Consolidated Financial Statements of

CARGOJET INC.

For the years ended December 31, 2018 and 2017

(expressed in millions of Canadian dollars)

This page intentionally left blank

Independent auditor's report

To the Shareholders of Cargojet Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Inc. and its subsidiaries (together, the Company), as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Anita McOuat.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 21, 2019

CARGOJET INC.

Consolidated Balance Sheets

As at December 31, 2018 and December 31, 2017

(in millions of Canadian dollars)

	Note	2018	2017
		$	$
ASSETS			
CURRENT ASSETS			
Cash		-	5.7
Trade and other receivables		65.2	40.1
Inventories	3	1.6	0.9
Prepaid expenses and deposits		5.2	5.8
Income taxes recoverable		0.1	0.1
Derivative financial instruments	26	0.5	1.8
		72.6	54.4
NON-CURRENT ASSETS			
Property, plant and equipment	5,10	721.3	514.7
Goodwill	6	46.4	46.4
Intangible assets		2.0	2.0
Deposits		7.1	5.7
Deferred income taxes	14	3.5	4.5
		852.9	627.7
LIABILITIES			
CURRENT LIABILITIES			
Overdraft		0.9	-
Trade and other payables	8	44.4	38.1
Finance leases	11	25.2	62.1
Provisions	12	-	0.1
Dividends payable		2.9	2.6
Derivative financial instruments	26	-	1.6
		73.4	104.5
NON-CURRENT LIABILITIES			
Borrowings	10	206.0	124.5
Finance leases	11	174.2	99.1
Provisions	12	1.4	1.2
Debentures	13	198.1	114.8
Deferred income taxes	14	26.6	18.5
Employees pension and option liability	9,21	15.5	10.5
		695.2	473.1
EQUITY		157.7	154.6
		852.9	627.7

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

CARGOJET INC.

Consolidated Statements of Earnings and Comprehensive Income
Years ended December 31, 2018 and 2017

(in millions of Canadian dollars except per share data)

	Note	2018	2017
		$	$
REVENUES		454.9	382.9
DIRECT EXPENSES	15	342.6	276.6
		112.3	106.3
General and administrative expenses	16	50.3	47.6
Sales and marketing expenses		2.8	1.7
Finance costs	17	27.3	25.2
Loss on extinguishment of debt		-	2.3
Other loss (gain), net	18	2.6	(4.1)
		83.0	72.7
EARNINGS BEFORE INCOME TAXES		29.3	33.6
PROVISION FOR INCOME TAXES	14		
Deferred		9.1	9.9
NET EARNINGS AND COMPREHENSIVE INCOME		20.2	23.7
EARNINGS PER SHARE	20		
- Basic		$1.51	$1.96
- Diluted		$1.50	$1.93

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

CARGOJET INC.

Consolidated Statements of Changes in Equity
Years ended December 31, 2018 and 2017

(in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		$	**$**	**$**	**$**	**$**	**$**
Balance, January 1, 2018		174.4	2.6	5.1	8.0	(35.5)	154.6
Net earnings and comprehensive income		-	-	-	-	20.2	20.2
Share-based compensation	9	-	4.4	-	-	-	4.4
Restricted shares, dividend shares and options vested and exercised	19,9	1.4	(1.4)	-	-	-	-
Tax paid on vested RSU's and options	9	-	(0.8)	-	-	(2.2)	(3.0)
Vested options settled in cash		-	(0.5)	-	-	(1.5)	(2.0)
Private placement of shares	19	0.7	-	-	-	-	0.7
Effect of change in method of settlement of options	9	-	(2.2)	-	-	(5.0)	(7.2)
Convertible debenture-conversion		1.4	-	-	-	-	1.4
Dividends	19	-	-	-	-	(11.4)	(11.4)
Balance, December 31, 2018		177.9	2.1	5.1	8.0	(35.4)	157.7
Balance, January 1, 2017		100.9	3.3	10.0	3.1	(50.7)	66.6
Net earnings and comprehensive income		-	-	-	-	23.7	23.7
Restricted shares and options vested and exercised		3.8	(3.8)	-	-	-	-
Share-based compensation		-	3.1	-	-	-	3.1
Deferred tax on conversion option-net		-	-	1.7	(1.7)	1.1	1.1
Convertible debenture-conversion		69.7	-	(6.6)	6.6	-	69.7
Dividends	19	-	-	-	-	(9.6)	(9.6)
Balance, December 31, 2017		174.4	2.6	5.1	8.0	(35.5)	154.6

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

CARGOJET INC.

Consolidated Statements of Cash Flows
Years ended December 31, 2018 and 2017

(in millions of Canadian dollars)

	Note	2018	2017
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		20.2	23.7
Items not affecting cash			
Depreciation of property, plant and equipment	5	66.1	49.7
Share-based compensation	9	4.8	3.1
Finance costs	17	27.3	25.2
Gain on derecognition of provision for lease return conditions	12	-	(1.6)
Gain on disposal of property, plant and equipment	5	(0.3)	-
Employees pension liability	16	2.7	1.8
Income tax provision	14	9.1	9.9
Other gains	18,26	(1.6)	(1.2)
		128.3	110.6
Items affecting cash			
Interest paid		(17.8)	(21.0)
		110.5	89.6
Changes in non-cash working capital items and deposits			
Trade and other receivables		(25.1)	(14.4)
Inventories		(0.7)	-
Prepaid expenses and deposits		0.3	(4.2)
Trade and other payables		6.3	7.7
NET CASH GENERATED FROM OPERATING ACTIVITIES		91.3	78.7
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(186.7)	(135.7)
Proceeds from disposal of property, plant and equipment		1.5	-
Proceeds from sale and lease back of aircraft		10.3	-
Proceeds from total return swap & settlement of derivative financial instrument		2.9	5.7
NET CASH USED IN INVESTING ACTIVITIES		(172.0)	(130.0)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(62.3)	(35.2)
Proceeds from borrowings		143.8	124.3
Repayment of obligations under finance leases	11	(74.4)	(24.2)
Options settled in cash		(7.3)	-
Proceeds from debenture issuance net of issuance costs		82.3	-
Tax paid on vested RSU's and options		(3.0)	-
Dividends paid to shareholders		(11.1)	(8.9)
Proceeds from private placement		0.7	-
NET CASH PROVIDED FROM FINANCING ACTIVITIES		68.7	56.0
EFFECT OF EXCHANGE RATE CHANGES		5.4	(1.2)
NET CHANGE IN CASH		(6.6)	3.5
CASH, BEGINNING OF YEAR		5.7	2.2
(OVERDRAFT) CASH, END OF YEAR		(0.9)	5.7

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

1. NATURE OF THE BUSINESS

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

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

These consolidated financial statements (the “financial statements”) were approved and authorized for issuance by the Board of Directors on February 21, 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”).

Basis of preparation

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

Cash

Cash balance consists of cash on hand and demand deposits and bank overdrafts.

Prepaid expenses and deposits

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

Prepaid expenses are generally classified as current assets unless a portion of the prepayment covers a period longer than twelve months.

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

Inventories

Fuel inventories are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less costs necessary to make the sale.

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment. In house developed software is capitalized at historic cost and includes expenditure attributable directly to the development of the software.

Property, plant and equipment under development relates to the purchase, construction and/or modification of aircraft and other property, plant and equipment that is not yet available for use. These assets are carried at costs. Cost includes expenditures that are directly attributable to the purchase, or modification of the asset. Borrowing costs attributable to the purchase, construction or modification of qualifying assets are capitalized to the cost of the item until the asset is ready for use. Once the property, plant and equipment are ready for use, the respective cost of property, plant and equipment will be transferred to the qualifying class of assets.

When a significant part of an asset has a different useful life from the overall asset's useful life, it is identified as a separate component and depreciated accordingly.

Spare parts are treated as property, plant and equipment and depreciated based on actual usage.

The Company recognizes airframe heavy maintenance expenditures for owned and certain leased aircraft using the deferral method. Under the deferral method, the actual cost of each overhaul is capitalized under property, plant and equipment and amortized on a straight-line basis over the period to the next overhaul or the end of the lease term whichever is earlier. Any remaining carrying amount of the cost of the previous overhaul is derecognized.

The Company capitalizes the cost of rotable parts purchased as an asset and depreciates it over its useful life of up to 10 years. The cost of repairing the rotable part is recognized in maintenance expense when incurred.

Depreciation is recognized so as to amortize the cost of assets less their residual values over their useful lives using the straight-line method. The Company reviews the depreciation methods, useful lives and residual values at each reporting date with the effect of any changes in estimate accounted for on a prospective basis.

Property, plant and equipment are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in consolidated statement of earnings and comprehensive income.

The estimated useful lives are as follows:

Asset	Estimated useful life
Aircraft hull	30 – 45 years from the date of manufacture
Engines	4 - 15 years
Rotable spares	Up to 10 years
Spare parts	Actual usage
Ground equipment	Up to 20 years
Hangar and cross-dock facility	Up to 30 years
Vehicles	Up to 8 years
Computer hardware and software	Up to 5 years
Furniture and fixtures	Up to 10 years
Leasehold improvements	Lesser of useful life and term of lease
Deferred heavy maintenance	Up to the date of the next scheduled heavy maintenance or end of lease term whichever is earlier

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Assets held under finance leases are initially recognized at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly into consolidated statement of earnings and comprehensive income, unless they are directly attributable to qualifying assets, in which case they are capitalized in accordance with the policy on borrowing costs. Contingent rents are recognized as expenses in the periods in which they are incurred.

Finance leased assets are reported under the relevant asset categories, with recognition of a corresponding financial liability. They are depreciated on a straight-line basis over the shorter of their estimated useful life and the term of the agreement.

Operating leases

Payments made under operating leases are charged to consolidated statement of earnings and comprehensive income on a straight-line basis over the term of the lease agreement. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred. Lease incentives from operating leases are recognized on a straight-line basis over the term of the lease.

Rental income from operating leases is recognized on a straight-line basis over the term of the lease.

Intangible assets

Definite life intangible assets are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. Indefinite life intangible assets, such as licenses, have no foreseeable limit to the period over which they are expected to generate net cash inflows and are carried at cost less accumulated impairment losses and are not amortized.

The estimated useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to an individual CGU, or otherwise they are allocated to the smallest group of CGU's for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in consolidated statement of earnings and comprehensive income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount. However, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in consolidated statement of earnings and comprehensive income.

Goodwill

Goodwill arising in a business combination is recognized as an asset at the date that control is acquired, and carried at cost as established on the acquisition date of the business less accumulated impairment losses, if any. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Company's previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortized but is reviewed for impairment annually on April 1. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to the other assets of the cash-generating unit pro-rata on the basis of the carrying amount of each asset in the cash-generating unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Foreign currencies

The functional currency of each subsidiary is Canadian dollars, which is the currency of the primary economic environment in which each subsidiary and the Company operates. The results and financial position of each subsidiary are expressed in Canadian dollars.

Transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the exchange rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognized in consolidated statement of earnings and comprehensive income in the period in which they arise.

Borrowing costs

Borrowing costs specifically attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets. Borrowing costs, for the funds that are borrowed generally and used for the purpose of obtaining a qualifying asset, are capitalized by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average borrowing rate to the Company that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in consolidated statement of earnings and comprehensive income in the period in which they are incurred.

Income taxes

Deferred taxes
Deferred taxes are recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable income or loss. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable income nor the accounting income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred taxes for the period

Current and deferred taxes are recognized in consolidated statement of earnings and comprehensive income, except when they relate to items that are recognized outside income (such as in other comprehensive income or directly in equity), in which case the current and deferred tax is also recognized outside income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those estimated cash flows.

Share based payments

Equity-settled share-based compensation plans

Long-term incentive plan (the “Plan” or “LTIP”)

Equity-settled share-based compensation plans are granted to eligible employees as disclosed in Note 9, which are measured at the market value of the Company’s voting shares on the date of the grant based on the units granted to the employees. The Company’s voting shares to be distributed to the employees are acquired from the open market and held in trust as treasury shares, and recorded as a reduction of share capital. The cost of the equity-settled share-based compensation plans is recognized as a compensation expense with a corresponding increase in equity over the related service period provided to the Company as vested. Upon the distribution of the Company’s voting shares, the Company’s voting shares previously held as treasury shares are recorded as an increase in share capital.

Restricted share units ("RSU")

Restricted share units are granted to non-employee directors and certain key executives and are measured at the fair value of the Company's voting shares on the date of the grant based on the units granted to the non-employee directors and certain key executives. The cost of the restricted share units are recognized as a compensation expense with a corresponding increase in equity over the related vesting period as service is provided to the Company.

Stock options ("Options")

Stock options are granted to non-employee directors and certain key executives and are measured at the fair value of the Company's voting shares on the date of the grant. The cost of the stock options are recognized as a compensation expense with a corresponding increase in equity over the related vesting period as service is provided to the Company.

The Company recently changed its method of settlement of options issued under the Stock Option Plan for executives and management by providing option 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 subsequent change in its settlement practice and on establishment of present obligation to settle in cash, a prospective change was made in the accounting of the options as cash settled liabilities. The compensation expense is adjusted for subsequent change in the fair value of the options using Black Scholes valuation method and recorded as part of long-term liabilities. The compensation expense is recognized for vested options immediately and based on elapsed vesting period for non-vested options.

The Company has derivative in the form of total return swap that is not designated as in hedge accounting relationship with the option liability but regarded as economic hedge. Gains and losses on the option liability and the total return swap will be recognized in the same line item in the income statement to offset the exposure due to change in their fair values. This policy is changed from the normal practice of recognizing the change in fair value of swap in other gains and losses.

Employee benefits

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

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

Convertible debentures

The component parts of compound instruments issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is recognized and included in equity, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to another equity account. Transaction costs are divided between the liability and equity components in proportion to their values.

On the early redemption or repurchase of convertible debentures, the Company allocates the consideration paid on extinguishment to the liability based on its fair value at the date of the transaction and the residual is allocated to the conversion option. Any resulting gain or loss relating to the liability element is credited or charged to consolidated statement of earnings and comprehensive income and the difference between the carrying amount and the amount considered to be settled relating to the holder option is treated as a capital transaction.

Hybrid Debentures

When a contract contains an embedded derivative, the economic and risk characteristics of both the embedded derivative and host contract are analyzed to understand whether or not they are closely related and to decide whether the embedded derivative should be accounted for separately from the host contract.

The embedded features in the financial instrument issued by the Company are identified at inception. Each feature is evaluated separately and classified either as part of the host liability, as a separate embedded liability or as an equity instrument in accordance with the substance of the contractual arrangement.

Critical accounting judgments and key sources of estimation uncertainty

In preparing the financial statements, the Company's management is required to make judgments, estimates and assumptions that may affect the reported amount of the assets, liabilities, revenues and expenses. Although these estimates are based on management's best knowledge of the current events and actions that the Company may undertake in the future, actual results may differ from these estimates. Reported amounts which require management to make significant estimates and assumptions include property, plant and equipment, goodwill, deferred taxes, provision, pension obligation and financial instruments. These items are discussed below.

Critical judgments in applying accounting policies

Componentization of property, plant and equipment
The componentization of the Company's property, plant and equipment is based on management's judgment of the cost of the component in relation to the total cost of an asset and whether these components have different useful lives for determination of depreciation.

Impairment of property, plant and equipment, goodwill and intangibles assets
Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset of a CGU is impaired. The determination of CGUs is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets as well as how management monitors and makes decisions about operations.

Classification of leases
Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of whether or not the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee.

Key sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Impairment of property, plant and equipment, goodwill and intangibles assets
At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.

Cash settled share based payment arrangement

The cost and related liability of the Company's cash settled share based payment arrangement under the stock option plan for certain key executives and non-employee directors is recognized using a Black-Scholes option pricing model involving assumptions including discount rates and exercise dates. Due to the long-term nature of these rights, such estimates are subject to significant uncertainty.

Deferred taxes

Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and assesses recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Provisions

The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, the Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The Company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to a change in timing, cost of maintenance or discount rates.

Financial instruments

The issuance of compound instruments, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.

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

Accounting changes

Accounting standards effective for 2018

Revenue recognition

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

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

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

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

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

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

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

Interest revenue is recognized when earned.

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

Financial Instruments

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

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

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

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

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

(b) Measurement
Financial assets and liabilities at amortized cost:
Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

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

(d) Derecognition of :

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

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

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

Standards, amendments and interpretations issued and not yet adopted

Leases: In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous lease standard, IAS 17 *Leases*, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. The liability will adjust for the 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 recognized leased liability. In the statement of cash flow, lease payments will be part of financing activities as principal repayment and either operating or financing activities as 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.

Application

The Company will apply the standard effective January 1, 2019 with a modified retrospective approach. Under this approach, the Company will determine the effect of applying the standard on the existing leases as at January 1, 2019, the initial date of application. The comparative information will not be restated and continue to be reported under IAS 17 and IFRIC 4. The Company has elected to use the practical expedients under the modified retrospective approach. Accordingly it will measure its lease liability and right-of-use asset at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. It will also elect not to apply the provisions of the standard to short-term leases or where the underlying asset is of low value.

Leases

The Company has one aircraft under operating lease and will record 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 will record the right-of-use asset and the lease liability under the standard.

(in millions of Canadian dollars except where noted)

Accounting for leases and right of use asset

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. Aircrafts 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 aircraft, 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. The application of IFRS 16 requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities which mainly relate to the implicit interest rate for aircraft leases and the incremental borrowing rate at the commencement date of the contract for property leases. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

Impact to Consolidated Financial Statements

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

Assets and liabilities will increase by the value of the right-of-use assets and corresponding liabilities.The Company expects the value of its assets and liabilities to increase within a range of $23 - $28. The full impact of the adoption of this standard on its consolidated statements of earnings and comprehensive income is under evaluation.

3. INVENTORIES

	December 31, 2018	December 31, 2017
	$	$
Fuel Inventory	1.4	0.8
Glycol Inventory	0.2	0.1
Total Inventory	1.6	0.9

For the years ended December 31, 2018 and 2017, costs of fuel inventory of $110.0 and $75.5, respectively, and costs of glycol inventory of $0.5 and $0.4, respectively, were recognized in direct expenses.

(in millions of Canadian dollars except where noted)

4. Revenue from Contracts with Customers

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

	December 31, 2018	December 31, 2017
	$	$
Revenue from aircargo services	446.9	378.7
Revenue from other sources	8.0	4.2
Total revenue	454.9	382.9

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

	December 31, 2018	December 31, 2017
	$	$
Core Overnight	248.8	222.0
Fuel and Other Surcharges	115.0	88.6
ACMI	46.0	44.7
All-in charter	37.1	23.4
Total revenue	446.9	378.7

Contract assets and liabilities

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

(in millions of Canadian dollars except where noted)

	December 31, 2018	December 31, 2017
	$	$
Trade receivables	57.2	31.6
Other receivables	2.9	2.8
Total contract assets	60.1	34.4
Contract liability - expected rebates to customers	0.4	0.2
Total contract liabilities	0.4	0.2

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2018	Additions	Transfers	Disposal/ Adjustments	Balance as at 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 [1]	50.7	22.5	0.6	(2.4)	71.4
	690.9	276.3	-	(11.9)	955.3

[1] The Deferred heavy maintenance adjustments relates to the heavy maintenance deposits adjusted on the exercise of the bargain purchase option of one Boeing 767-300 aircraft in March 2018 as disclosed in Note 11.

(in millions of Canadian dollars except where noted)

Accumulated Depreciation & Impairment	Balance as at January 1, 2018	Depreciation	Disposals	Balance as at December 31, 2018	Net Book 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

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

(in millions of Canadian dollars except where noted)

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

Property, plant and equipment under development of $115.3 (2017 - $31.7) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

During the year ended December 31, 2018, the Company sold one Boeing 767-300 aircraft and leased the aircraft back from an equipment leasing company and completed the acquisition of an additional Boeing 767-300 aircraft under lease term as disclosed in Note 11.The Company also completed the acquisition of two Boeing 757-200 aircraft and two 757-200 aircraft engines using the revolving credit facility and term loan. The Company also sold two Boeing 727-200 aircraft along with spares, and one Challenger 601 aircraft that were previously owned and recorded as Aircraft hull, Engines and Rotable spares respectively for $1.5, resulting in a gain of $0.3.

Depreciation expense on property, plant and equipment for the year ended December 31, 2018 totaled $66.1 (2017 - $49.7) out of which $64.0 (2017 – $48.4) was recorded in direct expenses and $2.1 (2017 - $1.3) was recorded in general and administrative expenses.

6. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single cash-generating unit. Goodwill is tested for impairment annually on April 1, or more frequently when there is an indication of potential impairment. The recoverable amount is determined based on a value in use calculation which uses cash flow projections for a five-year period using a steady 3.5 % per annum growth rate thereafter (2017 – 3.5%), which has been estimated based on long-term growth rates in the cash flow of the Company, and a pre-tax discount rate of approximately 14.4 % per annum (2017 – 16.6%). Based on the Company's analysis the recoverable amount determined exceeded the carrying amount of cash generating unit. The Company believes that any reasonably possible change in key assumptions on which recoverable amounts are based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

(in millions of Canadian dollars except where noted)

7. INTANGIBLE ASSETS

Intangible assets at December 31, 2018 and 2017 consist of licenses with indefinite lives carried at $2.0 (2017 - $2.0). The Company believes that licenses have indefinite useful lives as the licenses provide a renewal option, at Transport Canada's discretion, provided that licensing conditions are met and the Company complies with the licensing conditions specified in the existing laws, agreements, treaties and regulations.

8. TRADE AND OTHER PAYABLES

	December 31, 2018	December 31, 2017
	$	$
Trade payables and accrued charges	35.8	29.5
Payroll and benefits	8.6	8.6
Trade and other payables	44.4	38.1

9. 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.

During the year ended December 31, 2018, in accordance with the RSU Plan, the Company granted 56,566 RSUs to certain key executives. Each RSU had an average value of $64.23 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. 19,880 of these RSUs vested immediately. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 9,143 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of $0.7 equal to the monetary value of the tax obligation determined based on the Market Price of $64.23 per share of 10,737 shares withheld that otherwise would have been issued upon vesting. The payment made to the tax authority was accounted for as a reduction of equity. An amount of $0.6 was transferred to share capital from contributed surplus. Of the remaining 36,686 RSUs granted in 2018, 18,343 will vest in each of the first quarters of 2019 and 2020 respectively.

(in millions of Canadian dollars except where noted)

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

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

The RSU activity for the year ended December 31, 2018 and year ended 2017 is summarized below

	Number of RSUs	Fair value $
Balance at January 1, 2017	79,466	0.5
Granted in the year	63,089	3.0
Share dividend	1,439	0.1
Share based compensation-Vested and settled	(80,718)	(1.3)
Share based compensation-Unvested and amortized	-	(1.2)
Balance at December 31, 2017	63,276	1.1
Share dividend	622	-
Granted in the year	56,566	3.6
Share based compensation-Vested and settled	(62,789)	(1.7)
Share based compensation-Unvested and amortized	-	(1.8)
Balance at December 31, 2018	57,675	1.2

During the year ended December 31, 2018, the total share based compensation expense of $3.5 related to settled and unvested RSUs was included in the consolidated statements of earnings and comprehensive income (for the year ended December 31, 2017 – $2.5). Unrecognized share-based compensation expense as at December 31, 2018 related to these RSUs was $1.2 (December 31, 2017 – $1.1) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

(in millions of Canadian dollars except where noted)

Options :

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

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

Options :

The Options activity during the year ended December 31, 2018 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in $
Balance as at January 1, 2018	220,447	$29.71
Granted during the year	185,148	$64.23
Exercised during the year	(196,939)	$28.09
Balance as at December 31, 2018	208,656	$61.87
Vested & exercisable at December 31, 2018	58,656	$55.85

As at December 31, 2018, there were 58,656 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 1.8 years.

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

On August 23, 2018, certain executives further exercised 45,807 Options granted on June 15, 2015, 55,729 Options granted on March 28, 2016 and 9,610 Options granted on November 17, 2016 when the volume weighted average trading price per share was $76.21. The Company settled the Options in cash at the request of option holders in cash pursuant to the Stock Option Plan. 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.The Company measured its liability using the modification date value of the Option award based on the elapsed portion of the vesting period for its outstanding Options on that date using the Black Scholes model. This amount of $7.1 was recognized as a liability with a corresponding reduction to equity. The liability was reduced by the amount of cash paid equal to the fair value of Options settled of $5.4. The excess payment of $0.1 over the fair value of the Options settled was recognized as an expense on that date. The fair value of the remaining liability shall be re-measured, at the end of each reporting period until settled, by applying an option pricing model, taking into account the terms and conditions on which the options were granted, and the extent to which the employees have rendered service to date. Any change in fair value will be recorded in the Consolidated Statement of Earnings and Comprehensive Income. As at December 31, 2018 the Company had $2.3 of liability on account of vested and unvested options. In September 2018, the Company entered into a total return swap agreement with a financial institution to manage its exposure under this obligation. See note 26 Financial Instruments under Total Return Swap.

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 $3.9 was issued to the executives for vested and exercised Options and the Company remitted an amount of $1.5 equal to the monetary value of the tax obligation determined based on the market price of the shares.

The Company recognized an expense of $1.3 for the year ended December 31, 2018, (December 31, 2017 – $0.6 respectively) comprising of $0.9 of the amortization of the Options over the vesting period, $0.1 excess amount paid over the fair value and $0.3 change in fair value of Option. Due to the change in method of settlement of the Options, only the change in the value of the liability on measurement at the end of reporting period will be expensed in the Consolidated Statements of Earnings and Comprehensive Income.

(in millions of Canadian dollars except where noted)

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	185,148	19,220	1,853	2,435
Fair value per option on grant date	$14.50	$10.41	$5.43	$4.98
Fair value per option December 31, 2018	$16.98	$24.03	$42.91	$44.83

10. BORROWINGS

Borrowings consist of the following:

	December 31, 2018	December 31, 2017
	$	$
Revolving credit facility	205.8	124.3
Other borrowings	0.2	0.2
	206.0	124.5
Long-term portion	206.0	124.5

Revolving syndicate credit facility and term loan

Effective September 20, 2016, the Company amended its revolving operating credit facility (the “facility”) availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) by, amongst other things, increasing the maximum credit available from $100 to $175 and extending the maturity date by one year to expire on December 16, 2019. The facility bears interest payable monthly; at the lead Lender’s prime lending rate / US base rate plus 150 basis points to 200 basis points, depending on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity.

On April 7, 2017, the Company further amended the facility by, amongst other things, increasing the maximum revolving credit available from $175 to $200 and establishing a non-revolving $75 delayed-draw term loan facility (the “DDTL Facility”). The maturity date of the facility was further extended to April 7, 2020 and the maturity date of the DDTL Facility is April 7, 2022.

On July 30, 2018 and on September 28, 2018 the Company further amended the facility by increasing the maximum revolving credit available from $200 to $225 and from $225 to $400 respectively. The maturity date of the facility was further extended to August 17, 2023 and the DDTL Facility was terminated.

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

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at December 31, 2018 and 2017.

Included in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2018 was interest expense on the revolving credit facility of $9.8 respectively (2017 - $4.7 respectively).

11. FINANCE LEASES

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

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at December 31, 2018 and 2017.

As at December 31, 2018, the total outstanding balance of the leases under the MLA is $67.9 out of which $9.0 is recognized as a current liability on the consolidated balance sheet.

(in millions of Canadian dollars except where noted)

The Company also has a finance lease arrangement for one Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 6.63%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in October 2020. As at December 31, 2018, the total outstanding balance of these finance lease arrangements is $32.0 out of which $4.3 is recognized as a current liability on the consolidated balance sheet.

During the year ended December 31, 2018 the Company has entered in to a finance lease arrangement and a sale and lease back arrangement for one Boeing 767-300 aircraft that includes a bargain purchase option. No gain or loss has been recognized on the sale and lease back arrangement. The estimated effective interest rate for this lease is 6.5%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in October 2021. As at December 31, 2018, the total outstanding balance of these finance lease arrangements is $37.6 out of which $6.0 is recognized as a current liability on the consolidated balance sheet.

The Company also entered in to a finance lease arrangement for two additional Boeing 767-300 aircraft that include bargain purchase options. One Boeing 767-300 aircraft has entered operations and the other Boeing 767-300 aircraft has been inducted for cargo conversion and is included in property, plant and equipment under development. The lease for the aircraft in operations is deemed to be maturing on the exercise date of the bargain purchase option in November 2023 and the effective interest rate is 5.95%. The lease for the aircraft inducted for cargo conversion is deemed to be maturing on the exercise date of the bargain purchase option within 3 years of the aircraft being ready for use or at the end of the lease term at 5 years. As at December 31, 2018, the total outstanding balance of these finance lease arrangements is $62.0 out of which $5.9 is recognized as a current liability on the consolidated balance sheet.

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

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

The following is a schedule of future minimum annual lease payments for aircraft under finance leases together with the balance of the obligations as at December 31, 2018.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	36.4	25.2
Later than one year and not later than five years	190.9	174.2
	227.3	199.4
Less: interest	27.9	-
Total obligations under finance leases	199.4	199.4
Less: current portion	25.2	25.2
Non-current portion	174.2	174.2

Interest amounts on the finance leases for the year ended December 31, 2018 totaled $8.6 respectively (2017 - $9.2 respectively).

(in millions of Canadian dollars except where noted)

12. PROVISIONS

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

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

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company's specific history.

13. DEBENTURES

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

	December 31, 2018	December 31, 2017
	$	$
Convertible debentures - 4.65%	115.7	114.8
Hybrid debentures - 5.75%	82.4	-
Balance	198.1	114.8

Convertible debentures – 4.65% due December 31, 2021

In September 2016, $125.0 of unsecured subordinated convertible debentures were issued at a price of 1,000 (dollars) per debenture with a term of five years 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 December 31, 2018 and December 31, 2017 consists of the following:

(in millions of Canadian dollars except where noted)

	December 31, 2018	December 31, 2017
Principal balance - beginning of year	125.0	125.0
Less:		
Issuance costs	(5.8)	(5.8)
Conversion option at inception	(7.1)	(7.1)
Accretion	5.0	2.7
Converted during the year	(1.4)	-
Balance	115.7	114.8

Interest expense on the convertible debentures for the year ended December 31, 2018 totaled $8.0 respectively (2017 - $8.0 respectively).

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.

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 was therefore recorded as a financial instrument. The debt was recorded at fair value of $82.4 net of deferred financing cost 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.

(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 December 31, 2018 and December 31, 2017 consists of the following:

	December 31, 2018	December 31, 2017
	$	$
Principal balance - beginning of year	86.3	-
Less:		
Issuance costs	(4.0)	-
Accretion	0.1	-
Balance - end of year	82.4	-

Interest expense on the hybrid debentures for the year ended December 31, 2018 totaled $0.8 (December 31, 2017 - $nil).

14. INCOME TAXES

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

	December 31, 2018	December 31, 2017
	$	$
Earnings before income taxes	29.3	33.6
Basic rate of 26.5% (2018 - 26.5%)	7.8	8.9
Exchange gains on capital loans	-	(0.1)
Share - based compensation	1.3	0.8
Meals and entertainment	0.1	0.2
Sundry items	(0.1)	0.1
Provision for income taxes	9.1	9.9

(in millions of Canadian dollars except where noted)

The tax effect of significant temporary differences is as follows:

	December 31, 2017	Recognized in equity	Recognized in Profit & Loss	December 31, 2018
	$	$	$	$
Property, plant and equipment	20.5	-	5.8	26.3
Operating loss carryforward	(9.8)	-	1.0	(8.8)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Derivative contracts	(0.4)	-	0.4	-
Pension costs	(2.8)	-	(0.7)	(3.5)
Financing costs	(1.0)	-	0.8	(0.2)
Convertible debentures	1.5	-	(0.3)	1.2
Provision for lease retirement costs	(0.2)	-	(0.2)	(0.4)
Deferred heavy maintenance	6.3	-	2.3	8.6
Net deferred income tax liability	14.0	-	9.1	23.1

15. DIRECT EXPENSES

	December 31, 2018	December 31, 2017
	$	$
Fuel costs	110.0	75.5
Maintenance costs	30.2	25.6
Heavy maintenance amortization	12.3	10.0
Aircraft costs	15.9	19.6
Crew costs	28.8	24.3
Depreciation	51.7	38.4
Commercial and other costs	93.7	83.2
Direct expenses	342.6	276.6

16. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2018	December 31, 2017
	$	$
Salaries and benefits	22.2	21.4
Employee pension	2.7	1.8
Depreciation	2.1	1.3
Net realized foreign exchange loss	0.7	1.9
Bonuses and incentives	9.2	8.1
Audit, legal and consulting	2.0	2.0
IT network and communications	2.7	2.4
Other general and administrative expenses	8.7	8.7
General and administrative expenses	50.3	47.6

(in millions of Canadian dollars except where noted)

17. FINANCE COSTS

	December 31, 2018	December 31, 2017
	$	$
Interest on capital leases	8.6	9.2
Interest on loans	-	0.3
Interest on debentures	8.9	11.0
Credit facilities and other interest	9.8	4.7
Finance costs	27.3	25.2

18. OTHER GAINS & LOSSES

	December 31, 2018	December 31, 2017
Gain on derecognition of provision for lease return conditions	-	(1.6)
Net (gain) loss on forward foreign exchange contracts	(1.6)	2.2
Gain on cash settled share based payment arrangements and total return swap	(1.1)	(1.2)
Unrealized foreign exchange loss (gain)	5.6	(3.5)
Gain on disposal of property, plant and equipment	(0.3)	-
Other loss (gain), net	2.6	(4.1)

19. 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.

(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 31,2017 to December 31, 2018

	Number of shares	Amount
		$
Variable voting shares	291,652	3.80
Common voting shares	13,090,977	170.60
Outstanding- December 31, 2017	13,382,629	174.40
Changes during the year		
Restricted share units settled	28,882	1.30
Exercise of options	5,603	0.10
Private placement of shares	10,000	0.70
Conversion of convertible debentures	25,863	1.40
	13,452,977	177.90
Consisting of:		
Variable voting shares	343,887	4.55
Common voting shares	13,109,090	173.35
Outstanding- December 31, 2018	13,452,977	177.90

Dividends

Dividends to shareholders declared for the year ended December 31, 2018 amounted to $11.4 ($0.8480 per share) and for the year ended December 31, 2017 amounted to $9.6 ($0.7700 per share) respectively for both common and variable shares.

As at December 31, 2018, the dividend amount of $2.9 was payable to the shareholders (December 31, 2017 - $2.6).

(in millions of Canadian dollars except where noted)

20. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the year ended December 31, 2018 and 2017:

Basic earnings per share	December 31, 2018	December 31, 2017
Net earnings	$20.2	$23.7
Weighted average number of shares	13.4	12.1
Dilutive impact of share- based awards	0.1	0.2
Diluted weighted average number of shares	13.5	12.3
Total basic earnings per share	$1.51	$1.96
Total diluted earnings per share	$1.50	$1.93

The effect of the convertible debentures has been excluded from the calculation of diluted earnings per share for the year ended December 31, 2018 and 2017 as the impact would be anti-dilutive. Diluted earnings includes the potentially dilutive impact of share-based awards outstanding at year end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

21. EMPLOYEE BENEFITS

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

	December 31, 2018 $	December 31, 2017 $
Balance as at January 1, 2018	10.5	8.7
Current service cost	0.7	0.6
Interest expense	0.4	0.3
Effect of experience adjustment	1.9	0.3
Effect of changes in financial assumptions	(0.6)	0.6
Effect of changes in demographic assumptions	0.3	
Balance as at December 31, 2018	13.2	10.5

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

Assumptions for 2018

Discount rate: 3.8% per year

(in millions of Canadian dollars except where noted)

Increase in pensionable earnings:	2.0% per year
Inflation:	2.0% per year
Longevity post retirement:	CPM 2014 mortality table with generational mortality improvements using CPM-B improvement scale.
Retirement age:	65 years

Assumptions for 2017

Discount rate:	3.5% per year
Increase in pensionable earnings:	2.0% per year
Inflation:	2.0% per year
Longevity post retirement:	CPM 2014 mortality table with generational mortality improvements using CPM-B improvement scale.
Retirement age:	65 years

Sensitivity Analysis

Certain assumptions were used in the actuarial valuation of the pension obligation as at December 31, 2018. Due to uncertainty inherent in a projection over a long period of time due to changing factors, the alternative outcomes and amounts cannot be determined. Accordingly, the Company performed a sensitivity analysis on the projections. Sensitivity analysis of pension expense is performed based on changing one assumption at a time while keeping all other assumptions constant. This may be an unlikely event to occur in practice where changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position. Sensitivity analysis performed on pension expense relating to pension benefit liabilities, based on different actuarial assumptions with respect to discount rate is given below.

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

Change in salary scale: A 0.25 percentage point increase in salary scale would have increased the benefit obligation by 1%. A 0.25 percentage point decrease in salary scale would have decreased the benefit obligation by 1%.

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

Defined Contribution Pension Plans: During the year ended on December 31, 2018, the Company contributed to the plan an amount equal to the Money Purchase Limit for the year.

(in millions of Canadian dollars except where noted)

22. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to the following annual minimum lease payments under operating leases for its fleet of aircraft, office premises and certain equipment:

	$
Not later than one year	4.1
Later than one year and not later than five years	9.2
Later than five years	9.9
Total	23.2

In the normal course of business, the Company has certain commitments for expenditures related to the continuation of operations and the maintenance and acquisition of property, plant and equipment.

Contingencies

The Company has provided irrevocable standby letters of credit totaling $18.6 to financial institutions as security for its loan, corporate credit cards and to several vendors as security for the Company's ongoing purchases. The letters of credit expire unless further renewed as follows:

	$
December 31, 2018	18.6
Total	18.6

23. RELATED PARTY TRANSACTIONS

New Head Office

During 2018, the Company paid an amount of $1.0 (2017 – $0.7) as lease rent to the lessor of the property where its head office and warehouse are located. The lessor is indirectly and beneficially owned by one of the Company's Executive Officers and Directors of the Company. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Private Placement of Shares to Director

On November 29, 2018 the Company completed the private placement of 10,000 variable voting shares to one of its directors at a price of $68.09 per share. The Company intends to use the proceeds from such placement for general corporate and working capital purposes. The Company had no other transactions with related parties except those pertaining to transactions with key management personnel in the ordinary course of their employment or directorship agreements.

(in millions of Canadian dollars except where noted)

Compensation of key management personnel

In 2018, the employee benefit expense was $87.9 (2017 - $76.4) of which $53.2 (2017 - $44.4) was recorded in direct expenses and $34.7 (2017 - $32.0) was recorded in general and administrative expenses. The general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2018 and 2017 as follows:

	December 31, 2018	December 31, 2017
	$	$
Short term benefits	8.3	6.3
Post-employment benefits	0.1	0.1
Share-based payments	4.2	3.1
Defined pension benefits	2.7	1.8
Total remuneration	15.3	11.3

24. ECONOMIC DEPENDENCE

In 2018, the Company had sales to three individual customers that represented 60.3% of the total revenues (2017 – 63.3%). These sales are provided under service agreements that expire over various periods to April 2025. All of these customers had sales in excess of 9% of total revenues in each of 2018 and 2017. The sales to individual customers represented 33.5%, 17.4% and 9.4% respectively of the total revenues (2017 – 31.9%, 19.2% and 12.2%).

25. CAPITAL MANAGEMENT

The Company’s objectives when managing capital are: (i) to maintain flexibility when managing the short-term cash needs of the business and the funding of future growth; and (ii) to manage capital in a manner that balances the interests of the shareholders and debt holders.

The Company defines capital as the sum of total equity, borrowings, including the current portion, obligations under finance leases, convertible debentures, cash, and the present value of the future operating lease payments.

The Company manages its capital structure and will make adjustments to it in ways that support the broader corporate strategy or in light of changes in economic conditions. In order to maintain or adjust its capital structure, the Company may adjust the amount of dividends paid to shareholders, purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, issue new debt to replace existing debt which may have different characteristics, repurchase debt instruments for cancellation pursuant to normal course issuer bids or reduce the amount of existing debt. There were no changes in the Company’s approach to capital management during the year.

The Company is subject to financial covenants related to its credit facility, finance leases and aircraft facility arrangement (Note 10 and Note 11, respectively). As at December 31, 2018 and 2017, the Company was in compliance with all financial covenants.

26. 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 had an obligation to pay share-based additional fees under the MLA and certain aircraft facility arrangements. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company pays interest to the financial institution based on Canadian dollar LIBOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares. The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. On September 11 2018, the total return swap was settled by disposal of 53,600 of underlying shares of the swap by the counter party and the Company received $2.9 from the financial institution.

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 $0.5 in favor of the Company and is offset by salaries and benefits in the Consolidated Statement 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 $0.7 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 December 31, 2018 was approximately $124.6 (December 31, 2017-$122.4). The fair value of the debentures was determined using the discounted cash flow method using the discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The fair value of the long-term debt as disclosed in Note 10 was approximately equal to its carrying value. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by $2.1 respectively.

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

Forward Foreign Exchange Contracts

As at December 31, 2018, the Company had no foreign exchange forward contracts outstanding (December 31, 2017 – US$ 38.0 at a weighted average contracted rate of CAD $1.2993 per US dollar). The estimated value of the foreign exchange forward contracts as at December 31, 2018 is $nil (December 31, 2017 – payable of $1.6) and was included under derivative financial instruments on the balance sheet.

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

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

Credit risk

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

The Company is subject to risk of non-payment of accounts receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's receivables are concentrated among several of its largest customers with approximately 76.2% (December 31, 2017 – 76.2%) of total receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (0.5%) of trade receivables is outstanding for more than 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. Consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

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

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

Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $400 million. The Company was in compliance with all covenants as at December 31, 2018 and 2017.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2018 based on contractual undiscounted payments are as follows:

(in millions of Canadian dollars except where noted)

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
	$	$	$	$	$
Borrowings and debentures	-	-	404.1	-	404.1
Finance leases	25.2	70.0	104.2	-	199.4
Interest on finance leases	11.3	9.2	7.4	-	27.9
Trade and other payables	44.4	-	-	-	44.4
Provisions	-	1.4	-	-	1.4
Pension and option liability	-	-	-	15.5	15.5
Dividends payable	2.9	-	-	-	2.9
Total	83.8	80.6	515.7	15.5	695.6

Total financial liabilities at December 31, 2017 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 convertible debentures	-	-	249.5	-	249.5
Finance leases	62.1	14.7	84.4	-	161.2
Interest on finance leases	8.1	6.4	7.7	-	22.2
Trade and other payables	38.1	-	-	-	38.1
Provisions	0.1	1.2	-	-	1.3
Pension benefit liability	-	-	-	10.5	10.5
Dividends payable	2.6	-	-	-	2.6
Total	111.0	22.3	341.6	10.5	485.4

Market risk

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

The Company performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Company's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Company's cash, borrowings, convertible debentures, 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 December 31, 2018 is 100% fixed after repayment of the floating rate loans in September 2016.

At December 31, 2018, the Company had no interest rate risk due to fixed interest rates of all existing financing arrangements.

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The company also enters into contracts attributed to asset purchases including aircraft and aircraft parts and pays debt in foreign currency. The Company manages its exposure to changes in the Canadian/U.S. exchange rate on anticipated purchases and debt payments by buying forward U.S. dollars at fixed rates in future periods. As at December 31, 2018, the Company held no foreign exchange forward purchase agreements (2017 - $38). These agreements fix the amount of Canadian dollars that the Company will pay to buy USD to offset its purchases in USD.

Total unrealized foreign exchange gains during the year ended December 31, 2018 on foreign exchange transactions were $5.6 (2017 – gain of $3.5). The unrealized loss on forward contracts during the year ended December 31, 2018 was $nil (December 31, 2017 – $2.2)

At December 31, 2018, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately $13.4 (2017 - $2.9). An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2017 - $0.6).

At December 31, 2018, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by approximately $0.3 (2017 - $0.3). An increase in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2017 - $0.3).

27. GUARANTEES

In the normal course of business, the Company enters into agreements that meet the definition of a guarantee. The Company's primary guarantees are as follows:

(a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircrafts. Under the terms of these agreements, the Company agrees to indemnify the counterparties for various items including, but not limited to, all liabilities, loss, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) In the normal course of business, the Company has entered into agreements that include indemnities in favor of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

(c) The Company participates in Fuel Facility Corporations (“FFC”) along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operate on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered as part of the consolidated financial statements of the Company. The Company views this loss potential as remote. The airlines that participate in the FFC guarantee on a pro-rata basis the share of the debt based on system usage.

The nature of these indemnification agreements prevents the Company from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability which stems from the unpredictability of future events and the unlimited coverage offered to counterparties.

Historically, the Company has not made any payments under such or similar indemnification agreements and therefore no amount has been accrued in the balance sheet with respect to these agreements.

28.SUBSEQUENT EVENTS

In December 2018, the Company entered into a share purchase agreement to acquire 100% interest in a ground handling and ground service equipment company at Mirabel International Airport in Quebec. The Company completed this transaction on January 31, 2019. The Company acquired the shares for cash consideration of $3.1.