

Consolidated Financial Statements of



For the years ended December 31, 2022 and 2021

(expressed in millions of Canadian dollars)

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Independent auditor's report

To the Shareholders of Cargojet Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Cargojet Inc. and its subsidiaries (together, the Company) as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2022 and 2021;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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



Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of stock warrant obligations</p> <p><i>Refer to Note 2 – Summary of significant accounting policies, Note 6 – Stock warrants and Note 28 – Financial instruments to the consolidated financial statements.</i></p> <p>On August 23, 2019 and on March 28, 2022, the Company entered into stock warrant agreements with Amazon and DHL respectively. Under the agreement with Amazon, 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. Under the agreement with DHL, 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 and on achievement of growth targets. Upon the execution of each agreement, 0.4 million warrant shares vested immediately. The Company determined that the warrants are derivative instruments and should be classified as liabilities under stock warrant obligations. 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 million issued to DHL on March 28, 2022 was recorded as stock warrant obligations. The fair value of the stock warrant obligations was revalued as at December 31, 2022 to \$97.7 million and \$57.1 million for Amazon and DHL respectively. This resulted in a</p>	<p>Our approach to addressing the matter included the following procedures, among others:</p> <ul style="list-style-type: none">• Professionals with specialized skill and knowledge in the field of valuation assisted (i) in developing an independent point estimate of the value of stock warrant obligations based on data provided by management and inputs obtained or estimated independently, such as volatility of the Company's common shares, and (ii) in performing sensitivity analysis over unobservable inputs, including volatility of the Company's common shares and forecasted revenues from Amazon and DHL.• Evaluated the reasonableness of forecasted revenues from Amazon and DHL by considering the Company's historical growth in revenue from Amazon and DHL and their affiliates associated with these agreements, approved budgets and industry projections.• Compared the independent point estimate to management's estimate to evaluate the reasonableness of the valuation of stock warrant obligations.• Tested the disclosures made in the consolidated financial statements, particularly on the sensitivity of significant assumptions related to volatility of the Company's common shares and forecasted revenues from Amazon and DHL.



Key audit matter

How our audit addressed the key audit matter

gain of \$74.7 million and a gain of \$47.4 million related to Amazon and DHL, respectively, for the year then ended.

The Company classified the stock warrant obligations as level 3 derivative liabilities that were valued using an American option pricing model utilizing Monte Carlo simulation on initial measurement date and as of December 31, 2022. There is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Significant unobservable inputs used in the valuation models included volatility of the Company's common shares and forecasted revenues from Amazon and DHL and their affiliates associated with these agreements (forecasted revenues from Amazon and DHL) utilized to predict future vesting events.

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

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially



inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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



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

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

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

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



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

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 6, 2023

CARGOJET INC.

Consolidated Balance Sheets

As at December 31, 2022 and December 31, 2021

(Canadian dollars in millions)

	Note	2022 \$	2021 \$
ASSETS			
CURRENT ASSETS			
Cash		6.1	94.7
Trade and other receivables	4	95.6	75.0
Inventories	3	3.3	2.2
Prepaid expenses and deposits		11.0	5.2
Income taxes recoverable		0.1	0.1
Derivative financial instruments	28	-	22.7
Total current assets		116.1	199.9
NON-CURRENT ASSETS			
Property, plant and equipment	8,13	1,643.6	1,159.9
Investment in associate	9	7.4	9.4
Long-term loans receivable	9	2.6	-
Goodwill	5	48.3	48.3
Intangible assets	7	2.0	2.0
Deposits		7.1	5.9
Contract assets	6	156.1	61.1
Deferred income taxes	16	3.1	3.1
Total assets		1,986.3	1,489.6
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	100.4	71.5
Lease liabilities	14	31.4	22.0
Dividends payable	21	4.9	4.5
Derivative financial instruments	28	13.8	-
Total current liabilities		150.5	98.0
NON-CURRENT LIABILITIES			
Borrowings	13	308.4	-
Lease liabilities	14	57.6	69.4
Stock warrant obligations	6	154.8	172.4
Trade and other payables	11	4.8	6.6
Debentures	15	309.6	307.2
Deferred income taxes	16	138.1	108.7
Employee pension and share-based compensation	12,23	31.0	50.9
Total liabilities		1,154.8	813.2
Total shareholders' equity		831.5	676.4
Total liabilities and shareholders' equity		1,986.3	1,489.6

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

CARGOJET INC.

Consolidated Statements of Earnings and Comprehensive Income year ended December 31, 2022 and 2021

(Canadian dollars in millions except per share data)

	Note	2022	2021
		\$	\$
REVENUES	4	979.9	757.8
DIRECT EXPENSES	17	732.4	525.4
GROSS MARGIN		247.5	232.4
General and administrative expenses	18	74.6	59.5
Loss on swap derivative	28	36.5	15.6
Finance costs	19	33.6	30.9
Fair value (decrease) on stock warrant	6	(122.1)	(79.0)
Loss on extinguishment of lease liabilities		-	4.8
Other loss (gain), net	20	2.9	(0.2)
Share of (gain) loss in associate	9	2.0	-
EARNINGS BEFORE INCOME TAXES		220.0	200.8
PROVISION FOR INCOME TAXES	16		
Deferred		29.4	33.4
NET EARNINGS AND COMPREHENSIVE INCOME		190.6	167.4
NET EARNINGS PER SHARE	22		
- Basic		\$11.04	\$9.73
- Diluted		\$10.15	\$9.51

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

CARGOJET INC.

Consolidated Statements of Changes in Equity year ended December 31, 2022 and 2021

(Canadian dollars in millions)

	Note	Shareholders' capital	Contributed surplus	Surplus on debenture settlement	Retained earnings	Total shareholders' equity
		\$	\$	\$	\$	\$
Balance, January 1, 2022		655.2	0.3	13.1	7.8	676.4
Net earnings and comprehensive income		-	-	-	190.6	190.6
Share-based compensation	12	-	0.8	-	-	0.8
Restricted shares, vested and exercised	12,21	0.2	(0.2)	-	-	-
Withholding tax paid on vested RSUs	12	-	(0.2)	-	(0.1)	(0.3)
Share buyback	21	(4.5)	-	-	(12.2)	(16.7)
Dividends	21	-	-	-	(19.3)	(19.3)
Balance, December 31, 2022		650.9	0.7	13.1	166.8	831.5
Balance, January 1, 2021		300.0	2.3	13.1	(140.2)	175.2
Net earnings and comprehensive income		-	-	-	167.4	167.4
Issue of ordinary shares net of issuance costs and taxes	21	353.9	-	-	-	353.9
Restricted shares, vested and exercised	12	1.3	(1.3)	-	-	-
Share-based compensation	12	-	0.7	-	-	0.7
Withholding tax paid on vested RSUs	12	-	(1.4)	-	(1.4)	(2.8)
Dividends	21	-	-	-	(18.0)	(18.0)
Balance, December 31, 2021		655.2	0.3	13.1	7.8	676.4

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

CARGOJET INC.

Consolidated Statements of Cash Flows year ended December 31, 2022 and 2021

(Canadian dollars in millions)

	Note	2022 \$	2021 \$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		190.6	167.4
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	6,8	153.7	123.7
Share-based compensation	12	(5.8)	(15.2)
Finance costs	19	33.6	30.9
Crew incentive	12	1.7	3.6
Gain on disposal of property, plant and equipment	20	(0.7)	(0.3)
Employee pension liability	23	3.9	(5.0)
Pension paid	23	(9.5)	-
Income tax provision	16	29.4	33.4
Fair value decrease on stock warrant	6	(122.1)	(79.0)
Loss on swap derivative contract	28	36.5	15.6
Unrealized foreign exchange loss (gain)	10	4.4	(1.2)
Loss on extinguishment of lease liabilities	14	-	4.8
Share of loss in associate	9	2.0	-
Interest paid		(24.1)	(20.0)
Cash generated from operating activities		293.6	258.7
Changes in non-cash working capital items and deposits			
Trade and other receivables		(20.6)	(32.9)
Inventories		(1.1)	(0.7)
Prepaid expenses and deposits		(7.0)	1.0
Trade and other payables		17.6	5.1
NET CASH GENERATED FROM OPERATING ACTIVITIES		282.5	231.2
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(611.2)	(277.6)
Proceeds from disposal of property, plant and equipment	8	0.7	0.3
Contract acquisition asset		(2.0)	-
Proceeds from total return swap & settlement of derivative financial instrument	28	-	6.3
Acquisition of interest in associate	9	-	(9.4)
Loans to associate	9	(2.6)	-
NET CASH USED IN INVESTING ACTIVITIES		(615.1)	(280.4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings	13	-	(72.9)
Proceeds from borrowings	13	308.4	-
Repayment of obligations under lease liabilities	10,14	(28.5)	(116.8)
Share buyback	21	(16.7)	-
Withholding tax paid on vested RSUs	12	(0.3)	(2.8)
Dividends paid to shareholders	21	(18.9)	(17.1)
Proceeds from equity issuance, net of transaction costs	21	-	349.8
NET CASH PROVIDED FROM FINANCING ACTIVITIES		244.0	140.2
NET CHANGE IN CASH		(88.6)	91.0
CASH, BEGINNING OF YEAR		94.7	3.7
CASH, END OF YEAR		6.1	94.7

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

CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Canadian dollars in millions except where noted)

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, South America, Europe and Asia. 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 consolidated financial statements (the “financial statements”) were approved by the Board of Directors on March 3, 2023 and authorized for issuance on March 6, 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

Basis of preparation

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

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

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

Cash

Cash balance consists of cash held in demand deposit accounts.

Prepaid expenses and deposits

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

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

CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Canadian dollars in millions except where noted)

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

Inventories

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

Property, plant and equipment

Property, plant and equipment are carried at cost, less accumulated depreciation and any recognized impairment losses. Cost includes expenditures that are directly attributable to the acquisition or construction of the asset. Purchased software that is integral to the functionality of related equipment is capitalized as part of that equipment. In-house developed software not separable is capitalized at cost and includes expenditures attributable directly to the development of the software and is treated as computer software as part of property plant and equipment.

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

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

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

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

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

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

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

CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Canadian dollars in millions except where noted)

The average useful lives are as follows:

Asset	Average useful life
Aircraft hull	20–50 years from the date of manufacture and conversion
Engines	4-15 years
Rotable spares	10 years
Spare parts	Actual usage
Ground equipment	10 years
Hangar and cross-dock facilities	25-30 years
Vehicles	8 years
Computer hardware and software	5 years
Furniture and fixtures	10 years
Leasehold improvements	Lesser of useful life and term of lease
Right of use assets	Term of lease
Deferred heavy maintenance	The date of the next scheduled heavy maintenance or end of lease term whichever is earlier

Leases and right to use assets

As Lessee

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 one or more contracts are negotiated as one package to meet a single commercial objective, they are combined for the purposes of determining if there are one or more lease components in the arrangement. A lease component is identified only when the Company has the right to obtain substantially all of the economic benefits from the use of an identified asset and when it has the right to direct the use of the identified asset.

As Lessor

At commencement of the lease term a finance lease will be recorded in the balance sheet as a receivable. The Company will recognize finance income based on a periodic rate of return on net investment outstanding for the finance lease.

CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Canadian dollars in millions except where noted)

The Company recognizes lease payments received under operating leases as income on a straight-line basis over the lease term as part of other revenue.

Intangible assets

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in Consolidated Statements of Earnings and Comprehensive Income.

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

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

Goodwill

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

CARGOJET INC.

Notes to the Consolidated Financial Statements

December 31, 2022 and 2021

(Canadian dollars in millions except where noted)

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

Investment in associate

The Company's purchase of 25% interest in membership and note participation, respectively ("Investment") in Avia Acquisition LLC, a Texas limited liability company, which is the legal, beneficial and record holder of one hundred percent of the issued and outstanding membership interest of 21 Air, LLC, a North Carolina limited liability company ("21 Air"), has been treated as an investment in associate. The membership interest is accounted for using the equity method (See Note 9) and the note participation is accounted under IFRS 9. The Company's net Investment in associate comprises of the carrying amount of the investment and the note participation amount and 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. The note participation is a long-term loan to Avia Acquisition LLC, where settlement is neither planned nor likely to occur in the near future and is treated as an extension of the Investment in associate. 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 associate 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 the losses are not indicative of an impairment of the assets transferred. 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.

Foreign currencies

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

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

Realized exchange differences are recognized in net earnings in the Consolidated Statements of Earnings and Comprehensive Income under general and administrative expenses in the period in which they arise.

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Unrealized exchange differences are recognized in net earnings in the Consolidated Statements of Earnings and Comprehensive Income under other loss (gain), net, in the period in which they arise.

Borrowing costs

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

All other borrowing costs are recognized as an expense in the Consolidated Statements of Earnings and Comprehensive Income under finance costs in the period in which they are incurred.

Income taxes

Deferred taxes

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

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

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

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

Current and deferred taxes for the period

Current and deferred taxes are recognized in the provision for income taxes in the Consolidated Statements of Earnings and Comprehensive Income, except when they relate to items that are recognized outside income, in which case the current and deferred tax is also recognized outside net earnings, or where they arise from the initial accounting for a business combination.

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Share based payments

Equity-settled share-based compensation plans

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

Equity-settled share-based compensation plans are granted to eligible employees as disclosed in Note 12, which are measured at the fair value of the Company's voting shares on the date of the grant based on the units granted to the employees. The Company's voting shares to be distributed to the employees are acquired from the open market and held in trust as treasury shares, and recorded as a reduction of share capital. The cost of the equity-settled share-based compensation plans is recognized as a compensation expense with a corresponding increase in equity over the related service period provided to the Company as vested. Upon the distribution of the Company's voting shares, the Company's voting shares previously held as treasury shares are recorded as an increase in share capital.

Restricted share units (“RSU”)

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

Cash-settled share-based compensation plans

Cash-settled share-based compensation plans are granted to certain key executives and eligible employees as disclosed in Note 12, which are measured at each reporting date and the settlement date. Changes in the fair value of the cash settled share based payments are recognized as compensation expense with a corresponding adjustment in the liability amount over the vesting period. Estimates related to vesting conditions are reviewed regularly and the value of the charges under cash settled plans are adjusted in the Consolidated Statements of Earnings and Comprehensive Income to reflect expected and actual levels of benefits vesting. Upon vesting of the cash settled plans, the liability is reduced by the cash payout and the balance is adjusted to salaries and benefits expense in the Consolidated Statements of Earnings and Comprehensive Income.

Stock options (“Options”)

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

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In 2018, the Company changed its method of settlement of options issued under the Stock Option Plan for non-employee directors and certain key executives by providing an option to settle either in (i) fully paid Common Voting Shares or Variable Voting Shares, as applicable, or (ii) as a cash payment subject to the Board's approval. Due to the subsequent change in the Company's settlement practice and on the establishment of a present obligation to settle in cash, a prospective change was made in the accounting of the options as cash settled liabilities. The compensation expense is adjusted for subsequent changes in the fair value of the options using Black Scholes valuation method and recorded as part of long-term liabilities. A number of assumptions are used to determine the fair value of stock options. These include expected term, dividend yield, volatility of the options and the risk free interest rate. The compensation expense is recognized for vested options immediately and based on the elapsed vesting period for non-vested options.

Deferred share units ("DSU")

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

Performance share units ("PSU")

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

Stock Appreciation Rights ("SARs")

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

The Company had a derivative in the form of total return swap to manage its exposure under these incentive programs that is not designated as a hedge accounting relationship with the liability but regarded as an economic hedge.

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.

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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.

Employee benefits

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

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

Revenue recognition

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

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

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

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

Financial instruments

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

(a) Classification

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

(b) Measurement

Financial assets and liabilities at amortized cost:

Financial assets and liabilities at amortized cost are initially recognized at fair value plus adjustments for transaction costs, and subsequently carried at amortized cost less any impairment.

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses.

(d) Derecognition of

Financial assets:

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on recognition are generally recognized in the Consolidated Statement of Earnings and Comprehensive Income in the respective line item based on the nature of the underlying financial asset.

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Financial liabilities:

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the Consolidated Statements of Earnings and Comprehensive Income in the respective line item based on the nature of the underlying financial liability.

Interest income is recognized on an effective interest rate method.

Hybrid debentures

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

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

Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgments in applying accounting policies

Componentization of property, plant and equipment

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

Impairment of property, plant and equipment, goodwill and intangible assets

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

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Key sources of estimation uncertainty

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

Impairment of property, plant and equipment, goodwill and intangible assets

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

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

Right to use asset: Value of lease asset in use and recognition of related obligation requires estimation related to discount rate used for discounting the lease payments and for determination of lease period where judgement is required to determine whether, it is reasonably certain that option to renew the lease will be exercised (or not exercised).

Cash settled share based payment arrangement

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

Deferred taxes

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

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Financial instruments

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

Employee future benefits

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

Stock warrants

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

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Standards, amendments and interpretations issued and not yet adopted

Deferred tax related to assets and liabilities arising from a single transaction (amendments to IAS 12): On May 7, 2021, the International Accounting Standards Board (IASB) published "Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)" that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The main change in Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) is an exemption from the initial recognition exemption provided in IAS 12.15(b) and IAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. The amendments are effective for annual reporting periods beginning on or after January 1, 2023. Early adoption is permitted. The Company is currently evaluating the impact of the adoption of this standard on its consolidated statement of earnings and comprehensive income.

Classification of Liabilities as Current or Non-current (amendments to IAS 1): In January 2020, the IASB issued an amendment to IAS 1 to clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. In October 2022, the IASB issued an amendment to IAS 1, Non-current Liabilities with Covenants, to clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability. The 2022 amendments also introduce additional disclosure requirements to improve the information an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within twelve months after the reporting period. The 2022 amendments changed the effective date of the 2020 amendments. The mandatory effective date would be annual periods beginning on or after January 1, 2024, with early adoption permitted. The amended standard is expected to result in additional disclosures in the consolidated financial statements for non-current liabilities arising from loan arrangements that are subject to covenants to be complied with within twelve months after the reporting period.

IFRS 17 Insurance contracts: IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows. IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* and is effective for annual periods beginning on or after January 1, 2023. The Company is currently evaluating the impact of the adoption of this standard on its consolidated statement of earnings and comprehensive income and consolidated balance sheet.

Amendments to IAS 1, Presentation of Financial Statements - Disclosure of Accounting Policies

In February 2021, the IASB issued amendments to IAS 1 that require entities to disclose material accounting policy information instead of significant accounting policies. The amendments are effective for annual periods beginning on or after January 1, 2023, but earlier application is permitted. The Company is evaluating the impact of the amendments on the disclosure of its accounting policies.

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3. INVENTORIES

	December 31, 2022	December 31, 2021
	\$	\$
Fuel inventory	2.8	2.0
Glycol inventory	0.5	0.2
Total inventory	3.3	2.2

For the years ended December 31, 2022 and 2021, costs of fuel inventory of \$228.4 and \$122.0, respectively, and costs of glycol inventory of \$0.7 and \$0.7, respectively, were recognized in direct expenses.

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	December 31, 2022	December 31, 2021
	\$	\$
Revenue from air cargo services	936.7	730.6
Revenue from other sources	43.2	27.2
Total revenue	979.9	757.8

Revenue recognized at a point of time

	December 31, 2022	December 31, 2021
	\$	\$
Domestic network*	360.7	324.6
Fuel and other surcharges *	241.0	149.8
ACMI	239.6	175.5
All-in charter*	103.6	83.4
Ground handling and maintenance revenue*	21.7	13.2
Total revenue	966.6	746.5

* Figures have been reclassified to conform to current year presentation

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Revenue recognized from transfer of services over time

	December 31, 2022	December 31, 2021
	\$	\$
All-in-charter	9.1	7.0
Hangar rental and other revenue	4.2	4.3
Total revenue	13.3	11.3

Contract assets and liabilities

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

	December 31, 2022	December 31, 2021
	\$	\$
Contract asset	156.1	61.1
Trade receivables	78.4	68.0
Other receivables	17.2	7.0
Total contract assets	251.7	136.1
Contract liability - expected rebates to customers	1.4	0.9

5. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single CGU. Goodwill is tested for impairment annually at the end of each year, or more frequently when there is an indication of potential impairment.

The purpose of impairment testing is to determine whether the recoverable amount exceeds the carrying amount of the CGU. The recoverable amount of CGU is determined as the present value of the future cash flows expected to be derived based on amongst others:

- The estimated future cash flows that the Group expects the CGU to earn.
- Possible variations in the amount or timing of those future cash flows.
- The time value of money, which is reflected by using a discount rate based on the current market risk-free rate of interest.
- The price for the uncertainty inherent in the CGU.

The revenue growth rate and margins used to estimate future cash flows are based on management estimates that take into account past performance and experience and external market growth assumptions and predictions of the worldwide air cargo industry.

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The recoverable amount is determined based on a value in use calculation which uses cash flow projections for a five-year period using a steady 6.0% per annum growth rate thereafter (2021 – 6.0%), which has been estimated based on long-term growth rates in the cash flow of the Company, and a pre-tax discount rate of approximately 10.6% per annum (2021 – 10.0%). The discount rate is calculated as Weighted Average Cost of Capital based on external market information about market risk, interest rates and Company specific risks like country risk. Based on the Company's analysis the estimated recoverable amount exceeded the carrying amount of the cash generating unit by substantial amount. The Company believes that any reasonably possible change in key assumptions on which recoverable amounts are based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

6. 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 13.9% of the issued and outstanding voting shares. Tranche I warrant shares represent 9.2% and Tranche II warrant shares represent 4.7 % 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 additional revenue above the Tranche I amounts 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 was classified within Level 3 of the fair value hierarchy. See Note 28 Financial Instruments. The corresponding contract asset was recognized at inception and will amortize against revenue over the duration of the agreement. The fair value of the stock warrant obligations was revalued as at December 31, 2022 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a gain of \$74.7 (December 31, 2021 – gain of \$79.0).

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	December 31, 2022	December 31, 2021
Contract Assets	\$	\$
Stock warrant and other contract assets	61.1	68.4
Less: Amortization	(4.2)	(7.3)
Contract assets	56.9	61.1
Stock warrant obligations		
Stock warrant obligations	172.4	251.4
Less: Fair value adjustment	(74.7)	(79.0)
Stock warrant obligations	97.7	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 9.6% of the issued and outstanding voting shares. Existing Business Warrant Shares represent 5.6% and Growth Business Warrant Shares represent 4.0% 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 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. See Note 28 Financial Instruments. The corresponding contract asset was recognized at inception and will amortize against revenue over the duration of the agreement. The fair value of the stock warrant obligations was revalued as at December 31, 2022 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a gain of \$47.4 (December 31, 2021 – \$nil).

CARGOJET INC.

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	December 31, 2022	December 31, 2021
Contract Assets	\$	\$
Stock warrant and other contract assets	106.5	-
Less: Amortization	(7.3)	-
Contract assets	99.2	-
Stock warrant obligations		
Stock warrant obligations	104.5	-
(Less) add: Fair value adjustment	(47.4)	-
Stock warrant obligations	57.1	-

7. INTANGIBLE ASSETS

Intangible assets at December 31, 2022 and 2021 consist of licenses with indefinite lives carried at \$2.0 (December 31, 2021 - \$2.0). The Company believes that licenses have indefinite useful lives as the licenses provide a renewal option, at Transport Canada's discretion, provided that licensing conditions are met and the Company complies with the licensing conditions specified in the existing laws, agreements, treaties and regulations.

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8. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at				Balance as at
	January 1, 2022	Additions	Transfers	Adjustments	December 31, 2022
	\$	\$	\$	\$	\$
Aircraft hull	553.8	1.2	129.9	(1.4)	683.5
Engines	605.3	0.2	185.1	(33.8)	756.8
Right of use assets	53.7	14.7	-	(0.7)	67.7
Spare parts	9.6	3.3	-	-	12.9
Ground equipment	59.0	4.0	0.6	-	63.6
Rotable spares	64.6	14.2	0.8	-	79.6
Computer hardware and software	14.8	1.0	-	-	15.8
Furniture and fixtures	4.3	0.6	0.6	-	5.5
Leasehold improvements	24.9	-	0.3	-	25.2
Vehicles	3.5	0.2	0.3	-	4.0
Hangar and cross-dock facilities	36.0	3.2	5.1	-	44.3
Property, plant and equipment under development	153.4	564.4	(334.7)	-	383.1
Deferred heavy maintenance	110.6	22.6	12.0	-	145.2
	<u>1,693.5</u>	<u>629.6</u>	<u>-</u>	<u>(35.9)</u>	<u>2,287.2</u>

Accumulated depreciation & impairment	Balance as	Depreciated	Adjustments	Balance as	Net Book Value
	at January 1, 2022			at December 31, 2022	as at December 31, 2022
	\$	\$	\$	\$	\$
Aircraft hull	131.9	34.9	(1.3)	165.5	518.0
Engines	203.3	69.1	(30.3)	242.1	514.7
Right of use assets	27.2	9.5	(0.6)	36.1	31.6
Spare parts	-	-	-	-	12.9
Ground equipment	28.2	4.3	-	32.5	31.1
Rotable spares	27.6	6.3	-	33.9	45.7
Computer hardware and software	11.6	1.3	-	12.9	2.9
Furniture and fixtures	2.7	0.4	-	3.1	2.4
Leasehold improvements	14.3	1.2	-	15.5	9.7
Vehicles	2.1	0.3	-	2.4	1.6
Hangar and cross-dock facilities	12.1	1.6	-	13.7	30.6
Property, plant and equipment under development	-	-	-	-	383.1
Deferred heavy maintenance	72.6	13.3	-	85.9	59.3
	<u>533.6</u>	<u>142.2</u>	<u>(32.2)</u>	<u>643.6</u>	<u>1,643.6</u>

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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
	<u>1,417.2</u>	<u>278.6</u>	<u>-</u>	<u>(2.3)</u>	<u>1,693.5</u>

Accumulated depreciation & impairment	Balance as at January 1, 2021	Depreciation	Adjustments	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
	<u>418.5</u>	<u>116.4</u>	<u>(1.3)</u>	<u>533.6</u>	<u>1,159.9</u>

Property, plant and equipment under development of \$383.1 (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 year ended December 31, 2022, the Company completed the acquisition of two Boeing 767-300 aircraft, four Boeing 757-200 aircraft, one Beechcraft 1900 aircraft and one Cessna 750 aircraft. The Company also sold surplus spares for \$0.7 resulting in a total gain of \$0.7.

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During the year ended December 31, 2022, \$5.2 (2021 - \$nil) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of \$4.5 and accretion of \$0.7 relating to funds borrowed specifically to acquire and/or modify certain assets. The capitalization rate used to determine the amount of interest costs eligible for capitalization was equal to the effective interest rate applicable to specific borrowings, ranging between 6.1% to 6.7%.

Depreciation expense on property, plant and equipment for the year ended December 31, 2022 totalled \$142.2 (2021 - \$116.4) out of which \$140.0 (2021 - \$114.3) was recorded in direct expenses and \$2.2 (2021 - \$2.1) was recorded in general and administrative expenses.

9. INVESTMENT IN ASSOCIATE

On August 10, 2021, the Company acquired an investment in Avia Acquisition LLC for cash consideration of \$6.5 and a participation interest in Avia notes that entitles the Company to receive any payment of principal and accrued interest therein for cash consideration of \$2.9. 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 year ended December 31, 2022, Avia Acquisition LLC generated a loss of \$8.1. The Company's share of the net loss was \$2.0. 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 year.

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

	December 31, 2022
	\$
Current assets	16.2
Non-current assets	31.7
Total assets	47.9
Current liabilities	25.9
Non-current liabilities	27.9
Total liabilities	53.8
Net	(5.9)

	December 31, 2022
	\$
Revenue	55.3
Expenses	63.4
Net loss	(8.1)
Company's share of net loss	(2.0)

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Investment in associate as at December 31, 2022

	\$
Investment in associate as at December 31, 2021	9.4
Company's share of net loss	(2.0)
Investment in associate as at December 31, 2022	7.4

As at December 31, 2022, the Company advanced \$2.6 in the nature of a long-term loans receivable to 21 Air (December 31, 2021 - \$nil). This long-term loan receivable carries interest at U.S prime rate plus 1%, and is payable on demand.

10. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the year ended December 31, 2022 is presented below:

	December 31, 2022	December 31, 2021
	\$	\$
Cash	6.1	94.7
Borrowings - repayable within one year	(31.4)	(22.0)
Borrowings - repayable after one year	(675.6)	(376.6)
Net Debt	(700.9)	(303.9)
Cash	6.1	94.7
Gross debt - fixed interest rates	(398.6)	(398.6)
Gross debt - variable interest rates	(308.4)	-
Net Debt	(700.9)	(303.9)

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	Cash / bank overdraft	Lease liabilities due	Borrowings due after one year
	\$	\$	\$
Net Debt as at January 1, 2021	3.7	(195.0)	(377.8)
Cash flows	91.0	116.8	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	(91.4)	(307.2)
Cash flows	(88.6)	28.5	(308.4)
Acquisitions - leases	-	(14.7)	-
Interest accretion	-	(7.0)	(2.4)
Foreign exchange adjustment	-	(4.4)	-
Net Debt as at December 31, 2022	6.1	(89.0)	(618.0)

11. TRADE AND OTHER PAYABLES

	December 31, 2022	December 31, 2021
	\$	\$
Trade payables and accrued charges	90.5	71.0
Current portion of pension liability	9.5	-
Payroll and benefits	5.2	7.1
Total trade and other payables	105.2	78.1
Current trade and other payables	100.4	71.5
Non-current trade and other payables	4.8	6.6

12. 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.

The Company further extended its long-term incentive plan for its pilots hired on April 1, 2020, or after. 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, 2026, and the remaining 50% on June 30, 2029. For the purpose of this offer, the grant and valuation of DSUs took place on July 1, 2022, based on the market price of the Company’s shares on that date.

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The Company again extended its long-term incentive plan for its pilots hired on July 1, 2022, or after. 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 October 31, 2026, and the remaining 50% on October 31, 2029. For the purpose of this offer, the grant and valuation of DSUs took place on November 1, 2022, 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 Consolidated Statements of Earnings and Comprehensive Income proportional to the period of service rendered by the employees.

As at December 31, 2022, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of \$12.3 (December 31, 2021 - \$11.8). For the year ended December 31, 2022, the Company recognized a cost of \$0.5 in crew cost for the services rendered in the Consolidated Statements of Earnings and Comprehensive Income. During the year, 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 \$1.2 as crew cost expenses for the services rendered for the period ended December 31, 2022, in the Consolidated Statements of Earnings and Comprehensive Income. As at December 31, 2022, the Company had a total liability of \$3.1 (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 Consolidated 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 Earnings and Comprehensive Income.

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During the year ended December 31, 2022, the Company granted 6,287 DSUs including dividend equivalents to the independent directors and credited them to their notional account. As of December 31, 2022, a total of 11,595 DSUs were outstanding in the directors' notional accounts with a carrying amount of liability of \$1.3 (December 31, 2021 – 5,308 DSUs of \$0.9).

Restricted share units

The Company's Omnibus Plan provides 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.

During the year ended December 31, 2022, in accordance with the Omnibus Plan, the Company granted 23,371 RSUs to a certain key executive. Each RSU had an average value per share of \$128.36 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. One third of the RSUs will vest in each of the first quarters of 2023, 2024 and 2025 respectively. In accordance with the Omnibus plan, the Company accrued notional dividends equivalent to 42 RSUs that will be issued and vested upon the satisfaction of the RSUs vesting conditions.

During the year ended December 31, 2022, out of 4,115 of the remaining RSUs granted in prior years 318 RSU's were forfeited and all others vested. Prior to vesting, and in accordance with the RSU Plan, the Company accrued notional dividends on the RSUs, equivalent to 15 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, 1,760 shares were issued to the executives and senior management for vested RSUs and the Company will remit an amount of \$0.3 equal to the monetary value of the tax obligation determined based on the Market Price of \$147.98 per share of 2,052 shares withheld that otherwise would have been issued upon vesting. An amount of \$0.2 was transferred to share capital from contributed surplus.

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The RSU activity for the year ended December 31, 2022 is summarized below:

RSUs	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	57	-
Granted in the year	23,371	3.0
Share based compensation - vested and settled	(3,812)	-
Share based compensation - unvested and amortized	-	(1.2)
Forfeited during the year	(318)	-
Balance at December 31, 2022	23,413	1.8

During the year ended December 31, 2022, the total share-based compensation expense of \$1.2 related to vested and settled and unvested and amortized RSUs was included in the Consolidated Statements of Earnings and Comprehensive Income (December 31, 2021 – \$0.8). Unrecognized share-based compensation expense as at December 31, 2022 related to these RSUs was \$1.8 (December 31, 2021 – \$nil).

Options

The Options activity during the year ended December 31, 2022 is summarized below:

OPTIONS	Number of Options	Weighted average exercise price
Balance as at January 1, 2022	40,685	125.17
Granted during the year	21,029	146.26
Exercised during the year	(1,169)	101.79
Balance as at December 31, 2022	60,545	132.95
Vested & exercisable at December 31, 2022	22,253	115.58

As at December 31, 2022, there were 22,253 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 2.25 years.

During the year ended December 31, 2022, participants of the stock option plan exercised 611 Options granted on November 29, 2019, and 558 Options granted on March 5, 2020, when the average volume weighted average trading price per share was \$145.3. 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.

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During the year ended December 31, 2022, the fair value of options was determined, and the Company recognized a gain of \$0.5 in bonuses and incentives expense in the Consolidated Statements of Earnings and Comprehensive Income with corresponding adjustment in the liability (December 31, 2022 – gain of \$3.0). As at December 31, 2022, the Company had a total liability of \$1.4 (December 31, 2021 - \$1.9) for Options.

Weighted average assumptions on grant date

	17-Dec-22	13-May-22	16-Mar-21	05-Mar-20	29-Nov-19
	Series 8B	Series 8A	Series 7	Series 6	Series 5
Exercise price redemption	\$123.68	\$147.98	\$176.56	\$104.95	\$98.90
Expected volatility	40.10%	36.45%	34.62%	28.51%	28.47%
Option life in years	5	5	5	5	5
Dividend yield	0.94%	0.74%	0.59%	0.87%	0.94%
Risk-free rate	2.75%	1.25%	0.25%	1.25%	1.00%
Vesting period	2023-2025	2023-2025	2022-2024	2021-2023	2020-2022
Options granted	1,486	19,543	12,357	26,168	29,915
Options outstanding	1,486	19,543	12,357	17,491	9,667
Fair value per option on grant date	\$44.37	\$46.37	\$50.64	\$25.85	\$23.66
Fair value per option December 31, 2022	\$39.57	\$30.52	\$18.72	\$33.16	\$34.43

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.

During the year ended December 31, 2022, PSUs granted in 2019 fully vested in the participants at the end of the three-year period. Based on the achievement of performance objectives relating to TSR and ROIC, the previously granted performance units were adjusted by 11,860 units. The Company also accrued notional dividends on the PSUs, equivalent to 179 units that were also issued and vested upon the satisfaction of the PSUs vesting conditions. The Company settled the vested PSUs in cash at Market Price of the share pursuant to the PSU Plan. An amount of \$1.7 was disbursed to the executives net of the tax obligation of each participant and \$1.9 was remitted to the tax authority.

During the year ended December 31, 2022, the Company also forfeited 699 PSUs from its 2020 grant upon departure of an executive.

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During the year ended December 31, 2022, the Company also granted 12,953 PSU's to its executives (December 31, 2021 – 7,093). 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 \$5.1 was recognized as gain on revaluation of PSUs in bonus and incentive expense during the period ended December 31, 2022 (December 31, 2021 – expense of \$1.7) with a corresponding amount in liability. As at December 31, 2022, the Company had an outstanding liability of \$3.4 on 32,238 outstanding PSUs (December 31, 2021 - \$8.5 on 32,856 PSUs).

Stock appreciation rights

On November 29, 2019, the Company granted 23,132 stock appreciation rights (“SARs”) to its four independent directors that vested immediately. The SARs had an expiry date of November 28, 2022. In 2021, one of the directors exercised 5,783 SARs.

During the year ended December 31, 2022, the remaining 17,349 vested rights remained un-exercised and expired. The Company derecognized its liability and accordingly a gain of \$1.2 was recognized in bonuses and incentives in the Consolidated Statements of Earnings and Comprehensive Income. As at December 31, 2022, the Company had nil liability (December 31, 2021 - \$1.2) for SARs.

13. BORROWINGS

Borrowings consist of the following:

	December 31, 2022	December 31, 2021
	\$	\$
Delayed-draw term loan facility	308.4	-
	308.4	-
Long-term portion	308.4	-

Revolving syndicate credit facility and term loan

The Company has an operating credit facility (the “facility”) availed through its subsidiary Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”).

On February 7, 2022, the Company amended its facility which allowed for an increase of \$100 upon request by the Company subject to approval by the Lenders. These amendments also included extension of maturity date of the facility to expire on February 7, 2027 and waiver 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.

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On July 22, 2022, the Company further amended its facility and established a non-revolving USD \$400 delayed-draw term loan facility (“DDTL Facility”). Under the amendment, it was reconfirmed that the Company was not required to create any additional security on newly acquired aircraft and aircraft lease buybacks unless and until the Total Adjusted Leverage Ratio exceeded 2.0 as at the end of any fiscal quarter. The condition of the aggregate drawn amount under the facility exceeding \$400 for more than ninety consecutive days was waived. The maturity date of the facility was further extended to July 22, 2027 to coincide with the maturity date of the DDTL Facility of July 22, 2027. The Company can draw the amount under the DDTL Facility until January 22, 2024 by way of advances subject to minimum draws. Any undrawn amount under the DDTL Facility at the end of this period will expire and will reduce the amount available under the facility. The DDTL Facility can be used for general purposes, including purchase of aircraft and other capital expenditures. The outstanding borrowings under the facility were rolled over and considered as withdrawals from the DDTL Facility. All terms and conditions of the DDTL Facility became applicable on said borrowings.

The facility bears interest payable monthly, at the lead Lender’s prime lending rate / US base rate plus 20 basis points to 250 basis points, depending on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity. Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

The facility is secured by the following:

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

The facility is available at the Company’s option by way of advances in the form of prime rate loan, and Banker’s Acceptance in Canadian dollars, SOFR loan and US Base rate loan in US dollars and letter of credits in Canadian or US dollars. 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.

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The transactions which financial institutions enter into with the Company may refer to a Canadian Dollar Offered Rate ("CDOR"). A number of benchmark rates are being reformed to make them more robust and reliable or, in some cases, are being discontinued. It is currently expected that the administrator of the Canadian Dollar Offered Rate ("CDOR") will cease publication of CDOR by June 28, 2024 and the Canadian financial benchmark will be replaced by the Canadian Overnight Repo Rate Average ("CORRA"). The fallback provisions of the facility will be appropriately updated to transition from CDOR to CORRA when CDOR will be discontinued.

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

Included in the Consolidated Statement of Earnings and Comprehensive Income for the year ended December 31, 2022 was interest expense on the facility and DDTL Facility of \$8.1 (December 31, 2021 - \$2.4).

14. 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 December 31, 2022, the total outstanding balance of these lease arrangements is \$52.4 out of which \$22.4 is presented as a current liability on the Consolidated Balance Sheets.

In 2021, the Company prepaid its purchase option price for five Boeing 767-300 aircraft which were expiring in 2021 and one Boeing 767-300 aircraft which was expiring in 2022. The Company prepaid the entire outstanding amount of \$78.0, net of all unused reserves and heavy maintenance deposits. The purchase option resulted in a loss of \$4.8 that included interest, prepayment fees and legal expenses.

As at December 31, 2022, the Company also has \$31.6 of right of use assets and \$36.6 of lease liabilities, which consists of hangars, warehouses, offices and one Boeing 767-200 aircraft, out of which \$9.0 is presented as a current liability on the Consolidated Balance Sheets.

The following is a schedule of future minimum annual lease payments for aircraft, hangars, offices and warehouses under leases together with the balance of the obligations as at December 31, 2022.

	Minimum lease payments	Present value of minimum lease payments
	\$	\$
Not later than one year	37.6	31.4
Later than one year and not later than five years	57.4	48.7
Later than five years	10.6	8.9
	105.6	89.0
Less: interest	16.6	-
Total obligations under leases	89.0	89.0
Less: current portion	31.4	31.4
Non-current portion	57.6	57.6

Interest amounts on the lease liabilities for the year ended December 31, 2022 totaled \$7.0 (December 31, 2021 - \$8.6).

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15. DEBENTURES

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

	December 31, 2022	December 31, 2021
	\$	\$
Hybrid debentures - 5.75% due April 30, 2024	85.2	84.4
Hybrid debentures - 5.75% due April 30, 2025	112.6	111.8
Hybrid debentures - 5.25% due June 30, 2026	111.8	111.0
Balance - end of year	309.6	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 December 31, 2022 and December 31, 2021 consists of the following:

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	December 31, 2022	December 31, 2021
Principal balance - beginning of year	\$ 84.4	\$ 83.7
Accretion during the year	0.8	0.7
Balance - end of year	85.2	84.4

Interest expense on the hybrid debentures for the year ended December 31, 2022 totaled \$5.7 (December 31, 2021 - \$5.7).

Hybrid debentures – 5.75% due April 30, 2025

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

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

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

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

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

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

	December 31, 2022	December 31, 2021
	\$	\$
Principal balance - beginning of year	111.8	111.0
Accretion during the year	0.8	0.8
Balance - end of year	112.6	111.8

Interest expense on the hybrid debentures for the year ended December 31, 2022 totaled \$7.4 (December 31, 2021 - \$7.4).

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 Earnings and Comprehensive income. As at December 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 December 31, 2022 consists of the following:

	December 31, 2022	December 31, 2021
	\$	\$
Principal balance - beginning of year	111.0	110.2
Accretion during the year	0.8	0.8
Balance - end of year	111.8	111.0

Interest expense on the hybrid debentures for the year ended December 31, 2022 totaled \$6.9 (December 31, 2021 - \$6.8).

16. INCOME TAXES

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

	December 31, 2022	December 31, 2021
	\$	\$
Earnings before income taxes	220.0	200.8
Basic rate of 26.5% (2021 - 26.5%)	58.3	53.2
Share based compensation	(0.2)	(0.6)
Meals and entertainment	0.2	0.1
Stock warrant	(29.5)	(19.3)
Loss on investment in associates	0.6	-
Provision for income taxes	29.4	33.4

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The tax effect of significant temporary differences are as follows:

	December 31, 2021	Recognized in earnings	December 31, 2022
	\$	\$	\$
Property, plant and equipment	109.6	28.8	138.4
Operating loss carryforward	(13.3)	(2.2)	(15.5)
Licenses	0.3	-	0.3
Intangible assets	(0.3)	-	(0.3)
Equity transaction cost	(3.3)	0.8	(2.5)
Pension costs	(6.6)	1.4	(5.2)
Financing costs	7.1	(9.5)	(2.4)
Long-term incentive plan	(6.4)	0.8	(5.6)
Deferred heavy maintenance	18.5	9.3	27.8
Net deferred income tax liability	105.6	29.4	135.0
Deferred income taxes assets	3.1		3.1
Deferred income taxes liabilities	108.7		138.1

17. DIRECT EXPENSES

	December 31, 2022	December 31, 2021
	\$	\$
Fuel costs	228.4	122.0
Maintenance costs	63.0	51.6
Heavy maintenance amortization	13.3	10.5
Aircraft costs	24.5	15.6
Crew costs	91.4	74.2
Depreciation	126.7	103.8
Ground services	84.7	59.0
Airport services	47.0	43.9
Navigation and insurance	53.4	44.8
Direct expenses	732.4	525.4

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18. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2022	December 31, 2021
	\$	\$
Salaries and benefits	36.1	29.8
Employee pension	3.4	(5.0)
Depreciation	2.2	2.1
Net realized foreign exchange loss	(0.5)	0.4
Bonuses, incentives and management fees	5.4	12.2
Audit, legal and consulting	5.6	2.2
IT network and communications	5.0	5.0
Sales and marketing expenses*	2.7	0.8
Subscription and office supplies	4.4	3.5
Donation	0.1	0.3
Other general and administrative expenses	10.2	8.2
General and administrative expenses	74.6	59.5

*Sales and marketing expenses have been aggregated and presented within general and administrative expenses

19. FINANCE COSTS

	December 31, 2022	December 31, 2021
	\$	\$
Interest on leases	7.0	8.6
Interest on debentures	20.0	19.9
Credit facilities and other interest	11.8	2.4
Borrowed interest capitalized	(5.2)	-
Finance costs	33.6	30.9

20. OTHER LOSS (GAIN), NET

	December 31, 2022	December 31, 2021
	\$	\$
Unrealized foreign exchange loss	3.6	0.1
Gain on disposal of property, plant and equipment	(0.7)	(0.3)
Other loss (gains), net	2.9	(0.2)

21. SHAREHOLDERS' CAPITAL

On May 2, 2022, the TSX accepted the Company's notice of intention to commence a Normal Course Issuer Bid ("NCIB"), which allows the Company to repurchase, at its discretion, up to \$15.5 of the common voting shares and variable voting shares (together the "Shares") in the open market, subject to

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the normal terms and limitations of such bids. Common shares purchased by the Company under NCIB will be cancelled. The program commenced on May 4, 2022, and will terminate on May 3, 2023, or on such earlier date as the Company completes its purchases pursuant to the notice of intention.

On June 20, 2022, the TSX accepted the Company's notice to amend its previously announced NCIB in order to increase the maximum number of common voting shares and variable voting shares that may be purchased from 155,000 to 1,500,000.

During the year ended December 31, 2022, there were 0.1 million shares purchased under NCIB for \$16.7 at a volume weighted average price paid of \$135.93 per common share.

On May 2, 2022, the Company entered into an automatic share purchase plan ("ASPP") pre-cleared by TSX with a designated broker that allowed the purchase of shares for cancellation under NCIB based on the purchasing parameters set by the Company during the predetermined blackout period in accordance with the rules of TSX, applicable security laws and terms of the ASPP. All purchases of shares made under ASPP will be included in computing the number of shares under the NCIB.

a) Authorized

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

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

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

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b) Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2021 to December 31, 2022:

	Number of shares	Amount \$
Consisting of:		
Common and variable voting shares	17,324,258	655.2
Outstanding- December 31, 2021	17,324,258	655.2
Changes during the period:		
Restricted share units vested and exercised	1,760	0.2
Share buyback	(123,832)	(4.5)
	17,202,186	650.9
Consisting of:		
Common and variable voting shares	17,202,186	650.9
Outstanding- December 31, 2022	17,202,186	650.9

Dividends

Dividends to shareholders declared for the year ended December 31, 2022 amounted to \$19.3 (\$1.1180 per share) and for the year ended December 31, 2021 amounted to \$18.0 (\$1.0400 per share) for both common and variable shares.

As at December 31, 2022, a dividend of \$4.9 was payable to the shareholders (December 31, 2021 - \$4.5).

22. NET EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the year ended December 31, 2022 and 2021:

	December 31, 2022	December 31, 2021
Net earnings per share		
Net earnings	\$190.6	\$167.4
Weighted average number of shares	17.3	17.2
Dilutive impact of share - based awards and vested warrant	3.0	0.4
Diluted weighted average number of shares	20.3	17.6
Net earnings per share - basic	\$11.04	\$9.73
Net earnings per share - diluted	\$10.15	\$9.51

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23. 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. Effective June 2022, the Company's Board of Directors approved amendments to the plan to permit the lump sum commuted value of the executive's entitlement measured as at December 31, 2021 to be a valid payment amount. Accordingly, the Company made an adjustment in its pension obligation for the year ended December 31, 2022 of net \$3.9 in its Consolidated Statements of Earnings and Comprehensive Income. During the year ended December 31, 2022, an amount of \$9.5 was paid to the executive from the benefit plan.

	December 31, 2022	December 31, 2021
	\$	\$
Balance as at January 1, 2022	24.7	29.8
Current service cost	-	1.3
Past service cost	8.1	(3.8)
Interest expense	0.6	0.7
Pension paid	(9.5)	-
Effect of changes in demographic assumptions	-	(1.4)
Effect of changes in financial assumptions	(4.8)	(1.9)
Balance as at December 31, 2022	19.1	24.7
Pension liability - Current	9.5	-
Pension liability - Non Current	9.6	24.7

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

Assumptions for 2022

Discount rate:

- 3.1% per year for December 31, 2021 benefit obligation and estimated FY2022 P&L pension expense for the first five months
- 5.0% per year for the re-measurement of the June 1, 2022 benefit obligation at the Plan amendment effective date
- 2.10% per year for 10 years, 3.10% per year thereafter for lump sum settlement determination, FY2022 P&L pension expense for the last 7 months of the year and FY2023 and FY2024 benefit obligation and P&L pension expense

Mortality

- Pre-retirement : None

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- Post-retirement : CPM2014, with generational mortality improvements using CPM-B improvement scale

Assumptions for 2021

Discount rate:	3.10% per year
Increase in pensionable earnings:	2.25% per year
Inflation:	2.0% per year
Longevity post retirement:	CPM 2014 mortality table with generational mortality improvements using CPM-B improvement scale.
Retirement age:	66 years (December 31, 2022)

Defined contribution pension plans: During the year ended on December 31, 2022, the Company terminated the plan with mutual consent effective June 1, 2022.

24. CONTINGENCIES

The Company has provided irrevocable standby letters of credit totaling \$1.7 to financial institutions as security for its loan, corporate credit cards and to several vendors as security for the Company's ongoing purchases. The letters of credit expire unless further renewed as follows:

	\$
December 31, 2022	1.7
<hr/> Total	<hr/> 1.7

25. 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 basic rent is subject to revision every five years at a predetermined rate per the terms of the lease.

Under the lease, the Company paid \$1.1 during the year out of which \$0.5 was adjusted towards principal payments against the liability and \$0.6 was recorded as related interest cost. The Company also paid utilities, taxes, maintenance, insurance and other related costs for the leased premises. As at December 31, 2022, the Company had a liability of \$8.4 due under the lease.

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Investment in associate

The Company acquired an investment in Avia Acquisition LLC. See Note 9 Investment in Associate. 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 also leased two Boeing 767-200 aircraft to 21 Air in October 2019 and January 2021 respectively. Both leases expire in 2024.

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

	December 31, 2022	December 31, 2021
	\$	\$
Aircraft lease revenue	3.9	3.3
Sub-charter expenses	3.4	5.2

Compensation of key management personnel

In 2022, the employee benefit expense was \$168.2 (2021 - \$141.0) of which \$128.0 (2021 - \$104.6) was recorded in direct expenses and \$40.2 (2021 - \$36.4) was recorded in general and administrative expenses. The general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2022 and 2021 as follows:

	December 31, 2022	December 31, 2021
	\$	\$
Short term benefits	11.0	12.4
Post-employment benefits	0.1	0.1
Share-based payments	3.9	16.5
Defined pension benefits	3.9	(5.0)
Total remuneration	18.9	24.0

26. INFORMATION ON MAJOR CUSTOMERS

In 2022, the Company had sales to three individual customers that represented 62.4% of the total revenues (2021 – 60.3%). These sales are provided under service agreements that expire over various periods to April 2025. The sales to individual customers represented 21.4%, 28.2% and 12.8% respectively of the total revenues (2021 – 23.9%, 23.9% and 12.5%).

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27. CAPITAL MANAGEMENT

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

The Company defines capital as the sum of total equity, borrowings, leases liabilities, including current portion, hybrid debentures and cash.

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

The Company is subject to financial covenants related to its credit facility, leases and aircraft facility arrangement (Note 13 and Note 14, respectively). As at December 31, 2022 and 2021, the Company was in compliance with all financial covenants.

28. FINANCIAL INSTRUMENTS

Total return swap

The Company entered into a total return swap agreement with a financial institution 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. In June 2022, the Company entered into an additional total return swap agreement with a financial institution to manage its exposure related to the warrants to be issued under the stock warrant agreement with DHL. See Note 6 Stock Warrants – B. DHL.

The Company did not designate the total return swap agreements as a hedging instrument for accounting purposes.

Under the agreements, 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 agreements, 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.

It is currently expected that the administrator of the Canadian Dollar Offered Rate ("CDOR") will cease publication of CDOR by June 28, 2024 and the Canadian financial benchmark will be replaced by the Canadian Overnight Repo Rate Average ("CORRA"). The fallback provisions of the total return swaps will be appropriately updated to transition from CDOR to CORRA when CDOR will be discontinued.

As at December 31, 2022, derivative financial instruments with a notional value of \$138.2 are affected by the CDOR reform and will be transitioned to an alternative reference rate.

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As at December 31, 2022 the fair value measurement of the 260,000 and 822,500 underlying shares under the swap agreements in effect were a liability of \$13.8 (December 31, 2021 – asset of \$22.7). The fair value adjustment for the year ended December 31, 2022 was a loss of \$13.2 for the 260,000 share units and \$23.3 for the 822,500 share units respectively (December 31, 2021 – loss of \$12.5 and \$nil respectively).

During the year ended December 31, 2021, the Company unwound 208,656 share units of its expiring total return swap agreement with a financial institution for proceeds of \$6.3, resulting in a fair value loss of \$3.1.

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 20% in the share price will result in a gain of \$6.1 and a decrease of 20% in the share price 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 December 31, 2022, was approximately \$81.2 (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 \$0.1 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at December 31, 2022, was approximately \$108.4 (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 \$1.6 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at December 31, 2022 was approximately \$104.2 (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 \$2.3 respectively.

The fair value of the performance share units due March 15, 2023, March 15, 2024 and March 15, 2025 are classified as Level 3 financial liabilities. As at December 31, 2022, the performance share units due March 15, 2023, March 15, 2024 and March 15, 2025 were valued at \$2.0, \$0.9 and \$2.0 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.

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The fair value of the warrant obligations was \$154.8 as at December 31, 2022 (December 31, 2021 \$172.4). The revaluation resulted in a gain of \$122.1 for the year ended December 31, 2022 (December 31, 2021 – gain of 79.0). 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 for the Amazon warrant obligation include volatility of the Company's common shares of 45% for tranche I and 42.1% for tranche II, and forecasted revenues from Amazon associated with this arrangement utilized to predict future vesting events. Other inputs include risk free rate of 3.9% and a dividend yield of 0.8%. Significant unobservable inputs for the DHL warrant obligation include volatility of the Company's common shares of 36.7% for tranche I and 36.7% for tranche II, and forecasted revenues from DHL associated with this arrangement utilized to predict future vesting events. Other inputs include risk free rate of 3.9% and a dividend yield of 0.8%.

A significant increase in the volatility in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities were recorded in other gains or losses on the Company's Consolidated Statements of Earnings and Comprehensive Income. A significant change to the forecasted revenues 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 the Amazon warrants will increase by \$7.2 and decrease by \$7.3. 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 \$39.8 or decrease by \$35.4. For every increase or decrease of volatility by 10% with all other factors remaining the same, the estimated fair value of the DHL warrants will increase by \$6.4 and decrease by \$6.5. For every increase or decrease in share price by 20% with all other factors remaining the same, the estimated fair value of warrants will increase by \$24.0 or decrease by \$21.1.

The fair value of borrowings approximate their carrying value.

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.

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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 94.9% (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 (5.2%) 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. As of December 31, 2022, the Company has a working capital deficit of \$34.4, 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 facilities are to a maximum of \$600 and US\$400 respectively. The Company has drawn US\$229.5 down on the DDTL facility (CAD – \$308.4) as at December 31, 2022. The Company was in compliance with all covenants as at December 31, 2022, and 2021.

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The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 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	-	-	309.6	308.4	618.0
Lease liabilities	31.4	17.1	31.7	8.8	89.0
Derivative financial instruments	13.8	-	-	-	13.8
Interest on leases	6.2	3.8	4.9	1.7	16.6
Trade and other payables	99.4	1.8	4.0	-	105.2
Employee pension and share-based compensation	18.5	12.8	9.0	0.2	40.5
Dividends payable	4.9	-	-	-	4.9
Total	174.2	35.5	359.2	319.1	888.0

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
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.

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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 December 31, 2022, 56% of the total debt outstanding was fixed rate debt and 44% was floating rate debt. A 10% increase in interest rates with all other factors remaining the same will increase the interest expense by \$2.0 and a 10% decrease in interest rates with all other factors remaining the same will decrease the interest expense by the same amount.

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 loss, for the year ended December 31, 2022 on foreign exchange transactions was \$3.6 (December 31, 2021 – loss of \$0.1).

As at December 31, 2022, a weakening of the Canadian dollar that results in a 10% increase in the exchange rate for the purchase of US dollars would increase the value of the Company's net financial assets and liabilities denominated in US dollars by approximately \$3.8 (December 31, 2021 - \$4.2). The decrease in the exchange rate for the purchase of US dollars of 10% would decrease the value of these net financial assets and liabilities by the same amount (December 31, 2021 - \$4.2).

As at December 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 net financial assets and liabilities denominated in EURO by approximately \$0.5 (December 31, 2021 - \$0.5). The decrease in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (December 31, 2021 - \$0.5).

29. 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:

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(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.

30. SUBSEQUENT EVENTS

Sale of two Boeing 777-300 ER aircraft

In February 2023, the Company signed a LOI for the sale of two Boeing 777-300 aircraft for a total of US\$53.5 which equals its carrying value. The Company expects to complete the transaction by early Q2 2023. Due to the recent slowdown in the global economy, the Company plans to defer the induction of the B777-300 fleet and maintain its financial strength. The B777-300 disposal has no impact on the current operations as the fleet expansion was to expand international reach.