



**Cargojet Inc.**  
**Annual Information Form**  
**for the year ended December 31, 2017**

**March 12, 2018**

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## EXPLANATORY NOTES

The following Annual Information Form (“AIF”) dated March 12, 2018 should be read in conjunction with the cautionary note regarding forward looking-information as well as the audited consolidated financial statements and notes thereto and management’s discussion and analysis of financial condition and results of operations (“MD&A”) for the years ended December 31, 2017 and 2016. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada (“GAAP”), as set out in the CPA Canada Handbook - Accounting (“CPA Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), except for any financial information specifically denoted otherwise. The annual financial statements, quarterly statements, press releases and additional information relating to Cargojet filed with regulatory authorities are available on SEDAR at [sedar.com](http://sedar.com) or at our website at [www.cargojet.com](http://www.cargojet.com).

**Effective Date:** The information in this AIF is stated as at December 31, 2017, unless otherwise indicated.

**Currency of Information:** All currency amounts are stated in Canadian dollars, unless otherwise stated.

**Cargojet and the Company:** References to “Cargojet”, the “Company” and “our” refers to Cargojet Inc. and its subsidiaries.

**Defined Terms:** Capitalized terms used herein but not otherwise defined in the text are defined in the “Glossary of Terms” at the end of this AIF.

### CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

This AIF contains “forward-looking information” within the meaning of applicable Canadian securities legislation. Forward-looking information includes, but is not limited to, statements with respect to the products and services offered by Cargojet, its business strengths and relations with suppliers and customers. In certain cases, forward-looking information can be identified by the use of words such as “plans”, “expects” or “does not expect”, “is expected”, “budget”, “scheduled”, “estimates”, “forecasts”, “intends”, “anticipates” or “does not anticipate”, or “believes”, or variations of such words and phrases or statements that certain actions, events or results “may”, “could”, “would”, “might” or “will be taken”, “occur” or “be achieved”.

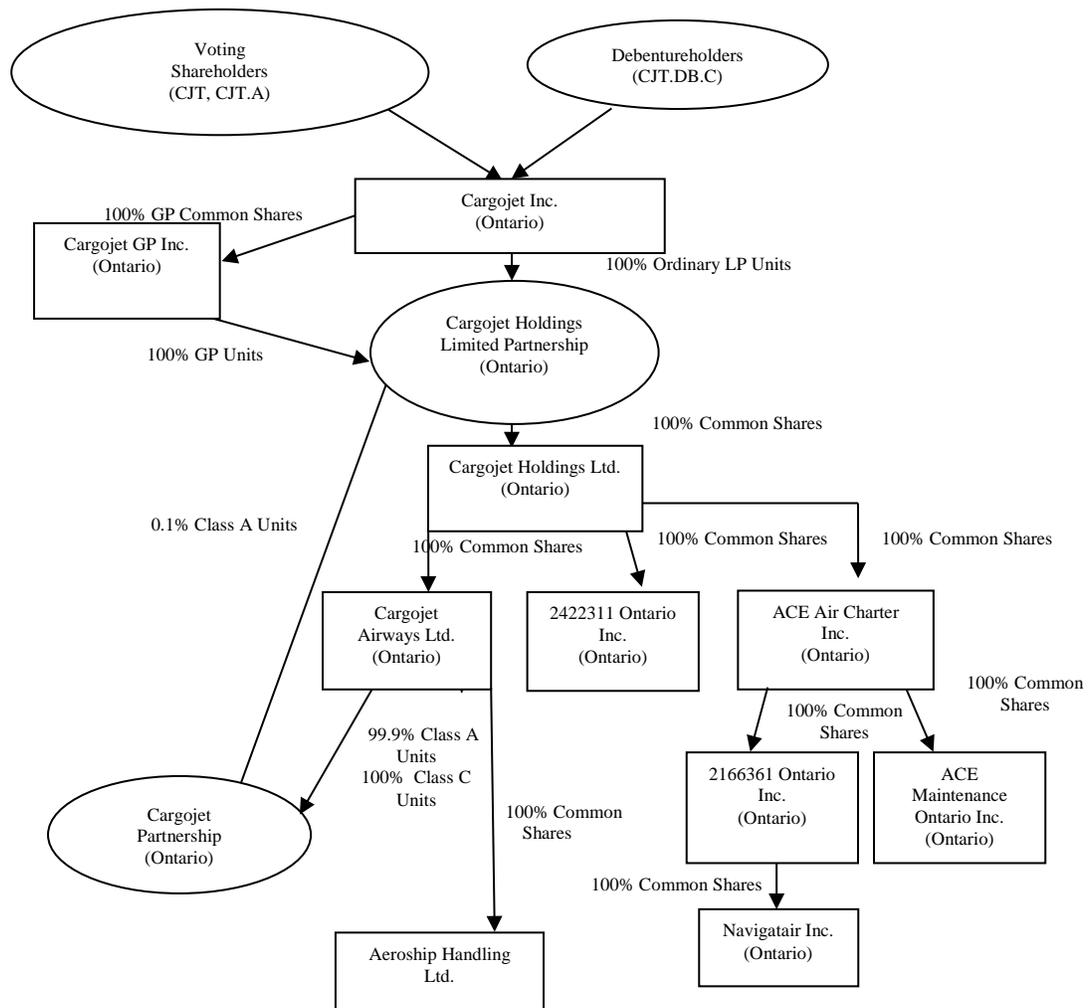
In particular, this AIF contains forward-looking information relating to the business strategy of Cargojet. Forward-looking information regarding Cargojet is based on certain key expectations and assumptions of Cargojet concerning anticipated financial performance, business prospects, strategies, regulatory developments, exchange rates, interest rates, tax laws, the sufficiency of budgeted capital expenditures in carrying out planned activities, the continued and timely development of infrastructure, the availability and cost of labour and services and the ability to obtain financing on acceptable terms, market conditions and potential timing delays. Although Cargojet considers these assumptions to be reasonable based on information currently available to it, they may prove to be incorrect.

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of Cargojet to be materially different from those expressed or implied by such forward-looking information, including but not limited to: the risks related to the public financial market for the Company’s securities; the general risks associated with the airline and cargo transportation industry, including the relationship of Cargojet with its suppliers, customers, key personnel and employees and the operation of commercial aircraft; the ability of Cargojet to maintain profitability and manage growth; liquidity risks; debt financing risk; credit risk; competition; general uninsured losses; interest rate fluctuations; lack of availability of growth opportunities; potential conflicts of interest; the availability of sufficient cash flow; the failure to obtain additional financing; dilution; reliance on key personnel; changes in legislation; and delays in obtaining regulatory approvals or financing as well as those factors discussed in the section entitled “Risk Factors” herein. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward- looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking

information. Forward-looking information is provided as of the date of this AIF, and the Company assumes no obligation to update or revise such forward-looking information to reflect new events or circumstances except as required under applicable securities laws.

### CORPORATE STRUCTURE

Cargojet Inc. was incorporated under the *Business Corporations Act* (Ontario) (the “OBCA”) on April 7, 2010 and is the successor to Cargojet Income Fund (the “Fund”), following the completion of the conversion of the Fund from an income trust to a public corporation by way of a court-approved statutory plan of arrangement (the “Arrangement”) under Section 182 of the OBCA completed on January 1, 2011. The head and registered office address of the Company is 2281 North Sheridan Way, Mississauga, Ontario L5K 2S3. The following chart illustrates the corporate structure of the Company (including jurisdiction of establishment or incorporation of the various entities and percentage ownership of voting securities) as at March 12, 2018.



## GENERAL DEVELOPMENT OF THE BUSINESS

### Overview

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

1. Operating a domestic overnight air cargo network between fourteen major Canadian cities each business day.
2. Providing dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis, operating between points in Canada, North and South America and Europe.
3. Operating scheduled international routes for multiple cargo customers between the USA and Bermuda, between Canada and Colombia and Peru and between Canada and Germany.
4. Providing dedicated aircraft to customers on an *ad hoc* charter basis operating between points in Canada, the USA and other international destinations.

Cargojet operates its business utilizing its fleet of all-cargo aircraft. Cargojet's domestic overnight air cargo network consolidates cargo received from numerous customers and transports such cargo to the appropriate destination in a timely and safe manner. Cargojet continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

**Cargojet's strategy is to create sustained value and profitability and is based on the following priorities:**

- Business development in local and international markets,
- Growth in the revenue streams by increasing customer base,
- Revenue improvement and cost reductions,
- Excellence in corporate culture, and
- Strengthening management by hiring and training.

In 2017, revenues increased to \$383 million from \$331 million in the previous year (15.7%) due to the continued strong demand from our existing customers on the domestic network and growth in the ACMI business.

On April 23, 2017, Cargojet began operating a new scheduled ACMI route between Canada and the USA under a three year contract. Cargojet currently operates three separate routes between Canada and US under the same contract. These flights operate throughout the year on each business night.

In June 2016, the Company commenced cargo flights under an ACMI contract with another Canadian airline. During 2017 Cargojet operated two flights per week to Peru and Colombia, two flights per week to Mexico and one flight per week to Germany. The ACMI contract expired on December 31, 2017.

On February 2, 2018, Cargojet began operating its own co-load flights for various airline and other customers twice a week between Canada, Peru and Colombia, and one additional flight per week to Germany. These flights replace similar flights operated under the ACMI contract for another Canadian airline that expired on December 31, 2017. The Company expects customer demand to remain strong on these routes.

### Syndicated Operating Facility

Effective September 20, 2016, the Company amended its revolving operating credit facility (the "Facility") availed through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things, increasing the maximum credit available from \$100 million to \$175 million and extending the maturity date by one year to expire on December 16, 2019. The Facility is restricted to \$150 million until the debt of \$35 million owing under the B767-300 aircraft loan agreement dated March 31, 2015 with a US lender is repaid and the security provided in respect thereof is released and discharged. The Company repaid this loan in February 2017 and the related security was released and discharged. The Facility can be extended

annually with the consent of the Lenders, and bears interest, payable monthly, at the lead Lender's prime lending rate / US base rate plus 150 basis points to 200 basis points, dependent on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the Facility prior to maturity.

On April 7, 2017, the Company further amended the Facility by, amongst other things, increasing the maximum revolving credit available from \$175 million to \$200 million and establishing a non-revolving \$75 million delayed-draw term loan facility (the "DDTL Facility"). The maturity date of the Facility has been extended to expire on April 7, 2020 and the maturity date of the DDTL Facility is April 7, 2022. The Company can draw the amount under the DDTL Facility until April 6, 2018. Any undrawn amount under the DDTL Facility at the end of this period will expire and the Company will not be able to draw down on such amount moving forward. The DDTL Facility can be used to purchase aircraft, for refinancing aircraft loans, to make termination payments of aircraft capital leases and for other capital expenditures. Any advance under the DDTL Facility is repayable in equal monthly payments based on the amount of the advance and a straight line amortization from the borrowing date to the DDTL Facility maturity date.

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 the John C. Munro Hamilton International Airport;
- security over aircraft owned by the Company which are not subject to security interest of other lenders; and
- assignment of insurance proceeds.

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

The Facility and DDTL Facility are 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 certain restrictions on the Company's ability to pay dividends. The Facility and DDTL Facility are also subject to the maintenance of a minimum fixed charge coverage ratio and a total adjusted leverage ratio.

#### **Air Cargo Logistics Facility**

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

The Company also entered into a lease with St. John's International Airport Authority for 14,808 square meters of airside lands at an annual rate of \$0.1 million for a period of 21 years. The Company constructed a cross-dock facility for its use during the term of the lease at a cost of \$8.7 million, the title of which will transfer to the airport authority at the expiration or early termination of this lease in accordance with the terms thereof.

### **Acquisition of ACE Air Charter Inc.**

On January 30, 2015, Cargojet purchased all of the shares and certain debt of ACE Air Charter Inc. (“ACE”) for a total of \$1 million. ACE is the parent corporation of ACE Maintenance Ontario Inc., 2166361 Ontario Inc. and Navigatair Inc. Navigatair Inc. has the aircraft operating certificate and other licenses required to operate four of the Challenger 601 aircraft purchased by the Company and leased to Navigatair Inc. in 2014 once the maintenance and certain repairs were completed in respect of two of these aircraft. The leases with Navigatair were terminated in respect of the two aircraft. The Company then entered into charter agreements with a third party to manage the operations of these two aircraft to provide charter services to individuals and corporate clients. The Company pays a monthly management fee to this third party charterer to manage and operate these two aircraft.

### **Canada Post Group of Companies**

On February 19, 2014, Cargojet entered into a Master Services Agreement (“MSA”) with the Canada Post Group of Companies including Purolator Inc. (“CPGOC”). Pursuant to the MSA, Cargojet provides CPGOC with domestic air cargo network services (“DACNS”) for an initial seven-year term with three 36 month renewal options held by CPGOC. The Company started providing preliminary services under the CPGOC contract in the middle of March 2015. The full services under the contract began on April 1, 2015. Adjustments to planned and available capacity were subsequently undertaken in order to more closely align capacity to actual demand and reduce operating costs. Changes to the Company’s route and cost structures were successfully implemented in Q4 of 2015. The Company provides comprehensive Canada-wide air cargo services for the CPGOC, including Purolator Inc.’s national air cargo network.

The Company’s domestic overnight network was expanded and enhanced significantly to handle the additional volumes and to provide a co-load network to the CPGOC. To fulfill its obligations under the MSA, the Company added B767-200 and B767-300 aircraft to its fleet and purchased additional ground support equipment, aircraft containers, maintenance tooling and other equipment. The Company also hired and trained flight crews, maintenance personnel and other personnel. Cargojet described these costs as “one-time CPGOC” costs in its MD&A. One-time CPGOC costs included the lease costs of aircraft that were acquired to meet the MSA capacity requirements and also the costs of heavy maintenance (“c-checks”) for B727 aircraft that are required for services under the MSA, that have been replaced by B757 in the Company’s current domestic overnight network. One-time CPGOC costs also included the salaries and training costs of all personnel hired specifically to meet the requirements of the MSA. No one time CPGOC costs were incurred in 2017 related to the MSA.

On October 23, 2017, Cargojet and CPGOC agreed to extend the term of the MSA. Prior to the extension, the initial term of the MSA was until March 31, 2022, with three additional 36 month renewal terms. Pursuant to the extension, the parties elected to exercise the first 36 month renewal term. As a result, the current term of the MSA now continues until March 31, 2025.

### **Employees**

Cargojet had 949 employees, including salaried, hourly and part time employees, as of December 31, 2017. This number is not indicative of the total number of employees at any time throughout the year as the business of Cargojet is affected by seasonal peak experienced in the fourth quarter when the hourly employees may be at maximum due to recruitment on need basis. Cargojet has also established a succession plan to have a pool ready of trained managers.

### **4.65% Convertible Debentures due December 31, 2021**

In September 2016, \$125 million of the 4.65% Debentures were issued at a price of \$1,000 per debenture with a term of five years pursuant to 4.65% Debenture Indenture. These 4.65% 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.

On or after December 31, 2019, but prior to December 31, 2020, the 4.65% 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

4.65% Debenture plus accrued and unpaid interest, provided that the current market price of the Common Voting Shares on the date on which the notice of redemption is given is at least 125% of the conversion price of \$58.65 per Voting Share. On or after December 31, 2020, but prior to the maturity date of December 31, 2021, the 4.65% 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 4.65% Debentures in either cash or freely tradable Voting Shares. The number of Voting Shares to be issued will be determined by dividing the aggregate amount of the principal amount of the 4.65% Debentures by 95% of the current market price of the Common Voting Shares.

Based on certain conditions, the 4.65% 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 4.65% 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 4.65% 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 4.65% 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 (\$1.00 per annum) per share.

In the event of a change in control, as defined in the 4.65% Debenture Indenture, the Company will be required to make an offer to the holders of 4.65% 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 4.65% 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.

#### **Redemption of 5.5% Debentures**

In April 2014, \$74.0 million of 5.5% Debentures were issued with a term of five years pursuant to the 5.5% Debenture Indenture. On May 15, 2017, the Company issued a redemption notice pursuant to the 5.5% Debenture Indenture to redeem all of the outstanding 5.5% Debentures on July 5, 2017. Pursuant to the 5.5% Debenture Indenture, the Company elected to satisfy its obligation to pay the redemption price of the 5.5% Debentures due at redemption by issuing that number of Voting Shares obtained by dividing the outstanding principal amount of the 5.5% 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 5.5% Debentures. From December 31, 2016 to July 4, 2017, \$72.4 million of the outstanding 5.5% Debentures were converted to 2,518,911 Common Voting Shares by the holders thereof pursuant to the 5.5% Debenture Indenture. The remaining \$1.4 million of the outstanding 5.5% Debentures were redeemed by issuing 30,788 Common Voting Shares and paying accrued and unpaid interest in cash to the holders thereof.

#### **Redemption of 6.5% Debentures**

In March 2012, \$28.8 million of 6.5% Debentures were issued with a term of five years pursuant to the 6.5% Debenture Indenture. On March 10, 2016, the Company issued a redemption notice pursuant to the 6.5% Debenture Indenture to redeem all of the outstanding 6.5% Debentures on April 28, 2016. All but \$216,000 principal amount of the outstanding 6.5% Debentures were converted to Common Voting Shares by the holders thereof pursuant to the 6.5% Debenture Indenture. The remaining \$216,000 of the outstanding 6.5% Debentures were redeemed by issuing 8,184 Common Voting Shares and paying accrued and unpaid interest of \$6,885 in cash to the holders thereof.

## **Private Placement of Shares**

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

## **Aircraft Finance Leases and Loans**

In 2014, the Company entered into a Master Capital Lease Agreement (“MLA”) and two aircraft loan agreements (the “Loan Agreements”) with a Canadian equipment leasing and financing company. The Company completed four finance leases to acquire four B767-300 aircraft under the MLA in the aggregate amount of \$120 million and refinanced two B757-300 aircraft owned by the Company under the Loan Agreements in the aggregate amount of \$25.5 million. The Company is required to purchase the aircraft financed under the MLA at the end of the term of each advance at a predetermined price.

The amounts advanced under the MLA and the Loan Agreements were advanced in two tranches, A and B, with tranche A under the MLA being 84% of the amounts advanced thereunder and under the Loan Agreements being 91% of the amounts advanced thereunder and tranche B in each case being equal to the balance of the amounts advanced. In each case, 60% of tranche A is repayable in equal monthly installments over 84 months, with the first payment being payable on the date of each advance. The balance of each tranche A is to be repaid at the end of the 84 month period. Under the MLA, the date of each advance is the date of delivery of the aircraft which is being financed. The amounts advanced under the Loan Agreements were advanced in December, 2014 and January, 2015. Interest on each tranche B is compounded monthly and payable quarterly in arrears over 48 months from the date of the advance, with the first interest payment being payable 90 days after the date of the advance. In addition, the Company must also make quarterly payments of a variable amount on account of principal owing under tranche B equal to 50% of the Company’s free cash flow generated for the previous fiscal quarter, provided that any such payment shall not exceed 1/16 of the outstanding amount of the tranche B. The balance owing on account of each tranche B is payable at the end of the 48 month period. The estimated effective interest rate in respect of the MLA and Loan Agreements ranges from 7.35% to 7.37%.

Under the MLA and the Loan Agreements, the Company paid arrangement fees in an amount equal to 0.75% of the amounts advanced and additional fees equal to the positive difference between the price of a certain number of Common Voting Shares on the TSX on the date of or immediately prior to the date of the MLA or the Loan Agreements as the case may be and the 20 day volume weighted average closing price for such share as of the date preceding the date on which the lessor demands the payment by a written notice, provided that such notice can only be given on a day after the first anniversary of the applicable agreement and before the fourth anniversary of such agreement. The additional fees have been accounted for as a share based compensation option. In respect of the MLA, the number of shares used to calculate the amount payable under this option is 58,333 for each lease and the initial price per share was \$22.99. In respect of the Loan Agreements, the number of shares used to calculate the amount payable under this option for each loan is 30,000 and the initial price per share was \$25.53. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure if these options are exercised. Under the agreement, the Company pays interest to the financial institution based on Canadian LIBOR and the total value of a notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares.

The Company also paid success fees in the amount equal to 1.5% of the amount advanced under the MLA and the Loan Agreements to an independent investment banking firm for its services towards completion of these transactions.

In September 2016, the Company received a written demand to pay the share based compensation option under the MLA and Loan Agreements and paid \$4.6 million in full satisfaction thereof. As at December 2017, the total return swap having a fair value of \$1.8 million in favor of the Company was not settled.

On October 7, 2016, the Company prepaid the entire outstanding amount of the Loan Agreements 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 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 this loan facility including the prepayment fees. 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 prepayment 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.

### **BUSINESS OF CARGOJET**

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

1. Operating a domestic overnight air cargo network between fourteen major Canadian cities each business day.
2. Providing dedicated aircraft to customers on an ACMI basis, operating between points in Canada, North and South America and Europe.
3. Operating scheduled international routes for multiple cargo customers between the USA and Bermuda, between Canada and Colombia, and Peru and between Canada and Germany.
4. Providing dedicated aircraft to customers on an *ad hoc* charter basis operating between points in Canada, the USA and other international destinations.

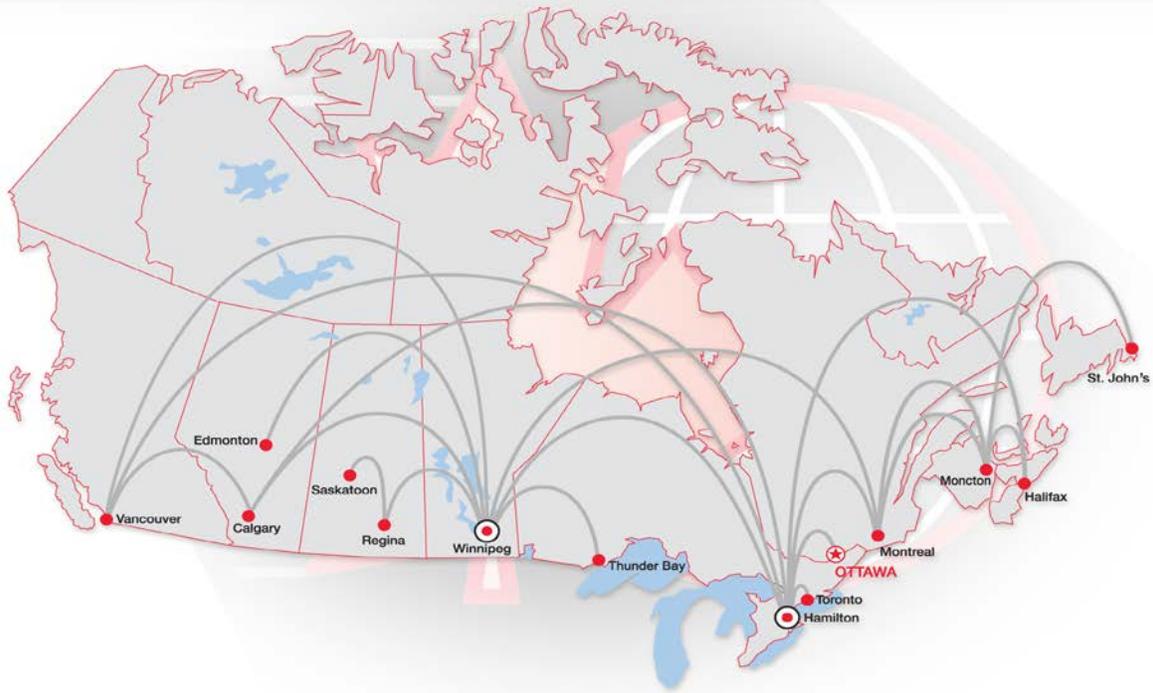
#### **Services**

##### **Overnight Network**

Cargojet offers its overnight air cargo service between fourteen major cities across Canada each business night. Customers pre-purchase a guaranteed space and weight allocation on Cargojet's network and a corresponding guaranteed daily revenue amount is paid to Cargojet for this space and weight allocation. Remaining capacity is sold on an *ad hoc* basis to contract and non-contract customers. Overflow/oversell traffic is regularly sold to ensure maximum space and revenue capture.

Within its overnight network, Cargojet also provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This revenue helps to support lower demand legs and provides a revenue opportunity with little incremental cost, as Cargojet provides domestic capacity to these international airlines through its existing, regularly scheduled flight network.

The following map illustrates the major cities within Canada serviced by Cargojet's overnight network.



### **International Air Cargo Services**

Cargojet operates an international route operating 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.

### **Dedicated Aircraft Charter**

To further enhance its revenues, Cargojet offers a specialty charter service typically in the daytime and on weekends. The charter business targets livestock shipments, military equipment movements, emergency relief supplies and virtually any large shipments requiring immediate delivery across North America, Mexico, Caribbean and Europe. During pre-Christmas peak volume seasons, Cargojet also offers dedicated aircraft to its major courier customers to handle increased United States-Canada premium overnight traffic. Aircraft charters are typically priced inclusive of all costs of operating the flight, including fuel, navigation fees, cargo handling and all other commercial activities.

### **Dedicated ACMI Contracts**

Cargojet provides and operates dedicated aircraft on an ACMI basis. This service involves providing a dedicated aircraft on a dedicated route where the customer is responsible for all costs of the operation including fuel, navigation fees, landing fees, cargo handling and all other commercial activities. Minimum guaranteed revenues are part of the contract.

### **Cargojet Fleet**

The table below sets forth Cargojet's operating fleet as at December 31, 2015, 2016 and 2017, as well as Cargojet's planned operating fleet for 2018:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs.)	Range (miles)
			Actual		Plan			
			December 31,		December 31,			
			2015	2016	2017	2018		
B767-300 <sup>(1)</sup>	Finance							
	Lease	24	5	5	6	6	125,000	6,000
B767-300 <sup>(2)</sup>	Owned	24	2	3	3	4	125,000	6,000
B767-200 <sup>(3)</sup>	Operating Lease	32	3	1	1	1	100,000	5,000
B757-200 <sup>(4)(5)</sup>	Owned	30	2	2	5	7	80,000	3,900
B757-200 <sup>(5)</sup>	Finance							
	Lease	30	-	-	1	-	80,000	3,900
B757-200 <sup>(5)</sup>	Operating Lease	28	3	3	-	-	80,000	3,900
B727-200 <sup>(6)</sup>	Owned	38	7	6	3	-	60,000	1,800
Challenger 601 <sup>(7)</sup>	Owned	31	1	2	2	2	6,000	3,300
<b>Total Aircraft</b>			<b>23</b>	<b>22</b>	<b>21</b>	<b>20</b>		

- Four B767-300 aircraft are currently financed under the MLA. The fifth and the sixth aircraft were acquired in March 2015 and October 2017, respectively, under lease agreements 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. Cargojet expects to exercise the purchase options in April 2018 and October 2020, respectively and has recorded the leases as finance leases. In December 2017, Cargojet purchased a B767-300 aircraft as feedstock for cargo conversion in 2018. Cargojet expects to enter into a sale lease-back arrangement to facilitate the cargo conversion and financing of this aircraft. Cargojet expects to lease this aircraft under terms similar to its other two leased aircraft that were leased with terms of six years with a purchase option in favour of Cargojet after three years at a pre-determined price.
- The three B767-300 aircraft in operation at December 31, 2017 are owned by Cargojet.
- The B767-200 aircraft in operation at December 31, 2017 is under a lease that terminates in February 2019.
- The five B757-200 aircraft in operation at December 31, 2017 are owned by Cargojet. During 2017, the Company purchased one aircraft fuselage and four engines. The aircraft fuselage has been inducted into cargo conversion with an expected delivery date in Q2 2018. Two of the purchased engines have been installed on a B757-200 currently in operation to replace engines that are due for restoration shop visits. The cost of these two purchased engines has been classified as maintenance capital expenditures. In November 2017, Cargojet purchased an additional B757-200 as feedstock for future cargo conversion. This aircraft has not yet been scheduled for cargo conversion and is not included in the table above. In January 2018, Cargojet executed a letter of intent to purchase an additional B757-200 aircraft as feed stock for future freighter conversions. This aircraft is not included in the table above. Cargojet expects to convert one of the B757-200 feedstock aircraft into cargo configuration by Q4 2018.
- In Q1 2017 and Q3 2017, the Company amended the operating leases of three B757-200 aircraft to require the Company to purchase the aircraft at the end of the term of the leases in October 2017, December 2017 and January 2018, respectively. In September 2017 and November 2017, the Company purchased the aircraft with the leases ending in October 2017 and December 2017. These purchased aircraft are classified as owned in the table above. The remaining lease is classified as a finance lease. The Company purchased this aircraft in January 2018.
- Cargojet expects to retire the remaining B727-200 aircraft before the end of 2018 due to network growth and regulatory requirements that will prevent the aircraft from being flown in North America.
- The Company has entered into a charter agreement with a third party to operate and manage two aircraft to provide individual and corporate charter services.

All aircraft meet Transport Canada and FAA Stage III noise abatement guidelines enabling unrestricted operation across North America. Total monthly lease payments for Cargojet's aircraft leases are approximately \$0.7 million and all of the lease agreements are in good standing.

All aircraft are maintained under Transport Canada and the manufacturers' approved maintenance programs incorporating periodic service checks. Cargojet's B767-300, B767-200, B757-200 and B727-200 aircraft are also required to undergo comprehensive heavy maintenance checks every 24 months. Cargojet is recognized by Transport Canada as an "Approved Maintenance Organization" and all aircraft maintenance service is performed in house except for the heavy maintenance checks.

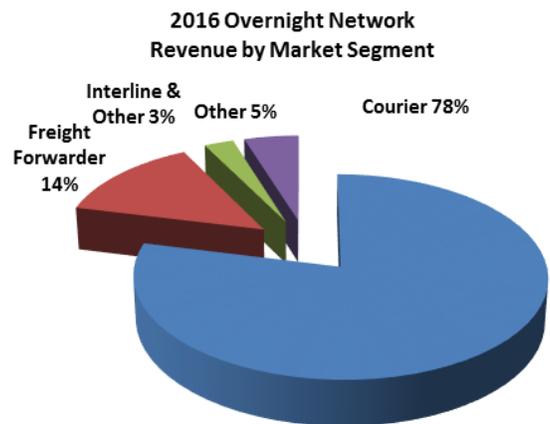
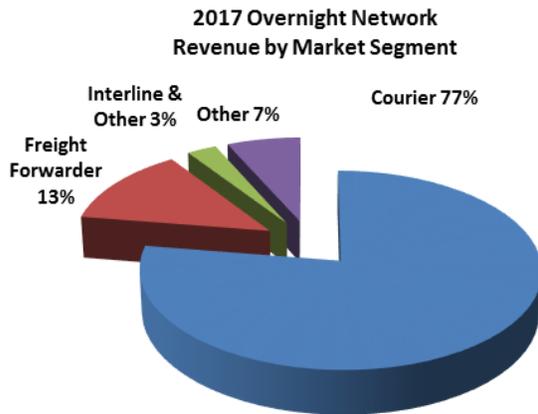
**Specialized Skill and Knowledge**

Cargojet operates in an industry that requires specialized skills and knowledge. Cargojet employs individuals who possess specific technical knowledge and experience in the areas of aircraft operation, aircraft maintenance, flight planning, flight dispatch, crew planning, crew training, ground handling and commercial airline cargo management. Cargojet has not experienced material difficulty in recruiting and retaining appropriate staff to carry out its operations.

**Customers**

A key factor in the success of Cargojet lies in its long standing relationships and long term contracts with its customer base. Cargojet's customer base is comprised of major couriers, freight forwarders, manufacturers, specialty shippers and international airlines. Cargojet also handles the time sensitive shipment needs of customers including pharmaceutical, perishable, seafood, agriculture, hi-tech, garment, precious metals and chemical companies. Cargojet's ten largest customers accounted for approximately 73% of revenues in 2017 and approximately 79% of revenues in 2016. Management believes that Cargojet is the exclusive overnight air cargo provider to most of its customers on Canadian routes.

The following charts illustrate revenue by customer segment on Cargojet's overnight co-load network for the years ended December 31, 2017 and December 31, 2016 excluding fuel and other surcharges:



**Competition**

Cargojet faces competition within its market from a mix of dedicated air cargo providers and passenger airlines offering air cargo services using the cargo hold of their aircraft. Cargojet's main competitor is Morningstar Air Express Inc. Canadian domestic airlines offer air cargo services on their passenger flights by using excess belly cargo capacity of their aircraft. However, their networks and service standards do not provide a competitive alternative for customers in the time sensitive overnight air cargo market. These commercial airlines do not have the capability of handling heavy, palletized cargo nor are they able to handle specialty or perishable freight.

**Facilities**

As Cargojet provides air cargo services across Canada, offices and locations have been strategically located at airports in each of the fourteen city centers to meet customer's needs and requirements. All of Cargojet's facilities

are leased, with the exception of its aircraft hangar in Hamilton, Ontario which is owned. Eight of these facilities are bonded by Canada Customs allowing international cargo to terminate or transit through the warehouse facility. Cargojet's facilities across Canada are equipped with cargo handling equipment in addition to aircraft handling equipment. Hamilton is the main hub of Cargojet's operations and is equipped to handle all types of cargo starting with truck offload to transfer and on-load onto aircraft.

The terms of Cargojet's main facilities leases are summarized below.

<b>Facility</b>	<b>Expiration Date</b>	<b>Remaining Renewal Option</b>
Mississauga, ON (Cargojet prior head office)	July 31, 2017	None
Mississauga, ON (Cargojet new head office)	April 30, 2032	None
Hamilton Cross Dock and Land Lease, ON	July 31, 2036	None
Ottawa, ON	April 30, 2018	None
Montreal, QB	September 30, 2019	None
Halifax, NS	April 30, 2018	One five year renewal option
Moncton, NB	March 31, 2019	None
Winnipeg, MB	April 30, 2020	None
Calgary, AB	October 20, 2022	None
Edmonton, AB	August 31, 2022	None
Richmond, BC	March 31, 2020	None
Saskatoon, SK	March 31, 2020	None
St. John's	January 5, 2037	Two five year renewal option
Regina, SK	May 1, 2020	None
Regina, SK	November 30, 2025	None

Total monthly lease payments for Cargojet's material leases and offices and warehouses associated therewith are approximately \$350,000 and all of the lease agreements are in good standing.

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

The Company also entered into lease with St. John's International Airport Authority for 14,808 square meters of airside lands at an annual rate of \$0.1 million for a period of 21 years. The Company constructed a cross-dock facility for its use during the term of the lease at the cost of \$8.7 million, the title of which will transfer to the airport authority at the expiration or early termination of this lease in accordance with the terms thereof.

## **Regulation**

### **Domestic Services**

Transport Canada and the Canadian Transportation Agency (the "CTA") regulate the transportation industry in Canada. Cargojet holds Air Operators Certificates issued by Transport Canada for the operation of its aircraft. It is also licensed by the CTA to operate domestic, transborder and international all-cargo and passenger operations. Cargojet has successfully passed periodic audits by both Transport Canada and the CTA and maintains excellent relationships with both regulatory bodies. Since 1996, air navigation services in Canada have been provided by NAV Canada, a privatized company. In addition, all major Canadian airports are operated by local airport authorities that are also privatized companies.

Cargojet is also a member in good standing of the International Air Transport Association (“IATA”), the Air Transport Association of Canada (the “ATAC”), the Canadian International Freight Forwarders Association, The International Air Cargo Association (“TIACA”) and the Canadian Courier & Logistics Association.

Under the Act, there is free market entry provided a carrier can show that: (i) it is “Canadian”, defined in the Act as being controlled in fact by Canadians and having at least 75% of its voting interests owned and controlled by Canadians; (ii) it can operate safely; (iii) it is suitably insured; and (iv) it meets the minimum financial requirements set out in the *Air Transportation Regulations*.

In February 1995, a new air services agreement, the Open Skies Agreement, was implemented between Canada and the United States, replacing the previous bilateral agreement, which restricted market access. This new agreement gave Canadian air carriers unlimited route rights to provide “own aircraft” services between Canada and the United States. The carriage of local traffic between points within one country by carriers of the other country continues to be prohibited.

### **International Services**

Scheduled international air services are regulated by the Canadian and foreign governments involved. The Minister of Transport has the authority to designate which Canadian air carriers may serve scheduled international routes. International route rights are obtained through bilateral negotiations between Canada and foreign countries. Bilateral agreements provide for the rights which may be exercised over agreed routings and the conditions, under which the carriers may operate, including, among others, the number of carriers which may operate, the capacity and/or flight frequencies that may be provided and the controls over tariffs to be charged. Most bilateral agreements to which Canada is a party provide for the designation of more than one Canadian carrier, while some provide for the designation of only one Canadian air carrier. In general, bilateral agreements between Canada and European countries are more liberal in terms of controls on capacity and flight frequencies than those between Canada and Asian countries.

In February 2001, the Minister of Transport announced the launch of an international air services policy review to address competition in the international market with the release of a consultation document for stakeholder review and comment. The objective of this review was to liberalize Canada’s policy for scheduled international air services, including how Canada approaches the negotiation and management of air traffic rights with other countries. In May 2002, the Minister of Transport introduced a liberalized multiple designation policy applicable to scheduled international air services by Canadian carriers (excluding services to the United States). Amendments negotiated between Canada and the United States reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers, including Cargojet, to establish domestic routes within the United States.

On November 27, 2006, a new international air transportation policy called the Blue Sky Policy was announced by the Government of Canada to help further connect Canadians to each other and to the world. The Government of Canada’s international air policy is encouraging the development of new markets, new services and greater competition. For travelers, this means more choices in terms of destinations, flights and routes. Canada’s 2002 multiple designation policy will continue to apply. This policy facilitates both the designation of all Canadian carriers wishing to operate scheduled services in international markets and the allocation of rights in cases where designations are limited and/or unused under our bilateral agreements.

In addition to holding valid Canadian operating certificates, Cargojet also holds a valid Foreign Air Operators Certificate issued by the U.S. Federal Aviation Authority and is licensed by the U.S. Department of Transportation to operate all cargo and passenger operations in and out of the United States. The CTA licences do not expire once issued, but are subject to revocation or suspension in certain circumstances in accordance with the provisions of the Act and regulations made thereunder. Each year, Cargojet is required to submit a declaration of continuance of qualifications to the CTA to maintain its licence. The United States of America Department of Transportation license is renewed annually in April of each year. In addition, the United States of America Federal Aviation Administration Foreign Air Operators Certificate does not expire but is subject to revocation or suspension in certain circumstances in accordance with U.S. Federal Aviation Authority regulations.

## **Charter Services**

Charter operations are generally not covered by bilateral agreements, although charter services are covered under the Canada-U.S. Open Skies Agreement. Canadian government policy permits any Canadian carrier to operate charter services between Canada and any point in the world subject to prior approval of the Canadian and other appropriate regulatory authorities.

## **Security Initiatives**

Cargojet maintains a Security Program that is in compliance with Transport Canada regulations, the regulatory bodies of other countries such as the U.S. Transportation Security Administration (“TSA”) as well as the International Air Transport Association (“IATA”) in conjunction with their IATA Operational Safety Audit (“IOSA”) program. Cargojet continues to be compliant with the specific standards and communication protocols required by all countries in which Cargojet operates.

Two Transport Canada meetings took place in 2017 in which cargo related enhancements were discussed. Transport Canada All Cargo Working Group held a meeting in Ottawa in February 2017 that consisted of a number of topics.

The key topics were:

Secure Supply Chain Pillars

Program Participant Categories

Considerations for an All Cargo Regulatory Framework

Considerations for All Cargo and Express/Integrator Mode

Scenarios for an All Cargo and Express/Integrator Regulatory Framework

In addition, Transport Canada All- Cargo Working Group held a webinar on May 11, 2017. The meeting was to further discuss the proposed all-cargo framework currently being developed under Transport Canada’s Air Cargo Security Program. The development of the framework and regulations applicable to all cargo air carriers continues with an expectation of International and Transborder flights coming into force in winter 2019 and domestic All-Cargo flights post - 2019.

Transport Canada’s Air Cargo Security (ACS) Program requirements that came into force on October 17, 2016 did not include regulatory provisions that would allow both secure supply chain entities and passenger air carriers to tender to all-cargo carriers, or all-cargo carriers to tender secure cargo to a passenger air carrier. Cargojet signed an Administrative Agreement with Transport Canada thereby allowing Cargojet to participate in the Air Cargo Security Program and to apply applicable elements of the regulations. Development of applicable procedures and training were completed and implemented at all Cargojet’s Canadian locations.

The TSA identifies Cargojet as a Non-US All Cargo Air Carrier and as such Cargojet is regulated under the TSA’s All Cargo International Security Program (“ACISP”) for its flights operating into and out of the United States. Subsequently, procedures have been developed to meet the requirements of the ACISP. The TSA conducts annual audits at non-U.S. locations that serve as the last point of departure to the United States as well as locations in the United States to which Cargojet operates to verify its compliance with the ACISP. In 2017, the non-U.S. locations serving as the last point of departure to the United States were Mirabel, Calgary and Mount Hope (on behalf of DHL) and Bermuda. The locations in the United States to which Cargojet operated were Cincinnati/Northern Kentucky (on behalf of DHL) and Newark, New Jersey.

Appropriate security processes and training are currently being established and implemented for our new operations to Atlanta, Dallas, Bogota, Lima and Cologne.

A revised Security Training Program for all employees was developed and implemented in line with the requirements of Transport Canada’s Air Cargo Security Industry Training Guideline Best Practices and Air Cargo Security Industry Training Guideline Toolkit.

Cargojet remains vigilant in its Security Program and utilizes its membership in ATAC, Transport Canada's Air Cargo Security Technical Committee and the National Air Cargo Security Training & Awareness Committee to share best practice and monitor regulatory changes.

### **Seasonality**

Traditionally, Cargojet 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 Cargojet will affect the reported quarterly financial results of operations of Cargojet.

### **Economic Dependence**

During the twelve month period ended December 31, 2017, the Company had sales to three customers that represented 63% of the total revenues (December 31, 2016 – 66%). 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 during 2017 and 2016.

### **Employees**

Cargojet currently employs approximately 949 employees: 126 in administration; 323 in airline operations; and 500 in cargo operations.

On October 19, 2012, 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board ("CIRB"). As of the date hereof, 155 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 negotiated a collective agreement with the pilots' union in July 2013.

On June 1, 2015, the CIRB certified all cargo agents and load planners of the Company at the Halifax International Airport, consisting of 16 employees as at the date hereof as a union 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 that will expire on December 31, 2018.

None of Cargojet's other employees are unionized and Cargojet has never experienced a work stoppage. Management believes that relations with its employees are excellent.

## **DIVIDENDS**

### **2017 Dividends**

In total, the Company declared cash dividends of \$0.7700 per Voting Share for the financial year ended December 31, 2017. Cash dividends declared by the Company were based on all amounts received by the Company, including interest, dividends, redemption proceeds, and purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the board of directors of the Company (the "Board").

### **2016 Dividends**

In total, the Company declared cash dividends of \$0.6482 per Voting Share for the financial year ended December 31, 2016. Cash dividends declared by the Company were based on all amounts received by the Company, including interest, dividends, redemption proceeds, and purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by Board.

### **2015 Dividends**

In total, the Company declared cash dividends of \$0.5964 per Voting Share for the financial year ended December 31, 2015. Cash dividends declared by the Company were based on all amounts received by the Company, including interest, dividends, redemption proceeds, and purchase for cancellation proceeds, returns of capital and repayments of indebtedness net of reasonable expenses, as determined by the Board.

The Board intends to review its dividend policy periodically in the context of the Company's overall profitability, free cash flow, regulatory capital requirements and other business needs.

The Facility described above has imposed limited restrictions on the declaration of dividends by the Company. Accordingly, the Company shall not increase the dividend rate on its Voting Shares in respect of any particular fiscal quarter from the dividend rate declared in respect of the immediately prior fiscal quarter where the amount, if any, by which all distributions made during such prior fiscal quarter and the three immediately preceding fiscal quarters would exceed 65% of the aggregate amount of free cash flow for such period of four fiscal quarters until the fourth fiscal quarter of 2016, increasing to 75% thereafter. The amount of the dividend declared on the Voting Share was restricted to not exceed \$0.225 per fiscal quarter until December 31, 2016. Cargojet has no immediate plan to change its dividend policy. The MLA also restricts the declaration of dividends by the Company. Accordingly, except with the prior consent of the lessor thereunder, the Company shall not increase the amount of the dividend per share to be declared in respect of the then current fiscal quarter from the dividend rate declared in respect of the immediately prior fiscal quarter where the amount, if any, by which all distributions made during such fiscal quarter and the three immediately preceding fiscal quarters exceeds 65% of the aggregate amount of free cash flow for such period of four fiscal quarters until the fourth quarter of 2016 inclusively, increasing to 75% thereafter. Notwithstanding the foregoing, the amount of the dividend per share was restricted to not exceed \$0.225 per quarter until December 31, 2016.

## **DESCRIPTION OF CAPITAL STRUCTURE**

Cargojet Inc. is authorized to issue an unlimited number of no par value Common Voting Shares, an unlimited number of no par value Variable Voting Shares and an unlimited number of preferred shares (the "Preferred Shares"). As at December 31, 2017, there were 13,090,977 Common Voting Shares, 291,652 Variable Voting Shares and no Preferred Shares issued and outstanding. The summary below describes the rights, privileges, restrictions and conditions attached to the Common Voting Shares, Variable Voting Shares and Preferred Shares, which is qualified in its entirety by the Articles of Incorporation of Cargojet Inc., a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Common Voting Shares**

#### **Exercise of Voting Rights**

The holders of Common Voting Shares will be entitled to receive notice of, and to attend and vote at all meetings of shareholders, except those at which holders of a specific class are entitled to vote separately as a class under the OBCA. Each Common Voting Share shall confer the right to one vote at all meetings of shareholders.

#### **Dividends**

Subject to the rights, privileges, restrictions and conditions attached to any class of the Company's shares ranking prior to the Common Voting Shares, holders of Common Voting Shares are entitled to receive any dividends that are declared by the Board at the times and for the amounts that the Board may, from time to time, determine. The Voting Shares shall rank equally as to dividends on a share-for-share basis. All dividends declared shall be declared in equal or equivalent amounts per share on all Voting Shares then outstanding, without preference or distinction.

#### **Subdivision or Consolidation**

No subdivision or consolidation of the Common Voting Shares shall occur unless simultaneously, the Variable Voting Shares are subdivided or consolidated in the same manner so as to maintain and preserve the respective rights of the holders of each of these classes of shares.

#### **Rights in the Case of Liquidation, Winding-Up or Dissolution**

Subject to the rights, privileges, restrictions and conditions attached to any class of Cargojet shares ranking prior to the Common Voting Shares, in the case of liquidation, dissolution or winding-up of Cargojet, the holders of Voting Shares are entitled to receive the Company's remaining property and are entitled to share equally, share-for-share, in all distributions of such assets.

#### **Constraints on Share Ownership and Conversion of Common Voting Shares to Variable Voting Shares**

The Common Voting Shares may only be owned and controlled by Canadians. Each issued and outstanding Common Voting Share shall be automatically converted into one Variable Voting Share if such Common Voting Share is or becomes owned or controlled, directly or indirectly, by a non-Canadian.

### **Variable Voting Shares**

#### **Exercise of Voting Rights**

The holders of Variable Voting Shares will be entitled to receive notice of, to attend and vote at all meetings of shareholders, except those at which the holders of a specific class are entitled to vote separately as a class under the OBCA.

Variable Voting Shares will carry one vote per share held, except where (i) the number of outstanding Variable Voting Shares exceeds 25% of the total number of all issued and outstanding 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 cast at such meeting.

If either of the above-noted thresholds is surpassed at any time, the vote attached to each Variable Voting Share in such circumstances shall decrease automatically without further act or formality to equal the maximum permitted vote per Variable Voting Share such that (a) in the circumstance described in paragraph (i) above, the Variable Voting Shares as a class shall be restricted to 25% of the aggregate votes attached to all issued and outstanding Voting Shares and (b) in the circumstance described in paragraph (ii) above, the number of votes cast by all holders of Variable Voting Shares at such shareholders' meeting, shall be 25% of the total number of votes cast at such meeting.

#### **Dividends**

Subject to the rights, privileges, restrictions and conditions attached to any other class of the Company's shares ranking prior to the Variable Voting Shares, the holders of Variable Voting Shares are entitled to receive any dividends that are declared by the Board at the times and for the amounts that the Board may, from time to time, determine. The Variable Voting Shares shall rank equally with the Common Voting Shares as to dividends on a share-for-share basis. All dividends shall be declared in equal or equivalent amounts per share on all Voting Shares then outstanding, without preference or distinction.

#### **Subdivision or Consolidation**

No subdivision or consolidation of the Variable Voting Shares shall occur unless simultaneously, the Common Voting Shares are subdivided or consolidated in the same manner so as to maintain and preserve the relative rights of the holders of each of these classes of shares.

#### **Rights in the Case of Liquidation, Winding-Up or Dissolution**

Subject to the rights, privileges, restrictions and conditions attached to the other classes of Cargojet Inc's shares ranking prior to the Variable Voting Shares, in the case of liquidation, dissolution or winding-up of the Company, the holders of Voting Shares are entitled to receive Cargojet's remaining property and are entitled to share equally, share for share, in all distributions of such assets.

#### **Constraints on Share Ownership and Conversion of Variable Voting Shares to Common Voting Shares**

Variable Voting Shares may only be owned or controlled by non-Canadians. Each issued and outstanding Variable Voting Share shall be automatically converted into one Common Voting Share if (i) such Variable Voting Share is or becomes owned and controlled by a Canadian; or if (ii) a holder of a Variable Voting Share subsequently becomes a member of any class of persons, which class of shareholders is not restricted under the laws of Canada from owning shares of the Company, or from holding a specified percentage (or part) of all issued and outstanding shares in the capital of the Company.

#### **Preferred Shares**

The holders of Preferred Shares are not entitled as such to any voting rights at any meeting of the shareholders, subject to applicable law.

The Board may at any time fix the rights, privileges, restrictions and conditions attached to any series of Preferred Shares in respect of which series no Preferred Shares are then issued and outstanding, provided only that in all

circumstances the Preferred Shares of each series shall rank on a parity with the Preferred Shares of every other series with respect to dividends and to the return of capital.

Unless otherwise fixed by the Board, the Preferred Shares shall be entitled to a preference over the Common Voting Shares and the Variable Voting Shares, and over any other shares of Cargojet ranking junior to the Preferred Shares with respect to priority in the payment of dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of Cargojet, whether voluntary or involuntary, or any other distribution of the assets of Cargojet among its shareholders for the purpose of winding-up its affairs.

If any cumulative dividends or amounts payable on a return of capital are not paid in full, the Preferred Shares of all series shall participate rateably in respect of such dividends, including accumulations, if any, in accordance with the sums that would be payable on such shares if all such dividends were declared and paid in full, and in respect of any repayment of capital in accordance with the sums that would be payable on such repayment of capital if all sums so payable were paid in full; provided, however, that in the event of there being insufficient assets to satisfy in full all such claims, the claims of the holders of the Preferred Shares with respect to repayment of capital shall first be paid and satisfied and any assets remaining thereafter shall be applied towards payment of claims in respect of dividends.

The Preferred Shares of any series may also be given such other preferences over the Common Voting Shares and the Variable Voting Shares and any other share ranking junior to the Preferred Shares.

## MARKET FOR SECURITIES

### Trading Price and Volume

During the year ended December 31, 2017, the Common Voting Shares, the Variable Voting Shares and the 4.65% Debentures were listed on the TSX under the symbols “CJT”, “CJT.A”, and “CJT.DB.C” respectively. The following table sets forth information relating to the trading of the Common Voting Shares, the Variable Voting Shares and the 4.65% Debentures on the TSX for the periods indicated:

	Common Voting Shares			Variable Voting Shares		
	High (\$)	Low (\$)	Volume	High (\$)	Low (\$)	Volume
January 2017	50.42	45.31	451,335	48.00	46.10	1,631
February 2017	49.87	45.35	992,052	49.01	47.50	1,362
March 2017	49.70	43.21	767,469	46.91	43.45	2,504
April 2017	47.20	42.72	536,933	46.18	42.01	3,981
May 2017	47.28	43.27	541,376	46.35	45.75	1,116
June 2017	49.36	44.60	880,445	47.85	44.78	3,477
July 2017	51.10	45.06	337,267	49.30	45.75	5,691
August 2017	50.81	47.30	317,022	50.58	48.00	3,239
September 2017	53.52	48.44	327,897	52.00	50.70	10,240
October 2017	54.50	49.00	378,141	56.52	51.51	5,099
November 2017	54.70	52.50	259,100	64.92	53.75	2,113
December 2017	59.56	52.51	314,723	57.70	53.35	952

#### 4.65% Convertible Debentures

	High (\$)	Low (\$)	Volume
January 2017	109.90	106.00	3,152,000
February 2017	110.00	105.51	1,232,000
March 2017	110.00	104.50	1,083,000
April 2017	107.50	105.00	846,000
May 2017	109.00	105.06	580,000
June 2017	110.00	106.50	932,000
July 2017	110.75	107.00	813,000
August 2017	110.00	108.00	614,000
September 2017	112.50	108.00	1,286,000
October 2017	112.50	108.00	1,865,000
November 2017	112.65	110.31	987,370
December 2017	115.27	111.00	839,000

#### DIRECTORS AND EXECUTIVE OFFICERS

##### Name, Occupation and Security Holding

The following table sets out, for each of the current directors and executive officers of Cargojet, the individual's name, province and country of residence, positions with Cargojet and principal occupation. The term of office for each of the directors of Cargojet will expire at the next annual meeting of shareholders of Cargojet currently scheduled for April 12, 2018. As at the date hereof, the directors and executive officers of Cargojet as a group beneficially own, directly or indirectly, 1,788,114 Voting Shares (13.36%) of the Company. The information as to Voting Shares beneficially owned or over which control or direction is exercised, not being within the knowledge of the Company, has been furnished by the respective directors and executive officers individually.

Name and Province and Country of Residence	Position with the Company	Principal Occupation <sup>(1)</sup>	Position with the Company Since	Voting Shares Beneficially Owned, Controlled or Directed <sup>(7)</sup>
John P. Webster <sup>(2)(4)(5)</sup> Ontario, Canada	Director	President and Chief Executive Officer of Scotia Mortgage Corporation	2005	5,369/0.04%
Paul V. Godfrey <sup>(2)(3)(4)</sup> Ontario, Canada	Director	President and Chief Executive Officer of Postmedia Network	2009	24,369/0.18%
Ajay Virmani <sup>(6)</sup> Ontario, Canada	Chairman, President, Chief Executive Officer and Director	President and Chief Executive Officer of Cargojet	2005	1,504,253/11.24%
Jamie Porteous <sup>(3)</sup> Ontario, Canada	Executive Vice-President, Chief Commercial Officer and Director	Executive Vice- President and Chief Commercial Officer of Cargojet	2005	88,693/0.66%

Name and Province and Country of Residence	Position with the Company	Principal Occupation <sup>(1)</sup>	Position with the Company Since	Voting Shares Beneficially Owned, Controlled or Directed <sup>(7)</sup>
James Crane <sup>(2)(3)(4)(6)</sup> Texas, USA	Director	Chairman, President and Chief Executive Officer of Crane Capital Group, Inc.	2015	101,767/0.76%
Pauline Dhillon, Ontario, Canada	Executive Vice-President, Marketing, Public and Government Relations	Executive Vice-President, Marketing, Public and Government Relations of Cargojet	2005	13,440/0.10%
John Kim Ontario, Canada	Chief Financial Officer and Vice-President Governance and Corporate Secretary	Chief Financial Officer and Vice-President Governance and Corporate Secretary of Cargojet	2008	35,003/0.26%
George Sugar Ontario, Canada	Senior Vice-President, Flight Operations	Senior Vice-President, Flight Operations of Cargojet	2005	nil / 0.00%
Paul Rinaldo Ontario, Canada	Senior Vice-President Engineering and Maintenance	Vice-President Engineering and Maintenance of Cargojet	2005	15,220/0.11%

Notes:

- (1) Unless otherwise indicated, each of the foregoing individuals has been principally engaged in the occupations set out opposite his name for the preceding five years.
- (2) Member of the Compensation and Nominating Committee. Mr. Godfrey is Chairman of the Compensation and Nominating Committee.
- (3) Member of the Corporate Governance Committee. Mr. Crane is Chairman of the Corporate Governance Committee.
- (4) Member of the Audit Committee. Mr. Webster is Chairman of the Audit Committee.
- (5) Lead director of the Company.
- (6) Mr. Virmani resigned as Chairman of the Board effective March 8, 2018 to facilitate the appointment of Mr. Crane as Chairman of the Board.
- (7) Number of shares / % of total outstanding Voting Shares.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No director or executive officer of the Company is, or has been, within 10 years before the date hereof, a director, chief executive officer or chief financial officer of any company (including the Company), that:

- i. was the subject of a cease trade order, an order similar to a cease order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days (an “order”) that was issued while that person was acting in the capacity as director, chief executive officer or chief financial officer; or
- ii. was subject to an order that was issued, after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer.

No director or executive officer of the Company or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company:

- i. is, at the date hereof, or has been within 10 years before the date hereof, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or became subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets, or
- ii. has, within 10 years before the date hereof, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets,

except as follows:

Mr. Paul Godfrey was President and Chief Executive Officer of the National Post Inc., which was part of CanWest when it voluntarily entered into Companies' Creditors Arrangement Act ("CCAA") protection and successfully obtained an order from the Ontario Superior Court of Justice (Commercial Division) commencing proceedings under the CCAA on October 6, 2009. The National Post was outside creditor protection under the CCAA proceedings, and, on October 31, 2009, was transferred from the media conglomerate's holding company Canwest Media Inc. to a new subsidiary of the publishing group. The National Post was acquired by Postmedia Network in July 2010.

Mr. Paul Godfrey served on the board of directors of Mobilicity (formerly known as Data & Audio Visual Enterprises Mobilicity), from November 20, 2008 to April 30, 2013. Mobilicity sought and received CCAA protection on September 30, 2013.

No director or executive officer of the Company, or a shareholder holding a sufficient number of securities of the Company to affect materially the control of the Company, has been subject to (i) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (ii) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

### **Conflicts of Interest**

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 Board, excluding the subject director and after an independent appraisal and review by outside advisors to ensure the lease is on market 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 years at a predetermined rate per the terms of the lease.

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

To the best of the Company's knowledge, there are no other known existing or potential conflicts of interest between Cargojet and any director or officer of the Company, except that certain of such directors and officers serve as directors and officers of other public companies and therefore it is possible that a conflict may arise between their duties as a director or officer of the Company and their duties as a director or officer of such other companies.

The directors and officers of the Company are aware of the existence of laws governing the accountability of directors and officers for corporate opportunity and requiring disclosures by directors of conflicts, and the Company will rely upon such laws in respect of any directors' or officers' conflicts or in respect of any breaches of duty by any of its directors and officers.

## **AUDIT COMMITTEE**

### **Audit Committee Charter**

The Audit Committee's mandate is to provide assistance to the Board in fulfilling its financial reporting and control responsibility to the shareholders and the investment community.

The Audit Committee Charter is attached hereto as Schedule "A".

### **Composition of the Audit Committee**

The Audit Committee is comprised of the three directors, all of whom are independent and financially literate. As at December 31, 2017, the members of the Audit Committee were James Crane, Paul Godfrey and John Webster.

### **Relevant Experience**

#### James Crane:

Mr. Crane is the President and Chief Executive Officer of Crane Capital Group, Inc. Mr. Crane earned a Bachelor of Science degree in Industrial Safety from Central Missouri State University in 1976. In 1984, Mr. Crane founded Eagle USA Airfreight (EGL, Inc.), a freight forwarding company, and sold it in 2007. In 2008, Mr. Crane formed Crane Worldwide Logistics (CWL), a global provider of customized transportation and logistics services. Mr. Crane is also the owner of Champion Energy Services, a retail electricity companies in the United States. Mr. Crane is also the controlling investor in the Houston Astros baseball team.

#### Paul Godfrey:

Mr. Godfrey currently serves as the President and Chief Executive Officer of Postmedia and the Chairman of RioCan Real Estate Investment Trust. First elected to public office in 1964, Mr. Godfrey served as Chairman of the Metropolitan Toronto Council from 1973 to 1984. In 1984, Mr. Godfrey joined the Toronto Sun as Publisher and CEO and served as President and Chief Executive Officer of the Sun Media Corporation from 1992 to 2000. Mr. Godfrey has also served as the President and Chief Executive Officer of the Toronto Blue Jays Baseball Club from 2000 to 2008. Mr. Godfrey previously served as a director in Astral Media Inc., a director of Data & Audio-Visual Enterprises Wireless Inc. that operated under the trade name "Mobilicity" and as Chair of the Ontario Lottery and Gaming Corporation. Mr. Godfrey graduated from the University of Toronto with a Bachelor of Applied Science in Chemical Engineering.

#### John Webster:

Mr. Webster has been the President and Chief Executive Officer of Scotia Mortgage Corporation since 2006. Mr. Webster has also been the President and Chief Executive Officer of Maple Trust Company since 1989. Maple Trust Company was acquired by Scotia Mortgage Corporation in 2006. He has been the Chief Executive Officer and previously, the Chief Operating Officer, for regulated financial institutions for over 20 years. During such time, Mr. Webster has participated in overseeing numerous internal and external audits as a member of senior management and as a board member. Mr. Webster's current and previous directorships include Maple Trust Company, Scotia Mortgage Corporation, Filogix Inc. and Dundee Financial Corporation. Mr. Webster received an Honours BA from Wilfred Laurier University and an LL.B and B.C.L. from McGill University.

## Pre-Approval Policies and Procedures

The Audit Committee must pre-approve all non-audit services to be provided to the Company or its subsidiary entities by its external auditors or the external auditors of the Company's subsidiary entities.

## External Fees by Audit Category

	Year ended December 31, 2017	Year ended December 31, 2016
Audit Fees <sup>(1)</sup>	\$306,103	\$358,621
Audit Related Fees <sup>(2)</sup>	\$ 22,050	\$127,519
Tax-Related Fees <sup>(3)</sup>	\$ 48,150	\$ 48,150
All Other Fees <sup>(4)</sup>	<u>\$ 20,745</u>	<u>\$ 19,950</u>
Total Fees	<u>\$397,047</u>	<u>\$554,240</u>

<sup>(1)</sup> Includes audit and review of financial statements for statutory and regulatory filings of the Company.

<sup>(2)</sup> Audit Related Fees includes professional fees billed by the Company's auditor related to assurances and related services related to the performance of the audit or review of the financial statements not included in "Audit Fees".

<sup>(3)</sup> Tax Related Fees include the aggregate fees billed for professional services rendered for tax compliance, tax advice and tax planning.

<sup>(4)</sup> All Other Fees include an accounting support fee paid to the Canadian Public Accountability Board (CPAB).

## LEGAL PROCEEDINGS

The Company is not aware of any legal proceedings or regulatory actions to which the Company is a party or of which any of the Company's properties are subject, nor have any such proceedings or actions been pending during the Company's most recently completed financial year. In addition, no such other proceedings or actions are currently known by the Company to be contemplated.

## REGULATORY ACTIONS

The Company has not been subject to any penalties or sanctions imposed against it by a court relating to securities legislation or by a securities regulatory authority, nor has the Company entered into any settlement agreements before a court relating to securities legislation with a securities regulatory authority during the most recently completed financial year.

## INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as set out herein, no director, executive officer or principal security holder of the Company or any associate or affiliate of any such person or company, has or had any material interest, direct or indirect, in any transaction within the three most recently completed financial years or during the current financial year prior to the date hereof that has materially affected or will materially affect the Company or any of its subsidiaries.

## TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for the Voting Shares is Computershare Investor Services Inc. at its principal transfer office in Toronto. The trustee for the 4.65% Debentures is Computershare Trust Company of Canada at its principal transfer office in Toronto.

## MATERIAL CONTRACTS

The contracts that are material to the Company and that were entered into during the year ended December 31,

2017, or before such year but which are still in effect, and which are required to be filed with Canadian securities regulatory authorities in accordance with section 12.2 of National Instrument 51-102 - Continuous Disclosure Obligations, are as follows:

#### **Amended and Restated Security Holders Agreement**

Except for a transfer to a party to the Amended and Restated Security Holders Agreement or a transfer pursuant to the Exchange Agreement, before a transfer of a unit of the Partnership or a common share of the GP by any party, the transferee of such unit or share, as the case may be, must agree to be bound by the Amended and Restated Security Holders Agreement and upon such transfer will assume the benefits and obligations of the transferring party, except that the Virmani Family Trust, the Mills Family Trust and the Porteous Family Trust (each a “**Vendor**” and collectively, the “**Vendor Group**”) may not assign its rights to any person that is not a member of the Vendor Group.

For so long as the percentage of the issued and outstanding Voting Shares, on a diluted basis, held by the Vendor Group is at least 20%, each of the Company and the GP cannot cause or permit the Partnership or any of its subsidiaries to undertake any of the following transactions without the prior written consent of the Vendor Group: (a) change the size of the board of directors of the GP; (b) the sale, assignment, lease, exchange or other disposition of all or substantially all of the assets of the Partnership or any of its subsidiaries (otherwise than in connection with an internal reorganization); (c) any amalgamation, merger, consolidation, plan of arrangement or other business combination or joint venture of the Partnership or any of its subsidiaries with any other entity (otherwise than in connection with an internal reorganization); (d) the acquisition by the Partnership or any of its subsidiaries of any material assets or any material interest in another business; (e) the issuance by the Partnership or any of its subsidiaries of additional units or other equity or equity-linked security, other than in the ordinary course of business; (f) the incurrence of indebtedness by the Partnership or any of its subsidiaries other than in the ordinary course of business; (g) any change to the constating documents of the Partnership, the GP or any of their subsidiaries; (h) any change of the lawyers, auditors or bankers of the Partnership; or (i) the adoption, by the Partnership or any of its subsidiaries, of any plan or proposal to liquidate, dissolve or reorganize or seek relief under bankruptcy or insolvency laws, other than in connection with an internal reorganization.

The Amended and Restated Security Holders Agreement may only be modified, amended, altered, waived or supplemented with the written approval of each Vendor, save and except for (i) amendments to cure any ambiguity or to correct or supplement any provisions which are defective or inconsistent with any other provision of the Amended and Restated Security Holders Agreement, provided that the cure, correction or supplemental provision does not and will not adversely affect the interests of any Vendor, or (ii) amendments to ensure that the GP and the Partnership are in compliance with the Canadian Ownership and Control Provisions (as defined in the Amended and Restated Security Holders Agreement) as they relate to the GP, the Partnership, their subsidiaries and their owners.

The Amended and Restated Security Holders Agreement will continue in force until the percentage of the issued and outstanding Voting Shares, on a diluted basis, held by the Vendor Group is less than 10%. The Partnership Agreement will remain in effect notwithstanding any termination of the Amended and Restated Security Holders Agreement.

#### **4.65% Debenture Indenture**

On September 15, 2016, the Company closed an offering of \$115,000,000 aggregate principal amount of 4.65% Debentures due December 31, 2021. On this same date, the underwriters exercised their over-allotment option in full, resulting in the issue of an additional \$10,000,000 aggregate principal amount of 4.65% Debentures. The 4.65% Debentures are subordinated, unsecured obligations of the Company and bear interest at a rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year. The 4.65% Debentures are convertible at any time at the option of the holders into Voting Shares at a conversion price of \$58.65 per share subject to adjustments in certain circumstances. The 4.65% Debentures will mature on December 31, 2021. The terms of the 4.65% Debentures are set out in the 4.65% Debenture Indenture dated September 15, 2016 entered into between the Company and Computershare Trust Company of Canada. See “General Development of the Business – 4.65% Convertible Debentures due December 31, 2021”.

## INTERESTS OF EXPERTS

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Professional Accountants, Chartered Accountants, Toronto, Ontario. Cargojet's consolidated annual financial statements for the period ended December 31, 2017 were filed under National Instrument 51-102 – *Continuous Disclosure Obligations* in reliance on the report of PricewaterhouseCoopers LLP, Chartered Professional Accountants, Chartered Accountants, given on their authority as experts in auditing and accounting. PricewaterhouseCoopers LLP has confirmed to the Company that it is independent within the meaning of the Rules of Professional Conduct of the Chartered Professional Accountants of Ontario.

## ADDITIONAL INFORMATION

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including the remuneration and indebtedness of directors and officers of Cargojet and the principal holders of Cargojet's securities, is contained in Cargojet's information circular for its most recent annual meeting of shareholders. Additional financial information is provided in Cargojet's financial statements and management's discussion and analysis for the period ended December 31, 2017.

## RISK FACTORS

The following are certain factors relating to the business of the Company and the industry and structure of the Company.

### Risks Related to the Business

#### Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 73% of the Company's 2017 revenues and the Company's top three customers each accounted for over 10% of the Company's 2017 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 five to ten years with the ability to terminate generally upon 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 favourable to the Company as existing contracts. The inability of the Company to renew these contracts on favourable terms or at all could have a material adverse effect on the Company's business, results of operations or financial condition.

#### 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 favourable terms.

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

### **Canada — US Open Skies**

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

### **Competition**

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

### **Government Regulations**

The Company's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals. The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

The Company is routinely audited by various regulatory bodies including Transport Canada and the CTA 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.

### **Cyber security**

In today's connected business environment, various aspects of an organization's business activities are carried out in "cyberspace". Cyberspace is where people and organizations create an electronic presence and engage in virtual activities, exchanging information, products and services through the Internet. While operating in cyberspace offers advantages; it also makes organizations vulnerable to cyber attacks by criminals with far-reaching consequences beyond the theft of information and financial losses. The Company continues to develop and enhance its cyber security in response to cyberspace risks to protect computer systems and data from threats originating in cyberspace. A security breach can cause significant implications that may include disruption in operations, significant financial losses, legal obligations and negative effects on the Company's reputation. The Company has engaged security experts to enhance its cyber security strategy and has secured appropriate insurance coverage to offset potential losses on operation due to a security breach. However, there can be no assurance that the measures will be adequate to protect against all cyber risks or that insurance can cover all losses as a result of any breach. As of the date hereof there have been no incidents of security breach noted by the Company or its security advisors but any such breach could have a material adverse effect on the Company's business, results of operations or financial condition.

### **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 three B727-200, five B757-200, and three B767-300 and has six B767-300 and one B757-200 aircraft under finance lease. It also leases one B767-200 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 three of which have been decommissioned but are available for use as spare parts. The success of the Company will depend, in part, on its ability to replace owned aircraft when necessary and to maintain favorable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favorable leases for its aircraft or be able to arrange financing for its current commitment of aircraft purchases or future replacements and expansions. Such risk could have a material adverse effect on the Company's business, results of operations or financial condition. See "General Development of the Business – Overview" and "Business of Cargojet – Cargojet Fleet".

## **Fixed Costs**

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

## **Fuel Prices**

The Company requires significant quantities of fuel for its aircraft. Historically, fuel costs represented 25% to 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.

## **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, 2017, 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 AIF, the Company is exposed to fluctuations in the US-dollar exchange rate relating to two B767-300 lease agreement. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company's business, results of operations or financial condition.

## **Ability to Maintain Profitability and Manage Growth**

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

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

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

### **Industry Risk and Economic Sensitivity**

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

### **Terrorist Activity**

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

### **Dependence on Key Personnel**

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

### **Labour Relations**

On October 19, 2012, 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board ("CIRB"). As of the date hereof, 155 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 five year collective agreement with the pilots' union in July 2013.

On June 1, 2015, the CIRB certified all cargo agents and load planners of the Company at the Halifax International Airport, consisting of 16 employees as at the date hereof, as a union with Unifor being certified as a bargaining agent for such employees. Effective November 10, 2015, the Company entered into a collective agreement with Unifor in respect of these employees that will expire on December 31, 2018.

None of Cargojet's other employees are unionized and Cargojet has never experienced a work stoppage. The maintenance of a productive and efficient labour environment and the successful negotiation of renewals to the collective bargaining agreements cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

### **Severe Weather Patterns**

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

### **Seasonal Fluctuations**

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in

the first quarter. Accordingly, the seasonal nature of the business of the Company will affect the quarterly financial results of operation of the Company that will be reported.

### **Dependence on International Trade**

The principal businesses of the Company are indirectly related to, and future performance is dependent upon, the volume of international trade, including cross-border trade between Canada and the US. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, exchange controls, currency fluctuations and Canadian, US and foreign laws relating to duties, trade restrictions, foreign investment and taxation, including but not limited to the North American Free Trade Agreement (“NAFTA”). There can be no assurance that trade-related events beyond the control of the Company, such as the failure to reach or adopt trade agreements, an increase in trade restrictions or the outcome of the ongoing negotiations and discussions related to the NAFTA and its continued existence in its current or amended form, or at all 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 or indirectly hold in aggregate 1,836,050 Voting Shares, or approximately 13.72% 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 the Partnership and the Operating Partnership 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 the 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 the 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 as 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.

## GLOSSARY OF TERMS

**“4.65% Debentures”** means the subordinated unsecured convertible debentures due December 31, 2021, bearing interest at a rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year and convertible at any time at the option of the holders into Voting Shares at a conversion price of \$58.65 per share subject to adjustment in certain circumstances.

**“4.65% Debenture Indenture”** means the indenture governing the 4.65% Debentures, dated September 15, 2016, between Cargojet Inc. and Computershare Trust Company of Canada.

**“5.5% Debentures”** means the subordinated unsecured convertible debentures due June 30, 2019, bearing interest at a rate of 5.5% per annum, payable semi-annually in arrears on June 30 and December 31 of each year and convertible at any time at the option of the holders into Voting Shares at a conversion price of \$28.75 per share subject to adjustment in certain circumstances.

**“5.5% Debenture Indenture”** means the indenture governing the 5.5% Debentures, dated April 22, 2014, between Cargojet Inc. and Computershare Trust Company of Canada.

**“6.5% Debentures”** means the subordinated unsecured convertible debentures due April 30, 2017, bearing interest at a rate of 6.50% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, and convertible at any time at the option of the holders into Voting Shares at a conversion price of \$11.75 per share subject to adjustment in certain circumstances.

**“6.5% Debenture Indenture”** means, collectively, the indenture governing the 6.5% Debentures, dated March 21, 2012, between Cargojet Inc. and Computershare Trust Company of Canada.

**“ACE”** means ACE Air Charter Inc.

**“ACMI”** is an acronym for Aircraft, Crew, Maintenance and Insurance and means the operation of a dedicated aircraft on a leased basis whereby the customer is responsible for all costs of the operation and the owner provides the aircraft and crew and is responsible for the maintenance and insurance of the aircraft. This is also referred to as a **“wet lease”**.

**“Act”** means the Canada Transportation Act.

**“Amended and Restated Security Holders Agreement”** means the amended and restated security holders agreement dated as of January 1, 2011, among the Company, the Partnership, the GP, the Virmani Family Trust, the Mills Family Trust and the Porteous Family Trust, amending and restating the Security Holders Agreement.

**“Arrangement”** means the conversion of the Fund from an income trust to a corporation by way of a court-approved statutory plan of arrangement under Section 182 of the OBCA on January 1, 2011.

**“B727-200”** means Boeing 727-200 series aircraft.

**“B757-200”** means Boeing 757-200 ER series aircraft.

**“B767-200”** means Boeing 767-200 ER series aircraft.

**“B767-300”** means Boeing 767-300 ER series aircraft.

**“Board”** means the board of directors of Cargojet Inc.

**“Cargojet”** means the Company.

“**Cargojet Partnership**” means Cargojet Partnership, the operating partnership established as a general partnership under the laws of the Province of Ontario.

“**CIRB**” means the Canadian Industrial Relations Board.

“**Class A Units**” means Class A units of Cargojet Partnership, 99.9% of which are held by Cargojet Airways Ltd. and 0.1% are held by Limited Partnership.

“**Class C Units**” means Class C units of Cargojet Partnership, 100% of which are held by Cargojet Airways Ltd.

“**Common Voting Shares**” means the common voting shares of the Company.

“**Company**” means Cargojet Inc., a corporation incorporated under the laws of the Province of Ontario, and its subsidiaries.

“**CPGOC**” means the Canada Post Group of Companies.

“**CRA**” means the Canada Revenue Agency.

“**CTA**” means the Canadian Transportation Agency.

“**DACNS**” means the domestic air cargo network services to be provided by the Company to CPGOC under the MSA.

“**Exchange Agreement**” means the exchange agreement dated as of June 9, 2005, among the Fund, the Trust, the Partnership, the GP and certain security holders of the Fund and/or its subsidiaries, providing for the terms of exchange and related provisions governing the Exchangeable LP Units;

“**Exchangeable LP Units**” means the Class B limited partnership units of the Partnership.

“**facility**” means the senior revolving credit facility in an aggregate principal amount of \$175 million

“**Fund**” means Cargojet Income Fund, an unincorporated, open-ended limited purpose trust established under the laws of the Province of Ontario.

“**GP**” means Cargojet GP Inc., a corporation incorporated under the laws of the Province of Ontario.

“**GP Common Shares**” means common shares of the GP, all of which are owned by Cargojet Inc.

“**GP Units**” means the general partnership units of Cargojet Holdings Limited Partnership held by the GP.

“**Loan Agreements**” means the two aircraft loan agreements entered into between the Company and a Canadian equipment finance and leasing company.

“**OBCA**” means the *Business Corporations Act* (Ontario) R.S.C. 1990 c.B.16, as amended, including the regulations promulgated thereunder.

“**Ordinary LP Units**” means the Class A limited partnership units of the Partnership, all of which are owned by the Company.

“**MLA**” means the master capital lease agreement entered into between the Company and a Canadian equipment finance and leasing company.

“**MSA**” means the master service agreements entered into between the Company and CPGOC dated February 19, 2014 to provide DACNS.

“**Partnership**” means Cargojet Holdings Limited Partnership, a limited partnership established under the laws of the Province of Ontario pursuant to the Partnership Agreement.

“**Partnership Agreement**” means the limited partnership agreement dated April 28, 2005, among the GP and the Trust as initial limited partner, governing the terms of the Partnership and the relationship among the limited partners and the GP thereunder.

“**Plans**” means trusts governed by registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts each as defined in the Tax Act.

“**Security holders Agreement**” means the security holders agreement dated as of June 9, 2005, among the Fund, the Trust, the Partnership, the GP, the Virmani Family Trust, the Mills Family Trust and the Porteous Family Trust.

“**Tax Act**” means the *Income Tax Act* (Canada) and the regulations thereunder.

“**Trust**” means Cargojet Operating Trust, an unincorporated, limited purpose trust established under the laws of the Province of Ontario.

“**TSA**” means the Transportation Security Administration.

“**TSX**” means the Toronto Stock Exchange.

“**Unitholders**” means the holders of Units.

“**Variable Voting Shares**” means the variable voting shares of the Company.

“**Voting Shares**” means the Common Voting Shares and Variable Voting Shares, or as applicable, any one of them.

## **SCHEDULE A - CHARTER OF THE AUDIT COMMITTEE**

### **I. Purpose**

The Audit Committee's mandate is to provide assistance to the Board of Directors of Cargojet Inc. (the "Corporation") in fulfilling its financial reporting and control responsibility to the shareholders and the investment community.

### **II. Composition**

The Audit Committee will be comprised of at least three directors of the Corporation, all of whom, subject to any exemptions set out in National Instrument 52-110 *Audit Committees* ("NI 52-110"), will be independent and financially literate. 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. A "financially literate" director is a director who has the ability to read and understand a set of financial instruments that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.

### **III. Responsibilities**

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

1. Making recommendations to the Board of Directors of the Corporation regarding the selection, evaluation and compensation of the external auditors to be nominated for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation. In making such recommendations, the Audit Committee will:
  - (a) confirm the independence of the auditors and report to the Board of Directors of the Corporation its conclusions on the independence of the auditors and the basis for these conclusions; and
  - (b) meet with the auditors and financial management to review the scope of the proposed audit for the current year, and the audit procedures to be used.
2. Overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit, review or attest services for the Corporation, including the resolution of disagreements between management and the external auditor regarding financial reporting. In overseeing such work, the Audit Committee will:
  - (a) review with the external auditors any audit problems or difficulties and management's response;
  - (b) at least annually obtain and review a report prepared by the external auditors describing (i) the auditors' internal quality-control procedures; and (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, and reviewing any steps taken to deal with any such issues;
  - (c) serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control system and oversee management's reporting on internal control;
  - (d) provide open lines of communication among the external auditors, financial and senior management, and the Board of Directors of the Corporation for financial reporting and control matters;
  - (e) make inquiries of management and the external auditors to identify significant business, political, financial and control risks and exposures and assess the steps management has taken to minimize such risks to the Corporation; and
  - (f) establish procedures to ensure that the Audit Committee meets the external auditors on a regular basis in the absence of management.

3. Pre-approving all non-audit services to be provided to the Corporation or its subsidiary entities by the Corporation's external auditor, subject to any exemptions set out in NI 52-110. Notwithstanding the pre-approval process, the Audit Committee will ensure that the external auditors are prohibited from providing the following non-audit services and will determine the other non-audit services the external auditors are prohibited from providing:
  - (a) bookkeeping or other services related to the accounting records or financial statements of the Corporation;
  - (b) financial information systems design and implementation;
  - (c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
  - (d) actuarial services;
  - (e) internal audit outsourcing services;
  - (f) management functions or human resources;
  - (g) broker, dealer, investment adviser or investment banking services;
  - (h) legal services and expert services unrelated to the audit; and
  - (i) any other service that the Audit Committee determines to be impermissible.
4. Reviewing the Corporation's financial statements, management's discussion and analysis and annual and interim profit or loss press releases before the Corporation publicly discloses the information. In connection with such review, the Audit Committee will ensure that:
  - (a) management has reviewed the financial statements with the Audit Committee, including significant judgments affecting the financial statements;
  - (b) the members of the Audit Committee have discussed among themselves, without management or the external auditors present, the information disclosed to the Audit Committee; and
  - (c) the Audit Committee has received the assurance of both financial management and the external auditors that the Corporation's financial statements are fairly presented in conformity with International Financial Reporting Standards in all material respects.
5. Ensuring that adequate procedures are in place for the review of the Corporation's public disclosure of financial information extracted or derived from the Corporation's financial statements, other than the public disclosure referred to in paragraph 4 above, and periodically assessing the adequacy of those procedures.
6. Establishing procedures for:
  - (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls, or auditing matters; and
  - (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.
7. Reviewing and approving the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditor of the Corporation.
8. Annually reviewing and revising this Charter as necessary with the approval of the Board of Directors of the Corporation and the text relating to this Charter, which is required to appear in the AIF of the Corporation, as more specifically set out in Form 52-110FI Audit Committee Information Required in an AIF.

#### **IV. Authority**

The Audit Committee has the authority to:

- engage independent counsel and other advisors as the Audit Committee determines necessary to carry out its duties;
- set and pay the compensation for any advisors employed by the Audit Committee; and

communicate directly with the internal and external auditors.

**V. Meetings**

The Audit Committee will meet regularly at times necessary to perform the duties described above in a timely manner, but not less than four times a year. Meetings may be held at any time deemed appropriate by the Audit Committee. At the discretion of the Audit Committee, meetings may be held with representatives of the external auditors and appropriate members of management.

The external auditors will have direct access to the Audit Committee at their own initiative.

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