Condensed Consolidated Interim Financial Statements of

CARGOJET

For the three and nine month periods ended September 30, 2023 and 2022

(unaudited - expressed in millions of Canadian dollars)

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CARGOJET INC.

Condensed Consolidated Interim Balance Sheets
As at September 30, 2023 and December 31, 2022

(unaudited - Canadian dollars in millions)

	Note	September 2023	December 2022
		$	$
ASSETS			
CURRENT ASSETS			
Cash		42.8	6.1
Trade and other receivables	3	115.9	95.6
Inventories		3.0	3.3
Prepaid expenses and deposits		12.3	11.0
Income taxes recoverable		0.1	0.1
Assets held for sale	6	9.3	-
Total current assets		183.4	116.1
NON-CURRENT ASSETS			
Property, plant and equipment	6,9	1,689.0	1,643.6
Investment in associate	5	7.5	7.4
Long-term loans receivable	5	2.9	2.6
Goodwill		48.3	48.3
Intangible assets		2.0	2.0
Prepaid expenses and deposits		7.5	7.1
Contract assets	3,4	152.6	156.1
Deferred income taxes	13	3.1	3.1
Total assets		2,096.3	1,986.3
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		114.2	100.4
Debentures	12	85.8	-
Lease liabilities	10	33.4	31.4
Dividends payable	18	4.9	4.9
Derivative financial instruments	21	42.6	13.8
Total current liabilities		280.9	150.5
NON-CURRENT LIABILITIES			
Borrowings	9	357.7	308.4
Lease liabilities	10	103.7	57.6
Stock warrant obligations	4	79.5	154.8
Trade and other payables		3.6	4.8
Debentures	12	225.8	309.6
Deferred income taxes	13	141.3	138.1
Employee pension and share-based compensation	8,20	14.3	31.0
Total liabilities		1,206.8	1,154.8
Total shareholders' equity		889.5	831.5
Total liabilities and shareholders' equity		2,096.3	1,986.3

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

CARGOJET INC.
Condensed Consolidated Interim Statements of Earnings and Comprehensive Income

Three and nine month periods ended September 30, 2023 and 2022
(unaudited - Canadian dollars in millions except per share data)

	Note	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
		$	$	$	$
REVENUES	3	214.0	232.7	655.6	712.9
DIRECT EXPENSES	14	180.5	175.1	534.0	527.3
GROSS MARGIN		33.5	57.6	121.6	185.6
General and administrative expenses	15	15.2	13.4	47.4	44.2
Loss on swap derivative	21	6.8	33.2	28.8	39.9
Finance costs	16	16.2	7.4	39.8	20.4
Fair value decrease on stock warrant	4	(18.0)	(85.3)	(75.3)	(133.6)
Other loss, net	17	3.6	2.5	5.6	2.5
Share of (gain) loss in associate	5	(0.3)	1.1	(0.1)	2.3
EARNINGS BEFORE INCOME TAXES		10.0	85.3	75.4	209.9
PROVISION FOR INCOME TAXES	13				
Deferred		(0.5)	1.9	3.2	22.1
NET EARNINGS AND COMPREHENSIVE INCOME		10.5	83.4	72.2	187.8
NET EARNINGS PER SHARE	19				
- Basic		$0.61	$4.84	$4.20	$10.86
- Diluted		$0.61	$4.33	$3.99	$9.82

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Changes in Equity
Nine month periods ended September 30, 2023 and 2022

(unaudited - Canadian dollars in millions)

	Note	Shareholders' capital	Contributed surplus	Surplus on debenture settlement	Retained earnings	Total shareholders' equity
		$	$	$	$	$
Balance, January 1, 2023		650.9	0.7	13.1	166.8	831.5
Net earnings and comprehensive income		-	-	-	72.2	72.2
Share-based compensation	8	-	1.5	-	-	1.5
Restricted shares, vested and exercised	8,18	0.9	(0.9)	-	-	-
Withholding tax paid on vested RSUs	8	-	(1.1)	-	0.2	(0.9)
Contributed surplus adjustment		-	0.4	-	(0.4)	-
Dividends	18	-	-	-	(14.8)	(14.8)
Balance, September 30, 2023		651.8	0.6	13.1	224.0	889.5
Balance, January 1, 2022		655.2	0.3	13.1	7.8	676.4
Net earning and comprehensive income		-	-	-	187.8	187.8
Restricted shares, vested and exercised	8	0.2	(0.2)	-	-	-
Share-based compensation	8	-	0.7	-	-	0.7
Withholding tax paid on vested RSUs	8	-	(0.3)	-	0.3	-
Share buyback		(4.5)	-	-	(12.2)	(16.7)
Dividends	18	-	-	-	(14.4)	(14.4)
Balance, September 30, 2022		650.9	0.5	13.1	169.3	833.8

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

CARGOJET INC.

Condensed Consolidated Interim Statements of Cash Flows
Nine month periods ended September 30, 2023 and 2022

(unaudited - Canadian dollars in millions)

	Note	Nine months ended September 30, 2023	2022
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		72.2	187.8
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	4,6	139.6	108.2
Share-based compensation	8	3.7	(7.0)
Finance costs	16	39.8	20.4
Impairment on Assets held for sale	6	13.8	-
Crew incentive	8	3.0	(0.9)
Net loss on disposal of property, plant and equipment	17	3.1	(0.4)
Realized foreign exchange gain on disposal of property, plant and equipment	6	(1.3)	-
DSUs, PSUs and crew incentive paid		(12.3)	-
Employee pension liability	20	0.1	-
Pension paid	20	(9.7)	-
Provision for income tax	13	3.2	22.1
Fair value decrease on stock warrant	4	(75.3)	(133.6)
Loss on swap derivative contract	21	28.8	41.3
Unrealized foreign exchange gain	7	0.4	5.2
Share of (gain) loss in associate	5	(0.1)	2.3
Interest paid		(32.5)	(12.8)
Cash generated from operating activities		176.5	232.6
Changes in non-cash working capital items and other long-term items			
Contract acquisition asset, net of amortization	3	(6.2)	(2.0)
Trade and other receivables		(20.3)	(28.7)
Inventories		0.3	(0.8)
Prepaid expenses and deposits		(1.7)	(6.5)
Trade and other payables		12.7	21.8
NET CASH GENERATED FROM OPERATING ACTIVITIES		161.3	216.4
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	6	(229.7)	(447.1)
Proceeds from disposal of property, plant and equipment	6	95.8	0.4
Loans to associate	5	-	(2.3)
NET CASH USED IN INVESTING ACTIVITIES		(133.9)	(449.0)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	9	49.2	196.7
Repayment of obligations under lease liabilities	7,10	(24.2)	(21.5)
Share buyback	18	-	(16.7)
Withholding tax paid on vested RSUs	8	(0.9)	(0.3)
Dividends paid to shareholders	18	(14.8)	(14.0)
NET CASH PROVIDED FROM FINANCING ACTIVITIES		9.3	144.2
NET CHANGE IN CASH		36.7	(88.4)
CASH, BEGINNING OF PERIOD		6.1	94.7
CASH, END OF PERIOD		42.8	6.3

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

1. NATURE OF THE BUSINESS

Cargojet Inc. ("Cargojet" or the "Company") operates a domestic air cargo co-load network between sixteen major Canadian cities. The Company also provides dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis, operating between points in Canada, USA, Mexico, 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, between Canada and Asia and between Canada and Mexico.

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

These condensed consolidated interim financial statements (the "financial statements") were approved by the Board of Directors on November 6, 2023 and authorized for issuance on November 7, 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") using International Accounting Standard 34, *Interim Financial Reporting ("IAS 34").*

Basis of preparation

These financial statements include the accounts of the Company and its wholly owned 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.

These financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2022 and 2021.

Except as noted below, the Company has followed the same basis of presentation, accounting policies and method of computation for these financial statements as disclosed in the annual audited consolidated financial statements for the year ended December 31, 2022 and 2021.

Assets held for sale

The Company classifies assets to be sold as held for sale in the period in which all of the following criteria are met:

(1) Management, having the authority to approve the action, commits to a plan to sell the asset:

(2) The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets;

(3) An active program to locate a buyer and other actions required to complete the plan to sell the asset have been initiated;

(4) The sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale within one year, except if events or circumstances beyond control extend the period of time required to sell the asset beyond one year;

(5) The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and

(6) Actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

The Company initially measures an asset that is classified as held for sale at the lower of its carrying value or fair value less any costs to sell. Any loss resulting from this measurement is recognized in the period in which the held-for-sale criteria are met. Conversely, gains are not recognized on the sale of an asset until the date of sale.

The Company also assesses the fair value of an asset less any costs to sell each reporting period it remains classified as held for sale and report any subsequent changes as an adjustment to the carrying value of the asset, as long as the new carrying value does not exceed the carrying value of the asset at the time it was initially classified as held for sale. Upon determining that an asset meets the criteria to be classified as held for sale, the Company ceases depreciation and reports the assets as assets held for sale.

(unaudited - Canadian dollars in millions except where noted)

Standards, amendments and interpretations issued and not yet adopted

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 IAS1, 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. The Company has not adopted this amendment and is currently evaluating the impact.

3. REVENUE FROM CONTRACTS WITH CUSTOMERS

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

	Three month period ended September 30,		Nine month period ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
Revenue from air cargo services*	193.3	222.3	611.7	682.5
Revenue from other sources*	20.7	10.4	43.9	30.4
Total revenue	214.0	232.7	655.6	712.9

* Figures have been reclassified to conform to current year presentation

(unaudited - Canadian dollars in millions except where noted)

Revenue recognized at a point of time

	Three month period ended September 30, 2023	Three month period ended September 30, 2022	Nine month period ended September 30, 2023	Nine month period ended September 30, 2022
	$	$	$	$
Domestic network*	88.7	90.9	251.8	260.3
Fuel and other surcharges	36.0	55.6	134.7	168.5
ACMI*	60.3	66.0	185.2	179.0
All-in charter	18.0	13.1	56.5	80.0
Ground handling and maintenance revenue*	1.4	4.5	6.8	16.3
Total revenue	204.4	230.1	635.0	704.1

* Figures have been reclassified to conform to current year presentation

Revenue recognized from transfer of services over time

	Three month period ended September 30, 2023	Three month period ended September 30, 2022	Nine month period ended September 30, 2023	Nine month period ended September 30, 2022
	$	$	$	$
All-in-charter	8.1	1.6	16.3	5.8
Hangar rental and other revenue	1.5	1.0	4.3	3.0
Total revenue	9.6	2.6	20.6	8.8

Contract assets and liabilities

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

	September 30, 2023	December 31, 2022
	$	$
Contract asset - stock warrants	146.4	156.1
Contract asset - other	6.2	-
Trade receivables	91.9	78.4
Other receivables	24.0	17.2
Total contract assets	268.5	251.7
Contract liability - expected rebates to customers	0.3	1.4

During the nine-month period ended September 30, 2023, the Company recognized a contract asset for $6.2, net of amortization as a variable consideration in a contract with a customer.

4. STOCK WARRANTS

A. Amazon

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

Under the agreement, the Company issued warrants to Amazon for the opportunity to purchase variable voting shares that will vest in two tranches based on the achievement of commercial milestones related to Amazon's business with the Company. The warrant agreement grants Amazon the right to acquire up to 13.9% 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 21 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 September 30, 2023 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a gain of $52.4 (September 30, 2022 – gain of $82.6).

(unaudited - Canadian dollars in millions except where noted)

	September 30, 2023	December 31, 2022
Contract Assets	$	$
Stock warrant and other contract assets	56.9	61.1
Less: Amortization	(2.1)	(4.2)
Contract assets	54.8	56.9
Stock warrant obligations		
Stock warrant obligations	97.7	172.4
Less: Fair value adjustment	(52.4)	(74.7)
Stock warrant obligations	45.3	97.7

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 21 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 September 30, 2023 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a gain of $22.9 (September 30, 2022 – gain of $51.0).

(unaudited - Canadian dollars in millions except where noted)

	September 30, 2023	December 31, 2022
Contract Assets	$	$
Stock warrant and other contract assets	99.2	106.5
Less: Amortization	(7.6)	(7.3)
Contract assets	91.6	99.2
Stock warrant obligations		
Stock warrant obligations	57.1	104.5
(Less): Fair value adjustment	(22.9)	(47.4)
Stock warrant obligations	34.2	57.1

5. 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 nine month period ended September 30, 2023, Avia Acquisition LLC generated an income of $0.5. The Company's share of the net income was $0.1. The Company increased the value of the investment by the share of net income. No dividend was declared or paid by Avia Acquisition LLC during the period.

(unaudited - Canadian dollars in millions except where noted)

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

	September 30, 2023
	$
Current assets	15.4
Non-current assets	29.6
Total assets	45.0
Current liabilities	24.6
Non-current liabilities	25.3
Total liabilities	49.9
Net	(4.9)

	September 30, 2023
	$
Revenue	55.2
Expenses	54.7
Net income	0.5
Company's share of net income	0.1

Investment in associate as at September 30, 2023	
	$
Investment in associate as at January 1, 2023	7.4
Company's share of net income	0.1
Investment in associate as at September 30, 2023	7.5

Reconciliation of carrying amount as at September 30, 2023	
	$
Net liability as of September 30, 2023	(4.9)
Company's share	(1.2)
Goodwill	5.8
Notes participation	2.9
Investment in associate as at September 30, 2023	7.5

As at September 30, 2023, the Company advanced $2.6 in the nature of a long-term loan receivable to 21 Air (December 31, 2022 - $2.6). This long-term loan receivable carries interest at U.S prime rate plus 1%, and is payable on demand. During the nine month period ended September 30, 2023, the Company accrued interest of $0.3 (December 31, 2022 - $0.1).

(unaudited - Canadian dollars in millions except where noted)

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2023	Additions	Transfers	Adjustments	Balance as at September 30, 2023
	$	$	$	$	$
Aircraft hull	683.5	41.0	104.5	(2.2)	826.8
Engines	756.8	11.1	139.2	(15.8)	891.3
Right of use assets	67.7	13.0	-	-	80.7
Spare parts	12.9	-	-	(0.4)	12.5
Ground equipment	63.6	4.7	0.2	-	68.5
Rotable spares	79.6	4.1	-	(0.3)	83.4
Computer hardware and software	15.8	0.3	-	-	16.1
Furniture and fixtures	5.5	0.1	-	-	5.6
Leasehold improvements	25.2	-	0.1	-	25.3
Vehicles	4.0	0.1	-	-	4.1
Hangar and cross-dock facilities	44.3	0.1	-	-	44.4
Property, plant and equipment under development	383.1	204.5	(256.5)	(115.4)	215.7
Deferred heavy maintenance	145.2	15.1	12.5	-	172.8
	2,287.2	294.1	-	(134.1)	2,447.2

Accumulated depreciation & impairment	Balance as at January 1, 2023	Depreciation	Adjustments	Balance as at September 30, 2023	Net Book Value as at September 30, 2023
	$	$	$	$	$
Aircraft hull	165.5	31.3	(0.4)	196.4	630.4
Engines	242.1	66.7	(14.8)	294.0	597.3
Right of use assets	36.1	7.7	-	43.8	36.9
Spare parts	-	-	-	-	12.5
Ground equipment	32.5	3.5	-	36.0	32.5
Rotable spares	33.9	5.5	(0.1)	39.3	44.1
Computer hardware and software	12.9	0.8	-	13.7	2.4
Furniture and fixtures	3.1	0.4	-	3.5	2.1
Leasehold improvements	15.5	0.8	-	16.3	9.0
Vehicles	2.4	0.2	-	2.6	1.5
Hangar and cross-dock facilities	13.7	1.4	-	15.1	29.3
Property, plant and equipment under development	-	-	-	-	215.7
Deferred heavy maintenance	85.9	11.6	-	97.5	75.3
	643.6	129.9	(15.3)	758.2	1,689.0

(unaudited - Canadian dollars in millions except where noted)

Cost	Balance as at January 1, 2022	Additions	Transfers	Adjustments	Balance as at 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
	1,693.5	629.6	-	(35.9)	2,287.2

Accumulated depreciation & impairment	Balance as at January 1, 2022	Depreciation	Adjustments	Balance as at December 31, 2022	Net Book Value 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
	533.6	142.2	(32.2)	643.6	1,643.6

Property, plant and equipment under development of $215.7 (December 31, 2022 - $383.1) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

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

During the nine month period ended September 30, 2023, the Company completed the acquisition of three Boeing 757-200 aircraft and three Boeing 767-300 aircraft.

During the nine month period ended September 30, 2023, $5.0 (2022 - $3.0) of interest costs were capitalized to property, plant and equipment under development that includes paid interest of $4.7 and accretion of $0.3 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 6.9%.

Depreciation expense on property, plant and equipment for the three and nine month periods ended September 30, 2023 totaled $46.6 and $129.9 (2022 - $35.7 and $100.7) out of which $46.0 and $128.3 (2022 – $35.2 and $99.1) was recorded in direct expenses and $0.5 and $1.5 (2022 - $0.5 and $1.6) was recorded in general and administrative expenses.

Sale of one Boeing 777-300 aircraft, four GE90 engines and assets held for sale

During the nine month period ended September 30, 2023, the Company sold one Boeing 777-300 aircraft for $36.0 resulting in a loss on sale of $3.6 and a realized foreign exchange gain of $1.3. The Company also sold four GE90 engines for $59.3 and is in the process of selling two Beechcraft aircraft that were purchased for crew transportation. The Company expects to recover the book value of these aircraft and accordingly, an amount of $9.3 representing the carrying value of these aircraft have been classified as assets held for sale as current assets on the Condensed Consolidated Interim Balance Sheets. Due to the recent slowdown in the global economy, the Company plans to defer the induction of these aircraft and maintain its financial strength.

In Q3, two Boeing 777-300 hulls suffered significant damage due to severe hailstorms and the assets became impaired. The Company assessed the damage and $13.8 was recognized as loss from the impairment in other losses, net in the Condensed Consolidated Interim Statements of Earnings and Comprehensive Income. The Company filed an insurance claim for the recovery of the loss in the value of the damaged hulls. The insurance claim was approved for an amount of $12.2 that was recognized as an insurance receivable asset under trade and other receivables in current assets on the Condensed Consolidated Interim Balance Sheet, with the a corresponding gain recorded in other losses, net in the Condensed Consolidated Interim Statements of Earnings and Comprehensive Income statement resulting in the net impairment loss of $1.6. The Company expects to complete the sale by early 2024.

(unaudited - Canadian dollars in millions except where noted)

7. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the nine month period ended September 30, 2023 is presented below:

	September 30, 2023	December 31, 2022
	$	$
Cash	42.8	6.1
Gross debt - repayable within one year	(119.2)	(31.4)
Gross debt - repayable after one year	(687.2)	(675.6)
Net debt	(763.6)	(700.9)
Cash	42.8	6.1
Gross debt - fixed interest rates	(448.7)	(398.6)
Gross debt - variable interest rates	(357.7)	(308.4)
Net debt	(763.6)	(700.9)

	Cash / bank overdraft	**Lease liabilities due**	**Borrowings due within one year**	**Borrowings due after one year**
	$	$	$	$
Net Debt as at January 1, 2022	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)
Cash flows	36.7	24.2	(85.8)	36.5
Acquisitions - leases	-	(66.3)	-	-
Interest accretion	-	(5.6)	-	(2.0)
Foreign exchange adjustment	-	(0.4)	-	-
Net debt as at September 30, 2023	42.8	(137.1)	(85.8)	(583.5)

8. SHARE-BASED COMPENSATION

Crew incentive program

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

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.

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 Condensed Consolidated Interim Statements of Earnings and Comprehensive Income proportional to the period of service rendered by the employees.

On June 30, 2023, 50% of long-term incentives awards granted to pilots in cash and in DSUs were vested. The monetary value of its obligation for DSUs was determined based on Market Price of $95.84 per DSUs. The Company settled all of the vested awards in cash pursuant to its incentive plan. As of September 30, 2023, the Company remitted an amount of $1.8 under cash award and $7.5 under DSUs based award to settle its tax and incentive obligations.

As at September 30, 2023, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of $6.7 (December 31, 2022 - $12.3). For the nine month period ended September 30, 2023, the Company recognized a cost of $1.9 in crew cost for the services rendered in the Condensed Consolidated Interim Statements of Earnings and Comprehensive Income.

For the crew members who elected to receive $0.1 cash at the end of the vesting period, the Company also recognized a $1.1 as crew cost expenses for the services rendered for the period ended September 30, 2023, in the Condensed Consolidated Interim Statements of Earnings and Comprehensive Income. As at September 30, 2023, the Company had a total liability of $2.4 (December 31, 2022 - $3.1) 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 nine month period. The amount may only be amended in accordance with any amendments to the director's compensation program as adopted by the Board from time to time. Directors may also make a written election to receive a portion of their annual cash retainer in DSUs in lieu of cash. Any remaining portion of the annual retainer will be paid in cash. For 2021, the annual DSU amount for each Canadian director is $0.1 and for the non-Canadian director is $0.1 in US currency.

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

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

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

During the nine month period ended September 30, 2023, the Company granted 8,512 DSUs including dividend equivalents to the independent directors and credited them to their notional account. On April 11, 2023, one of the directors resigned from the Board and 4,828 DSUs outstanding in his notional account were cash settled. The Company disbursed a sum of $0.2 to the executives and remitted an amount of $0.3 equal to the monetary value of the tax obligation determined based on the Market Price of $109.43 per DSU. As of September 30, 2023, a total of 15,279 DSUs were outstanding in the directors' notional accounts with a carrying amount of liability of $1.4 (December 31, 2022 – 11,595 DSUs of 1.3).

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.

(unaudited - Canadian dollars in millions except where noted)

During the nine month period ended September 30, 2023, out of 23,371 of the RSUs granted in 2022, 15,580 RSUs were vested. Prior to vesting, and in accordance with the RSU Plan, the Company accrued notional dividends on the RSUs, equivalent to 158 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 the participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 7,313 shares were issued to the senior management for vested RSUs and the Company will remit an amount of $0.9 equal to the monetary value of the tax obligation determined based on the Market Price of $108.05 per share of 8,425 shares withheld that otherwise would have been issued upon vesting. An amount of $0.9 was transferred to share capital from contributed surplus.

The RSU activity for the nine month period ended September 30, 2023 is summarized below:

RSUs	Number of RSUs	Fair value $
Balance at January 1, 2022	4,115	-
Granted in the year	23,371	3.0
Share dividend	57	-
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
Share dividend	116	-
Share based compensation - vested and settled	(15,738)	(1.0)
Share based compensation - unvested and amortized	-	(0.5)
Balance at September 30, 2023	7,791	0.3

During the nine month period ended September 30, 2023, the total share-based compensation expense of $1.5 related to vested and settled and unvested and amortized RSUs was included in the Condensed Consolidated Interim Statements of Earnings and Comprehensive Income (September 30, 2022 – $0.7). Unrecognized share-based compensation expense as at September 30, 2023 related to these RSUs was $0.3 (September 30, 2022 – $2.4).

Options

The Options activity during the nine month period ended September 30, 2023 is summarized below:

OPTIONS	Number of Options	Weighted average exercise price
Balance as at January 1, 2023	60,545	132.95
Granted during the period	38,144	108.05
Balance as at September 30, 2023	98,689	123.32
Vested & exercisable at September 30, 2023	42,407	124.31

(unaudited - Canadian dollars in millions except where noted)

As at September 30, 2023, there were 42,407 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 1.9 years.

During the period ended September 30, 2023, the fair value of options was determined, and the Company recognized a gain of $0.1 in bonuses and incentives expense in the Condensed Consolidated Interim Statements of Earnings and Comprehensive Income with corresponding adjustment in the liability (September 30, 2022 – gain of $0.8). As at September 30, 2023, the Company had a total liability of $1.2 (December 31, 2022 - $1.4) for Options.

Weighted average assumptions on grant date

	17-Mar-23	17-Dec-22	13-May-22	16-Mar-21	05-Mar-20	29-Nov-19
	Series 9	Series 8B	Series 8A	Series 7	Series 6	Series 5
Exercise price redemption	$108.05	$123.68	$147.98	$176.56	$104.95	$98.90
Expected volatility	40.89%	40.10%	36.45%	34.62%	28.51%	28.47%
Option life in years	5	5	5	5	5	5
Dividend yield	1.06%	0.94%	0.74%	0.59%	0.87%	0.94%
Risk-free rate	2.75%	2.75%	1.25%	0.25%	1.25%	1.00%
Vesting period	2024-2026	2023-2025	2023-2025	2022-2024	2021-2023	2020-2022
Options granted	38,144	1,486	19,543	12,357	26,168	29,915
Options outstanding	38,144	1,486	19,543	12,357	17,491	9,667
Fair value per option on grant date	$38.96	$44.37	$46.37	$50.64	$25.85	$23.66
Fair value per option on September 30, 2023	$31.94	$25.19	$17.77	$8.41	$16.36	$16.59

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 period ended September 30, 2023, PSUs granted in 2020 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 11,785 units. The Company also accrued notional dividends on the PSUs, equivalent to 220 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. As of September 30, 2023, an amount of $2.5 was transferred to liability account representing a sum of $1.2 to be disbursed to the executives, net of the tax obligation of each participant and $1.3 to be remitted to the tax authority.

(unaudited - Canadian dollars in millions except where noted)

During the period ended September 30, 2023, the Company also granted 27,512 PSUs to its executives (December 31, 2022 – 12,953) and accrued notional dividends equivalent to 162 units on unvested PSUs. 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 $1.6 was recognized in bonus and incentive expense during the period ended September 30, 2023 (September 30, 2022 – gain of $6.3) with a corresponding amount in liability. As at September 30, 2023, the Company had an outstanding liability of $2.5 on 47,558 outstanding PSUs (December 31, 2022 - $3.4 on 32,238 PSUs)

9. BORROWINGS

Borrowings consist of the following:

	September 30, 2023	December 31, 2022
	$	$
Delayed-draw term loan facility	335.6	308.4
Revolving credit facility	22.1	-
	357.7	308.4
Long-term portion	357.7	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.

On July 22, 2022, the Company further amended its $600 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. For each advance under the DDTL Facility, the Borrower is required to pay a quarterly principal amortization payment in respect thereof in an amount equal to 1.25 % of such advance. On the DDTL maturity date, the borrower shall pay all amounts then outstanding under the DDTL 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 ("Secured Overnight Financing Rate") 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.

(unaudited - Canadian dollars in millions except where noted)

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 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 September 30, 2023 and 2022.

Included in the Condensed Consolidated Interim Statement of Earnings and Comprehensive Income for the three and nine month periods ended September 30, 2023 was interest expense on the facility and DDTL of $7.8 and $18.4 respectively (2022 - $1.9 and $3.3 respectively).

10. LEASE LIABILITIES

The Company has lease arrangements for three Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rate for these leases are 6.0%,,6.7% and 6.4%. These leases are deemed to be maturing on the exercise date of the bargain purchase options in November 2023, October 2027 and June 2030 respectively. As at September 30, 2023, the total outstanding balance of these lease arrangements is $94.9 out of which $22.4 is presented as a current liability on the Condensed Consolidated Interim Balance Sheets.

During the nine month period ended September 30, 2023 the Company entered into a lease arrangement for one Boeing 767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for this lease is 6.4%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in June 2030 or at the end of the lease term in June 2030. As at September 30, 2023, the total outstanding balance of this finance lease arrangement is $52.8 out of which $5.1 is recognized as a current liability on the consolidated balance sheet.

As at September 30, 2023, the Company also has $36.9 of right of use assets and $42.2 of lease liabilities, which consists of hangars, warehouses, offices and one Boeing 767-200 aircraft, out of which $11.0 is presented as a current liability on the Condensed Consolidated Interim 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 September 30, 2023.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	41.8	33.3
Later than one year and not later than five years	84.4	66.5
Later than five years	41.7	37.3
	167.9	137.1
Less: interest	30.8	-
Total obligations under leases	137.1	137.1
Less: current portion	33.4	33.4
Non-current portion	103.7	103.7

(unaudited - Canadian dollars in millions except where noted)

Interest amounts on the lease liabilities for the three and nine month periods ended September 30, 2023 totaled $2.1 and $5.6 respectively (2022 - $1.9 and $5.1 respectively).

11. 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 $0.8 during the period out of which $0.4 was adjusted towards principal payments against the liability and $0.4 was recorded as related interest cost. The Company also paid utilities, taxes, maintenance, insurance and other related costs for the leased premises. As at September 30, 2023, the Company had a liability of $7.9 due under the lease.

Investment in associate

The Company acquired an investment in Avia Acquisition LLC. See Note 5 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:

	Three month period ended September 30,		Nine month period ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
Aircraft lease revenue	1.0	1.0	3.0	2.9
Engine lease revenue	0.3	-	0.9	-
Sub-charter expenses	-	0.5	0.2	2.9

(unaudited - Canadian dollars in millions except where noted)

12. DEBENTURES

The balance of debentures as at September 30, 2023 and December 31, 2022 consists of the following:

	September 30, 2023	December 31, 2022
	$	$
Hybrid debentures - 5.75% due April 30, 2024	85.8	85.2
Hybrid debentures - 5.75% due April 30, 2025	113.4	112.6
Hybrid debentures - 5.25% due June 30, 2026	112.4	111.8
Balance-end of period	311.6	309.6
Less: current portion	85.8	-
Non-current portion	225.8	309.6

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 September 30, 2023 and December 31, 2022 consists of the following:

(unaudited - Canadian dollars in millions except where noted)

	September 30, 2023	December 31, 2022
	$	$
Principal balance - beginning of period	85.2	84.4
Accretion during the period	0.6	0.8
Balance - end of period	85.8	85.2

Interest expense on the hybrid debentures for the three and nine month period ended September 30, 2023 totaled $1.4 and $4.3 respectively (September 30, 2022 - $1.4 and $4.3 respectively).

Hybrid debentures – 5.75% due April 30, 2025

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

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

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

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

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

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at September 30, 2023 and December 31, 2022 consists of the following:

	September 30, 2023	December 31, 2022
	$	$
Principal balance - beginning of period	112.6	111.8
Accretion during the period	0.8	0.8
Balance - end of period	113.4	112.6

(unaudited - Canadian dollars in millions except where noted)

Interest expense on the hybrid debentures for the three and nine month periods ended September 30, 2023 totaled $1.9 and $5.7 respectively (September 30, 2022 - $1.8 and $5.5 respectively).

Hybrid debentures – 5.25% due June 30, 2026

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

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

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

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

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 September 30, 2023 and December 31, 2022 consists of the following:

	September 30, 2023	December 31, 2022
	$	$
Principal balance - beginning of period	111.8	111.0
Accretion during the period	0.6	0.8
Balance - end of period	112.4	111.8

(unaudited - Canadian dollars in millions except where noted)

Interest expense on the hybrid debentures for the three and nine month periods ended September 30, 2023 totaled $1.7 and $5.1 respectively (September 30, 2022 - $1.8 and $5.2 respectively).

13. INCOME TAXES

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

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
Earnings before income taxes	10.0	85.3	75.4	209.9
Basic rate of 26.5% (2022 - 26.5%)	2.7	22.6	20.0	55.6
Share based compensation	0.3	(0.1)	0.3	(0.1)
Meals and entertainment	0.1	0.1	0.1	0.1
Stock warrant	(3.6)	(20.7)	(17.2)	(33.5)
Provision for income taxes	(0.5)	1.9	3.2	22.1

The tax effect of significant temporary differences are as follows:

	December 31, 2022	Recognized in earnings	September 30, 2023
	$	$	$
Property, plant and equipment	138.4	14.2	152.6
Operating loss carryforward	(15.5)	(14.6)	(30.1)
Licenses	0.3	-	0.3
Intangible assets	(0.3)	-	(0.3)
Equity transaction cost	(2.5)	0.6	(1.9)
Pension costs	(5.2)	2.6	(2.6)
Financing costs	(2.4)	(7.8)	(10.2)
Long-term incentive plan	(5.6)	2.2	(3.4)
Deferred heavy maintenance	27.8	6.0	33.8
Net deferred income tax liability	135.0	3.2	138.2
Deferred income taxes assets	3.1		3.1
Deferred income taxes liabilities	138.1		141.3

(unaudited - Canadian dollars in millions except where noted)

14. DIRECT EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
Fuel costs	52.1	52.0	145.8	165.0
Maintenance costs	15.3	14.7	50.0	46.5
Heavy maintenance amortization	4.0	3.6	11.6	9.4
Aircraft costs	2.3	6.2	15.3	17.7
Crew costs	25.7	23.6	69.7	65.2
Depreciation	42.0	31.6	116.7	89.7
Ground services	18.3	21.2	55.1	60.4
Airport services	9.3	10.1	33.3	34.6
Navigation and insurance	11.5	12.1	36.5	38.8
Direct expenses	180.5	175.1	534.0	527.3

15. GENERAL AND ADMINISTRATIVE EXPENSES

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
Salaries and benefits	9.6	8.4	28.1	24.8
Depreciation	0.5	0.5	1.5	1.6
Net realized foreign exchange (gain) loss	(0.7)	(0.3)	(2.8)	0.5
Bonuses, incentives and management fees	1.1	(1.0)	2.5	(2.7)
Audit, legal and consulting	0.7	1.3	2.8	3.2
IT network and communications	1.3	1.3	4.0	3.8
Sales and marketing expenses*	0.5	0.5	1.6	1.7
Subscription and office supplies	0.5	0.8	2.8	3.4
Donation	-	0.1	0.1	0.1
Other general and administrative expenses	1.7	1.8	6.8	7.8
General and administrative expenses	15.2	13.4	47.4	44.2

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

16. FINANCE COSTS

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2023	2022	2023	2022
	$	$	$	$
Interest on leases	2.1	2.0	5.6	5.1
Interest on debentures	5.0	5.0	15.1	15.0
Credit facilities and other interest	9.6	1.9	24.1	3.3
Borrowed interest capitalized	(0.5)	(1.5)	(5.0)	(3.0)
Finance costs	16.2	7.4	39.8	20.4

(unaudited - Canadian dollars in millions except where noted)

17. OTHER (GAIN) LOSS, NET

	Three month periods September 30, 2023	2022	Nine month periods September 30, 2023	2022
	$	$	$	$
Gain on insurance claim*	(12.2)	-	(12.2)	-
Impairment on assets held for sale*	13.8	-	13.8	-
Unrealized foreign exchange loss	1.6	2.6	0.9	2.9
Loss (gain) on disposal of property, plant and equipment	0.4	(0.1)	3.1	(0.4)
Other loss, net	3.6	2.5	5.6	2.5

*See note 6, Property, plant and equipment

18. SHAREHOLDERS' CAPITAL

a) Authorized

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

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

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

(unaudited - Canadian dollars in millions except where noted)

b) Issued and outstanding

The following table shows the changes in shareholders' capital from December 31, 2022 to September 30, 2023:

	Number of shares	Amount
		$
Consisting of:		
Common and variable voting shares	17,202,186	650.9
Outstanding - December 31, 2022	17,202,186	650.9
Changes during the period:		
Restricted share units, vested and exercised	7,313	0.9
	17,209,499	651.8
Consisting of:		
Common and variable voting shares	17,209,499	651.8
Outstanding - September 30, 2023	17,209,499	651.8

Dividends

Dividends to shareholders declared for the three and nine month period ended September 30, 2023 amounted to $4.9 ($0.2860 per share) and $14.8 ($0.8580 per share) respectively and for the three and nine periods ended September 30, 2022 amounted to $4.9 ($0.2860 per share) and $14.4 ($0.8320 per share) respectively for both common and variable shares.

As at September 30, 2023, a dividend of $4.9 was payable to the shareholders (September 30, 2022 - $4.9).

(unaudited - Canadian dollars in millions except where noted)

19. NET EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the three and nine month period ended September 30, 2023 and 2022:

	Three month periods ended September 30,		Nine month periods ended September 30,	
Net earnings per share	2023	2022	2023	2022
Net earnings	$10.5	$83.4	$72.2	$187.8
Interest on debentures	$3.7	3.7	$11.1	11.1
Net earnings for shareholders (diluted)	$14.2	$87.1	$83.3	$198.9
Weighted average number of shares	17.2	17.2	17.2	17.3
Dilutive impact of share - based awards, hybrid debentures and vested warrant number of shares	3.5	3.0	3.7	3.1
Diluted weighted average number of shares	20.7	20.2	20.9	20.4
Net earnings per share - basic	$0.61	$4.84	$4.20	$10.86
Net earnings per share - diluted	$0.61	$4.33	$3.99	$9.82

20. 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. During the nine month period ended September 30, 2023, the Company paid an amount of $9.7 to the executive from the benefit plan and accrued interest of $0.1 (September 30, 2022 - $0.4) in respect of the defined pension plan. As of September 30, 2023, the total liability in respect of the defined benefit pension plan was $9.8.

21. 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 4 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 September 30, 2023, 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.

As at September 30, 2023, the fair value measurement of the 260,000 and 822,500 underlying shares under the swap agreements in effect were a liability of $42.6 (December 31, 2022 – liability of $13.8). The fair value adjustment for the three and nine month period ended September 30, 2023 was a loss of $1.6 and $6.9 for the 260,000 share units and $5.2 and $21.9 for the 822,500 share units respectively (September 30, 2022 – loss of $8.1 and $26.5 and $14.4 and $26.8 respectively).

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 $19.5 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 September 30, 2023, was approximately $83.9 (December 31, 2022 - $81.2). 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 $0.3 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at September 30, 2023, was approximately $110.9 (December 31, 2022 - $108.4). The fair value of the debentures was determined using the discounted cash flow method using a discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by $1.1 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at September 30, 2023 was approximately $106.8 (December 31, 2022 - $104.2). 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 $1.9 respectively.

The fair value of the performance share units due March 15, 2024, March 15, 2025 and March 15, 2026 are classified as Level 3 financial liabilities. As at September 30, 2023, the performance share units due March 15, 2024, March 15, 2025 and March 15, 2026 were valued at $0.6, $1.3 and $3.4 respectively (December 31, 2022 - $2.0, $0.9 and $2.0 respectively). The Company used an option pricing model utilizing Monte Carlo simulation to value the TSR-PSUs and analytically valued the ROIC-PSUs at inception and on subsequent valuation dates. The discount rate was determined by using the Canadian deposit and swap rates adjusted for the Company's specific credit risk. Other significant inputs consisted of historical volatility and dividend rates.

The fair value of the warrant obligations was $79.5 as at September 30, 2023 (December 31, 2022 - $154.8). The revaluation resulted in a gain of $75.3 for the nine month period ended September 30, 2023 (September 30, 2022 – gain of $133.6). The warrants were classified as Level 3 derivative liabilities that are valued using an American option pricing model utilizing Monte Carlo simulation. Level 3 financial liabilities consist of the derivative liabilities for which there is no current market for these securities such that the determination of fair value requires significant judgment or estimation. Changes in fair value measurements categorized within Level 3 of the fair value hierarchy are analyzed each period based on changes in estimates or assumptions and recorded as appropriate. Significant unobservable inputs for the Amazon warrant obligation include volatility of the Company's common shares of 39.4% for tranche I and 39.6% for tranche II, and forecasted revenues from Amazon associated with this arrangement utilized to predict future vesting events. Other inputs include a risk free rate of 5.1% and a dividend yield of 0.9%. Significant unobservable inputs for the DHL warrant obligation include volatility of the Company's common shares of 39% for tranche I and 39% for tranche II, and forecasted revenues from DHL associated with this arrangement utilized to predict future vesting events. Other inputs include a risk free rate of 4.6% and a dividend yield of 0.9%.

A significant increase in the volatility in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities were recorded in other gains or losses on the Company's Condensed Consolidated Interim Statements of 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 $5.0 and decrease by $4.9. 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 $25.5 or decrease by $20.4. 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 $5.2 and decrease by $5.2. For every increase or decrease in share price by 20% with all other factors remaining the same, the estimated fair value of warrants will increase by $15.8 or decrease by $13.4.

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 Condensed Consolidated Interim Balance Sheets.

Credit risk

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

The Company is subject to risk of non-payment of accounts receivable and loans receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's trade receivables are concentrated among several of its largest customers with approximately 93.2% (December 31, 2022 – 94.9%) 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 (4.8%) 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. The 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 $22.1 for revolving credit facility and US$258.9 drawn on the DDTL facility (CAD – $357.7) as at September 30, 2023. The Company was in compliance with all covenants as at September 30, 2023 and 2022.

(unaudited - Canadian dollars in millions except where noted)

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at September 30, 2023 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	85.8	113.4	112.4	357.7	669.3
Lease liabilities	33.4	17.9	48.5	37.3	137.1
Derivative financial instruments	42.6	-	-	-	42.6
Interest on leases	8.5	6.0	11.8	4.5	30.8
Trade and other payables	114.2	3.0	0.6	-	117.8
Share-based compensation	0.4	1.4	8.5	4.0	14.3
Dividends payable	4.9	-	-	-	4.9
Total	289.8	141.7	181.8	403.5	1,016.8

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

Market risk

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

The Company performs a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of the Company's debt and other financial instruments. The financial instruments that are included in the sensitivity analysis comprise all of the Company's cash, borrowings, hybrid debentures and all derivative financial instruments. To perform the sensitivity analysis, the Company assesses the risk of loss in fair values from the effect of hypothetical changes in interest rates and foreign currency exchange rates on market-sensitive instruments.

Interest rate risk is the risk that the fair value or future cash flows of a financial liability will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt and also leases certain assets with fixed rates. The Company's 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 September 30, 2023, 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 $2.7 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 gains for the three and nine month period ended September 30, 2023 on foreign exchange transactions was $1.6 and $0.9 respectively (September 30, 2022 – loss of $2.6 and 2.9 respectively).

As at September 30, 2023, 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 $1.2 (September 30, 2022 - $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 (September 30, 2022 - $4.2).

As at September 30, 2023, a weakening of the Canadian dollar that results in a 10% 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 $0.2 (September 30, 2022 - $0.3). The decrease in the exchange rate for the purchase of EURO of 10% would decrease the value of these net financial assets and liabilities by the same amount (September 30, 2022 - $0.3).

22. GUARANTEES

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

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

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

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

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

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