The Most Awarded Air Cargo Airline in Canada

2015 Annual Report

Cargojet is Canada's leading provider of time sensitive overnight air cargo service with a co-load network that constitutes approximately 90% of Canada's domestic overnight air cargo capacity. Cargojets' network consolidates cargo received from over 500 customers and carries over a 1,300,000 pounds of cargo each business night across its North American network. Cargojet places importance on safety, reliability, customer service and strong financial performance by employing highly qualified and dedicated personnel. Cargojet maintains consistently reliable on time service levels within the overnight air cargo market. Cargojet continues to maintain the highest levels of industry standards in overall performance by providing a first class service.

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Financial Highlights

Supplementary Financial Information (In thousands of dollars)	Year Ended December 31 2014	Three Month Period Ended March 31 2015	June 30 2015	September 30 2015	December 31 2015	Year Ended December 31 2015
Revenues	192,398	54,079	75,224	75,342	84,355	289,000
Direct Expenses	173,624	53,106	67,895	64,609	65,092	250,702
ADJUSTED EBITDA	6,380	(779)	6,614	11,437	18,790	36,062
Dividends declared	5,404	1,410	1,426	1,504	1,507	5,847
Direct expenses as percentage of revenue	90%	98%	90%	86%	77%	87%
EBITDA as percentage of revenue	3%	-1%	9%	15%	22%	12%

Message To Shareholders

Message to Shareholders,

The past year revealed very strong revenue growth in our core domestic overnight and air cargo charter segments. We successfully integrated a new contract customer into a larger more scalable network. The fundamentals of our business are stronger than ever with a solid foundation for continued growth and expansion.

Key drivers of revenue continue to be the accelerated strength and popularity of e-commerce activity and positive economic growth domestically and internationally. Cargojet is the leading provider of premium air cargo services in Canada. We also continue to position Cargojet as a dominant global air cargo charter operator by utilizing aircraft assets during non-operational periods.

Cargojet's all-cargo aircraft fleet, consisting of twenty-one(21) aircraft at year end 2015, allows for flexibility by matching available capacity to the demands of our customers. Consistent operational performance and safety continue to be our priority and Cargojet achieved an on time reliability level of 98.7% on approximately 15,000 block hours flown during the year.

We will continue to manage our costs prudently and to seek out new revenue opportunities within Canada and around the world, in order to provide consistent cash flows and provide value to shareholders. Excess cash will be primarily used to pay down debt, increase dividends when warranted and to strengthen our overall balance sheet.

Cargojet is committed to providing a safe, secure and highly reliable level of service to our Customers at all times. We cannot do this without the dedication, loyalty and commitment of every single member of the Cargojet team.

The Board of Directors of Cargojet Inc. determines its dividend policy and any future dividend payments will be determined by the Board in accordance with the company's financial results and cash requirements.

In conclusion and on behalf of the Board of Directors, I would like to thank our Customers for their on-going loyalty and support; our Shareholders for their confidence in our business; and every member of the Cargojet Team for their dedication, hard work and support.

Dr. Ajay K. Virmani
President & Chief Executive Officer

March 2016

CHARTER OF THE CORPORATE GOVERNANCE COMMITTEE

I. Purpose

The Corporate Governance Committee's mandate is to generally assume the responsibility for developing the approach of Cargojet Inc. (the "**Corporation**") to matters of corporate governance.

II. Composition

The Corporate Governance Committee will be comprised of at least three directors of the Corporation, a majority of whom, subject to any exemptions set out in National Instrument 52-110 Audit Committees ("**NI 52-110**"), will be independent. An "independent" director is a director who has no direct or indirect material relationship with the Corporation. A "material relationship" is a relationship that could, in the view of the Board of Directors of the Corporation, be reasonably expected to interfere with the exercise of the director's independent judgement or a relationship deemed to be a material relationship pursuant to NI 52-110.

III. Responsibilities

Responsibilities of the Corporate Governance Committee generally include, but are not limited to, the undertaking of the following tasks:

1. Annually reviewing the charters of the Board of Directors of the Corporation, Audit Committee, Corporate Governance Committee and the Compensation and Nominating Committee and after consulting with the Board of Directors of the Corporation and the members of each committee, recommending such amendments to those charters as the Corporate Governance Committee believes are necessary or desirable.

2. Annually reviewing the performance of management of the Corporation and its subsidiaries, the effectiveness of the Board of Directors, the effectiveness of the Board of Directors as a whole and the contribution of individual Directors.

3. Assisting the Independent Chairman of the Corporation in carrying out his responsibilities, including without limitation:

    (a) ensuring that the responsibilities of the Board of Directors of the Corporation are well understood by the Board of Directors and management, and that the boundaries between board and management responsibilities are clearly understood and respected;

    (b) ensuring that the Board of Directors of the Corporation works as a cohesive team and providing the leadership essential to achieve this;

    (c) ensuring that the resources available to the Board of Directors of the Corporation (in particular timely and relevant information) are adequate to support its work; and

    (d) adopting procedures to ensure that the Board of Directors of the Corporation can conduct its work effectively and efficiently, including committee structure and composition, scheduling, and management of meetings.

4. Supervising and evaluating the Corporation's securities compliance procedures and reporting to the Board of Directors of the Corporation on the necessary changes to such procedures and on the adoption of any additional procedures.

5. Considering and, if thought fit, approving requests from directors or committee members for the engagement of special advisors from time to time.

6. Preparing and recommending to the Board of Directors of the Corporation, annually, a "Statement of Corporate Governance Practices". The Statement of Corporate Governance Practices will discuss the process used by the Board of Directors of the Corporation and Corporate Governance Committee to fulfill their functions as required.

7. Recommending procedures to permit the Board of Directors of the Corporation to meet on a regular basis without management being present.

8. Considering, and providing a recommendation to the Directors on any transaction involving the Corporation or any subsidiary or affiliate thereof before such transaction is approved by the Board of Directors.

IV. Meetings

The Corporate Governance Committee will meet regularly at times necessary to perform the duties described above in a timely manner, but not less than two times a year. Meetings may be held at any time deemed appropriate by the Corporate Governance Committee.

At the discretion of the Corporate Governance Committee, meetings may be held with representatives of appropriate members of management.

The Chairman of the Corporate Governance Committee will report periodically to the Board of Directors of the Corporation.

CARGOJET INC.

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

For the Three Month and
Year Ended December 31, 2015

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 21 of the MD&A.

EBITDA [(A)], ADJUSTED EBITDA [(B)], EBITDAR [(C)], ADJUSTED EBITDAR [(D)] AND ADJUSTED FREE CASH FLOW [(E)] (continued)

(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.
(D) 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 37 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 37.:

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 11,
- Results of operations for year ended December 31, 2015 - Liquidity and capital resources - Page 31,
- Off balance sheet arrangements - Page 35, and
- Outlook - Page 43.

Overview

	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	**$ 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 %
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 8 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 9.

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:

Overview (continued)

Fleet Overview (continued)

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 13 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 31 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.

RECENT EVENTS (CONTINUED)

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 17 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.

RECENT EVENTS (CONTINUED)

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

RECENT EVENTS (CONTINUED)

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.

RECENT EVENTS (CONTINUED)

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.

RECENT EVENTS (CONTINUED)

REVENUES (CONTINUED)

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 18). 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.

EXPENSES

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

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

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

Results of Operations and Supplementary Financial Information (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	**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)	September 30 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 methodof 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&E 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 - 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/DISTRIBUTIONS

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.

LIQUIDITY AND CAPITAL RESOURCES (CONTINUED)

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 9.

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 8 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 9.

(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.

RISK FACTORS (CONTINUED)

Risks Related to the Business (continue)

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.

RISK FACTORS (CONTINUED)

RISKS RELATED TO THE BUSINESS (continue)

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.

RISK FACTORS (CONTINUED)

<u>Risks Related to the Business (continue)</u>

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.

RISK FACTORS (CONTINUED)

RISKS RELATED TO THE BUSINESS (continue)

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.

RISK FACTORS (CONTINUED)

Risks Related to the Business (continue)

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 unionrepresenting 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.

RISK FACTORS (CONTINUED)

RISKS RELATED TO THE BUSINESS (continue)

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 9.

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.

OUTLOOK (CONTINUED)

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 Judgements

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, 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.

CRITICAL ESTIMATES (CONTINUED)

Critical Accounting Estimate	Methodology, Assumptions
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.

FINANCIAL REPORTING UPDATE (CONTINUED)

STANDARDS, AMENDMENTS AND INTERPRETATIONS ISSUED AND NOT YET ADOPTED (CONTINUED)

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 tax - 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.

END NOTES (CONTINUED)

(B) continued

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.

END NOTES (CONTINUED)

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.

Management's Report to the Shareholders

The consolidated financial statements of Cargojet Inc. and all information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with International Financial Reporting Standards. They include some amounts that are based on management's best estimates and judgments. Financial information included elsewhere in the annual report is consistent with that in the financial statements.

The management of Cargojet has developed and maintains an internal accounting system and administrative controls in order to provide reasonable assurance that the financial transactions are properly recorded and carried out with the necessary approval, and that the consolidated financial statements are properly prepared and the assets properly safeguarded.

The Board of Directors carried out its responsibility for the financial statements in this annual report principally through its Audit Committee. The Audit Committee reviews the corporation's annual consolidated financial statements and recommends their approval by the Board of Directors.

These financial statements have been audited by the external auditors, Deloitte LLP, Chartered Professional Accountants, Chartered Accountants, and Licensed Public Accountants whose report follows.

Dr. Ajay K. Virmani

President and Chief Executive Officer
March 2016

Independent Auditor's Report

Deloitte.

To the Shareholders of
Cargojet Inc.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants
March 7, 2016
Toronto, Canada

Consolidated Financial Statements of

CARGOJET INC.

For the years ended
December 31, 2015 and 2014

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

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

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

John P. Webster
Lead Trustee

Dr. Ajay K. Virmani
President and Chief Executive Officer

CARGOJET INC.
Consolidated Statements of Loss and Comprehensive Loss
Years ended December 31, 2015 and 2014
(in Canadian dollars)

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

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

CARGOJET INC.
Consolidated Statements of Changes in Equity
Years ended December 31, 2015 and 2014
(in Canadian dollars)

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

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

CARGOJET INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2015 and 2014
(in Canadian dollars)

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

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

CARGOJET INC.
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

1. NATURE OF THE BUSINESS

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

Cash

Cash balance consists of cash on hand and demand deposits.

Goodwill

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

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

Revenue recognition

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

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

Interest revenue is recognized when earned.

Inventories

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

Property, plant and equipment

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

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

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

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

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

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

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

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

The estimated useful lives are as follows:

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

Leases

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

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

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

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

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

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

Intangible assets

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Foreign currencies

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

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

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

Borrowing costs

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

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

Income taxes

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

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

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

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

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

Provisions

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

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

Share based payments

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

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

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

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

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

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Financial instruments

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

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

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

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

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

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

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

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

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

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

Level 3 - valuation techniques with significant unobservable market inputs.

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

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

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

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

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Convertible debentures

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

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

Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgments in applying accounting policies

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

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

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

Key sources of estimation uncertainty

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

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

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

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

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

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

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

Accounting changes

Accounting standards effective for 2015

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

Standards, amendments and interpretations issued and not yet adopted

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

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

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

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

3. INVENTORIES

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

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

4. NOTES RECEIVABLE

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

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

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

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

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5. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

6. GOODWILL

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

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7. INTANGIBLE ASSETS

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

8. BUSINESS COMBINATION

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

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

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

9. TRADE AND OTHER PAYABLES

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

10. PROVISIONS

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

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

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

11. BORROWINGS

Borrowings consist of the following:

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

Revolving credit facility

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

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

The facility is secured by the following:

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

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

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

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

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

Aircraft facility arrangements

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

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

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

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

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

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

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

Other borrowings

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

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

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12. FINANCE LEASES

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

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

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

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

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

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

13. CONVERTIBLE DEBENTURES

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

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

Convertible Debentures - 6.5% due April 30, 2017

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

On or after April 30, 2015, but prior to April 30, 2016, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture plus accrued and unpaid interest, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $11.75 per common share. After April 30, 2016, but prior to the maturity date of April 30, 2017, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on April 30, 2017, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $11.75 per voting share at any time prior to the close of business on the earliest of the business day immediately preceding the maturity date; if called for redemption, on the business day immediately preceding the date specified by the Company for redemption of the debentures; or if called for repurchase pursuant to a change of control, on the business day immediately preceding the payment date. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract. The conversion rate of $11.75 per voting share may be subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.142 per quarter ($0.568 per annum).

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

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

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

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

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

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

Convertible Debentures - 5.5% due June 30, 2019

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

On or after June 30, 2017, but prior to June 30, 2018, the debentures are redeemable, in whole at any time or in part from time to time, at the option of the Company at a price equal to at least $1,000 per debenture plus accrued and unpaid interest, provided that the current market price of the common shares of the Company on the date on which the notice of redemption is given is at least 125% of the conversion price of $28.75 per common share. On or after June 30, 2018, but prior to the maturity date of June 30, 2019, the debentures are redeemable at a price equal to $1,000 per debenture plus accrued and unpaid interest. On redemption or at maturity on June 30, 2019, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

Based on certain conditions, the debentures are convertible, at the holders' discretion, at $28.75 per voting share at any time prior to the close of business on the earliest of the business day immediately preceding the maturity date; if called for redemption, on the business day immediately preceding the date specified by the Company for redemption of the debentures; or if called for repurchase pursuant to a change of control, on the business day immediately preceding the payment date. The Company also has the right at any time to purchase debentures in the market, by tender or by private contract subject to regulatory requirements, provided, however, that if an event of default has occurred and is continuing, the Company or any of its affiliates will not have the right to purchase the debentures by private contract. The conversion rate of $28.75 per voting share is subject to adjustment in certain circumstances, including the payment of a cash dividend or distribution to holders of voting shares in excess of $0.225 per quarter ($0.900 per annum).

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

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

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

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

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

14. INCOME TAXES

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

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

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The tax effect of significant temporary differences is as follows:

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

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

15. DIRECT EXPENSES

Direct expenses consist of the following:

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

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16. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses consist of the following:

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

17. FINANCE COSTS

Finance costs consist of the following:

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

18. OTHER (GAINS)/LOSSES

Other (gains) losses consist of the following:

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

19. SHAREHOLDERS' CAPITAL

a) Authorized

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

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

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

b) Issued and outstanding

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

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

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

No preferred shares are issued or outstanding.

Dividends

Dividends to shareholders declared for the years ended December 31, 2015 and 2014 amounted to $5,846,896 ($0.5964 per share) and $5,404,094 (0.5964 per share) respectively.

As at December 31, 2015 the dividend amount of $1,507,171 was payable to the shareholders (2014 - $1,367,907).

20. LOSS PER SHARE

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

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

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

21. LONG-TERM INCENTIVE PLAN

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

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

Prior Years Awards

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

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

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

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

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

22. SHARE BASED COMPENSATION

Commitments

In 2014, the Company adopted a restricted share unit plan (the "RSU Plan") pursuant to which the Company may grant restricted share units ("RSUs") and a stock option plan (the "Stock Option Plan"), pursuant to which the Company may grant stock options ("Options"), as part of its long term incentive plan.

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

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

During the year ended December 31, 2015, the Company granted 172,399 Options in accordance with the Stock Option Plan at an average exercise price of $25.46 which had a fair value of $858,547 or $4.98 for each option (2014 - $nil). Each Option granted is exercisable for one common voting share of the Company at the exercise price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. The fair value of the Options was determined using the Black- Scholes option valuation model.

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

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

The Options have a five-year term and vest in each of the first quarters of 2016, 2017 and 2018. Each Option is exercisable into one common voting share of the Company at the exercise price specified in the terms of the option agreement. The option based compensation expenses will be amortized on a prorated basis in the consolidated statement of income or loss over the vesting period. The Company recognized an expense of $346,575 for the year ended December 31, 2015 (2014 - $nil) in respect of the amortization of options over the vesting period. The unrecognized value as at December 31, 2015 related to the Options was $511,973 (2014 - $nil) and will be amortized on a prorated basis in the consolidated statement of loss over the vesting period.

23. COMMITMENTS AND CONTINGENCIES

Commitments

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

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

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

Contingencies

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

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

24. RELATED PARTY TRANSACTIONS

For the year ended December 31, 2015, the Company had no transactions with related parties except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

Compensation of key management personnel

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

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

25. ECONOMIC DEPENDENCE

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

26. CAPITAL MANAGEMENT

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

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

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

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

27. FINANCIAL INSTRUMENTS

Risk management policies

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

Derivative financial instruments

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

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

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

Total return swap

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

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

Interest swap

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

Fair values

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

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

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

CARGOJET INC.
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Credit risk

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

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

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

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

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

Liquidity risk

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

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

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

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

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

Interest rate risk

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

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

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

Foreign exchange risk

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

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

Commodity risk

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

Market risk

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

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

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

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

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

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

28. GUARANTEES

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

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

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

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

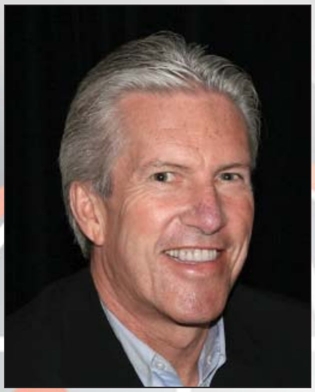
(d) The Company participates in Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operate on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered as part of the Financial Statements of the Company. The Company views this loss potential as remote. The airlines that participates in the FFC guarantee on a pro-rata basis the share of the debt based on system usage.

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

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

Directors and Officers of Cargojet

Dr. Ajay K. Virmani, MBA
President,
Chief Executive Officer
Chairman of the Board



Jamie B. Porteous
Executive Vice-President
& Chief Commercial Officer

Directors and Officers of Cargojet

John P. Webster
Lead Director

Paul V. Godfrey
Director

James R. Crane
Director

Officers of Cargojet

John Kim, CPA, CA
Chief Financial Officer

George Sugar
Senior Vice President,
Flight Operations

CJT

www.cargojet.com

350 Britannia Road East, Unit 5, Mississauga, Ontario L4Z 1X9
Tel: (905) 501-7373 • Toll Free: (800) 753-1051 • Fax: (905) 501-7447