

Condensed Consolidated Financial Statements of



For the three month periods ended March 31, 2019 and 2018

(expressed in millions of Canadian dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets As at March 31, 2019 and December 31, 2018

(in millions of Canadian dollars)

	Note	March 31, 2019	December 31, 2018
		\$	\$
ASSETS			
CURRENT ASSETS			
Cash		0.5	-
Trade and other receivables		39.1	65.2
Inventories		1.6	1.6
Prepaid expenses and deposits		4.1	5.2
Income taxes recoverable		0.1	0.1
Derivative financial instruments	17	1.1	0.5
		46.5	72.6
NON-CURRENT ASSETS			
Property, plant and equipment	4,7	772.4	721.3
Goodwill	5	48.3	46.4
Intangible assets		2.0	2.0
Deposits		5.9	7.1
Deferred income taxes	11	3.5	3.5
		878.6	852.9
LIABILITIES			
CURRENT LIABILITIES			
Overdraft		-	0.9
Trade and other payables		36.4	44.4
Lease liabilities	2,8	39.8	25.2
Dividends payable		3.2	2.9
		79.4	73.4
NON-CURRENT LIABILITIES			
Borrowings	7	214.8	206.0
Lease liabilities	2,8	186.4	174.2
Provisions	9	0.3	1.4
Debentures	10	198.2	198.1
Deferred income taxes	11	27.3	26.6
Employees pension and option liability		16.4	15.5
		722.8	695.2
EQUITY			
		155.8	157.7
		878.6	852.9

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 month periods ended March 31, 2019 and 2018

(in millions of Canadian dollars except per share data)

		Three month periods ended March 31,	
	Note	2019	2018
		\$	\$
REVENUES		110.4	99.2
DIRECT EXPENSES	12	89.2	76.1
		21.2	23.1
General and administrative expenses	13	12.3	10.7
Sales and marketing expenses		0.8	0.4
Finance costs		9.9	6.0
Other gain, net	14	(2.5)	(0.5)
		20.5	16.6
EARNINGS BEFORE INCOME TAXES		0.7	6.5
PROVISION FOR INCOME TAXES	11		
Deferred		0.7	2.0
NET EARNINGS AND COMPREHENSIVE INCOME		-	4.5
EARNINGS PER SHARE	16		
- Basic		\$-	\$0.34
- Diluted		\$-	\$0.33

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CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity

Three month periods ended March 31, 2019 and 2018

(in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2019		177.9	2.1	5.1	8.0	(35.4)	157.7
Net earnings and comprehensive income		-	-	-	-	-	-
Share-based compensation	6	-	0.6	-	-	-	0.6
Convertible debenture-conversion		0.7	-	-	-	-	0.7
Dividends	15	-	-	-	-	(3.2)	(3.2)
Balance, March 31, 2019		178.6	2.7	5.1	8.0	(38.6)	155.8
Balance, January 1, 2018		174.4	2.6	5.1	8.0	(35.5)	154.6
Net earnings and comprehensive income		-	-	-	-	4.5	4.5
Restricted shares and options vested and exercised		0.8	(0.8)	-	-	-	-
Share-based compensation		-	0.6	-	-	-	0.6
Tax paid on vested RSU's and options		-	(1.7)	-	-	-	(1.7)
Dividends	15	-	-	-	-	(2.8)	(2.8)
Balance, March 31, 2018		175.2	0.7	5.1	8.0	(33.8)	155.2

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CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows Three month periods ended March 31, 2019 and 2018

(in millions of Canadian dollars)

	Note	Three months ended March 31,	
		2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		-	4.5
Items not affecting cash			
Depreciation of property, plant and equipment	4	23.5	15.0
Share-based compensation	6	0.9	0.6
Finance costs		9.9	6.0
Employees pension liability		0.7	0.5
Income tax provision	11	0.7	2.0
Other gains	17	(0.6)	(0.5)
		35.1	28.1
Items affecting cash			
Interest paid		(9.1)	(5.4)
		26.0	22.7
Changes in non-cash working capital items and deposits			
Trade and other receivables		26.1	4.3
Inventories		-	(0.8)
Prepaid expenses and deposits		2.3	(4.7)
Trade and other payables		(8.1)	(7.0)
NET CASH GENERATED FROM OPERATING ACTIVITIES		46.3	14.5
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	4	(34.7)	(26.8)
Proceeds from sale and lease back of aircraft		-	10.3
Acquisition of business	5	(3.1)	-
NET CASH USED IN INVESTING ACTIVITIES		(37.8)	(16.5)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		8.8	46.9
Repayment of obligations under lease liabilities	2,8	(10.2)	(47.5)
Tax paid on vested RSU's and options		-	(1.7)
Dividends paid to shareholders	15	(2.9)	(2.6)
NET CASH USED IN FINANCING ACTIVITIES		(4.3)	(4.9)
EFFECT OF EXCHANGE RATE CHANGES		(2.8)	0.3
NET CHANGE IN CASH		1.4	(6.6)
(OVERDRAFT) CASH, BEGINNING OF PERIOD		(0.9)	5.7
CASH (OVERDRAFT), END OF PERIOD		0.5	(0.9)

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

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(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, Mexico 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 May 6, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”) 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”), Services Aeroportuaires G.E.S. Inc. (“GTA”), Cargojet Partnership (“CJP”) and Aeroship Handling Ltd. (“AH”).

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

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 year ended December 31, 2018 and 2017.

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 year ended December 31, 2018 and 2017.

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(in millions of Canadian dollars except where noted)

Accounting changes

Accounting standards effective for 2019

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. The liability will adjust for any prepayments, lease incentives received initial direct costs incurred and an estimation of future restoration, removal or dismantling costs. Straight-line basis of recognition of lease costs will be replaced with a depreciation charge and interest expense on the recognized leased liability. In the statement of cash flows, lease payments will be included in financing activities for principal repayments and operating activities for related interest charge. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

The following is the Company's new accounting policy for leases under "IFRS 16"

The Company has applied the standard effective January 1, 2019 using a simplified approach. Under this approach, the Company has determined the effect of applying the standard on the existing leases as at January 1, 2019, the initial date of application. The comparative information has not been restated and will continue to be reported under IAS 17 and IFRIC 4. The Company has elected to use the practical expedients under the simplified approach. The Company will use interest rate implicit in the lease for discounting the lease payments to determine its lease liability and right-of-use asset at the present value of the remaining lease payments if the rate can be readily determined. Otherwise, incremental borrowing rate will be used. It has also elected not to apply the provisions of the standard to short-term leases or where the underlying asset is of low value.

Accounting for right-of-use asset and lease liability

The Company has one aircraft under operating lease and has recorded the asset in use and the lease liability in accordance with the requirements of the standard. The Company has leased hangars and warehouses at its airport locations and has recorded the right-of-use asset and the lease liability under the standard.

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Leases are recognized as right-of-use assets and a corresponding liability is recognized at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the Consolidated Statements of Earnings and Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets will be accounted for under IAS 16 Property, Plant and Equipment. Aircraft recorded as right-of-use assets will have the same accounting policies as directly owned aircraft, meaning the right-of-use assets will be componentized and depreciated over the lease term. In accordance with its policy on owned aircrafts, any qualifying maintenance events will be capitalized and depreciated over the lesser of the lease term and expected maintenance life. Maintenance provisions for end-of-lease return obligations will be recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease. Any changes to the provision for end-of-lease conditions will be recognized as an adjustment to the right-of-use asset and subsequently amortized to the income statement over the remaining term of the lease.

Critical judgements in applying IFRS 16

The application of IFRS 16 requires assumptions and estimates in order to determine the value of right-of-use assets and lease liabilities, following are some of the judgements exercised by the Company:

- Judgement related to discount rate used for discounting the lease payments to determine value of lease asset in use and recognition of related obligation.
- Judgement required for the assessment of whether it is reasonably certain that the option to renew of the lease will be exercised (or not exercised) for determination of lease period
- Judgement may also be required in assessing whether a contract contains a lease or not.

Impact to Consolidated Financial Statements

Aircraft and property lease rent costs have been eliminated and replaced with amortization of right-of-use assets and interest costs on the liabilities. Qualified maintenance expense on aircraft is capitalized as part of the right-of-use asset and amortized over the lease period. Revaluation of the aircraft liability denominated in US dollars has resulted in exchange gains or losses due to volatility in exchange rates.

Assets and liabilities have increased as at Jan 1, 2019, by the value of the right-of-use assets and corresponding liabilities of \$31.3. During the period ending on March 31, 2019, The Company recognized \$0.6 amount of interest on lease liability as part of finance costs and \$2.3 amount of amortization of the right of use asset in depreciation and amortization as part of direct expenses.

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Reconciliation of lease liability pursuant to IFRS 16		\$
Off Balance sheet lease obligation as on December 31, 2018		23.2
Less:	Leases of low value assets	(0.3)
	Current lease with term of 12 months or less	(0.2)
Add:	Aircraft lease changes due to election of practical expedient	1.9
	Property lease changes due to extension and termination options	3.6
	Property lease changes due to election of practical expedient	2.6
Lease liability as on January 01, 2019		30.8
Add:	Additional property lease liabilities recognized	0.5
Less:	Lease payments	(1.9)
Lease liability as on March 31, 2019		29.4
	Right of use assets - Aircraft	5.6
	Right of use assets - Hangars and Warehouses	25.7
Total Right-of-use assets		31.3
Depreciation of right of use-assets		2.3
Interest expense on lease liabilities		0.6

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:

	March 31, 2019	March 31, 2018
	\$	\$
Revenue from air cargo services	107.9	97.3
Revenue from other sources	2.5	1.9
Total revenue	110.4	99.2

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Notes to the Condensed Consolidated Interim Financial Statements

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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

	March 31, 2019	March 31, 2018
	\$	\$
Core Overnight	61.1	56.0
Fuel and Other Surcharges	24.9	24.9
ACMI	15.4	9.4
All-in charter	6.5	7
Total revenue	107.9	97.3

Contract assets and liabilities

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

	March 31, 2019	December 31, 2018
	\$	\$
Trade receivables	31.2	57.2
Other receivables	2.1	2.9
Total contract assets	33.3	60.1
Contract liability - expected rebates to customers	0.2	0.4
Total contract liabilities	0.2	0.4

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4. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2019	Adjustments due to adoption of IFRS 16	Additions	Transfers	Disposal	Balance as at March 31, 2019
	\$	\$	\$	\$	\$	\$
Aircraft hull	375.4	-	-	22.9	(3.1)	395.2
Engines	246.0	-	4.3	71.1	(1.0)	320.4
Right of Use - Assets	-	31.3	-	-	-	31.3
Spare parts	6.9	-	0.3	-	-	7.2
Ground equipment	40.4	-	2.5	-	-	42.9
Rotable spares	36.0	-	2.1	-	-	38.1
Computer hardware and software	11.2	-	0.4	0.1	-	11.7
Furniture and fixtures	3.4	-	-	-	-	3.4
Leasehold improvements	22.0	-	-	0.3	-	22.3
Vehicles	3.2	-	-	-	-	3.2
Hangar and cross-dock facilities	24.1	-	-	-	-	24.1
Property, plant and equipment under development	115.3	-	28.1	(96.8)	-	46.6
Deferred heavy maintenance	71.4	-	5.6	2.4	-	79.4
	<u>955.3</u>	<u>31.3</u>	<u>43.3</u>	<u>-</u>	<u>(4.1)</u>	<u>1,025.8</u>

Accumulated Depreciation & Impairment	Balance as at January 1, 2019	Depreciation	Adjustment s	Balance as at March 31, 2019	Net Book Value March 31, 2019
	\$	\$	\$	\$	\$
Aircraft hull	60.3	4.5	(3.1)	61.7	333.5
Engines	77.0	9.8	(1.0)	85.8	234.6
Right of Use - Assets	-	2.3	-	2.3	29.0
Spare parts	-	-	-	-	7.2
Ground equipment	15.6	0.8	-	16.4	26.5
Rotable spares	13.0	1.1	-	14.1	24.0
Computer hardware and	7.9	0.4	-	8.3	3.4
Furniture and fixtures	1.7	0.1	-	1.8	1.6
Leasehold improvements	10.0	0.4	-	10.4	11.9
Vehicles	1.9	-	-	1.9	1.3
Hangar and cross-dock facilities under development	8.0	0.4	-	8.4	15.7
Deferred heavy maintenance	-	-	-	-	46.6
	<u>38.6</u>	<u>3.7</u>	<u>-</u>	<u>42.3</u>	<u>37.1</u>
	<u>234.0</u>	<u>23.5</u>	<u>(4.1)</u>	<u>253.4</u>	<u>772.4</u>

CARGOJET INC.

Notes to the Condensed Consolidated Interim Financial Statements

March 31, 2019 and 2018

(in millions of Canadian dollars except where noted)

Cost	Balance as at	Additions	Transfers	Adjustments	Balance as at
	January 1, 2018				December 31, 2018
	\$	\$	\$		\$
Aircraft hull	296.7	40.0	40.3	(1.6)	375.4
Engines	173.6	52.2	20.9	(0.7)	246.0
Spare parts	4.0	2.9	-	-	6.9
Ground equipment	37.8	2.6	-	-	40.4
Rotable spares	35.4	7.8	-	(7.2)	36.0
Computer hardware and software	9.9	0.6	0.7	-	11.2
Furniture and fixtures	3.1	0.3	-	-	3.4
Leasehold improvements	20.8	1.1	0.1	-	22.0
Vehicles	3.1	0.1	-	-	3.2
Hangar and cross-dock facilities	24.1	-	-	-	24.1
Property, plant and equipment under development	31.7	146.2	(62.6)	-	115.3
Deferred heavy maintenance	50.7	22.5	0.6	(2.4)	71.4
	690.9	276.3	-	(11.9)	955.3

Accumulated Depreciation & Impairment	Balance as at	Depreciation	Disposals/ Transfers	Balance as at	Net Book
	January 1, 2018			December 31, 2018	Value December 31, 2018
	\$	\$	\$	\$	\$
Aircraft hull	45.9	15.3	(0.9)	60.3	315.1
Engines	50.3	27.2	(0.5)	77.0	169.0
Spare parts	-	-	-	-	6.9
Ground equipment	12.7	2.9	-	15.6	24.8
Rotable spares	15.4	4.5	(6.9)	13.0	23.0
Computer hardware and software	6.7	1.2	-	7.9	3.3
Furniture and fixtures	1.6	0.1	-	1.7	1.7
Leasehold improvements	8.7	1.3	-	10.0	12.0
Vehicles	1.5	0.4	-	1.9	1.3
Hangar and cross-dock facilities	7.1	0.9	-	8.0	16.1
Property, plant and equipment under development	-	-	-	-	115.3
Deferred heavy maintenance	26.3	12.3	-	38.6	32.8
	176.2	66.1	(8.3)	234.0	721.3

Property, plant and equipment under development of \$46.6 (2018 - \$115.3) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

During the three months ended March 31, 2019, the Company completed the acquisition of one Boeing 767-300 aircraft under a finance lease term and two 767-300 aircraft engines using the revolving credit facility and term loan. The Company also sold one Boeing 727-200 aircraft that was previously owned and recorded as Aircraft hull and Engines for \$0.6 and surplus spares for \$0.1 resulting in a total gain of \$0.7.

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Notes to the Condensed Consolidated Interim Financial Statements

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(in millions of Canadian dollars except where noted)

Depreciation expense on property, plant and equipment for the three month period ended March 31, 2019 totaled \$23.5 (2018 - \$15.0) out of which \$22.9 (2018 - 14.5) was recorded in direct expenses and \$0.6 (2018 - 0.5) was recorded in general and administrative expenses.

5. BUSINESS COMBINATION

On January 31, 2019, the Company acquired all of the outstanding shares of Services Aeroportuaires G.E.S. Inc., DBA, GTA Aviation thus obtaining control. Cash consideration paid for the acquisition was \$3.1. The Company determined that the transaction represented a business combination with Company being identified as an acquirer. The Company accounted for the combination under the acquisition method.

The Company acquired assets comprised of ground service equipment of total fair value of \$1.2. Goodwill of \$1.9 was recognized as difference in fair value of the asset acquired and the consideration paid. The Company's preliminary purchase price allocation for the acquisition is as follows:

	\$
Goodwill	1.9
Property plant and equipment	1.2
Consideration paid	3.1

6. 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. Option holder can also request to settle options in cash subject to the approval by the management of the Company.

There are 56,820 remaining RSUs out of which 38,477 granted in the prior years will vest in the second quarter of 2019.

The RSU activity for the three month period ended March 31, 2019 and year ended 2018 is summarized below:

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	Number of RSUs	Fair value \$
Balance at January 1, 2018	63,276	1.1
Granted in the year	56,566	3.6
Share dividend	622	-
Share based compensation-Vested and settled	(62,789)	(1.7)
Share based compensation-Unvested and amortized	-	(1.8)
Balance at December 31, 2018	57,675	1.2
Share dividend	-	-
Share based compensation-Vested and settled	-	-
Share based compensation-Unvested and amortized	-	(0.6)
Forfeited during the period	(855)	-
Balance at March 31, 2019	56,820	0.6

During the period ended March 31, 2019, the total share based compensation expense of \$0.6 related to settled and unvested RSUs was included in the consolidated statements of earnings and comprehensive income (for the period ended March 31, 2018 – \$0.5). Unrecognized share-based compensation expense as at March 31, 2019 related to these RSUs was \$0.6 (March 31, 2018 – \$0.6) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

Options :

The Options activity during the three month period ended March 31, 2019 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in \$
Balance as at January 1, 2019	208,656	\$61.87
Forfeited during the period	(4,288)	\$25.91
Exercised during the period	(26,670)	\$64.23
Balance as at March 31, 2019	177,698	\$62.39
Vested & exercisable at March 31, 2019	54,368	\$58.21

As at March 31, 2019, there were 54,368 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 1.5 years.

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During the period ended March 31, 2019, certain executives exercised 26,670 Options granted on May 23, 2018, when the volume weighted average trading price per share was \$84.75. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed to the executives 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 \$0.4 was issued to the executives for vested and exercised Options and the Company remitted an amount of \$0.1 equal to the monetary value of the tax obligation determined based on the Market price of the shares.

The Company recognized an expense of \$0.3 in share based compensation expense due to change in the fair value of Option.

Weighted average assumptions on grant date

	23-May-18 Series 4	17-Nov-16 Series 3	28-Mar-16 Series 2	15-Jun-15 Series 1
Exercise price redemption	\$64.23	\$47.22	\$26.50	\$25.47
Expected volatility	27.97%	32.96%	32.40%	22.60%
Option life in years	3-5	3	5	5
Dividend yield	1.33%	1.41%	2.50%	2.40%
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	177,698	19,220	-	-
Fair value per option on grant date	\$14.50	\$10.41	\$5.43	\$4.98
Fair value per option March 31, 2019	\$23.48	\$33.08	-	-

7. BORROWINGS

Borrowings consist of the following:

	March 31, 2019	December 31, 2018
Revolving credit facility	\$ 214.6	\$ 205.8
Other borrowings	0.2	0.2
Long-term portion	214.8	206.0

Revolving syndicate credit facility and term loan

The Company has a revolving operating credit facility (the "facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") in the principal amount of \$400. The facility bears interest payable monthly; at the lead Lender's prime lending rate / US base rate plus 125 basis points to 175 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. The maturity date of the facility is April 8, 2024 (See Note 18 – Subsequent Events).

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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 March 31, 2019 and 2018.

Included in the consolidated statement of earnings and comprehensive income for the three month period ended March 31, 2019 was interest expense on the revolving credit facility of \$2.6 respectively (2018 - \$1.6 respectively).

8. LEASE LIABILITIES

The Company has a Master Capital Lease Agreement ("MLA") with an equipment finance and leasing company. 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 March 31, 2019 and December 31, 2018.

As at March 31, 2019, the total outstanding balance of the leases under the MLA is \$65.7 out of which \$9.2 is recognized as a current liability on the consolidated balance sheet.

The Company also has lease arrangements for three Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rate for these leases are 6.6%, 6.5% and 5.9% respectively. These leases are deemed to be maturing on the exercise date of the bargain purchase options in October 2020, October 2021 and November 2023 respectively. As at March 31, 2019, the total outstanding balance of these finance lease arrangements is \$105.6 out of which \$17.0 is recognized as a current liability on the consolidated balance sheet.

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During the three month period ended March 31, 2019 the Company entered into a lease arrangement for one Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 7.2%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in December 2021 or at the end of the lease term in December 2023. As at March 31, 2019, the total outstanding balance of these finance lease arrangements is \$25.6 out of which \$5.7 is recognized as a current liability on the consolidated balance sheet.

During the three month period ended March 31, 2019 the Company has adopted IFRS 16 (Leases) on a simplified basis. The Company has recognized a right-of-use asset and lease liability of \$31.3 (See Note 2 Summary of Significant Accounting Policies) As at March 31, 2019, the total outstanding balance of the lease liabilities is \$29.4 out of which \$7.9 is recognized as a current liability on the consolidated balance sheet.

The following is a schedule of future minimum annual lease payments for aircraft, hangars and warehouses under leases together with the balance of the obligations as at March 31, 2019.

	Minimum lease payments	Present value of minimum lease payments
	\$	\$
Not later than one year	55.2	41.1
Later than one year and not later than five years	193.9	174.0
Later than five years	14.5	11.1
	263.6	226.2
Less: interest	37.4	-
Total obligations under finance leases	226.2	226.2
Less: current portion	39.8	39.8
Non-current portion	186.4	186.4

Interest amounts on the lease liabilities for the three month period ended March 31, 2019 totaled \$4.0 respectively (2018 - \$2.3 respectively).

9. PROVISIONS

The Company's aircraft operating lease agreement requires leased aircraft to be returned to the lessor in a specified operating condition. The Company initially 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:

	March 31, 2019	December 31, 2018
	\$	\$
Balance, beginning of period	1.4	1.3
Settlement of provision for lease return conditions	(1.1)	-
Accretion	-	0.1
Balance, end of period	0.3	1.4
Non-current portion	0.3	1.4

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The provision for lease return conditions represented 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. Any subsequent change in estimate will be accounted in accordance with IFRIC 1 with corresponding change in right of use asset.

10. DEBENTURES

The balance of debentures as at March 31, 2019 and December 31, 2018 consists of the following :

	March 31, 2019	December 31, 2018
	\$	\$
Convertible debentures - 4.65%	115.6	115.7
Hybrid debentures - 5.75%	82.6	82.4
Balance	198.2	198.1

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 due December 31, 2021. 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.

The debt component is measured at amortized cost. The balance of the debt component as at March 31, 2019 and December 31, 2018 consists of the following:

	March 31, 2019	December 31, 2018
Principal balance - beginning of period	115.7	125.0
Less:		
Issuance costs	-	(5.8)
Conversion option at inception	-	(7.1)
Accretion during the period	0.6	5.0
Converted during the period	(0.7)	(1.4)
Balance	115.6	115.7

Interest expense on the convertible debentures for the three month period ended March 31, 2019 and 2018 totaled \$2.0 and \$2.0 respectively.

Hybrid debentures – 5.75% due April 30, 2024

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In November 2018, \$86.3 of senior unsecured debentures were issued at a price of 1000 (dollars) per debenture with a term of five years due April 30, 2024. These debentures bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing April 30, 2019. The intended use of the net proceeds of the debentures is to pay down the credit facility and fund anticipated capital expenditures, including aircraft in the future.

On or after April 30, 2022, but prior to April 30, 2023, the debentures are redeemable, in whole at any time or in part from time to time at the option of the Company at a price equal to 102.875% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after April 30, 2023, but prior to the maturity date of April 30, 2024, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on April 30, 2024, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

In the event of a change in control, as defined in the indenture, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest.

The 5.75% debentures were therefore recorded as a financial instrument. The debt was recorded at fair value of \$82.4 net of deferred financing costs of \$3.9. Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics are closely related to the host contract and therefore were not accounted for as separate financial instruments.

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at March 31, 2019 and December 31, 2018 consists of the following:

	March 31, 2019	December 31, 2018
Principal balance - beginning of period	\$ 82.4	\$ 86.3
Less:		
Issuance costs	-	(4.0)
Accretion during the period	0.2	0.1
Balance - end of period	82.6	82.4

Interest expense on the hybrid debentures for the three month period ended March 31, 2019 and 2018 totaled \$1.4 and \$nil respectively.

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11. INCOME TAXES

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

	March 31, 2019	March 31, 2018
	\$	\$
Earnings before income taxes	0.7	6.5
Basic rate of 26.5% (2019 - 26.5%)	0.2	1.7
Share - based compensation	0.4	0.2
Sundry items	0.1	0.1
Provision for income taxes	0.7	2.0

The tax effect of significant temporary differences is as follows:

	December 31, 2018	Recognized in equity	Recognized in Profit & Loss	March 31, 2019
	\$	\$	\$	\$
Property, plant and equipment	26.3	-	3.4	29.7
Operating loss carryforward	(8.8)	-	(4.1)	(12.9)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Pension costs	(3.5)	-	(0.2)	(3.7)
Financing costs	(0.2)	-	0.3	0.1
Convertible debentures	1.2	-	(0.2)	1.0
Provision for lease retirement costs	(0.4)	-	0.3	(0.1)
Deferred heavy maintenance	8.6	-	1.2	9.8
Net deferred income tax liability	23.1	-	0.7	23.8

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12. DIRECT EXPENSES

	March 31, 2019	March 31, 2018
	\$	\$
Fuel costs	23.9	22.9
Maintenance costs	8.5	7.0
Heavy maintenance amortization	3.7	2.6
Aircraft costs	2.4	3.7
Crew costs	8.0	6.9
Depreciation	19.2	11.9
Commercial and other costs	23.5	21.1
Direct expenses	89.2	76.1

13. GENERAL AND ADMINISTRATIVE EXPENSES

	March 31, 2019	March 31, 2018
	\$	\$
Salaries and benefits	5.7	5.3
Employee pension	0.7	0.5
Depreciation	0.6	0.5
Net realized foreign exchange loss	0.4	0.8
Bonuses and incentives	1.0	0.3
Audit, legal and consulting	0.5	0.5
IT network and communications	0.8	0.7
Other general and administrative expenses	2.6	2.1
General and administrative expenses	12.3	10.7

14. OTHER GAINS & LOSSES

	March 31, 2019	March 31, 2018
Net gain on forward foreign exchange contracts	-	(1.0)
Gain on cash settled share based payment arrangements and total return swap	-	(0.5)
Unrealized foreign exchange (gain) loss	(1.8)	1.0
Gain on disposal of property, plant and equipment	(0.7)	-
Other gain, net	(2.5)	(0.5)

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15. 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, 2018 to March 31, 2019:

	Number of shares	Amount \$
Variable voting shares	343,887	4.55
Common voting shares	13,109,090	173.35
Outstanding- December 31, 2018	13,452,977	177.90
Changes during the year:		
Conversion of convertible debentures	11,830	0.70
	13,464,807	178.60
Consisting of:		
Variable voting shares	452,243	6.00
Common voting shares	13,012,564	172.60
Outstanding- March 31, 2019	13,464,807	178.60

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Dividends

Dividends to shareholders declared for the three month period ended March 31, 2019 amounted to \$3.2 (\$0.2340 per share) March 31, 2018 amounted to \$2.8 (\$0.2120 per share) respectively for both common and variable shares.

As at March 31, 2019, the dividend amount of \$3.2 was payable to the shareholders (March 31, 2018 - \$2.8).

16. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the period ended March 31, 2019 and 2018:

	March 31,	March 31,
	2019	2018
Basic earnings per share		
Net earnings	-	\$4.5
Weighted average number of shares	13.5	13.4
Dilutive impact of share-based awards	0.1	0.1
Diluted weighted average number of shares	13.6	13.5
Total basic earnings per share	\$-	\$0.34
Total diluted earnings per share	\$-	\$0.33

The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the three month period ended March 31, 2019 and 2018 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.

17. 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 recently changed its method of settlement of options issued under the Stock Option Plan for executives and management by providing a choice to settle either in (i) fully paid Common Voting Shares or Variable Voting Shares, as applicable, or (ii) as a cash payment subject to management's approval. Due to this change in the settlement practice and on subsequent establishment of the present obligation to settle in cash, a prospective change was made to account for the options as cash-settled liabilities. Accordingly, the Company's ultimate obligation will depend on the difference between the exercise price of 208,656 outstanding options and the market price on the date when the option holders exercise these options. In September 2018, the Company entered into a total return swap agreement with a financial institution to manage its exposure under this obligation. Under the agreement, the Company will pay interest to the financial institution based on Canadian dollar LIBOR and 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 total return swap has a one-year term, may be extended annually, and the contract allows for early termination at the option of the counterparties.

The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. However, the Company adopted the policy of offsetting the fair value changes of the recognized option liability and the total return swap in the statement of Consolidated Statement of Earnings and Comprehensive Income. The fair value of the 208,656 underlying shares under swap was \$1.1 in favor of the Company and is offset by salaries and benefits 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 \$0.2 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 March 31, 2019 was approximately \$124.8 (March 31, 2018-\$124.4). 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 7 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 \$4.1 respectively.

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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.

18.SUBSEQUENT EVENTS

5.75% Hybrid Debenture Issue

On April 2, 2019 The Company entered into an agreement with a syndicate of underwriters under which the underwriters have agreed to purchase \$100 aggregate principal amount of listed senior unsecured hybrid debentures due April 30, 2024 (the "Debentures") at a price of \$1,000 per Debenture (the "Offering"). The Offering closed on April 16, 2019. The Company had also granted the underwriters an option to purchase up to an additional \$15 aggregate principal amount of Debentures, on the same terms and conditions, exercisable in whole or in part, for a period of 30 days following closing of the Offering. The underwriters provided the Company with a notice of exercise on April 26, 2019 for the full amount of the option to purchase an additional \$15 aggregate principal amount of Debentures.

Changes in revolving credit facility

On April 7, 2019, 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, amending the pricing grid applicable to all loans, increasing the leverage ratio and extending the maturity date of the facility to expire on April 8, 2024.

Aircraft Hangar

On April 30, 2019, the Company acquired an aircraft hangar of approximate area of 19,952 square meter and associated space at the John C. Munro Hamilton International Airport for a consideration of \$6.7.