Condensed Consolidated Interim Financial Statements of

CARGOJET

For the three month periods ended March 31, 2022 and 2021

(unaudited - expressed in millions of Canadian dollars)

This page intentionally left blank

CARGOJET INC.

Condensed Consolidated Interim Balance Sheets
As at March 31, 2022 and December 31, 2021

(unaudited - Canadian dollars in millions)

	Note	March 31, 2022	December 31, 2021
		$	$
ASSETS			
CURRENT ASSETS			
Cash		52.8	94.7
Trade and other receivables		70.6	75.2
Inventories		2.4	2.2
Prepaid expenses and deposits		4.8	5.2
Income taxes recoverable		0.1	0.1
Derivative financial instruments	21	28.8	22.7
		159.5	200.1
NON-CURRENT ASSETS			
Property, plant and equipment	5,9	1,252.7	1,159.9
Investment in associate	6	8.6	9.4
Goodwill		48.3	48.3
Intangible assets		2.0	2.0
Deposits		6.1	5.9
Contract assets	4	164.6	61.1
Deferred income taxes	12	3.1	3.1
		1,644.9	1,489.8
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		83.3	71.7
Lease liabilities	10	21.3	22.0
Dividends payable	17	4.5	4.5
		109.1	98.2
NON-CURRENT LIABILITIES			
Lease liabilities	10	63.8	69.4
Stock warrant obligations	4	363.7	172.4
Trade and other payables		6.2	6.6
Debentures	11	307.8	307.2
Deferred income taxes	12	120.6	108.7
Employee pension and share-based compensation	8,19	58.2	50.9
		1,029.4	813.4
EQUITY		615.5	676.4
		1,644.9	1,489.8

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 month periods ended March 31, 2022 and 2021

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

	Note	Three months ended March 31, 2022	2021
		$	$
REVENUES	3	233.6	160.3
DIRECT EXPENSES	13	166.7	115.0
		66.9	45.3
General and administrative expenses	14	19.9	12.1
Sales and marketing expenses		1.0	0.1
(Gain) loss on swap derivative	21	(3.2)	12.5
Finance costs	15	7.0	8.8
Fair value increase (decrease) on stock warrant	4	86.8	(81.9)
Loss on extinguishment of lease liabilities		-	3.7
Other gain, net	16	(0.9)	(1.1)
		110.6	(45.8)
Share of loss of associate	6	0.8	-
(LOSS) EARNINGS BEFORE INCOME TAXES		(44.5)	91.1
PROVISION FOR INCOME TAXES	12		
Deferred		11.9	1.7
NET (LOSS) EARNINGS and COMPREHENSIVE (LOSS) INCOME		(56.4)	89.4
NET (LOSS) EARNINGS PER SHARE	18		
- Basic		$(3.26)	$5.35
- Diluted		$(3.26)	$5.24

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity
Three month periods ended March 31, 2022 and 2021

(unaudited - Canadian dollars in millions)

	Note	Shareholders' capital	Contributed surplus	Surplus on debenture settlement	Deficit	Total shareholders' equity
		$	$	$	$	$
Balance, January 1, 2022		655.2	0.3	13.1	7.8	676.4
Net loss and comprehensive loss		-	-	-	(56.4)	(56.4)
Dividends	17	-	-	-	(4.5)	(4.5)
Balance, March 31, 2022		655.2	0.3	13.1	(53.1)	615.5
Balance, January 1, 2021		300.0	2.3	13.1	(140.2)	175.2
Net loss and comprehensive loss		-	-	-	89.4	89.4
Issue of ordinary shares net of issuance costs and taxes		353.8	-	-	-	353.8
Restricted shares, vested and exercised	8,17	1.3	(1.3)	-	-	-
Share-based compensation	8	-	0.6	-	-	0.6
Withholding tax paid on vested RSUs	8	-	(1.4)	-	(1.4)	(2.8)
Dividends	17	-	-	-	(4.5)	(4.5)
Balance, March 31, 2021		655.1	0.2	13.1	(56.7)	611.7

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows
Three month periods ended March 31, 2022 and 2021

(unaudited - Canadian dollars in millions)

	Note	Three months ended March 31, 2022	2021
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) earnings		(56.4)	89.4
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	4,5	32.5	31.0
Share-based compensation	8	4.4	(9.6)
Finance costs	15	7.0	8.8
Crew incentive	8	2.9	(1.0)
Employee pension liability	14	-	(3.4)
Income tax provision	12	11.9	1.7
Fair value increase (decrease) on stock warrant	4	86.8	(81.9)
(Gain) loss on swap derivative contract	21	(6.1)	24.6
Unrealized foreign exchange gain	16	0.9	(1.4)
Loss on extinguishment of lease liabilities	10	-	3.7
Share of loss of associate	6	0.8	-
Interest paid		(4.8)	(5.4)
Cash generated from operating activities		79.9	56.5
Changes in non-cash working capital items and deposits			
Trade and other receivables		4.6	(3.4)
Inventories		(0.2)	(0.1)
Prepaid expenses and deposits		0.2	1.2
Trade and other payables		11.2	10.9
NET CASH GENERATED FROM OPERATING ACTIVITIES		95.7	65.1
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	5	(124.3)	(59.7)
NET CASH USED IN INVESTING ACTIVITIES		(124.3)	(59.7)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings	9	-	(62.9)
Repayment of obligations under lease liabilities	7,10	(8.8)	(73.8)
Withholding tax paid on vested RSUs	8	-	(2.8)
Dividends paid to shareholders	17	(4.5)	(3.6)
Proceeds from equity issuance, net of transaction costs	17	-	349.8
NET CASH PROVIDED FROM (USED IN) FROM FINANCING ACTIVITIES		(13.3)	206.7
NET CHANGE IN CASH		(41.9)	212.1
CASH, BEGINNING OF PERIOD		94.7	3.7
CASH, END OF PERIOD		52.8	215.8

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

1. NATURE OF THE BUSINESS

Cargojet Inc. ("Cargojet" or the "Company") operates a domestic air cargo co-load network between sixteen 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, between Canada, UK and Germany and between Canada and Mexico.

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

These condensed consolidated interim financial statements (the "financial statements") were approved by the Board of Directors on April 28, 2022 and authorized for issuance on May 2, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") using International Accounting Standard 34, *Interim Financial Reporting ("IAS 34").*

Basis of preparation

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

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

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2021 and 2020.

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, 2021 and 2020.

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

(unaudited - Canadian dollars in millions except where noted)

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:

	March 31, 2022	March 31, 2021
	$	$
Revenue from air cargo services	226.8	155.3
Revenue from other sources	6.8	5.0
Total revenue	233.6	160.3

Revenue recognized at a point of time

	March 31, 2022	March 31, 2021
	$	$
Domestic network	84.5	76.6
Fuel and other surcharges	50.5	31.2
ACMI	52.7	38.7
All-in charter	39.4	9.2
Ground handling and maintenance revenue	4.3	3.0
Total revenue	231.4	158.7

Revenue recognized from transfer of services over time

	March 31, 2022	March 31, 2021
	$	$
All-in-charter	1.2	1.0
Hangar rental and other revenue	1.0	0.6
Total revenue	2.2	1.6

(unaudited - Canadian dollars in millions except where noted)

Contract assets and liabilities

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

	March 31, 2022	December 31, 2021
	$	$
Contract asset	164.6	61.1
Trade receivables	58.3	68.0
Other receivables	12.3	7.2
Total contract assets	235.2	136.3
Stock warrant obligations	363.7	172.4
Contract liability - expected rebates to customers	-	0.9
Total contract liabilities	363.7	173.3

4. STOCK WARRANTS

A. AMAZON

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.

(unaudited - Canadian dollars in millions except where noted)

The fair value of warrants under Tranche I and Tranche II was determined using an American option pricing model utilizing Monte Carlo simulation and was classified within Level 3 of the fair value hierarchy (refer to Financial Instruments Note 21). 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 March 31, 2022 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a non-operating loss of $53.4 (March 31, 2021 – non operating gain of $81.9).

	March 31, 2022	December 31, 2021
Contract Assets	$	$
Stock warrant and other contract assets	61.1	68.4
Less: Amortization	(1.0)	(7.3)
Contract assets	60.1	61.1
Stock warrant obligations		
Stock warrant obligations	172.4	251.4
(Less) add: Fair value adjustment	53.4	(79.0)
Stock warrant obligations	225.8	172.4

B. DHL

On March 28, 2022, the Company entered into a stock warrant agreement with DHL Aviation (Netherlands) B.V. ("DHL") and its affiliates. This agreement is in conjunction with DHL's Consolidated Charter Agreement to provide air transportation services on ACMI basis (by providing aircraft, crew, maintenance and insurance) for DHL's global network for a term of five years with a renewal option for an additional two years.

Under the agreement, the Company issued warrants to DHL for the opportunity to purchase variable voting shares that will vest based on the achievement of commercial milestones related to DHL's existing business with the Company (Existing Business Warrant Shares) and on achievement of growth targets (Growth Business Warrant Shares). The warrant agreement grants DHL the right to acquire up to 9.5% of the issued and outstanding voting shares. Existing Business Warrant Shares represent 5.5% and Growth Business Warrant Shares represent 4% of the aggregate of the currently issued and outstanding voting shares of the Company. Existing Business Warrant Shares when fully vested, will give DHL a right to purchase up to an aggregate of 0.9 million shares and Growth Business Warrant Shares will give a right to purchase an aggregate of 0.7 million shares. The exercise price of both Existing and Growth Warrant Shares is $158.92 per voting share.0.4 million warrant shares or 2% of Existing Business Warrant Shares vested immediately upon the execution of the agreement. Vesting of warrants is tied to the revenue generated by DHL aggregated to an amount specified in the agreement of up to $2,300 in business volume during the term. Existing and Growth Warrant Shares are exercisable in accordance with their terms through April 30, 2029.

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 $104.5 issued to

(unaudited - Canadian dollars in millions except where noted)

DHL on March 28, 2022 was recorded as stock warrant obligations, having a fair value of $63.50 per warrant

The fair value of warrants was determined using an American option pricing model utilizing Monte Carlo simulation and was classified within Level 3 of the fair value hierarchy (refer to Financial Instruments Note 21). 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 March 31, 2022 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a non-operating loss of $33.4 (March 31, 2021 – nil).

	March 31, 2022	December 31, 2021
Contract Assets	$	$
Stock warrant and other contract assets	104.5	-
Contract assets	104.5	-
Stock warrant obligations		
Stock warrant obligations	104.5	-
(Less) add: Fair value adjustment	33.4	-
Stock warrant obligations	137.9	-

(unaudited - Canadian dollars in millions except where noted)

5. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2022	Adjustments	Additions	Transfers	Balance as at March 31, 2022
	$	$	$	$	$
Aircraft hull	553.8	(0.6)	0.1	21.4	574.7
Engines	605.3	-	0.1	34.5	639.9
Right of use assets	53.7	-	-	-	53.7
Spare parts	9.6	-	0.3	-	9.9
Ground equipment	59.0	-	1.4	0.1	60.5
Rotable spares	64.6	-	2.0	0.3	66.9
Computer hardware and software	14.8	-	0.1	-	14.9
Furniture and fixtures	4.3	-	-	-	4.3
Leasehold improvements	24.9	-	-	-	24.9
Vehicles	3.5	-	0.1	-	3.6
Hangar and cross-dock facilities	36.0	-	0.1	-	36.1
Property, plant and equipment under development	153.4	-	115.2	(58.0)	210.6
Deferred heavy maintenance	110.6	-	4.9	1.7	117.2
	1,693.5	(0.6)	124.3	-	1,817.2

Accumulated Depreciation & Impairment	Balance as at January 1, 2022	Depreciation	Adjustments	Balance as at March 31, 2022	Net Book Value as at March 31, 2022
	$	$	$	$	$
Aircraft hull	131.9	7.4	(0.6)	138.7	436.0
Engines	203.3	15.4	-	218.7	421.2
Right of use assets	27.2	2.4	-	29.6	24.1
Spare parts	-	-	-	-	9.9
Ground equipment	28.2	1.1	-	29.3	31.2
Rotable spares	27.6	1.4	-	29.0	37.9
Computer hardware and software	11.6	0.3	-	11.9	3.0
Furniture and fixtures	2.7	0.1	-	2.8	1.5
Leasehold improvements	14.3	0.3	-	14.6	10.3
Vehicles	2.1	0.1	-	2.2	1.4
Hangar and cross-dock facilities	12.1	0.4	-	12.5	23.6
Property, plant and equipment under development	-	-	-	-	210.6
Deferred heavy maintenance	72.6	2.6	-	75.2	42.0
	533.6	31.5	(0.6)	564.5	1,252.7

(unaudited - Canadian dollars in millions except where noted)

Cost	Balance as at January 1, 2021	Additions	Transfers	Adjustments	Balance as at December 31, 2021
	$	$	$		$
Aircraft hull	528.2	0.4	25.6	(0.4)	553.8
Engines	497.0	0.1	109.1	(0.9)	605.3
Right of use assets	52.7	1.0	-	-	53.7
Spare parts	8.2	1.4	-	-	9.6
Ground equipment	53.9	5.0	0.1	-	59.0
Rotable spares	55.6	9.0	-	-	64.6
Computer hardware and software	13.9	0.6	0.3	-	14.8
Furniture and fixtures	4.2	0.1	-	-	4.3
Leasehold improvements	24.7	0.2	-	-	24.9
Vehicles	3.3	0.1	0.1	-	3.5
Hangar and cross-dock facilities	35.8	0.1	0.1	-	36.0
Property, plant and equipment under development	39.7	251.7	(137.0)	(1.0)	153.4
Deferred heavy maintenance	100.0	8.9	1.7	-	110.6
	1,417.2	278.6	-	(2.3)	1,693.5

Accumulated Depreciation & Impairment	Balance as at January 1, 2021	Depreciation	Disposal/Transfers	Balance as at December 31, 2021	Net Book Value December 31, 2021
	$	$	$	$	$
Aircraft hull	103.4	28.9	(0.4)	131.9	421.9
Engines	150.0	54.2	(0.9)	203.3	402.0
Right of use assets	18.4	8.8	-	27.2	26.5
Spare parts	-	-	-	-	9.6
Ground equipment	24.2	4.0	-	28.2	30.8
Rotable spares	22.3	5.3	-	27.6	37.0
Computer hardware and software	10.4	1.2	-	11.6	3.2
Furniture and fixtures	2.3	0.4	-	2.7	1.6
Leasehold improvements	13.0	1.3	-	14.3	10.6
Vehicles	1.8	0.3	-	2.1	1.4
Hangar and cross-dock facilities	10.6	1.5	-	12.1	23.9
Property, plant and equipment under development	-	-	-	-	153.4
Deferred heavy maintenance	62.1	10.5	-	72.6	38.0
	418.5	116.4	(1.3)	533.6	1,159.9

Property, plant and equipment under development of $210.6 (December 31, 2021 - $153.4) 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 three month period ended March 31, 2022, the Company completed the acquisition of one Boeing 767-300 aircraft.

(unaudited - Canadian dollars in millions except where noted)

Depreciation expense on property, plant and equipment for the three month period ended March 31, 2022 totaled $31.5 (March 31, 2021 - $28.0) out of which $31.0 (March 31, 2021 – $27.4) was recorded in direct expenses and $0.5 (March 31, 2021 - $0.6) was recorded in general and administrative expenses.

6. INVESTMENT IN ASSOCIATE

On August 10, 2021, the Company acquired an Investment in Avia Acquisition LLC for cash consideration of $9.4 The Company applied equity accounting on the investment, and recognized $9.4 as the value of the investment at inception. 21 Air, which is wholly owned by Avia Acquisition LLC, is one of the vendors of the Company and is principally engaged in providing ACMI, CMI and charter services from Miami, Florida. Avia Acquisition LLC is not a publicly listed Company. During the period from January 1, 2022 to March 31, 2022, Avia Acquisition LLC generated a loss of $3.2 (unaudited). The Company's share of the net loss was $0.8. The Company reduced the value of the investment by the share of net loss. No dividend was declared or paid by Avia Acquisition LLC during the period.

Summarized unaudited financial information in respect of the Company's associate is as follows:

	March 31, 2022
	$
Total assets	27.6
Total liabilities	27.8
Net assets	(0.2)

	March 31, 2022
	$
Revenue	10.3
Expenses	13.5
Net loss	(3.2)
Company's share of net loss	(0.8)

(unaudited - Canadian dollars in millions except where noted)

7. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the three month period ended March 31, 2022 is presented below:

	March 31, 2022	December 31, 2021
	$	$
Cash	52.8	94.7
Borrowings - repayable within one year	(21.3)	(22.0)
Borrowings - repayable after one year	(371.6)	(376.6)
Net Debt	(340.1)	(303.9)
Cash	52.8	94.7
Gross debt - fixed interest rates	(392.9)	(398.6)
Gross debt - variable interest rates	-	-
Net Debt	(340.1)	(303.9)

	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, 2021	3.7	(103.8)	(91.2)	(377.8)
Cash flows	91.0	81.8	35.0	72.9
Loss on extinguishment of lease liabilities	-	-	(4.8)	-
Acquisitions - leases	-	-	(1.0)	-
Interest accretion	-	-	(8.6)	(2.3)
Foreign exchange adjustment	-	-	1.2	-
Net Debt as at December 31, 2021	94.7	(22.0)	(69.4)	(307.2)
Cash flows	(41.9)	0.7	8.1	-
Interest accretion	-	-	(1.6)	(0.6)
Foreign exchange adjustment	-	-	(0.9)	-
Net Debt as at March 31, 2022	52.8	(21.3)	(63.8)	(307.8)

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.

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 March 31, 2022, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of $14.6 (December 31, 2021 - $11.8). For the period ended March 31, 2022, the Company recognized $2.9 in crew cost for the services rendered 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.

For the crew members who elected to receive $0.1 cash at the end of the vesting period, the Company also recognized $0.1 as crew cost expenses for the services rendered for the period ended March 31, 2022 in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income. As at March 31, 2022, the Company had a total liability of $2.0 (December 31, 2021 - $1.9) 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 the 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 Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

As of March 31, 2022, a total of 5,315 DSUs including dividend equivalents were outstanding in the directors' notional accounts with a carrying amount of liability of $1.0 (December 31, 2021 – 5,308 DSUs of $0.9).

(unaudited - Canadian dollars in millions except where noted)

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 cashless 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.

The RSU activity for the three month period ended March 31, 2022 is summarized below:

RSUs (in Canadian dollars)	Number of RSUs	Fair value $
Balance at January 1, 2021	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	-	(0.3)
Balance at December 31, 2021	4,115	-
Share dividend	-	-
Share based compensation-Vested and settled	-	-
Share based compensation-Unvested and amortized	-	-
Balance at March 31, 2022	4,115	-

During the three month period ended March 31, 2022, the total share based compensation expense of $nil 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 (March 31, 2021 – $0.6). Unrecognized share-based compensation expense as at March 31, 2022 related to these RSUs was $nil (March 31, 2021 – $0.2).

(unaudited - Canadian dollars in millions except where noted)

Options:

The Options activity during the three month period ended March 31, 2022 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in $
Balance as at January 1, 2022	40,685	$125.17
Balance as at March 31, 2022	40,685	$125.17
Vested & exercisable at March 31, 2022	1,916	$100.78

As at March 31, 2022, there were 1,916 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 2.74 years.

During the period ended March 31, 2022, the Company recognized bonuses and incentives expense of $0.6 in general and administrative expenses due to change in the fair value of options (March 31, 2021 – $7.3). As at March 31, 2022, the Company had a total liability of $2.5 (December 31, 2021 - $1.9) for Options.

Weighted average assumptions on grant date

	16-Mar-21 Series 7	05-Mar-20 Series 6	29-Nov-19 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 March 31, 2022	$59.15	$92.83	$96.52

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 total value of the units awarded multiplied by the performance factors. The 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.

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 $3.3 was recognized as bonus and incentive expense during the period ended March 31, 2022 (March 31, 2021 – $1.3) with a corresponding amount in liability. As at March 31, 2022, the Company had an outstanding liability of $11.8 on 32,856 outstanding PSUs (December 31, 2021 - $8.5 on 32,856 PSUs).

Stock Appreciation Rights ("SARs")

On November 29, 2019 the Company granted 23,132 SARs to its four independent directors that vested immediately.

During the period ended March 31, 2022, the fair value of the remaining 17,349 vested rights was determined and the Company recognized an expense of $0.4 in bonuses and incentives in the Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income with corresponding recognition of the liability. As at March 31, 2022, the Company had a total liability of $1.6 (December 31, 2021 - $1.2) for SARs.

9. BORROWINGS

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. On February 5, 2021, the Company further amended its revolving credit facility by extending the maturity date to February 5, 2026 and an amendment to the applicable margin. 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 February 7, 2022, 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”), which allows for an increase of $100 upon request by the Company subject to approval by the Lenders. The maturity date of the facility was also extended to expire on February 7, 2027. Under the facility, the Company is not required to create any additional security on newly acquired aircraft and aircraft lease buybacks unless and until (i) the aggregate drawn amount under the Credit Facility exceeds $400 for more than ninety consecutive days or (ii) the Total Adjusted Leverage Ratio exceeds 2.0 as at the end of any fiscal quarter.

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at March 31, 2022 and 2021.

Included in the Condensed Consolidated Interim Statement of (Loss) Earnings and Comprehensive (loss) Income for the three month period ended March 31, 2022 was interest expense on the revolving credit facility of $0.4 (March 31, 2021 - $1.1).

(unaudited - Canadian dollars in millions except where noted)

10. LEASE LIABILITIES

The Company has lease arrangements for two Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rate for these leases are 6.0%, and 6.7%. These leases are deemed to be maturing on the exercise date of the bargain purchase options in November 2023 and October 2027 respectively. As at March 31, 2022, the total outstanding balance of these lease arrangements is $57.4 out of which $12.1 is presented as a current liability on the Condensed Consolidated Interim Balance Sheet.

As at March 31, 2022, the Company also has $24.1 of right of use assets and $27.7 of lease liabilities, which consists of hangars, warehouses, offices and one Boeing 767-200 aircraft, out of which $9.2 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 March 31, 2022.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	26.4	21.3
Later than one year and not later than five years	57.7	48.3
Later than five years	17.9	15.5
	102.0	85.1
Less: interest	16.9	-
Total obligations under leases	85.1	85.1
Less: current portion	21.3	21.3
Non-current portion	63.8	63.8

Interest amounts on the lease liabilities for the three months period ended March 31, 2022 totaled $1.6 (March 31, 2021 - $2.8).

(unaudited - Canadian dollars in millions except where noted)

11. DEBENTURES

The balance of debentures as at March 31, 2022 and December 31, 2021 consists of the following:

	March 31, 2022	December 31, 2021
	$	$
Hybrid debentures - 5.75% due April 30, 2024	84.6	84.4
Hybrid debentures - 5.75% due April 30, 2025	112.0	111.8
Hybrid debentures - 5.25% due June 30, 2026	111.2	111.0
Balance - end of period	307.8	307.2

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 March 31, 2022 and December 31, 2021 consists of the following:

(unaudited - Canadian dollars in millions except where noted)

	March 31, 2022	December 31, 2021
	$	$
Principal balance - beginning of period	84.4	83.7
Accretion during the period	0.2	0.7
Balance - end of period	84.6	84.4

Interest expense on the hybrid debentures for the three month period ended March 31, 2022 and 2021 totaled $1.4 (March 31, 2021 - $1.4).

Hybrid debentures – 5.75% due April 30, 2025

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

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

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

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

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

(unaudited - Canadian dollars in millions except where noted)

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at March 31, 2022 and December 31, 2021 consists of the following:

	March 31, 2022	December 31, 2021
	$	$
Principal balance - beginning of period	111.8	111.0
Accretion during the period	0.2	0.8
Balance - end of period	112.0	111.8

Interest expense on the hybrid debentures for the three month period ended March 31, 2022 and 2021 totaled $1.9 (March 31, 2021 - $1.8).

Hybrid debentures – 5.25% due June 30, 2026

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

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

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

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

(unaudited - Canadian dollars in millions except where noted)

The 5.25% debentures were therefore recorded as a financial instrument. The debt was recorded at fair value of $109.9 net of deferred issuance costs of $5.1. Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics of certain prepayment options are not closely related to the host contract and therefore required to be accounted for as separate financial instruments. At inception, the fair value of embedded derivatives that are separated from the host contract was nil. The embedded derivatives are remeasured to their fair value at each reporting date and any changes in the fair value are recognized in the Statement of (Loss) Earnings and Comprehensive (Loss) income. As at March 31, 2022, 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 March 31, 2022 consists of the following:

	March 31, 2022	December 31, 2021
	$	$
Principal balance - beginning of period	111.0	110.2
Less:		
Accretion during the period	0.2	0.8
Balance - end of period	111.2	111.0

Interest expense on the hybrid debentures for the three month period ended March 31, 2022 and 2021 totaled $1.7 (March 31, 2021 - $1.7).

12. INCOME TAXES

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

	March 31, 2022	March 31, 2021
	$	$
(Loss) earnings before income taxes	(44.5)	91.1
Basic rate of 26.5% (2021 - 26.5%)	(11.8)	24.1
Share based compensation	0.2	(1.4)
Stock warrant	23.5	(21.0)
Provision for income taxes	11.9	1.7

(unaudited - Canadian dollars in millions except where noted)

The tax effect of significant temporary differences are as follows:

	December 31, 2021	Recognized in Equity	Recognized in earnings	March 31, 2022
	$	$	$	$
Property, plant and equipment	109.6	-	2.4	112.0
Operating loss carryforward	(13.3)	-	7.8	(5.5)
Licenses	0.3	-	-	0.3
Intangible assets	(0.3)	-	-	(0.3)
Equity transaction cost	(3.3)	-	0.2	(3.1)
Pension costs	(6.6)	-	-	(6.6)
Financing costs	7.1	-	1.6	8.7
Long-term incentive plan	(6.4)	-	(1.8)	(8.2)
Deferred heavy maintenance	18.5	-	1.7	20.2
Net deferred income tax liability	105.6	-	11.9	117.5
Deferred income taxes assets	3.1			3.1
Deferred income taxes liabilities	108.7			120.6

13. DIRECT EXPENSES

	March 31, 2022	March 31, 2021
	$	$
Fuel costs	48.7	23.7
Maintenance costs	15.7	11.6
Heavy maintenance amortization	2.6	2.8
Aircraft costs	4.8	3.3
Crew costs	20.6	15.3
Depreciation	28.4	24.6
Ground services	19.2	12.8
Airport services	13.2	11.1
Navigation and Insurance	13.5	9.8
Direct expenses	166.7	115.0

(unaudited - Canadian dollars in millions except where noted)

14. GENERAL AND ADMINISTRATIVE EXPENSES

	March 31, 2022	March 31, 2021
	$	$
Salaries and benefits	7.6	7.0
Employee pension	-	(3.4)
Depreciation	0.5	0.6
Net realized foreign exchange loss	0.6	0.8
Bonuses, incentives and management fees	4.5	3.0
Audit, legal and consulting	1.0	0.1
IT network and communications	1.2	1.2
Subscription and office supplies	1.6	0.7
Other general and administrative expenses	2.9	2.1
General and administrative expenses	19.9	12.1

15. FINANCE COSTS

	March 31, 2022	March 31, 2021
	$	$
Interest on leases	1.6	2.8
Interest on debentures	5.0	4.9
Credit facilities and other interest	0.4	1.1
Finance costs	7.0	8.8

16. OTHER GAINS, NET

	March 31, 2022	March 31, 2021
Unrealized foreign exchange gain	(0.9)	(1.1)
Other gains, net	(0.9)	(1.1)

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.

(unaudited - Canadian dollars in millions except where noted)

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, 2021 to March 31, 2022:

	Number of shares	Amount
		$
Common voting shares	17,324,258	655.2
Outstanding- December 31, 2021	17,324,258	655.2
Changes during the period:		
	17,324,258	655.2
Consisting of:		
Common voting shares	17,324,258	655.2
Outstanding- March 31, 2022	17,324,258	655.2

Dividends

Dividends to shareholders declared for the three month period ended March 31, 2022 amounted to$4.5 ($0.2600 per share) and for the three month period ended March 31, 2021 amounted to$4.5 ($0.2600 per share) for both common and variable shares.

As at March 31, 2022, a dividend of $4.5 was payable to the shareholders (March 31, 2021 - $4.5).

(unaudited - Canadian dollars in millions except where noted)

18. NET (LOSS) EARNINGS PER SHARE

The following table shows the computation of basic (loss) earnings per share for the three month period ended March 31, 2022 and 2021:

In $ millions except where expressed as per share

Net (loss) earnings per share	March 31, 2022	March 31, 2021
Net (loss) earnings	(56.4)	89.4
Weighted average number of shares	17.3	16.7
Dilutive impact of share- based awards and vested warrant	-	0.4
Diluted weighted average number of shares	17.3	17.1
Net (loss) earnings per share - basic	(3.26)	5.35
Net (loss) earnings per share - diluted	(3.26)	5.24

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. In 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 no adjustment in its pension obligation for the three month period ended March 31, 2022 for past service cost in its Condensed Consolidated Interim Statements of (Loss) Earnings and Comprehensive (Loss) Income.

20. RELATED PARTY TRANSACTIONS

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 $0.3 during the period out of which $0.2 was adjusted towards principal payments against the liability and $0.1 was recorded as related interest cost. The Company also paid utilities, taxes, maintenance, insurance and other related costs for the leased premises. As at March 31, 2022, the Company had a liability of $8.9 due under the finance lease.

(unaudited - Canadian dollars in millions except where noted)

Investment in associate

The Company has acquired an Investment in Avia Acquisition LLC (see Note 9 Investment in associate for details). 21 Air, which is wholly owned by Avia Acquisition LLC, is one of the vendors of the Company and provides charter services to the Company.

The Company has also leased two Boeing 767-200 aircraft to 21 Air in October 2019 and January 2021 respectively. Both leases expire in 2024.The transactions are in the normal course of the business and are measured at the exchange amount which is the amount of consideration established and agreed by the related parties.

The following is the summary of transactions between the Company and 21 Air.

	March 31, 2022
	$
Aircraft lease revenue	1.0
Sub-charter expenses	0.7

21. 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.

As at March 31, 2022 the fair value measurement of the 260,000 underlying shares under the swap agreements in effect were an asset of $28.8 (December 31, 2021 – asset of $22.7).

The fair value adjustment for the three month period ended March 31, 2022 was a gain of $6.1. (March 31, 2021 – loss of $13.6). 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 the 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 $4.9 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 March 31, 2022, was approximately $82.5 (December 31, 2021 - $81.1). 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 $1.1 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at March 31, 2022, was approximately $109.2 (December 31, 2021 - $107.3). 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 $2.1 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at March 31, 2022 was approximately $104.6 (December 31, 2021 - $102.8). 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 $2.7 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 March 31, 2022, the performance share units due March 15, 2022, March 15, 2023 and March 15, 2024 were valued at $3.1, $2.7 and $0.5 respectively (December 31, 2021 - $5.0, $3.9 and $1.1 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 $363.7 as at March 31, 2022 (December 31, 2021 $172.4). The revaluation resulted in a non-operating loss of $86.8 for the three month period ended March 31, 2022 (March 31, 2021 – gain of $81.9). 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 for Amazon warrant obligation include volatility of the Company's common shares of 38.8% for tranche I and 35.8% for tranche II, risk free rate of 2.9% and a dividend yield of 0.7% and forecasted revenue from Amazon associated with this arrangement utilized to predict future vesting events. Significant unobservable inputs for DHL warrant obligation include volatility of the Company's common shares of 34.2% for tranche I and 34.2% for tranche II, risk free rate of 2.9% and a dividend yield of 0.7% and forecasted revenue from DHL 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 Amazon warrants will increase by $7.5 and decrease by $7.2 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 $77.9 or decrease by $72.7. For every increase or decrease of volatility by 10% with all other factors remaining the same, the estimated fair value of DHL warrants will increase by $7.8 and decrease by $8.0 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 $49.0 or decrease by $45.0.

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 Condensed Consolidated Interim 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, 2021 – 91.4%) of total trade receivables on account of the Company's ten largest customers. However, the Company believes that the credit risk associated with these receivables is limited for the following reasons:

(a) Only a small portion (1%) 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.

(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 $700 million. The Company was in compliance with all covenants as at March 31, 2022 and 2021.

(unaudited - Canadian dollars in millions except where noted)

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at March 31, 2022 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	-	-	307.8	-	307.8
Lease liabilities	21.3	36.6	11.7	15.5	85.1
Interest on leases	4.3	3.9	6.2	2.5	16.9
Trade and other payables	83.3	1.4	4.8	-	89.5
Employee pension and share-based compensation	-	3.5	24.5	30.2	58.2
Dividends payable	4.5	-	-	-	4.5
Total	113.4	45.4	355.0	48.2	562.0

Total financial liabilities at December 31, 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	-	-	307.2	-	307.2
Lease liabilities	22.0	24.8	26.7	17.9	91.4
Interest on leases	5.6	4.0	6.4	2.6	18.6
Trade and other payables	71.7	1.8	4.8	-	78.3
Provisions	-	-	-	-	-
Employee pension and share-based compensation	-	3.5	17.2	30.2	50.9
Dividends payable	4.5	-	-	-	4.5
Total	103.8	34.1	362.3	50.7	550.9

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. As at March 31, 2022, all of the total debt outstanding was fixed rate debt.

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, for the three month period ended March 31, 2022 on foreign exchange transactions was $0.9 (March 31, 2021 – $1.1).

At March 31, 2022, 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 $3.8 (March 31, 2021 - $9.7). 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 (March 31, 2021 - $9.7).

At March 31, 2022, 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 (March 31, 2021 - $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 (March 31, 2021 - $0.3).

22. 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.