rate changes on the provision balance | 459,246 | 237,879 |
| Balance, end of year | 2,363,851 | 3,015,661 |
| Less: current portion | - | 1,725,516 |
| Non-current portion | 2,363,851 | 1,290,145 |

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company's specific history. Accretion expense of $136,155 (2014 - $156,035 ) has been recorded in the year as part of finance costs in the consolidated statement of loss and comprehensive loss. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.

### 11. BORROWINGS

Borrowings consist of the following:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Revolving credit facility | 41,221,012 | 4,827,425 |
| Aircraft facility arrangement | 96,107,625 | 9,402,246 |
| Other borrowings | 235,206 | 257,170 |
| | 137,563,843 | 14,486,841 |
| Less current portion | 4,060,623 | 504,897 |
| Long-term portion | 133,503,220 | 13,981,944 |

**Revolving credit facility**

Effective December 16, 2015, the Company entered into a new extendable revolving operating credit facility (the “facility”) through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) replacing the previous $60 million facility. The facility is to a maximum of $100 million and allows for an increase of $25 million upon request by the Company subject to approval by the Lenders. The facility has a term of three years, which can be extended annually with the consent of the Lenders, and bears interest, payable monthly, at the lead Lender’s prime lending rate / US base rate plus 150 basis points to 200 basis points, dependent on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity.

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

The facility is secured by the following:

- general security agreement constituting a first ranking security interest over all personal property of Cargojet Airways Ltd., as borrower, subject to certain permitted encumbrances (including those of aircraft financing parties);
- guarantee and postponement of claim supported by a general security agreement constituting a first ranking security interest over all personal property of the Company and its other material subsidiaries subject to certain permitted encumbrances;
- charge over real property of the Company at Hamilton airport;
- security over B727 aircraft owned by the Company; and
- assignment of insurance proceeds.

Advances under the facility are repayable without any prepayment penalties and bear interest based on the prevailing prime rate, U.S. base rate or at a banker’s acceptance rate, as applicable, plus an applicable margin to those rates.

The facility is subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the Lenders, and restrictions on the Company's ability to pay dividends. The facility is also subject to the maintenance of a minimum fixed charge coverage ratio and a total adjusted leverage ratio.

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at December 31, 2015 and 2014.

Included in the statement of loss and comprehensive loss for the year ended December 31, 2015 was interest expense on the revolving credit facility of $1,973,985 (2014 - $893,129).

**Aircraft facility arrangements**

In 2014, the Company executed first and second Aircraft Facility Arrangements ("AFA") with an equipment finance and leasing company for $25 million available in a non-revolving credit facility to refinance the acquisition of two Boeing 757-200 aircraft. During the year ended December 31, 2015, the Company availed the second facility limit under this AFA. This facility matures in January 2022 and is secured by a transfer of right, title and interest of ownership of the aircraft and all its components and records. Each loan under this credit facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate for the facility availed during the period is 8.05%.

In April 2015, the Company also secured a facility with a commercial lending company for USD $27.5 million and drew down on it to finance the acquisition of one Boeing 767-300 aircraft. This facility expires in April 2022 and is secured by the aircraft and all its components and records. The estimated effective interest rate for the facility availed during the period is 8.52%.

In May 2015, the Company secured a loan facility of USD $55 million with a US based lender to acquire additional B767-300 aircraft. In September 2015, the Company drew down USD $27.5 million under this loan facility to finance the acquisition of one Boeing 767-300 aircraft. The term of this loan expires in September 2022. The estimated effective interest rate for the facility availed during the year is 9.80%. Under the terms of this facility, each loan will be secured by the purchased aircraft and all of their components and records.

The AFA is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2015.

The following is a schedule of future minimum annual payments under the AFA and aircraft loan agreements together with the balance of the obligations as at December 31, 2015.

| | $ |
|---|---|
| 2016 | 3,712,470 |
| 2017 | 7,011,486 |
| 2018 | 9,092,972 |
| 2019 | 11,430,250 |
| 2020 | 10,290,617 |
| Thereafter | 54,245,464 |
| Obligations under AFA and loan agreements | 95,783,259 |
| Fair value of cash settled share based payment arrangement | 324,366 |
| Total obligations under AFA and loan agreements | 96,107,625 |
| Less current portion | 4,036,836 |
| Long-term portion | 92,070,789 |

Included in the statement of loss and comprehensive loss for the year ended December 31, 2015 was interest expense on the AFA of $5,141,014 (2014 - $16,402).

**Other borrowings**

Other borrowings of $235,206 are comprised of an obligation under a lease arrangement for an office and warehouse premises and bear an interest rate of 8.0%. The amount is repayable in monthly installments over the period to April 2018.

| | $ |
|---|---|
| 2016 | 23,787 |
| 2017 | 25,761 |
| 2018 | 185,658 |
| | 235,206 |
| Less: current portion | 23,787 |
| Long-term portion | 211,419 |

## 12. FINANCE LEASES

In 2014, the Company executed a Master Lease Agreement ("MLA") with an equipment finance and leasing company for up to $100 million in capital lease financing to acquire up to 3 Boeing 767-300 aircraft. The MLA was expanded to a fourth Boeing 767-300 and $120 million aircraft under the same terms and conditions. During the year ended December 31, 2015, the Company completed the fourth finance lease under this MLA. This lease expires in January 2022 and provides for the transfer of ownership of the aircraft at the end of the lease term at a pre-determined price. Accordingly, this lease is classified as a finance lease and a corresponding asset and lease obligation was recognized in the financial statements. Each lease under this lease facility is arranged in two tranches: A and B, each with its own schedule of principal and interest payments. The estimated effective interest rate is 7.23%. The leases under the MLA are guaranteed by the Company and its subsidiaries.

The arrangement is subject to the maintenance of certain financial covenants. The Company was in compliance with all covenants as at December 31, 2015.

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

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligation as at December 31, 2015.

| | Minimum lease payments | Present value of minimum lease payments |
|---|---|---|
| | $ | $ |
| Not later than one year | 22,830,947 | 12,075,305 |
| Later than one year and not later than five years | 157,592,325 | 129,795,333 |
| Later than five years | 10,423,795 | 10,423,795 |
| | 190,847,067 | 152,294,433 |
| Less: interest | 38,552,635 | - |
| Obligations under finance leases | 152,294,432 | 152,294,433 |
| Fair value of cash settled share based payment arrangement | 1,404,612 | 1,404,612 |
| Total obligations under finance leases | 153,699,044 | 153,699,045 |
| Less: current portion | 13,479,917 | 13,479,917 |
| Non-current portion | 140,219,127 | 140,219,128 |

Interest expense on the finance leases for the year was $10,907,489, (2014 - $2,211,832) of which $284,281 (2014 - $1,031,698) was capitalized to the cost of property, plant and equipment.

## 13. CONVERTIBLE DEBENTURES

Convertible debentures at December 31, 2015 and December 31, 2014 consist of the following:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Convertible Debentures - 6.5% | 4,238,175 | 13,802,460 |
| Convertible Debentures - 5.5% | 66,843,443 | 65,163,946 |
| Balance | 71,081,618 | 78,966,406 |

### Convertible Debentures – 6.5% due April 30, 2017

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

On or after April 30, 2015, but prior to April 30, 2016, 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 at least $1,000 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 $11.75 per common share. After April 30, 2016, but prior to the maturity date of April 30, 2017,

the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on April 30, 2017, 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 $11.75 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 $11.75 per voting share may be subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.142 per quarter ($0.568 per annum).

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

The conversion option, net of related issuance costs of $132,808, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 10.01%.

During the year ended December 31, 2015, convertible debentures with an aggregate principal amount of $10,440,000 (2014 - $13,881,000) were converted, at the holders' discretion, into 888,503 (2014 – 1,181,006) voting shares of the Company. Accordingly, the Company derecognized $9,841,767 (2014 - $12,616,183) of the liability for convertible debentures, representing the amortized carrying cost amount of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option of $669,808 (2014 - $890,575) was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the statement of changes in equity. No gain or loss was recognized upon conversion of the debentures.

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Principal balance | 4,429,000 | 14,869,000 |
| Less: | | |
| Issuance costs | (202,146) | (678,643) |
| Conversion option at inception | (407,065) | (1,366,595) |
| Accretion | 418,386 | 978,698 |
| Balance | 4,238,175 | 13,802,460 |

Interest expense on the debentures for the year ended December 31, 2015 was $895,270 (2014 - $1,674,982).

**Convertible Debentures – 5.5% due June 30, 2019**

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

On or after June 30, 2017, but prior to June 30, 2018, 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 at least $1,000 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 $28.75 per common share. On or after June 30, 2018, but prior to the maturity date of June 30, 2019, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on June 30, 2019, 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 $28.75 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 $28.75 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 $0.225 per quarter ($0.900 per annum).

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

The conversion option, net of related issuance costs of $305,532, has been recorded in shareholders' equity. Factoring in issuance costs, the effective interest rate on the debentures is 8.77%.

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Principal balance | 74,000,000 | 74,000,000 |
| Less: | | |
| Issuance costs | (3,265,544) | (3,265,544) |
| Conversion option at inception | (6,618,078) | (6,618,078) |
| Accretion | 2,727,065 | 1,047,568 |
| Balance | 66,843,443 | 65,163,946 |

Interest expense on the debentures for the year ended December 31, 2015 totaled $5,749,499 (2014 - $3,790,636 ). An interest amount of $1,664,590 (2014 – $2,167,912) was capitalized to the cost of property, plant and equipment.

## 14. INCOME TAXES

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

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Loss before income taxes | (21,244,413) | (13,025,819) |
| Recovery of income tax at the combined basic rate of 26.5% (2014 - 26.5%) | (5,629,769) | (3,451,842) |
| Permanent and other differences | 2,427,231 | (49,312) |
| Recovery of income tax | (3,202,538) | (3,501,154) |

The tax effect of significant temporary differences is as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Property, plant and equipment | 4,057,831 | 3,705,261 |
| Operating loss carryforward | (8,210,413) | (1,667,841) |
| Licenses | 265,000 | - |
| Intangible assets | (488,542) | (525,315) |
| Derivative contracts | 1,298,256 | - |
| Notes receivable | - | (5,992) |
| Financing costs | (285,385) | (1,126,787) |
| Convertible debentures | 1,310,691 | 1,846,047 |
| Provision for lease retirement costs | (456,586) | 330,665 |
| Stock appreciation rights | (37,059) | - |
| Unrealized capital loss | (71,735) | - |
| Finance lease receivable | - | 30,415 |
| Long-term incentive plan | (48,201) | (122,247) |
| Deferred heavy maintenance | 5,430,384 | 1,911,087 |
| Net deferred income tax liability | 2,764,241 | 4,375,293 |

During the year ended December 31, 2015, a deferred tax liability of $241,495 (2014 - $321,092) recorded in shareholders' equity was reduced relating to the conversion of convertible debentures into voting shares of the Company as disclosed in Note 13.

### 15. DIRECT EXPENSES

Direct expenses consist of the following:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Fuel costs | 68,240,553 | 61,293,971 |
| Maintenance costs | 21,177,837 | 12,466,095 |
| Heavy maintenance amortization | 6,989,420 | 4,249,677 |
| Aircraft costs | 35,706,917 | 27,196,698 |
| Crew costs | 22,443,689 | 14,711,061 |
| Depreciation | 25,066,001 | 8,063,880 |
| Commercial costs | 71,077,117 | 45,642,671 |
| Direct expenses | 250,701,534 | 173,624,053 |

## 16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Salaries and benefits | 17,761,937 | 13,727,326 |
| Depreciation and amortization | 948,858 | 662,058 |
| Net foreign exchange loss | 8,892,133 | 277,734 |
| Bonuses and incentives | 6,419,120 | 4,333,672 |
| Audit, legal and consulting | 1,395,261 | 1,038,715 |
| IT network and communications | 2,024,937 | 1,291,336 |
| Other general and administrative expenses | 4,792,125 | 3,654,132 |
| General and administrative expenses | 42,234,371 | 24,984,973 |

## 17. FINANCE COSTS

| Finance costs consist of the following : | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Interest on capital leases | 10,623,208 | 1,180,145 |
| Interest on loans | 7,114,999 | 909,531 |
| Interest on debenture | 5,000,179 | 3,297,984 |
| Other interest | 147,470 | 156,154 |
| Finance Costs | 22,885,856 | 5,543,814 |

## 18. OTHER (GAINS)/LOSSES

Other (gains) losses consist of the following:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| (Gain) losses on disposal of property, plant and equipment | (567,453) | 92,425 |
| Gain on forward foreign exchange contracts | (4,899,081) | - |
| (Gain) losses on cash settled share based payment arrangement | (651,207) | 516,917 |
| Gain on fair value of non-hedge derivatives | (947,820) | - |
| Other (gains)/losses, net | (7,065,561) | 609,342 |

### 19. SHAREHOLDERS' CAPITAL

#### a) Authorized

The Company is authorized to issue an unlimited number of no par value common voting shares, variable voting shares and preferred shares. The common voting shares are held only by shareholders who are Canadian residents. The variable voting shares are held only by shareholders who are non-Canadian residents. Under the articles of incorporation and bylaws of the Company, any common voting share that is sold to a non-Canadian resident is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian resident is automatically converted to a common voting share.

Variable voting shares carry one vote per share held, except where (i) the number of issued and outstanding variable voting shares exceeds 25% of the total number of all issued and outstanding common and variable voting shares, or (ii) the total number of votes cast by or on behalf of the holders of variable voting shares at any meeting on any matter on which a vote is to be taken exceeds 25% of the total number of votes that may be cast at such meeting.

If either of the above noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically without further act or formality. Under the circumstances described in (i) above, the variable voting shares as a class cannot carry more than 25% of the total voting rights attached to the aggregate number of issued and outstanding common and variable voting shares. Under the circumstances described in (ii) above, the variable voting shares as a class cannot, for a given shareholders' meeting, carry more than 25% of the total number of votes that may be cast at the meeting.

**b) Issued and outstanding**

The following table shows the changes in shareholders' capital from December 31, 2014 to December 31, 2015:

| | Number | Amount |
|---|---|---|
| | | $ |
| Variable voting shares | 256,395 | 2,172,852 |
| Common voting shares | 7,673,416 | 65,029,338 |
| Outstanding January 1, 2014 | 7,929,811 | 67,202,190 |
| | | |
| Changes during the period | | |
| Voting shares issued on conversion of convertible debentures | 1,181,346 | 12,616,183 |
| Share based compensation | (24,819) | (521,794) |
| Distributed in connection with share-based compensation | 45,076 | 462,021 |
| Outstanding December 31, 2014 | 9,131,414 | 79,758,600 |
| | | |
| Consisting of: | | |
| Variable voting shares | 98,545 | 860,744 |
| Common voting shares | 9,032,869 | 78,897,856 |
| Outstanding December 31, 2014 | 9,131,414 | 79,758,600 |
| | | |
| Changes during the period | | |
| Voting shares issued on conversion of convertible debentures | 888,502 | 9,841,767 |
| Restricted share units vested | 45,189 | 1,231,436 |
| Distributed in connection with share-based compensation | 33,619 | 437,125 |
| Outstanding December 31, 2015 | 10,098,724 | 91,268,928 |
| | | |
| Consisting of: | | |
| Variable voting shares | 101,164 | 914,287 |
| Common voting shares | 9,997,560 | 90,354,641 |
| Outstanding December 31, 2015 | 10,098,724 | 91,268,928 |

Common voting shares outstanding as at December 31, 2015 excludes treasury shares.

No preferred shares are issued or outstanding.

**Dividends**

Dividends to shareholders declared for the years ended December 31, 2015 and 2014 amounted to $5,846,896 ($0.5964 per share) and $5,404,094 (0.5964 per share) respectively.
As at December 31, 2015 the dividend amount of $1,507,171 was payable to the shareholders (2014 - $1,367,907).

### 20. LOSS PER SHARE

The following table shows the computation of basic loss per share for the years ended December 31, 2015 and 2014:

| Basic loss per share | | December 31, 2015 | | December 31, 2014 |
|---|---|---|---|---|
| Net loss | $ | (18,041,875) | $ | (9,524,665) |
| Weighted average number of shares | | 9,685,254 | | 8,878,829 |
| Total basic loss per share | $ | (1.86) | $ | (1.07) |

The shares held under the long-term incentive plan have been included in the calculation of basic loss per share for the year ended December 31, 2015 and 2014 as they participate in dividend distributions. The effect of the convertible debentures has been excluded from the calculation of diluted loss per share for the year ended December 31, 2015 and 2014 as the impact would be anti-dilutive.

### 21. LONG - TERM INCENTIVE PLAN

The Company's long-term incentive plan (the "Plan" or "LTIP") provides certain of its executive officers and senior management of the Company with compensation opportunities tied to the performance of the Company. Company incentive bonuses, are provided to eligible employees on an annual basis where the earnings of the Company exceed a pre-determined base (the "Base Target"). The Base Target is set annually by the Compensation and Nominating Committee of the Company's Board of Directors in accordance with the terms of the Plan.

If the Company's earnings exceed the Base Target, a percentage of the excess is contributed by the Company into a long-term incentive pool. Prior to 2014, the long-term incentive pool was used by the Company to purchase common voting shares of the Company on the open market. These shares were held in trust until they vested to the employees. Vesting of the shares occurred on the basis of one-third of the total grant at the time of granting, and one-third on each of the first and second anniversary dates of the grant. Awards under the Plan for the 2014 fiscal year were comprised of share-based compensation in the form of RSU and Options granted in 2015. (See Note 22. SHARE BASED COMPENSATION)

**Prior Years Awards**

In 2013 and 2014, the Company purchased a total of 85,918 common voting shares under the Plan. In 2015, 33,619 of these shares had vested and $437,125 was transferred from share-based compensation reserve to shareholders' capital. The balance of LTIP award not vested at December 31, 2015 was $204,625 (2014 - $641,750).

For the years ended December 31, 2015 and 2014, compensation expense related to shares purchased under the Plan in 2013 and 2014 totaled $158,430 and $622,018, respectively, including withholding taxes of $nil and $92,095, respectively, paid on behalf of the eligible employees.

The following table details the impact of the above transactions on shareholders' capital as at December 31, 2015 and on the consolidated statements of loss and comprehensive loss for the years ended December 31, 2015 and 2014:

| **Shares purchased under the plan** | Number | $ |
|---|---|---|
| Balance, January 1, 2014 | 63,605 | 581,977 |
| Shares acquired by Company for long-term incentive plan | 24,819 | 521,794 |
| Shares distributed by Company to long-term incentive plan participants | (45,076) | (462,021) |
| Balance, December 31, 2014 | 43,348 | 641,750 |
| Shares distributed by Company to long-term incentive plan participants | (33,619) | (437,125) |
| Balance, December 31, 2015 | 9,729 | 204,625 |

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| **Share-based compensation expense** | $ | $ |
| Shares transferred to long-term incentive plan participants | 26,560 | 172,290 |
| Witholding tax paid for long-term incentive plan participants | - | 92,095 |
| Share-based compensation, not yet vested | 131,870 | 357,633 |
| Share-based remuneration | 158,430 | 622,018 |

### 22. 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.

During the year ended December 31, 2015, in accordance with the RSU Plan, the Company granted 147,150 RSUs (2014 – $nil) to certain key executives. Each RSU granted to key executives entitled the holder to one common voting share of the Company on the settlement thereof. Each RSU had an average value of $26.83 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. A total of 38,488 RSUs vested immediately. For the year ended December 31, 2015, the Company recorded share based compensation expenses of $1,048,382 with respect to the vested RSUs. Of the remaining 108,662 RSUs granted, 47,332 RSU's will vest in each of the first quarters of 2016 and 2017 and 13,998 RSUs will vest in first quarter of 2018. Share based compensation expenses of $1,395,823 related to unvested RSUs is included in the consolidated financial statement of loss for the year ended December 31, 2015 (2014 – $nil). Unrecognized share based compensation expense as at December 31, 2015 related to these RSUs was $1,503,309 (2014 – $nil) and will be amortized on a prorated basis in the consolidated statement of loss over the vesting period.

During the year ended December 31, 2015, the Company also granted 6,701 RSUs to non-employee directors. Each RSU granted to non-employee directors entitled the holder to one common voting share of the Company on the settlement therof and had an average value of $27.38 per RSU calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant dates. The value of RSUs granted to non-employee directors was determined by reference to the market value for similar services. All 6,701 RSUs vested immediately. For the year ended December 31, 2015, the Company recorded share based compensation expenses of $183,054 with respect to the vested RSUs.

During the year ended December 31, 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 $858,547 or $4.98 for each option (2014 - $nil). 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.

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

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

The Options have a five-year term and vest in each of the first quarters of 2016, 2017 and 2018. 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 prorated basis in the consolidated statement of income or loss over the vesting period. The Company recognized an expense of $346,575 for the year ended December 31, 2015 (2014 – $nil) in respect of the amortization of options over the vesting period. The unrecognized value as at December 31, 2015 related to the Options was $511,973 (2014 – $nil) and will be amortized on a prorated basis in the consolidated statement of loss over the vesting period.

### 23. COMMITMENTS AND CONTINGENCIES

**Commitments**

The Company is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

| | $ |
|---|---|
| Not later than one year | 12,764,429 |
| Later than one year and not later than five years | 28,571,406 |
| Later than five years | 1,512,293 |
| Total | 42,848,128 |

In the normal course of business, the Company has certain commitments for expenditures related to the continuation of the operations and the maintenance and acquisition of property, plant and equipment.

**Contingencies**

The Company has provided irrevocable standby letters of credit totaling $32,604,900 to financial institutions as security for its loan, corporate credit cards and to several vendors as security for the Company's ongoing purchases. The letters of credit expire as follows:

| | $ |
|---|---|
| January 29, 2017 | 20,000,000 |
| March 20, 2016 | 20,000 |
| June 15, 2016 | 350,000 |
| July 6, 2016 | 166,000 |
| July 28, 2016 | 206,000 |
| July 28, 2016 | 274,000 |
| December 31, 2016 | 2,000,000 |
| December 31, 2016 | 200,000 |
| January 13, 2017 | 250,000 |
| December 31, 2016 | 6,906,400 |
| October 22, 2016 | 1,982,500 |
| July 9, 2016 | 250,000 |
| Total | 32,604,900 |

### 24. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2015, 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.

**Compensation of key management personnel**

In 2015, the employee benefit expense was $58,475,405 (2014 - $40,101,642) of which $33,987,834 (2014 - $21,775,043) was recorded in direct expenses and $24,487,581 (2014 - $18,326,599) was recorded in general and administrative expenses. The general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2015 and 2014 as follows:

| | December 31, 2015 | December 31, 2014 |
|---|---|---|
| | $ | $ |
| Short-term benefits | 7,682,303 | 7,083,411 |
| Post-employment benefits | 61,834 | 60,976 |
| Share-based payments | 3,132,264 | 622,018 |
| Total remuneration | 10,876,401 | 7,766,405 |

## 25. ECONOMIC DEPENDENCE

In 2015, the Company had sales to three customers that represented 63.1% of the total revenues (2014 - 54.7%). These sales are provided under service agreements that expire over various periods to April 2025.

## 26. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the shareholders and debt holders.

The Company defines capital as the sum of total equity, borrowings, including the current portion, obligations under finance leases, convertible debentures, cash, and the present value of the future operating lease payments.

The Company manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt which may be (with different characteristics), repurchase debt instruments for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Company's approach to capital management during the year.

The Company is subject to financial covenants related to its credit facility, finance leases and aircraft facility arrangement (Note 11 and Note 12, respectively). As at December 31, 2015 and 2014, the Company was in compliance with all financial covenants.

### 27. FINANCIAL INSTRUMENTS

**Risk management policies**

Through its financial assets and liabilities, the Company is exposed to various risks. The following analysis provides an overview of these risks as well as a measurement of these risks as at December 31, 2015.

**Derivative financial instruments**

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

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

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

**Total return swap**

The Company has an obligation to pay additional fees under certain aircraft loans and capital leases that are based on the difference between the exercise price of 293,332 shares of Cargojet (CJT-A) and the market price on the date when the rights are exercised by the lender. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the agreement, the Company will pay interest to the financial institution based on Canadian LIBOR and the total value of the notional equity amount which is equal to the total cost of the underlying shares. On the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares.

The Company did not designate the total return swap agreement as a cash flow hedge for accounting purposes. As at December 31, 2015, the fair value of the swap was $947,820 in favour of the company and is included as other gains in the consolidated statement of loss and comprehensive loss.

**Interest swap**

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

**Fair values**

The fair value of the convertible debentures, based on discounted cash flows as at December 31, 2015, was approximately $74,468,000 (December 31, 2014 – $75,834,000). The fair value of the long-term debt as disclosed in Note 11 was approximately equal to its carrying value. The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items. The fair value of the interest rate swap and the forward contracts are the estimated amount that the issuer would receive or pay to terminate the agreement at the reporting date. Unrealized gains on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in our Consolidated Balance Sheets.

At December 31, 2015, the Company had foreign exchange forward contracts outstanding to buy US$ 71.9 million at a weighted average contracted rate of 1.3007 (December 31, 2014 – nil). The derivative contracts are recorded at fair market value, with fair value being classified as Level 2 under the fair value hierarchy. The estimated net gain on the foreign exchange forward contracts of $4,899,051 as at December 31, 2015 (2014 - $nil) is included in the other gains on the consolidated statement of loss and comprehensive loss.

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

**Credit risk**

The Company's principal financial assets that expose it to credit risk are accounts receivable, notes receivable and finance lease receivable.

The Company is subject to risk of non-payment of accounts receivable, finance lease receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's receivables are concentrated among several of its largest customers with approximately 60% (December 31, 2014 – 54%) of total receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (0.5%) of trade receivables is outstanding for more than sixty days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. Consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

(b) The Company mitigates credit risk by monitoring the creditworthiness of its customers.

(c) A majority of the Company's major customers are large public corporations with positive credit ratings and history.

### Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $100 million. The Company was in compliance with all covenants as at December 31, 2015 and 2014.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2015 based on contractual undiscounted payments are as follows:

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Borrowings and convertible debentures | 3,712,470 | 11,440,486 | 146,594,423 | 54,245,464 | 215,992,843 |
| Finance leases | 12,075,305 | 13,023,712 | 79,432,377 | 49,167,651 | 153,699,045 |
| Interest on borrowings (at current rates) | 8,361,401 | 7,906,179 | 18,673,592 | 6,213,315 | 41,154,487 |
| Interest on finance leases | 10,755,642 | 9,800,818 | 15,502,131 | 2,494,043 | 38,552,634 |
| Trade and other payables | 26,998,733 | - | 2,363,851 | - | 29,362,584 |
| Dividends payable | 1,507,171 | - | - | - | 1,507,171 |
| Total | 63,410,722 | 42,171,195 | 262,566,374 | 112,120,473 | 480,268,764 |

Total financial liabilities at December 31, 2014 based on contractual undiscounted payments are as follows:

| | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Borrowings and convertible debentures | 504,897 | 5,464,603 | 96,940,346 | 445,995 | 103,355,841 |
| Finance leases | 6,782,482 | 5,672,183 | 45,341,804 | 36,578,540 | 94,375,009 |
| Interest on borrowings (at current rates) | 5,967,797 | 5,649,080 | 12,137,899 | 760,575 | 24,515,351 |
| Interest on finance leases | 6,676,888 | 6,283,422 | 17,073,357 | 1,646,104 | 31,679,771 |
| Trade and other payables | 23,323,465 | - | 1,290,145 | - | 24,613,610 |
| Dividends payable | 1,367,907 | - | - | - | 1,367,907 |
| Total | 44,623,436 | 23,069,288 | 172,783,551 | 39,431,214 | 279,907,489 |

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial liability will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt and also leases certain assets with fixed rates.

The Company risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Company's capital structure and is based upon a long term objective of minimum 70% fixed and maximum 30% floating but allows flexibility in the short-term to adjust to prevailing market conditions. These practices aim to minimize the net interest cost volatility. The ratio at December 31, 2015 is 78.5% fixed and 21.5% floating.

At December 31, 2015, the Company had one interest rate swap contract outstanding with a 2-year term. The rate agreement caps the US dollar LIBOR variable interest rate at 3%. The Company did not designate the interest rate cap agreement as a cash flow hedge for accounting purposes.The term loan was used to finance the purchase of aircraft.

**Foreign exchange risk**

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The company also enter into contracts attributed to asset purchases including aircraft and aircraft parts and pay debt in foreign currency. The Company manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases and debt payments by buying forward U.S. dollars ("USD") at fixed rates in future periods. As at December 31, 2015, the Company held one hundred and twenty one foreign exchange forward purchase agreements maturing on a monthly basis to April 2022 for a total of USD $71.9 million (2014 - $nil). These agreements fix the amount of Canadian dollars that the Company will pay to buy USD to offset its purchases in USD.

Total foreign exchange losses during the year ended December 31, 2015 were $8,892,133 (2014 – loss of $277,734 ).

**Commodity risk**

The Company is exposed to commodity risk for fluctuations in fuel costs to the extent that it cannot pass price increase on to its customers. The Company does not use derivative instruments to mitigate this risk.

**Market risk**

In the normal course of business, the financial position of the Company is routinely subject to a variety of risks. In addition to the market risk associated with interest rate and currency movements on outstanding debt and non-Canadian dollar denominated assets and liabilities, other examples of risk include collectability of accounts receivable.

The Company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Company does not anticipate any material losses from these risks.

To meet disclosure requirements, the Company performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Company's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Company's cash, borrowings, convertible debentures and all derivative financial instruments. To perform the sensitivity analysis, the Company assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

At December 31, 2015, a 0.5 percent upward movement in interest rates would result in $0.4 million impact on the fair value of the Company's financial assets and liabilities. Due to the lower market of interest rates, downward movement in interest rates was not considered a reasonable scenario.

At December 31, 2015, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately $1.0 million (2014 - $0.1 million). An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2014 - $0.1 million).

At December 31, 2015, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by approximately $0.1 million (2014 - $0.1 million). An increase in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2014 - $0.1 million).

### 28. GUARANTEES

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

(a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Company agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, 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) Indemnity has 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 favor 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.

(d) The Company participates in Fuel Facility Corporations (“FFC”) along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operate 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 as part of the Financial Statements of the Company. The Company views this loss potential as remote. The airlines that participates in the FFC guarantee on a pro-rata basis the share of the debt based on system usage.

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.