

Consolidated Financial Statements of



**For the years ended December 31, 2020 and 2019**

(expressed in millions of Canadian dollars)

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## Independent auditor's report

To the Shareholders of Cargojet Inc.

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### 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, 2020 and 2019, 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, 2020 and 2019;
- the consolidated statements of (loss) earnings and comprehensive (loss) 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 significant accounting policies and other explanatory information.

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### 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.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



## Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

### How our audit addressed the key audit matter

#### Valuation of stock warrant obligations

*Refer to note 2 – Summary of Significant Accounting Policies, note 4 – Revenue from Contracts with Customers, note 5 – Stock Warrant and note 27 – Financial Instruments to the consolidated financial statements.*

On August 23, 2019, the Company entered into a stock warrant agreement with Amazon. Under the agreement, the Company issued stock warrants to Amazon for the opportunity to purchase variable voting shares. Upon the execution of the agreement 0.4 million stock warrants vested immediately and the vesting of the additional stock warrants is tied to the achievement of commercial milestones based on the Company's revenue from Amazon and its affiliates associated with this agreement. Management has determined that the stock warrant obligations are a derivative instrument and should be classified as a liability. The financial instruments are initially recorded at fair value and are then revalued at each reporting date. As of December 31, 2020, the stock warrant obligations were revalued to \$251.4 million, resulting in a loss of \$177.9 million for the year then ended.

Management classified the stock warrant obligations as level 3 derivative liabilities. There is no current market for these securities such that the determination of fair value requires significant

Our approach to addressing the matter included the following procedures, among others:

- Professionals with specialized skill and knowledge in the field of valuation assisted in developing an independent point estimate of the valuation of stock warrant obligations based on data provided by management and inputs obtained or estimated independently, such as volatility, and in performing sensitivity analysis over unobservable inputs, including volatility and forecasted revenue from Amazon.
- Evaluated the reasonableness of forecasted revenue from Amazon by considering the Company's historical growth in revenue from Amazon and its affiliates associated with this agreement, approved budgets and industry projections.
- Compared the independent point estimate to management's estimate to evaluate the reasonableness of the stock warrant obligations.
- Tested the disclosures made in the consolidated financial statements, particularly on the sensitivity of significant assumptions related to volatility and forecasted revenue from Amazon.



#### Key audit matter

#### How our audit addressed the key audit matter

judgment or estimation. Management used an American option pricing model utilizing Monte Carlo simulation that uses unobservable inputs to value the stock warrant obligations as of December 31, 2020. Significant unobservable inputs used in the valuation model included volatility of the Company's common shares and forecasted revenue from Amazon and its affiliates associated with this agreement (forecasted revenue from Amazon) utilized to predict future vesting events.

We considered this a key audit matter due to the significant judgment applied by management in determining the fair value of the stock warrant obligations and the complexity of the valuation model, which includes significant unobservable inputs including volatility and forecasted revenue from Amazon. This led to a high degree of auditor subjectivity and judgment in performing procedures relating to the valuation of stock warrant obligations. The audit effort involved the use of professionals with specialized skill and knowledge.

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#### Other information

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

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.



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## **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.

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## **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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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  
March 1, 2021

# CARGOJET INC.

## Consolidated Balance Sheets

As at December 31, 2020 and December 31, 2019

(in millions of Canadian dollars)

	Note	2020	2019
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash		3.7	1.6
Trade and other receivables		41.3	51.3
Inventories	3	1.5	2.3
Prepaid expenses and deposits		5.0	6.9
Income taxes recoverable		0.1	0.1
Derivative financial instruments	27	44.6	8.3
		96.2	70.5
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	8,12	998.7	890.2
Goodwill	6	48.3	48.3
Intangible assets	7	2.0	2.0
Deposits		7.1	6.1
Contract assets	5	68.4	78.0
Deferred income taxes	15	3.2	3.2
		1,223.9	1,098.3
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	9	73.2	51.6
Lease liabilities	13	103.8	59.3
Dividends payable	20	3.6	3.6
		180.6	114.5
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	12	72.9	244.2
Lease liabilities	13	91.2	137.0
Stock warrant obligations	5	251.4	73.5
Debentures	14	304.9	193.3
Deferred income taxes	15	79.5	35.5
Employee pension and share-based compensation	11,22	68.2	24.1
		1,048.7	822.1
<b>EQUITY</b>			
		175.2	276.2
		1,223.9	1,098.3

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



# CARGOJET INC.

## Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income

Year ended December 31, 2020 and 2019

(in millions of Canadian dollars except per share data)

	Note	2020	2019
		\$	\$
REVENUES	4	668.5	486.6
DIRECT EXPENSES	16	418.0	367.4
		250.5	119.2
General and administrative expenses	17	98.0	60.9
Sales and marketing expenses		4.2	2.9
Gain on swap derivative	27	(20.8)	(4.3)
Impairment of property, plant and equipment	8	0.6	-
Finance costs	18	39.6	43.6
Fair value adjustment on stock warrant	5	177.9	0.9
Gain on extinguishment of debt	13	(1.1)	-
Other gain, net	19	(4.1)	(5.6)
		294.3	98.4
(LOSS) EARNINGS BEFORE INCOME TAXES		(43.8)	20.8
PROVISION FOR INCOME TAXES	15		
Deferred		44.0	9.2
NET (LOSS) EARNINGS and COMPREHENSIVE (LOSS) INCOME		(87.8)	11.6
NET (LOSS) EARNINGS PER SHARE	21		
- Basic		\$(5.63)	\$0.86
- Diluted		\$(5.63)	\$0.85

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

# CARGOJET INC.

## Consolidated Statements of Changes in Equity Year ended December 31, 2020 and 2019

(in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$	\$
Balance, January 1, 2020		298.2	2.4	-	13.1	(37.5)	276.2
Net loss and comprehensive loss		-	-	-	-	(87.8)	(87.8)
Share-based compensation	11	-	3.8	-	-	-	3.8
Restricted shares, vested and exercised	11,20	1.8	(1.8)	-	-	-	-
Withholding tax paid on vested RSU's	11	-	(2.1)	-	-	(0.3)	(2.4)
Dividends	20	-	-	-	-	(14.6)	(14.6)
<b>Balance, December 31, 2020</b>		<b>300.0</b>	<b>2.3</b>	<b>-</b>	<b>13.1</b>	<b>(140.2)</b>	<b>175.2</b>
Balance, January 1, 2019		177.9	2.1	5.1	8.0	(35.4)	157.7
Net earnings and comprehensive income		-	-	-	-	11.6	11.6
Dividend shares		0.1	-	-	-	-	0.1
Restricted shares vested and exercised	11,20	2.2	(2.2)	-	-	-	-
Share-based compensation	11	-	5.1	-	-	-	5.1
Withholding tax paid on vested RSU's and options	11	-	(2.6)	-	-	(0.6)	(3.2)
Convertible debenture-conversion		118.0	-	(5.1)	5.1	-	118.0
Dividends	20	-	-	-	-	(13.1)	(13.1)
<b>Balance, December 31, 2019</b>		<b>298.2</b>	<b>2.4</b>	<b>-</b>	<b>13.1</b>	<b>(37.5)</b>	<b>276.2</b>

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

# CARGOJET INC.

## Consolidated Statements of Cash Flows Year ended December 31, 2020 and 2019

(in millions of Canadian dollars)

	Note	2020 \$	2019 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net (loss) earnings		(87.8)	11.6
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	5,8	109.1	94.0
Share-based compensation	11	32.9	10.5
Finance costs	18	39.6	43.6
Crew Incentive	11	8.5	1.9
Gain on disposal of property, plant and equipment	8	(0.8)	(1.3)
Impairment of property, plant and equipment	8	0.6	-
Employee pension liability	17	13.2	3.5
Income tax provision	15	44.0	9.2
Fair value adjustment on stock warrant	5	177.9	0.9
Gain on total return swap	27	(50.8)	(7.8)
Unrealized foreign exchange gain	19	(2.2)	(4.3)
Gain on extinguishment of debt	13	(1.1)	-
Other gains and expenses		-	(4.7)
Interest paid		(24.1)	(25.4)
Cash generated from operating activities		259.0	131.7
Changes in non-cash working capital items and deposits			
Contract acquisition asset		-	(6.5)
Trade and other receivables		10.0	13.9
Inventories		0.8	(0.7)
Prepaid expenses and deposits		0.9	(0.7)
Trade and other payables		21.9	7.2
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		<b>292.6</b>	<b>144.9</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	8	(146.6)	(218.1)
Proceeds from disposal of property, plant and equipment	19	0.8	1.3
Proceeds from insurance claim	8	3.6	-
Proceeds from total return swap & settlement of derivative financial instrument	27	14.5	4.1
Acquisition of business		-	(3.1)
Settlement of provision		-	(1.4)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		<b>(127.7)</b>	<b>(217.2)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings		(171.3)	(61.6)
Proceeds from borrowings		-	99.8
Repayment of obligations under lease liabilities	10,13	(77.3)	(55.5)
Options settled in cash	11	(7.1)	(2.0)
Proceeds from debenture issuance net of issuance costs	14	109.9	109.7
Withholding tax paid on vested RSU's	11	(2.4)	(3.2)
Dividends paid to shareholders	20	(14.6)	(12.4)
<b>NET CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES</b>		<b>(162.8)</b>	<b>74.8</b>
<b>NET CHANGE IN CASH</b>		<b>2.1</b>	<b>2.5</b>
<b>CASH (BANK OVERDRAFT) , BEGINNING OF YEAR</b>		<b>1.6</b>	<b>(0.9)</b>
<b>CASH, END OF YEAR</b>		<b>3.7</b>	<b>1.6</b>

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

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(in millions of Canadian dollars except where noted)**

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### **1. NATURE OF THE BUSINESS**

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

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

These consolidated financial statements (the “financial statements”) were approved by the Board of Directors on February 25, 2021 and authorized for issuance on March 1, 2021.

### **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 2422311 Ontario Inc., Cargojet Airways Ltd. (“CJA”) and Aeroship Handling Ltd. (“AH”).

#### **Cash**

Cash balance consists of cash on hand.

#### **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 expenses 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 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 which 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.

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(in millions of Canadian dollars except where noted)**

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### **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 not separable is capitalized at cost and includes expenditures attributable directly to the development of the software and is treated as computer software as part of property plant and equipment.

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 cost. 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 asset class.

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 rotatable parts purchased as an asset and depreciates it over its useful life of up to 10 years. The cost of repairing the rotatable 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 the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(in millions of Canadian dollars except where noted)

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The estimated useful lives are as follows:

<b>Asset</b>	<b>Estimated useful life</b>
Aircraft hull	20 – 50 years from the date of manufacture and conversion
Engines	4 - 15 years
Rotable spares	Up to 10 years
Spare parts	Actual usage
Ground equipment	Up to 20 years
Hangar and cross-dock facilities	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
Right of use assets	Term of lease
Deferred heavy maintenance	Up to the date of the next scheduled heavy maintenance or end of lease term whichever is earlier

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### Leases and right to use assets

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that are based on an index or a rate, amounts expected to be payable by the lessee under residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating the lease if the lease term reflects the lessee exercising that option. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Right-of-use assets are measured at cost comprising the amount of the initial measurement of lease liability and any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs and restoration costs. Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise IT-equipment and office furniture.

### Intangible assets

Definite life intangible assets are carried at cost less accumulated amortization and 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 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.

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(in millions of Canadian dollars except where noted)**

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### **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 definite life 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.

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 Statements of (Loss) Earnings and Comprehensive (Loss) Income.

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

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 Statements of (Loss) Earnings and Comprehensive (Loss) 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 at the end of each year. 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.

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(in millions of Canadian dollars except where noted)**

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### **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 Statements of (Loss) Earnings and Comprehensive (Loss) 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 Statements of (Loss) Earnings and Comprehensive (Loss) 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.



# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

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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 Statements of (Loss) Earnings and Comprehensive (Loss) 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 estimated cash flows 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 11, which 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 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 independent outside 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 independent outside 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 the service is provided to the Company.

##### *Stock options (“Options”)*

Stock options are granted to independent outside 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 the service is provided to the Company.

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In 2018, the Company changed its method of settlement of options issued under the Stock Option Plan for non-employee directors and certain key executives by providing an 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 the Board's approval. Due to the subsequent change in the Company's settlement practice and on establishment of a 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 changes in the fair value of the options using Black Scholes valuation method and recorded as part of long-term liabilities. A number of assumptions are used to determine the fair value of stock options. These include expected term, dividend yield, volatility of the options and the risk free interest rate. The compensation expense is recognized for vested options immediately and based on the elapsed vesting period for non-vested options.

The Company has a derivative in the form of total return swap to manage its exposure under this incentive program that is not designated as a hedge accounting relationship with the option liability but regarded as an economic hedge. Gains and losses on the option liability and the total return swap are 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.

#### **Cash-settled share-based compensation plans**

Cash-settled share-based compensation plans are granted to certain key executives and eligible employees as disclosed in Note 11, which are measured at each reporting date and the settlement date. Changes in the fair value of the cash settled share based payments are recognized as compensation expense with a corresponding adjustment in the liability amount over the vesting period. Estimates related to vesting conditions are reviewed regularly and the value of the charges under cash settled plans are adjusted in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income to reflect expected and actual levels of benefits vesting. Upon vesting of the cash settled plans, the liability is reduced by the cash payout and the balance is adjusted to salaries and benefits expense in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.

#### ***Deferred share units ("DSU")***

The Company has implemented a long-term incentive plan for its pilots. Compensation charges related to this incentive program are expensed over the vesting period of the plan in salaries and benefits expense in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income. Fair value of the service received is calculated by multiplying the units expected to vest, with the fair value of one unit based on the market price of the Company's common shares with corresponding adjustment in the fair value of the liability at the end of each reporting period.

The Company has a derivative in the form of total return swap to manage its exposure under this incentive program that is not designated as hedge accounting relationship with the option liability but regarded as an economic hedge. Gains and losses on the DSUs liability and the total return swap are 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.

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### *Performance share units (“PSU”)*

Performance share units are granted to certain key executives and are measured at fair value at each reporting date and a charge or recovery recognized through the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income over the vesting period. A corresponding adjustment is reflected in accrued liabilities. The cash value of the performance share units is linked 50 percent to the annual return on invested capital (“ROIC”) and 50 percent to the relative total shareholder’s return (“TSR”) of the Company compared to an index. The fair value of TSR is measured using the Monte Carlo simulation model that takes into account the expected dividend as well as the market conditions. The fair value of ROIC is measured by dividing the net profit after tax with the total capital invested including debt.

### *Stock Appreciation Rights (“SARs”)*

Stock appreciation rights are granted to non-employee directors. The Company records compensation expense for cash settled share-based awards based upon an assessment of the grant date fair value of the awards estimated on the date of grant using the Black-Scholes option valuation model. A number of assumptions are used to determine the fair value of SARs. These include expected term, dividend yield, volatility of the options and the risk free interest rate. The liability is re-measured at each reporting period using the Black-Scholes option valuation model and any change in the value is recognized as compensation expense.

### **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 Statements of (Loss) Earnings and Comprehensive (Loss) 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 Statement of (Loss) Earnings and Comprehensive (Loss) 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.

# CARGOJET INC.

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### Revenue recognition

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 and 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. Any price concession given is recorded as reduction in the revenue.

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.

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

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

The following is the Company's accounting policy for financial instruments under *IFRS 9, Financial Instruments*.

(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.

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Financial assets/liabilities	Original classification (IAS 39)	New Classification (IFRS 9)
Cash	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Trade and other payables	Amortized cost	Amortized cost
Borrowings and Debentures	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 Statement of (Loss) Earnings and Comprehensive (Loss) 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 (Loss) Earnings and Comprehensive (Loss) Income

Interest revenue is recognized when earned.

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

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## **Notes to the Consolidated Financial Statements**

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### **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.

### **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.

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### *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 independent outside 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 certain maintenance costs that will incur 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.

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### *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.

### *Stock warrants*

The Company's accounting for warrants issued to Amazon is determined in accordance with the financial reporting guidance for financial instruments and revenue recognition. The initial fair value of warrants issued to a customer are recognized as a contract asset and liability respectively. The contract asset is amortized against revenues over the duration of the agreement, unexercised warrants are remeasured to fair value at each reporting period, resulting in a non-operating gain or loss, the valuation involves assumption and estimates including future share price volatility and future exercise date, due to the long term nature of the warrants, such estimates are subject to significant uncertainty.

## 3. INVENTORIES

	December 31, 2020	December 31, 2019
	\$	\$
Fuel Inventory	1.3	2.1
Glycol Inventory	0.2	0.2
Total Inventory	1.5	2.3

For the years ended December 31, 2020 and 2019, costs of fuel inventory of \$83.2 and \$101.1, respectively, and costs of glycol inventory of \$0.7 and \$0.6, respectively, were recognized in direct expenses.



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### 4. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	December 31, 2020	December 31, 2019
	\$	\$
Revenue from air cargo services	648.2	466.3
Revenue from other sources	20.3	20.3
<b>Total revenue</b>	<b>668.5</b>	<b>486.6</b>

#### Revenue recognized at a point of time

	December 31, 2020	December 31, 2019
	\$	\$
Domestic Network	300.0	264.0
Fuel and Other Surcharges	100.6	114.4
ACMI	132.4	66.3
All-in charter	118.1	23.8
Ground handling and maintenance revenue	11.7	7.8
<b>Total revenue</b>	<b>662.8</b>	<b>476.3</b>

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

#### Revenue recognized from transfer of services over time

	December 31, 2020	December 31, 2019
	\$	\$
All-in-charter	3.4	9.0
Hangar rental and other revenue	2.3	1.3
<b>Total revenue</b>	<b>5.7</b>	<b>10.3</b>

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### Contract assets and liabilities

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

	December 31, 2020	December 31, 2019
	\$	\$
Contract asset	68.4	78.0
Trade receivables	31.2	38.2
Other receivables	10.1	13.1
<b>Total contract assets</b>	<b>109.7</b>	<b>129.3</b>
Stock warrant obligations	251.4	73.5
Contract liability - expected rebates to customers	0.5	0.6
<b>Total contract liabilities</b>	<b>251.9</b>	<b>74.1</b>

### 5. STOCK WARRANT

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

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

The Company has determined that the warrants are a derivative instrument and should be classified as a liability in accordance with IAS 32 and IFRS 9. The financial instruments are initially recorded at fair value and are then revalued at each reporting date. The initial fair value of the warrants of \$72.6 issued to Amazon on August 23, 2019 was recorded as stock warrant obligations, having a fair value of \$32.67 per warrant for Tranche I and \$25.81 per warrant for Tranche II. The fair value of warrants under Tranche I and Tranche II was determined using an American option pricing model utilizing Monte Carlo simulation and were classified within Level 3 of the fair value hierarchy (refer to Financial Instruments Note 27). The corresponding contract asset was recognized at inception and will amortize against revenue over the

# CARGOJET INC.

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duration of the agreement. The fair value of the warrant obligations was revalued as at December 31, 2020 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a non-operating loss of \$177.9 (December 31, 2019 – non operating loss of \$0.9).

	December 31, 2020	December 31, 2019
<b>Contract Assets</b>	\$	\$
Stock Warrant and other contract assets	78.0	79.7
Less: Amortization	(9.6)	(1.7)
Total contract assets	68.4	78.0
<b>Stock warrant obligations</b>		
Stock Warrant obligations	73.5	72.6
Add: Fair value adjustment	177.9	0.9
Total stock warrant obligations	251.4	73.5

## 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 at the end of each year, 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 6.0 % per annum growth rate thereafter (2019 – 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 8.8% per annum (2019 – 14.4%). Based on the Company's analysis the estimated recoverable amount exceeded the carrying amount of the 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.

## 7. INTANGIBLE ASSETS

Intangible assets at December 31, 2020 and 2019 consist of licenses with indefinite lives carried at \$2.0 (December 31, 2019 - \$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.

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### 8. PROPERTY, PLANT AND EQUIPMENT

<b>Cost</b>	Balance as at	Additions	Transfers	Disposal	Balance as at
	January 1, 2020				December 31, 2020
	\$	\$	\$	\$	\$
Aircraft hull	427.2	38.2	62.8	-	528.2
Engines	368.7	12.8	115.5	-	497.0
Right of use assets	35.2	17.5	-	-	52.7
Spare parts	7.4	1.4	-	-	8.8
Ground equipment	51.0	1.7	1.2	-	53.9
Rotable spares	48.8	6.5	0.3	-	55.6
Computer hardware and software	11.9	0.4	1.6	-	13.9
Furniture and fixtures	3.8	0.3	0.1	-	4.2
Leasehold improvements	22.9	0.4	1.4	-	24.7
Vehicles	3.4	0.8	(0.9)	-	3.3
Hangar and cross-dock facilities	30.9	0.3	4.6	-	35.8
Property, plant and equipment under development	118.1	115.7	(194.1)	-	39.7
Deferred heavy maintenance	79.9	12.6	7.5	-	100.0
	1,209.2	208.6	-	-	1,417.8

<b>Accumulated Depreciation &amp; Impairment</b>	Balance as at	Depreciation	Impairment of assets	Balance as at	Net Book Value as at
	January 1, 2020			December 31, 2020	December 31, 2020
	\$	\$	\$	\$	\$
Aircraft hull	77.8	25.3	-	103.1	425.1
Engines	109.1	40.9	-	150.0	347.0
Right of use assets	9.1	9.3	-	18.4	34.3
Spare parts	-	-	0.6	0.6	8.2
Ground equipment	19.3	4.1	-	23.4	30.5
Rotable spares	18.0	4.7	-	22.7	32.9
Computer hardware and software	9.2	1.2	-	10.4	3.5
Furniture and fixtures	2.0	0.3	-	2.3	1.9
Leasehold improvements	11.6	1.4	-	13.0	11.7
Vehicles	2.2	0.3	-	2.5	0.8
Hangar and cross-dock facilities	9.1	1.5	-	10.6	25.2
Property, plant and equipment under development	-	-	-	-	39.7
Deferred heavy maintenance	51.6	10.5	-	62.1	37.9
	319.0	99.5	0.6	419.1	998.7

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<b>Cost</b>	Balance as at	Adjustments due	Additions	Transfers	Adjustments	Balance as at
	January 1, 2019	to adoption of IFRS 16				December 31, 2019
	\$		\$	\$		\$
Aircraft hull	375.4	-	3.4	51.5	(3.1)	427.2
Engines	246.0	-	0.8	122.9	(1.0)	368.7
Right of use assets	-	35.2	-	-	-	35.2
Spare parts	6.9	-	0.5	-	-	7.4
Ground equipment	40.4	-	10.6	-	-	51.0
Rotable spares	36.0	-	12.5	0.3	-	48.8
Computer hardware and	11.2	-	0.6	0.1	-	11.9
Furniture and fixtures	3.4	-	0.4	-	-	3.8
Leasehold improvements	22.0	-	-	0.9	-	22.9
Vehicles	3.2	-	0.2	-	-	3.4
Hangar and cross-dock facilities	24.1	-	6.8	-	-	30.9
Property, plant and equipment under development	115.3	-	178.5	(175.7)	-	118.1
Deferred heavy maintenance	71.4	-	13.4	-	(4.9)	79.9
	955.3	35.2	227.7	-	(9.0)	1,209.2

<b>Accumulated Depreciation &amp; Impairment</b>	Balance as at	Depreciation	Adjustments	Balance as at	Net Book Value
	January 1, 2019			December 31, 2019	December 31, 2019
	\$	\$	\$	\$	\$
Aircraft hull	60.3	20.2	(2.7)	77.8	349.4
Engines	77.0	36.1	(4.0)	109.1	259.6
Right of use assets	-	9.1	-	9.1	26.1
Spare parts	-	-	-	-	7.4
Ground equipment	15.6	3.7	-	19.3	31.7
Rotable spares	13.0	5.0	-	18.0	30.8
Computer hardware and software	7.9	1.3	-	9.2	2.7
Furniture and fixtures	1.7	0.3	-	2.0	1.8
Leasehold improvements	10.0	1.6	-	11.6	11.3
Vehicles	1.9	0.3	-	2.2	1.2
Hangar and cross-dock facilities	8.0	1.1	-	9.1	21.8
Property, plant and equipment under development	-	-	-	-	118.1
Deferred heavy maintenance	38.6	15.3	(2.3)	51.6	28.3
	234.0	94.0	(9.0)	319.0	890.2

Property, plant and equipment under development of \$39.7 (2019 - \$118.1) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

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

During the year ended December 31, 2020, the Company completed the acquisition of two Boeing 767-200 and two Boeing 767-300 aircraft using the revolving credit facility and lease. The Company also sold surplus spares for \$0.8 resulting in a total gain of \$0.8.

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

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Impairment consists of \$0.6 Boeing 727-200 spare parts written off during the year ended December 31, 2020 (December 31, 2019 - \$nil).

Depreciation expense on property, plant and equipment for the year ended December 31, 2020 totaled \$99.5 (December 31, 2019 - \$94.0) out of which \$97.5 (December 31, 2019 - \$92.0) was recorded in direct expenses and \$2.0 (December 31, 2019 - \$2.0) was recorded in general and administrative expenses.

### 9. TRADE AND OTHER PAYABLES

	December 31, 2020	December 31, 2019
	\$	\$
Trade payables and accrued charges	66.9	45.6
Payroll and benefits	6.3	6.0
Trade and other payables	73.2	51.6

### 10. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the years ended December 31, 2020 and 2019 is presented below

	December 31, 2020	December 31, 2019
	\$	\$
Cash and cash equivalents	3.7	1.6
Borrowings - repayable within one year (including overdraft)	(103.8)	(59.3)
Borrowings - repayable after one year	(469.0)	(574.5)
Net Debt	(569.1)	(632.2)
Cash and cash equivalents	3.7	1.6
Gross debt - fixed interest rates	(499.9)	(389.8)
Gross debt - variable interest rates	(72.9)	(244.0)
Net Debt	(569.1)	(632.2)

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

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	Cash / bank overdraft	Lease liabilities due within one year	Lease liabilities due after one year	Borrowings due after one year
	\$	\$	\$	\$
Net Debt as at January 1 2019	(0.9)	(25.2)	(174.2)	(404.1)
Cash flows	2.5	-	40.6	(35.0)
Acquisitions - leases	-	(34.1)	(9.5)	-
Foreign exchange adjustment	-	-	6.1	-
Net Debt as at December 31, 2019	1.6	(59.3)	(137.0)	(439.1)
Cash flows	2.1	-	77.3	61.3
Acquisitions - leases	-	(44.5)	(33.7)	-
Foreign exchange adjustment	-	-	2.2	-
Net Debt as at December 31, 2020	3.7	(103.8)	(91.2)	(377.8)

### 11. SHARE-BASED COMPENSATION

#### Crew incentive program

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

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

As at December 31, 2020, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of \$9.2 (December 31, 2019 - \$1.5). For the year ended December 31, 2020, the Company recognized \$7.7 in crew cost expenses for the services rendered in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.

For the crew members who elected to receive \$0.1 cash at the end of the vesting period, the Company also recognized \$0.5 as crew cost expenses for the services rendered and \$0.2 as interest cost for the year ended December 31, 2020 in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income. As at December 31, 2020, the Company had a total liability of \$1.2 (December 31, 2019 - \$0.5) for the cash incentives.

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

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**(in millions of Canadian dollars except where noted)**

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### **Deferred Share Units**

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

A notional account is maintained for DSUs and the units are credited to each director's notional account on the eleventh (11th) business day following the day on which Cargojet reports its earnings in respect of the previous fiscal year (the "Award Date"). The number of DSUs credited to each director's notional account is determined by dividing the annual DSU amount by the volume weighted average trading price of Company's voting shares on the Toronto Stock Exchange for the five (5) trading days immediately preceding the award date ("market price"). These DSUs vest upon grant. DSUs are redeemable only when the director ceases to be a member of the Board provided that he or she is not otherwise engaged or employed by the Company. The cost of the vested DSUs is recognized as a liability under share based compensation plans in the Consolidated Balance Sheets and a corresponding expense is recognized. As of December 31, 2020, 4,126 DSU's were credited to directors' notional accounts

Thereafter, the liability will be re-measured to fair value based on the market price of the Company's common shares at each reporting date up to and including the settlement date, with changes in fair value recognized in general and administrative expenses in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.

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

As at December 31, 2020, the Company recognized a liability of \$0.9 with the corresponding expense recognized in general and administrative expenses in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.



# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

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**(in millions of Canadian dollars except where noted)**

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### **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 with ability to grant restricted share units ("RSUs") and options ("Options") to certain key executives, non-employee directors and senior management as part of its long term incentive plan. On settlement each RSU granted entitles the holder to one common voting share or one variable voting share of the Company on the settlement thereof. On exercise each Option granted entitles the holder to one common voting share or one variable voting share of the Company on due exercise thereof or, if the holder duly elects a cash-less exercise of the Option, the holder will receive that number of common voting shares or variable voting shares, as the case may be, equal to the excess of the five day volume weighted average trading price of the shares (as determined in accordance with the rules of the TSX) ending on the trading day before the exercise date of the Option (the "Market Price") over the exercise price of the Option, multiplied by the number of shares in respect of which the Option is exercised, divided by the Market Price, less any amount to be deducted or withheld in respect of taxes or otherwise pursuant to law. Option holders can also request to settle options in cash subject to the approval by the management of the Company.

During the year ended December 31, 2020, in accordance with the RSU Plan, the Company granted 12,339 RSUs to certain key executives. Each RSU had an average value of \$104.95 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. 4,115 of these RSUs vested immediately. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 1,907 shares were issued to certain key executives for vested RSUs and the Company remitted an amount of \$0.2 equal to the monetary value of the tax obligation determined based on the Market Price of \$104.95 per share withheld that otherwise would have been issued upon vesting. An amount of \$0.2 was transferred to share capital from contributed surplus. Of the remaining 8,224 RSUs granted in 2020, 4,112 will vest in each of the first quarters of 2021 and 2022 respectively.

During the year ended December 31, 2020, 43,233 RSUs out of the 68,134 remaining RSUs granted in prior years were also vested. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 20,077 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of \$2.2 equal to the monetary value of the tax obligation determined based on the Market Price of \$93.55 per share of 23,156 shares withheld that otherwise would have been issued upon vesting. An amount of \$1.9 was transferred to share capital from the contributed surplus. The remaining 24,901 RSUs will vest in the first quarter of 2021.

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

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(in millions of Canadian dollars except where noted)

The RSU activity for the year ended December 31, 2020 is summarized below.

RSUs (in Canadian dollars)	Number of RSUs	Fair value \$
Balance at January 1, 2019	57,675	1.2
Granted in the year	78,336	7.3
Share dividend	728	0.1
Share based compensation-Vested and settled	(67,183)	(3.2)
Share based compensation-Unvested and amortized	-	(2.0)
Forfeited during the year	(1,422)	-
Balance at December 31, 2019	68,134	3.4
Granted in the year	12,339	1.3
Share based compensation-Vested and settled	(47,849)	(1.9)
Share based compensation-Unvested and amortized	-	(2.1)
Balance at December 31, 2020	32,624	0.7

During the year ended December 31, 2020, the total share based compensation expense of \$4.0 related to vested and settled and unvested and amortized RSUs was included in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income (December 31, 2019 – \$5.1). Unrecognized share-based compensation expense as at December 31, 2020 related to these RSUs was \$0.7 (December 31, 2019 – \$3.4) and will be amortized on a pro-rated basis in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income over the vesting period.

### Options :

The Options activity during the year ended December 31, 2020 is summarized below:

<b>OPTIONS (in Canadian dollars)</b>	Number of Options	Weighted average exercise price in \$
Balance as at January 1, 2020	179,606	\$70.00
Granted during the year	26,168	\$104.95
Forfeited during the year	(1,464)	\$98.90
Exercised during the year	(60,736)	\$66.98
Balance as at December 31, 2020	143,574	\$77.35
Vested and exercisable at December 31, 2020	54,476	\$67.85

As at December 31, 2020, there were 54,476 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 2.48 years.

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

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During the year ended December 31, 2020, participants of the Stock Option Plan exercised 55,907 Options granted on May 23, 2018, when the volume weighted average trading price per share was \$183.0 and 4,829 options granted on November 29, 2019 when the volume weighted trading price per share was \$201.4. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed to the participants was net of the obligation to withhold tax equal to the tax obligation of each participant and the Company remitted the amount withheld to the tax authority per the terms and conditions of the Stock Option Plan. Accordingly, a payment of \$5.2 was issued to the participants for vested and exercised Options and the Company remitted an amount of \$1.9 equal to the monetary value of the tax obligation determined based on the Market price of the shares.

During the year ended December 31, 2020, the Company recognized bonuses and incentives of \$18.8 in general and administrative expenses due to the change in the fair value of options (December 31, 2019 - \$4.8). As at December 31, 2020, the company had a total liability for options of \$17.7 (December 31, 2019 - \$5.2) for Options.

### Weighted average assumptions on grant date

	05-Mar-20	29-Nov-19	23-May-18
	Series 6	Series 5	Series 4
Exercise price redemption	\$104.95	\$98.90	\$64.23
Expected volatility	28.51%	28.47%	27.97%
Option life in years	5	5	3-5
Dividend yield	0.87%	0.94%	1.33%
Risk free rate	1.25%	1.00%	0.75% -1.75%
Vesting period	2021-2023	2020-2022	immediate, 2019-2021
Options granted	26,168	29,915	185,148
Options outstanding	26,168	23,622	93,784
Fair value per option on grant date	\$25.85	\$23.66	\$14.50
Fair value per option December 31, 2020	\$115.62	\$119.64	\$149.52

### Performance Share Units

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

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(in millions of Canadian dollars except where noted)

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During the year ending December 31, 2020, the Company granted 12,891 PSU's to its executives (December 31, 2019 – 14,315). The fair value of the units for the TSR was determined using Monte Carlo simulation based on the estimated market price per share, risk free discount rate, volatility and applicable multiplier on the date of the settlement and for the ROIC was determined by dividing the net profit after tax with the capital invested including debt. An amount of \$6.5 was recognized as bonuses and incentives expense and liability based on the units vested during the year ended December 31, 2020 (December 31, 2019 - \$0.3) with corresponding recognition of the liability. As at December 31, 2020, the Company had an outstanding liability of \$6.8 on 25,763 outstanding PSUs (December 31, 2019 - \$0.3 on 13,613 PSUs).

### Stock Appreciation Rights (“SARs”)

On November 29, 2019 the Company granted 23,132 SARs to its four independent directors. During the year ended December 31, 2020, the fair value of the vested rights was determined and an expense of \$2.3 was recognized as bonuses and incentives with corresponding recognition of the liability. As at December 31, 2020, the Company had a total liability of \$2.8 (December 31, 2019 - \$0.5) for SARs.

## 12. BORROWINGS

Borrowings consist of the following:

	December 31, 2020	December 31, 2019
	\$	\$
Revolving credit facility	72.8	244.0
Other borrowings	0.1	0.2
	72.9	244.2
Long-term portion	72.9	244.2

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(in millions of Canadian dollars except where noted)

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### Revolving syndicate credit facility and term loan

On May 13, 2020, the Company amended its revolving operating credit facility (the “facility”) availed through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) by increasing the maximum credit available from \$400 to \$510. The facility bears interest payable monthly; at the lead Lender’s prime lending rate / US base rate plus 145 basis points to 250 basis points, depending on the currency of the advance and certain financial ratios of the Company and expires on October 28, 2024. No scheduled repayments of principal are required under the facility prior to maturity. Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

On July 17, 2020, the Company amended its revolving operating credit facility (the “facility”) availed through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) by increasing the maximum credit available from \$510 to \$600. The facility bears interest payable monthly, at the lead Lender’s prime lending rate / US base rate plus 145 basis points to 250 basis points, depending on the currency of the advance and certain financial ratios of the Company and expires on July 16, 2025. No scheduled repayments of principal are required under the facility prior to maturity. Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at December 31, 2020 and 2019.

Included in the Consolidated Statement of (Loss) Earnings and Comprehensive (Loss) Income for the year ended December 31, 2020 was interest expense on the revolving credit facility of \$9.0 (December 31, 2019 - \$9.5).

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### 13. LEASE LIABILITIES

The Company has a Master Capital Lease Agreement (“MLA”) with an equipment finance and leasing company. The leases under the MLA are guaranteed by the Company and its subsidiaries.

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at December 31, 2020 and December 31, 2019.

As at December 31, 2020, the total outstanding balance of the leases under the MLA is \$49.2 out of which \$49.2 is presented as a current liability on the Consolidated Balance Sheet.

The Company also has lease arrangements for three Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rate for these leases are 6.5%, 7.2%, and 6.0%. These leases are deemed to be maturing on the exercise date of the bargain purchase options in October 2021, December 2021, and November 2023 respectively. As at December 31, 2020, the total outstanding balance of these lease arrangements is \$63.7 out of which \$42.0 is presented as a current liability on the Consolidated Balance Sheet.

On November 3, 2020 Company exercised the bargain purchase option for one Boeing 767-300 aircraft in respect of the finance lease ended in October 2020 and paid the entire outstanding amount thereof \$20.2 net of all unused reserves and heavy maintenance deposits, resulting in gain of \$1.1 on extinguishment of debt.

During the year ended December 31, 2020 the Company has entered into 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 6.7%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in October 2027. As at December 31, 2020, the total outstanding balance of this finance lease arrangement is \$44.9 out of which \$5.1 is presented as a current liability on the Consolidated Balance Sheet.

As at January 1, 2019, the Company has adopted IFRS 16 on a simplified basis. As at December 31, 2020, the Company has \$34.3 of right of use assets and \$37.2 of lease liabilities out of which \$7.5 is presented as a current liability on the Consolidated Balance Sheet. The addition during the year ended December 31, 2020 of \$17.5 primarily comprised of aircraft lease extension.

The following is a schedule of future minimum annual lease payments for aircraft, hangars, offices and warehouses under leases together with the balance of the obligations as at December 31, 2020.

	Minimum lease payments	Present value of minimum lease payments
	\$	\$
Not later than one year	115.3	103.8
Later than one year and not later than five years	95.2	79.4
Later than five years	14.4	11.7
	224.9	194.9
Less: interest	29.9	-
Total obligations under leases	195.0	194.9
Less: current portion	103.8	103.8
Non-current portion	91.2	91.1

Interest amounts on the lease liabilities for the year ended December 31, 2020 totaled \$13.7 (December 31, 2019 - \$14.9).

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(in millions of Canadian dollars except where noted)

### 14. DEBENTURES

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

	December 31, 2020	December 31, 2019
	\$	\$
Hybrid debentures - 5.75% due April 30, 2024	83.7	83.1
Hybrid debentures - 5.75% due April 30, 2025	111.0	110.2
Hybrid debentures - 5.25% due June 30, 2026	110.2	-
Balance - end of year	304.9	193.3

#### Hybrid debentures – 5.75% due April 30, 2024

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

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

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

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

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

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at December 31, 2020 and December 31, 2019 consists of the following:

# CARGOJET INC.

## Notes to the Consolidated Financial Statements

December 31, 2020 and 2019

(in millions of Canadian dollars except where noted)

	December 31, 2020	December 31, 2019
Principal balance - beginning of year	\$ 83.1	\$ 82.4
Accretion during the year	0.6	0.7
Balance - end of year	83.7	83.1

Interest expense on the hybrid debentures for the year ended December 31, 2020 totalled \$5.6 (December 31, 2019 - \$5.6).

### Hybrid debentures – 5.75% due April 30, 2025

In April 2019, \$115 of senior unsecured debentures were issued at a price of 1000 dollars per debenture with a term of six years due April 30, 2025. These debentures bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing October 31, 2019. The intended use of the net proceeds of the debentures is to pay down the credit facility and fund anticipated capital expenditures, including aircraft in the future.

On or after April 30, 2023, but prior to April 30, 2024, the debentures are redeemable, in whole at any time or in part from time to time at the option of the Company at a price equal to 102.875% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after April 30, 2024, but prior to the maturity date of April 30, 2025, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on April 30, 2025, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

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

The 5.75% debentures were therefore recorded as a financial instrument. The debt was recorded at fair value of \$110 net of deferred financing costs of \$4.9. Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics are closely related to the host contract and therefore were not accounted for as separate financial instruments.



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

	December 31, 2020	December 31, 2019
	\$	\$
Principal balance - beginning of year	110.2	115.0
Issuance costs	-	(5.3)
Accretion	0.8	0.5
<b>Balance - end of year</b>	<b>111.0</b>	<b>110.2</b>

Interest expense on the hybrid debentures for the year ended December 31, 2020 totalled \$7.3 (December 31, 2019 - \$5.0).

**Hybrid debentures – 5.25% due June 30, 2026**

In July 2020, \$115 of senior unsecured debentures were issued at a price of 1000 dollars per debenture with a term of six years due June 30, 2026. These debentures bear a fixed interest rate of 5.25% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2020. The intended use of the net proceeds of the debentures is to pay down the credit facility and fund anticipated capital expenditures, including aircraft in the future.

On or after June 30, 2023, but prior to June 30, 2024, the debentures are redeemable, in whole at any time or in part from time to time at the option of the Company at a price equal to 103.9375% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after June 30, 2024, but prior to June 30, 2025 the debentures are redeemable, in whole at any time or in part from time to time at the option of the Company at a price equal to 102.625% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after June 30, 2025 but prior to the maturity date of June 30, 2026, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on June 30, 2026, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

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

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The 5.25% debentures were therefore recorded as a financial instrument. The debt was recorded at fair value of \$109.9 net of deferred issuance costs of \$5.1. Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics of certain prepayment options are not closely related to the host contract and therefore required to be accounted for as separate financial instruments. At inception, the fair value of embedded derivatives that are separated from the host contract was nil. The embedded derivatives are remeasured to their fair value at each reporting date and any changes in the fair value are recognized in the Statement of (Loss) Earnings and Comprehensive (Loss) Income. As at December 31, 2020, there was no material change in the fair value of the embedded derivatives.

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at December 31, 2020 consists of the following:

	December 31, 2020	December 31, 2019
Principal balance	115.0	-
Less:		
Issuance costs	(5.1)	-
Accretion during the year	0.3	-
Balance - end of year	110.2	-

Interest expense on the hybrid debentures for the year ended December 31, 2020 totalled \$3.2 (December 31, 2019 - \$nil).

### 15. INCOME TAXES

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

	December 31, 2020	December 31, 2019
	\$	\$
(Loss) earnings before income taxes	(43.8)	20.8
Basic rate of 26.5% (2019 - 26.5%)	(11.6)	5.5
Share - based compensation	6.3	2.8
Meals and entertainment	0.1	0.2
Stock warrant	49.2	0.7
Provision for income taxes	44.0	9.2

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The tax effect of significant temporary differences are as follows:

	December 31, 2019	Adjustment	Recognized in Profit & Loss	December 31, 2020
	\$	\$	\$	\$
Property, plant and equipment	45.0	8.0	30.6	83.6
Operating loss carryforward	(17.6)	(11.0)	6.8	(21.8)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Pension costs	(4.4)	-	(3.5)	(7.9)
Financing costs	1.9	-	10.8	12.7
Long-term incentive plan	-	(0.7)	(4.8)	(5.5)
Deferred heavy maintenance	7.5	3.7	4.1	15.3
Net deferred income tax liability	32.3	-	44.0	76.3

### 16. DIRECT EXPENSES

	December 31, 2020	December 31, 2019
	\$	\$
Fuel costs	83.2	101.1
Maintenance costs	41.2	33.6
Heavy maintenance amortization	10.5	15.3
Aircraft costs	23.3	12.2
Crew costs	46.9	34.2
Depreciation	87.0	76.7
Commercial and other costs	125.9	94.3
Direct expenses	418.0	367.4

### 17. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2020	December 31, 2019
	\$	\$
Salaries and benefits	27.9	25.6
Employee pension	13.2	3.5
Depreciation	2.0	2.0
Net realized foreign exchange loss (gain)	1.5	(0.2)
Bonuses, incentives and management fees	26.8	14.9
Audit, legal and consulting	6.0	3.8
IT network and communications	3.3	3.1
Subscription and office supplies	5.3	2.4
Donation	3.0	0.2
Other general and administrative expenses	9.0	5.6
General and administrative expenses	98.0	60.9

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### 18. FINANCE COSTS

	December 31, 2020	December 31, 2019
	\$	\$
Interest on leases	13.7	14.9
Interest on debentures	16.1	18.6
Credit facilities and other interest	9.8	10.1
Finance costs	39.6	43.6

### 19. OTHER GAINS, NET

	December 31, 2020	December 31, 2019
Unrealized foreign exchange (gain) loss	(3.3)	(4.3)
Gain on disposal of property, plant and equipment	(0.8)	(1.3)
Other gains, net	(4.1)	(5.6)

### 20. SHAREHOLDERS' CAPITAL

#### a) Authorized

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

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

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

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### b) Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2019 to December 31, 2020:

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

### Dividends

Dividends to shareholders declared for the year ended December 31, 2020 amounted to \$14.6 (\$0.9360 per share) and for year ended December 31, 2019 amounted to \$13.1 ( \$0.9360 per share) for both common and variable shares.

As at December 31, 2020, a dividend of \$3.6 was payable to the shareholders (December 31, 2019 - \$3.6).

### 21. NET (LOSS) EARNINGS PER SHARE

The following table shows the computation of basic net (loss) earnings per share for year ended December 31, 2020 and 2019:

In \$ millions except per share

	December 31, 2020	December 31, 2019
Net (loss) earnings per share		
Net (loss) earnings	(87.8)	11.6
Weighted average number of shares	15.6	13.5
Dilutive impact of share- based awards and vested warrant	-	0.1
Diluted weighted average number of shares	15.6	13.6
Net (loss) earnings per share - basic	(5.63)	0.86
Net (loss) earnings per share - diluted	(5.63)	0.85

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The effect of the share-based awards outstanding at period end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements has been excluded from the calculation of diluted (loss) earnings per share for the year ended December 31, 2020 as the impact would be anti-dilutive.

### 22. 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, 2020	December 31, 2019
	\$	\$
Balance as at January 1, 2020	16.7	13.2
Current service cost	1.3	0.7
Interest expense	0.5	0.5
Effect of experience adjustment	9.1	0.8
Effect of changes in financial assumptions	2.2	1.5
Balance as at December 31, 2020	29.8	16.7

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

#### Assumptions for 2020

Discount rate:	2.5% 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

#### Assumptions for 2019

Discount rate:	3.1% 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

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### Sensitivity Analysis

Certain assumptions were used in the actuarial valuation of the pension obligation as at December 31, 2020. 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 Balance Sheet. 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 6.8%. A 0.50 percentage point increase in discount rate would have decreased the benefit obligation by 6.2%.

**Change in salary scale:** A 10 percent increase in assumed 2021 pensionable earnings would have increased the benefit obligation by 3.7%. A 10 percent decrease in assumed 2021 pensionable earnings would have decreased the benefit obligation by 3.7%.

**Change in mortality assumption:** A one-year increase in life expectancy would have increased the total of benefit obligation by 2.5%. A one-year decrease in life expectancy would have decreased the total of benefit obligation by 2.5%.

**Defined Contribution Pension Plans:** During the year ended on December 31, 2019, the Company contributed to the plan an amount equal to the Money Purchase Limit for the year.

## 23. COMMITMENTS AND CONTINGENCIES

### Commitments

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

	\$
Not later than one year	0.1
Later than one year and not later than five years	0.2
<b>Total</b>	<b>0.3</b>

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.

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**Contingencies**

The Company has provided irrevocable standby letters of credit totaling \$17.4 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, 2020	17.4
Total	17.4

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**24. RELATED PARTY TRANSACTIONS**

**Donation**

During the year ending December 31, 2020, the Company donated \$2.5 to support research projects for testing and treatment of COVID – 19, welfare of the unprivileged affected by COVID – 19 and for social justice programs through a related party charity in which two of the Company's executives are directors.

**Head Office**

The Company entered into a lease agreement in February 2017 with respect to a 62,000 square feet head office and warehouse area that is indirectly and beneficially owned by one of the Company's executive officers and directors. On adoption of IFRS 16, the Company recognized the lease liability that was measured at the present value of the remaining lease payments determined using the incremental borrowing rate as of January 1, 2019 and recorded the right of use asset and the lease liability under the standard. The lease will expire in 2032. The transaction is in the normal course of business and is measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The basic rent is subject to revision every five years at a predetermined rate per the terms of the lease.

Under the lease, the Company paid \$1.0 during the year out of which \$0.3 was adjusted towards principal payments against the liability and \$0.7 was recorded as related interest cost. The Company also paid utilities, taxes, maintenance, insurance and other related costs for the leased premises. As at December 31, 2020, the Company had a liability of \$9.2 due under the finance lease.

**Compensation of key management personnel**

In 2020, the employee benefit expense was \$139.2 (2019 - \$106.4) of which \$74.3 (2019 - \$62.5) was recorded in direct expenses and \$64.9 (2019 - \$43.9) 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, 2020 and 2019 as follows:



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	December 31, 2020	December 31, 2019
	\$	\$
Short term benefits	15.3	8.4
Post-employment benefits	0.1	0.1
Share-based payments	8.3	5.8
Defined pension benefits	13.2	3.5
Total remuneration	36.9	17.8

### 25. ECONOMIC DEPENDENCE

In 2020, the Company had sales to three individual customers that represented 54.2% of the total revenues (2019 – 60.7%). These sales are provided under service agreements that expire over various periods to April 2025. The sales to individual customers represented 21.5%, 20.3% and 12.4% respectively of the total revenues (2019 – 32.0%, 13.2% and 15.5%).

### 26. 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 leases, hybrid debentures, cash, and the present value of the future 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 12 and Note 13, respectively). As at December 31, 2020 and 2019, the Company was in compliance with all financial covenants.

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### **27. FINANCIAL INSTRUMENTS**

#### **Derivative financial instruments**

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

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

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

#### **Total return swap**

The Company has entered into total return swap agreements with financial institutions to manage its exposure related to options to be issued under the Stock Option Plan for certain employees and DSUs to be issued under the "long-term" incentive plan for its existing pilots. Under the agreement, the Company pays interest based on Canadian BA-CDOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sale of the underlying shares.

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

During the year ended December 31, 2020, the Company unwound 208,656 shares units of its expiring total return swap agreement with a financial institution for \$14.5 (December 2019 - \$6.3) resulting in a gain of \$12.5 (December 2019 - \$4.0). The gains are recorded as an offset to bonuses under general and administrative expenses in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income. The expired share units were simultaneously rolled over into a new total return swap agreement with another financial institution.

As at December 31, 2020 the fair value of the 208,656 and 260,000 underlying shares under the swap agreements in effect were \$9.4 and \$35.2 respectively (December 31, 2019 - \$2.0 and \$6.3 respectively) in favor of the Company and the gains for the year ended December 31, 2020 of \$21.9 (includes gain of \$12.5 on unwound shares) and \$28.9 respectively (December 31, 2019 – gain of \$1.5 and \$6.3 respectively) are recorded as an offset to bonuses, incentives and crew costs under general and administrative expenses and direct expenses respectively and gain on swap derivative in the Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the mark to market method provided by the financial institutions. An increase or decrease of 10% in the market value of the underlying asset will result in a gain or loss of \$4.5 and \$5.6 respectively.

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#### **Fair Values**

The fair value of the 5.75% hybrid debentures due April 30, 2024 as at December 31, 2020 was approximately \$80.3 (December 31, 2019 - \$79.6). The fair value of the debentures was determined using the discounted cash flow method using a discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by \$1.7 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at December 31, 2020 was approximately \$106.4 (December 31, 2019 - \$105.4). The fair value of the debentures was determined using the discounted cash flow method using a discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by \$2.8 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at December 31, 2020 was approximately \$101.5 (December 31, 2019 - \$nil). The fair value of the debentures was determined using the discounted cash flow method using a discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by \$3.3 respectively.

The fair value of the performance share units due March 15, 2022 and March 15, 2023 are classified as level 3 financial liabilities. As at December 31, 2020 the performance share units due March 15, 2022 and March 15, 2023 were valued at \$6.3 and \$4.8 respectively (December 31, 2019 - \$2.2 and \$nil respectively). The Company used an option pricing model utilizing Monte Carlo simulation to value the TSR-PSUs and analytically valued the ROIC-PSUs at inception and on subsequent valuation dates. The discount rate was determined by using the Canadian deposit and swap rates adjusted for the Company's specific credit risk. Other significant inputs consisted of historical volatility and dividend rates.

The fair value of the warrant obligations was \$251.4 as at December 31, 2020 (December 31, 2019 \$73.5). The revaluation resulted in a non-operating loss of \$177.9 for the year ended December 31, 2020 (December 31, 2019 - \$10.6). The warrants were classified as Level 3 derivative liabilities that are valued using an American option pricing model utilizing Monte Carlo simulation. Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. Significant unobservable inputs include volatility of the Company's common shares 33.9% for tranche I and 33.4% for tranche II, risk free rate of 0.9% and a dividend yield of 0.8% and forecasted revenue from Amazon associated with this arrangement utilized to predict future vesting events.

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A significant increase in the volatility in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities were recorded in other gains or losses on the Company's Consolidated Statements of (Loss) Earnings and Comprehensive (Loss) Income. A significant change to the forecasted revenue may change the vesting dates. Changes to the vesting dates will not significantly affect the fair value of the warrant obligations. For every increase or decrease of volatility by 10% with all other factors remaining the same, the estimated fair value of warrants will increase by \$7.9 or decrease by \$7.1. For every increase or decrease in share price by 20% with all other factors remaining the same, the estimated fair value of warrants will increase by \$73.3 or decrease by \$69.6.

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

### **Credit risk**

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

The Company is subject to risk of non-payment of accounts receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's trade receivables are concentrated among several of its largest customers with approximately 93.7% (December 31, 2019 – 79.6%) of total trade receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

- (a) Only a small portion (3%) of trade receivables is outstanding for more than 60 days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables. Such expected lifetime losses were immaterial and consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.
- (b) The Company mitigates credit risk by monitoring the creditworthiness of its customers.
- (c) A majority of the Company's major customers are large public corporations with positive credit ratings and history.

### **Liquidity risk**

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company is confident that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of \$600 million. The Company was in compliance with all covenants as at December 31, 2020 and 2019.

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The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2020 based on contractual undiscounted payments are as follows:

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 Years	Total
	\$	\$	\$	\$	\$
Borrowings and debentures	-	-	377.8	-	377.8
Lease liabilities	103.8	20.1	44.4	26.7	195.0
Interest on leases	11.5	5.7	8.9	3.8	29.9
Trade and other payables	73.2	-	-	-	73.2
Employee pension and share-based compensation	-	-	47.4	20.8	68.2
Dividends payable	3.6	-	-	-	3.6
<b>Total</b>	<b>192.1</b>	<b>25.8</b>	<b>478.5</b>	<b>51.3</b>	<b>747.7</b>

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

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

**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.

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**(in millions of Canadian dollars except where noted)**

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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, 2020 was 8.7% fixed and 13% variable.

### **Foreign exchange risk**

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

Total unrealized foreign exchange gains for the year ended December 31, 2020 on foreign exchange transactions were a gain of \$3.3 (December 31, 2019 – gain of \$4.3).

At December 31, 2020, a weakening of the Canadian dollar that results in a 10 percent increase in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately \$11.6 (December 31, 2019 - \$12.0). The decrease in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (December 31, 2019 - \$12.0).

At December 31, 2020, a weakening of the Canadian dollar that results in a 10 percent increase in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by approximately \$0.4 (December 31, 2019 - \$nil). The decrease in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (December 31, 2019 - \$nil).

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

**December 31, 2020 and 2019**

**(in millions of Canadian dollars except where noted)**

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### **28. 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.

### **29. IMPACT OF COVID-19**

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

# **CARGOJET INC.**

## **Notes to the Consolidated Financial Statements**

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**(in millions of Canadian dollars except where noted)**

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Balance Sheet, Cash Flow and Liquidity:

The Company took actions to manage its financial position by reducing some planned capital expenditures and delaying aircraft heavy maintenance. The Company has assessed its non-financial assets including property, plant and equipment, right of use assets, intangible assets and goodwill for impairment as required by the applicable accounting standards in light of the adverse economic environment caused by the COVID-19 pandemic and determined there are no indicators of impairment as of December 31, 2020. The capitalized contract cost assets continue to be recoverable as of December 31, 2020. The expected credit losses on trade receivables were re-assessed and the Company determined that no incremental loss provisions were required as of December 31, 2020. The Company may have to revise its expected credit losses and the value of its assets in the future if the effect of COVID-19 is prolonged and there is an overall decrease in consumer demand.

### **30. COMPARATIVE AMOUNTS**

Certain comparative amounts in the financial statements have been reclassified to conform with the current year financial statement presentation.

### **31. SUBSEQUENT EVENTS**

#### **Equity Offering**

On February 1, 2021, the Company completed an offering of 1,642,000 common voting shares at a price of \$213.25 per share on a bought deal basis for total gross proceeds of \$350.2. The offering was made pursuant to a short form prospectus dated January 25, 2021. On February 5, 2021, the Company also completed offering of additional 71,500 common voting shares at a price of \$213.25 per share on a bought deal basis for a total gross proceeds of \$15.2 pursuant to the partial exercise of over-allotment option granted to the underwriters. In connection with this offering, the Company incurred costs totaling \$14.6 for fees and commissions.

#### **Finance leases**

On February 5, 2021, the Company prepaid the entire amount of its total outstanding balance of leases under the MLA of \$46.9 and interest prepayment of \$2.5.