



2016 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

	Year Ended		Year Ended			
Supplementary Financial Information	December 31	March 31	June 30	September 30	December 31	December 31
(in millions of dollars)	2015	2016	2016	2016	2016	2016
Revenues	289.0	76.9	79.3	80.7	94.1	331.0
Direct Expenses	250.7	60.3	58.4	59.9	66.6	245.2
ADJUSTED EBITDA	36.0	17.4	22.5	25.3	27.9	93.1
Dividends declared	5.8	1.5	1.6	1.8	1.9	6.8
Direct expenses as percentage of revenue	87%	78%	74%	74%	71%	74%
ADJUSTED EBITDA as percentage of revenue	12%	23%	28%	31%	30%	28%







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 nineteen (19) aircraft at year end 2016, 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 25,600 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 2017

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:
 - 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 Months and Year Ended December 31, 2016





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 months and year ended December 31, 2016. The following also includes a discussion of and comparative operating results for the three months and year ended December 31, 2015.

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

The effective date of the MD&A is March 9, 2017. This MD&A should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the years ended December 31, 2016 and 2015 (the "Consolidated Financial Statements"). The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), except for any financial information specifically denoted otherwise. IFRS requires management to make certain judgments, estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the amount of revenue and expenses incurred during the reporting period. The results of operations for the periods reflected herein are not necessarily indicative of results that may be expected for future periods.

All amounts in the MD&A are expressed in Canadian dollars unless otherwise noted.

EBITDA $^{(A)}$, ADJUSTED EBITDA $^{(B)}$, EBITDAR $^{(C)}$, ADJUSTED EBITDAR $^{(D)}$ AND ADJUSTED FREE CASH FLOW $^{(E)}$

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

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods and improve comparability between other companies including other airlines. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with its debt covenants. Investors are cautioned that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The calculations of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are shown on page 25 of the MD&A.

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

Moncton Halifax

St. John s

Thunder Bay

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Toronto

Saskatoon

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Regina

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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 be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the "Risk Factors" 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 12,
- Results of operations for the year ended December 31, 2016 - Liquidity and capital resources – Page 36,
- · Off balance sheet arrangements Page 39, and
- · Outlook Page 47.





Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended December 31			Year Ende December				
	2016	2015 C	HANGE	%	2016	2015 CH	IANGE	%
Financial information								
Revenues	\$ 94.1	\$ 84.3	\$ 9.8	11.6%	\$ 331.0	\$289.0 \$	42.0	14.5 %
Direct expenses	\$ 66.6	\$ 65.1	\$ 1.5	2.3%	\$ 245.2	\$250.7 \$	(\$5.5)	-2.2 %
Gross margin	\$ 27.5	\$ 19.2	\$ 8.3	43.2%	\$ 85.8	\$ 38.3 \$	47.5	124.0 %
Gross margin - %	29.2%	22.8%	6.4%		25.9%	6 13.3%	12.6 %	6
Selling, general & administrative expenses	\$ 19.3	\$ 10.5	\$ 8.8	83.8%	\$ 45.5	\$ 35.3 \$	10.2	28.9 %
Net finance costs & other gains and losses	\$ 9.0	\$ 8.1	\$ 0.9	11.1%	\$ 37.3	\$ 24.2 \$	13.1	54.1 %
(Loss) earnings before income taxes	\$ (0.8)	\$ 0.6	\$ (1.4)	-233.3%	\$ 3.0	\$ (21.2) \$	24.2	114.2%
Income taxes	\$ (0.2)	\$ 2.1	\$ (2.3)	-109.5%	\$ (0.6)	\$ (\$3.2) \$	2.6	-81.1 %
Net (loss) earning	\$ (1.0)	\$ (1.5)	\$ 0.5	33.3%	\$ 2.4	\$ (18.0) \$	20.4	113.3 %
(Loss) earnings per share - \$CAD							1	
Basic	\$ (0.09)	\$(0.15)	\$ 0.06	40.0%	\$ 0.23	\$ (1.86) \$	2.09	112.4%
Diluted	\$ (0.09)	\$(0.15)	\$ 0.06	40.0%	\$ 0.22	\$ (1.86) \$	2.08	111.8 %
EBITDA (1)	\$ 17.4	\$ 17.6	\$ (0.2)	-1.1%	\$ 75.8	\$ 34.6 \$	41.2	119.1 %
EBITDA margin - %	18.5%	20.9%	-2.4 %		22.9%	12.0%	10.9 %	6
(1)								
Adjusted EBITDA (1)	\$ 27.9	\$ 18.8	\$ 9.1	48.5%		\$ 36.0 \$	57.1	158.6 %
Adjusted EBITDA margin - %	29.6%		7.3 %		28.1%		15.7 %	
EBITDAR (1)	\$ 21.8	\$ 24.6	\$ (2.8)	-11.3%	\$ 96.0	\$ 66.9 \$	29.1	43.5 %
EBITDAR margin - %	23.2%	29.2%	-6.1%		29.0%	6 23.1%	5.9 %	6
Adjusted EBITDAR (1)	¢ 20.2	ተ ጋ ር ዐ	ф c.г	0E 00/	¢ 110 0	ተ 600 ተ	45.0	GE 0.9/
-	\$ 32.3	\$ 25.8	\$ 6.5		\$ 113.3	\$ 68.3 \$	45.0	65.9 %
Adjusted EBITDA margin - %	34.3%	30.6%	3.7 %		34.2%	23.6%	10.5 %	<u>′o</u>
Adjusted Free Cash flow (1)	\$ 19.0	\$ 17.0	\$ 2.0	11.7%	\$ 49.9	\$ 13.1 \$	36.8	280.9%
Operating statistics								
Operating days (2)	49	49	-	-	199	198	1	0.5%
Average cargo revenue per operating day (3)	\$ 1.44	\$ 1.29	\$ 0.15	11.6%	\$ 1.27	\$ 1.11 \$	0.16	14.4%
Block hours	7,525	6,308	1,217	19.3%	25,618	22,940	2,678	11.7%
Aircraft in operating fleet								
B727-200	6	7	(1)		6	7	(1)	
B757-200	5	5	-		5	5	-	
B767-200	1	3	(2)		1	3	(2)	
B767-300	8	7	1		8	7	1	
Challenger 601	2	-	2		2	-	2	
	22	22	-	-	22	22	-	-
Average volume per operating day (lbs.) (4)	1,299,691	,255,205	44,486	3.5%	1,144,830	1,068,752	76,078	7.1%
Average head count	727	717	10	1.4%	727	717	10	1.4%

⁽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 detailed discussion.

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

⁽³⁾ Average cargo revenue per operating day refers to total overnight, ACMI and charter revenues earned by the Company per operating day.

⁴ Prior periods volumes have been amended to conform to the current year's method of calculation of volume.



CORPORATE OVERVIEW

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

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

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



FLEET OVERVIEW

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

Note: See Caution Concerning Forward Looking Statements, page 9.

The table below sets forth the Company's operating fleet as at December 31, 2014, 2015 and December 31, 2016 as well as the Company's planned operating fleet for the year ending December 31, 2017:





FLEET OVERVIEW (CONTINUED)



			Nun	nber of Air	craft in Se			
				Actual		Plan		
			Dec	31	Dec 31	Dec 31		
Type of Freighter Aircraft	Leased or Owned	Average Age	2014	2015	2016	2017	Maximum Payload (lbs)	Range (miles)
B767-300 (1) (2)	Finance Lease	23	3	5	5	5	125,000	6,000
B767-300 ⁽²⁾	Owned	23	-	2	3	3	125,000	6,000
B767-200 (3)	Operating Lease	31	5	3	1	1	100,000	5,000
B757-200 ⁽⁴⁾	Owned	29	1	2	2	4	80,000	3,900
B757-200 ⁽⁵⁾	Operating Lease	27	3	3	3	2	80,000	3,900
B727-200 ⁽⁶⁾	Owned	37	9	7	6	4	60,000	1,800
Challenger 601 (7)	Owned	30	-	1	2	2	6,000	3,300
Total Aircraft			21	23	22	21		

⁽¹⁾ In 2014, Cargojet took delivery of three B767-300 aircraft that were financed under the MLA (as defined on page 9 of this MD&A under "Aircraft Finance Leases and Loans"). In January 2015, Cargojet took delivery of one B767-300 aircraft financed under the MLA. Cargojet took delivery of one B767-300 aircraft in March 2015 under a lease with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price and was classified as a finance lease.

⁽²⁾ Cargojet took delivery of one B767-300 aircraft in April 2015, one B767-300 aircraft in September 2015 and one B767-300 aircraft in January 2016. These aircraft were financed by loans. Two of these loans were repaid in September 2016, the third loan was repaid in February 2017 (refer to page 9 under "Aircraft Finance Leases and Loans"). In February 2017 Cargojet executed a Letter of Intent to purchase one B767-300 passenger aircraft as feed stock for future freighter conversions. This aircraft is not included in the table above.

⁽⁹⁾ In 2014, Cargojet subleased one B767-200 aircraft from a Canadian airline. This sublease expired in March 2016 and the aircraft was returned in April 2016. Two B767-200 aircraft were leased on a short term basis that expired in July and August of 2015. Of the two remaining B767-200 aircraft under lease, one aircraft lease was extended to June 2018 and the other aircraft was returned to the lessor at the end of March 2016 after the expiry of the lease.

⁽⁴⁾ In 2014, Cargojet purchased one previously leased B757-200 aircraft and purchased an additional B757-200 that underwent conversion from a passenger aircraft to freighter aircraft and became operational in early 2015. In Q4 2016, Cargojet purchased an additional B757-200 aircraft that is currently undergoing conversion from a passenger aircraft to freighter aircraft and is expected to be operational in Q2 2017. In February 2017 Cargojet executed a letter of Intent to purchase two additional B757-200 passenger aircraft as feed stock for future freighter conversions. These aircraft have not been included in the table above.

In 2014, Cargojet leased two additional B757-200 aircraft and extended the lease of its existing B757-200 aircraft. The leases of the three B757-200 aircraft expire at the end of 2017, 2020 and 2022 respectively. Cargojet expects to purchase the B757-200 aircraft whose lease expires at the end of 2017.

⁽⁶⁾ Cargojet retired two B727-200 aircraft in 2015 and retired one B727-200 aircraft in 2016. Cargojet expects to retire atleast 2 more B727-200 aircraft in 2017.

⁽⁷⁾ In 2014, Cargojet purchased five Challenger 601 aircraft. The Company entered into a charter agreement with a third party to operate and manage two of these aircraft to provide the aircraft for individual and corporate charterers. Two of these aircraft are currently in operation. Two of these aircraft are being considered for conversion to cargo operations and the fifth aircraft is being held for parts.



RECENT EVENTS

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly beneficially owned by one of the Company's executive officers and directors. The transaction is in the normal course of business and will be measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The lease was negotiated on behalf of the Company by the Directors excluding the subject Director and after an independent appraisal and review by outside counsel to ensure lease is on markets terms. The entering into of the lease is not subject to minority shareholder approval nor valuation requirements of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions as neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the lease, insofar as it involves the Interested Party, does not exceed 25 per cent of the Company's current market capitalization.

The lease term is for a period of 15 years. The annual rental payments will be approximately \$1.0 million plus taxes, maintenance and insurance costs. The basic rent is subject to revision every five year at a predetermined rate per the terms of the lease.

CONVERTIBLE DEBENTURES - 4.65% DUE DECEMBER 31, 2021

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

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

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

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

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



RECENT EVENTS (CONTINUED)

New Flights

Starting on June 10, 2016 the Company commenced cargo flights under an ACMI contract with another Canadian airline. The Company operates two flights per week between Canada and Mexico, and two flights per week between Canada and Colombia and Peru. Starting November 19, 2016 the Company expanded this contract to include one flight per week between Canada and Frankfurt, Germany.

REDEMPTION OF 6.5% CONVERTIBLE DEBENTURES

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

From December 31, 2015 to April 27, 2016 \$4.1 million of the outstanding 6.5% Debentures were converted into common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining \$0.2 million of the outstanding 6.5% Debentures were redeemed by issuing 8,184 common voting shares of the Company and paying accrued and unpaid interest in cash to the holders thereof.

SYNDICATED OPERATING FACILITY

Effective September 20, 2016, the Company amended its revolving operating credit facility (the "facility") availed through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things, increasing the maximum credit available from \$100 million to \$175 million and extending the maturity date by one year to expire on December 16, 2019. The facility is restricted to \$150 million until the debt of \$35 million owing under the B767-300 aircraft loan agreement dated March 31, 2015 with a US lender is repaid and the security provided in respect thereof is released and discharged. This loan was repaid and related security was released and discharged in February 2017. The facility can be extended annually with the consent of the Lenders, and bears interest, payable monthly, at the lead Lender's prime lending rate / US base rate plus 150 basis points to 200 basis points, dependent on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity.

CANADA POST LETTER OF CREDIT

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

CARGOJET



RECENT EVENTS (CONTINUED)



ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the year ended December 31, 2016, the Company completed the modification of one of its Challenger 601 aircraft for \$3.0 million and financed the acquisition of one B767-300 aircraft for USD \$27.5 million pursuant to a USD \$55.0 million facility with a US based lender. This facility was repaid in September 2016. See Page below under "Aircraft Finance Leases and Loans" for more details. In 2016 the Company entered into an agreement to purchase one B757-200 aircraft which is undergoing conversion from passenger aircraft to freighter aircraft and is likely to be operational in early 2017.

IMPAIRMENT OF CHALLENGER AIRCRAFT

During the year ended December 31, 2016, the Company reviewed the carrying value of the two operational Challenger 601 aircraft capitalized as property, plant and equipment and estimated that the aircraft's recoverable value was less than its carrying value. The recoverable amount was determined on a fair value less costs to sell basis, fair value being the market value for similar aircraft. As a result, the Company reported a loss of \$1.4 million on impairment of property, plant and equipment for the year ended December 31, 2016.

The Company also reviewed the carrying value of the other three Challenger 601 aircraft included in property plant and equipment under development and determined that the recoverable amount was less than the carrying amount. Accordingly an impairment loss of \$2.5 million has been recognized on these assets for the year ended December 31, 2016.

For the purpose of calculating impairment the Company identified the two operational aircraft as one separate cash generating unit. The three aircraft included in property, plant and equipment under development were not in operations and were considered independent of others to generate cash flow and were assessed for impairment at an individual asset level based on their fair market value.

The net book value as of December 31, 2016 of the two operational Challenger 601 aircraft is \$4.1 million and the net book value of the three Challenger 601 aircraft is \$3.8 million.

AIRCRAFT FINANCE LEASES AND LOANS

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

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

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

The MLA and the AFAs are subject to certain financial covenants. The Company was in compliance with all such covenants as at December 31, 2016.





RECENT EVENTS (CONTINUED)



AIRCRAFT FINANCE LEASES AND LOANS (CONTINUED)

Under the MLA and the AFAs, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and was required to pay additional fees (the "share based additional fees") equal to the positive difference between the price of 293,332 Cargojet common voting shares (233,332 with respect to the MLA and 60,000 with respect to the AFAs) on the TSX on the date of the MLA or the AFAs as the case may be and the twenty day volume weighted average closing price for such share as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The share based additional fees have been accounted for as cash settled share based compensation options. The Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements (please see Page 12 under "Total Return Swap" in this regard). The Company has also paid success fees in the amount equal to 1.5% of the amount advanced under the MLA and the AFAs to an independent investment banking firm for its services towards completion of these transactions.

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

On October 7, 2016, the Company prepaid the entire outstanding amount of its two AFAs including the prepayment fees. The prepayment resulted in a pre-tax loss of \$1.5 million including prepayment fees and unamortized transaction costs and recorded them as a loss on the extinguishment of debt.

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

The Company executed a separate loan agreement on March 31, 2015 with a US based lender for USD \$27.5 million to acquire a B767-300 aircraft. The loan matures in April 2022 and is secured by the related aircraft and all its components and records. The funds under the loan were received on April 8, 2015. The estimated effective interest rate for this loan agreement is 8.52%. On February 1, 2017, the Company prepaid the entire outstanding amount of its loan facility with a US based lender including the prepayment fees using the revolving operating credit facility. The prepayment resulted in a pre-tax loss of \$2.2 million including prepayment fees and unamortized costs, which were recorded as a loss on the extinguishment of debt. The settlement also resulted in the pre-tax exchange loss of \$1.3 million.

In May 2015, the Company secured a loan facility of USD \$55.0 million with another US based lender to acquire two additional B767-300 aircraft. The Company drew down this loan facility to finance the acquisition of two B767-300 aircraft, one in September 2015 and the second in January 2016. On September 19, 2016, the Company prepaid the entire amount of these loans including the prepayment fees. The prepayment resulted in a pre-tax loss of \$6.0 million including prepayment fees and unamortized transaction costs. The Company used the proceeds of the convertible debenture issued in September 2016 to pay these loans. The terms of such debenture were significantly different from the original loan facility; therefore any costs associated with the prepayment were classified and recorded as loss on the extinguishment of debt.



RECENT EVENTS (CONTINUED)

SHARE-BASED COMPENSATION

RESTRICTED SHARE UNITS

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

During the year ended December 31, 2016, in accordance with the RSU Plan, the Company granted 27,033 RSUs to certain key executives. Each RSU had an average value of \$26.50 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. Of these RSUs granted, 8,896 RSUs vested and were settled on the grant date. Of the remaining 18,137 RSUs granted 9,126 and 9,011 RSUs will vest in each of the first quarters of 2017 and 2018 respectively.

During the year ended December 31, 2016, the Company also granted 2,264 RSUs to two non-employee directors. Each RSU had an average value of \$26.50 calculated as

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

During the year ended December 31, 2016, 47,333 RSUs granted to executives in 2015 vested and were settled and an amount of \$1.3 million was transferred to the share capital account from contributed surplus. Since inception, in accordance with the RSU Plan, the RSUs granted to executives accrued notional dividend equivalents to 1,969 RSUs that were issued, vested and were settled upon the satisfaction of the vesting conditions of the related RSUs during the quarter. An amount of \$0.05 million was recognized as the share-based compensation.





RECENT EVENTS (CONTINUED)



SHARE-BASED COMPENSATION (CONTINUED)

RESTRICTED SHARE UNITS (CONTINUED)

The RSU activity for the comparative periods is summarized below:

	RSU's	\$
Balance at January 1, 2015	-	-
Granted in the period	153,851	4.1
Share dividend	-	-
Share based compensation-Vested and settled	(45,189)	(1.2)
Share based compensation-Unvested and amortized	-	(1.4)
Forfeited during the period	-	-
Balance at December 31, 2015	108,662	1.5
Granted in the period	29,297	0.8
Share dividend	1,969	
Share based compensation-Vested and settled	(60,462)	(0.7)
Share based compensation-Unvested and amortized		(1.1)
Forfeited during the period		-
Balance at December 31, 2016	79,466	0.5

During the year ended December 31, 2016, the total share-based compensation expense of \$1.8 million related to settled and unvested RSUs is included in the consolidated statements of earnings (loss) and comprehensive income (loss) (for the year ended December 31, 2015 –\$2.6 million). Unrecognized share-based compensation expense

as at December 31, 2016 related to these RSUs was \$0.5 million (December 31, 2015 – \$2.1 million) and will be amortized on a pro-rated basis in the consolidated statements of earnings (loss) and comprehensive income (loss) over the vesting period.

OPTIONS:

The Options activity during the year ended December 31, 2016 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in \$
Balance as at January 1, 2016 (Series 1)	172,399	\$ 25.46
Granted during the year	280,406	\$ 29.34
Balance as at December 31, 2016	452,805	\$ 27.86
Vested & exercisable at December 31, 2016	176,561	\$ 30.70
Unvested at December 31, 2016	276,244	\$ 26.07

As at December 31, 2016 there were a total of 176,228 vested Options and the weighted average contractual life remaining of the outstanding Options, both vested and non-vested, is 3.7 years.

During the year ending December 31, 2016, the Company recognized an expense of \$1.4 million (for the year ended

December 31, 2015 -\$0.3 million) in respect of the amortization of Options over the vesting period. The unrecognized value as at December 31, 2016 related to the Options was \$7.9 million (December 31, 2015 -\$0.8 million) and will be amortized on a pro-rated basis in the consolidated statements of earnings (loss) over the vesting period.



RECENT EVENTS (CONTINUED)

SHARE-BASED COMPENSATION (CONTINUED)

Weighted average assumptions

	November 17, 2016 Series 3	March 28, 2016 Series 2	June 15, 2015 Series 1
Exercise price redemption	\$ 47.22	\$ 26.50	\$ 25.47
Expected volatility	32.96%	32.4%	22.6%
Option life in years	3	5	5
Dividend yield	1.41%	2.5%	2.4%
Risk free rate	1.75%	0.63%	0.94%
Vesting period	immediate	2016-2018	2016-2018
Options granted	38,440	241,966	172,399
Fair value per option on grant date	\$ 10.41	\$ 5.43	\$ 4.98

There has been no alteration of the terms and conditions of the above share based payment arrangements since the grant date.

TOTAL RETURN SWAP

The Company had an obligation to pay share-based additional fees under the MLA and AFAs. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company pays interest to the financial institution based on Canadian LIBOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares. The Company did not designate the total return swap agreement as a cash flow hedge for accounting purposes.

On September 30, 2016, the Company settled its obligation under the cash settled stock appreciation rights by paying \$4.6 million. During the year ended December 31, 2016, the Company also recorded gains of \$5.1 million on the fair market valuation of the total return swap. Part of the gains on total return swap was settled by disposal of 31,632 of the underlying shares by the counterparty and the Company received \$0.8 million from the financial institution on January 4, 2017. The fair value of the underlying shares pending settlement as at December 31, 2016 was \$5.3 million in favour of the Company and is included under derivative financial instruments on the balance sheet. The net change in the fair value of the swap pending settlement as at December 31, 2016 was of \$4.3 million (December 31, 2015 - \$0.9 million) and is included as other gains in the consolidated statements of earnings (loss) and comprehensive income (loss).





RECENT EVENTS (CONTINUED)



EMPLOYEE BENEFITS

In 2016 Company adopted an unfunded defined benefit pension plan for its CEO. A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Company's net obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employee have earned in return for his service in the current and prior periods; that benefit is discounted to determine its present value. The calculations are performed by qualified actuaries using the projected unit credit prorated on service method that incorporates Company's best estimates of future salary levels, other cost escalations, retirement age of employee and other actuarial factors. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. These assumptions are determined by management and are reviewed by actuaries at least annually. The benefits under the plan will be reassessed annually by the qualified actuaries and the actuarial gain or loss in the fair value of the defined benefit plan will be recognized in the consolidated statement of earnings (loss) and comprehensive Income (loss). Changes to any of the above assumptions may affect the

amounts of benefits obligations, expenses and re-measurements that we recognize. Past service costs arising from plan are recognized immediately in the statement of consolidated earnings (loss) and comprehensive income (loss).

The Company has also adopted an Individual Pension Plan (the "IPP") as a defined contribution plan for its CEO. A liability and an expense in the amount of the contribution payable to the IPP are recognized when an employee renders services. Contributions to the IPP are discounted when they are payable more than 12 months after the end of the annual reporting period in which an employee rendered the related services. The discount rate is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds of the same currency and the term as the IPP. Effective December 31, 2016, up to and until the date as of the member's Termination or Actual Retirement Date, whichever is earlier, the Company shall make yearly contribution to the plan in an amount equal to the lesser of (i) the Money Purchase Limit for the Plan Year and (ii) 18% of the Member's compensation from the Company, as defined in for this purpose under the Income Tax Act, foe the Plan Year. The Member shall not be required nor permitted to contribute to the Plan.

The movement in the defined benefit pension cost during the year is as follows:

Amounts in millions of CAD \$	December 31, 2016 \$	December 31, 2015 \$
Balance as at January 1, 2016	-	-
Present value of defined benefit obligations	8.7	-
Balance as at December 31, 2016	8.7	-

The significant actuarial assumptions used in the measurement of accrued benefit obligations for the unfunded defined benefit plan are as follows:

Discount rate: 3.9% per year Increase in pensionable earnings: 2.75% per year Inflation: 2.0% per year

Longevity post retirement: CPM 2014 mortality table with generational mortality

improvements using CPM-B improvement scale.

Retirement age: 65 years



RECENT EVENTS (CONTINUED)

PRIVATE PLACEMENT OF SHARES

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

REVENUES

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

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

The Company's overnight air cargo service operates primarily on Monday to Thursday with a reduced network operating on Friday and on certain weekdays that are adjacent to certain statutory holidays. The Company defines the term "operating day" to refer to the days on which the full overnight air cargo network is in operations.

Typically, each fiscal year will have between 197 and 199 operating days depending on the timing of certain statutory holidays and leap years. The variance in number of operating days between quarters and year over year will have an impact on comparative quarterly revenues.

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

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost, as the flights are operating on regular schedules.
- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends. Adhoc flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:





REVENUES (CONTINUED)

- 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).
 Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.
- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs. Effective June 10, 2016 the Company commenced all cargo flights under contract between Canada and Colombia, Peru and Mexico with B767-300F aircraft. Starting November 19, 2016 the Company expanded this contract to include one flight per week between Canada and Frankfurt, Germany.

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.



CARGOJET



Year Ended

CARGOJET 2016 Annual Report

Three Month Period Ended

CARGOJET INCOME FUND

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

For the Three months and Year Ended December 31, 2016

Expenses (continued)

Results of Operations and Supplementary Financial Information (Canadian dollars in millions, except where indicated or an amount per share)

	December 31,					December 31,			
		2016	16 2015		2016			2015	
	(una	audited)	(ur	naudited)	(a	udited)		(audited)	
	•	\$	•	\$	•	\$		\$	
Revenues		94.1		84.3		331.0		289.0	
Direct expenses		66.6		65.1		245.2		250.7	
		27.5		19.2		85.8		38.3	
General and administrative expenses		18.5		9.9		43.2		33.8	
Sales and marketing expenses		0.8		0.6		2.3		1.5	
Impairment of property, plant and equipment		-		-		3.9		-	
Finance costs		7.3		6.9		30.8		22.8	
Loss on extinguishment of debt		1.5		-		7.5		-	
Other (gains) losses		0.2		1.2		(4.9)		1.4	
		28.3		18.6		82.8		59.5	
EARNINGS (LOSS) BEFORE INCOME TAXES		(8.0)		0.6		3.0		(21.2)	
Provision (recovery) of income taxes									
Current		-		(0.1)		-		(0.1)	
Deferred		0.2		2.2		0.6		(3.1)	
Net earnings (loss)		(1.0)		(1.5)		2.4		(18.0)	
Earnings (loss) per share									
Basic	\$	(0.09)	\$	(0.15)	\$	0.23	\$	(1.86)	
Diluted	\$	(0.09)	\$	(0.15)	\$	0.22	\$	(1.86)	
Average number of charge, basis									
Average number of shares - basic (in thousands of shares)		10,643		10,094		10,450		9,685	
(2021100 01 0110100)		,		. 0,00		. 5, . 5		3,233	
Average number of shares - diluted		40.040		40.004		40		0.005	
(in thousands of shares)		10,643		10,094		10,787		9,685	



CARGOJET INCOME FUND

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

For the Three months and Year Ended December 31, 2016

Expenses (continued)

Summary of Most Recently Completed Consolidated Quarterly Results (unaudited) (Canadian dollars in millions, except where indicated or an amount per share)

	Three Month Periods Ended								
	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016	Dec 31 2015	Sep 30 2015	Jun 30 2015	Mar 31 2015	
Revenues	\$ 94.1	\$ 80.7	\$ 79.3	\$ 76.9	\$ 84.3	\$ 75.3	\$ 75.2	\$ 54.1	
Net (loss) earnings from operations	\$ (1.0)	\$ (4.8)	\$ 3.8	\$ 4.4	\$ (1.5)	\$ (2.2)	\$ (6.1)	\$ (8.3)	
Loss per Share From continuing operations - Basic	\$ (0.09)	\$ (0.46)	\$ 0.36	\$ 0.43	\$ (0.15)	\$ (0.22)	\$ (0.64)	\$ (0.90)	
- Diluted	\$ (0.09)	\$(0.46)	\$ 0.36	\$ 0.43	\$ (0.15)	\$ (0.22)	\$ (0.64)	\$ (0.90)	
Average number of shares - basic									
(in thousands of shares)	10,643	10,540	10,476	10,135	10,094	9,928	9,482	9,224	
Average number of shares - diluted									
(in thousands of shares)	10,643	10,778	10,640	10,135	10,094	9,928	9,482	9,224	





CARGOJET INCOME FUND

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

For the Three months and Year Ended December 31, 2016

Expenses (continued)

Calculation of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR,

Free Cash Flow and Adjusted Free Cash Flow

(Canadian dollars in millions, except where indicated)

(Canadian donars in minions, except where maleate	Three Month I			Year Ended December		
	2016	2015	2016	2015		
	(unaudited)	(unaudited)	(unaudited)	(unaudited)		
Calculation of EBITDA and Adjusted EBITDA	\$	\$	\$	\$		
Net earnings (loss)	(1.0)	(1.5)	2.4	(18.0)		
Add:						
Interest	7.3	6.9	30.8	22.8		
Provision (recovery) of deferred taxes	0.2	2.1	0.6	(3.2)		
Depreciation of property, plant and equipment	10.9	10.1	42.0	33.0		
EBITDA	17.4	17.6	75.8	34.6		
Add: Gain on disposal of property, plant and equipment	-	(0.1)	-	(0.6)		
Impairment of property, plant and equipment	-	-	3.9	-		
Unrealized foreign exchange (gain) loss	2.3	3.8	(4.0)	8.5		
Loss on extinguishment of debt	1.5	-	7.5	-		
Unrealized loss(gain) on forward						
foreign exchange contracts	(1.1)	(2.2)	3.4	(4.9)		
Gain on cash settled share based payment arrange		(0.3)	(2.2)	(1.6)		
Employee pension	8.7	-	8.7	-		
Adjusted EBITDA	27.9	18.8	93.1	36.0		
Calculation of EBITDAR and Adjusted EBITDAR						
EBITDA	17.4	17.6	75.8	34.6		
Aircraft rent	4.4	7.0	20.2	32.3		
EBITDAR	21.8	24.6	96.0	66.9		
Add: Gain on disposal of property, plant and equipment	_	(0.1)	_	(0.6)		
Impairment of property, plant and equipment	_	-	3.9	-		
Unrealized (gain)/loss on forward foreign	2.3	3.8	(4.0)	8.5		
Loss on extinguishment of debt	1.5	-	7.5	-		
Unrealized loss(gain) on forward foreign exchange contra	acts (1.1)	(2.2)	3.4	(4.9)		
Gain on cash settled share based payment arrangement	ent (0.9)	(0.3)	(2.2)	(1.6)		
Employee pension	8.7	-	8.7	-		
Adjusted EBITDAR (2)	32.3	25.8	113.3	68.3		
Calculation of Standardized Free Cash Flow and Adjusted Free						
NET CASH GENERATED FROM OPERATING ACTIVITIES		7.6	62.0	20.1		
Add: Effects of exchange rate changes	0.6	5.6	(0.6)	3.2		
Less: Maintenance capital expenditures(1)	(2.5)	(0.4)	(9.1)	(9.1)		
Add: Proceeds from disposal of property, plant and equi	·	0.1	-	0.2		
Standardized free cash flow	18.4	12.9	52.3	14.4		
Changes in non-cash working capital items and depo	sits 0.6	4.0	(2.4)	(1.4)		
Recovery for current income taxes	-	0.1		0.1		
Adjusted Free Cash flow	19.0	17.0	49.9	13.1		

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



CARGOJET INCOME FUND

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

For the Three months and Year Ended December 31, 2016

Expenses (continued)

Review of Operations for the Three Month Periods ended December 31, 2016 and 2015 Net loss for the three month periods ended December 31, 2016 and 2015 (Canadian dollars in millions except where indicated)

All-in Charter Revenues 3.5		Q4		Chan	ge	
S S S S Core Overnight Revenues S8.2 54.6 3.6 6.6 6.6 Core Overnight Revenues 9.0 4.3 4.7 109.3 % All-in Charter Revenues 9.0 4.3 4.7 109.3 % All-in Charter Revenues 3.5 4.3 (0.8) -18.6 % Total Overnight, ACMI and charter revenues 70.7 63.2 7.5 11.9 % Total Revenue - FBO 0.2 - 0.2 - Total Revenue - TBO 0.2 - 0.2 - Total Revenue - TBO 0.2 - 0.2 - Total Revenue 0.7 0.5 0.2 40.0 % Total revenue 0.7 0.5 0.2 40.0 % Total revenue 94.1 84.3 9.8 11.6 % Total Revenue 94.1 84.3 9.8		2016	2015	\$	%	
Core Overnight Revenues 58.2 54.6 3.6 6.6 % ACMI Revenues 9.0 4.3 4.7 109.3 % All-in Charter Revenues 3.5 4.3 (0.8) 1-18.6 % Total overnight, ACMI and charter revenues 70.7 63.2 7.5 11.9 % Total Revenue - FBO 0.2 - 0.2 - Total dud and other cost pass through 22.5 20.6 2.1 10.2 % Fuel surcharge and other pass through revenues 22.7 20.6 2.1 10.2 % Lease and other revenue 0.7 0.5 0.2 40.0 % Operating Days 49 49 - - Average cargo revenue per operating day 1.44 1.29 0.15 11.6 % Direct expenses Fuel Costs 18.4 1.7.7 0.7 4.0 % Aircraft Cost 6.4 8.0 (1.6) 2.0.0 % Aleavy Maintenance Amortization 1.9 2.5 (0.6) 2.2.0 % Crew Co		(unaudited)	(unaudited)			
ACMI Revenues		\$	\$			
All-in Charter Revenues 3.5	Core Overnight Revenues	58.2	54.6	3.6	6.6 %	
Total overnight, ACMI and charter revenues 70.7 63.2 7.5 11.9 %	ACMI Revenues	9.0	4.3	4.7	109.3 %	
Total Revenue - FBO 0.2 - 0.2 - 0.2 - Total fuel and other cost pass through 22.5 20.6 1.9 9.2 % Fuel surcharge and other pass through revenues 22.7 20.6 2.1 10.2 % 10.2 % 10.2 % 20.6 2.1 10.2 % 20.6 2.1 10.2 % 20.6 2.1 10.2 % 20.6 2.1 10.2 % 20.0 % 20.0 % 40.0 % 20.0 20.0 40.0 % 20.0 % <td>All-in Charter Revenues</td> <td>3.5</td> <td>4.3</td> <td>(0.8)</td> <td>-18.6 %</td>	All-in Charter Revenues	3.5	4.3	(0.8)	-18.6 %	
Total fuel and other cost pass through 22.5 20.6 1.9 9.2 % Fuel surcharge and other pass through revenues 22.7 20.6 2.1 10.2 % Lease and other revenue 0.7 0.5 0.2 40.0 % Total revenues 94.1 84.3 9.8 11.6 % Operating Days 49 49 - - Average cargo revenue per operating day 1.44 1.29 0.15 11.6 % Direct expenses *** **	Total overnight, ACMI and charter revenues	70.7	63.2	7.5	11.9 %	
Puel surcharge and other pass through revenues 10.7 10.5 10.2 10.2 10.4 10.2 10.4	Total Revenue - FBO	0.2	-	0.2		
Decided Personal	Total fuel and other cost pass through	22.5	20.6	1.9	9.2 %	
Total revenues	Fuel surcharge and other pass through revenues	22.7	20.6	2.1	10.2 %	
Average cargo revenue per operating day	Lease and other revenue	0.7	0.5	0.2	40.0 %	
Direct expenses Fuel Costs 18.4 17.7 0.7 4.0 %	Total revenues	94.1	84.3	9.8	11.6 %	
Direct expenses Fuel Costs 18.4 17.7 0.7 4.0 %	Operating Days	49	49	-	-	
Fuel Costs 18.4 17.7 0.7 4.0 % Depreciation 8.7 7.4 1.3 17.6 % Aircraft Cost 6.4 8.0 (1.6) -20.0 % Aircraft Cost 1.9 2.5 (0.6) -24.0 % Maintenance Cost 5.4 5.5 (0.1) -1.8 % Crew Costs 5.2 5.2 - 0.0 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % Total direct expensess 66.6 65.1 1.5 2.3 % Gross margin 27.5 19.2 8.3 43.2 % Gross margin % 29.2% 22.8% 6.4% - Sales costs 0.8 0.6 0.2 33.3 % Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A 9.0 8.1		1.44	1.29	0.15	11.6 %	
Depreciation	Direct expenses					
Aircraft Cost 6.4 8.0 (1.6) -20.0 % Heavy Maintenance Amortization 1.9 2.5 (0.6) -24.0 % Maintenance Cost 5.4 5.5 (0.1) -1.8 % Crew Costs 5.2 5.2 - 0.0 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % Total direct expensess 66.6 65.1 1.5 2.3 % Gross margin 27.5 19.2 8.3 43.2 % Gross margin 27.5 19.2 8.3 43.2 % Gross margin 27.5 19.2 8.3 43.2 % Gross margin 37.5 19.2 8.3 43.2 % Gross margin 38.5 87.6 % Sales costs 0.8 0.6 0.2 33.3 % Sales Costs 0.8 0.6 0.2 0.1 50.0 % Sales Costs 0.8 0.2 0.1 50.0 % Sales Costs 0.2 0.2 0.2 0.2 0.2 0.2 0.2 0.2 0.2 0.2	Fuel Costs	18.4	17.7	0.7	4.0 %	
Heavy Maintenance Amortization 1.9 2.5 (0.6) -24.0 % Maintenance Cost 5.4 5.5 (0.1) -1.8 % Crew Costs 5.2 5.2 - 0.0 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % Total direct expensess 66.6 65.1 1.5 2.3 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % 7.0	Depreciation	8.7	7.4	1.3	17.6 %	
Maintenance Cost 5.4 5.5 (0.1) -1.8 % Crew Costs 5.2 5.2 - 0.0 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % Total direct expensess 66.6 65.1 1.5 2.3 % Gross margin 27.5 19.2 8.3 43.2 % Gross margin % 29.2% 22.8% 6.4% - SG&A & Marketing 8 29.2% 22.8% 6.4% - Sales costs 0.8 0.6 0.2 33.3 % 8 9.0 8.5 87.6 % 8 88.8 83.8 % 87.6 % 9.0 8.8 83.8 % 87.6 % 9.0 %	Aircraft Cost	6.4	8.0	(1.6)	-20.0 %	
Crew Costs 5.2 5.2 - 0.0 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % 7 Total direct expensess 66.6 65.1 1.5 2.3 % 8 Gross margin 27.5 19.2 8.3 43.2 % 9 Gross margin % 29.2% 22.8% 6.4% - SG&A & Marketing 8 8.6 6.4% - Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % 83.8 % Other Iosses 1.7 1.2 0.5 41.7 % 9 Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (Heavy Maintenance Amortization	1.9	2.5	(0.6)	-24.0 %	
Crew Costs 5.2 5.2 - 0.0 % Commercial and Other Costs 20.6 18.8 1.8 9.6 % 7 Total direct expensess 66.6 65.1 1.5 2.3 % 8 Gross margin 27.5 19.2 8.3 43.2 % 9 Gross margin % 29.2% 22.8% 6.4% - SG&A & Marketing 8 8.6 6.4% - Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % 83.8 % Other Iosses 1.7 1.2 0.5 41.7 % 9 Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (Maintenance Cost	5.4	5.5	(0.1)	-1.8 %	
Total direct expensess 66.6 65.1 1.5 2.3 % Gross margin 27.5 19.2 8.3 43.2 % Gross margin % 29.2% 22.8% 6.4% - SG&A & Marketing SGeneral and Administrative Costs 18.2 9.7 8.5 87.6 % % Sales costs 0.8 0.6 0.2 33.3 % % Depreciation 0.3 0.2 0.1 50.0 % % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % % Other SG&A Other losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 %	Crew Costs	5.2	5.2	· -	0.0 %	
Gross margin % 27.5 19.2 8.3 43.2 % 6.2 % 6.4 % - SG&A & Marketing General and Administrative Costs 18.2 9.7 8.5 87.6 % Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A University of the losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % (LOSS) Per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %	Commercial and Other Costs	20.6	18.8	1.8	9.6 %	
Gross margin % 29.2% 22.8% 6.4% - SG&A & Marketing Temperature Costs 18.2 9.7 8.5 87.6 % Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A 0.0 0.5 41.7 % 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % 6.9 0.4 5.8 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.9 11.1 % 6.0 6.0 11.1 % 6.0 6.0 11.1 % 6.0 6.0 11.1 % 6.0 6.0 11.1 % 6.0 6.0 11.1 % 6.0 6.0 11.1 % 6.0 6.0 11.1 % 6.0 6.0	Total direct expensess	66.6	65.1	1.5	2.3 %	
SG&A & Marketing General and Administrative Costs 18.2 9.7 8.5 87.6 % Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A 8 8.7 9.0 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD (0.09) (0.15) 0.06 40.0 %	Gross margin	27.5	19.2	8.3	43.2 %	
General and Administrative Costs 18.2 9.7 8.5 87.6 % Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A 0ther losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Net (loss) (0.2) (2.2) 2.0 90.8 % Net (loss) per share - \$ CAD (0.09) (0.15) 0.06 40.0 %	Gross margin %	29.2%	22.8%	6.4%	-	
Sales costs 0.8 0.6 0.2 33.3 % Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A Tother losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %	SG&A & Marketing					
Depreciation 0.3 0.2 0.1 50.0 % Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A Use of the strength of the	General and Administrative Costs	18.2	9.7	8.5	87.6 %	
Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A Other losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD (0.09) (0.15) 0.06 40.0 %	Sales costs	0.8	0.6	0.2	33.3 %	
Total SG&A & Marketing expenses 19.3 10.5 8.8 83.8 % Other SG&A Other losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD (0.09) (0.15) 0.06 40.0 %	Depreciation	0.3	0.2	0.1	50.0 %	
Other SG&A Other losses 1.7 1.2 0.5 41.7 % Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %	•	19.3	10.5	8.8		
Finance costs 7.3 6.9 0.4 5.8 % Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %						
Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD (0.09) (0.15) 0.06 40.0 %	Other losses	1.7	1.2	0.5	41.7 %	
Total other SG&A 9.0 8.1 0.9 11.1 % (LOSS) EARNING BEFORE INCOME TAXES (0.8) 0.6 (1.4) -233.3 % Income taxes-Current - 0.1 (0.1) -100.0 % Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD (0.09) (0.15) 0.06 40.0 %	Finance costs	7.3	6.9	0.4	5.8 %	
Income taxes-Current - 0.1 (0.1) -100.0 % (0.2) (2.2) 2.0 90.8 % (0.2) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %	Total other SG&A	9.0	8.1	0.9		
Income taxes-Current - 0.1 (0.1) -100.0 % (0.2) (2.2) 2.0 90.8 % (0.2) (1.0) (1.5) 0.5 33.3 % (1.0) (0.15)	(LOSS) EARNING BEFORE INCOME TAXES	(0.8)	0.6	(1.4)	-233.3 %	
Income Taxes-Deferred (0.2) (2.2) 2.0 90.8 % Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %						
Net (loss) (1.0) (1.5) 0.5 33.3 % (Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %		(0.2)				
(Loss) per share - \$ CAD Basic (0.09) (0.15) 0.06 40.0 %						
Basic (0.09) (0.15) 0.06 40.0 %	· ·		\ \ /			
		(0.09)	(0.15)	0.06	40.0 %	
		(0.09)	(0.15)	0.06	40.0 %	



HIGHLIGHTS FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2016 AND 2015

- Total revenue for the three month period ended December 31, 2016 was \$94.1 million compared to \$84.3 million for the same period in 2015, representing an increase of \$9.8 million or 11.6%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2016 was \$1.44 million per operating day compared to \$1.29 million for the same period in 2015, representing an increase of \$0.15 million or 11.6%.
- Adjusted EBITDA for the three month period ended December 31, 2016 was \$27.9 million compared to \$18.8 million for the same period in 2015, an increase of \$9.1 million or 48.4%.
- Adjusted EBITDAR for the three month period ended December 31, 2016 was \$32.3 million compared to \$25.8 million for the same period in 2015, an increase of \$6.5 million or 25.2%.
- Adjusted Free Cash Flow was an inflow of \$19.0 million for the three month period ended December 31, 2016 compared to an inflow of \$17.0 million for the same period in 2015, an increase of \$2.0 million or 11.8%.

REVENUE

Total revenue for the three month period ended December 31, 2016 was \$94.1 million, compared to \$84.3 million for the same period in 2015, representing an increase of \$9.8 million or 11.6%. The increase in total revenue was due primarily to the \$3.6 million increase in core overnight revenues, \$4.7 million increase in ACMI revenues, a \$1.9 million increase in fuel surcharge and other cost pass-through revenues, a \$0.2 million increase in FBO revenues and a \$0.2 million increase in other revenues. The increase was partially offset by a \$0.8 million decrease in all-in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2016 was \$58.2 million compared to \$54.6 million for the same period in 2015, an increase of \$3.6 million or 6.6%. The increases were primarily due to revenue from contractual Consumer Price Index ("CPI") increases and revenue from new customers.

ACMI scheduled and adhoc charter revenues for the three month period ended December 31, 2016 were \$9.0 million, compared to \$4.3 million for the same period in 2015, an increase of \$4.7 million or 109.3%. The increase of \$4.7 million was primarily due to a new scheduled daily route to the USA, and additional flights to Colombia, Mexico and Peru, that started in June 2016.

All-in scheduled and adhoc charter revenues for the three month period ended December 31, 2016 were \$3.5 million compared to \$4.3 million for the same period in 2015, a decrease of \$0.8 million or 18.6%. The decrease in all-in charter revenue was due primarily to lower adhoc charter activity.

Fuel surcharges and other cost pass-through revenues were \$22.7 million for the three month period ended December 31, 2016 compared to \$20.6 million for the same period in 2015. During the quarter, fuel surcharges increased due primarily to a 4.9% increase in fuel prices and an increase in pass-through revenues related to ACMI charters. Fuel surcharges and other cost pass-through revenues include \$0.2 million of fuel sales to third parties for the three month period ended December 31, 2016 compared to \$nil for the same period in 2015.

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines and passenger revenues from charter flights using its Challenger aircraft that started in 2016. Other revenues were \$0.7 million for the three month period ended December 31, 2016 compared to \$0.5 million for the same period in 2015, an increase of \$0.2 million or 40.0%.



DIRECT EXPENSES

Total direct expenses were \$66.6 million for the three month period ended December 31, 2016 compared to \$65.1 million for the same period in 2015. As a percentage of revenue, direct expenses decreased from 77.2% in 2015 to 70.8% for the same period in 2016. The overall decrease in direct expenses was due primarily to a \$1.6 million decrease in aircraft costs, a \$0.1 million decrease in maintenance costs, a \$0.6 million decrease in heavy maintenance costs, partially offset by a \$0.7 million increase in fuel costs, a \$1.8 million increase in commercial costs and other costs and a \$1.3 million increase in depreciation. For the three month period ended December 31, 2016 there were no one-time startup costs related to the CPGOC contract compared to \$1.3 million for the same period in 2015.

Fuel costs were \$18.4 million for the three month period ended December 31, 2016 compared to \$17.7 million for the same period in 2015. The \$0.7 million or 4.0% increase in fuel costs was due primarily to a 3% increase in block hours on the overnight network and a 5% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was \$8.7 million for the three month period ended December 31, 2016 compared to \$7.4 million for the same period in 2015. The \$1.3 million or 17.6% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were \$6.4 million for the three month period ended December 31, 2016 compared to \$8.0 million in 2015, representing a decrease of \$1.6 million or 20.0%. The decrease was due primarily to the lower fixed lease rental costs and variable lease costs during the three month period due to return of the two B767-200 aircraft at the expiry of their lease terms. This decrease was partially offset by higher sub charter costs. For the three month period ended December 31, 2016 there were no one-time startup costs related to the CPGOC contract compared to \$1.3 million for the same period in 2015. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were \$1.9 million for the three month period ended December 31, 2016 compared to \$2.5 million in 2015, representing a decrease of \$0.6 million or 24.0%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance. The heavy maintenance component of the newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were \$5.4 million for the three month period ended December 31, 2016 compared to \$5.5 million in 2015, representing a decrease of \$0.1 million or 1.8%. \$0.2 million of the decrease was primarily due to the reduced line maintenance costs as a result of return of two leased B767-200 aircraft and retiring one B727 aircraft in 2016. The decrease was partially offset by the purchase of one B767-300 aircraft in 2016.

Total crew costs including salaries, training and positioning was \$5.2 million for the three month period ended December 31, 2016 and 2015.

Commercial and other direct operating costs were \$20.6 million for the three month period ended December 31, 2016 compared to \$18.8 million in 2015 representing an increase of \$1.8 million or 9.6% This increase comprised primarily of \$0.4 million of the increase in commercial salaries due to head count and annual rate increases, \$0.6 million higher landing, parking, deicing and ground service equipment costs due to increased activity in 2016, \$0.2 million of higher warehouse rent costs due to a one-time adjustment in property taxes, \$0.3 million increase in cartage and ground handling costs and \$0.3 million increase in insurance costs.



SELLING, GENERAL, ADMINISTRATIVE & MARKETING EXPENSES

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2016 were \$19.3 million compared to \$10.5 million for the same period in 2015, representing an increase of \$8.8 million or 83.8%. The increase was primarily due to \$8.7 million increase in pension benefit cost for the CEO recognized at the inception of the defined benefit plan for past services and \$0.1 million increase in depreciation costs and \$0.2 million increase in sales and marketing costs, partially offset by \$0.2 million decrease in other SG&A expenses.

OTHER GAINS & LOSSES AND FINANCE COSTS

Other losses and finance costs for the three month period ended December 31, 2016 were \$9.0 million compared to \$8.1 million for the same period in 2015, representing an increase of \$0.9 million or 11.1%. The increase was due primarily to \$0.4 million higher finance costs due to debt related to aircraft acquisitions, \$1.5 loss on extinguishment of debt due to prepayment of AFA's, partially offset by foreign exchange gains.

ADJUSTED EBITDA

Adjusted EBITDA for the three month period ended December 31, 2016 was \$27.9 million compared to EBITDA of \$18.8 million for the same period in 2015. The increase in Adjusted EBITDA of \$9.1 million was due primarily to the following:

- Increase on core overnight network and ACMI revenues
- Decrease in direct costs due to the optimization of the capacity on the overnight network and return of leased aircraft partially offset by increase in costs associated with higher operating activity.
- Elimination of start-up costs related to the CPGOC contract

ADJUSTED EBITDAR

Adjusted EBITDAR for the three month period ended December 31, 2016 was \$32.3 million compared to \$25.8 million for the same period in 2015, representing an increase of \$6.5 million or 25.2%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to the expiry of the aircraft leases later in 2015 and in the first quarter of 2016.

CURRENT INCOME TAXES

No provision for current income taxes were made for the three month period ended December 31, 2016 due to net taxable trade loss position, compare to a recovery of \$0.1 million for the three month period ended December 31, 2015.

DEFERRED INCOME TAXES

The deferred income taxes for the three month period ended December 31, 2016 was recovery of \$0.2 million compared to a provision of \$2.2 million for the same period in 2015. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

ADJUSTED FREE CASH FLOW

Adjusted free cash flow was an inflow of \$19.0 million for the three month period ended December 31, 2016, compared to an inflow of \$17.0 million for the same period in 2015, representing an increase of \$2.0 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 higher maintenance capital expenditures.



DIVIDENDS

Total dividends declared for the three month period ended December 31, 2016 were \$1.9 million or \$0.1750 per share. In comparison, total dividends declared for the three month period ended December 31, 2015 were \$1.5 million or \$0.1491 per share.

	Date Dividends		Number		
Record Date	Paid/Payable	Declared	of Shares	Per Share	Paid
		\$	\$		\$
September 20, 2016	September 20, 2016	-	10,543,331	-	1,845,053
December 20, 2016	January 05, 2017	1,862,589	10,643,365	0.1750	-
		1,862,589	-	0.1750	1,845,053
	Date Dividends		Number		
Record Date	Paid/Payable	Declared	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	7
		1,507,171	-	0.1491	1,504,455

LIQUIDITY AND CAPITAL RESOURCES

Cash generated by operating activities after net changes in non-cash working capital balances and effect of exchange rate changes for the three month period ended December 31, 2016 was \$20.9 million compared to cash generated in operating activities of \$13.2 million for the same period in 2015. The \$7.7 million increase in cash was due primarily to the increase in EBITDA partially offset by the changes in non-cash working capital items and deposits.

Cash outflow from financing activities during the three month period ended December 31, 2016 was \$28.0 million (December 31, 2015 - Cash generated of \$6.5 million) and was comprised of repayment of borrowings of \$21.4 million (December 31, 2015- \$0.3 million), repayment of obligations under finance lease of \$4.8 million (December 31, 2015 - \$2.5 million), and dividends paid to shareholders of \$1.8 million (December 31, 2015 - \$1.5 million). There were no proceeds from borrowings during the three month period ended on December 31, 2016 (December 31, 2015- \$10.8 million).

Cash used in investing activities during the three month period ended December 31, 2016 was \$14.9 million (December 31, 2015 - \$14.4 million) and was primarily comprised of property, plant and equipment additions.

CAPITAL EXPENDITURES

The property, plant and equipment additions of \$14.9 million in the current period (December 31, 2015 -\$14.4 million) were primarily comprised of additions to aircraft, aircraft spares, computer hardware and software, leasehold improvements, heavy maintenance and other equipment.





CARGOJET INCOME FUND

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

For the Three Month and Year Ended December 31, 2016

Review of Operations for the year ended December 31, 2016 and 2015

Net earnings (loss) for the year ended December 31, 2016 and 2015

(Canadian dollars in millions except where indicated)

	YTD		Change	
•	2016	2015	\$	%
•	(audited)	(audited)		
	\$	\$		
Core Overnight Revenues	209.2	191.6	17.6	9.2 %
ACMI Revenues	30.6	12.8	17.8	139.1 %
All-in Charter Revenues	13.3	15.2	(1.9)	-12.5 %
Total overnight, ACMI and charter revenues	253.1	219.6	33.5	15.3 %
Total Revenue - FBO	0.5	0.2	0.3	150.0 %
Total fuel and other cost pass through	74.6	67.3	7.3	10.8 %
Fuel surcharge and other pass through revenues	75.1	67.5	7.6	11.3 %
Lease and other revenue	2.8	1.9	0.9	47.4 %
Total Revenue	331.0	2 89.0	42.0	14.5 %
Operating Days	199	198	1	0.5 %
Average cargo revenue per operating day	1.27	1.11	0.16	14.4 %
Direct expenses				
Fuel Costs	59.2	68.2	(9.0)	-13.2 %
Depreciation	33.6	25.1	8.5	33.9 %
Aircraft Cost	25.7	35.7	(10.0)	-28.0 %
Heavy Maintenance Amortization	7.4	7.0	0.4	5.7 %
Maintenance Cost	21.5	21.2	0.3	1.4 %
Crew Costs	22.0	22.4	(0.4)	-1.8 %
Commercial and Other Costs	75.8	71.1	4.7	6.6 %
Total direct expenses	245.2	250.7	(5.5)	-2.2 %
Gross margin	85.8	38.3	47.5	124.0 %
Gross margin %	25.9%	13.3%	12.6%	-
SG&A & Marketing				
General and Administrative Costs	42.2	32.9	9.3	28.3 %
Sales costs	2.3	1.5	0.8	53.3 %
Depreciation	1.0	0.9	0.1	11.1 %
Total SG&A & Marketing expenses	45.5	35.3	10.2	28.9 %
Other SG&A Other losses	6.5	1.4	5.1	364.3 %
Finance costs	30.8	22.8	8.0	35.1 %
Total other SG&A	37.3	24.2	13.1	54.1 %
EARNINGS (LOSS) BEFORE INCOME TAXES	3.0	(21.2)	24.2	114.2 %
Income taxes-Current	-	0.1	(0.1)	-100.0 %
Income Taxes-Deferred	(0.6)	3.1	(3.7)	-119.3 %
Net earnings (loss)	2.4	(18.0)	20.4	113.3 %
Earnings (loss) per share - \$ CAD	217	(13.0)	20.1	110.0 70
Basic	0.23	(1.86)	2.09	112.4 %
Diluted	0.23	(1.86)	2.08	112.4 %
5 ii di Cu	VIEL	(1.00)	2.00	112.0 /0



HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 31, 2016 AND 2015

- Total revenue for the year ended December 31, 2016 was \$331.0 million compared to \$289.0 million for the same period in 2015, representing an increase of \$42.0 million or 14.5%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2016 was \$1.27 million per operating day compared to \$1.11 million for the same period in 2015, representing an increase of \$0.16 million per operating day or 14.4%.
- Adjusted EBITDA for the year ended December 31, 2016 was \$93.1 million compared to \$36.0 million for the same period in 2015, an increase of \$57.1 million or 158.6%.
- Adjusted EBITDAR for the year ended December 31, 2016 was \$113.3 million compared to \$68.3 million for the same period in 2015, an increase of \$45.0 million or 65.9%.
- Adjusted Free Cash Flow was an inflow of \$49.9 million for the year ended December 31, 2016 compared to an outflow of \$13.1 million for the same period in 2015, an increase of \$36.8 million or 280.9%.

REVENUE

Total revenue for the year ended December 31, 2016 was \$331.0 million, compared to \$289.0 million for the same period in 2015, representing an increase of \$42.0 million or 14.5%. The increase in total revenue was due primarily to the \$17.6 million increase in core overnight revenues, \$17.8 million increase in ACMI revenues, \$7.6 million increase in fuel surcharge and other cost pass-through revenues and \$0.9 million increase in lease and other revenue partially offset by \$1.9 million decrease in all-in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2016 was \$209.2 million compared to \$191.6 million for the same period in 2015, an increase of \$17.6 million or 9.2%. The increase was primarily due to the 7.1% increase in volumes from the new CPGOC contract that began on April 1, 2015, CPI price increases and increased volumes other existing customers.

ACMI scheduled and adhoc charter revenue for the year ended December 31, 2016 was \$30.6 million, compared to \$12.8 million for the same period in 2015, an increase of \$17.8 million or 139.1%. The increase of \$18.7 million was due to additional block hours flown to the USA, South America, Northern Canada and to Europe. Adhoc ACMI revenues decreased by \$0.9 million due to lower customer demand.

All-in scheduled and adhoc charter revenue for the year ended December 31, 2016 was \$13.3 million compared to \$15.2 million for the same period in 2015, a decrease of \$1.9 million or 12.5%. The decrease in all-in charter revenue was due primarily to lower adhoc charter activity.

Fuel surcharges and other cost pass-through revenues were \$75.1 million for the year ended December 31, 2016 compared to \$67.5 million for the same period in 2015. During the period, fuel surcharges increased due to a 4.3% increase in the shipping volumes and revenues from new and existing customers that attracted fuel surcharges. The increase in fuel surcharges was partially offset by a 12.9% decline in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of \$0.5 million for the year ended December 31, 2016 compared to \$0.2 million for the same period in 2015.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines and passenger revenue on challenger series of aircraft. Other revenues for the year ended December 31, 2016 were \$2.8 million compared to \$1.9 million for the same period in 2015.



DIRECT EXPENSES

Total direct expenses were \$245.2 million for the year ended December 31, 2016 compared to \$250.7 million for the year ended December 31, 2015. As a percentage of revenue, direct expenses ratio decreased from 86.7% in 2015 to 74.1% for the same period in 2016. The overall decrease in direct expenses was due primarily to a \$9.0 million decrease in fuel costs, \$10.0 million decrease in aircraft costs and, \$0.4 million decrease in crew cost, partially offset by a \$8.5 million increase in depreciation, \$4.7 million increase in commercial and other costs, \$0.4 million increase in heavy maintenance amortization, and \$0.3 million increase in maintenance costs. For the year month period ended December 31, 2016 direct expenses included \$1.1 million of one-time startup costs related to the CPGOC contract compared to \$15.3 million for the same period in 2015.

Fuel costs were \$59.2 million for the year ended December 31, 2016 compared to \$68.2 million for the same period in 2015. The \$9.0 million or 13.2% decrease in fuel costs was due primarily to a 12.9% decline in fuel prices and the optimization of capacity on the overnight network resulting in lower block hours, partially offset by increase in the block hours due to the start of the CPGOC contract on April 1, 2015. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was \$33.6 million for the year ended December 31, 2016 compared to \$25.1 million for the same period in 2015. The \$8.5 million or 33.9% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were \$25.7 million for the year ended December 31, 2016 compared to \$35.7 million in 2015, representing a decrease of \$10.0 million or 28.0%. The decrease in aircraft costs was due primarily to lower fixed lease costs of \$9.3 million due to the return of the four B767-200 aircraft at the expiry of their lease terms and a decrease of \$2.8 million in the variable lease reserve costs due to the decrease in block hours flown. This decrease was partially offset by \$2.1 million of higher sub-charter costs related to a new route on the overnight network. For the year ended December 31, 2016 aircraft costs included \$1.1 million of one-time startup costs related to the CPGOC contract compared to \$10.6 million for the same period in 2015. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were \$7.4 million for the year ended December 31, 2016 compared to \$7.0 million for the same period in 2015, representing an increase of \$0.4 million or 5.7%. 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 \$21.5 million for the year ended December 31, 2016 compared to \$21.2 million in 2015, representing an increase of \$0.3 million or 1.4%. \$1.3 million of the increase was due to the hiring of additional maintenance personnel primarily due to the expansion of the fleet and a \$0.4 million increase in rental costs due to new and expanded maintenance facilities partially offset by \$1.4 million lower line maintenance costs due to an unscheduled maintenance event that occurred in 2015.

Total crew costs including salaries, training and positioning were \$22.0 million for the year ended December 31, 2016 compared to \$22.4 million in 2015, representing a decrease of \$0.4 million or 1.8%. This decrease was due primarily to the costs of onetime startup training incurred in 2015 partially offset by additional crew salaries and positioning costs required by the new ACMI routes in 2016. For the year ended December 31, 2016 crew costs did not include any one-time startup costs related to the CPGOC contract compared to \$3.4 million for the same period in 2015.

Commercial and other direct operating costs were \$75.8 million for the year ended December 31, 2016 compared to \$71.1 million for the same period in 2015, representing an increase of \$4.7 million or 6.6%. This increase comprised primarily of \$2.1 million of the increase in commercial salaries, \$0.8 million higher navigation costs due to additional block hours, \$2.1 million higher landing, parking deicing and ground service equipment costs, \$0.6 million of higher warehouse rent partially offset by \$0.8 million decrease in linehaul and cartage costs, and \$0.1 million of decrease in Ground handling costs. For the year ended December 31, 2016 commercial costs did not include any one-time startup costs related to the CPGOC contract compared to \$1.3 million for the same period in 2015.



SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2016 were \$45.5 million compared to \$35.3 million for the same period in 2015. representing an increase of \$10.2 million or 28.9%. This increase was due primarily due to \$1.1 million of increase in salaries and allowances, \$8.7 million of increase in pension benefit costs for the CEO for past services, \$2.9 million increase due to a one-time settlement of stock appreciation rights, \$0.5 million increase in the communication costs, \$0.8 million increase in sales and marketing costs, \$0.7 million increase in bonuses and incentives, and \$0.2 million increase in other SG&A costs. This increase was partially offset by a \$4.7 million net realized exchange gain on the settlement of USD denominated debt and valuation of monetary assets and liabilities and, for the year ended December 31, 2016 SG&A expenses did not include any one-time startup costs related to the CPGOC contract compared to \$0.8 million for the same period in 2015.

OTHER LOSSES AND FINANCE COSTS

Other losses and finance costs for the year ended December 31, 2016 were \$37.3 million compared to \$24.2 million for the same period in 2015 representing an increase of \$13.1 million or 54.1%. This increase was comprised primarily of \$8.0 million increase in finance costs, \$7.5 million increase due to loss on extinguishment of debt and \$3.9 million higher impairment charges recognized for the shortfall in recoverable value of Challenger aircraft below its carrying value, \$0.6 million of gain on disposal of property, plant and equipment in 2015 and \$0.7 million gain on cash settled share based payment arrangement in 2015, partially offset by \$3.4 million of gain on change in fair value of non-hedge derivatives and \$4.2 million net unrealized exchange gains on USD denominated aircraft debt and foreign exchange contracts.

ADJUSTED EBITDA

Adjusted EBITDA for the year ended December 31, 2016 was \$93.1 million compared to \$36.0 million for the same period in 2015. The increase in Adjusted EBITDA of \$57.1 million or 158.6% was due primarily to the following:

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

partially offset by:

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

ADJUSTED EBITDAR

Adjusted EBITDAR for the year ended December 31, 2016 was \$113.3 million compared to \$68.3 million for the same period in 2015, representing an increase of \$45.0 million or 65.9%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by the return of four B767-200 aircraft at the end of their lease terms.

NET FINANCE COSTS

Net finance costs were \$30.8 million for the year ended December 31, 2016 compared to \$22.8 million for the same period in 2015. The increase is primarily due to the interest costs relating to funds borrowed specifically or generally to acquire and/or modify aircraft and other assets.



CURRENT INCOME TAXES

The provision for current income taxes for the year ended December 31, 2016 was \$nil compared to a recovery \$0.1 million in 2015.

DEFERRED INCOME TAXES

The deferred income taxes recognized for the year ended December 31, 2016 was a provision of \$0.6 million compared to a recovery of \$3.1 million for the same period in 2015. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

ADJUSTED FREE CASH FLOW

Adjusted free cash flow was an inflow of \$49.9 million for the year ended December 31, 2016, compared to an inflow of \$13.1 million for the same period in 2015, representing an increase of \$36.8 million. The increase in Adjusted Free Cash flow was due primarily due to the increase in Adjusted EBITDA, and changes in non-cash working capital items and deposits.

DIVIDENDS

Total dividends declared for the year ended December 31, 2016 were \$6.8 million or \$0.6482 per share. In comparison, total dividends declared for the year month period ended December 31, 2015 were \$5.8 million or \$0.5964 per share.

	5 . 5				
	Date Dividends		Number		
Record Date	Paid/Payable	Declared	of Shares	Per Share	Paid
		\$		\$	\$
December 18, 2015	January 5, 2016	-	10,108,457	-	1,507,171
March 21, 2016	April 5, 2016	1,515,152	10,161,982	0.1491	1,515,152
June 20, 2016	July 5, 2016	1,570,865	10,535,645	0.1491	1,570,865
September 20, 2016	October 5, 2016	1,845,053	10,543,331	0.1750	1,845,053
December 20, 2016	January 5, 2017	1,862,589	10,643,365	0.1750	-
		6,793,659	-	0.6482	6,438,241
	Date Dividends		Number		
Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
Record Date		Declared		Per Share	Paid \$
Record Date December 19, 2014					
	Paid/Payable		of Shares		\$
December 19, 2014	Paid/Payable January 5, 2015	\$	of Shares 9,174,427	\$ -	\$ 1,367,906
December 19, 2014 March 20, 2015	Paid/Payable January 5, 2015 April 3, 2015	\$ - 1,409,579	of Shares 9,174,427 9,453,907	\$ - 0.1491	\$ 1,367,906 1,409,579
December 19, 2014 March 20, 2015 June 19, 2015	Paid/Payable January 5, 2015 April 3, 2015 July 3, 2015	\$ - 1,409,579 1,425,692	9,174,427 9,453,907 9,561,988	\$ - 0.1491 0.1491	\$ 1,367,906 1,409,579 1,425,692



LIQUIDITY AND CAPITAL RESOURCES

Cash generated in operating activities after net changes in non-cash working capital balances and effect of exchange rate changes for the year ended December 31, 2016 was \$61.4 million compared to cash generated in operating activities of \$23.3 million for the same period in 2015. The \$38.1 million increase in cash was due primarily to the increase in EBITDA and changes in non-cash working capital items and deposits.

Cash used in financing activities during the year ended December 31, 2016 was \$5.6 million (December 31, 2015 cash provided from financing activities – \$102.1 million) comprised of repayment of borrowings \$137.4 (December 31, 2015-\$1.3 million), repayment of obligations under finance lease of \$22.4 million (December 31, 2015 – \$10.2 million), and dividends paid to shareholders of \$6.4 million (December 31, 2015 – \$5.7 million). The deficit was partially offset with proceeds from borrowings of \$38.0 million (December 31, 2015 – \$119.3 million), proceeds from debenture issuance of \$119.3 million (December 31, 2015 \$nil) and proceeds from private placement of \$3.3 million (December 31, 2015 \$nil)

Cash used in investing activities during the year ended December 31, 2016 was \$59.6 million (December 31, 2015- \$119.4 million) and was primarily comprised of property, plant and equipment additions.

The Company had a working capital deficit as at December 31, 2016, representing the difference between total current assets and current liabilities, of \$43.0 million, compared to a working capital deficit of \$5.4 million as at December 31, 2015. The increase of \$37.6 million is primarily due to the increase in the current portion of the borrowings, increase in the trade and other payables, decrease in cash balance and deposits, partially offset by increase in trade and other receivables due to timing of the collections

Note: See Caution Concerning Forward Looking Statements, page 9.

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 \$59.8 million in the current year were primarily comprised of additions to aircraft, engines, ground equipment, leasehold improvements, heavy maintenance and other equipment.

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

	Years Ended December 31			
	2016	2015	2014	
	\$	\$	\$	
Revenue	331.0	289.0	192.4	
Direct expenses	245.2	250.7	173.6	
Gross margin	85.8	38.3	18.8	
Selling, general & administrative expenses and				
income taxes	83.4	56.3	28.3	
Net (loss) income	2.4	(18.0)	(9.5)	
(Loss) earning per share - CAD\$				
Basic	0.23	(1.86)	(1.07)	
Diluted	0.22	(1.86)	(1.07)	
EBITDA ⁽¹⁾	75.8	34.6	5.3	
Adjusted EBITDA (1)	93.1	36.0	6.4	
EBITDAR (1)	96.0	66.8	31.1	
Adjusted EBITDAR (1)	113.3	68.3	32.1	
Adjusted Free Cash Flow (1)	49.9	13.1	(5.5)	
Cash, cash equivalents and short term investments	2.2	6.0	-	
Total assets	462.5	450.8	285.3	
Total long-term liabilities	314.5	350.0	186.2	
Total liabilities	395.9	396.0	219.9	
Dividends per share - CAD\$	\$ 0.6482	\$ 0.5964	\$ 0.5964	

⁽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

CARGOJET



FINANCIAL CONDITION

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

ACCOUNTS RECEIVABLE

Accounts receivable as at December 31, 2016 amounted to \$25.7 million compared to \$23.0 million as at December 31, 2015. The increase of \$2.7 million was due to the timing of cash collections from the customers and adjustments in the value of the derivatives. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

PROPERTY, PLANT AND EQUIPMENT

As at December 31, 2016, property, plant and equipment were \$371.1 million compared to \$357.3 million as at December 31, 2015. The \$13.8 million net increase in property, plant and equipment was primarily due to additions of \$59.8 million partially offset by amortization of \$42.0 million and impairment of \$3.9 million.

TRADE AND OTHER PAYABLES

Trade and other payables as at December 31, 2016 were \$30.4 million compared to \$27.0 million as at December 31, 2015. The increase of \$3.4 million was due primarily to the provision of pension obligation of \$8.7 partly offset by lower third party liabilities due to the timing of supplier payments.

FINANCE LEASES

The finance leases are in respect of the lease of five B767-300 aircraft. Total finance leases excluding the current portion were \$117.6 million as at December 31, 2016 compared to \$140.2 as at December 31, 2015. The change was due to the scheduled monthly installments and prepayments made in the current period.

PROVISIONS

Provisions as at December 31, 2016 and 2015 were \$2.4 million and 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 Year

		. ~,				
As at December 31, 2016	Total	2017	2018	2019	2020	Thereafter
(Canadian dollars in millions)	\$	\$	\$	\$	\$	\$
Finance leases	130.3	12.7	46.8	11.9	9.7	49.2
Provisions	2.4	0.7	-	-	-	1.7
Borrowings	35.7	35.7	-	-	-	-
Convertible Debentures	181.1	-	-	68.4	-	112.7
Operating leases	50.0	12.9	9.2	7.2	5.4	15.3
	399.5	62.0	56.0	87.5	15.1	178.9



OFF-BALANCE SHEET ARRANGEMENTS

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

- (a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircraft. Under the terms of these agreements, the Company agrees to indemnify the lessors of aircraft and facilities for various items including, but not limited to, all liabilities, losses, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.
- (b) Indemnities have been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.
- (c) In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

Note: See Caution Concerning Forward Looking Statements, page 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, 2016. 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, 2016, the Company had sales to three customers that represented 66.27% of the total revenues (December 31, 2015 - 63.1%). These sales are provided under service agreements that expire over various periods to April 2025.

CONTINGENCIES

The Company has provided irrevocable standby letters of credit totaling approximately \$24.1 million as at December 31, 2016. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

On February 14, 2017, the Company cancelled a \$6.6 million letter of credit following the repayment of an aircraft loan.

RELATED PARTY TRANSACTIONS

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly beneficially owned by one of the Company's executive officers and directors. See Page 6 Recent events for further details.

On September 28, 2016 the Company completed the private placement of 100,000 variable voting shares to one of its directors. The Company intends to use the proceeds from such placement for general corporate and working capital purposes. The Company had no other transactions with related parties except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

RISK FACTORS

RISKS RELATED TO THE BUSINESS

Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 79.4% of 2016 revenues of the Company and the Company's top three customers each accounted for over 10% of the Company's 2016 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 Domestic Air Cargo Network Services ("DACNS") contract and signed the Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC") for an initial seven-year term with three thirty-six months 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. 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 (CONTINUED)

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 (CONTINUED)

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)

RISKS RELATED TO THE BUSINESS (CONTINUED)

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 six B727-200, two B757-200, and three B767-300 and has five B767-300 aircraft under finance lease. It also leases one B767-200 and three B757-200 aircraft. The Company also acquired five Challenger 601 aircraft in 2014, two of which are operating under a charter agreement with a third party and two are being considered for conversion for cargo operations and one is split into parts for use as spares. 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.

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 30% 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 (CONTINUED)

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, 2016, the Company had a net cash flow exposure to the United States dollar of approximately U.S. \$8.0 million and to the Euro of approximately €1.0 million. As of the date of this MD&A, the Company is exposed to fluctuations in the US-dollar exchange rate relating to 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 (CONTINUED)

Terrorist Activity

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

Dependence on Key Personnel

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

Labour Relations

On October 19, 2012, 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board (the "CIRB"). As of the date hereof, 147 of the Company's pilots are certified as a union by the CIRB. The National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada) was certified as the bargaining agent for the Company's pilots. The Company entered into a five year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July 2013. On June 1, 2015, the CIRB certified all cargo agents and load planners of the Company at Halifax International Airport, consisting of 18 employees as at the date hereof, with Unifor being certified as the bargaining agent for such employees. Effective

November 10, 2015, the Company entered into a collective agreement with Unifor in respect of these employees expiring December 31, 2018. Currently, none of the Company's other employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of a collective bargaining agreement cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

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

Seasonal Fluctuations

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



RISK FACTORS (CONTINUED)

RISKS RELATED TO THE BUSINESS (CONTINUED)

Dependence on International Trade

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

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

The directors and officers of Cargojet directly and indirectly hold in aggregate 1,858,824 voting Shares, or approximately 17.46% 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 quarter ended December 31, 2016, the Company experienced growth in all of its revenue streams, thereby increasing its total overnight, charter and ACMI business by 11.6% compared to the same period in 2015. The Company anticipates that the revenues will continue to sustain growth due to the continued development and strengthening of its relationships with existing customers and establishing new relationship with national/international carriers to establish new ACMI routes to the USA and South America and adhoc charters. The Company continues to retain all of its major customers. Since 2014, the Company has been adding aircraft, staff and network capacity to accommodate the growing demand in its overnight core network. The Company continues to redesign its overnight network to optimize capacity to match customer demand and will continue to do so going forward. This improved the gross margin and EBITDA by optimizing costs of its current operation. The Company will continue to evaluate its investments in fixed assets to ensure high returns on its investments and are in balance with its outlook of global economic conditions.

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

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

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

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

CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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





CRITICAL ACCOUNTING JUDGMENTS

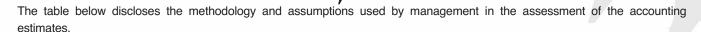
Componentization of property, plant and equipment and goodwill: The componentization of the Company's property, plant and equipment is based on judgment in relation to the determination of components is based cost of the component relative to total cost of an asset and whether these components have different 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 leases: 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



Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.
Impairment of property, plant and equipment and goodwill	At the end of each reporting period, the Company reviews the carrying amounts of its property,plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been Adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.

WAS I

CARGOJET 2016 Annual Report

CRITICAL ESTIMATES (CONTINUED)



Critical Accounting Estimate	Methodology and 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.
Employee future benefits	The cost and related liabilities of the Corporation's pensions, other post- retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions including discount rates, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.

OUTSTANDING SHARE DATA

The Company's common voting shares are listed under the symbol "CJT.", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.A" and "CJT.DB.B" and "CJT.DB.C" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding and securities convertible into shares of the Company as of December 31, 2016:

Capital	Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares	Unlimited	10,408,794	_
Variable Voting Shares	Unlimited	234,571	
Convertible Debentures - 5.5%	\$ 73,778,000		2,566,191
Convertible Debentures - 4.65%	\$ 125,000,000		2,131,287



INFORMATION DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2016 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. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January, 1 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue from Contracts with Customers: On May 28, 2014, the IASB and the FASB jointly issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), a converged standard on the recognition of revenue from contracts with customers that will replace IAS 18 Revenue and related interpretations. 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 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 and improve guidance for multiple-element arrangements. The IASB standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018. The Company is currently assessing the impact of this standard.



FINANCIAL REPORTING UPDATE (CONTINUED)

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

Leases: In January 2016, the IASB issued IFRS 16, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous lease standard, IAS 17 Leases, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

Income taxes: IAS 12, has been revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company does not expect the adoption of this standard to have a significant impact on the Company's disclosures as it does not have any debt instruments that are measured at fair value.

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





END NOTES

"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.

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

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

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

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

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



END NOTES (CONTINUED)

(B) continued

Gain or loss on disposal of property, plant and equipment - 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.

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.

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

Loss on settlement of cash settled share based payment arrangement - the loss arising from the settlement of cash settled share based payment arrangement is a function of the Company's treasury/financing activities and represents a different class of expense than those included in Adjusted EBITDA.

Gain on settlement of total return swap - the gain arising from the settlement of total return swap is a function of the Company's treasury/financing activities and represents a different class of expense than those included in Adjusted EBITDA.

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

Employee Pension - the provision for employee pension is a non-operating item and represents a different class of expense than those included in EBITDA.

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

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



END NOTES (CONTINUED)

(E) continued

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, PricewaterhouseCoopers LLP, Chartered Professional Accountants, Chartered Accountants, and Licensed Public Accountants whose report follows.

Dr. Ajay K. Virmani

President and Chief Executive Officer

March 2017



Independent Auditor's Report











To the Shareholders of Cargojet Inc.

We have audited the accompanying consolidated financial statements of Cargojet Inc, which comprise the consolidated balance sheet as of December 31, 2016, and the consolidated statement of earnings and comprehensive earnings, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

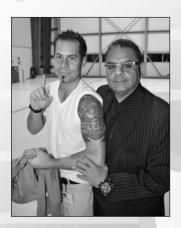
Management's Responsibility for the Consolidated Financial Statements

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 audit. We conducted our audit 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 audit 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, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other Matters

The financial statements of Cargojet Inc. for the year ended December 31, 2015, were audited by another auditor who expressed an unmodified opinion on those statements on March 7, 2016.

PricewaterhouseCoopers LLP

Chartered Professional Accountants March 9, 2017 Toronto, Canada



Consolidated Financial Statements of

CARGOJET INC.

For the years ended December 31, 2016 and 2015

(expressed in millions of Canadian dollars)





CARGOJET INC.

Consolidated Balance Sheets

As at December 31, 2016 and December 31, 2015 (in millions of Canadian dollars)

	Note	2016	2015
		\$	\$
ASSETS		*	Ψ
CURRENT ASSETS			
Cash		2.2	6.0
Trade and other receivables		25.7	23.0
Inventories	3	0.9	0.8
Prepaid expenses and deposits	_	2.7	4.7
Income taxes recoverable		0.1	0.1
Notes receivable		-	0.2
Derivative financial instruments	26	6.8	5.8
Derivative intaricial instruments	20	38.4	40.6
		50.4	40.0
NON-CURRENT ASSETS			
Property, plant and equipment	4, 8	371.1	357.3
Goodwill	5	46.4	46.4
Intangible assets	6	2.0	2.0
Deposits		4.6	4.5
		462.5	450.8
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	7	30.4	27.0
Provisions	10	0.7	-
Dividends payable		1.9	1.5
Borrowings	8	35.7	4.0
Finance leases	9	12.7	13.5
		81.4	46.0
NON-CURRENT LIABILITIES			
Borrowings	8	0.2	133.5
Finance leases	9	117.6	140.2
Provisions	10	1.7	2.4
Convertible debentures	11	181.1	71.1
Deferred income taxes	12	5.2	2.8
Pension benefit liability	19	8.7	-
		395.9	396.0
EQUITY		66.6	54.8
		462.5	450.8

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

John P. Webster Lead Trustee Dr. Ajay K. Virmani

President and Chief Executive Officer



CARGOJET INC.

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

Years ended December 31, 2016 and 2015 (in millions of Canadian dollars except per share data)

	Note	2016	2015
		\$	\$
REVENUES		331.0	289.0
DIRECT EXPENSES	13	245.2	250.7
		85.8	38.3
General and administrative expenses	14	43.2	33.8
Sales and marketing expenses		2.3	1.5
Impairment of property, plant and equipment	4	3.9	-
Finance costs	15	30.8	22.8
Loss on extinguishment of debt	16,8	7.5	-
Other (gains) losses	16	(4.9)	1.4
		82.8	59.5
EARNINGS (LOSS) BEFORE INCOME TAXES		3.0	(21.2)
PROVISION (RECOVERY) FOR INCOME TAXES	12		
Current		-	(0.1)
Deferred		0.6	(3.1)
NET EARNINGS (LOSS) AND COMPREHENSIVE INCOME (LOSS)		2.4	(18.0)
EARNINGS (LOSS) PER SHARE	18		
- Basic		\$ 0.23	\$ (1.86)
- Diluted		\$ 0.22	\$ (1.86)

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



CARGOJET INC.Consolidated Statements of Changes in Equity

Years ended December 31, 2016 and 2015 (in millions of Canadian dollars)

	Sha	areholders'	Contributed	Conversion	Surplus on debenture	sh	Total areholders'	
	Note			surplus	option	settlement	Deficit	equity
_		\$	\$	\$	\$	\$	\$	
Balance, January 1, 2016		91.3	2.0	5.1	2.8	(46.4)	54.8	
Net earnings and comprehensive income		-	-	-	-	2.4	2.4	
Treasury shares - net	17	0.2	(0.2)	-	-	-	-	
Restricted shares vested	17	1.6	(1.6)	-	-	-	-	
Share-based compensation	21	-	3.1	-	-	-	3.1	
Private placement of shares	17	3.3	-	-	-	-	3.3	
Conversion option on debenture issuance	e 11	-	-	7.1	-	-	7.1	
Deferred tax on conversion option		-	-	(1.9)	-	0.1	(1.8)	
Convertible debenture - conversion	11,17	4.5	-	(0.3)	0.3	-	4.5	
Dividends	17	-	-	-	-	(6.8)	(6.8)	
Balance, December 31, 2016		100.9	3.3	10.0	3.1	(50.7)	66.6	
Balance, January 1, 2015		79.8	0.5	5.8	2.1	(22.8)	65.4	
Net loss and comprehensive loss		-	-	-	-	(18.0)	(18.0)	
Treasury shares - net		0.4	(0.4)	-	-	-	-	
Restricted shares vested		1.2	(1.2)	-	-	-	-	
Share-based compensation		-	3.1	-	-	-	3.1	
Deferred tax on conversion option - net		-	-	-	-	0.2	0.2	
Convertible debenture - conversion	11	9.9	-	(0.7)	0.7	-	9.9	
Dividends	17	-	-	-	-	(5.8)	(5.8)	
Balance, December 31, 2015		91.3	2.0	5.1	2.8	(46.4)	54.8	

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

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CARGOJET 2016 Annual Report

CARGOJET INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2016 and 2015 (in millions of Canadian dollars)

	Note	2016	2015
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings (loss)		2.4	(18.0)
Items not affecting cash			
Depreciation of property, plant and equipment	4	42.0	33.0
Share-based compensation	21	3.2	3.1
Finance costs		30.8	22.8
Change in fair value of cash settled share- based payment arrang	gement	-	(0.7)
Gain on disposal of property, plant and equipment		-	(0.6)
Impairment of property, plant and equipment	4	3.9	-
Employee pension	19	8.7	-
Income tax provision (recovery)	12	0.6	(3.2)
Change in fair value on derivatives		(4.3)	(0.9)
		87.3	35.5
Items affecting cash			
Interest paid		(27.7)	(20.9)
Income tax receipts		-	4.1
		59.6	18.7
Changes in non-cash working capital items and deposits			
Trade and other receivables		(2.8)	(3.8)
Inventories		(0.1)	(0.2)
Prepaid expenses and deposits		1.9	1.7
Trade and other payables		3.4	3.7
NET CASH GENERATED FROM OPERATING ACTIVITIES		62.0	20.1
OAGU ELOWO EDOM EINANOINO ACTIVITIES			
CASH FLOWS FROM FINANCING ACTIVITIES		(407.4)	(4.0)
Repayment of borrowings		(137.4)	(1.3)
Proceeds from borrowings		38.0	119.3
Repayment of obligations under finance leases		(22.4)	(10.2)
Proceeds from debenture issuance net of issuance costs	47.00	119.3	-
Proceeds from private placement	17,23	3.3	- ()
Dividends paid to shareholders	17	(6.4)	(5.7)
NET CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(5.6)	102.1
CASH FLOWS USED IN INVESTING ACTIVITIES	4	(50.0)	(440.4)
Purchase of property, plant and equipment	4	(59.8)	(119.4)
Proceeds from disposal of property, plant and equipment		-	0.2
Acquisition of business		-	(1.0)
Collection of notes receivable		0.2	0.7
Collection of finance lease receivable		-	0.1
NET CASH USED IN INVESTING ACTIVITIES		(59.6)	(119.4)
EFFECT OF EXCHANGE RATE CHANGES		(0.6)	3.2
NET CHANGE IN CASH		(3.8)	6.0
CASH, BEGINNING OF YEAR		6.0	
CASH, END OF YEAR		2.2	6.0

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



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

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 and Canada and Germany and flights between Canada and Colombia, Mexico and Peru.

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

These consolidated financial statements (the "financial statements") were approved and authorized for issuance by the Board of Directors on March 9, 2017.

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 Chartered Professional Accountants of Canada Handbook – Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Basis of preparation

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") Cargojet Partnership ("CJP") and Aeroship Handling Ltd. ("AH").

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

Cash

Cash balance consists of cash on hand and demand deposits.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid expenses and deposits

Prepaid expenses are cash paid amounts that represent costs incurred from which a service or benefit is expected to be derived in the future. The future write-off period of the incurred cost will normally be determined by the period of benefit covered by the prepayment. Prepaid expense specific to a particular period will be expensed when the period arrives and the costs will be treated as a period cost for that period. Prepaid costs for an extended period of time are normally written off equally during the period in which the benefit will be derived.

Prepaid expenses are generally classified as current assets unless a portion of the prepayment covers a period longer than twelve months. When payments may be accounted for as prepaid expenses but the payment will be amortized within the current fiscal period and is not considered material to the presentation of financial position, such payments may be expensed in the month the payment is made.

Deposits include vendor deposits and lease security deposits and are classified as loans and receivables and are measured at amortized cost using the effective interest rate method.

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. Adhoc 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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 or the end of the lease term whichever is earlier. Any remaining carrying amount of the cost of the previous inspection is derecognized.

The Company capitalizes the cost of rotable parts purchased as an asset and depreciates it 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.

Property, plant and equipment are 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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The estimated useful lives are as follows:

Asset	Estimated useful life
Aircraft hull	30 – 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 and cross-dock 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 or end of lease term whichever is earlier

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share based payments

Equity-settled share-based compensation plans

Long-term incentive plan (the "Plan" or "LTIP")

Equity-settled share-based compensation plans are granted to eligible employees as disclosed in Note 21, 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 ("RSU")

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 ("Options")

Stock options are granted to non-employee directors and certain key executives and are measured at the fair 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 8 and Note 9, 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 on the consolidated statement of earnings (loss) and comprehensive income (loss) during the period.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, notes	Loans and receivables	Amortized cost
receivables, and deposits		
Trade and other payables, dividends payable,	Other financial liabilities	Amortized cost
borrowings and convertible debentures		
Derivative financial instruments	Fair value through profit or loss	Fair value

Loans and receivables and other financial liabilities

Cash, trade and other receivables, notes receivable, deposits, trade and other payables, dividends payable, convertible debentures 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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

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.

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

The Company has adopted an unfunded defined benefit pension plan. A defined benefit plan is a post-employment benefit plan (pension plan) that is not a defined contribution plan. Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. Company's net obligation in respect of defined benefit pension plan is calculated by estimating the amount of future benefit that employee have earned in return for his service in the current and prior periods; that benefit is discounted to determine its present value. The calculations are performed by qualified actuaries using the projected unit credit prorated on service method that incorporates Company's best estimates of future salary levels, other cost escalations, retirement age of employee and other actuarial factors. Due to the long-term nature of these plans, such estimates and assumptions are subject to inherent risks and uncertainties. These assumptions are determined by management and are reviewed by actuaries at least annually. The benefits under the plan will be reassessed annually by the qualified actuaries and the actuarial gain or loss in the fair value of the defined benefit plan will be recognized in the consolidated statement of earnings (loss) and comprehensive Income (loss). Changes to any of the above assumptions may affect the amounts of benefits obligations, expenses and re-measurements that we recognize. Past service costs arising from plan are recognized immediately in the statement of consolidated earnings (loss) and comprehensive income (loss).

The Company has also adopted an Individual Pension Plan (the "IPP") as a defined contribution plan. A liability and an expense in the amount of the contribution payable to the IPP, are recognized when a employee renders services. Contributions to the IPP are discounted when they are payable more than 12 months after the end of the annual reporting period in which an employee rendered the related services. The discount rate is determined by reference to market yields at the end of the reporting period on high-quality corporate bonds of the same currency and the term as the IPP. Effective December 31, 2016, up to and until the date as of the member's Termination or Actual Retirement Date, whichever is earlier, the Company shall make yearly contribution to the plan in an amount equal to the lesser of (i) the Money Purchase Limit for the Plan Year and (ii) 18% of the Member's compensation from the Company, as defined in for this purpose under the Income Tax Act, for the Plan Year. The Member shall not be required nor permitted to contribute to the Plan.

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, goodwill and intangibles assets

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 uncertaintys

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, goodwill and intangibles assets

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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertaintys (continued)

Impairment of property, plant and equipment, goodwill and intangibles assets (continued)

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, 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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Key sources of estimation uncertaintys (continued)

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.

Employee future benefits

The cost and related liabilities of the Corporation's pensions, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions including discount rates, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.

Accounting changes

Accounting standards effective for 2016

There were no changes to the accounting standards that impacted the Company's accounting policies 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. The standard supersedes all previous versions of IFRS 9 and is effective for periods beginning on or after January, 1 2018. Early adoption is permitted. The Company is assessing the potential impact of this standard.

Revenue from Contracts with Customers: On May 28, 2014, the IASB and the FASB jointly issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), a converged standard on the recognition of revenue from contracts with customers that will replace IAS 18 Revenue and related interpretations. 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 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 and improve guidance for multiple-element arrangements. The IASB standard is available for early application with mandatory adoption required for fiscal years commencing on or after January 1, 2018. The Company is currently assessing the impact of this standard.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations issued and not yet adopted (continued)

Leases: In January 2016, the IASB issued IFRS 16, Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous lease standard, IAS 17 Leases, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

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

Income taxes: IAS 12, has been revised to incorporate amendments issued by the IASB in January 2016. The amendments clarify how to account for deferred tax assets related to debt instruments measured at fair value. The amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The Company does not expect the adoption of this standard to have a significant impact on the Company's disclosures as it does not have any debt instruments that are measured at fair value.

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

3. INVENTORIES

	December 31, 2016	December 31, 2015
	\$	\$
Fuel Inventory	0.8	0.7
Glycol Inventory	0.1	0.1
Total Inventory	0.9	0.8

For the years ended December 31, 2016 and 2015, costs of fuel inventory of \$59.2 and \$68.2, respectively, and costs of glycol inventory of \$0.2 and \$0.2, respectively, were recognized in direct expenses.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

4. PROPERTY, PLANT AND EQUIPMENT

	Balance as at			Fully	Balance as at
Cost	January 1, 2016	Additions	Transfers	Depreciated	December 31, 2016
	\$	\$	\$	\$	\$
Aircraft hull	200.1	22.4	7.8	-	230.3
Engines	100.6	10.6	3.2	-	114.4
Spare parts	2.6	0.7	-	-	3.3
Ground equipment	20.2	0.3	-	-	20.5
Rotable spares	23.7	4.4	-	-	28.1
Computer hardware and software	e 7.6	1.0	-	-	8.6
Furniture and fixtures	2.3	0.2	-	-	2.5
Leasehold improvements	10.9	0.4	0.3	-	11.6
Vehicles	2.7	0.3	-	-	3.0
Hangar and cross-dock facilities	23.8	-	-	-	23.8
Property, plant and equipment un	nder				
development	17.1	11.1	(11.9)	-	16.3
Deferred heavy maintenance	35.2	8.4	0.6	(5.1)	39.1
	446.8	59.8	-	(5.1)	501.5

					Balance as at	Net Book Value
Accumulated	Balance as at		Fully		December 31,	December 31,
Depreciation	January 1, 2016	Depreciation	Depreciation	Impairment	2016	2016
	\$	\$	\$	\$	\$	\$
Aircraft hull	16.3	14.8	-	1.4	32.5	197.8
Engines	20.8	12.3	-	-	33.1	81.3
Spare parts	-	-	-	-	-	3.3
Ground equipment	7.8	2.1	-	-	9.9	10.6
Rotable spares	10.9	2.1	-	-	13.0	15.1
Computer hardware	and software 4.7	0.9	-	-	5.6	3.0
Furniture and fixtures	s 1.1	0.2	-	-	1.3	1.2
Leasehold improvem	ents 7.6	1.1	-	-	8.7	2.9
Vehicles	1.0	0.2	-	-	1.2	1.8
Hangar and cross-do	ock facilities 5.3	0.9	-	-	6.2	17.6
Property, plant and e	quipment					
under developmen	t -	-	-	2.5	2.5	13.8
Deferred heavy main	itenance 14.1	7.4	(5.1)	-	16.4	22.7
	89.6	42.0	(5.1)	3.9	130.4	371.1



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Balan	ce as at				Balance as at
Cost January	1, 2015	Additions	Transfers	Disposals	December 31, 2016
	\$	\$	\$	\$	\$
Aircraft hull	87.1	93.5	19.6	(0.1)	200.1
Engines	51.8	37.8	11.0	-	100.6
Spare parts	1.9	0.7	-	-	2.6
Ground equipment	11.6	8.6	-	-	20.2
Rotable spares	18.5	5.5	-	(0.3)	23.7
Computer hardware and software	6.2	1.4	-	-	7.6
Furniture and fixtures	1.6	0.7	-	-	2.3
Leasehold improvements	10.0	0.9	-	-	10.9
Vehicles	2.2	0.5	-	-	2.7
Hangar and cross-dock facilities	16.6	8.2	-	(1.0)	23.8
Property, plant and equipment					
under development	35.3	13.6	(31.8)	-	17.1
Deferred heavy maintenance	18.1	15.9	1.2	-	35.2
	260.9	187.3	-	(1.4)	446.8

Accumulated	Balance as at		Disposals /	Balance as at	Net Book Value
Depreciation J	anuary 1, 2015	Depreciation	Transfers	December 31, 2015	December 31, 2015
	\$	\$	\$	\$	\$
Aircraft hull	7.8	8.6	(0.1)	16.3	183.8
Engines	11.3	9.5	-	20.8	79.8
Spare parts	-	-	-	-	2.6
Ground equipment	6.2	1.6	-	7.8	12.4
Rotable spares	8.9	2.0	-	10.9	12.8
Computer hardware and s	oftware 4.0	0.7	-	4.7	2.9
Furniture and fixtures	0.9	0.2	-	1.1	1.2
Leasehold improvements	5.1	2.5	-	7.6	3.3
Vehicles	0.7	0.3	-	1.0	1.7
Hangar and cross-dock fa	cilities 5.0	0.7	(0.4)	5.3	18.5
Property, plant and equipr	ment				
under development	-	-	-	-	17.1
Deferred heavy maintenar	nce 7.1	6.9	-	14.0	21.2
	57.0	33.0	(0.5)	89.5	357.3



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

4. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment under development of \$13.8 (2015 - \$17.1) relates to the purchase and/or modification primarily of aircraft that are not yet available for use.

During the year ended December 31, 2016, the Company completed the modification of one of its Challenger 601 aircraft and the acquisition of one Boeing 767-300 aircraft under the Aircraft facility arrangement as disclosed in Note 8.

For the year ended December 31, 2016, no interest costs were capitalized to property, plant and equipment under development relating to funds borrowed specifically to acquire and/or modify certain assets. For the year ended December 31, 2015, \$1.9 of interest costs were capitalized to property, plant and equipment under development that includes interest paid of \$1.5 and accretion of \$0.4 relating to funds borrowed specifically to acquire and/or modify certain assets.

For the year ended December 31, 2016, the Company also capitalized the fair value of cash settled share- based payment arrangements related to specific aircraft finance leases of \$nil (2015 - \$0.5) to the qualifying assets.

During the year ended December 31, 2016, the Company reviewed the carrying value of the two operational Challenger 601 aircraft capitalized as property, plant and equipment and estimated that the aircraft's recoverable value was less than its carrying value. The recoverable amount was determined on a fair value less cost to sell basis, fair value being the market value for similar aircraft. As a result, the Company reported a loss of \$1.4 million on impairment of property, plant and equipment for the year ended December 31, 2016. The fair value of these aircraft is classified as Level 1 under the fair value hierarchy.

The Company also reviewed the carrying value of the other three Challenger 601 aircraft included in property, plant and equipment under development and determined that the recoverable amount was less than the carrying amount. Accordingly an impairment loss of \$2.5 million has been recognized on these assets for the year ended December 31, 2016. The fair value of these aircraft is classified as Level 2 under the fair value hierarchy. To determine the fair value the Company used quoted market price for such aircraft and the estimated cost remaining to bring these aircraft in operation.

For the purpose of calculating impairment the Company identified the two operational aircraft as one separate cash generating unit. The three aircraft included in property, plant and equipment under development were not in operations and were considered independent of others to generate cash flow and were assessed for impairment at an individual asset level based on their fair market value.

The net book value as of December 31, 2016 of the two operational Challenger 601 aircraft is \$4.1 and the net book value of the three Challenger 601 aircraft is \$3.8.

Depreciation expense on property, plant and equipment for the year ended December 31, 2016 totaled \$42.0 (2015 - \$32.9) out of which \$41.0 (2015 - \$32.0) was recorded in direct cost and \$1.0 (2015 - \$0.9) was recorded in general and administrative expenses.



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5. 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 3.5% per annum growth rate thereafter (2015 - 3.0%), 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 18.2% per annum (2015 - 17.0%). Based on the Company's analysis the recoverable amount of the cash generating unit was \$564.3 which exceeded the carrying amount of cash generating unit of \$435.9. 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.

6. INTANGIBLE ASSETS

Intangible assets at December 31, 2016 and 2015 consist of licenses with indefinite lives carried at \$2.0 (2015 - \$2.0). 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.

7. TRADE AND OTHER PAYABLES

	December 31, 2016	December 31, 2015
	\$	\$
Trade payables and accrued charges	25.9	23.8
Payroll and benefits	4.5	3.2
Trade and other payables	30.4	27.0

8. BORROWINGS

Borrowings consist of the following:

	December 31, 2016	December 31, 2015
	\$	\$
Revolving credit facility	-	41.2
Aircraft facility arrangement	35.7	96.1
Other borrowings	0.2	0.2
	35.9	137.5
Less: current portion	35.7	4.0
Long-term portion	0.2	133.5



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8. BORROWINGS (continued)

Revolving credit facility

Effective September 20, 2016, the Company amended its revolving operating credit facility (the "facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things, increasing the maximum credit available from \$100 to \$175 and extending the maturity date by one year to expire on December 16, 2019. The facility is restricted to \$150 until the debt of \$35 owing under the B767-300 aircraft loan agreement dated March 31, 2015 with a US lender is repaid and the security provided in respect thereof is released and discharged. On February 1, 2017, The company prepaid the entire outstanding amount of this debt see note 28 Subsequent Events for details. The facility can be extended annually with the consent of the Lenders, and bears interest, payable monthly, at the lead Lender's prime lending rate / US base rate plus 150 basis points to 200 basis points, dependent on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity.

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

The facility is secured by the following:

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

Advances under the facility are repayable without any prepayment penalties and bear interest based on the prevailing prime rate, US base rate or at a banker's acceptance rate, as applicable, plus an applicable margin to those rates. The facility is subject to customary terms and conditions for borrowers of this nature, including limits on incurring additional indebtedness, granting liens or selling assets without the consent of the Lenders, and restrictions on the Company's ability to pay dividends in certain circumstances. 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, 2016 and 2015.

Included in the consolidated statement of earnings (loss) and comprehensive income (loss) for the year ended December 31, 2016 was interest expense on the revolving credit facility of \$3.1 (2015 - \$2.0).



CARGOJET INC.

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December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

8. BORROWINGS (continued)

Aircraft facility and loan arrangements

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

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

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

On October 7, 2016, the Company prepaid the entire outstanding amount of the two AFAs including the prepayment fees. The prepayment resulted in a pre-tax loss of \$1.5 including prepayment fees and unamortized transaction costs, which were recorded as a loss on the extinguishment of debt.

In March 2015, the Company executed a loan facility with a US based lender for USD \$27.5 and drew down on it to finance the acquisition of one Boeing 767-300 aircraft. This facility expires in April 2022 and is secured by the related aircraft and all its components and records. The estimated effective interest rate for this facility is 8.52%. On February 1, 2017, the Company prepaid the entire outstanding amount of the loan facility including prepayment fees. Accordingly, the outstanding balance of the loan facility as at December 31, 2016 is presented as a current liability on the consolidated balance sheets. (See Note 28, Subsequent Events)

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

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



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

8. BORROWINGS (continued)

Aircraft facility and loan arrangements (continued)

The following is a schedule of future minimum annual payments under the AFAs and other aircraft loan arrangements together with the balance of the obligations as at December 31, 2016.

	\$
2017	35.7
2018	
Total obligations under AFA and loan agreements	35.7
Less: current portion	35.7
Long-term portion	-

Interest expense on the AFAs and loan arrangements for the year ended December 31, 2016 totaled \$9.2 (2015 - \$5.1).

9. FINANCE LEASES

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

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

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

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at December 31, 2016 and 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 in March 2021 and the Company can exercise the bargain purchase option in March 2018.



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Notes to the Consolidated Financial Statements

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9. FINANCE LEASES (continued)

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, 2016.

		Present value of
	Minimum lease payments	minimum lease payments
	\$	\$
Not later than one year	21.7	12.7
Later than one year and not later than five years	124.5	107.2
Later than five years	10.4	10.4
	156.6	130.3
Less: interest	26.3	-
Total obligations under finance leases	130.3	130.3
Less: current portion	12.7	12.7
Non-current portion	117.6	117.6

Interest amounts on the finance leases for the year ended December 31, 2016 totaled \$10.1, (2015 \$10.9) of which \$nil (2015 - \$0.3) was capitalized to the cost of property, plant and equipment.

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 liability for these costs. A reconciliation of the carrying amount of the provision is as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Balance, beginning of year	2.4	3.0
Settlement of provision for lease return conditions	-	(0.9)
Change in provision as a result of change in estimates	-	(0.3)
Accretion	0.1	0.1
Effects of exchange rate changes on the provision balance	(0.1)	0.5
Balance, end of year	2.4	2.4
Less: current portion	0.7	-
Non-current portion	1.7	2.4

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company's specific history. The provision has been added to the cost of deferred heavy maintenance included in property, plant and equipment and is being amortized over the remaining terms of the leases.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

11. CONVERTIBLE DEBENTURES

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

	December 31, 2016	December 31, 2015
	\$	\$
Convertible debentures - 6.5%	-	4.2
Convertible debentures - 5.5%	68.4	66.9
Convertible debentures - 4.65%	112.7	-
Balance	181.1	71.1

Convertible debentures - 6.5% due April 30, 2017

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

During the year ended December 31, 2016, convertible debentures with an aggregate principal amount of \$4.4 (2015 - \$10.4) were converted, at the holders' discretion, into 366,730 (2015 – 888,503) voting shares of the Company. Accordingly, the Company derecognized \$4.3 (2015 - \$9.8) of the liability for convertible debentures, representing the amortized carrying cost of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option of \$0.3 (2015 - \$0.7) was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the condensed consolidated interim statements of changes in equity. No gain or loss was recognized on conversion of the debentures.

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

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

Interest expense on the debentures for the year ended December 31, 2016 totaled \$0.2 (2015 - \$0.9).

Convertible debentures - 5.5% due June 30, 2019

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



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Notes to the Consolidated Financial Statements

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11. CONVERTIBLE DEBENTURES (continued)

Convertible debentures – 5.5% due June 30, 2019 (continued)

During the year ended December 31, 2016, convertible debentures with an aggregate principal amount of \$0.2 (2015 - \$nil) were converted, at the holders' discretion, into 7,720 (2015 - \$nil) voting shares of the Company. Accordingly, the Company derecognized \$0.2 (2015 - \$nil) of the liability for convertible debentures, representing the amortized carrying cost of the liability immediately prior to conversion in respect of the debentures for which the holders' exercised their right to convert, and recognized shareholders' capital of the same amount. The corresponding conversion option was transferred from the reserve for conversion option to the reserve for surplus on debenture repurchases in the condensed consolidated interim statements of changes in equity. No gain or loss was recognized on conversion of the debentures.

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

	December 31, 2016	December 31, 2015
	\$	\$
Principal balance	74.0	74.0
Less:		
Issuance costs	(3.3)	(3.3)
Conversion option at inception	(6.6)	(6.6)
Accretion	4.5	2.8
Converted during the year	(0.2)	-
Balance	68.4	66.9

Interest expense on the debentures for the year ended December 31, 2016 totaled \$5.9, (2015 - \$5.7). For the year ended December 31, 2016 interest of \$\\$nil (2015 - \$1.7) was capitalized to the cost of property, plant and equipment.

Convertible debentures - 4.65% due December 31, 2021

In September 2016, \$125.0 of unsecured subordinated convertible debentures were issued at a price of 1,000 (dollars) per debenture with a term of five years. These debentures bear a fixed interest rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2016. The intended use of the net proceeds of the debentures is to refinance three US dollar denominated aircraft finance loans.

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



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11. CONVERTIBLE DEBENTURES (continued)

Convertible debentures – 4.65% due December 31, 2021 (continued)

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

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

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

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

	December 31, 2016	December 31, 2015
	\$	\$
Principal balance	125.0	-
Less:		
Issuance costs	(5.8)	-
Conversion option at inception	(7.1)	-
Accretion	0.6	-
Balance	112.7	-

Interest expense on the debentures for the year ended December 31, 2016 totaled \$2.3 (2015 \$nil).

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12. INCOME TAXES

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

	December 31, 2016	December 31, 2015
	\$	\$
Earnings (loss) before income taxes	3.0	(21.2)
Provision for and (recovery of) income taxes		
basic rate of 26.5% (2015 - 26.5%)	0.8	(5.6)
Exchange (gains) losses on capital loans	(1.3)	1.1
Share - based compensation	0.8	0.8
Meals and entertainment	0.2	0.1
Sundry items	0.1	0.4
Provision for and (recovery of) income taxes	0.6	(3.2)

The tax effect of significant temporary differences is as follows:

	December 31,	Recognized	Recognized	December 31,
	2015	in equity	in Profit & Loss	2016
	\$	\$	\$	\$
Property, plant and equipment	4.0	-	6.1	10.1
Operating loss carryforward	(8.2)	-	(2.4)	(10.6)
Licenses	0.3	-	-	0.3
Intangible assets	(0.5)	-	-	(0.5)
Derivative contracts	1.3	-	(0.9)	0.4
Pension costs	-	-	(2.3)	(2.3)
Financing costs	(0.3)	(0.1)	0.1	(0.3)
Convertible debentures	1.3	1.9	(0.5)	2.7
Provision for lease retirement cost	ts (0.4)	-	(0.1)	(0.5)
Long-term incentive plan	(0.1)	-	0.1	-
Deferred heavy maintenance	5.4	-	0.5	5.9
Net deferred income tax liability	2.8	1.8	0.6	5.2

13. DIRECT EXPENSES

	December 31, 2016	December 31, 2015
	\$	\$
Fuel costs	59.2	68.2
Maintenance costs	21.5	21.2
Heavy maintenance amortization	7.4	6.9
Aircraft costs	25.7	35.7
Crew costs	22.0	22.4
Depreciation	33.6	25.1
Commercial and other costs	75.8	71.2
Direct expenses	245.2	250.7

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14. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2016	December 31, 2015
	\$	\$
Salaries and benefits	18.9	17.8
Employee pension	8.7	7
Depreciation	1.0	0.9
Net realized foreign exchange (gain) loss	(4.3)	0.4
Bonuses and incentives	7.1	6.4
Audit, legal and consulting	1.5	1.4
IT network and communications	2.3	2.0
Other general and administrative expenses	8.0	4.9
General and administrative expenses	43.2	33.8

15. FINANCE COSTS

	December 31, 2016	December 31, 2015
	\$	\$
Interest on capital leases	10.1	10.6
Interest on loans	9.2	7.1
Interest on debentures	8.4	5
Other interest	3.1	0.1
Finance Costs	30.8	22.8

16. OTHER (GAINS)/LOSSES

	December 31, 2016	December 31, 2015
	\$	\$
Gain on disposal of property, plant and equipment	-	(0.6)
Net loss (gain) on forward foreign exchange contracts	3.4	(4.9)
Loss (gain) on cash settled share based payment arrangements	-	(0.7)
Unrealized foreign exchange (gain) loss others	(0.1)	0.1
Unrealized foreign exchange (gain) loss on leases and loans	(3.9)	8.4
Loss on extinguishment of debt	7.5	-
Gain on fair value of total return swap	(4.3)	(0.9)
Other (gains) losses, net	2.6	1.4

17. 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" as such term is defined in the Canada Transportation Act. The variable voting shares are held only by shareholders who are not Canadian. Under the articles of incorporation and bylaws of the Company, any common voting share that is sold to a non - Canadian is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian is automatically converted to a common voting share.



CARGOJET INC.

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17. SHAREHOLDERS' CAPITAL (continued)

a) Authorized (continued)

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, 2015 to December 31, 2016:

	Number of shares	Amount
	\$	\$
Variable voting shares	101,164	0.9
Common voting shares	9,997,560	90.4
Outstanding- December 31, 2015	10,098,724	91.3
Changes during the period		
Voting shares issued on conversion of convertible debentures	374,450	4.5
Private placement of shares	100,000	3.3
Restricted share units settled	60,462	1.6
Distribution of Treasury shares	9,729	0.2
Outstanding - December 31, 2016	10,643,365	100.9
Consisting of:		
Variable voting shares	234,571	2.2
Common voting shares	10,408,794	98.7
Outstanding - December 31, 2016	10,643,365	100.9

Dividends

Dividends to shareholders declared for the year ended December 31, 2016 amounted to \$6.8 (\$0.65 per share) and for the year ended December 31, 2015 amounted to \$5.8 (\$0.60 per share) respectively.

As at December 31, 2016 the dividend amount of \$1.9 was payable to the shareholders (2015 - \$1.5).



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18. EARNINGS (LOSS) PER SHARE

The following table shows the computation of basic earnings (loss) per share for the years ended December 31, 2016 and 2015:

In millions except per share

Basic earnings (loss) per share	Decembe	r 31, 2016	Decemb	per 31, 2015
Net earnings (loss)	\$	2.4	\$	(18.0)
Weighted average number of shares		10.5		9.7
Dilutive impact of share - based awards		0.3		-
Diluted weighted average number of shares		10.8		9.7
Total basic earnings (loss) per share	\$	0.23	\$	(1.86)
Total diluted earnings (loss) per share	\$	0.22	\$	(1.86)

The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the years ended December 31, 2016 and 2015 as the impact would be anti-dilutive. Diluted earnings includes the potentially dilutive impact of share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

19. EMPLOYEE BENEFITS

In 2016, the Company established an unfunded defined benefit plan for one of its senior executive (for plan descriptions refer to policy Note 2 on employee benefit). The movement in the defined benefit pension cost during the year is as follows:

	December 31, 2016	December 31, 2015
Balance as at January 1, 2016	-	-
Present value of defined benefit obligations	8.7	<u>-</u>
Balance as at December 31, 2016	8.7	<u>-</u>

The significant actuarial assumptions used in the measurement of accrued benefit obligations for the unfunded defined benefit plan are as follows:

Discount rate: 3.9% per year Increase in pensionable earnings: 2.75% per year Inflation: 2.0% per year

Longevity post retirement: CPM 2014 mortality table with generational mortality

improvements using CPM-B improvement scale.

Retirement age: 65 years

The entire cost was attributed as the past service cost on December 31, 2016, the date of inception of the plan.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

19. EMPLOYEE BENEFITS (continued)

Sensitivity Analysis

Certain assumptions were used in the actuarial valuation of the pension obligation as at December 31, 2016. Due to uncertainty inherent in a projection over a long period of time due to changing factors, the alternative outcomes and amounts cannot be determined. Accordingly, the Company performed a sensitivity analysis on the projections. Sensitivity analysis of pension expense is performed based on changing one assumption at a time while keeping all other assumptions constant. This may be an unlikely event to occur in practice where changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position. Sensitivity analysis performed on pension expense relating to pension benefit liabilities, based on different actuarial assumptions with respect to discount rate is given below.

Change in discount rate: A 0.50 percentage point decrease in discount rate would have increased the total of benefit obligation by 7%. A 0.50 percentage point increase in discount rate would have decreased the total of benefit obligation by 6%.

Change in salary scale: A 0.25 percentage point increase or decrease in salary scale would not have changed the total of benefit obligation significantly.

Change in mortality assumption: A one year increase in life expectancy would have increased the total of benefit obligation by 2%. A one year decrease in life expectancy would decreased the total of benefit obligation by 2%.

In 2016, the Company also created the IPP as a defined contribution plan. Since the IPP is newly created on December 31, 2016, the financial impact for the year ended December 31, 2016 is \$nil.

20. LONG - TERM INCENTIVE PLAN

The Company's 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 2016 fiscal year were comprised of share-based compensation in the form of RSU's and Options granted in 2016. (See Note 21. SHARE BASED COMPENSATION)

For the years ended December 31, 2016 and 2015, compensation expense related to shares purchased under the plan in 2014 totaled \$nil and \$0.2 respectively.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

20. LONG - TERM INCENTIVE PLAN (continued)

The following table details the impact of the above transactions on shareholders' capital as at December 31, 2016 and on the consolidated statements of earnings and comprehensive income for the years ended December 31, 2016 and 2015:

Shares purchased under the plan	Number of shares	\$
Balance, January 1, 2016	9,729	0.2
Shares acquired by Company for long-term incentive plan	-	
Shares distributed by Company to long-term incentive plan participants	9,729	0.2
Balance, December 31, 2016	-	-

21. SHARE- BASED COMPENSATION

Restricted Share Units

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

During the year ended December 31, 2016, in accordance with the RSU Plan, the Company granted 27,033 RSUs to certain key executives. Each RSU had an average value of \$26.50 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. Of these RSUs granted, 8,896 RSUs vested and were settled on the grant date. Of the remaining 18,137 RSUs granted 9,126 and 9,011 RSUs will vest in each of the first quarters of 2017 and 2018 respectively.

During the year ended December 31, 2016, the Company also granted 2,264 RSUs to two non-employee directors. Each RSU had an average value of \$26.50 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant dates. All 2,264 RSUs vested and were settled on the grant date. A third non-employee and non-Canadian director was paid \$0.02 net of taxes of \$0.02 to acquire 700 variable voting shares of the Company from the open market at an average value of \$26.96 per share. The withheld amount of \$0.02 of tax was remitted by the Company. The transaction is classified as a cash settled share-based transaction. The value of RSUs granted to non-employee directors was determined by reference to the market value for similar services.

During the year ended December 31,2016, 47,333 RSUs granted to executives in 2015 vested and were settled and an amount of \$1.3 was transferred to the share capital account from contributed surplus. Since inception, in accordance with the RSU Plan, the RSUs granted to executives accrued notional dividend equivalents to 1,969 RSUs that were issued, vested and were settled upon the satisfaction of the vesting conditions of the related RSUs during the quarter. An amount of \$0.05 was recognized as the share-based compensation.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

21. SHARE- BASED COMPENSATION (continued)

Restricted Share Units (continued)

The RSU activity for the comparative periods is summarized below:

	Number of RSU's	Fair value \$
Balance at January 1, 2015	-	-
Granted in the period	153,851	4.1
Share dividend	-	-
Share based compensation-Vested and settled	(45,189)	(1.2)
Share based compensation-Unvested and amortized	-	(1.4)
Forfeited during the period	-	-
Balance at December 31, 2015	108,662	1.5
Granted in the period	29,297	0.8
Share dividend	1,969	-
Share based compensation-Vested and settled	(60,462)	(0.7)
Share based compensation-Unvested and amortized	-	(1.1)
Forfeited during the period	-	-
Balance at December 31, 2016	79,466	0.5

During the year ended December 31, 2016, the total share based compensation expense of \$1.8 related to settled and unvested RSUs is included in the consolidated statements of earnings (loss) and comprehensive income (loss) (for the year ended December 31, 2015 –\$2.6). Unrecognized share-based compensation expense as at December 31, 2016 related to these RSUs was \$0.5 (December 31, 2015 – \$2.1) and will be amortized on a pro-rated basis in the consolidated statements of earnings (loss) and comprehensive income (loss) over the vesting period.

OPTIONS:

The Options activity during the year ended December 31, 2016 is summarized below:

		Weighted average		
OPTIONS (in Canadian dollars)	Number of Options	exercise price in S		
Balance as at January 1, 2016 (Series 1)	172,399	\$	25.46	
Granted during the year	280,406	\$	29.34	
Balance as at December 31, 2016	452,805	\$	27.86	
Vested & exercisable at December 31, 2016	176,228	\$	30.70	
Unvested at December 31, 2016	276,577	\$	26.07	

As at December 31, 2016 there were a total of 176,228 vested Options and the weighted average contractual life remaining of the outstanding Options, both vested and non-vested, is 3.7 years.

During the year ending December 31, 2016, the Company recognized an expense of \$1.4 (for the year ended December 31, 2015 – \$0.3) in respect of the amortization of the Options over the vesting period. The unrecognized value as at December 31, 2016 related to the Options was \$7.9 (December 31, 2015 – \$0.8) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income (loss) over the vesting period.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

21. SHARE- BASED COMPENSATION (continued)

OPTIONS: (contined)

Weighted average assumptions	November	November 17, 2016 Series 3		March 28, 2016 Series 2		June 15, 2015 Series 1	
Exercise price redemption	\$	47.22	\$	26.50	\$	25.47	
Expected volatility		32.96%		32.4%		22.6 %	
Option life in years		3		5		5	
Dividend yield		1.41 %		2.5%		2.4 %	
Risk free rate		1.75 %		0.63%		0.94 %	
Vesting period	immediate		2016-2018		2016-2018		
Options granted		38,440		241,966		172,399	
Fair value per option on grant date	\$	10.41	\$	5.43	\$	4.98	

There has been no alteration of the terms and conditions of the above share based payment arrangements since the grant date.

22. 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	\$ 12.9
Later than one year and not later than five years	\$ 24.3
Later than five years	\$ 12.8
Total	\$ 50.0

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 \$24.1 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:

December 16, 2017	\$ 24.1
Total	\$ 24.1



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

23. RELATED PARTY TRANSACTIONS

On September 28, 2016 the Company completed the private placement of 100,000 variable voting shares to one of its directors. The Company intends to use the proceeds from such placement for general corporate and working capital purposes. The Company had no other 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 2016, the employee benefit expense was \$72.4 (2015 - \$58.5) of which \$37.4 (2015 - \$34.0) was recorded in direct expenses and \$35.0 (2015 - \$24.5) 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, 2016 and 2015 as follows:

	December 31, 2016	December 31, 2015
	\$	\$
Short term benefits	6.5	7.6
Post-employment benefits	0.1	0.1
Share-based payments	3.2	3.1
Defined pension benefits	8.7	-
Total remuneration	18.5	10.8

24. ECONOMIC DEPENDENCE

In 2016, the Company had sales to three individual customers that represented 66.27% of the total revenues (2015 - 63.1%). These sales are provided under service agreements that expire over various periods to April 2025. All of these customers had sales in excess of 10% of total revenues in 2016 (two in 2015). The sales to individual customers represented 33.11%, 21.72% and 11.44% respectively of the total revenues (2015 – 31.1%, 24.8% and 7.2%).

25. 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 have 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 8 and Note 9, respectively). As at December 31, 2016 and 2015, the Company was in compliance with all financial covenants.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

26. 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, 2016.

Debentures and long term debt

The fair value of the 5.5% convertible debentures, based on discounted cash flows as at December 31, 2016, was approximately \$76.0 (December 31, 2015 – \$74.5). The fair value of the debenture was determined using the discounted cash flow method using the discount rate of 6.75%. The discount rate is determined by using the government of Canada's bench mark bond rate adjusted for the Company's specific credit risk. The fair value of the 4.65% convertible debentures as at December 31, 2016, was approximately equal to its carrying value (December 31, 2015 - \$nil). The fair value of the long-term debt as disclosed in Note 8 was approximately equal to its carrying value. The debts are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in discount rate used for valuation of the debentures will decrease or increase the fair value by \$1.0 respectively.

Forward contracts

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 enters into contracts attributed to asset purchases including aircraft and aircraft parts and pays 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 at fixed rates in future periods. As at December 31, 2016, the Company held 97 foreign exchange forward purchase agreements maturing on a monthly basis to April 2022 for a total of USD \$59.9 (2015 - \$71.9). 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 gains during the year ended December 31, 2016 were \$8.3 (2015 – loss of \$8.9).

As at December 31, 2016, the Company had foreign exchange forward contracts outstanding to buy US \$59.9 at a weighted average contracted rate of CAD \$1.3045 per US dollar (December 31, 2015 – US\$ 71.9 at a weighted average contracted rate of CAD \$1.3007 per US dollar). The estimated value of the foreign exchange forward contracts as at December 31, 2016 is a receivable of \$1.5 (December 31, 2015 – receivable of \$4.9) and is included under derivative financial instruments on the balance sheet.

The fair values of the forward contracts are the estimated amounts the issuer would receive or pay to terminate the agreement at the reporting date. The forward contracts are categorized as Level 2 under the fair value hierarchy. The fair value of the forward contracts is determined using the observable foreign exchange rate at the balance sheet date. Unrealized gains on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in the consolidated financial statements.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

26. FINANCIAL INSTRUMENTS (continued)

Total return swap

The total return swap is a collateralized derivative. It exchanges the total return of an underlying asset with LIBOR plus spread payments at regular periods with the final value of the exchange being the difference in the market value of the underlying asset at maturity with the market value at inception.

The Company had an obligation to pay share-based additional fees under the MLA and AFAs. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company pays interest to the financial institution based on Canadian LIBOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares. The Company did not designate the total return swap agreement as a cash flow hedge for accounting purposes.

On September 30, 2016, the Company settled its obligation under the cash settled stock appreciation rights by paying \$4.6. During the year ended on December 31, 2016, the Company also recorded gains of \$5.1 on the fair market valuation of the total return swap. Part of the gains on total return swap was settled by disposal of 31,632 of the underlying shares by the counterparty and the Company received \$0.8 from the financial institution on January 4, 2017. The fair value of the underlying shares pending settlement as at January 1, 2016 was \$0.9 in favour of the Company, during the year the Company recognized an unrealized gain of \$4.3 and a realized gain of \$0.8 in the consolidated statement of income (loss) and comprehensive income (loss), the amount settled during the year was \$0.8 and the fair value of underlying shares pending settlement as at December 31, 2016 in favour of the Company was \$5.3 and is included under derivative financial instruments on the balance sheet.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using Black Scholes model. This model uses the following inputs: market price of the underlying asset, strike price of the underlying asset, risk free rate, dividend yield and expected volatility. An increase or decrease of 10% in the market price of the underlying asset will result in a gain or loss of \$1.0 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

The Controller performs the valuations of non-property items required for financial reporting purposes, including level 3 fair values. The Controller reports directly to the Chief Financial Officer ("CFO") who in turn reports to the Audit Committee ("AC"). Discussions of valuation processes and results are held between the CFO, AC and Controller at least once in every three months, in line with the Company's quarterly reporting period.

The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items.

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



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

26. FINANCIAL INSTRUMENTS (continued)

Credit risk

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

The Company is subject to risk of non-payment of accounts 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 59.14% (December 31, 2015 – 60%) 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 \$175 million. The Company was in compliance with all covenants as at December 31, 2016 and 2015.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2016 based on contractual undiscounted payments are as follows:

	Less than	Between	Between	Over	
	1 year	1 and 2 years	2 and 5 years	5 years	Total
	\$	\$	\$	\$	\$
Borrowings and convertible debentures	35.7	-	198.8	-	234.5
Finance leases	12.7	46.8	60.3	10.5	130.3
Interest on borrowings (at current rates) (1)	0.4	-	-	-	0.4
Interest on finance leases	9.0	6.3	11.0	-	26.3
Trade and other payables	31.1	-	1.7	8.7	41.5
Dividends payable	1.9	-	-	-	1.9
Total	90.8	53.1	271.8	19.2	434.9

⁽¹⁾ See Note 87 Subsequent Events for repayment of loan



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

26. FINANCIAL INSTRUMENTS (continued)

Liquidity risk (continued)

Total financial liabilities at December 31, 2015 based on contractual undiscounted payments are as follows:

	Less than	Between	Between	Over	
	1 year	1 and 2 years	2 and 5 years	5 years	Total
	\$	\$	\$	\$	\$
Borrowings and convertible debentures	3.7	11.5	146.6	54.2	216.0
Finance leases	12.1	13.0	79.4	49.2	153.7
Interest on borrowings (at current rates)	8.4	7.9	18.7	6.2	41.2
Interest on finance leases	10.8	9.8	15.5	2.5	38.6
Trade and other payables	27.0	-	2.4	-	29.4
Dividends payable	1.5	-	-	-	1.5
Total	63.5	42.2	262.6	112.1	480.4

Market risk

In the normal course of business, the financial position of the Company is routinely subject to a variety of risks. 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.

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.

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, 2016 is 100% fixed after repayment of the floating rate loans in September 2016.

At December 31, 2016, the Company had no interest rate risk due to fixed interest rates of all existing financing arrangements.

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 enters into contracts attributed to asset purchases including aircraft and aircraft parts and pays 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 at fixed rates in future periods. As at December 31, 2016, the Company held 97 foreign exchange forward purchase agreements maturing on a monthly basis to April 2022 for a total of USD \$59.9 (2015 - \$71.9). These agreements fix the amount of Canadian dollars that the Company will pay to buy USD to offset its purchases in USD.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

26. FINANCIAL INSTRUMENTS (continued)

Market risk (continued)

Total unrealized foreign exchange gains during the year ended December 31, 2016 on foreign exchange transactions were \$8.3 (2015 – loss of \$8.9). The unrealized loss on forward contracts during the year ended December 31, 2016 were \$3.4 (December 31, 2015 – gain of \$4.9)

At December 31, 2016, 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 \$0.6 (2015 - \$1.0). 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 (2015 - \$1.0).

At December 31, 2016, 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 (2015 - \$0.1). 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 (2015 - \$0.1 million).

27. 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) 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.
- (c) 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.



CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015 (in millions of Canadian dollars except where noted)

27. GUARANTEES (continued)

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.

28. SUBSEQUENT EVENTS

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly beneficially owned by one of the Company's executive officers and directors. The transaction is in the normal course of business and will be measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The entering into of the lease is not subject to minority shareholder approval nor valuation requirements of Multilateral Instrument 61-101 - Protection of Minority Security Holders in Special Transactions as neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the lease, insofar as it involves the Interested Party, does not exceed 25 per cent of the Company's current market capitalization. The lease term is for a period of 15 years. The annual rental payments will be approximately \$1.0 plus taxes, maintenance and insurance costs. The basic rent is subject to revision every five year at a predetermined rate per the terms of the lease.

On February 1, 2017, the Company prepaid the entire outstanding amount of its loan facility with a US based lender including the prepayment fees using the revolving operating credit facility. The prepayment resulted in a pre-tax loss of \$2.2 including prepayment fees and unamortized costs, which were recorded as a loss on the extinguishment of debt. The prepayment also resulted in the pre-tax exchange loss of \$1.3. On February 14, 2017, the Company cancelled the \$6.6 letter of credit issued to the lender following the prepayment of the loan.

During the period January 1, 2017 and March 02, 2017, part of the total return swap was settled by disposal of 59,700 of the underlying shares of the swap by the counterparty and the Company received \$1.4 from the financial institution.



Directors and Officers of Cargojet



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



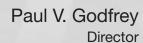
Jamie B. Porteous
Executive Vice-President
& Chief Commercial Officer



Directors and Officers of Cargojet



John P. Webster Lead Director







James R. Crane Director



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John Kim, CPA, CA Chief Financial Officer



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