

Condensed Consolidated Interim Financial Statements of



**For the three and nine month periods ended September 30,  
2021 and 2020**

(unaudited - expressed in millions of Canadian dollars)

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# CARGOJET INC.

## Condensed Consolidated Interim Balance Sheets As at September 30, 2021 and December 31, 2020

(unaudited - in millions of Canadian dollars)

	Note	September 30, 2021	December 31, 2020
		\$	\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash		132.8	3.7
Trade and other receivables		62.4	41.3
Inventories		1.9	1.5
Prepaid expenses and deposits		5.7	5.0
Income taxes recoverable		0.1	0.1
Derivative financial instruments	20	32.0	44.6
		<u>234.9</u>	<u>96.2</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	5,9	1,115.6	998.7
Investment in associate	6	9.4	-
Goodwill		48.3	48.3
Intangible assets		2.0	2.0
Deposits		7.2	7.1
Contract assets	4	62.6	68.4
Deferred income taxes	12	3.2	3.2
		<u>1,483.2</u>	<u>1,223.9</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		84.8	73.2
Lease liabilities	10	38.8	103.8
Dividends payable	17	4.5	3.6
		<u>128.1</u>	<u>180.6</u>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	9	-	72.9
Lease liabilities	10	76.2	91.2
Stock warrant obligations	4	241.0	251.4
Debentures	11	306.6	304.9
Deferred income taxes	12	97.0	79.5
Employee pension and share-based compensation	8	56.0	68.2
		<u>904.9</u>	<u>1,048.7</u>
<b>EQUITY</b>			
		<u>578.3</u>	<u>175.2</u>
		<u>1,483.2</u>	<u>1,223.9</u>

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

# CARGOJET INC.

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

Three and nine month periods ended September 30, 2021 and 2020

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

	Note	Three months ended		Nine months ended	
		September 30, 2021	September 30, 2020	September 30, 2021	September 30, 2020
		\$	\$	\$	\$
REVENUES	3	189.5	162.3	521.9	481.4
DIRECT EXPENSES	13	135.5	104.0	367.7	300.2
		54.0	58.3	154.2	181.2
General and administrative expenses	14	14.1	14.2	44.8	67.3
Sales and marketing expenses		0.4	0.3	0.6	3.7
(Gain) loss on swap derivative	20	(3.3)	(5.3)	5.9	(16.8)
Impairment of property, plant and equipment	5	-	0.6	-	0.6
Finance costs	15	7.5	10.4	23.7	30.0
Fair value increase (decrease) on stock warrant	4	36.8	47.2	(10.4)	130.0
Loss on extinguishment of lease liabilities	10	-	-	3.7	-
Other loss (gain), net	16	2.3	(2.2)	(0.5)	2.7
		57.8	65.2	67.8	217.5
<b>(LOSS) EARNINGS BEFORE INCOME TAXES</b>		<b>(3.8)</b>	<b>(6.9)</b>	<b>86.4</b>	<b>(36.3)</b>
PROVISION FOR INCOME TAXES	12				
Deferred		9.1	13.5	21.0	31.0
<b>NET (LOSS) EARNINGS and COMPREHENSIVE (LOSS) INCOME</b>		<b>(12.9)</b>	<b>(20.4)</b>	<b>65.4</b>	<b>(67.3)</b>
NET (LOSS) EARNINGS PER SHARE	18				
- Basic		\$(0.74)	\$(1.31)	\$3.82	\$(4.32)
- Diluted		\$(0.74)	\$(1.31)	\$3.73	\$(4.32)

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

# CARGOJET INC.

## Condensed Consolidated Interim Statements of Changes in Equity Nine month periods ended September 30, 2021 and 2020

(unaudited - in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Surplus on debenture settlement	Deficit	Total shareholders' equity
		\$	\$	\$	\$	\$
Balance, January 1, 2021		300.0	2.3	13.1	(140.2)	175.2
Net earnings and comprehensive income		-	-	-	65.4	65.4
Share-based compensation	8	-	0.7	-	-	0.7
Restricted shares, vested and exercised	8,17	1.3	(1.3)	-	-	-
Withholding tax paid on vested RSU's	8	-	(1.4)	-	(1.4)	(2.8)
Issue of ordinary shares net of issuance costs and taxes	17	353.3	-	-	-	353.3
Dividends	17	-	-	-	(13.5)	(13.5)
<b>Balance, September 30, 2021</b>		<b>654.6</b>	<b>0.3</b>	<b>13.1</b>	<b>(89.7)</b>	<b>578.3</b>
Balance, January 1, 2020		298.2	2.4	13.1	(37.5)	276.2
Net loss and comprehensive loss		-	-	-	(67.3)	(67.3)
Restricted shares, vested and exercised	8,17	1.8	(1.8)	-	-	-
Share-based compensation	8	-	3.5	-	-	3.5
Withholding tax paid on vested RSU's	8	-	(2.1)	-	(0.4)	(2.5)
Dividends	17	-	-	-	(10.9)	(10.9)
<b>Balance, September 30, 2020</b>		<b>300.0</b>	<b>2.0</b>	<b>13.1</b>	<b>(116.1)</b>	<b>199.0</b>

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

# CARGOJET INC.

## Condensed Consolidated Interim Statements of Cash Flows Nine month periods ended September 30, 2021 and 2020

(unaudited - in millions of Canadian dollars)

	Note	Nine months ended September 30,	
		2021	2020
		\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net earnings (loss)		65.4	(67.3)
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	4,5	91.7	79.3
Share-based compensation	8	0.7	24.5
Finance costs	15	23.7	30.0
Crew incentive	8	4.3	5.8
Gain on disposal of property, plant and equipment	5	(0.1)	(0.7)
Impairment of property, plant and equipment	5	-	0.6
Employee pension liability	14	(2.9)	3.2
Income tax provision	12	21.0	31.0
Fair value (decrease) increase on stock warrant	4	(10.4)	130.0
Loss (gain) on swap derivative contract	20	12.6	(44.3)
Unrealized foreign exchange (gain) loss	16	(0.3)	3.3
Loss on extinguishment of lease liabilities	10	3.7	-
Interest paid		(15.1)	(18.5)
Cash generated from operating activities		194.3	176.9
Changes in non-cash working capital items and deposits			
Trade and other receivables		(21.1)	4.0
Inventories		(0.4)	0.7
Prepaid expenses and deposits		(0.8)	1.3
Trade and other payables		11.6	21.0
<b>NET CASH GENERATED FROM OPERATING ACTIVITIES</b>		183.6	203.9
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property, plant and equipment	5	(202.8)	(93.1)
Proceeds from disposal of property, plant and equipment	16	0.1	0.7
Proceeds from insurance claim	5	-	3.6
Proceeds from total return swap & settlement of derivative financial instrument	20	-	14.5
Acquisition of interest in associate	6	(9.4)	-
<b>NET CASH USED IN INVESTING ACTIVITIES</b>		(212.1)	(74.3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Repayment of borrowings	9	(72.9)	(182.3)
Repayment of obligations under lease liabilities	7,10	(90.3)	(42.1)
Share based compensation	8	(13.6)	(1.8)
Proceeds from debenture issuance net of issuance costs	11	-	109.9
Withholding tax paid on vested RSU's	8	(2.8)	(2.5)
Dividends paid to shareholders	17	(12.6)	(11.0)
Proceeds from equity issuance, net of transaction costs	17	349.8	-
<b>NET CASH PROVIDED FROM (USED IN) FROM FINANCING ACTIVITIES</b>		157.6	(129.8)
<b>NET CHANGE IN CASH</b>		129.1	(0.2)
<b>CASH, BEGINNING OF PERIOD</b>		3.7	1.6
<b>CASH, END OF PERIOD</b>		132.8	1.4

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

# **CARGOJET INC.**

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

**September 30, 2021 and 2020**

**(unaudited - 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, Mexico and Europe. As well, the Company operates scheduled international routes for multiple cargo customers between the USA and Bermuda and between Canada and Germany.

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

These condensed consolidated interim financial statements (the “financial statements”) were approved by the Board of Directors on October 28, 2021 and authorized for issuance on November 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”) using International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”).

#### **Basis of preparation**

These financial statements include the accounts of the Company and its wholly owned subsidiaries 2422311 Ontario Inc., Cargojet Airways Ltd. (“CJA”) and Aershipe Handling Ltd. (“AH”).

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

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2020 and 2019.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these financial statements as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2020 and 2019.

# **CARGOJET INC.**

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

**September 30, 2021 and 2020**

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

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### **Investment in Associate**

The Company's investment in 21 Air Inc. has been treated as an investment in associate and has been accounted for using the equity method (Note 6). Under the equity method, the Company's investment in the common shares of the associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of net income and losses of the associate, after any adjustments necessary to give effect to uniform accounting policies, any other movement in the associate's reserves, and for impairment losses after the initial recognition date. Dividends and repayment of capital received from an associate are accounted for as a reduction in the carrying amount of the Company's investment. Intercompany balances and interest expense and income arising on loans and borrowings between the Company and its associates are not eliminated. Unrealized gains arising from transactions with an equity accounted investee are eliminated against the company's investment in the investee. Unrealized losses are eliminated in the same way as unrealized gains but only to the extent that it does not result in impairment. At the end of each reporting period, the Company assesses whether there is any objective evidence that an investment in an associate is impaired. An impairment loss in respect of an equity-accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss, and is reversed if there has been a favorable change in the estimates used to determine the recoverable amount.

### **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.

When a lease and a customer contract are negotiated as one package to meet a single commercial objective, it meets the contract combination requirements in IFRS 16 and therefore is accounted for as a single contract. When viewing an agreement as one, if the Company does not have the right to direct the use of the aircraft, it will not identify as a lease. Accordingly, no asset or liability are recognized in the financial statements.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

### **3. REVENUE FROM CONTRACTS WITH CUSTOMERS**

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



# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2021 and 2020

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

	Three month period ended		Nine month period ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Revenue from air cargo services	182.1	155.8	503.7	466.8
Revenue from other sources	7.4	6.5	18.2	14.6
Total revenue	189.5	162.3	521.9	481.4

### Revenue recognized at a point of time

	Three month period ended		Nine month period ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Domestic network	79.5	75.5	235.8	211.1
Fuel and other surcharges	36.4	22.2	101.2	63.3
ACMI	44.9	37.1	120.8	89.2
All-in charter	21.9	22.2	47.5	105.1
Ground handling and maintenance revenue	2.9	3.0	8.9	7.6
Total revenue	185.6	160.0	514.2	476.3

### Revenue recognized from transfer of services over time

	Three month period ended		Nine month period ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
All-in-charter	2.3	1.6	4.5	3.4
Hangar rental and other revenue	1.6	0.7	3.2	1.7
Total revenue	3.9	2.3	7.7	5.1

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

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### Contract assets and liabilities

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

	September 30, 2021	December 31, 2020
	\$	\$
Contract asset	62.6	68.4
Trade receivables	50.5	31.2
Other receivables	11.9	10.1
<b>Total contract assets</b>	<b>125.0</b>	<b>109.7</b>
Stock warrant obligations	241.0	251.4
Contract liability - expected rebates to customers	-	0.5
<b>Total contract liabilities</b>	<b>241.0</b>	<b>251.9</b>

### 4. STOCK WARRANT

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

Under the agreement, the Company issued warrants to Amazon for the opportunity to purchase variable voting shares that will vest in two tranches based on the achievement of commercial milestones related to Amazon's business with the Company. The warrant agreement grants Amazon the right to acquire up to 13.8% of the issued and outstanding voting shares. Tranche I warrant shares represent 9.2% and Tranche II warrant shares represent 4.6% 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 is \$186.57 per voting share. 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 20). The corresponding contract asset was recognized at inception and will amortize against revenue over the duration of the agreement. The fair value of the warrant obligations was revalued as at September 30,

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2021 and 2020

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

2021 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a non-operating gain of \$10.4 (September 30, 2020 – non operating loss of \$130.0).

	September 30, 2021	December 31, 2020
<b>Contract Assets</b>	\$	\$
Stock Warrant and other contract assets	68.4	78.0
Less: Amortization	(5.8)	(9.6)
Total contract assets	62.6	68.4
<b>Stock warrant obligations</b>		
Stock Warrant obligations	251.4	73.5
(Less) add: Fair value adjustment	(10.4)	177.9
Total stock warrant obligations	241.0	251.4

### 5. PROPERTY, PLANT AND EQUIPMENT

<b>Cost</b>	Balance as at January 1, 2021	Additions	Transfers	Adjustments	Balance as at September 30, 2021
	\$	\$	\$	\$	\$
Aircraft hull	528.2	0.2	23.0	(0.4)	551.0
Engines	497.0	0.1	73.0	(0.9)	569.2
Right of use assets	52.7	0.1	-	-	52.8
Spare parts	8.2	1.0	-	-	9.2
Ground equipment	53.9	2.7	-	-	56.6
Rotable spares	55.6	6.6	-	-	62.2
Computer hardware and software	13.9	0.4	0.3	-	14.6
Furniture and fixtures	4.2	0.1	-	-	4.3
Leasehold improvements	24.7	0.1	-	-	24.8
Vehicles	3.3	-	0.1	-	3.4
Hangar and cross-dock facilities	35.8	-	0.1	-	35.9
Property, plant and equipment under development	39.7	183.6	(98.2)	-	125.1
Deferred heavy maintenance	100.0	7.9	1.7	-	109.6
	1,417.2	202.8	-	(1.3)	1,618.7

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2021 and 2020

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

<b><u>Accumulated Depreciation &amp; Impairment</u></b>	Balance as at January 1, 2021		Adjustment	Balance as at September 30, 2021	Net Book Value as at September 30, 2021
	\$	\$	\$	\$	\$
Aircraft hull	103.4	21.4	(0.4)	124.4	426.6
Engines	150.0	39.4	(0.9)	188.5	380.7
Right of use assets	18.4	6.9	-	25.3	27.5
Spare parts	-	-	-	-	9.2
Ground equipment	24.2	3.0	-	27.2	29.4
Rotable spares	22.3	3.9	-	26.2	36.0
Computer hardware and software	10.4	1.0	-	11.4	3.2
Furniture and fixtures	2.3	0.3	-	2.6	1.7
Leasehold improvements	13.0	0.9	-	13.9	10.9
Vehicles	1.8	0.2	-	2.0	1.4
Hangar and cross-dock facilities	10.6	1.2	-	11.8	24.1
Property, plant and equipment under development	-	-	-	-	125.1
Deferred heavy maintenance	62.1	7.7	-	69.8	39.8
	418.5	85.9	(1.3)	503.1	1,115.6

<b><u>Cost</u></b>	Balance as at January 1, 2020	Additions	Transfers	Balance as at 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

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2021 and 2020

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

<b><u>Accumulated Depreciation &amp; Impairment</u></b>	Balance as at January 1, 2020	Depreciation	Disposal/T ransfers	Balance as at December 31, 2020	Net Book Value 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
	<u>319.0</u>	<u>99.5</u>	<u>0.6</u>	<u>419.1</u>	<u>998.7</u>

Property, plant and equipment under development of \$125.1 (2020 - \$39.7) 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 nine month period ended September 30, 2021, the Company completed the acquisition of one Boeing 767-200 aircraft and one Boeing 757-200 aircraft.

Depreciation expense on property, plant and equipment for the three and nine month periods ended September 30, 2021 totaled \$29.7 and \$85.9 (2020 - \$25.1 and \$72.6) out of which \$29.1 and \$84.2 (2020 - \$24.6 and \$71.1) was recorded in direct expenses and \$0.6 and \$1.7 (2020 - \$0.5 and \$1.5) was recorded in general and administrative expenses.

## 6. INVESTMENT IN ASSOCIATE

On August 10, 2021, the Company acquired an equity interest of 25% in Greensboro, North Carolina headquartered cargo airline 21 Air LLC (21 Air) for cash consideration of \$9.4, at which date it became an associate. The Company applied equity accounting on the investment, and recognized \$9.4 as the value of the investment at inception. 21 Air is one of the vendors of the Company and is principally engaged in providing ACMI, CMI and charter services from Miami, Florida. 21 Air is not a publicly listed company. During the period ended September 30, 2021, 21 Air generated negligible net income; hence, the Company did not recognize any change in the value of the investment. No dividend was declared or paid by 21 Air during the period.

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2021 and 2020

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

### 7. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the nine month period ended September 30, 2021 is presented below:

	September 30, 2021	December 31, 2020
	\$	\$
Cash	132.8	3.7
Borrowings - repayable within one year	(38.8)	(103.8)
Borrowings - repayable after one year	(382.8)	(469.0)
Net Debt	(288.8)	(569.1)
Cash	132.8	3.7
Gross debt - fixed interest rates	(421.6)	(499.9)
Gross debt - variable interest rates	-	(72.9)
Net Debt	(288.8)	(569.1)

	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 2020	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)
Cash flows	129.1	65.0	25.3	72.9
Loss on extinguishment of lease liabilities	-	-	(3.7)	-
Interest accretion	-	-	(6.9)	(1.7)
Foreign exchange adjustment	-	-	0.3	-
Net Debt as at September 30, 2021	132.8	(38.8)	(76.2)	(306.6)

### 8. 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.

# **CARGOJET INC.**

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

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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/income with a corresponding increase/decrease 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 Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income proportional to the period of service rendered by the employees.

As at September 30, 2021, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of \$12.9 (December 31, 2020 - \$9.2). For the nine month period ended September 30, 2021, the Company recognized \$3.7 in crew cost for the services rendered in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

For the crew members who elected to receive \$0.1 cash at the end of the vesting period, the Company also recognized \$0.5 as crew cost expenses for the services rendered and \$0.1 as interest cost for the nine month period ended September 30, 2021 in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income. During the period, the Company paid a prorated amount of \$0.1 for retiring participants according to the terms of the agreement. As at September 30, 2021, the Company had a total liability of \$1.7 (December 31, 2020 - \$1.2) for the cash incentives

### **Deferred Share Units**

The Company implemented a DSU plan for its non-employee directors in 2020. According to the plan, each director receives a portion of his or her annual retainer in DSUs that is predetermined for the year. The amount may only be amended in accordance with any amendments to the director's 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 2021, the annual DSU amount for each Canadian director is \$0.1 and for non-Canadian director is \$0.1 in US currency.

These DSUs vest upon grant. DSUs are redeemable only when the director ceases to be a member of the Board provided that he or she is not otherwise engaged or employed by the Company. The cost of the vested DSUs is recognized as a liability under share based compensation plans in the Condensed Consolidated Interim Balance Sheet and a corresponding expense is recognized.

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 a whole number rounded down. Fractional DSU will be disregarded.

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.

# **CARGOJET INC.**

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During the period ended September 30, 2021, the Company granted 3,128 DSUs to the Company's independent directors and credited to their notional account. On March 17, 2021, one of the directors resigned from the Board and 1,990 DSUs outstanding in his notional account were cash settled. Accordingly, a payment of \$0.1 was issued to the participant 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 the shares. As of September 30, 2021, a total of 5,301 DSUs including dividend equivalents were outstanding in the directors' notional accounts with a carrying amount of liability of \$1.1 (December 31, 2020 – 4,145 DSUs of \$0.9).

### **Restricted Share Units**

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

During the period ended September 30, 2021, 28,509 RSUs out of the 32,624 remaining RSUs granted in prior years were vested. Prior to vesting, and in accordance with the RSU Plan, the Company accrued notional dividends on the RSUs equivalent to 662 RSUs that were also issued and vested upon the satisfaction of the RSUs vesting conditions. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 13,499 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of \$2.8 equal to the monetary value of the tax obligation determined based on the Market Price of \$176.56 per share of 15,672 shares withheld that otherwise would have been issued upon vesting. An amount of \$1.3 was transferred to share capital from contributed surplus. The remaining 4,115 RSUs will vest in the first quarter of 2022.



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The RSU activity for the nine month period ended September 30, 2021 is summarized below:

RSUs (in Canadian dollars)	Number of RSUs	Fair value \$
Balance at January 1, 2020	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
Share dividend	662	0.1
Share based compensation-Vested and settled	(29,171)	(0.5)
Share based compensation-Unvested and amortized	-	(0.2)
Balance at September 30, 2021	4,115	0.1

During the period ended September 30, 2021, the total share based compensation expense of \$0.7 related to vested and settled and unvested and amortized RSUs was included in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income (September 30, 2020 – \$3.5). Unrecognized share-based compensation expense as at September 30, 2021 related to these RSUs was \$0.1 (September 30, 2020 – \$1.2) and will be amortized on a pro-rated basis in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income over the vesting period.

### Options:

The Options activity during the nine month period ended September 30, 2021 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in \$
Balance as at January 1, 2021	143,574	\$77.35
Granted during the period	12,357	\$176.56
Exercised during the period	(115,246)	\$71.11
Balance as at September 30, 2021	40,685	\$125.17
Vested & exercisable at September 30, 2021	1,916	\$100.78

As at September 30, 2021, there were 1,916 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 3.27 years.

During the period ended September 30, 2021, participants of the stock option plan exercised 94,885 Options granted on May 23, 2018, 13,340 Options granted on November 29, 2019 and 8,122 Options granted on March 5, 2020 when the average volume weighted average trading price per share was \$182.1. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed to the participants was net of the obligation to withhold tax equal to the tax obligation of each participant and the Company remitted the amount withheld to the tax authority per the terms and conditions of the Stock Option Plan. Accordingly, a payment of \$9.3 was issued to the participants for vested and exercised Options and the Company remitted an amount of \$3.5 equal to the monetary value of the tax obligation determined based on the Market price of the shares.

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During the period ended September 30, 2021, the Company recognized a recovery of compensatory expense of \$2.6 respectively in bonuses and incentives expense in general and administrative expenses due to change in the fair value of options (September 30, 2020 – an expense of \$14.1). As at September 30, 2021, the Company had a total liability of \$2.3 (December 31, 2020 - \$17.7) for Options.

### Weighted average assumptions on grant date

	16-Mar-21	05-Mar-20	29-Nov-19
	Series 7	Series 6	Series 5
Exercise price redemption	\$176.56	\$104.95	\$98.90
Expected volatility	34.62%	28.51%	28.47%
Option life in years	5	5	5
Dividend yield	0.59%	0.87%	0.94%
Risk free rate	0.25%	1.25%	1.00%
Vesting period	2022-2024	2021-2023	2020-2022
Options granted	12,357	26,168	29,915
Options outstanding	12,357	18,047	10,280
Fair value per option on grant date	\$50.64	\$25.85	\$23.66
Fair value per option September 30, 2021	\$64.42	\$101.21	\$105.37

### Performance Share Units

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

During the period ended September 30, 2021, the Company granted 7,093 PSU's to its executives (December 31, 2020 – 12,891). 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 \$2.6 was recognized as bonus and incentive expense during the nine-month period ended September 30, 2021 (September 30, 2020 – \$4.6) with corresponding amount in liability. As at September 30, 2021, the Company had an outstanding liability of \$9.3 on 32,856 outstanding PSUs (December 31, 2020 - \$6.7 on 25,763 PSUs).

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### Stock Appreciation Rights (“SARs”)

On November 29, 2019 the Company granted 23,132 SARs to its four independent directors. During the period ended September 30, 2021, one of the directors exercised 5,783 SARs granted on November 29, 2019, when the volume weighted average trading price per share was \$173.3. The cash disbursed to the participant was net of the obligation to withhold tax equal to the tax obligation of the participant and the Company remitted the amount withheld to the tax authority per the terms and conditions of the Plan. Accordingly, a payment of \$0.3 was issued to the participant for vested and exercised SARs and the Company remitted an amount of \$0.1 equal to the monetary value of the tax obligation determined based on the Market price of the shares.

During the nine month period ended September 30, 2021, the fair value of the remaining vested rights was determined and the Company recognized \$0.6 gain on revaluation of SARs and recorded a compensation recovery in bonuses and incentives in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income with corresponding reduction of the liability. As at September 30, 2021, the Company had a total liability of \$1.8 (December 31, 2020 - \$2.8) for SARs

### 9. BORROWINGS

Borrowings consist of the following:

	September 30, 2021	December 31, 2020
Revolving credit facility	\$ -	\$ 72.8
Other borrowings	-	0.1
	-	72.9
Long-term portion	-	72.9

#### 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.

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## Notes to the Condensed Consolidated Interim Financial Statements

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The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at September 30, 2021 and 2020.

Included in the Condensed Consolidated Interim Statement of (Loss) Earnings and Comprehensive (Loss) Income for the three and nine month periods ended September 30, 2021 was interest expense on the revolving credit facility of \$0.4 and \$1.9 respectively (2020 - \$2.0 and \$8.4 respectively).

### 10. LEASE LIABILITIES

The Company 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%, 6.0%, and 6.7%. These leases are deemed to be maturing on the exercise date of the bargain purchase options in October 2021, November 2023 and October 2027 respectively. As at September 30, 2021, the total outstanding balance of these lease arrangements is \$83.2 out of which \$30.8 is presented as a current liability on the Consolidated Interim Balance Sheet.

In 2014, the Company entered into a Master Capital Lease Agreement ("MLA") with an equipment finance and leasing company. The Company had four finance leases to acquire four Boeing 767-300 aircraft under the MLA in the aggregate amount of \$120.0. The Company was required to purchase the aircraft financed under the MLA at the end of the term of each lease at a predetermined price. On February 3, 2021, the Company prepaid the entire amount of \$49.4 to liquidate its obligation under the leases, the terms of which were expiring in June 2021, October 2021, November 2021 and January 2022 respectively. The prepayment resulted in a loss of \$2.2 that included interest, prepayment fees and legal expenses.

On March 26, 2021, the Company prepaid its purchase option price for one Boeing 767-300 aircraft under finance lease, the term of which was ending in December 2021. It paid the entire outstanding amount of \$10.4, net of all unused reserves and heavy maintenance deposits. The prepayment resulted in a loss of \$1.5 that included interest, prepayment fees and legal expenses. The Company prepaid the entire outstanding amount of all leases including the prepayment fees and expenses using the funds received from the equity issuance completed during the year 2021. On February 11, 2021, the Company also cancelled the \$16.1 letter of credit issued to the lessor under the terms of MLA following the prepayment of the leases.

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As at September 30, 2021, the Company has \$27.5 of right of use assets and \$31.8 of lease liabilities out of which \$8.0 is presented as a current liability on the Condensed Consolidated Interim Balance Sheet.

The following is a schedule of future minimum annual lease payments for aircraft, hangars, offices and warehouses under leases together with the balance of the obligations as at September 30, 2021.

	Minimum lease payments	Present value of minimum lease payments
	\$	\$
Not later than one year	45.0	38.7
Later than one year and not later than five years	78.1	66.3
Later than five years	12.1	10.0
	135.2	115.0
Less: interest	20.2	-
Total obligations under leases	115.0	115.0
Less: current portion	38.8	38.8
Non-current portion	76.2	76.2

Interest amounts on the lease liabilities for the three and nine month periods ended September 30, 2021 totaled \$2.1 and \$6.9 respectively (2020 - \$3.8 and \$10.4 respectively).

### 11. DEBENTURES

The balance of debentures as at September 30, 2021 and December 31, 2020 consists of the following:

	September 30, 2021	December 31, 2020
	\$	\$
Hybrid debentures - 5.75% due April 30, 2024	84.2	83.7
Hybrid debentures - 5.75% due April 30, 2025	111.6	111.0
Hybrid debentures - 5.25% due June 30, 2026	110.8	110.2
Balance - end of period	306.6	304.9

#### 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.

# CARGOJET INC.

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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 September 30, 2021 and December 31, 2020 consists of the following:

	September 30, 2021	December 31, 2020
Principal balance - beginning of period	\$ 83.7	\$ 83.1
Accretion during the period	0.5	0.6
Balance - end of period	84.2	83.7

Interest expense on the hybrid debentures for the three and nine month period ended September 30, 2021 and 2020 totaled \$1.4 and \$4.2 respectively (September 30, 2020 - \$1.4 and \$4.2 respectively).

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

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

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

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

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

# CARGOJET INC.

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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.

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at September 30, 2021 and December 31, 2020 consists of the following:

	September 30, 2021	December 31, 2020
	\$	\$
Principal balance - beginning of period	111.0	110.2
Accretion during the period	0.6	0.8
Balance - end of period	111.6	111.0

Interest expense on the hybrid debentures for the three and nine month periods ended September 30, 2021 and 2020 totaled \$1.9 and \$5.6 respectively (September 30, 2020 - \$1.8 and \$5.5 respectively).

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

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

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

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

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

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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 September 30, 2021 consists of the following:

	September 30, 2021	December 31, 2020
Principal balance	110.2	115.0
Less:		
Issuance costs	-	(5.1)
Accretion during the period	0.6	0.3
Balance - end of period	110.8	110.2

Interest expense on the hybrid debentures for the three and nine month periods ended September 30, 2021 and 2020 totaled \$1.7 and \$5.1 respectively (September 30, 2020 - \$1.5 and \$1.5 respectively).

## 12. INCOME TAXES

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

	Three month periods ended		Nine month periods ended	
	September 30, 2021	2020	September 30, 2021	2020
Earnings (loss) before income taxes	\$ (3.8)	\$ (6.9)	\$ 86.4	\$ (36.3)
Basic rate of 26.5% (2020 - 26.5%)	(1.0)	(1.8)	22.9	(9.6)
Share based compensation	0.1	1.6	(0.6)	4.6
Meals and entertainment	-	-	0.1	0.1
Stock warrant	10.0	13.7	(1.4)	35.9
Provision for income taxes	9.1	13.5	21.0	31.0



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The tax effect of significant temporary differences are as follows:

	December 31, 2020	Recognized in Equity	Recognized in Profit & Loss	September 30, 2021
	\$	\$	\$	\$
Property, plant and equipment	83.6	-	15.2	98.8
Operating loss carryforward	(21.8)	-	6.0	(15.8)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Equity transaction cost	-	(3.5)	-	(3.5)
Pension costs	(7.9)	-	0.8	(7.1)
Financing costs	12.7	-	(3.2)	9.5
Long-term incentive plan	(5.5)	-	(1.6)	(7.1)
Deferred heavy maintenance	15.3	-	3.8	19.1
Net deferred income tax liability	76.3	(3.5)	21.0	93.8

### 13. DIRECT EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Fuel costs	31.7	19.9	80.6	59.8
Maintenance costs	13.1	10.6	37.1	30.1
Heavy maintenance amortization	2.7	2.2	7.7	8.3
Aircraft costs	4.5	7.4	10.4	16.8
Crew costs	21.5	12.5	52.8	33.5
Depreciation	26.4	22.4	76.5	62.8
Commercial and other costs	35.6	29.0	102.6	88.9
Direct expenses	135.5	104.0	367.7	300.2

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 14. GENERAL AND ADMINISTRATIVE EXPENSES

	Three month periods ended		Nine month periods ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Salaries and benefits	7.8	6.7	22.2	21.1
Employee pension	0.1	1.1	(2.9)	3.2
Depreciation	0.6	0.5	1.7	1.5
Net realized foreign exchange (gain) loss	(0.6)	0.9	1.3	0.7
Bonuses, incentives and management fees	1.0	0.3	8.8	18.8
Audit, legal and consulting	1.0	1.9	1.5	4.7
IT network and communications	1.1	0.9	3.6	2.5
Subscription and office supplies	0.7	1.0	2.1	3.9
Donation	0.5	0.1	0.5	2.8
Other general and administrative expenses	1.9	0.8	6.0	8.1
General and administrative expenses	14.1	14.2	44.8	67.3

### 15. FINANCE COSTS

	Three month periods ended		Nine month periods ended	
	September 30,		September 30,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Interest on leases	2.1	3.8	6.9	10.5
Interest on debentures	5.0	4.7	14.9	11.2
Credit facilities and other interest	0.4	1.9	1.9	8.3
Finance costs	7.5	10.4	23.7	30.0

### 16. OTHER LOSS (GAINS), NET

	Three month periods ended		Nine month periods ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Unrealized foreign exchange loss (gain)	2.4	(1.9)	(0.4)	3.4
Gain on disposal of property, plant and equipment	(0.1)	(0.3)	(0.1)	(0.7)
Other loss (gains), net	2.3	(2.2)	(0.5)	2.7

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

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### 17. SHAREHOLDERS' CAPITAL

#### a) Authorized

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

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

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

#### b) Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2020 to September 30, 2021:

	Number of shares	Amount \$
Common voting shares	15,597,068	300.0
Outstanding- December 31, 2020	15,597,068	300.0
Changes during the period:		
Restricted share units settled	13,499	1.3
Deferred share units settled	191	-
Issue of ordinary shares net of transaction costs and taxes	1,713,500	353.3
	17,324,258	654.6
Consisting of:		
Common voting shares	17,324,258	654.6
Outstanding- September 30, 2021	17,324,258	654.6

During the nine-month period, the Company issued a total of 1,713,500 shares in a bought deal equity offering for aggregate gross proceeds of \$365.4 at a price of \$213.25 per share. The Company paid underwriters fees and incurred transaction costs totaling \$15.6 on the offering, which were accounted for as a reduction to equity, net of income tax benefit of \$3.5.

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

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### Dividends

Dividends to shareholders declared for the three and nine month period ended September 30, 2021 amounted to \$4.5 (\$0.2600 per share) and \$13.5 (\$0.7800 per share) respectively and for three and nine periods ended September 30, 2020 amounted to \$3.6 (\$0.2340 per share) and \$10.9 ( \$0.7020 per share) respectively for both common and variable shares.

As at September 30, 2021, a dividend of \$4.5 was payable to the shareholders (September 30, 2020 - \$3.6).

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

The following table shows the computation of basic (loss) earnings per share for the three and nine month periods ended September 30, 2021 and 2020:

In \$ millions except where expressed as per share	Three month periods ended		Nine month periods ended	
	September 30,		September 30,	
	2021	2020	2021	2020
Net (loss) earnings per share				
Net (loss) earnings	(12.9)	(20.4)	65.4	(67.3)
Weighted average number of shares	17.5	15.6	17.1	15.6
Dilutive impact of share- based awards and vested warrant	-	-	0.4	-
Diluted weighted average number of shares	17.5	15.6	17.5	15.6
Net (loss) earnings per share - basic	\$(0.74)	(1.31)	3.82	(4.32)
Net (loss) earnings per share - diluted	\$(0.74)	(1.31)	3.73	(4.32)

### 19. EMPLOYEE BENEFITS

In 2016, the Company established an unfunded defined benefit plan for one of its senior executives. Every period, 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. During the nine month period ended September 30, 2021, it was mutually agreed by the Company and the executive to cap pension entitlement at an annual lifetime annuity of \$1.5 effective December 31, 2020. Accordingly, the Company made an adjustment of \$2.9 in accrual of its pension liability with a corresponding adjustment to general and administrative expenses for the nine month period ended September 30, 2021 as past service cost in its Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

# **CARGOJET INC.**

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

**September 30, 2021 and 2020**

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

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### **20. 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 Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

During the nine month period ended September 30, 2021, the Company unwound 208,656 share units of its expiring total return swap agreement with a financial institution for a net realized value of \$6.3. (September 30, 2020 - the Company had rolled over the share units from one financial institution to another for a net realized value of \$14.5), resulting in a fair value loss of \$3.1 (September 2020 – gain of \$12.5). The change in the fair value of the swap, which is an economic hedge for share based compensation of executives, is recorded as management bonuses under general and administrative expenses in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

As at September 30, 2021 the fair value measurement of the 260,000 underlying shares under the swap agreements in effect were an asset of \$32.0 (December 31, 2020 – asset of \$35.2) in favor of the Company.

# **CARGOJET INC.**

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

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The fair value adjustment for the three and nine month periods ended September 30, 2021 were gains of \$4.8 and loss of \$3.2 respectively (September 30, 2020 – gains of \$7.7 and \$22.5 respectively). The difference between the change in the fair value of the crew DSUs and the swap, which is an economic hedge for crew DSUs, is recorded as a gain or loss on swap derivative in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the mark to market method provided by the financial institutions. An increase of 10% in the market value of the underlying asset will result in a gain of \$5.2 and a decrease of 10% of the market value of the underlying asset will result in a loss of the same amount.

### **Fair Values**

The fair value of the 5.75% hybrid debentures due April 30, 2024 as at September 30, 2021, was approximately \$82.1 (December 31, 2020 - \$80.3). 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 \$1.3 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at September 30, 2021, was approximately \$108.7 (December 31, 2020 - \$106.4). 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 \$2.3 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at September 30, 2021 was approximately \$104.0 (December 31, 2020 - \$101.5). The fair value of the debentures was determined using the discounted cash flow method using a discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by \$2.9 respectively.

The fair value of the performance share units due March 15, 2022, March 15, 2023 and March 15, 2024 are classified as level 3 financial liabilities. As at September 30, 2021, the performance share units due March 15, 2022, March 15, 2023 and March 15 2024 were valued at \$6.0 and \$5.1 and \$1.6 respectively (December 31, 2020 - \$6.3 and \$4.8 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.

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

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The fair value of the warrant obligations was \$241.0 as at September 30, 2021 (December 31, 2020 \$251.4). The revaluation resulted in a non-operating loss of \$36.8 and gain of \$10.4 for the three and nine month period ended September 30, 2021 (September 30, 2020 – loss of \$47.2 and \$130.0). 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 of 34.9% for tranche I and 33.6% for tranche II, risk free rate of 1.6% and a dividend yield of 0.7% and forecasted revenue from Amazon associated with this arrangement utilized to predict future vesting events.

A significant increase in the volatility in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities were recorded in other gains or losses on the Company's Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income. A significant change to the forecasted revenue may change the vesting dates. Changes to the vesting dates will not significantly affect the fair value of the warrant obligations. For every increase or decrease of volatility by 10% with all other factors remaining the same, the estimated fair value of warrants will increase by \$7.6 and decrease by \$7.0. 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 \$83.2 or decrease by \$78.1.

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

### Credit risk

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

The Company is subject to risk of non-payment of accounts receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's trade receivables are concentrated among several of its largest customers with approximately 88.5% (December 31, 2020 – 93.7%) 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 (2.0%) of trade receivables are outstanding for more than 60 days and are 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.

# CARGOJET INC.

## Notes to the Condensed Consolidated Interim Financial Statements

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

### Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company is confident that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of \$600 million. The Company was in compliance with all covenants as at September 30, 2021 and 2020.

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at September 30, 2021 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	-	-	306.6	-	306.6
Lease liabilities	23.7	20.1	44.5	26.7	115.0
Interest on leases	1.8	5.7	9.0	3.7	20.2
Trade and other payables	84.8	-	-	-	84.8
Employee pension and share-based compensation	-	3.5	22.3	30.2	56.0
Dividends payable	4.5	-	-	-	4.5
<b>Total</b>	<b>114.8</b>	<b>29.3</b>	<b>382.4</b>	<b>60.6</b>	<b>587.1</b>

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>



# **CARGOJET INC.**

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

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### **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, hybrid debentures and all derivative financial instruments. To perform the sensitivity analysis, the Company assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

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

### **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 gain/loss, for the three and nine month periods ended September 30, 2021 on foreign exchange transactions were a loss of \$2.4 and a gain of \$0.4 respectively (September 30, 2020 – a gain of \$2.1 and loss of \$3.2 respectively).

At September 30, 2021, a weakening of the Canadian dollar that results in a 10 percent increase in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately \$7.3 (September 30, 2020 - \$7.0). 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 (September 30, 2020 - \$7.0).

At September 30, 2021, a weakening of the Canadian dollar that results in a 10 percent increase in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by approximately \$0.3 (September 30, 2020 - \$0.3). 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 (September 30, 2020 - \$0.3).

# **CARGOJET INC.**

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### **21. 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 operates 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.