

Condensed Consolidated Interim Financial Statements of

CARGOJET INC.

For the three and six month periods ended June 30, 2018 and
2017

(unaudited - expressed in millions of Canadian dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets

As at June 30, 2018 and December 31, 2017

(unaudited, in millions of Canadian dollars)

	Note	June 30, 2018	December 31, 2017
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash		-	5.7
Trade and other receivables		35.4	40.1
Inventories		1.3	0.9
Prepaid expenses and deposits		4.3	5.8
Income taxes recoverable		0.1	0.1
Derivative financial instruments	16	2.1	1.8
		43.2	54.4
NON-CURRENT ASSETS			
Property, plant and equipment	4, 6	585.1	514.7
Goodwill		46.4	46.4
Intangible assets		2.0	2.0
Deposits		5.0	5.7
Deferred income taxes	10	4.6	4.5
		686.3	627.7
LIABILITIES			
CURRENT LIABILITIES			
Overdraft		1.0	-
Trade and other payables		41.6	38.1
Finance leases	7	17.2	62.1
Provisions	8	1.4	0.1
Dividends payable		2.8	2.6
Derivative financial instruments	16	0.1	1.6
		64.1	104.5
NON-CURRENT LIABILITIES			
Borrowings	6	201.9	124.5
Finance leases	7	114.0	99.1
Provisions	8	-	1.2
Convertible debentures	9	115.9	114.8
Deferred income taxes	10	22.8	18.5
Pension benefit liability		11.4	10.5
		530.1	473.1
EQUITY			
		156.2	154.6
		686.3	627.7

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

Three and six month periods ended June 30, 2018 and 2017

(unaudited, in millions of Canadian dollars except per share data)

		Three months ended		Six months ended	
	Note	June 30, 2018	2017	June 30, 2018	2017
		\$	\$	\$	\$
REVENUES		109.0	88.2	208.2	175.3
DIRECT EXPENSES	11	83.5	64.9	159.6	131.1
		25.5	23.3	48.6	44.2
General and administrative expenses	12	11.7	9.7	22.4	19.8
Sales and marketing expenses		0.9	0.4	1.3	0.7
Finance costs		6.3	7.3	12.3	13.9
Loss on extinguishment of debt	6	-	0.1	-	2.3
Other gain, net	13	(0.3)	(0.2)	(0.8)	(2.3)
		18.6	17.3	35.2	34.4
EARNINGS BEFORE INCOME TAXES		6.9	6.0	13.4	9.8
PROVISION FOR INCOME TAXES	10				
Deferred		2.2	1.6	4.2	2.8
NET EARNINGS AND COMPREHENSIVE INCOME		4.7	4.4	9.2	7.0
EARNINGS PER SHARE	15				
- Basic		\$0.35	\$0.40	\$0.69	\$0.64
- Diluted		\$0.35	\$0.39	\$0.68	\$0.63

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity Six month periods ended June 30, 2018 and 2017

(unaudited, in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2018		174.4	2.6	5.1	8.0	(35.5)	154.6
Net earnings and comprehensive income		-	-	-	-	9.2	9.2
Share-based compensation	5	-	2.9	-	-	-	2.9
Restricted shares, dividend shares and options vested and exercised	14,5	1.4	(1.4)	-	-	-	-
Tax paid on vested RSU's and Options	5	-	(3.0)	-	-	-	(3.0)
Vested options settled in cash		-	(1.8)	-	-	-	(1.8)
Dividends	14	-	-	-	-	(5.7)	(5.7)
Balance, June 30, 2018		175.8	(0.7)	5.1	8.0	(32.0)	156.2
Balance, January 1, 2017		100.9	3.3	10.0	3.1	(50.7)	66.6
Net earnings and comprehensive income		-	-	-	-	7.0	7.0
Restricted shares and options vested and exercised		2.0	(2.0)	-	-	-	-
Share-based compensation		-	0.9	-	-	-	0.9
Deferred tax on conversion option-net		-	-	1.3	(1.3)	0.7	0.7
Convertible debenture-conversion		54.1	-	(5.1)	5.1	-	54.1
Dividends	14	-	-	-	-	(4.5)	(4.5)
Balance, June 30, 2017		157.0	2.2	6.2	6.9	(47.5)	124.8

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

CARGOJET INC.

Condensed Consolidated interim Statements of Cash Flows Six month periods ended June 30, 2018 and 2017

(unaudited, in millions of Canadian dollars)

		Six months ended June 30,	
	Note	2018	2017
		\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		9.2	7.0
Items not affecting cash			
Depreciation of property, plant and equipment	4	30.5	21.7
Share-based compensation	5	2.9	0.9
Finance costs		12.3	13.9
Gain on derecognition of provision for lease return conditions	8	-	(0.6)
Gain on disposal of property, plant and equipment		(0.4)	-
Employee pension		0.9	0.5
Income tax provision	10	4.2	2.8
Other gains	13	(0.3)	(0.5)
		59.3	45.7
Items affecting cash			
Interest paid		(6.9)	(10.9)
		52.4	34.8
Changes in non-cash working capital items and deposits			
Trade and other receivables		4.7	1.0
Inventories		(0.4)	(0.1)
Prepaid expenses and deposits		2.2	(0.9)
Trade and other payables		3.5	(1.1)
NET CASH GENERATED FROM OPERATING ACTIVITIES		62.4	33.7
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	(90.1)	(56.5)
Proceeds from disposal of property, plant and equipment		1.0	-
Proceeds from sale and lease back of aircraft		10.3	-
Proceeds from total return swap & settlement of derivative financial instrument		-	4.8
NET CASH USED IN INVESTING ACTIVITIES		(78.8)	(51.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		-	(35.8)
Proceeds from borrowings		77.4	67.1
Repayment of obligations under finance leases	7	(58.1)	(11.8)
Options settled in cash		(1.8)	-
Tax paid on vested RSU's and Options		(3.0)	-
Dividends paid to shareholders		(5.5)	(3.9)
NET CASH PROVIDED FROM FINANCING ACTIVITIES		9.0	15.6
EFFECT OF EXCHANGE RATE CHANGES		0.7	1.0
NET CHANGE IN CASH		(6.7)	(1.4)
CASH, BEGINNING OF PERIOD		5.7	2.2
(OVERDRAFT) CASH, END OF PERIOD		(1.0)	0.8

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

1. NATURE OF THE BUSINESS

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

Cargojet is publicly listed with shares and convertible debentures traded on the Toronto Stock Exchange (“TSX”). The Company is incorporated in Ontario and domiciled in Canada and the registered office is located at 2281 North Sheridan Way, Mississauga, L5K 2S3, Ontario.

These condensed consolidated interim financial statements (the “financial statements”) were approved and authorized for issuance by the Board of Directors on August 13, 2018.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada (“GAAP”), as set out in the Chartered Professional Accountants of Canada Handbook – Accounting (“CPA Handbook”), which incorporates International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) using International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”).

Basis of preparation

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

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 2017 and 2016.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these financial statements as disclosed in the annual audited consolidated financial statements for the years ended December 31, 2017 and 2016.

New and amended standards adopted by the company

Revenue recognition

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") as issued by IASB on May 28, 2014 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. IFRS 15 applies to nearly all contracts with customers, unless covered by another standard, such as leases, financial instruments and insurance contracts. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue. The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.

The Company has adopted IFRS 15 on a full retrospective basis as of January 1, 2018. Under the full retrospective method, the provisions of IFRS 15 are applied to each period presented in the financial statements, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8"), subject to certain practical expedients that are outlined in IFRS 15. There were no material retrospective adjustments.

On adoption of IFRS 15, the Company adopted and implemented the following accounting policy:

Revenue from providing cargo services including surcharges is recognized when the transportation services are complete and the control of the goods has been transferred, being when goods are delivered and picked up by a customer and there are no unfulfilled obligations that could affect the customer's acceptance of the goods. Revenue from cargo services is recorded based on actual volume and delivery occurs when cargo has been shipped to the specific location, and the risks of loss have been transferred to the customer or its representative.

Where customers are eligible for volume discounts based on aggregate sales over a specified period, revenue from these sales is recognized based on the price specified in the contract, net of the estimated volume discounts. Accumulated experience is used to determine the discounted price, using the expected value method, and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur. A contract liability is recognized for expected volume discounts payable to customers in relation to sales made until the end of the reporting period.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

A receivable is recognized when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the receivable is collected.

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

Interest revenue is recognized when earned.

The Company does not expect to have any contracts where the period between the transfer of the promised services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

Financial Instruments

IFRS 9 *Financial Instruments* ("IFRS 9") sets out requirements for recognition and measurement of financial assets and liabilities and some contracts to buy or sell non-financial items. It replaced IAS 39 *Financial Instruments: Recognition and Measurements* ("IAS 39") and is applicable as of January 1, 2018. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 so the Company's accounting policy with respect to financial liabilities is not materially changed. The change did not impact the carrying value of any financial assets or liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9.

(a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading including all equity derivative instruments are classified as FVTPL, for other equity instruments, on the day of acquisition the Company can make an irrevocable election on an instrument-by-instrument basis to designate them as at FVTOCI. Financial liabilities are measured at amortized cost unless they are required to be measured at FVTPL or the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited - in millions of Canadian dollars except where noted)

Financial assets/liabilities	Original classification (IAS 39)	New classification (IFRS 9)
Cash and cash equivalents	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Current and long term debt	Amortized cost	Amortized cost
Interest payable	Amortized cost	Amortized cost
Derivative financial instruments	Fair value	Fair value

(b) Measurement

Financial assets and liabilities at amortized cost:

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

(d) Derecognition of :

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of earnings and comprehensive income.

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of earnings and comprehensive income.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

Standards, amendments and interpretations issued and not yet adopted

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

3. Revenue from Contracts with Customers

The Company has recognized the following amounts relating to revenue in the condensed consolidated interim statements of earnings and comprehensive income:

	Three month period ended		Six month period ended	
	June 30, 2018	2017	June 30, 2018	2017
	\$	\$	\$	\$
Revenue from contracts with customers	106.8	87.1	204.1	173.3
Revenue from other sources	2.2	1.1	4.1	2
Total revenue	109.0	88.2	208.2	175.3

Disaggregation of revenue from contracts with customers

The Company does not have any revenue derived from the transfer of services over time. The following revenue streams are recognized at a point of time:

Revenue recognized at a point of time

	Three month period		Six month period ended	
	June 30, 2018	2017	June 30, 2018	2017
	\$	\$	\$	\$
Core Overnight	60.9	52.1	116.9	105
Fuel Surcharges	26.8	20.3	51.7	41.6
ACMI	10.3	11.4	19.7	20.2
All-in charter	8.8	3.3	15.8	6.5
Total revenue	106.8	87.1	204.1	173.3

Contract assets and liabilities

The Company has recognized the following revenue-related assets and liabilities:

	June 30, 2018	December 31, 2017
	\$	\$
Trade receivables	26.9	31.6
Other receivables	3.8	2.8
Total contract assets	30.7	34.4
Contract liability - expected rebates to customers	0.2	0.2
Total contract liabilities	0.2	0.2

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

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(unaudited - in millions of Canadian dollars except where noted)

4. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at				Balance as at June 30, 2018
	January 1, 2018	Additions	Transfers	Adjustments	
	\$	\$	\$	\$	\$
Aircraft hull	296.7	5.8	5.1	(0.9)	306.7
Engines	173.6	18.6	8.6	(0.7)	200.1
Spare parts	4.0	1.6	-	-	5.6
Ground equipment	37.8	0.8	-	-	38.6
Rotable spares	35.4	3.9	-	(7.2)	32.1
Computer hardware and software	9.9	0.1	-	-	10.0
Furniture and fixtures	3.1	0.2	-	-	3.3
Leasehold improvements	20.8	0.3	-	-	21.1
Vehicles	3.1	-	-	-	3.1
Hangar and cross-dock facilities	24.1	-	-	-	24.1
Property, plant and equipment under development	31.7	66.4	(14.3)	-	83.8
Deferred heavy maintenance ⁽¹⁾	50.7	6.2	0.6	(2.4)	55.1
	690.9	103.9	-	(11.2)	783.6

⁽¹⁾ The Deferred heavy maintenance adjustments relates to the heavy maintenance deposits adjusted on the exercise of the bargain purchase option of one Boeing 767-300 aircraft in March 2018 as disclosed in Note 7.

Accumulated Depreciation & Impairment	Balance as at			Balance as at Net Book Value	
	January 1, 2018	Depreciation	Disposals	June 30, 2018	June 30, 2018
	\$	\$	\$	\$	\$
Aircraft hull	45.9	7.7	(0.7)	52.9	253.8
Engines	50.3	11.8	(0.5)	61.6	138.5
Spare parts	-	-	-	-	5.6
Ground equipment	12.7	1.5	-	14.2	24.4
Rotable spares	15.4	2.5	(7.0)	10.9	21.2
Computer hardware and software	6.7	0.5	-	7.2	2.8
Furniture and fixtures	1.6	0.2	-	1.8	1.5
Leasehold improvements	8.7	0.5	-	9.2	11.9
Vehicles	1.5	0.2	-	1.7	1.4
Hangar and cross-dock facilities	7.1	0.4	-	7.5	16.6
Property, plant and equipment under development	-	-	-	-	83.8
Deferred heavy maintenance	26.3	5.2	-	31.5	23.6
	176.2	30.5	(8.2)	198.5	585.1

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

Cost	Balance as at	Additions	Transfers	Adjustments	Balance as at
	January 1, 2017				December 31, 2017
	\$	\$	\$		\$
Aircraft hull	230.3	56.1	11.7	(1.4)	296.7
Engines	114.4	41.4	17.8	-	173.6
Spare parts	3.3	0.7	-	-	4.0
Ground equipment	20.5	16.8	0.5	-	37.8
Rotable spares	28.1	3.4	3.9	-	35.4
Computer hardware and software	8.6	1.3	-	-	9.9
Furniture and fixtures	2.5	0.5	0.1	-	3.1
Leasehold improvements	11.6	0.4	8.8	-	20.8
Vehicles	3.0	0.1	-	-	3.1
Hangar and cross-dock facilities	23.8	0.3	-	-	24.1
Property, plant and equipment under development	16.3	60.7	(42.8)	(2.5)	31.7
Deferred heavy maintenance	39.1	11.6	-	-	50.7
	501.5	193.3	-	(3.9)	690.9

Accumulated Depreciation & Impairment	Balance as at	Depreciation	Adjustments	Balance as at	Net Book
	January 1, 2017			2017	December 31, 2017
	\$	\$	\$	\$	\$
Aircraft hull	32.5	13.6	(0.2)	45.9	250.8
Engines	33.1	17.2	-	50.3	123.3
Spare parts	-	-	-	-	4.0
Ground equipment	9.9	2.8	-	12.7	25.1
Rotable spares	13.0	2.4	-	15.4	20.0
Computer hardware and	5.6	1.1	-	6.7	3.2
Furniture and fixtures	1.3	0.3	-	1.6	1.5
Leasehold improvements	8.7	1.2	(1.2)	8.7	12.1
Vehicles	1.2	0.3	-	1.5	1.6
Hangar and cross-dock	6.2	0.9	-	7.1	17.0
Property, plant and equipment under development	2.5	-	(2.5)	-	31.7
Deferred heavy maintenance	16.4	9.9	-	26.3	24.4
	130.4	49.7	(3.9)	176.2	514.7

Property, plant and equipment under development of \$83.8 (2017 - \$31.7) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

During the six months period ended June 30, 2018, the Company sold one Boeing 767-300 aircraft that was previously owned and recorded as property plant and equipment under development, and leased the aircraft back from an equipment leasing company as disclosed in Note 7. The Company also sold one Boeing 727-200 aircraft along with spares that were previously owned and recorded as Aircraft hull, Engines and Rotable spares respectively for \$1.0 million resulting in a gain of \$0.4 million. The Company also completed the acquisition of an additional Boeing 757-200 aircraft using the revolving credit facility and term loan.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

Depreciation expense on property, plant and equipment for the three and six month periods ended June 30, 2018 totaled \$15.5 and \$30.5 (2017 - \$11.1 and \$21.7 respectively) out of which 15.0 and 29.5 (2017 - \$10.8 and \$21.1) was recorded in direct expenses and \$0.5 and \$1.0 (2017 - \$0.3 and \$0.6) was recorded in general and administrative expenses.

5. SHARE-BASED COMPENSATION

Restricted Share Units

The Company's restricted share unit plan (the "RSU Plan") and stock option plan (the "Stock Option Plan") provide the Company the ability to grant restricted share units ("RSUs") and options ("Options") to certain of its executive officers and senior management as part of its long term incentive plan. Each RSU granted entitles the holder to one common voting share or one variable voting share of the Company on the settlement thereof. Each Option granted entitles the holder to one common voting share or one variable voting share of the Company on due exercise thereof or, if the holder duly elects a cash-less exercise of the Option, the holder will receive that number of common voting shares or variable voting shares, as the case may be, equal to the excess of the five day volume weighted average trading price of the shares (as determined in accordance with the rules of the TSX) ending on the trading day before the exercise date of the Option (the "Market Price") over the exercise price of the Option, multiplied by the number of shares in respect of which the Option is exercised, divided by the Market Price, less any amount to be deducted or withheld in respect of taxes or otherwise pursuant to law.

During the six month period ended June 30, 2018, in accordance with the RSU Plan, the Company granted 56,566 RSUs to certain key executives. Each RSU had an average value of \$64.23 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. 19,880 of these RSUs vested immediately. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 9,143 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of \$0.7 equal to the monetary value of the tax obligation determined based on the Market Price of \$64.23 per share of 10,737 shares withheld that otherwise would have been issued upon vesting. The payment made to the tax authority was accounted for as a reduction of equity. An amount of \$0.6 was transferred to share capital from contributed surplus. Of the remaining 36,686 RSUs granted in 2018 18,343 will vest in each of the first quarters of 2019 and 2020 respectively.

On March 23, 2018, 42,287 RSUs granted to the Company's executives and senior management in prior years vested. Prior to vesting, and in accordance with the RSU Plan, the Company accrued notional dividends on the RSUs equivalent to 622 RSUs that were also issued and vested upon the satisfaction of the RSUs vesting conditions. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 19,739 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of \$1.6 equal to the monetary value of the tax obligation determined based on the Market Price of 67.71 per share of 23,170 shares withheld that otherwise would have been issued upon vesting. The payment made to the tax authority was accounted for as a reduction of equity. An amount of \$0.7 was transferred to share capital from contributed surplus.

There are 20,989 remaining RSUs which were granted in the prior years that will vest in the first quarter of 2019.

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The RSU activity for the six month period ended June 30, 2018 and year ended 2017 is summarized

	Number of RSUs	Fair value \$
Balance at January 1, 2017	79,466	0.5
Granted in the year	63,089	3.0
Share dividend	1,439	0.1
Share based compensation-Vested and settled	(80,718)	(1.3)
Share based compensation-Unvested and amortized	-	(1.2)
Balance at December 31, 2017	63,276	1.1
Share dividend	622	-
Granted in the year	56,566	3.6
Share based compensation-Vested and settled	(62,789)	(1.7)
Share based compensation-Unvested and amortized	-	(0.5)
Balance at June 30, 2018	57,675	2.5

During the three and six month periods ended June 30, 2018, the total share based compensation expense of \$1.7 and \$2.2 related to settled and unvested RSUs was included in the consolidated statements of earnings and comprehensive income (for the three and six month periods ended June 30, 2017 – \$0.2 and \$0.5). Unrecognized share-based compensation expense as at June 30, 2018 related to these RSUs was \$2.5 (June 30, 2017 – \$3.1) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

Options:

Effective May 23, 2018, the Company granted 150,000 Options in accordance with the Stock Option Plan at an average exercise price of \$64.23 which had a fair value of \$2.3 (or \$15.23 for each Option). Each Option granted is exercisable for one common voting share or if the holder is non Canadian, one variable voting share of the Company at the exercise price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. The fair value of each Option was determined using the Black- Scholes option valuation model, with the following assumptions: (i) grant date share price \$64.23; (ii) exercise price \$64.23; (iii) expected volatility 28.0%; (iv) option life 5 years; (v) dividend yield 1.33%; (vi) risk free rate 1.75%. The Options have a five-year term and vest in each of the first quarters of 2019, 2020 and 2021.

Effective May 23, 2018, the Company also granted 35,148 Options in accordance with the Stock Option Plan at an average exercise price of \$64.23 which had a fair value of \$0.4 (or \$11.38 for each Option). Each Option granted is exercisable for one common voting share or if the holder is non Canadian, one variable voting share of the Company at the exercise price. The exercise price was calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. The fair value of each Option was determined using the Black- Scholes option valuation model, with the following assumptions: (i) grant date share price \$64.23; (ii) exercise price \$64.23; (iii) expected volatility 28.0%; (iv) option life 3 years; (v) dividend yield 1.33%; (vi) risk free rate 0.75%. The Options have a three-year term and vested immediately.

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Options:

The Options activity during the six month period ended June 30, 2018 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in \$
Balance as at January 1, 2018	220,447	\$29.71
Granted during the year	185,148	\$64.23
Exercised during the year	(85,793)	\$28.38
Balance as at June 30, 2018	319,802	\$50.05
Vested & exercisable at June 30, 2018	169,802	\$50.05

As at June 30, 2018, there were 169,802 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 0.9 years.

During the six month period ending June 30, 2018, certain executives exercised 36,457 Options granted on June 15, 2015, 39,726 Options granted on March 28, 2016 and 9,610 Options granted on November 17, 2016 when the volume weighted average trading price per share was \$64.23. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed was net of the obligation to withhold tax equal to the tax obligation of each participant and the Company remitted the amount withheld to the tax authority per the terms and conditions of the Stock Option Plan. Accordingly, a payment of \$1.9 was issued to the executives for vested and exercised Options and the Company remitted an amount of \$0.7 equal to the monetary value of the tax obligation determined based on the Market price of the shares. The Company has historically equity settled or settled the vested options in shares therefore, accounted for the settlement in cash as a deduction from equity.

The Company also recognized an expense for the three and six month periods ended June 30, 2018 of \$0.6 and \$0.7, respectively, (for the three and six month periods ended June 30, 2017 – \$1 and \$0.4 respectively) in respect of the amortization of the Options over the vesting period. The unrecognized value as at June 30, 2018 related to the Options was \$2.2 (June 30, 2017 – \$0.5) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

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Weighted average assumptions

	23-May-18 Series 4	November 17, 2016 Series 3	March 28, 2016 Series 2	June 15, 2015 Series 1
Exercise price redemption	\$64.23	\$47.22	\$26.50	\$25.47
Expected volatility	27.97%	32.96%	32.4%	22.6%
Option life in years	3-5	3	5	5
Dividend yield	1.33%	1.41%	2.5%	2.4%
Risk free rate	0.75% -1.75%	1.75%	0.63%	0.94%
Vesting period	immediate, 2019-2021	immediate	2016-2018	2016-2018
Options granted	185,148	38,440	241,966	172,399
Options outstanding	185,148	28,830	57,582	48,242
Fair value per option on grant	\$14.50	\$10.41	\$5.43	\$4.98

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

6. BORROWINGS

Borrowings consist of the following:

	June 30, 2018	December 31, 2017
	\$	\$
Revolving credit facility	201.7	124.3
Other borrowings	0.2	0.2
	201.9	124.5
Long-term portion	201.9	124.5

Revolving syndicate credit facility and term loan

Effective September 20, 2016, the Company amended its revolving operating credit facility (the "facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things, increasing the maximum credit available from \$100 to \$175 and extending the maturity date by one year to expire on December 16, 2019. The facility bears interest payable monthly; at the lead Lender's prime lending rate / US base rate plus 150 basis points to 200 basis points, depending 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 to \$200 and establishing a non-revolving \$75 delayed-draw term loan facility (the "DDTL Facility"). The maturity date of the facility was further extended to April 7, 2020 and the maturity date of the DDTL Facility is April 7, 2022. As of the balance sheet date, the Company has an outstanding balance of \$65.7 under the DDTL Facility. 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.

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

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at June 30, 2018 and 2017.

Included in the condensed consolidated interim statement of earnings and comprehensive income for the three and six month periods ended June 30, 2018 was interest expense on the revolving credit facility of \$1.6 and \$3.9 respectively (for the three and six month periods ended June 30, 2017 - \$1.5 and \$2.1 respectively).

7. FINANCE LEASES

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") with an equipment finance and leasing company. As at December 31, 2015, the Company had completed four finance leases to acquire four Boeing 767-300 aircraft under the MLA in the aggregate amount of \$120.0. The Company is required to purchase the aircraft financed under the MLA at the end of the term of each lease at a predetermined price. Accordingly, these leases are classified as finance leases and corresponding lease obligations are recognized in the financial statements. Each lease under the MLA is arranged in two tranches, A and B, each with its own schedule of principal and interest payments. The estimated weighted effective interest rate at June 30, 2018 was 7.21%. The leases under the MLA are guaranteed by the Company and its subsidiaries.

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at June 30, 2018 and 2017.

As at June 30, 2018, the total outstanding balance of the leases under the MLA is \$76.6 out of which \$13.2 is recognized as a current liability on the consolidated balance sheet.

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The Company also has a finance lease arrangement for one Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 6.63%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in October 2020. As at June 30, 2018, the total outstanding balance of these finance lease arrangements is \$54.6 out of which \$4.0 is recognized as a current liability on the consolidated balance sheet.

During the six months ended June 30, 2018 the Company completed a sale and lease back arrangement for a Boeing 767-300 aircraft that includes a bargain purchase option. This lease is deemed to be maturing on the exercise date of the bargain purchase option within 3 years of the aircraft being ready for use. No gain or loss has been recognized on the sale and lease back arrangement.

On January 3, 2018 using the revolving credit facility, the Company paid the entire outstanding amount of \$17.7 net of \$0.5 of deposit in respect of the finance lease for one Boeing 757-200 aircraft ending in January 2018.

On March 27, 2018 the Company exercised the bargain purchase option for one Boeing 767-300 aircraft in respect of the finance lease ending in March 2018 and paid the entire outstanding amount thereof of \$20.9 net of \$8.4 of all unused reserves, heavy maintenance deposits and supplemental rent.

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligations as at June 30, 2018.

	Minimum lease payments	Present value of minimum lease payments
	\$	\$
Not later than one year	24.3	17.1
Later than one year and not later than five years	125.0	114.1
	149.3	131.2
Less: interest	18.1	-
Total obligations under finance leases	131.2	131.2
Less: current portion	17.2	17.2
Non-current portion	114.0	114.0

Interest amounts on the finance leases for the three and six months periods ended June 30, 2018 totaled \$2.3 and \$4.3 respectively (June 30, 2017 - \$2.3 and \$4.6 respectively).

8. PROVISIONS

The Company's aircraft operating lease agreement requires leased aircraft to be returned to the lessor in a specified operating condition. The Company has estimated that it will incur certain maintenance costs at the end of the lease terms and has recorded a maintenance provision liability for these costs. A reconciliation of the carrying amount of the provision is as follows:

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	June 30, 2018	December 31, 2017
	\$	\$
Balance, beginning of year	1.3	2.4
Recognition of provision for lease return conditions	-	0.6
Gain on derecognition of provision for lease return conditions	-	(1.6)
Accretion	-	0.1
Effects of exchange rate changes on the provision balance	0.1	(0.2)
Balance, end of year	1.4	1.3
Less: current portion	1.4	0.1
Non-current portion	-	1.2

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

9. CONVERTIBLE DEBENTURES

The balance of convertible debentures as at June 30, 2018 and December 31, 2017 consists of the following :

	June 30, 2018	December 31, 2017
	\$	\$
Convertible debentures - 4.65%	115.9	114.8
Balance	115.9	114.8

Convertible debentures – 4.65% due December 31, 2021

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

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The debt component is measured at amortized cost. The balance of the debt component as at June 30, 2018 and December 31, 2017 consists of the following:

	June 30, 2018	December 31, 2017
	\$	\$
Principal balance - beginning of year	125.0	125.0
Less:		
Issuance costs	(5.8)	(5.8)
Conversion option at inception	(7.1)	(7.1)
Accretion	3.8	2.7
Balance	115.9	114.8

Interest expense on the debentures for the three and six month periods ended June 30, 2018 totaled \$2.0 and \$4.0 respectively (June 30, 2017 - \$2.0 and \$4.0 respectively).

10. INCOME TAXES

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

	Three month periods ended		Six month periods ended	
	June 30, 2018	2017	June 30, 2018	2017
	\$	\$	\$	\$
Earnings before income taxes	6.9	6.0	13.4	9.8
Basic rate of 26.5% (2017 - 26.5%)	1.7	1.6	3.5	2.6
Exchange gains on capital loans	-	-	-	(0.1)
Share-based compensation	0.5	-	0.7	0.2
Meals and entertainment	0.1	0.1	0.1	0.1
Sundry items	(0.1)	(0.1)	(0.1)	-
Provision for income taxes	2.2	1.6	4.2	2.8

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The tax effect of significant temporary differences is as follows:

	December 31, 2017	Recognized in equity	Recognized in Profit & Loss	June 30, 2018
	\$	\$	\$	\$
Property, plant and equipment	20.5	-	4.2	24.7
Operating loss carryforward	(9.8)	-	(0.1)	(9.9)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Derivative contracts	(0.4)	-	0.3	(0.1)
Pension costs	(2.8)	-	(0.2)	(3.0)
Financing costs	(1.0)	-	0.5	(0.5)
Convertible debentures	1.5	-	(0.1)	1.4
Provision for lease retirement costs	(0.2)	-	(0.1)	(0.3)
Deferred heavy maintenance	6.3	-	(0.3)	6.0
Net deferred income tax liability	14.0	-	4.2	18.2

11. DIRECT EXPENSES

	Three month periods ended June 30,		Six month periods ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Fuel costs	26.8	16.6	49.7	33.8
Maintenance costs	7.6	5.9	14.6	12.0
Heavy maintenance amortization	2.7	2.1	5.3	4.6
Aircraft costs	5.1	5.6	8.8	10.9
Crew costs	6.2	6.2	13.1	12.0
Depreciation	12.3	8.7	24.2	16.5
Commercial and other costs	22.8	19.8	43.9	41.3
Direct expenses	83.5	64.9	159.6	131.1

12. GENERAL AND ADMINISTRATIVE EXPENSES

	Three month periods ended June 30,		Six month periods ended June 30,	
	2018	2017	2018	2017
	\$	\$	\$	\$
Salaries and benefits	5.4	5.5	10.7	10.7
Employee pension	0.4	0.3	0.9	0.5
Depreciation	0.5	0.3	1.0	0.6
Net realized foreign exchange losses	0.2	-	1.0	0.9
Bonuses and incentives	2.3	0.3	2.6	0.9
Audit, legal and consulting	0.5	0.4	1.0	0.6
IT network and communications	0.7	0.7	1.4	1.2
Other general and administrative	1.7	2.2	3.8	4.4
General and administrative expenses	11.7	9.7	22.4	19.8

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13. OTHER GAINS & LOSSES

	Three month periods ended		Six month periods ended	
	June 30,	2017	June 30,	2017
	2018		2018	
Gain on derecognition of provision for lease return conditions	-	-	-	(0.6)
Net (gain) loss on forward foreign exchange	(0.5)	1.1	(1.5)	1.8
Loss (gain) on cash settled share based payment arrangements and total return swap	0.2	(0.2)	(0.3)	(0.5)
Unrealized foreign exchange loss (gain)	0.4	(1.1)	1.4	(3.0)
Gain on disposal of property, plant and equipment	(0.4)	-	(0.4)	-
Other gain, net	(0.3)	(0.2)	(0.8)	(2.3)

14. SHAREHOLDERS' CAPITAL

a) Authorized

The Company is authorized to issue an unlimited number of no par value common voting shares, variable voting shares and preferred shares. The common voting shares are held only by shareholders who are "Canadian" as such term is defined in the Canada Transportation Act. The variable voting shares are held only by shareholders who are not Canadian. Under the articles of incorporation and bylaws of the Company, any common voting share that is sold to a non- Canadian is automatically converted to a variable voting share. Similarly, a variable voting share that is sold to a Canadian is automatically converted to a common voting share.

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

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

b) Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2017 to June 30, 2018:

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	Number of shares	Amount
		\$
Variable voting shares	291,652	3.8
Common voting shares	13,090,977	170.6
Outstanding- December 31, 2017	13,382,629	174.4
Changes during the year		
Restricted share units settled	28,882	0.7
Exercise of options	5,603	0.1
Conversion of convertible debentures	136	0.0
	13,417,250	175.2
Consisting of:		
Variable voting shares	272,935	3.6
Common voting shares	13,144,315	171.6
Outstanding- June 30, 2018	13,417,250	175.2

Dividends

Dividends to shareholders declared for the three and six month periods ended June 30, 2018 amounted to \$2.8 (\$0.2120 per share) and \$5.7 (\$0.4240 per share) respectively and for the three and six month periods ended June 30 2017 amounted to \$2.4 (\$0.1925 per share) and \$4.5 (\$0.3850 per share) respectively.

As at June 30, 2018, the dividend amount of \$2.8 was payable to the shareholders (June 30, 2017 - \$2.4).

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15. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the three and six month periods ended June 30, 2018 and 2017:

In \$ millions except per share	Three month periods ended		Six month periods ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Basic earnings per share				
Net earnings	\$4.7	\$4.4	\$9.2	\$7.0
Weighted average number of shares	13.4	11.1	13.4	10.9
Dilutive impact of share-based awards	0.1	0.2	0.1	0.2
Diluted weighted average number of shares	13.5	11.3	13.5	11.1
Total basic earnings per share	\$0.35	\$0.40	\$0.69	\$0.64
Total diluted earnings per share	\$0.35	\$0.39	\$0.68	\$0.63

The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the three and six months ended June 30, 2018 and 2017 as the impact would be anti-dilutive. Diluted earnings includes the potentially dilutive impact of share-based awards outstanding at year end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

16. FINANCIAL INSTRUMENTS

Derivative financial instruments

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

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

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

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Total return swap

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

The fair market value of the total return swap was \$2.1 in favour of the Company as at June 30, 2018 (December 31, 2017 - \$1.8) and is included under derivative financial instruments on the consolidated balance sheet. The change in the fair market value during the three and six month periods ended June 30, 2018 was a loss of \$0.2 and a gain of \$0.3 (for the three and six month period ended June 30, 2017 - \$0.2 and \$0.5 of gain respectively) and is included as other gains in the condensed consolidated interim statements of earnings and comprehensive income.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the Black Scholes model. This model uses the following inputs: market price of the underlying asset, strike price of the underlying asset, risk free rate, dividend yield and expected volatility. An increase or decrease of 10% in the market price of the underlying asset will result in a gain or loss of \$0.4 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

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

Fair Values

The fair value of the 4.65% convertible debentures as at June 30, 2018 was approximately \$123.5 (December 31, 2017-\$122.4). The fair value of the debentures was determined using the discounted cash flow method using the discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The fair value of the long-term debt as disclosed in Note 6 was approximately equal to its carrying value. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by \$2.5 respectively.

The fair values of all other financial assets and liabilities approximate their carrying values given the short-term nature of these items. The fair values of the interest rate swap and the forward contracts are the estimated amounts the issuer would receive or pay to terminate the agreement at the reporting date. Unrealized gains on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in the consolidated balance sheets.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2018 and 2017

(unaudited - in millions of Canadian dollars except where noted)

Forward Foreign Exchange Contracts

As at June 30, 2018, the Company had foreign exchange forward contracts outstanding to buy US \$12.0 at a weighted average contracted rate of CAD \$1.32285 per US dollar (December 31, 2017 – US\$ 38.0 at a weighted average contracted rate of CAD \$1.2993 per US dollar). The estimated value of the foreign exchange forward contracts as at June 30, 2018 is a payable of \$0.1 (December 31, 2017 – payable of \$1.6) and is included under derivative financial instruments on the balance sheet.

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

There are no other assets or liabilities recorded at fair value as at June 30, 2018 and December 31, 2017.