CARGOJET INC.

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

For the Three Month and Year Ended December 31, 2015

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three month and year ended December 31, 2015. The following also includes a discussion of and comparative operating results for the three month and year ended December 31, 2014.

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

The effective date of the MD&A is March 7, 2016. The consolidated 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"), except for any financial information specifically denoted otherwise. This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2015 and 2014

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

Non-GAAP measures like EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are not earning measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. As of January 1, 2015, the Company added "EBITDAR" and "Adjusted EBITDAR" measures to the MD&A. EBITDAR and Adjusted EBITDAR are measures commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft.

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods and improve comparability between other companies including other airlines. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with debt covenant. Investors are cautioned that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are shown on page 17 of the MD&A.

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

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company (see page 36 for a more complete discussion of the risks affecting the Company's business).

Caution Concerning Forward Looking Statements

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the section "Risk Factors" starting on page 36.

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

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

- Fleet Overview – Page 7,
- Results of operations for year ended December 31, 2015 - Liquidity and capital resources – Page 29,
- Off balance sheet arrangements – Page 34, and
- Outlook – Page 44.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in million, except where indicated)

		Three Month Period Ended December 31,				Year Ended December 31,			
		2015	2014	Change	%	**2015**	2014	Change	%
Financial information									
Revenue		**$84.3**	$57.1	$27.2	47.6%	**$289.0**	$192.4	$96.6	50.2%
Direct expenses		**$65.1**	$51.3	$13.8	26.9%	**$250.7**	$173.6	$77.1	44.4%
Gross margin		**$19.2**	$5.8	$13.4	231.0%	**$38.3**	$18.8	$19.5	103.9%
Gross margin - %		**22.8%**	10.2%	12.6%		**13.3%**	9.8%	3.5%	
Selling, general & administrative expenses		**$14.4**	$9.7	$4.7	48.5%	**$43.8**	$25.8	$18.0	69.7%
Net finance cost & other gains		**$4.3**	$3.2	$1.1	34.4%	**$15.8**	$6.0	$9.8	162.6%
Income (loss) before income taxes		**$0.6**	($7.1)	$7.7	-108.5%	**($21.2)**	($13.0)	($8.2)	63.1%
Income taxes		**$2.1**	($2.1)	$4.2	-200.0%	**($3.2)**	($3.5)	$0.3	-8.6%
Net loss		**($1.5)**	($5.0)	$3.5	-70.0%	**($18.0)**	($9.5)	($8.5)	89.5%
Loss per share - $CAD									
Basic		**($0.15)**	($0.54)	$0.39	-72.2%	**($1.86)**	($1.07)	($0.79)	74.1%
Diluted		**($0.15)**	($0.54)	$0.39	-72.2%	**($1.86)**	($1.07)	($0.79)	74.1%
EBITDA	(1)	**$17.5**	$0.0	$17.5	0.0%	**$34.6**	$5.3	$29.3	552.8%
EBITDA margin - %		**20.8%**	0.0%	20.8%		**12.0%**	2.8%	9.2%	
Adjusted EBITDA	(1)	**$18.8**	$0.9	$17.9	2012.4%	**$36.1**	$6.4	$29.7	465.8%
Adjusted EBITDA margin - %		**22.3%**	1.6%	20.7%		**12.5%**	3.3%	9.2%	
EBITDAR	(1)	**$24.5**	$8.8	$15.7	179.0%	**$66.9**	$31.1	$35.8	115.1%
EBITDAR margin - %		**29.1%**	15.4%	13.7%		**23.1%**	16.2%	6.9%	
Adjusted EBITDAR	(1)	**$25.8**	$9.7	$16.1	165.8%	**$68.3**	$32.1	$36.2	112.9%
Adjusted EBITDAR margin - %		**30.6%**	17.0%	13.6%		**23.6%**	16.6%	7.0%	
Adjusted free cash flow	(1)	**$17.0**	($0.4)	$17.4	-4349.4%	**$13.1**	($5.5)	$18.6	-338.2%
Operating statistics									
Operating days	(2)	**49**	49	-		**198**	198	-	
Average cargo revenue per operating day	(3)	**$1.29**	$0.98	$0.31	31.1%	**$1.11**	$0.78	$0.33	42.3%
Block hours		**6,308**	4,512	1,796	39.8%	**22,940**	14,861	8,079	54.4%
Aircraft in operating fleet									
B727-200		**7**	9	(2)		**7**	9	(2)	
B757-200		**5**	4	1		**5**	4	1	
B767-200		**3**	5	(2)		**3**	5	(2)	
B767-300		**7**	3	4		**7**	3	4	
		22	21	1	4.8%	**22**	21	1	4.8%
Average Volumes per operating day (lbs.)		**1,372,492**	804,273	568,219	70.7%	**1,097,778**	689,859	407,919	59.1%
Average number of full-time equivalent employees		**667**	509	158	31.0%	**667**	509	158	31.0%

1. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted free cash flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer to page 1 of this MD&A for a detailed discussion.

2. Operating days refer to the Company's overnight air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.

3. Average cargo revenue per operating day refers to total overnight, ACMI (defined below under "Corporate Overview") and charter revenues earned by the Company per operating day.

Corporate Overview

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

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

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

2015 was a transformational year for the business with revenues increasing to $289 million from $192 million in the previous year, an increase of 50.5% due to the start of a new contract with a major customer, continued strong demand from its existing customers on the domestic network and growth in the charter market. Full- time and part-time employees increased from less than 400 at the start of 2014 to over 700 in 2015 and the total aircraft fleet grew from 16 to 23 aircraft as at December 31, 2015 including the addition of fourteen new aircraft to the fleet. During the latter half of the year, the Company identified opportunities to significantly reduce operating costs by realigning capacity to more closely match overall customer demand. This included working closely with all customers to reach consensus on a refined overnight network that met all individual customer requirements. These changes to the Company's route and cost structures were successfully implemented by the end of Q4 of 2015 achieving a 17% reduction in network block hours.

Fleet Overview

Note: See Caution Concerning Forward Looking Statements, page 4

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

The table below sets forth the Company's operating fleet as at December 31, 2013, 2014 and 2015 as well as the Company's planned operating fleet for the year ending December 31, 2016:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs.)	Range (miles)
			Actual			Plan		
			2013	2014	2015	2016		
B767-300[1] [2]	Finance Lease	22	-	3	5	5	125,000	6,000
B767-300[2]	Owned	22	-	-	2	3	125,000	6,000
B767-200[3]	Operating Lease	30	2	5	3	1	100,000	5,000
B757-200[4]	Owned	28	-	1	2	2	80,000	3,900
B757-200[5]	Operating Lease	26	1	3	3	3	80,000	3,900
B727-200[6]	Owned	36	11	9	7	6	60,000	1,800
Challenger 601[7]	Owned	29	-	-	1	2	6,000	3,300
Total Aircraft			14	21	23	22		

1. Cargojet took delivery of one B767-300 aircraft in January 2015 financed under the MLA. Cargojet took delivery of one B767-300 aircraft in March 2015 under a lease with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price and was classified as a finance lease.
2. Cargojet took delivery of one B767-300 aircraft in April 2015 and one B767-300 aircraft in September 2015. Cargojet took delivery of another B767-300 in January 2016. These aircraft were financed by loans.
3. In 2014, Cargojet subleased one B767-200 aircraft from a Canadian airline. This sublease will expire in March 2016. In addition, two B767-200 aircraft were leased on a short term basis to meet the requirements of the MSA with CPGOC (as defined on page 8 of this MD&A under "Purolator and Canada Post DACNS"). As of the date of this MD&A, these short term leases have expired. One other B767-200 aircraft lease will expire in Q1 of 2016. Another B767-200 lease has been extended to June 2018.

4. In 2014, Cargojet purchased one previously leased B757-200 aircraft and purchased an additional B757-200 that underwent conversion from a passenger aircraft to freighter aircraft and became operational in early 2015.
5. In 2014, Cargojet leased two additional B757-200 aircraft and extended the lease of its existing B757-200 aircraft. The leases of the B757-200 aircraft expire respectively at the end of 2017, in 2020 and 2022.
6. Cargojet took two B727-200 aircraft out of regular service in 2015 and plans to retire one B727-200 aircraft in 2016.
7. In 2014, Cargojet purchased five Challenger 601 aircraft. The Company entered into a charter agreement with a third party to operate and manage two of these aircraft to provide the aircraft for individual and corporate charterers. One of these aircraft is currently in operation and the other is scheduled to be in operation in 2016. Two of these aircraft are being configured for cargo operations and the fifth aircraft is held for parts.

Recent Events

Syndicated Operating 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. See page 29 under section Liquidity and Capital Resources for detailed description.

Air Cargo Logistics Facility

The Company and the John C. Munro Hamilton International Airport entered into an arrangement in respect of the airport's $12 million Air Cargo Logistics Facility, for which construction began in the third quarter of 2014. The Company contributed $4.75 million and exchanged a building owned by it for its share of the facility. The building was completed in June 2015 and the Company took the possession of the new facility at such time. The Company occupies approximately half of the 77,000 square foot facility for both office and dedicated warehouse space. The construction of the Air Cargo Logistics Facility was funded through a joint partnership between the federal and Ontario governments and Trade Port International Corporation, the operator of the airport, with support from Hamilton's municipal government.

Debenture Conversion

During the year ended December 31, 2015, the Company received requests to convert $10,440,000 of 6.5% convertible debentures into common shares and 888,503 common shares were issued to the holders at a conversion rate of $11.75 per share.

Purolator and Canada Post DACNS

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed a Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six month renewal options held by the CPGOC.

The Company started providing preliminary services under the CPGOC contract in the middle of March 2015. The full services under the contract began on April 1, 2015. The Company provides comprehensive Canada-wide air cargo services for the CPGOC, including Purolator's national air cargo network. The Company's domestic overnight network has been expanded and enhanced significantly to handle the additional volumes and provide a virtual dedicated air cargo network to the CPGOC. To fulfill its obligations under the MSA, the Company has added B767-200 and B767-300 aircraft to its fleet and purchased additional ground support equipment, aircraft containers, maintenance tooling and other equipment. The Company has also hired and trained flight crews, maintenance personnel and other personnel. Cargojet describes these costs as "one-time CPGOC" costs in this MD&A. One-time CPGOC costs include the lease costs of aircraft that were acquired to meet the MSA capacity requirements and also the costs of heavy maintenance ("c-checks") for B727 aircraft that are required for services under the MSA that have been replaced by B757 in the Company's current domestic overnight network. One-time CPGOC costs also include the salaries and training costs of all personnel hired specifically to meet the requirements of the MSA.

Acquisition of Property, plant and equipment

During the year ended December 31, 2015, the Company invested $187,266,295 (2014 – $171,342,831) on the acquisition of property, plant and equipment. Additions included the acquisition and modification of newly purchased/leased aircraft of $113,177,979 (2014 - $73,572,267), engines of $48,793,611 (2014 - $36,624,425), cross-dock facilities of $8,212,037 (2014 - $866,346), rotable assets of $5,495,750 (2014 - $4,270,247), ground equipment of $8,614,387 (2014 - $2,797,543) and other property, plant and equipment of $2,972,531 (2014 - 17,875,798). As at December 31, 2015, assets of $17,146,128 (2014 - $35,336,205) are under development and accordingly, were classified as "property, plant and equipment under development" due to pending completion of the process to ready the assets for use.

Aircraft Finance Leases and Loans

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") and two aircraft loan agreements (the "Loan Agreements") with a Canadian equipment leasing and financing company. As of December 31, 2015, the Company had completed four finance leases to acquire four B767-300 aircraft under the MLA in the aggregate amount of $120 million and refinanced two B757-200 aircraft owned by the Company under the Loan Agreements in the aggregate amount of $25.5 million. The Company is required to purchase the aircraft financed under the MLA at the end of the term of each lease at a predetermined price. The MLA and the Loan Agreements are subject to certain financial covenants. The Company was in compliance with all covenants as at December 31, 2015.

The amounts advanced under the MLA and the Loan Agreements were advanced in two tranches, A and B, with tranche A under the MLA being 84% of the amounts advanced thereunder and under the Loan Agreements being 91% of the amounts advanced thereunder and tranche B in each case being equal to the balance of the amounts advanced. The estimated effective interest rate in respect of the MLA and Loan Agreements ranges from 7.23% to 8.07%.

Under the MLA and the Loan Agreements, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and may be required to pay additional fees equal to the positive difference between the price of a certain number of Cargojet shares on the TSX on the date of or immediately prior to the date of the MLA or the Loan Agreements as the case may be and the twenty day volume weighted average closing price for such share as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The additional fees have been accounted for as cash settled share based compensation option, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements, (please see Page 13 under "Total Return Swap" in this regard). The Company has also paid success fees in the amount equal to 1.5% of the amount advanced under the MLA and the Loan Agreements to an independent investment banking firm for its services towards completion of these transactions.

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 the lease facility during the period is 7.21%. The lease is expected to mature on the early exercisable date of the bargain purchase option in March 2018.

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

In May 2015, the Company secured a firm loan facility of USD $55 million and an optional facility of USD $27.5 million with a US based lender to acquire additional B767-300 aircraft. The Company notified the lender that it would not require this optional facility and as a result the option expired. In September 2015, the Company drew down USD $27.5 million under the facility to finance the acquisition of one Boeing 767-300 aircraft. The term of this loan expires in September 2022. The estimated effective interest rate for the facility availed during this period is 9.80%, which is subject to the US dollar LIBOR variable interest rate. Under the terms of this facility, each loan will be secured by the purchased aircraft and all of their components and records.

ACE Air Charter Inc. ("ACE")

On January 30, 2015, the Company acquired all of the outstanding shares and certain debt of ACE, thus obtaining control. Cash consideration paid for the acquisition in the first quarter of 2015 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 per IFRS.

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 licenses acquired. The Company's purchase price allocation for the acquisition is as follows:

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

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 Company on the settlement 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.

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 a notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares.

The Company did not designate the total return swap agreement as a cash flow hedge for accounting purposes. As at 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.

Revenues

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

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

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

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

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

- The Company provides dedicated aircraft to customers on an *adhoc* and scheduled basis typically in the daytime and on weekends. *Adhoc* flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The *adhoc* charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. *Adhoc* and scheduled flights are sold either on an "all in" basis or on an ACMI basis:
  - Under an all in *adhoc* or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
  - Under an ACMI *adhoc* or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 14). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.

- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

<u>Expenses</u>

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

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

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

Results of Operations and Supplementary Financial Information
(in thousands)

	Three Month Period Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
	(unaudited)	(unaudited)	**(audited)**	(audited)
	$	$	$	$
Revenue	**84,355**	57,120	**289,000**	192,398
Direct expenses	**65,092**	51,330	**250,702**	173,624
	19,263	5,790	**38,298**	18,774
General and administrative expenses	**13,753**	9,280	**42,234**	24,985
Sales and marketing expenses	**622**	357	**1,526**	809
Finance costs	**6,875**	2,606	**22,886**	5,544
Finance income	**(5)**	(36)	**(38)**	(148)
Other (gains) losses	**(2,560)**	652	**(7,066)**	609
	18,684	12,859	**59,542**	31,800
Income (loss) before income taxes	**579**	(7,069)	**(21,244)**	(13,026)
Recovery of income taxes				
Current	**(115)**	(2,642)	**(115)**	(2,642)
Deferred	**2,187**	557	**(3,088)**	(859)
	2,072	(2,085)	**(3,203)**	(3,501)
Net loss	**(1,493)**	(4,984)	**(18,041)**	(9,524)
Loss per share				
Basic	**(0.15)**	**(0.54)**	**(1.86)**	**(1.07)**
Diluted	**(0.15)**	**(0.54)**	**(1.86)**	**(1.07)**
Average number of shares - basic (in thousands of shares)(1)	**10,094**	**9,150**	**9,685**	**8,879**
Average number of shares - diluted (in thousands of shares)(1)	**10,094**	**9,150**	**9,685**	**8,879**

1 Average number of shares includes treasury shares.

Summary of Most Recently Completed Consolidated Quarterly Results

	Three Month Periods Ended							
	December 31 2015 (unaudited)	September30, 2015 (unaudited)	June 30 2015 (unaudited)	March 31 2015 (unaudited)	December 31 2014 (unaudited)	September 30 2014 (unaudited)	June 30 2014 (unaudited)	March 31 2014 (unaudited)
Revenue (in thousands)	$ 84,355	$ 75,342	$ 75,224	$ 54,078	$ 57,120	$ 47,227	$ 44,335	$ 43,716
Net Loss from operations (in thousands)	$ (1,493)	$ (2,163)	$ (6,088)	$ (8,298)	$ (4,984)	$ (2,276)	$ (689)	$ (1,575)
Loss per Share								
From continuing operations								
- Basic	$ (0.15)	$ (0.22)	$ (0.64)	$ (0.90)	$ (0.54)	$ (0.25)	$ (0.08)	$ (0.19)
- Diluted	$ (0.15)	$ (0.22)	$ (0.64)	$ (0.90)	$ (0.54)	$ (0.25)	$ (0.08)	$ (0.19)
Average number of shares - basic (in thousands of shares)[(1)]	10,094	9,928	9,482	9,224	9,150	9,090	8,949	8,314
Average number of shares - diluted (in thousands of shares)[(1)]	10,094	9,928	9,482	9,224	9,150	9,090	8,949	8,314

[1] Average number of shares includes treasury shares.

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

(in thousands)

	Three Month Period Ended December 31,		Year Ended December 31,	
	2015	2014	**2015**	2014
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net Loss	**(1,493)**	(4,984)	**(18,041)**	(9,524)
Add:				
Interest	**6,870**	2,570	**22,848**	5,396
Provision for/(recovery of) income taxes	**2,072**	(2,085)	**(3,203)**	(3,501)
Depreciation of property, plant and machinery	**10,074**	4,508	**33,004**	12,976
EBITDA	**17,523**	9	**34,608**	5,347
Add:				
(Gain)/Loss on disposal of property, plant and equipment	**(42)**	135	**(568)**	92
Unrealized foreign exchange loss	**3,828**	227	**8,521**	424
Unrealized (gain)/loss on forward foreign exchange contracts	**(2,199)**	517	**(4,899)**	517
Change in fair value on cash settled share based payment arrangement	**(320)**	-	**(1,600)**	-
Adjusted EBITDA[1]	**18,790**	888	**36,062**	6,380
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**17,523**	9	**34,608**	5,347
Aircraft rent	**6,994**	8,780	**32,280**	25,739
EBITDAR[2]	**24,517**	8,789	**66,888**	31,086
Add:				
(Gain)/Loss on disposal of property, plant and equipment	**(42)**	135	**(568)**	92
Unrealized foreign exchange loss	**3,828**	227	**8,521**	424
Unrealized (gain)/loss on forward foreign exchange contracts	**(2,199)**	517	**(4,899)**	517
Change in fair value on cash settled share based payment arrangement	**(320)**	-	**(1,600)**	-
Adjusted EBITDAR[2]	**25,784**	9,668	**68,342**	32,119
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM / (USED IN) OPERATING ACTIVITIES	**13,183**	(8,456)	**23,347**	(5,847)
Less: Maintenance capital expenditures[3][1]	**(413)**	(1,712)	**(9,187)**	(8,522)
Add: Proceeds from disposal of property, plant and equipment	**64**	52	**239**	183
Standardized free cash flow	**12,834**	(10,116)	**14,399**	(14,186)
Changes in non-cash working capital items and deposits	**4,044**	7,113	**(1,376)**	6,007
Recovery (provision) for current income taxes	**115**	2,642	**115**	2,642
Adjusted free cash flow	**16,993**	(361)	**13,138**	(5,537)

1. As of January 1, 2015, the Company excluded heavy maintenance expenditures and deposits from the calculation of adjusted EBITDA. Heavy maintenance expenditures of $112,102 for the three month period ended December 31, 2015 (2014 - $248,217) are classified as maintenance capital expenditures. Heavy maintenance expenditures of $6,792,455 for the year ended December 31, 2015 (2014 - $1,923,073) are classified as maintenance capital expenditures.
2. As of January 1, 2015, the Company reported EBITDAR and adjusted EBITDAR that are non-GAAP measurements used in airline industry to enable the comparison of results by excluding amounts due to the differences in the method of financing aircraft.
3. Refer to the definition of maintenance capital expenditure in End Note (E).

Review of Operations for the Three Month Periods ended December 31, 2015 and 2014

NET INCOME FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2015 AND 2014

Canadian dollars in million, except per share figures)

	Q4		CHANGE	
	2015	2014	**$**	**%**
	$	$		
Core Overnight Revenues	**54.6**	40.4	14.2	35.1%
ACMI Revenue	**4.3**	2.7	1.6	59.3%
All-in Charter Revenue	**4.3**	5.1	(0.8)	-15.7%
Total overnight, ACMI and charter revenues	**63.2**	48.2	15.0	31.1%
Total Revenue - FBO	**-**	0.1	(0.1)	-100.0%
Total fuel and other cost pass through	**20.6**	8.6	12.0	139.5%
Fuel surcharge and other passthrough revenue	**20.6**	8.7	11.8	135.4%
Lease and other revenue	**0.6**	0.2	0.4	200.0%
Total revenue	**84.3**	57.1	27.2	47.6%
Operating Days	**49**	49	-	**-**
Average cargo revenue per operating day	**1.29**	0.98	0.31	31.1%
Direct expenses				
Fuel Costs	**17.7**	16.0	1.7	10.6%
Depreciation	**7.4**	3.4	4.0	117.6%
Aircraft Cost	**8.0**	8.9	(0.9)	-10.1%
Heavy Maintenance Amortization	**2.5**	1.1	1.4	127.3%
Maintenance Cost	**5.5**	3.5	2.0	57.1%
Crew Costs	**5.2**	4.3	0.9	20.9%
Commercial and Other Costs	**18.8**	14.1	4.7	32.6%
Total direct expenses	**65.1**	51.3	13.8	26.9%
Gross margin	**19.2**	5.8	13.4	231.0%
SG&A & Marketing				
Sales Costs	**0.6**	0.3	0.3	100.0%
General and Administrative Costs	**13.5**	9.2	4.3	46.7%
Depreciation	**0.2**	0.2	-	0.0%
Total SG&A Marketing expenses	**14.4**	9.7	4.7	48.5%
Other SG&A				
Other (gains) losses	**(2.6)**	0.6	(3.2)	-533.3%
Finance costs	**6.9**	2.6	4.3	165.4%
Total other SG&A	**4.3**	3.2	1.1	34.4%
INCOME BEFORE TAXES	**0.6**	(7.1)	7.7	-108.5%
Income tax expenses (recovery)	**2.1**	(2.1)	4.2	-200.0%
Net loss	**(1.5)**	(5.0)	3.5	-70.0%
Earnings (loss) per share - $ CAD				
Basic	**(0.15)**	(0.54)	0.39	-72.2%
Diluted	**(0.15)**	(0.54)	0.39	-72.2%

Highlights for the Three Month Periods ended December 31, 2015 and 2014

- Total revenue for the three month period ended December 31, 2015 was $84.3 million compared to $57.1 million for the same period in 2014, representing an increase of $27.2 million or 47.6%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2015 was $1.29 million per operating day compared to $0.98 million for the same period in 2014, representing an increase of $0.31 million or 31.1%.
- Adjusted EBITDA for the three month period ended December 31, 2015 was $18.8 million compared to $0.9 million for the same period in 2014, an increase of $17.9 million or 2012.4%.
- Adjusted EBITDAR for the three month period ended December 31, 2015 was $25.8 million compared to $9.7 million for the same period in 2014, an increase of $16.1 million or 166%.
- Adjusted free cash flow was an inflow of $17.0 million for the three month period ended December 31, 2015 compared to an outflow of $0.4 million for the same period in 2014, an increase of $17.4 million.

Revenue

Total revenue for the three month period ended December 31, 2015 was $84.3 million compared to $57.1 million for the same period in 2014, representing an increase of $27.2 million or 47.6%. The increase in total revenue was due primarily to the $14.2 million increase in core overnight revenues, $1.6 million increase in ACMI revenues and $11.8 million increase in fuel surcharge and other cost pass through revenues partially offset by $0.8 million decrease in all-in charter.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2015 was $54.6 million compared to $40.4 million for the same period in 2014, an increase of $14.2 million or 35.1%. The increase was primarily due to the 70.7% increase in volumes from the new CPGOC contract and other existing customers. The full services under the CPGOC contract began on April 1, 2015. The increase in shipping volumes during the period resulted in a 31.1% increase in revenue per operating day.

ACMI scheduled and *adhoc* charter revenue for the three month period ended December 31, 2015 was $4.3 million, compared to $2.7 million for the same period in 2014, an increase of $1.6 million or 59.3%. The increase of $1.6 million was due to additional ACMI block hours flown to Europe and to the USA.

All-in scheduled and *adhoc* charter revenue for the three month period ended December 31, 2015 was $4.3 million compared to $5.1 million for the same period in 2014, a decrease of $0.8 million or 15.7%. The decrease in all-in charter revenue was due primarily to the lower charter activity.

Fuel surcharges and other cost pass-through revenues were $20.6 million for the three month period ended December 31, 2015 compared to $8.7 million for the same period in 2014, an increase of $11.8 million or 135.4%. During the quarter, fuel surcharges increased due to an increase in shipping volumes from the new CPGOC contract and the existing customers which increased revenues that attracted fuel surcharges. The increase in fuel surcharges was partially offset by 36.7% decline in fuel prices. Fuel surcharges and other cost pass-through revenues did not include any fuel sales to third parties for the three month periods ended December 31, 2015 compared to $0.1 million for the same period in 2014.

Other revenues consist primarily of hangar rental revenues and maintenance revenues for aircraft line maintenance provided to other airlines. Other revenues were $0.6 million the three month period ended December 31, 2015 compared to $0.2 million for the same period in 2014, an increase of $0.4 million or 200%.

Direct Expenses

Total direct expenses were $65.1 million for the three month period ended December 31, 2015 compared to $51.3 million for the same period in 2014, an increase of $13.8 million or 26.9%. As a percentage of revenue, direct expenses decreased from 89.8% in 2014 to 77.2% for the same period in 2015. The overall increase in direct expenses was due primarily to a $1.7 million increase in fuel costs, a $2.0 million increase in maintenance costs, a $0.9 million increase in crew costs, a $4.0 million increase in depreciation, a $1.4 million increase in heavy maintenance amortization and a $4.7 million increase in commercial costs, partially offset by a $0.9 million decrease in aircraft costs. For the three month period ended December 31, 2015, direct expenses included $1.3 million of costs related to the CPGOC contract compared to $7.1 million for the same period in 2014.

Fuel costs were $17.7 million for the three month period ended December 31, 2015 compared to $16.0 million for the same period in 2014. The $1.7 million or 10.6% increase in fuel costs was due primarily to 39.8% increase in block hours due to the start of full CPGOC services from April 1, 2015. The increase in fuel costs were partially offset by 36.7% decline in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $7.4 million for the three month period ended December 31, 2015 compared to $3.4 million for the same period in 2014. The $4.0 million or 117.6% increase in depreciation expenses was due primarily to the addition of new B767 and B757 aircraft.

Aircraft costs were $8.0 million for the three month period ended December 31, 2015 compared to $8.9 million in 2014, representing a decrease of $0.9 million or 10.1%. The decrease in costs was primarily due to lower fixed lease rental costs and variable lease costs during the three month period due to return of the two B767-200 aircraft at the expiry of their lease terms. This decrease was partially offset by the effect of unfavorable variances in US Dollar exchange rates and sub charter costs related to a new route on the overnight network in 2015. For the three month period ended December 31, 2015 aircraft costs included $1.3 million of costs related to the CPGOC contract compared to $3.5 million for the same period in 2014. All aircraft operating leases are paid in US Dollars.

Heavy maintenance amortization costs were $2.5 million for the three month period ended December 31, 2015 compared to $1.1 million for the same period in 2014, representing an increase of $1.4 million or 127.3%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $5.5 million for the three month period ended December 31, 2015 compared to $3.5 million in 2014, representing an increase of $2.0 million or 57.1%. $1.4 million of the increase was due primarily to the expansion of the fleet and higher block hours. $0.6 million of the increase was due to the additional hiring of maintenance personnel. For the three month period ended December 31, 2015 maintenance costs did not include any costs related to the CPGOC contract compared to $0.6 million for the same period in 2014.

Total crew costs including salaries, training and positioning were $5.2 million for the three month period ended December 31, 2015 compared to $4.3 million in 2014, representing an increase of $0.9 million or 20.9%. This increase was due primarily to additional crew training and positioning costs required by the expanded network. For the three month period ended December 31, 2015 crew costs did not include any costs related to the CPGOC contract compared to $1.6 million for the same period in 2014.

Commercial and other direct operating costs were $18.8 million for the three month period ended December 31, 2015 compared to $14.1 million for the same period in 2014, representing an increase of $4.7 million or 32.6%. This increase primarily comprises of $1.0 million due to the hiring of new staff, $1.7 million higher navigation costs due to additional block hours, $1.4 million higher landing and parking costs, $1.4 million of higher ground handling costs as a result of increase in volume due to the CPGOC contract, $0.4 million higher warehouse maintenance and other commercial costs, partially offset by $1.2 million decrease in line haul expenses. For the three month period ended December 31, 2015 commercial costs did not include any costs related to the CPGOC contract compared to $1.4 million for the same period in 2014.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2015 were $14.4 million compared to $9.7 million for the same period in 2014, representing an increase of $4.7 million or 48.5%. $0.4 million of increase in SG&A was due to increase in annual salaries; $3.2 million of increase was due to the unrealized exchange loss on valuation of USD receivables and payables, $1.1 million of increase was due to the increase in annual bonuses, telecommunications, consultancy and other administrative costs and additional sales and marketing expenditures. The exchange loss was partly offset by a gain of $2.7 million on the derivative contracts presented as part of other income in other SG&A. For the three month period ended December 31, 2015 SG&A expenses did not include any costs related to the CPGOC contract compared to $0.7 million for the same period in 2014.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended December 31, 2015 was $18.8 million compared to $0.9 million for the same period in 2014. The increase in Adjusted EBITDA of $17.9 million or 2012.4% was due primarily to the following:

- Increase in core overnight revenues and fuel surcharges due to the full service startup of the CPGOC contract on April 1, 2015.
- Lower one-time CPGOC costs.

partially offset by:

- Higher operating costs due to higher block hours and increase in fleet size required by the CPGOC contract.
- The effect of exchange fluctuations on net USD denominated expenditures.

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended December 31, 2015 was $25.8 million compared to $9.7 million for the same period in 2014, representing an increase of $16.1 million or 166%. The increase in adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by the expiry of aircraft leases executed by the company in 2014.

Net Finance Costs

Net finance costs were $6.9 million for the three month period ended December 31, 2015 compared to $2.6 million for the same period in 2014, an increase of $4.3 million or 165.4%. During the quarter, the Company capitalized $0.4 million of interest costs relating to funds borrowed specifically or generally 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 the specific borrowings and the implied interest rates embedded in the finance leases, ranging from 7.21% to 8.77%.

Current Income Taxes

No provision for current income taxes were made for the three month period ended December 31, 2015 and 2014 due to net taxable loss position. The current income tax recovery for the three month period ended December 31, 2015 was $0.1 million compared to a recovery of $2.6 million for 2014.

Deferred Income Taxes

The deferred income tax expenditure recognized for the three month period ended December 31, 2015 was a provision adjustment of $2.2 million compared to a provision of $0.6 million for the same period in 2014, an increase of 1.6 million or 266.7%. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $17.0 million for the three month period ended December 31, 2015 compared to an outflow of $0.4 million for the same period in 2014, representing an increase of $17.4 million. The increase in adjusted free cash flow was due primarily to the increase in adjusted EBITDA, changes in non-cash working capital items and lower maintenance capital expenditures in 2015.

Dividends

Total dividends declared for the three month period ended December 31, 2015 were $1,507,171 or $0.1491 per share. In comparison, total dividends declared for the three month period ended December 31, 2014 were $1,367,907 or $0.1491 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 18, 2015	October 05, 2015	-	10,090,241		1,504,455
December 18, 2015	January 05, 2016	1,507,171	10,108,453	0.1491	-
		1,507,171	-	0.1491	1,504,455

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 19, 2014	October 03, 2014		9,145,912		1,363,656
December 19, 2014	January 03, 2015	1,367,907	9,174,427	0.1491	-
		1,367,907	-	0.1491	1,363,656

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances for the three month period ended December 31, 2015 was $13.2 million compared to cash used in operating activities of $8.5 million for the same period in 2014. The $21.7 million increase in cash was due primarily to the increase in revenue activities and the change in non-cash working capital items and deposits.

Cash generated by financing activities during the three month period ended December 31, 2015 was $6.5 million compared to cash generated of $11.9 million for the same period in 2014. The $5.4 million decrease was primarily due to reduction in borrowings of $3.4 million, $1.9 million increase in repayments of borrowings and obligations under finance lease and $0.1 million increase in dividends payments.

Cash used in investing activities during the three month period ended December 31, 2015 was $14.3 million compared to cash used of $27.8 million for the same period in 2014. The $13.5 million decrease is primarily due to reduction in property, plant and equipment additions during this period.

Capital Expenditures

The property, plant and equipment additions of $15.4 million in the current period were primarily comprised of additions to aircraft, engines, ground equipment, heavy maintenance and other equipment.

Review of Operations for the Year ended December 31, 2015 and 2014
NET INCOME FOR THE YEAR ENDED DECEMBER 31, 2015 AND 2014
Canadian dollars in million, except per share figures)

	YTD		**CHANGE**	
	2015	2014	**$**	**%**
	(audited)	(audited)		
	$	$		
Core Overnight Revenues	**191.6**	133.4	58.2	43.6%
ACMI Revenue	**12.8**	7.2	5.6	77.8%
All-in Charter Revenue	**15.2**	14.4	0.8	5.6%
Total overnight, ACMI and charter revenues	**219.6**	155.0	64.6	41.7%
Total Revenue - FBO	**0.2**	1.0	(0.8)	(80.0)%
Total fuel and other cost pass through	**67.3**	34.8	32.5	93.4%
Fuel surcharge and other passthrough revenue	**67.5**	35.8	31.7	88.5%
Lease and other revenue	**1.9**	1.6	0.3	18.8%
Total revenue	**289.0**	192.4	96.6	50.2%
Operating Days	**198**	198	-	-
Average cargo revenue per operating day	**1.11**	0.78	0.33	42.3%
Direct expenses				
Fuel Costs	**68.2**	61.3	6.9	11.3%
Depreciation	**25.1**	8.1	17.0	209.9%
Aircraft Cost	**35.7**	27.2	8.5	31.3%
Heavy Maintenance Amortization	**7.0**	4.2	2.8	66.7%
Maintenance Cost	**21.2**	12.5	8.7	69.6%
Crew Costs	**22.4**	14.7	7.7	52.4%
Commercial and Other Costs	**71.1**	45.6	25.5	55.9%
Total direct expenses	**250.7**	173.6	77.1	44.4%
Gross margin	**38.3**	18.8	19.5	103.7%
SG&A & Marketing				
Sales Costs	**1.6**	0.8	0.8	98.8%
General and Administrative Costs	**41.3**	24.3	17.0	70.0%
Depreciation	**0.9**	0.7	0.2	28.6%
Total SG&A Marketing expenses	**43.8**	25.8	18.0	69.7%
Other SG&A				
Other (gains)/ losses	**(7.1)**	0.6	(7.7)	-1283%
Finance costs	**22.9**	5.6	17.3	308.9%
Finance income	**-**	(0.2)	0.2	-100.0%
Total other SG&A	**15.8**	6.0	9.8	162.5%
LOSS BEFORE INCOME TAXES	**(21.2)**	(13.0)	(8.2)	63.1%
Income tax recovery	**(3.2)**	(3.5)	0.3	-8.6%
Net loss	**(18.0)**	(9.5)	(8.5)	89.5%
Loss per share - $ CAD				
Basic	**(1.86)**	(1.07)	(0.79)	74.1%
Diluted	**(1.86)**	(1.07)	(0.79)	74.1%

Highlights for the Year ended December 31, 2015 and 2014

- Total revenue for the year ended December 31, 2015 was $289.0 million compared to $192.4 million for the same period in 2014, representing an increase of $96.6 million or 50.2%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2015 was $1.11 million per operating day compared to $0.78 million for the same period in 2014, representing an increase of $0.33 million per operating day or 42.3%.
- Adjusted EBITDA for the year ended December 31, 2015 was $36.1 million compared to $6.4 million for the same period in 2014, an increase of $29.7 million or 465.8%.
- Adjusted EBITDAR for the year ended December 31, 2015 was $68.3 million compared to $32.1 million for the same period in 2014, an increase of $36.2 million or 112.8%.
- Adjusted free cash flow was an inflow of $13.1 million for the year ended December 31, 2015 compared to an outflow of $5.5 million for the same period in 2014, an increase of $18.6 million.

Revenue

Total revenue for the year ended December 31, 2015 was $289.0 million, compared to $192.4 million for the same period in 2014, representing an increase of $96.6 million or 50.2%. The increase in total revenue was due primarily to the $58.2 million increase in core overnight revenues, $0.8 million increase in all-in charter revenues, $5.6 million increase in ACMI revenues and $31.7 million increase in fuel surcharge and other cost pass through revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2015 was $191.6 million compared to $133.4 million for the same period in 2014, an increase of $58.2 million or 43.6%. The increase was primarily due to the 59.1% increase in volumes from the new CPGOC contract and other existing customers. The full services under the CPGOC contract began on April 1, 2015. The increase in shipping volumes in 2015 and the price increases implemented in 2014 resulted in a 42.3% increase in revenue per operating day.

ACMI scheduled and *adhoc* charter revenue for the year ended December 31, 2015 was $12.8 million compared to $7.2 million for the same period in 2014, an increase of $5.6 million or 77.8%. The increase of $5.1 million was due to additional ACMI block hours flown to Northern Canada, USA and to Europe. *Adhoc* ACMI revenues increased by $0.5 million due to higher customer demand.

All-in scheduled and *adhoc* charter revenue for the year ended December 31, 2015 was $15.2 million compared to $14.4 million for the same period in 2014, an increase of $0.8 million or 5.6%. The increase in all-in charter revenue was due to Cargojet's higher fleet capacity and higher charter demand.

Fuel surcharges and other cost pass-through revenues were $67.5 million for the year ended December 31, 2015 compared to $35.8 million for the same period in 2014, an increase of $31.7 million or 88.5%. During the quarter, fuel surcharges increased due to an increase in shipping volumes from the new CPGOC contract and the increase in shipping volumes and revenues that attracted fuel surcharges. The increase in fuel surcharges was partially offset by the 29.5% decline in fuel prices. Fuel surcharges and other cost pass-through revenues include fuel sales to third parties of $0.2 million for the year ended December 31, 2015 compared to $1.0 million for the same period in 2014.

Other revenues consist primarily of hangar rental revenues, and maintenance revenues for aircraft line maintenance provided to other airlines. Other revenues for the year ended December 31, 2015 were $1.9 million compared to $1.6 million in 2014, an increase of $0.3 million or 18.8%.

Direct Expenses

Total direct expenses were $250.7 million for the year ended December 31, 2015 compared to $173.6 million for the year ended December 31, 2014. As a percentage of revenue, direct expenses decreased from 90.2% in 2014 to 86.7% for the same period in 2015. The overall increase in direct expenses was due primarily to a $8.7 million increase in maintenance costs, a $8.5 million increase in aircraft costs, a $7.7 million increase in crew costs, a $17.0 million increase in depreciation, a $2.8 million increase in heavy maintenance amortization, a $25.5 million increase in commercial costs and a $6.9 million increase in fuel costs. For the year ended December 31, 2015 direct expenses included $15.3 million of one-time startup costs related to the CPGOC contract compared to $12.4 million for the same period in 2014.

Fuel costs were $68.2 million for the year ended December 31, 2015 compared to $61.3 million for the same period in 2014. The $6.9 million or 11.3% increase in fuel costs was due primarily to a 54.4% increase in block hours due to the start of full CPGOC services partially offset by the 29.5 % decline in fuel prices and replacement of four B727 aircraft with four B757 aircraft on the overnight network. The B757 aircraft are significantly more fuel efficient than the B727 aircraft. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $25.1 million for the year ended December 31, 2015 compared to $8.1 million for the same period in 2014. The $17.0 million or 209.9% increase in depreciation expenses was due primarily to the addition of new B767 and B757 aircraft.

Aircraft costs were $35.7 million for the year ended December 31, 2015 compared to $27.2 million in 2014, representing an increase of $8.5 million or 31.3%. The increase in aircraft costs was due primarily to higher lease costs of $5.2 million related to the expansion of the B757 and B767 fleet, the effect of variances in the US Dollar exchange rate, an increase of $1.3 million in the variable lease reserve costs due to the increase in block hours flown using leased B757 aircraft and $2.0 million increase sub charter costs related to a new route on the overnight network in 2015. For the year ended December 31, 2015 aircraft costs included $10.6 million of one-time startup costs related to the CPGOC contract compared to $5.9 million for the same period in 2014. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $7.0 million for the year ended December 31, 2015 compared to $4.2 million for the same period in 2014, representing an increase of $2.8 million or 66.7%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance.

Maintenance costs were $21.2 million for the year ended December 31, 2015 compared to $12.5 million in 2014, representing an increase of $8.7 million or 69.6%. $6.4 million of the increase was due primarily to the expansion of the fleet, higher block hours and an unscheduled aircraft repair cost. $2.3 million of the increase was due to the additional hiring of maintenance personnel. For the year ended December 31, 2015 maintenance costs did not include any startup costs related to the CPGOC contract compared to $1.0 million for the same period in 2014.

Total crew costs including salaries, training and positioning were $22.4 million for the year ended December 31, 2015 compared to $14.7 million in 2014, representing an increase of $7.7 million or 52.4%. This increase was due primarily to additional crew, training and positioning costs required by the expanded overnight network. For the year ended December 31, 2015 crew costs included $3.4 million of one-time startup costs related to the CPGOC contract compared to $3.4 million for the same period in 2014.

Commercial and other direct operating costs were $71.1 million for the year ended December 31, 2015 compared to $45.6 million for the same period in 2014, representing an increase of $25.5 million or 55.9%. This increase primarily comprises $4.2 million due to the hiring of new staff, $8.2 million higher navigation costs due to additional block hours, $6.4 million higher landing and parking costs, $7.4 million of higher ground handling costs as a result of increase in volume due to the CPGOC contract and a $3.0 million increase in other commercial costs due to increase in ground service equipment maintenance costs and warehouse rent and utilities costs. This increase was partially offset by a $3.7 million decrease in line haul costs due to expansion of the Company's operations in Regina and Saskatoon which were earlier carried on by external vendors. For the year ended December 31, 2015 commercial costs included $1.3 million of one-time startup costs related to the CPGOC contract compared to $2.1 million for the same period in 2014.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2015 were $43.8 million compared to $25.8 million for the same period in 2014, representing an increase of $18.0 million or 69.7%. $4.0 million of increase in SG&A was due to the cost of additional staff related to the CPGOC contract, $8.8 million of increase was due to the unrealized exchange loss on valuations of USD receivables and payables, $2.5 million increase in share based bonuses awarded during the year and $2.7 million increase was due to the increase in telecommunications, consultancy and other administrative costs and additional sales and marketing expenditures. The exchange loss was partly offset by a gain of $5.4 million on the derivative contracts presented as part of other income in other SG&A. For the year ended December 31, 2015 SG&A expenses included $0.8 million of one-time startup costs compared to $1.8 million for the same period in 2014.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2015 was $36.1 million compared to $6.4 million for the same period in 2014. The increase in Adjusted EBITDA of $29.7 million or 465.8% was due primarily to the following:

- The increase in core overnight volumes of existing customers, the full service startup under the CPGOC contract on April 1, 2015, an increase in ACMI revenues and higher charter activities and the increase in fuel surcharges due to higher block hours partially offset by:
- The higher operating costs due to higher block hours and increase in fleet size required by the CPGOC contract,
- The effect of exchange rate fluctuations on net USD denominated expenditures, and
- The increase in one time CPGOC costs related to aircraft leases and additional payroll and training of crew, maintenance and commercial staff.

Adjusted EBITDAR

Adjusted EBITDAR for the year ended December 31, 2015 was $68.3 million compared to $32.1 million for the same period in 2014, representing an increase of $36.2 million or 112.8%. The increase in adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA and the new B767 and B757 aircraft leases executed by the Company in 2014.

Net Finance Costs

Net finance costs were $22.9 million for the year ended December 31, 2015 compared to $5.4 million for the same period in 2014. During the year, the Company capitalized $1.9 million of interest costs relating to funds borrowed specifically or generally 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 the specific borrowings, ranging from 7.23% to 8.77%.

Current Income Taxes

No provision was made for current income taxes for the year ended December 31, 2015 and 2014 due to net taxable loss position. The current income tax recovery for the year ended December 31, 2015 was $0.1 million compared to a recovery of $2.6 million for 2014.

Deferred Income Taxes

The deferred income taxes recognized for the year ended December 31, 2015 was a recovery of $3.1 million compared to a recovery of $0.9 million for the same period in 2014. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted free cash flow was an inflow of $13.1 million for the year ended December 31, 2015 compared to an outflow of $5.5 million for the same period in 2014, representing an increase of $18.6 million. The increase in adjusted free cash flow was due primarily to the increase in adjusted EBITDA, partially offset by changes in non-cash working capital items and deposits and higher maintenance capital expenditures.

Dividends

Total dividends declared for the year ended December 31, 2015 were $5,846,897 or $0.5964 per share. In comparison, total dividends declared for the twelve month period ended December 31, 2014 were $5,404,094 or $0.5964 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 19, 2014	January 05, 2015	-	-	-	1,367,906
March 20, 2015	April 03, 2015	1,409,579	9,453,907	0.1491	1,409,579
June 19, 2015	July 03, 2015	1,425,692	9,561,988	0.1491	1,425,692
September 18, 2015	October 05, 2015	1,504,455	10,090,241	0.1491	1,504,455
December 18, 2015	January 05, 2016	1,507,171	10,108,453	0.1491	-
		5,846,897	-	0.5964	5,707,632

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2013	January 06, 2014	-	7,993,416		1,191,818
March 20, 2014	April 04, 2014	1,318,736	8,844,639	0.1491	1,318,736
June 20, 2014	July 03, 2014	1,353,796	9,079,785	0.1491	1,353,796
September 19, 2014	October 03, 2014	1,363,656	9,145,912	0.1491	1,363,656
December 19, 2014	January 05, 2015	1,367,906	9,174,422	0.1491	-
		5,404,094	-	0.5964	5,228,006

Liquidity and Capital Resources

Cash generated in operating activities after net changes in non-cash working capital balances for the year ended December 31, 2015 was $23.3 million compared to cash used in operating activities of $5.8 million for the same period in 2014. The $29.1 million increase in cash was due primarily to the cash generated by the operations, income tax refund received and change in non-cash working capital items and deposits.

Cash generated by financing activities during the year ended December 31, 2015 was $102.0 million (2014 - $107.9 million) and was comprised of net proceeds from borrowings of $117.9 million partially offset by the repayment of obligations under finance lease of $10.2 million (2014 - $1.5 million) and dividends paid to shareholders of $5.7 million (2014 - $5.2 million).

Cash used in investing activities during the year ended December 31, 2015 was $119.3 million and was primarily comprised of property, plant and equipment additions.

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 other 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.

Note: See Caution Concerning Forward Looking Statements, page 4

The Company had a working capital deficit as at December 31, 2015, representing the difference between total current assets and current liabilities, of $5.5 million compared to a working capital deficit of $6.7 million as at December 31, 2014. This decrease of $1.2 million in deficit is primarily due to the increase in the current assets primarily due to increase in the cash position, timing of the collection of trade and other receivables and the exchange effect on U.S dollar deposit balances, partially offset by the increase in the current portion of the finance leases, borrowings and trade and other payables. Management anticipates that the cash flow from operations and the unutilized balance of the Company's credit facility will be adequate to manage the operations of the Company. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Company's ability to undertake any transaction which is essential to the Company's operations.

Capital Expenditures

The property, plant and equipment additions of $187.3 million including capital leases in the current period were primarily comprised of additions to aircraft, engines, hangar and cross-dock facilities, ground equipment, heavy maintenance and other equipment.

Selected Annual Information
(Canadian dollars in million, except where indicated)

	Years Ended December 31		
	2015	2014	2013
	$	$	$
Revenue	289.0	192.4	175.4
Direct expenses	250.7	173.6	150
Gross margin	38.3	18.8	25.4
Selling, general & administrative expenses and income taxes	56.3	28.3	22.1
Net (loss) income	(18.0)	(9.5)	3.3
(Loss) earning per share - CAD$			
Basic	(1.86)	(1.07)	0.42
Diluted	(1.86)	(1.07)	0.42
EBITDA (1)	34.6	5.3	19.1
Adjusted EBITDA [(1)]	36.1	6.4	19.5
EBITDAR [(1)]	66.9	31.1	32.5
Adjusted EBITDAR [(1)]	68.3	32.1	32.9
Adjusted free cash flow [(1)]	13.1	(5.5)	3.4
Cash, cash equivalents and short term investments	6.0	-	0.4
Total assets	450.7	285.3	116.2
Total long-term liabilities	349.9	186.2	33.4
Total liabilities	396.0	219.9	53.6
Dividends per share - CAD$	$0.5964	$0.5964	$0.6484

[(1)] EBITDA, Adjusted EBITDA and Adjusted free cash flow are non -GAAP financial measures and are not earning measures recognized by IFRS. Please refer page 1 of this MD&A for detailed discussion

Financial Condition

The following is a comparison of the financial position of the Company as at December 31, 2015 to the financial position of the Company as at December 31, 2014.

Accounts Receivable

Accounts receivable as at December 31, 2015 amounted to $28.8 million compared to $19.1 million as at December 31, 2014. The increase of $9.7 million was due to the increase in revenue activities, change in fair value of the derivatives and the timing of cash collections from the customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at December 31, 2015, property, plant and equipment were $357.3 million compared to $203.9 million as at December 31, 2014. The $153.4 million net increase in property, plant and equipment was primarily due to additions of $187.3 million partially offset by amortization and disposal of $33.9 million.

Trade and Other Payables

Trade and other payables as at December 31, 2015 were $27.0 million compared to $23.3 million as at December 31, 2014. The increase of $3.7 million was due primarily to the increase in operating activities and the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of five Boeing 767-300 aircraft. Total finance leases excluding the current portion were $140.2 million as at December 31, 2015 compared to $87.6 as at December 31, 2014.

Provisions

Provisions excluding the current portion as at December 31, 2015 were $2.4 million compared to $1.3 million as at December 31, 2014 and were comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms.

Summary of Contractual Obligations

	Payments due by period					
As at December 31, 2015	Total	2016	2017	2018	2019	Thereafter
(in thousands)	$	$	$	$	$	$
Finance leases	153,699	12,075	13,024	54,854	14,939	58,807
Provisions	2,364	-	761	-	-	1,603
Borrowings	137,562	3,712	7,011	50,873	11,430	64,536
Convertible Debentures	78,429	-	4,429	-	-	74,000
Operating leases	42,848	12,764	10,196	7,971	5,936	5,981
	414,902	28,551	35,421	113,698	32,305	204,927

Off-Balance Sheet Arrangements

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

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

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

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

See Caution Concerning Forward Looking Statements, page 4

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

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

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

Major Customers

During the year ended December 31, 2015, the Company had sales to three customers that represented 63.1% of the total revenues (December 31, 2014 – 54.7%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $32.6 million as at December 31, 2015 out of which a letter of credit of $20.0 million is provided to the CPGOC under the terms of the MSA. The other guarantees are provided to financial institutions as security for its corporate credit cards and to a number of vendors as a security for the Company's ongoing leases and purchases.

Related Party Transactions

At 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 $24,487,571 (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

Risk Factors

Risks Related to the Business

Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 67% of 2015 revenues of the Company and the Company's top two customers each accounted for over 10% of the Company's 2015 revenues. The loss of any one of these contracts of the Company would cause immediate disruption and would adversely affect the Company's revenues. Any such loss could have a material adverse effect on the results of operations of the Company and there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as the existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

Most of the Company's contracts with its customers are for a term of three to ten years with the ability to terminate generally upon six to eighteen months' notice or if the Company is not meeting specified performance targets. When these contracts expire, there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

In 2014, the Company was awarded the DACNS contract and signed the MSA with CPGOC for an initial seven-year term with three thirty-six month renewal options held by the CPGOC. The terms of contract require the Company to maintain specific on time performance metrics and provide minimum levels of dedicated cargo space. To fulfill its requirements under the contract, the Company has made material investments in its fleet, equipment and the hiring of new personnel. Under the terms of the MSA, the Company has issued a revolving letter of guarantee of $20.0 million to the CPGOC. If the Company were unable to achieve the minimum service levels and minimum levels of cargo capacity required by the MSA, the contract may be cancelled by the CPGOC without penalty and the letter of guarantee may be drawn upon. The cancellation of the MSA without penalty would have a material adverse effect on the Company's business, results of operations and financial conditions.

Credit Facilities, Finance Lease and Loan Agreement and their Restrictive Covenants

The ability of the Company to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness and finance lease obligations. The degree to which the Company is leveraged could have important consequences to the shareholders, including: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness and amounts payable under the finance leases, thereby reducing funds available for future operations and distribution to the Company; (ii) certain of the Company's borrowings and finance lease obligations will be at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Company's ability to make scheduled payments of principal and interest and other amounts on, or to refinance, its indebtedness and finance lease obligations will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness and finance lease obligations at all or on favorable terms.

The instruments governing the Company's indebtedness and finance lease obligations contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, such instruments contain financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the obligations under these instruments were to be accelerated, there can be no assurance that the Company's assets would be sufficient to satisfy such obligations in full. In addition, there can be no assurance that future borrowing or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to fund the Company's refinancing needs and other obligations arising on the maturity of such instruments, including the obligations to purchase the aircraft subject to the finance leases.

Canada — US Open Skies

The current Canada — US "Open Skies" agreement provides regulation of the airline industry, including the air cargo industry, within Canada and currently provides protection of domestic national carriers in each country. The agreement allows cross-border flights between Canada and the United States but provides major restrictions on carriers from operating flight routes between two points within the other's country. The most recent amendments negotiated between the two countries reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers including the Company to establish domestic routes within the United States. There is no assurance that this "Open Skies" agreement will continue in its present form in the future. Increased competition resulting from the liberalization or revocation of this agreement could affect the Company's ability to compete for a market share, which in turn could have a material adverse effect on the Company's business, results of operations or financial condition.

Competition

The Company competes within the industry of air-cargo courier services with other dedicated air cargo carriers. In addition, the Company competes for market share with motor carriers, express companies and other air couriers and airlines who offer cargo services on their regularly scheduled passenger flights. In addition to competition from competitors, new companies may enter the domestic air cargo industry and may be able to offer services at discounted rates. Concentrating only on the air cargo industry does not allow the Company to compete in different modes of freight transportation which may provide a cheaper alternative to air cargo. The Company's inability to compete for a market share of the air cargo industry under these circumstances could have a material adverse effect on the Company's business, results of operations or financial condition.

Government Regulations

The Company's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals.

The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

The Company is routinely audited by various regulatory bodies including Transport Canada and the Canadian Transportation Agency to ensure compliance with all flight operation and aircraft maintenance requirements. To date, the Company has successfully passed all audits, however, there can be no assurance that the Company will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Company may incur costs to clean up contamination present on, at or under its facilities, even if such contamination was present prior to the commencement of the Company's operations at the facility and was not caused by its activities which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company cannot provide any assurance that existing laws, agreements, treaties or regulations will not be revised or that new laws, agreements, treaties or regulations, which could have an adverse impact on the Company's operations, will not be adopted or become applicable to the Company. For example, the Company's aircraft currently meet Transport Canada and FAA Stage III noise abatement guidelines. Any future implementation of Stage IV noise abatement guidelines would require the Company to incur expenses to ensure its aircraft meet such guidelines which expenses could negatively impact the Company's earnings. The Company also cannot provide any assurance that it will be able to recover any or all increased costs of compliance from its customers or that the business and financial condition of the Company will not be adversely affected by future changes in applicable laws and regulations.

Insurance

The Company's operations are subject to risks normally inherent in the air-cargo industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by the Company or its agents. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of the Company. There can be no assurance that insurance coverage will be sufficient to cover one or more large claims, or that the applicable insurer will be solvent at the time of any covered loss. There can be no assurance that the Company will be able to obtain insurance at acceptable levels and costs in the future. The Company may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies. The occurrence of an aircraft-related accident or mishap involving the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company does not carry any business interruption insurance.

Maintaining Leased Aircraft and Availability of Future Aircraft

The Company currently owns and operates seven B727-200, two B757-200, and two B767-300 and has five B767-300 aircraft under finance lease. It also leases three B767-200 and three B757-200 aircraft. The Company also acquired five Challenger 601 aircraft during the year. The success of the Company will depend, in part, on its ability to replace owned aircraft when necessary and to maintain favorable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favorable leases for its aircraft or be able to arrange financing for its current commitment of aircraft purchases or future replacements and expansions. Such risk could have a material adverse effect on the Company's business, results of operations or financial condition. See "Business of Cargojet – Overview" and "Business of Cargojet – Cargojet Fleet".

Fixed Costs

The Company is subject to a high degree of operating leverage. Since fixed costs comprise a proportion of the operating costs of each flight route, the expenses of each flight route do not vary proportionately with the amount of shipments that the Company carries. Accordingly, a decrease in the Company's revenues could result in a disproportionately higher decrease in the Company's earnings as expenses would remain unchanged.

Fuel Prices

The Company requires significant quantities of fuel for its aircraft. Historically, fuel costs represented 25% to 35% of the Company's direct operating cost. The Company is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. Although the Company historically has implemented fuel surcharges to mitigate the earnings impact of unusually high fuel prices, competitive and other pressures may prevent the Company from passing these costs on to its customers in the future. The Company cannot provide any assurance that its supply of fuel will continue uninterrupted, that rationing will not be imposed or that the prices of, or taxes on, fuel will not increase significantly in the future. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought. Increases in prices that the Company is unable to pass on to its customers could have a material adverse effect on the Company's business, results of operations or financial condition.

Costs Related to Mechanical and Maintenance Problems and Replacement of Equipment and Parts

Maintenance costs will increase as our fleet ages. It includes overhaul of engines, landing gears, APUs and airframes in addition to ongoing maintenance requirements. The Company has a maintenance program schedule and monitors the maintenance of aircraft for owned and leased aircraft. Although costs related to mechanical problems and to maintenance for the Company's aircraft have been forecasted and funded pursuant to its leasing arrangements and maintenance agreements, the actual costs may be higher than those anticipated. Unexpected repairs relating to mechanical problems and to maintenance are beyond the control of the Company and may have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the ability of the Company to obtain equipment and replacement parts on satisfactory terms when required is not always certain. Any inability to obtain equipment or parts, or to obtain the required equipment or parts on satisfactory terms and on a timely basis could have a material adverse effect on the Company's business, results of operations or financial condition.

Foreign Exchange Fluctuations

The Company undertakes sales and purchase transactions including aircraft maintenance cost, lease payments, loan payments, crew training and certain operating costs in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. Changes in the value of the Canadian dollar relative to the United States dollar could have a negative effect on the profitability of the Company. For the year ended December 31, 2015, the Company had a net cash flow exposure to the United States dollar of approximately U.S. $39 million and to the Euro of approximately €1 million. As of the date of this MD&A, the Company is exposed to fluctuations in the US-dollar exchange rate relating to three Boeing B767-300 aircraft loans and one B767-300 lease agreement. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company's business, results of operations or financial condition.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that the Company's business and growth strategy will enable the Company to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including general economic conditions and consumer confidence.

There can be no assurance that the Company will be successful in achieving its strategic plan or that this strategic plan will enable the Company to grow at historical rates or to sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on the Company's business, result of operations or financial condition.

There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations or financial condition.

Industry Risk and Economic Sensitivity

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. The Company's revenues are impacted by the health of the economy in the regional markets in which the Company operates. Although the Company cannot specifically correlate the impact of macro-economic conditions on its business activities, the Company believes that a decline in economic conditions in Canada may result in decreased demand for the services the Company provides and, to the extent that this decline continues or increases in severity, the Company's business, results of operations or financial condition could be materially adversely affected.

Terrorist Activity

The terrorists' attacks of September 11, 2001 and their aftermath negatively impacted the air cargo industry. Additional terrorist attacks, the fear of such attacks or increased hostilities could further negatively impact the air cargo industry. The Company could experience a decrease in the use of its air cargo network as a means of transporting goods domestically and internationally and an increase in costs.

Dependence on Key Personnel

The Company's success will be substantially dependent on the continued services of senior management of the Company. The loss of the services of one or more key members of senior management of the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company's continued growth depends on the ability of the Company to attract and retain skilled managers and employees and the ability of its personnel to manage the Company's growth. The inability to attract and retain key personnel could have a material adverse effect on the Company's business, results of operations or financial condition.

Labour Relations

On October 19, 2012, 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board (the "CIRB"). As of the date hereof, 147 of the Company's pilots are certified as a union by the CIRB. The National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada) was certified as the bargaining agent for the Company's pilots. The Company entered into a five year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July 2013. On June 1, 2015, the CIRB certified all cargo agents and load planners of the Company at Halifax International Airport, consisting of 18 employees as at the date hereof, with Unifor being certified as the bargaining agent for such employees. Effective November 10, 2015, the Company entered into a collective agreement with Unifor in respect of these employees expiring December 31, 2018. Currently, none of the Company's other employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of a collective bargaining agreement cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. Severe weather during any extended period could prevent shipments from being delivered on a timely basis and could force flight cancellations. Any extended delay in meeting time sensitive shipping deadlines could have a material adverse effect on the Company's business, results of operations or financial condition.

Seasonal Fluctuations

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in the first quarter. Accordingly, the seasonal nature of the business of the Company will affect the quarterly financial results of operation of the Company that will be reported.

Dependence on International Trade

The principal businesses of the Company are indirectly related to, and future performance is dependent upon, the volume of international trade, including cross-border trade between Canada and the US. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, exchange controls, currency fluctuations and Canadian, US and foreign laws relating to duties, trade restrictions, foreign investment and taxation. There can be no assurance that trade-related events beyond the control of the Company, such as failure to reach or adopt trade agreements and an increase in trade restrictions, will not have a material adverse effect on the Company's business, results of operations or financial condition.

Future Sales of Voting Shares by the directors and officers of Cargojet

The directors and officers of Cargojet indirectly hold in aggregate 1,728,240 voting Shares, or approximately 17.10% of the outstanding Voting Shares. If the directors and officers of Cargojet sell substantial amounts of Voting Shares in the public market, the market price of the Voting Shares could decrease. The perception among the public that these sales will occur could also produce such an effect.

Income Tax Matters

Cargojet is subject to federal and provincial income taxes. Although the Company is of the view that all expenses to be claimed by the Company and its subsidiaries in the determination of their respective incomes under the Tax Act will be reasonable and deductible by the appropriate entity in accordance with the applicable provisions of the Tax Act, and that the allocations of income and loss of Cargojet Holdings Limited Partnership ("CHLP") and Cargojet Partnership ("CJP") to be made for purposes of the Tax Act will be reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that Canada Revenue Agency ("CRA") or the provincial taxing authority will agree. Counsel can provide no opinion with respect to the reasonableness of any expense or of the allocation of income by a partnership. If CRA or any provincial tax authority successfully challenges the deductibility of expenses or the allocation of income, Cargojet's liability to income tax may increase.

Increase in Interest Rates

One of the factors that may influence the price of the Voting Shares in public trading markets will be the annual cash-on-cash return from dividends by the Company on the Voting Shares compared to cash-on-cash returns on other financial instruments. Thus, an increase in market interest rates will result in higher cash-on-cash returns on other financial instruments, which could adversely affect the market price of the Voting Shares.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 4

During the period ended December 31, 2015, the Company experienced growth in all of its revenue streams, thereby increasing its total overnight, charter and ACMI business by 41.7% compared to the same period in 2014. The increase was primarily due to the start of the CPGOC contract and the continued development and strengthening of its relationships with existing and new customers. The Company experienced growth in its total overnight shipping volumes in the current quarter and each of the previous eight quarters. The Company continues to retain all of its major customers and expects that demand on its core overnight network will further improve with a stronger economy. The Company has added aircraft, staff and network capacity to accommodate the growing demand in its overnight core network and to operate the new CPGOC contract.

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

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

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

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

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The following judgments are those deemed by management to be material to the preparation of the financial statements.

Critical accounting judgments

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 is based cost of the component relative to total cost of an asset and whether these components have different useful lives for determination of depreciation.

Impairment of property, plant and equipment: Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (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 lease: Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in IAS 17 – Leases. The most prevalent leases are those for aircraft.

Critical Estimates

The table below discloses the methodology and assumptions used by management in the assessment of the accounting estimates.

Critical Accounting Estimate	Methodology and Assumptions
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.
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.
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 assess its 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, 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 change in timing, cost of maintenance or discount rates.
Cash settled share based payment arrangement	The cost and related liability of the stock appreciation rights under a MLA with an equipment finance and leasing company recognized using 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.

Outstanding Share Data

Company's common voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" and "CJT.DB.B" on the Toronto Stock Exchange ("TSX"). The following table sets out the common shares outstanding and securities convertible into common shares as of December 31, 2015:

Capital	Authorized/ Principal	Outstanding	Common Shares underlying Convertible securities
Common Voting Shares	Unlimited	10,007,289	-
Variable Voting Shares	Unlimited	101,164	-
Convertible Debentures - 6.5%	$ 4,429,000	-	376,936
Convertible Debentures - 5.5%	$ 74,000,000	-	2,573,913

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

Financial Reporting Update

Standards, amendments and interpretations issued and not yet adopted

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* ("IFRS 9"), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income ("OCI") instead of net income unless this would create an accounting mismatch. IFRS 9 sets a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting. The standard introduced a new expected loss impairment model. The standard is applied retrospectively with some exceptions related to the hedge accounting requirements and the restatement of prior periods for classification and measurement including impairment. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after 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, 2017 and is to be applied using the retrospective or the modified transition approach. The standard will address accounting for loyalty programs, warranties and breakage. Management is currently assessing the 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.

Accounting policies:

Restricted share units

Restricted share units are granted to non-employee directors and certain key executives which are measured at the market value of the 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 service period provided to the Company as vested.

Stock options

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

Derivative financial instruments

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

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

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

End Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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