Condensed Consolidated Interim Financial Statements of

CARGOJET

For the three and nine month periods ended September 30, 2020 and 2019

(unaudited - expressed in millions of Canadian dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets
As at September 30, 2020 and December 31, 2019

(unaudited - in millions of Canadian dollars)

	Note	September 30, 2020	December 31, 2019
		$	$
ASSETS			
CURRENT ASSETS			
Cash		1.4	1.6
Trade and other receivables		47.5	51.3
Inventories		1.6	2.3
Prepaid expenses and deposits		4.6	6.9
Income taxes recoverable		0.1	0.1
Derivative financial instruments	19	38.1	8.3
		93.3	70.5
NON-CURRENT ASSETS			
Property, plant and equipment	5,8	914.1	890.2
Goodwill		48.3	48.3
Intangible assets		2.0	2.0
Deposits		7.1	6.1
Contract assets	4	71.3	78.0
Deferred income taxes	11	3.2	3.2
		1,139.3	1,098.3
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		72.2	51.6
Lease liabilities	9	65.7	59.3
Dividends payable		3.6	3.6
		141.5	114.5
NON-CURRENT LIABILITIES			
Borrowings	8	62.0	244.2
Lease liabilities	9	109.8	137.0
Stock warrant obligations	4	203.5	73.5
Debentures	10	304.4	193.3
Deferred income taxes	11	66.5	35.5
Employee pension and share-based compensation	7	52.6	24.1
		940.3	822.1
EQUITY		199.0	276.2
		1,139.3	1,098.3

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

CARGOJET INC.

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

Three and Nine Month Periods ended September 30, 2020 and 2019

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

	Note	Three months ended September 30, 2020	Three months ended September 30, 2019	Nine months ended September 30, 2020	Nine months ended September 30, 2019
		$	$	$	$
REVENUES	3	162.3	117.4	481.4	346.9
DIRECT EXPENSES	12	104.0	87.6	300.2	269.3
		58.3	29.8	181.2	77.6
General and administrative expenses	13	14.2	16.2	67.3	41.5
Sales and marketing expenses		0.3	0.4	3.7	2.2
Gain on swap derivative	19	(5.3)	(2.3)	(16.8)	(2.3)
Impairment of property, plant and equipment	5	0.6	-	0.6	-
Finance costs	14	10.4	11.6	30.0	32.2
Fair value adjustment on stock warrant	4	47.2	(10.6)	130.0	(10.6)
Other (gain) loss, net	15	(2.2)	0.7	2.7	(6.4)
		65.2	16.0	217.5	56.6
(LOSS) EARNINGS BEFORE INCOME TAXES		(6.9)	13.8	(36.3)	21.0
PROVISION FOR INCOME TAXES	11				
Deferred		13.5	2.0	31.0	4.9
NET (LOSS) EARNINGS and COMPREHENSIVE (LOSS) INCOME		(20.4)	11.8	(67.3)	16.1
NET (LOSS) EARNINGS PER SHARE	18				
- Basic and Diluted		$(1.31)	$0.87	$(4.32)	$1.19

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity
Nine month periods ended September 30, 2020 and 2019

(unaudited - in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, January 1, 2020		298.2	2.4	-	13.1	(37.5)	276.2
Net loss and comprehensive loss		-	-	-	-	(67.3)	(67.3)
Share-based compensation	7	-	3.5	-	-	-	3.5
Restricted shares, vested and exercised	17,7	1.8	(1.8)	-	-	-	-
Withholding tax paid on vested RSU's	7	-	(2.1)	-	-	(0.4)	(2.5)
Dividends	17	-	-	-	-	(10.9)	(10.9)
Balance, September 30, 2020		300.0	2.0	-	13.1	(116.1)	199.0
Balance, January 1, 2019		177.9	2.1	5.1	8.0	(35.4)	157.7
Net earnings and comprehensive income		-	-	-	-	16.1	16.1
Dividend Shares		0.1	-	-	-	-	0.1
Restricted shares vested and exercised		1.4	(1.4)	-	-	-	-
Share-based compensation		-	2.2	-	-	-	2.2
Withholding tax paid on vested RSU's and options		-	(1.6)	-	-	(0.6)	(2.2)
Convertible debenture-conversion		4.0	-	(0.2)	0.2	-	4.0
Dividends	17	-	-	-	-	(9.5)	(9.5)
Balance, September 30, 2019		183.4	1.3	4.9	8.2	(29.4)	168.4

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows
Nine month periods ended September 30, 2020 and 2019

(unaudited - in millions of Canadian dollars)

	Note	Nine months ended September 30, 2020	2019
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) earnings		(67.3)	16.1
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	4,5	79.3	70.5
Share-based compensation	7	24.5	6.1
Finance costs	14	30.0	32.2
Crew Incentive	7	5.8	0.8
Gain on disposal of property, plant and equipment	5	(0.7)	(1.0)
Impairment of property, plant and equipment	5	0.6	-
Employee pension liability	13	3.2	2.0
Income tax provision	11	31.0	4.9
Fair value adjustment on stock warrant	4	130.0	(10.6)
Gain on total return swap	19	(44.3)	(9.7)
Unrealized foreign exchange loss (gain)	15	3.3	(3.9)
Interest paid		(18.5)	(18.0)
Cash generated from operating activities		176.9	89.4
Changes in non-cash working capital items and deposits			
Contract acquisition asset		-	(6.5)
Trade and other receivables		4.0	25.4
Inventories		0.7	0.3
Prepaid expenses and deposits		1.3	0.7
Trade and other payables		21.0	5.0
NET CASH GENERATED FROM OPERATING ACTIVITIES		203.9	114.3
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(93.1)	(163.9)
Proceeds from disposal of property, plant and equipment		0.7	1.0
Proceeds from Insurance claim		3.6	-
Proceeds from total return swap & settlement of derivative financial instrument	19	14.5	4.0
Acquisition of business		-	(3.1)
Settlement of provision		-	(1.4)
NET CASH USED IN INVESTING ACTIVITIES		(74.3)	(163.4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(182.3)	(61.7)
Proceeds from borrowings		-	57.2
Repayment of obligations under lease liabilities	9,6	(42.1)	(41.6)
Options settled in cash		(1.8)	(2.3)
Proceeds from debenture issuance net of issuance costs	10	109.9	109.7
Withholding tax paid on vested RSU's		(2.5)	(2.2)
Dividends paid to shareholders	17	(11.0)	(9.2)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		(129.8)	49.9
NET CHANGE IN CASH		(0.2)	0.8
CASH (BANK OVERDRAFT) , BEGINNING OF PERIOD		1.6	(0.9)
CASH (BANK OVERDRAFT), END OF PERIOD		1.4	(0.1)

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

1. NATURE OF THE BUSINESS

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

Cargojet is publicly listed with shares and hybrid 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 by the Board of Directors on October 30, 2020 and authorized for issuance on November 3, 2020.

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 2422311 Ontario Inc., Cargojet Airways Ltd. ("CJA") 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, 2019 and 2018.

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, 2019 and 2018.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has recognized the following amounts relating to revenue in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income:

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Revenue from air cargo services	155.8	113.4	466.8	336.1
Revenue from other sources	6.5	4.0	14.6	10.8
Total revenue	162.3	117.4	481.4	346.9

Revenue recognized at a point of time

	Three month period ended September 30,		Nine month period ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Domestic Network	75.5	63.8	211.1	189.6
Fuel and Other Surcharges	22.2	28.1	63.3	81.0
ACMI	37.1	16.0	89.2	47.2
All-in charter	22.2	5.8	105.1	19.3
Ground handling and maintenance revenue	3.0	1.9	7.6	5.6
Total revenue	160.0	115.6	476.3	342.7

The following revenue streams are recognized from the transfer of services over time:

Revenue recognized from transfer of services over time

	Three month period ended September 30,		Nine month period ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
All-in-charter	1.6	-	3.4	0.2
Hangar rental and other revenue	0.7	1.8	1.7	4.0
Total revenue	2.3	1.8	5.1	4.2

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

Contract assets and liabilities

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

	September 30, 2020	December 31, 2019
	$	$
Contract asset	71.3	78.0
Trade receivables	44.3	38.1
Other receivables	3.2	13.2
Total contract assets	118.8	129.3
Stock warrant obligations	203.5	73.5
Contract liability - expected rebates to customers	4.0	0.6
Total contract liabilities	207.5	74.1

4. STOCK WARRANT

On August 23, 2019, the Company entered into a stock warrant agreement with Amazon. This agreement is in conjunction with Amazon's existing commercial agreement for overnight air cargo services and charters and is intended to incentivize growth in Amazon's utilization of those services to support fast delivery for Amazon customers in Canada.

Under the agreement, the Company issued warrants to Amazon for the opportunity to purchase variable voting shares that will vest in two tranches based on the achievement of commercial milestones related to Amazon's business with the Company. The warrant agreement grants Amazon the right to acquire up to 13.2% of the issued and outstanding voting shares. Tranche I warrant shares represent 10.2% and Tranche II warrant shares represent 5.2% of the aggregate of the currently issued and outstanding voting shares of the Company. Tranche I, when fully vested, will give Amazon a right to purchase up to an aggregate of 1.59 million shares and Tranche II will give a right to purchase an aggregate of 0.8 million shares. The exercise price of Tranche I is $91.78 per voting share. The exercise price for Tranche II will be determined based on the 30-day volume weighted average trading price as of the earlier of August 23, 2021 and the date upon which all of Tranche I will vest in full. 0.4 million warrant shares of Tranche I vested immediately upon the execution of the agreement. Vesting of additional warrants is tied to the revenue generated by Amazon and its affiliates aggregated to an amount specified in the agreement of up to a maximum of $400 for Tranche I. Upon full vesting under Tranche I, vesting of Tranche II warrants will be tied to revenue generated by Amazon and its affiliates aggregated to an amount specified in the agreement of up to a maximum of $200. Tranche I is exercisable in accordance with its terms through February 23, 2026 and Tranche II is exercisable in accordance with its terms through February 23, 2027.

The Company has determined that the warrants are a derivative instrument and should be classified as a liability in accordance with IAS 32 and IFRS 9. The financial instruments are initially recorded at fair value and are then revalued at each reporting date. The initial fair value of the warrants of $72.6 issued to Amazon on August 23, 2019 was recorded as stock warrant obligations, having a fair value of $32.67 per warrant for Tranche I and $25.81 per warrant for Tranche II. The fair value of warrants under Tranche I and Tranche II was determined using an American option pricing model utilizing Monte Carlo simulation and were classified within Level 3 of the fair value hierarchy (refer to Financial Instruments Note 19). The corresponding contract asset was recognized at inception and will amortize against revenue over the duration of the agreement. The fair value of the warrant obligations was revalued as at September 30, 2020 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a non-operating loss of $130.

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

	September 30, 2020	December 31, 2019
Contract Assets	$	$
Stock Warrant and other contract asset	78.0	79.7
Less: Amortization	(6.7)	(1.7)
Total contract assets	71.3	78.0
Stock warrant obligations		
Stock Warrant obligations	73.5	72.6
Add: Fair value adjustment	130.0	0.9
Total stock warrant obligations	203.5	73.5

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2020	Additions	Transfers	Disposal	Balance as at September 30, 2020
	$	$	$	$	$
Aircraft hull	427.2	3.7	62.0	-	492.9
Engines	368.7	-	92.6	-	461.3
Right of Use Assets	35.2	7.6	-	-	42.8
Spare parts	7.4	0.6	-	-	8.0
Ground equipment	51.0	0.9	1.2	-	53.1
Rotable spares	48.8	6.0	0.3	-	55.1
Computer hardware and software	11.9	0.2	0.7	-	12.8
Furniture and fixtures	3.8	-	0.1	-	3.9
Leasehold improvements	22.9	0.3	1.4	-	24.6
Vehicles	3.4	-	(0.9)	-	2.5
Hangar and cross-dock facilities	30.9	0.2	4.6	-	35.7
Property, plant and equipment under development	118.1	68.0	(169.5)	-	16.6
Deferred heavy maintenance	84.8	9.6	7.5	-	101.9
	1,214.1	97.1	-	-	1,311.2

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

Accumulated Depreciation & Impairment	Balance as at January 1, 2020	Depreciation	Impairment of assets	Balance as at September 30, 2020	Net Book Value as at September 30, 2020
	$	$	$	$	$
Aircraft hull	77.0	18.6	-	95.6	397.3
Engines	112.1	28.9	-	141.0	320.3
Right of Use Assets	9.1	6.9	-	16.0	26.8
Spare parts	-	-	0.6	0.6	7.4
Ground equipment	19.2	3.1	-	22.3	30.8
Rotable spares	18.4	3.4	-	21.8	33.3
Computer hardware and software	9.3	0.9	-	10.2	2.6
Furniture and fixtures	2.0	0.2	-	2.2	1.7
Leasehold improvements	11.6	1.1	-	12.7	11.9
Vehicles	2.2	0.2	-	2.4	0.1
Hangar and cross-dock facilities	9.1	1.1	-	10.2	25.5
Property, plant and equipment under development	-	-	-	-	16.6
Deferred heavy maintenance	53.9	8.2	-	62.1	39.8
	323.9	72.6	0.6	397.1	914.1

Cost	Balance as at January 1, 2019	Adjustments due to adoption of IFRS 16	Additions	Transfers	Adjustments	Balance as at December 31, 2019
	$		$	$		$
Aircraft hull	375.4	-	3.4	51.5	(3.1)	427.2
Engines	246.0	-	0.8	122.9	(1.0)	368.7
Right of Use Assets	-	35.2	-	-	-	35.2
Spare parts	6.9	-	0.5	-	-	7.4
Ground equipment	40.4	-	10.6	-	-	51.0
Rotable spares	36.0	-	12.5	0.3	-	48.8
Computer hardware and	11.2	-	0.6	0.1	-	11.9
Furniture and fixtures	3.4	-	0.4	-	-	3.8
Leasehold improvements	22.0	-	-	0.9	-	22.9
Vehicles	3.2	-	0.2	-	-	3.4
Hangar and cross-dock facilities	24.1	-	6.8	-	-	30.9
Property, plant and equipment under development	115.3	-	178.5	(175.7)	-	118.1
Deferred heavy maintenance	71.4	-	13.4	-	-	84.8
	955.3	35.2	227.7	-	(4.1)	1,214.1

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

Accumulated Depreciation & Impairment	Balance as at January 1, 2019	Depreciation	Adjustments	Balance as at December 31, 2019	Net Book Value December 31, 2019
	$	$	$	$	$
Aircraft hull	60.3	19.8	(3.1)	77.0	350.2
Engines	77.0	36.1	(1.0)	112.1	256.6
Right of Use Assets	-	9.1	-	9.1	26.1
Spare parts	-	-	-	-	7.4
Ground equipment	15.6	3.6	-	19.2	31.8
Rotable spares	13.0	5.4	-	18.4	30.4
Computer hardware and software	7.9	1.4	-	9.3	2.6
Furniture and fixtures	1.7	0.3	-	2.0	1.8
Leasehold improvements	10.0	1.6	-	11.6	11.3
Vehicles	1.9	0.3	-	2.2	1.2
Hangar and cross-dock facilities	8.0	1.1	-	9.1	21.8
Property, plant and equipment under development	-	-	-	-	118.1
Deferred heavy maintenance	38.6	15.3	-	53.9	30.9
	234.0	94.0	(4.1)	323.9	890.2

Property, plant and equipment under development of $16.6 (2019 - $118.1) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

Right of use assets consist of hangars, warehouses, offices and one Boeing 767-200 aircraft on lease.

During the nine month period ended September 30, 2020, the Company completed the acquisition of two Boeing 767-200 and one Boeing 767-300 aircraft using the revolving credit facility and term loan. The Company also sold surplus spares for $0.7 resulting in a total gain of $0.7.

Impairment consists of $0.6 Boeing 727-200 spare parts written off during the nine month period ended September 30, 2020

Depreciation expense on property, plant and equipment for the three and nine month periods ended September 30, 2020 totalled $25.1 and $72.6 (2019 - $22.3 and $70.1) out of which $24.6 and $71.1 (2019 – $21.7 and $68.6) was recorded in direct expenses and $0.5 and $1.5 (2019 - $0.6 and $1.5) was recorded in general and administrative expenses.

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

6. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the nine month period ended September 30, 2020 is presented below

	September 30,2020	December 31,2019
	$	$
Cash and cash equivalents	1.4	1.6
Borrowings - repayable within one year (including overdraft)	(65.7)	(59.3)
Borrowings - repayable after one year	(476.2)	(576.1)
Net Debt	(540.5)	(633.8)
Cash and cash equivalents	1.4	-
Gross Debt - fixed interest rates	(479.9)	(389.8)
Gross Debt - variable interest rates	(62.0)	(244.0)
Net Debt	(540.5)	(633.8)

	Cash / bank overdraft	**lease liabilities due within one year**	**lease liabilities due after one year**	**Borrowings due after one year**
	$	$	$	$
Net Debt as at January 1 2019	(0.9)	(25.2)	(174.2)	(404.1)
Cash flows	2.5	-	40.6	(35.0)
Acquisitions - leases	-	(34.1)	(9.5)	-
Foreign exchange adjustment	-	-	6.1	-
Net Debt as at December 31, 2019	1.6	(59.3)	(137.0)	(439.1)
Cash flows	(0.2)	-	42.1	72.7
Acquisitions - leases	-	(6.4)	(11.4)	-
Foreign exchange adjustment	-	-	(3.5)	-
Net Debt as at September 30, 2020	1.4	(65.7)	(109.8)	(366.4)

7. SHARE-BASED COMPENSATION

Crew incentive program

The Company implemented a long-term incentive plan for its pilots in 2019. Under the plan, the Company provided an option of $0.1 of cash or a one-time grant of $0.1 value of deferred stock units ("DSU's") to all active crewmembers. The cash payment or DSUs will vest 50% on June 30, 2023 and the remaining 50% on June 30, 2026. For the purpose of this offer, the grant and valuation of DSUs took place on July 1, 2019 based on the market price of the Company's shares on that date.

As the liability under the plan will be settled in cash based on the value of the common shares at a future date, the fair value of the service received is recognized as an expense with a corresponding increase in the liability at the end of each reporting period up to the date of the settlement. Changes in value will be recognized as crew cost in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income proportional to the period of service rendered by the employees.

As at September 30, 2020, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of $6.7 (December 31, 2019 - $1.5). For the three and nine month periods ended September 30, 2020, the Company recognized $2.2 and $5.2 respectively in crew cost expenses for the services rendered in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

For the crew members who elected to receive $0.1 cash at the end of the vesting period, the Company also recognized $0.2 and $0.5 respectively as crew cost expenses for the services rendered and interest cost for the three and nine month periods ended September 30, 2020 in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income. As at September 30, 2020, the Company had a total liability of $1.0 (December 31, 2019 - $0.5) for the cash incentives.

Deferred Share Units

The Company implemented a DSU plan for its non-employee directors in 2020. According to the plan, each director receives a portion of his or her annual retainer in DSUs that is predetermined for the year. The amount may only be amended in accordance with any amendments to the directors compensation program as adopted by the Board from time to time. Directors may also make a written election to receive a portion of their annual cash retainer in DSUs in lieu of cash. Any remaining portion of the annual retainer will be paid in cash. For 2020, the annual DSU amount for each Canadian director is $0.1 and for non-Canadian director is $0.1 in US currency.

A notional account is maintained for DSUs and the units are credited to each director's notional account on the eleventh (11th) business day following the day on which Cargojet reports its earnings in respect of the previous fiscal year (the "Award Date"). The number of DSUs credited to each director's notional account is determined by dividing the annual DSU amount by the volume weighted average trading price of Company's voting shares on the Toronto Stock Exchange for the five (5) trading days immediately preceding the award date ("market price"). These DSUs vest upon grant. DSUs are redeemable only when the director ceases to be a member of the Board provided that he or she is not otherwise engaged or employed by the Company. The cost of the vested DSUs is recognized as a liability under share based compensation plans in the Condensed Consolidated Interim Balance Sheet and a corresponding expense is recognized. As of September 30, 2020, 4,126 DSU's were credited to directors' notional accounts

The DSUs asset is amortized in proportion to the services rendered by the directors in attending Board and Committee meetings for the year and recognized in management fees in general and administrative expenses over the course of the year. Thereafter, the liability will be re-measured to fair value based on the market price of the Company's common shares at each reporting date up to and including the settlement date, with changes in fair value recognized in general and administrative expenses in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.

The DSUs accrue dividend equivalents according to the plan. Additional DSUs will be issued equal to the aggregate amount of dividends that would have been paid to the director if the DSUs in the director's account on the record date had been shares divided by the market price of the shares on the date on which dividends were paid by the company equal to whole number rounded down. Fractional DSU will be disregarded.

As at September 30, 2020, the Company recognized a liability of $0.4 with the corresponding expense recognized in general and administrative expenses in the Condensed Consolidated Interim Statements of (Loss) Earnings and (Loss) Comprehensive Income.

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 key executives, non-employee directors 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 holders can also request to settle options in cash subject to the approval by the management of the Company.

During the period ended September 30, 2020, in accordance with the RSU Plan, the Company granted 12,339 RSUs to certain key executives. Each RSU had an average value of $104.95 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. 4,115 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, 1,907 shares were issued to certain key executives for vested RSUs and the Company remitted an amount of $0.2 equal to the monetary value of the tax obligation determined based on the Market Price of $104.95 per share of withheld that otherwise would have been issued upon vesting. An amount of $0.2 was transferred to share capital from contributed surplus. Of the remaining 8,224 RSUs granted in 2020, 4,112 will vest in each of the first quarters of 2021 and 2022 respectively.

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

During the period ended September 30, 2020, 43,233 RSUs out of the 68,134 remaining RSUs granted in prior years were also vested. 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, 20,077 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of $2.2 equal to the monetary value of the tax obligation determined based on the Market Price of $93.55 per share of 23,156 shares withheld that otherwise would have been issued upon vesting. An amount of $1.9 was transferred to share capital from contributed surplus. The remaining 24,901 RSUs will vest in the first quarter of 2021.

The RSU activity for the nine month period ended September 30, 2020 is summarized below.

RSUs (in Canadian dollars)	Number of RSUs	Fair value $
Balance at January 1, 2019	57,675	1.2
Granted in the year	78,336	7.3
Share dividend	728	0.1
Share based compensation-Vested and settled	(67,183)	(3.2)
Share based compensation-Unvested and amortized	-	(2.0)
Forfeited during the year	(1,422)	-
Balance at December 31, 2019	68,134	3.4
Granted in the period	12,339	1.3
Share based compensation-Vested and settled	(47,348)	(1.9)
Share based compensation-Unvested and amortized	-	(1.6)
Balance at September 30, 2020	33,125	1.2

During the three and nine month periods ended September 30, 2020, the total share based compensation expense of $0.6 and $3.5 respectively related to vested and settled and unvested and amortized RSUs was included in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income (September 30, 2019 – $0.6 and $2.3 respectively). Unrecognized share-based compensation expense as at September 30, 2020 related to these RSUs was $1.2 (September 30, 2019 – $1.5) and will be amortized on a pro-rated basis in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income over the vesting period.

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

Options :

The Options activity during the nine month period ended September 30, 2020 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in $
Balance as at January 1, 2020	179,606	$70.00
Granted during the period	26,168	$104.95
Forfeited during the period	(1,464)	$98.90
Exercised during the period	(23,171)	$65.80
Balance as at September 30, 2020	181,139	$75.35
Vested & exercisable at September 30, 2020	86,449	$67.79

As at September 30, 2020, there were 86,449 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 2.39 years.

During the nine month period ended September 30, 2020, participants of the stock option plan exercised 22,119 Options granted on May 23, 2018, when the volume weighted average trading price per share was $136.2 and 1,052 options granted on November 29, 2019 when the volume weighted trading price per share was $152.1. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed to the participants 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 $1.2 was issued to the participants for vested and exercised Options and the Company remitted an amount equal to the monetary value of the tax obligation determined based on the Market price of the shares.

During the three and nine month period ended September 30, 2020, the Company recognized an expense of $5.4 and $14.1 respectively in bonuses and incentives expense in general and administrative expenses due to change in the fair value of options (September 30, 2019 - $1.7 and $3.4 respectively). As at September 30, 2020, the company had a total liability of $17.6 (December 31, 2019 - $5.2) for Options.

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

Weighted average assumptions on grant date

	05-Mar-20	**29-Nov-19**	**23-May-18**
	Series 6	**Series 5**	**Series 4**
Exercise price redemption	$104.95	$98.90	$64.23
Expected volatility	28.51%	28.47%	27.97%
Option life in years	5	5	3-5
Dividend yield	0.87%	0.94%	1.33%
Risk free rate	1.25%	1.00%	0.75% -1.75%
Vesting period	2021-2023	2020-2022	immediate, 2019-2021
Options granted	26,168	29,915	185,148
Options outstanding	26,168	27,399	127,572
Fair value per option on grant date	$25.85	$23.66	$14.50
Fair value per option September 30, 2020	$94.46	$98.04	$125.85

Performance Share Units

The Company's performance share unit plan (the "PSU Plan") provides the Company the ability to grant PSUs to certain of its executive officers and senior management as part of its long-term incentive plan. The plan consists of three year cash settled units based on total value of the units awarded multiplied by the performance factors. PSUs will vest over a three-year period but are settled only at the end of the third year. The multiplier is linked 50 percent to return on invested capital ("ROIC") and 50 percent on relative total shareholder returns ("TSR"). The Board of Directors will approve the ROIC target for each year and Company's TSR versus TSX is to be calculated on a three-year cycle. Overachievement against targets will result in eligibility for a multiplier ranging from zero to the maximum specific to each executive. Vesting is not affected by ROIC or TSR performance.

During the nine month period ending September 30, 2020, the Company granted 12,891 PSU's to its executives (September 30, 2019 – nil). The fair value of the units for the TSR was determined using Monte Carlo simulation based on the estimated market price per share, risk free discount rate, volatility and applicable multiplier on the date of the settlement and for the ROIC was determined by dividing the net profit after tax with the capital invested including debt. An amount of $1.9 and $4.6 respectively was recognized as bonuses and incentives expense based on the units vested during the three and nine month period ended September 30, 2020 (September 30, 2019 - $nil and $nil respectively) with corresponding recognition of the liability. As at September 30, 2020, the company had an outstanding liability of $4.9 on 26,504 outstanding PSUs (December 31, 2019 - $0.3 on 13,613 PSUs).

Stock Appreciation Rights ("SARs")

On November 29, 2019 the Company granted 23,132 SARs to its four independent directors. During the period ended September 30, 2020, the fair value of the vested rights was determined and an expense of $1.9 was recognized as bonuses and incentives with corresponding recognition of the liability. As at September 30, 2020, the company had a total liability of $2.3 (December 31, 2019 - $0.4) for SARs.

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

8. BORROWINGS

Borrowings consist of the following:

	September 30, 2020	December 31, 2019
	$	$
Revolving credit facility	61.9	244.0
Other borrowings	0.1	0.2
	62.0	244.2
Long-term portion	62.0	244.2

Revolving syndicate credit facility and term loan

On May 13, 2020, 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 increasing the maximum credit available from $400 to $510. 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 and expires on October 28, 2024. No scheduled repayments of principal are required under the facility prior to maturity. Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

On July 17, 2020, 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 increasing the maximum credit available from $510 to $600. 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 and expires on July 16, 2025. No scheduled repayments of principal are required under the facility prior to maturity. Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at September 30, 2020 and 2019.

Included in the Condensed Consolidated Interim Statement of (Loss) Earnings and Comprehensive (Loss) Income for the three and nine month periods ended September 30, 2020 was interest expense on the revolving credit facility of $2.0 and $8.4 respectively (2019 - $2.7 and $7.4 respectively).

9. 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 September 30, 2020 and December 31, 2019.

As at September 30, 2020, the total outstanding balance of the leases under the MLA is $51.7 out of which $19.7 is recognized as a current liability on the consolidated balance sheet.

The Company also has lease arrangements for four Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rate for these leases are 6.6%, 6.5%, 7.2% 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, December 2021 and November 2023 respectively. As at September 30, 2020, the total outstanding balance of these lease arrangements is $94.3 out of which $43.4 is recognized as a current liability on the consolidated balance sheet.

As at January 1, 2019, the Company has adopted IFRS 16 on a simplified basis. As at September 30, 2020, the Company has a $26.8 of right of use assets and a $29.5 of lease liabilities out of which $2.6 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, offices and warehouses under leases together with the balance of the obligations as at September 30, 2020.

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

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	76.0	65.8
Later than one year and not later than five years	105.9	97.4
Later than five years	15.2	12.3
	197.1	175.5
Less: interest	21.6	-
Total obligations under leases	175.5	175.5
Less: current portion	65.7	65.7
Non-current portion	109.8	109.8

Interest amounts on the lease liabilities for the three and nine month period ended September 30, 2020 totalled $3.8 and $10.4 respectively (2019 - $3.7 and $11.4 respectively).

10. DEBENTURES

The balance of debentures as at September 30, 2020 and December 31, 2019 consists of the following

	September 30, 2020	December 31, 2019
	$	$
Hybrid debentures - 5.75% due April 30, 2024	83.6	83.1
Hybrid debentures - 5.75% due April 30, 2025	110.8	110.2
Hybrid debentures - 5.25% due June 30, 2026	110.0	-
Balance	304.4	193.3

Hybrid debentures – 5.75% due April 30, 2024

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.

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

In the event of a change in control, as defined in the indenture agreement, the Company will be required to make an offer to the holders of the 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 September 30, 2020 and December 31, 2019 consists of the following:

	September 30, 2020	December 31, 2019
	$	$
Principal balance - beginning of period	83.1	82.4
Accretion during the period	0.5	0.7
Balance - end of period	83.6	83.1

Interest expense on the hybrid debentures for the three and nine month period ended September 30, 2020 and 2019 totalled $1.4 and $4.2 respectively (September 30, 2019 - $1.4 and $4.2 respectively).

Hybrid debentures – 5.75% due April 30, 2025

In April 2019, $115 of senior unsecured debentures were issued at a price of 1000 dollars per debenture with a term of six years due April 30, 2025. 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 October 31, 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, 2023, but prior to April 30, 2024, 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, 2024, but prior to the maturity date of April 30, 2025, 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, 2025, 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 agreement, 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 $110 net of deferred financing costs of $4.9. 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.

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

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 September 30, 2020 and December 31, 2019 consists of the following:

	September 30, 2020	December 31, 2019
	$	$
Principal balance	110.2	115.0
Issuance costs	-	(5.3)
Accretion	0.6	0.5
Balance - end of period	110.8	110.2

Interest expense on the hybrid debentures for the three and nine month periods ended September 30, 2020 and 2019 totalled $1.8 and $5.5 respectively (September 30, 2019 - $1.8 and $3.1 respectively).

Hybrid debentures – 5.25% due June 30, 2026

In July 2020, $115 of senior unsecured debentures were issued at a price of 1000 dollars per debenture with a term of six years due June 30, 2026. These debentures bear a fixed interest rate of 5.25% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2020. 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 June 30, 2023, but prior to June 30, 2024, 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 103.9375% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after June 30, 2024, but prior to June 30, 2025 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 102.625% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after June 30, 2025 but prior to the maturity date of June 30, 2026, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on June 30, 2026, 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 agreement, the Company will be required to make an offer to the holders of the debentures to repurchase the debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest.

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

The 5.25% debentures were therefore recorded as a financial instrument. The debt was recorded at fair value of $109.9 net of deferred issuance costs of $5.1. Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics of certain prepayment options are not closely related to the host contract and therefore required to be accounted for as separate financial instruments. At inception, the fair value of embedded derivatives that are separated from the host contract was nil. The embedded derivatives are remeasured to their fair value at each reporting date and any changes in the fair value are recognized in the Statement of (Loss) Earnings and Comprehensive (Loss) Income. As at September 30, 2020, there was no material change in the fair value of the embedded derivatives.

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 September 30, 2020 consists of the following:

	September 30, 2020	December 31, 2019
Principal balance - beginning of period	115.0	-
Less:		
Issuance costs	(5.1)	-
Accretion during the period	0.1	-
Balance	110.0	-

Interest expense on the hybrid debentures for the three and nine month periods ended September 30, 2020 totalled $1.5 and $1.5 respectively.

11. INCOME TAXES

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

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
(Loss) earnings before income taxes	(6.9)	13.8	(36.3)	21.0
Basic rate of 26.5% (2020 - 26.5%)	(1.8)	3.7	(9.6)	5.6
Share - based compensation	1.6	0.7	4.6	1.6
Meals and entertainment	-	0.1	0.1	0.2
Stock warrant	13.7	(2.5)	35.9	(2.5)
Provision for income taxes	13.5	2.0	31.0	4.9

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

The tax effect of significant temporary differences are as follows:

	December 31, 2019	Adjustment	Recognized in Profit & Loss	September 30, 2020
	$	$	$	$
Property, plant and equipment	45.0	8.0	17.8	70.8
Operating loss carryforward	(17.6)	(11.0)	5.4	(23.2)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Pension costs	(4.4)	-	(0.9)	(5.3)
Financing costs	1.9	-	8.8	10.7
Long-term incentive plan	-	(0.7)	(3.4)	(4.1)
Deferred heavy maintenance	7.5	3.7	3.3	14.5
Net deferred income tax liability	32.3	-	31.0	63.3

12. DIRECT EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Fuel costs	19.9	23.6	59.8	72.8
Maintenance costs	10.6	8.0	30.1	25.4
Heavy maintenance amortization	2.2	3.5	8.3	11.0
Aircraft costs	7.4	3.0	16.8	8.5
Crew costs	12.5	9.2	33.5	25.6
Depreciation	22.4	18.2	62.8	57.6
Commercial and other costs	29.0	22.1	88.9	68.4
Direct expenses	104.0	87.6	300.2	269.3

13. GENERAL AND ADMINISTRATIVE EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Salaries and benefits	6.7	6.9	21.1	19.0
Employee pension	1.1	0.7	3.2	2.0
Depreciation	0.5	0.6	1.5	1.5
Net realized foreign exchange loss (gain)	0.9	0.3	0.7	(0.2)
Bonuses and incentives	0.3	3.1	18.8	6.0
Audit, legal and consulting	1.9	1.1	4.7	2.7
IT network and communications	0.9	0.8	2.5	2.3
Other general and administrative expenses	1.9	2.7	14.8	8.2
General and administrative expenses	14.2	16.2	67.3	41.5

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

14. FINANCE COSTS

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Interest on leases	3.8	3.7	10.5	11.4
Interest on debentures	4.7	5.2	11.2	13.4
Credit facilities and other interest	1.9	2.7	8.3	7.4
Finance costs	10.4	11.6	30.0	32.2

15. OTHER (GAINS) & LOSSES,NET

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2020	2019	2020	2019
	$	$	$	$
Gain on total return swap	-	-	-	(2.9)
Unrealized foreign exchange (gain) loss	(1.9)	0.7	3.4	(2.5)
Gain on disposal of property, plant and equipment	(0.3)	-	(0.7)	(1.0)
Other (gain) loss, net	(2.2)	0.7	2.7	(6.4)

16. RELATED PARTY TRANSACTIONS

During the three month period ending September 30, 2020, the Company donated $2.5 to support research projects for testing and treatment of COVID – 19, welfare of the unprivileged effected by COVID – 19 and for social justice programs through a related party charity in which two of the Company's executives are directors.

17. SHAREHOLDERS' CAPITAL

a) Authorized

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

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.

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

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 31,2019 to September 30, 2020:

	Number of shares	Amount
		$
Common voting shares	15,575,084	298.2
Outstanding- December 31, 2019	15,575,084	298.2
Changes during the period:		
Restricted share units settled	21,984	1.8
	15,597,068	300.0
Consisting of:		
Common voting shares	15,597,068	300.0
Outstanding- September 30, 2020	15,597,068	300.0

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

Dividends

Dividends to shareholders declared for the three and nine month period ended September 30, 2020 amounted to $3.6 ($0.2340 per share) and $10.9 ($0.7020 per share) respectively and for three and nine periods ended September 30, 2019 amounted to $3.2 ($0.2340 per share) and $9.5 ($0.7020 per share) respectively for both common and variable shares.

As at September 30, 2020, a dividend of $3.6 was payable to the shareholders (September 30, 2019 - $3.2).

18. NET (LOSS) EARNINGS PER SHARE

The following table shows the computation of basic net (loss) earnings per share for the three and nine month periods ended September 30, 2020 and 2019:

In $ millions except per share	Three month periods ended September 30,		Nine month periods ended September 30,	
Net (loss) earnings per share	2020	2019	2020	2019
Net (loss) earnings	(20.4)	11.8	(67.3)	16.1
Weighted average number of shares	15.6	13.5	15.6	13.5
Dilutive impact of share- based awards and vested warrant	-	0.1	-	0.1
Diluted weighted average number of shares	15.6	13.6	15.6	13.6
Net (loss) earnings per share - basic and diluted	(1.31)	0.87	(4.32)	1.19

The effect of the share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements has been excluded from the calculation of diluted (loss) earnings per share for the three and nine month period ended September 30, 2020 as the impact would be anti-dilutive.

19. 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.

Total return swap

The Company has entered into total return swap agreements with financial institutions to manage its exposure related to options to be issued under the Stock Option Plan for certain employees and DSUs to be issued under the “long-term” incentive plan for its existing and new pilots. Under the agreement, the Company pays interest based on Canadian BA-CDOR 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 sale of the underlying shares.

The Company did not designate the total return swap agreements as a hedging instrument for accounting purposes. However, the Company adopted the policy of offsetting the fair value changes of the total return swaps with the corresponding expenses to be recognized under the Stock Option Plan and the incentive plan in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

During the nine month period ended September 30, 2020, the Company unwounded 208,656 shares units of its expiring total return swap agreement with a financial institution for $14.5 (September 2019 - $4.5) resulting in a gain of $12.5 (September 2019 - $4.0). The gains are recorded as an offset to bonuses under general and administrative expenses in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income. The expired share units were simultaneously rolled over into a new total return swap agreement with another financial institution.

As at September 30, 2020 the fair value of the 208,656 and 260,000 underlying shares under the swap agreements were $9.3 and $28.8 respectively (December 31, 2019 - $nil and $6.3 respectively) in favour of the Company and the gains for the three and nine month period ended September 30, 2020 of $9.3 and $9.3 and $7.7 and $22.5 respectively (September 30, 2019 – gain of $nil and $nil and $1.7 and $4.6 respectively) are recorded as an offset to bonuses, incentives and crew costs under general and administrative expenses and direct expenses respectively in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) 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 of $2.8 and $4.9 respectively and a loss of $2.5 and $4.9 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

Fair Values

The fair value of the 5.75% hybrid debentures due April 30, 2024 as at September 30, 2020 was approximately $81.3 (December 31, 2019 - $79.6). The fair value of the debentures was determined using the discounted cash flow method using a 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 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 $1.8 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at September 30, 2020 was approximately $107.7 (December 31, 2019 - $105.4). The fair value of the debentures was determined using the discounted cash flow method using a 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 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 $2.9 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at September 30, 2020 was approximately $102.4 (December 31, 2019 - $nil). The fair value of the debentures was determined using the discounted cash flow method using a 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 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 $3.4 respectively.

The fair value of the performance share units due March 15, 2022 and March 15, 2023 are classified as level 3 financial liabilities. As at September 30, 2020 the performance share units due March 15, 2022 and March 15, 2023 were valued at $5.6 and $4.3 respectively (December 31, 2019 - $2.2 and $nil respectively). The Company used an option pricing model utilizing Monte Carlo simulation to value the TSR-PSUs and analytically valued the ROIC-PSUs at inception and on subsequent valuation dates. The discount rate was determined by using the Canadian deposit and swap rates adjusted for the Company's specific credit risk. Other significant inputs consisted of historical volatility and dividend rates.

The fair value of the warrant obligations was $203.5 as at September 30, 2020 (December 31, 2019 $73.5). The revaluation resulted in a non-operating loss of $47.2 and $130 respectively for the three and nine month periods ended September 30, 2020 (2019 - $10.6 and $10.6 respectively). The warrants were classified as Level 3 derivative liabilities that are valued using an American option pricing model utilizing Monte Carlo simulation. Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. Significant unobservable inputs include volatility of the Company's common shares 33.4% for tranche I and 32.4% for tranche II, risk free rate of 0.9% and a dividend yield of 1.3% and forecasted revenue from Amazon associated with this arrangement utilized to predict future vesting events.

A significant increase in the volatility in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities were recorded in other gains or losses on the Company's Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income. A significant change to the forecasted revenue may change the vesting dates. Changes to the vesting dates will not significantly affect the fair value of the warrant obligations. For every increase or decrease of volatility by 10% with all other factors remaining the same, the estimated fair value of warrants will increase or decrease by $7.5. For every increase or decrease in share price by 20% with all other factors remaining the same, the estimated fair value of warrants will increase by $62.8 or decrease by $59.7.

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 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.

Credit risk

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

The Company is subject to risk of non-payment of accounts receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's trade receivables are concentrated among several of its largest customers with approximately 88.6% (December 31, 2019 – 79.6%) of total trade receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (1.1%) of trade receivables is outstanding for more than 60 days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables. Such expected lifetime losses were immaterial and consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

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

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

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

Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company is confident that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $600 million. The Company was in compliance with all covenants as at September 30, 2020 and 2019.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at September 30, 2020 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
	$	$	$	$	$
Borrowings and debentures	-	-	366.4	-	366.4
Lease liabilities	27.1	90.4	40.4	17.6	175.5
Interest on leases	3.0	8.8	5.9	3.8	21.5
Trade and other payables	72.2	-	-	-	72.2
Employee pension and share-based compensation	-	-	32.8	19.8	52.6
Dividends payable	3.6	-	-	-	3.6
Total	105.9	99.2	445.5	41.2	691.8

Total financial liabilities at December 31, 2019 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
	$	$	$	$	$
Borrowings and debentures	-	-	437.5	-	437.5
Lease liabilities	59.8	84.5	38.2	13.8	196.3
Interest on leases	11.9	7.3	4.4	4.0	27.6
Trade and other payables	51.6	-	-	-	51.6
Employee pension and share-based compensation	-	-	7.5	16.6	24.1
Dividends payable	3.6	-	-	-	3.6
Total	126.9	91.8	487.6	34.4	740.7

Market risk

In the normal course of business, the financial position of the Company is routinely subject to a variety of risks. The Company regularly assesses these risks and has established policies and business practices to protect against the adverse effects of these and other potential exposures. As a result, the Company does not anticipate any material losses from these risks.

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

Interest rate risk is the risk that the fair value or future cash flows of a financial liability will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt and also leases certain assets with fixed rates. The Company risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Company's capital structure and is based upon a long term objective of minimum 70% fixed and maximum 30% floating but allows flexibility in the short-term to adjust to prevailing market conditions. These practices aim to minimize the net interest cost volatility. The ratio at September 30, 2020 was 88.8% fixed and 11.2% variable.

Foreign exchange risk

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The company also enters into contracts attributed to asset purchases including aircraft and aircraft parts and pays debt in foreign currency.

Total unrealized foreign exchange gains for the three and nine month period ended September 30, 2020 on foreign exchange transactions were gain of $2.1 and loss of $3.2 respectively (September 30, 2019 – loss of $0.8 and gain of $2.4 respectively).

At September 30, 2020, a weakening of the Canadian dollar that results in a 10 percent increase in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately $7.0 (December 31, 2019 - $12). The decrease in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (December 31, 2019 - $12).

At September 30, 2020, a weakening of the Canadian dollar that results in a 10 percent increase in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by approximately $0.3 (December 31, 2019 - immaterial). The decrease in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (December 31, 2019 - immaterial).

20. IMPACT OF COVID-19

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. Various restrictions were imposed by federal, provincial and local governments and by enterprises including travel restrictions, restrictions on public gatherings, stay at home orders, advisories, and quarantining of people who may have been exposed to the virus. However, the Company's business was deemed as an essential service to keep the supply chains moving and was allowed to operate at the normal levels. The travel restrictions imposed also did not apply to all-cargo flights nor to the Company's aircrew.

Balance Sheet, Cash Flow and Liquidity:

The Company took actions to manage its financial position by reducing some planned capital expenditures and delaying aircraft heavy maintenance. The Company has assessed it non-financial assets including property, plant and equipment, right of use assets, intangible assets and goodwill for impairment as required by the applicable accounting standards in light of the adverse economic environment caused by the COVID-19 pandemic and determined there are no indicators of impairment as of September 30, 2020. The capitalized contract cost assets continue to be recoverable as of September 30, 2020. The expected credit losses on trade receivables were re-assessed and the Company determined that no incremental loss provisions were required as of September 30, 2020. The Company may have to revise its expected credit losses and the value of its assets in the future if the effect of COVID-19 is prolonged and there is an overall decrease in consumer demand.