Consolidated Financial Statements of

CARGOJET

For the years ended December 31, 2023 and 2022

(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, 2023 and 2022, 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 Accounting Standards).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2023 and 2022;
- 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 material 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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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, 2023. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation of stock warrant obligations *Refer to Note 2 – Summary of Material Accounting Policies, Note 6 – Stock Warrants and Note 27 – Financial Instruments to the consolidated financial statements.* 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 fair value of the stock warrant obligations was revalued as at December 31, 2023 to $52.8 million and $57.3 million for Amazon and DHL, respectively. This resulted in a gain of $44.9 million and a loss of $0.2 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	Our approach to addressing the matter included the following procedures, among others: • Professionals with specialized skill and knowledge in the field of valuation assisted 1) 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 2) 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 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
Monte Carlo simulation on initial measurement date and as of December 31, 2023. 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 Accounting Standards, 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
February 26, 2024

CARGOJET INC.

Consolidated Balance Sheets

As at December 31, 2023 and December 31, 2022

(Canadian dollars in millions)

	Note	December 31, 2023	December 31, 2022
		$	$
ASSETS			
CURRENT ASSETS			
Cash		31.8	6.1
Trade and other receivables	4	119.1	95.6
Inventories	3	2.6	3.3
Prepaid expenses and deposits		8.6	11.0
Income taxes recoverable		0.1	0.1
Assets held for sale	8	115.9	-
Total current assets		278.1	116.1
NON-CURRENT ASSETS			
Property, plant and equipment	8,14	1,567.0	1,643.6
Investment in associate	9	7.3	7.4
Long-term loans receivable	9	2.9	2.6
Goodwill	5	48.3	48.3
Intangible assets	7	2.0	2.0
Prepaid expenses and deposits		6.3	7.1
Contract assets	4,6	119.0	156.1
Deferred income taxes	16	5.4	3.1
Total assets		2,036.3	1,986.3
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	147.0	100.4
Lease liabilities	14	22.9	31.4
Dividends payable	21	5.3	4.9
Derivative financial instruments	27	11.1	13.8
Total current liabilities		186.3	150.5
NON-CURRENT LIABILITIES			
Borrowings	13	453.9	308.4
Lease liabilities	14	96.2	57.6
Stock warrant obligations	6	110.1	154.8
Trade and other payables	11	3.0	4.8
Debentures	15	226.2	309.6
Deferred income taxes	16	154.8	138.1
Employee pension and share-based compensation	12,23	21.3	31.0
Total liabilities		1,251.8	1,154.8
Total shareholders' equity		784.5	831.5
Total liabilities and shareholders' equity		2,036.3	1,986.3

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

CARGOJET INC.

Consolidated Statements of Earnings and Comprehensive Income for the years ended December 31, 2023 and 2022

(Canadian dollars in millions except per share data)

	Note	2023	2022
		$	$
REVENUES	4	877.5	979.9
DIRECT EXPENSES	17	739.4	732.4
GROSS MARGIN		138.1	247.5
Selling, general and administrative expenses	18	70.5	74.6
Fair value decrease on stock warrant	6	(44.7)	(122.1)
(Gain) loss on swap derivative	27	(2.7)	36.5
Finance costs	19	56.8	33.6
Other loss, net	20	6.4	2.9
Share of loss in associate	9	0.1	2.0
EARNINGS BEFORE INCOME TAXES		51.7	220.0
PROVISION FOR INCOME TAXES	16		
Deferred		14.4	29.4
NET EARNINGS AND COMPREHENSIVE INCOME		37.3	190.6
NET EARNINGS PER SHARE	22		
- Basic		$2.17	$11.04
- Diluted		$2.17	$10.15

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

CARGOJET INC.

Consolidated Statements of Changes in Equity
For the years ended December 31, 2023 and 2022

(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		-	-	-	37.3	37.3
Share-based compensation	12	-	1.7	-	-	1.7
Restricted shares, vested and exercised	12,21	0.9	(0.9)	-	-	-
Withholding tax paid on vested RSUs	12	-	(1.1)	-	0.2	(0.9)
Share buyback	21	(42.0)	-	-	(23.0)	(65.0)
Contributed surplus adjustment		-	0.4	-	(0.4)	-
Dividends	21	-	-	-	(20.1)	(20.1)
Balance, December 31, 2023		609.8	0.8	13.1	160.8	784.5
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	0.2	(0.2)	-	-	-
Withholding tax paid on vested RSUs	12	-	(0.2)	-	(0.1)	(0.3)
Share buyback		(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

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

CARGOJET INC.

Consolidated Statements of Cash Flows
For the years ended December 31, 2023 and 2022

(Canadian dollars in millions)

	Note	2023	2022
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		37.3	190.6
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment and amortization of contract assets	6,8	221.0	153.7
Share-based compensation expense	12	13.9	(4.1)
Finance costs	19	56.8	33.6
Impairment on property, plant and equipment and assets held for sale	8	15.8	-
Net loss (gain) on disposal of property, plant and equipment and assets held for sale	20	2.8	(0.7)
Realized foreign exchange gain on disposal of assets	8	(1.3)	-
Share-based compensation paid		(12.4)	-
Employee pension liability	23	0.4	3.9
Pension paid	23	(9.7)	(9.5)
Provision for income tax	16	14.4	29.4
Fair value decrease on stock warrant	6	(44.7)	(122.1)
(Gain) loss on swap derivative contract	27	(2.7)	36.5
Unrealized foreign exchange (gain) loss	10	(1.5)	4.4
Loss on extinguishment of debt	14	0.5	-
Share of loss in associate	9	0.1	2.0
Gain on insurance claim	6,8	(12.2)	-
Interest paid		(46.5)	(24.1)
Cash generated from operating activities		232.0	293.6
Changes in non-cash working capital items and other long-term items			
Contract acquisition asset, net of amortization	4	(5.4)	(2.0)
Trade and other receivables		(23.5)	(20.6)
Inventories		0.7	(1.1)
Prepaid expenses and deposits		3.2	(7.0)
Trade and other payables		(14.2)	17.6
NET CASH GENERATED FROM OPERATING ACTIVITIES		192.8	280.5
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(266.7)	(611.2)
Proceeds from disposal of property, plant and equipment and assets held for sale	8	127.0	0.7
Insurance proceeds from assets held for sale	6,8	12.2	-
Loans to associate	9	-	(2.6)
NET CASH USED IN INVESTING ACTIVITIES		(127.5)	(613.1)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of debenture	13	(86.3)	-
Proceeds from borrowings	13	145.5	308.4
Repayment of obligations under lease liabilities	10,14	(42.7)	(28.5)
Share buyback	21	(35.5)	(16.7)
Withholding tax paid on vested RSUs	12	(0.9)	(0.3)
Dividends paid to shareholders	21	(19.7)	(18.9)
NET CASH (USED IN) PROVIDED FROM FINANCING ACTIVITIES		(39.6)	244.0
NET CHANGE IN CASH		25.7	(88.6)
CASH, BEGINNING OF YEAR		6.1	94.7
CASH, END OF YEAR		31.8	6.1

The accompanying notes are an integral component of these consolidated 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 consolidated financial statements (the "financial statements") were approved by the Board of Directors on February 23, 2024 and authorized for issuance on February 26, 2024.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

Statement of compliance and basis of preparation

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

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").

On January 1, 2024, the Company completed an internal reorganization to amalgamate CJA with its wholly owned subsidiary, 2422311 Ontario Inc.

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

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.

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 rotable parts purchased as an asset and depreciates it over its useful life of up to 10 years. The cost of repairing the rotable 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.

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.

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.

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.

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 selling, general and administrative expenses in the period in which they arise.

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 initial recognition exemption would not apply to transactions in which both deductible and taxable temporary differences arise on initial recognition that result in the recognition of deferred tax assets and liabilities of the same amount.

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.

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.

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.

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.

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.

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 and engines 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. Gain 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.

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.

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, gain 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.

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

Key sources of estimation uncertainty

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

Impairment of property, plant and equipment
At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment 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. 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 of 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).

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.

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.

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 in proportion to the payments to date over the total forecasted payments specified in 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 the vesting of shares driven by the forecasted payments specified in the stock warrant agreements, future share price volatility and future exercise date, due to the long term nature of the warrants, such estimates are subject to significant uncertainty.

Adoption of new accounting policies

Effective January 1, 2023, the Company adopted the International Accounting Standards Board ("IASB") issued Disclosure of Accounting Policies (Amendments to IAS 1). The amendments to IAS 1 require that the Company discloses its material accounting policy information instead of its significant accounting policies. The amendments also clarify that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not to be disclosed and not all accounting policy information that relates to material transactions, other events or conditions is material to the financial statements. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

Effective January 1, 2023, the Company adopted the IASB issued Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12). The amendment narrows the scope of the initial recognition exemption so that it does not apply to transactions that give rise to equal taxable and deductible temporary differences such as deferred taxes on leases and decommissioning obligations. The adoption of this standard did not have a material impact on the Company's Consolidated Financial Statements.

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 does not expect this amendment to have a material effect on its Consolidated Financial Statements.

(Canadian dollars in millions except where noted)

3. INVENTORIES

	December 31, 2023	December 31, 2022
	$	$
Fuel inventory	2.5	2.8
Glycol inventory	0.1	0.5
Total inventory	2.6	3.3

For the years ended December 31, 2023 and 2022, costs of fuel inventory of $208.9 and $228.4, respectively, and costs of glycol inventory of $1.7 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 for the years ended December 31, 2023 and 2022:

	2023	2022
	$	$
Revenue from air cargo services	809.2	936.7
Revenue from other sources	68.3	43.2
Total revenue	877.5	979.9

Revenue recognized at a point of time

	2023	2022
	$	$
Domestic network*	355.1	365.7
Fuel and other surcharges	186.2	241.0
ACMI*	257.5	246.8
All-in charter	80.1	103.6
Ground handling and maintenance revenue	15.4	21.0
Total excluding stock warrant contract assets	894.3	978.1
Amortization of contract assets - stock warrant *	(42.5)	(11.5)
Total revenue	851.8	966.6

*Amortization of contract assets - stock warrant, previously recorded in revenue from domestic network and ACMI, is presented as a separate line in the table above. In the fourth quarter of 2023, the Company recorded a one-time cumulative catch-up adjustment of $29.5 million in amortization of contract assets related to Amazon stock warrant. See Note 6. This presentation change provides improved comparison of revenue by type between periods. Comparative figures for 2022 have been reclassified to conform with current year's presentation.

(Canadian dollars in millions except where noted)

Revenue recognized from transfer of services over time

	2023	2022
	$	$
All-in-charter	20.0	9.1
Hangar rental and other revenue	5.7	4.2
Total revenue	25.7	13.3

Contract assets and liabilities

As at December 31, 2023 and 2022 the Company's revenue-related assets and liabilities consist of the following:

	December 31, 2023	December 31, 2022
	$	$
Contract asset - stock warrants	113.6	156.1
Contract asset - other	5.4	-
Trade receivables	113.7	78.4
Other receivables	5.4	17.2
Total contract assets	238.1	251.7
Contract liability - expected rebates to customers	0.6	1.4

During the year ended December 31, 2023, the Company recognized a contract asset for $5.4, net of amortization as a variable consideration in a contract with a customer (2022 – nil).

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.

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 (2022 – 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 11.4% per annum (2022 – 10.6%). 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 14.2% of the issued and outstanding voting shares. Tranche I warrant shares represent 9.4% and Tranche II warrant shares represent 4.8% 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 27 Financial Instruments. The corresponding contract asset was recognized at inception and will amortize against revenue in proportion to the payments to date over the total forecasted payments specified in the agreement. During the fourth quarter of 2023, based on its assessment of the business activities and its discussion with Amazon to date, the Company changed its estimate in the forecasted revenue specified in the agreement. The Company reflected the change in estimates in amortization expense and recorded cumulative catch-up adjustment in the current quarter, as well as in the forecasted total number of warrants that will vest for the valuation of stock warrant obligation as at December 31, 2023. The fair value of the stock warrant obligations was revalued using the same American option pricing model utilizing Monte Carlo simulation and resulted in a gain of $44.9 during the year ended December 31, 2023 (2022 – gain of $74.7).

(Canadian dollars in millions except where noted)

	2023	2022
Contract Assets	$	$
Stock warrant and other contract assets - beginning of year	56.9	61.1
Less: Amortization during the year	(32.6)	(4.2)
Contract assets - end of year	24.3	56.9
Stock warrant obligations		
Stock warrant obligations - beginning of year	97.7	172.4
Less: Fair value adjustment during the year	(44.9)	(74.7)
Stock warrant obligations - end of year	52.8	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.

(Canadian dollars in millions except where noted)

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 27 Financial Instruments. The corresponding contract asset was recognized at inception and will amortize against revenue in proportion to the payments to date over the total forecasted payments specified in the agreement. The fair value of the stock warrant obligations was revalued as at December 31, 2023 using the same American option pricing model utilizing Monte Carlo simulation and resulted in a loss of $0.2 (2022 – gain of $47.4).

	2023	2022
Contract Assets	$	$
Stock warrant and other contract assets - beginning of year	99.2	106.5
Less: Amortization during the year	(9.9)	(7.3)
Contract assets - end of year	89.3	99.2
Stock warrant obligations		
Stock warrant obligations - beginning of year	57.1	104.5
Less: Fair value adjustment during the year	0.2	(47.4)
Stock warrant obligations - end of year	57.3	57.1

7. INTANGIBLE ASSETS

Intangible assets as at December 31, 2023 and 2022 consist of licenses with indefinite lives carried at $2.0 (December 31, 2022 - $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.

(Canadian dollars in millions except where noted)

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2023	Additions	Transfers	Assets Held for sale and Adjustments	Balance as at December 31, 2023
	$	$	$	$	$
Aircraft hull	683.5	44.5	132.3	(2.8)	857.5
Engines	756.8	8.2	165.0	(18.7)	911.3
Right of use assets	67.7	12.8	-	-	80.5
Spare parts	12.9	-	-	(0.8)	12.1
Ground equipment	63.6	4.7	0.2	(0.1)	68.4
Rotable spares	79.6	5.5	-	(0.3)	84.8
Computer hardware and software	15.8	0.4	-	-	16.2
Furniture and fixtures	5.5	0.2	-	-	5.7
Leasehold improvements	25.2	-	0.2	-	25.4
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	229.9	(315.1)	(225.1)	72.8
Deferred heavy maintenance	145.2	24.4	17.4	-	187.0
	2,287.2	330.8	-	(247.8)	2,370.2

Accumulated depreciation & impairment	Balance as at January 1, 2023	Depreciation	Adjustments	Balance as at December 31, 2023	Net Book Value as at December 31, 2023
	$	$	$	$	$
Aircraft hull	165.5	43.5	(1.0)	208.0	649.5
Engines	242.1	92.0	(17.7)	316.4	594.9
Right of use assets	36.1	10.4	-	46.5	34.0
Spare parts	-	-	-	-	12.1
Ground equipment	32.5	4.6	(0.1)	37.0	31.4
Rotable spares	33.9	7.4	(0.1)	41.2	43.6
Computer hardware and software	12.9	1.1	-	14.0	2.2
Furniture and fixtures	3.1	0.5	-	3.6	2.1
Leasehold improvements	15.5	1.0	-	16.5	8.9
Vehicles	2.4	0.3	-	2.7	1.4
Hangar and cross-dock facilities	13.7	1.8	-	15.5	28.9
Property, plant and equipment under development	-	-	-	-	72.8
Deferred heavy maintenance	85.9	15.9	-	101.8	85.2
	643.6	178.5	(18.9)	803.2	1,567.0

(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 $72.8 as at December 31, 2023 relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use (December 31, 2022 - $383.1).

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

During the year ended December 31, 2023, the Company completed the acquisition of five Boeing 757-200 aircraft and two Boeing 767-300 aircraft.

During the year ended December 31, 2023, $5.0 (2022 - $5.2) 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 year ended December 31, 2023 totaled $178.5 (2022 - $142.2) out of which $176.4 (2022 - $140.0) was recorded in direct expenses and $2.0 (2022 - $2.2) was recorded in selling, general and administrative expenses.

During the year ended December 31, 2023, the Company wrote off $1.3 related to the hangar under construction for Boeing 777 aircraft which will no longer be used (2022 - $nil).

Sale of aircraft and engines

During the year ended December 31, 2023, the Company sold one Boeing 777-300 aircraft for proceeds of $36.0, resulting in a loss on sale of $3.6 and a realized foreign exchange gain of $1.3. The Company also sold two Boeing 777-300 hulls that suffered significant damage due to severe hailstorms, resulting in a loss from impairment of $14.5 recognized in Other losses, net in the Consolidated 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 and received the approved amount, resulting in a gain of $12.2 recorded in Other losses, net in the Consolidated Statements of Earnings and Comprehensive Income, and a net impairment loss of $2.3. The Company also sold four GE90 engines for proceeds of $59.3.

Assets held for sale

The Company is in the process of selling four Boeing 777-200 aircraft, one simulator and two Beechcraft aircraft that were purchased for crew transportation. The Company expects to recover the book value of these assets and accordingly, an amount of $115.9 representing the carrying value of these assets have been classified as assets held for sale as current assets on the Consolidated Balance Sheets. As of December 31, 2023, deposits of $29.2 were received for these assets held for sale. The Company expects to complete the sale of the four Boeing 777-200 aircraft in the first quarter of 2024 and the sale of Beechcraft aircraft later in the year.

(Canadian dollars in millions except where noted)

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, Crew, Maintenance and Insurance ("CMI") and charter services from Miami, Florida. Avia Acquisition LLC is not a publicly listed Company. During the year ended December 31, 2023, Avia Acquisition LLC generated a net loss of $0.3 (2022 – loss of $8.1) and the Company's share of the net loss was $0.1 (2022 – loss of $2.0). The Company decreased the value of the investment by the share of net loss. No dividend was declared or paid by Avia Acquisition LLC during the period.

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

	December 31, 2023	December 31, 2022
	$	$
Current assets	14.4	16.2
Non-current assets	27.9	31.7
Total assets	42.3	47.9
Current liabilities	23.0	25.9
Non-current liabilities	24.8	27.9
Total liabilities	47.8	53.8
Net	(5.5)	(5.9)

	2023	2022
	$	$
Revenue	73.3	55.3
Expenses	73.6	63.4
Net loss	(0.3)	(8.1)
Company's share of net loss	(0.1)	(2.0)

Movement in investment in associate balance

	2023	2022
	$	$
Investment in associate - beginning of year	7.4	9.4
Company's share of net loss	(0.1)	(2.0)
Investment in associate - end of year	7.3	7.4

(Canadian dollars in millions except where noted)

Reconciliation of carrying amount

	December 31, 2023	December 31, 2022
	$	$
Net liability	(5.5)	(5.9)
Company's share	(1.4)	(1.5)
Goodwill	5.8	6.0
Notes participation	2.9	2.9
Investment in associate	7.3	7.4

As at December 31, 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 US prime rate plus 1% and is payable on demand. During the year ended December 31, 2023, the Company accrued interest of $0.3 (2022 - $0.1).

10. NET DEBT RECONCILIATION

The analysis of net debt as at December 31, 2023 and 2022 is presented below:

	December 31, 2023	December 31, 2022
	$	$
Cash	31.8	6.1
Gross debt - repayable within one year	(22.9)	(31.4)
Gross debt - repayable after one year	(776.3)	(675.6)
Net debt	(767.4)	(700.9)
Cash	31.8	6.1
Gross debt - fixed interest rates	(345.3)	(398.6)
Gross debt - variable interest rates	(453.9)	(308.4)
Net debt	(767.4)	(700.9)

(Canadian dollars in millions except where noted)

	Cash / bank overdraft	Lease liabilities	Borrowing	Debentures	Total
	$	$	$	$	$
Net debt as at January 1, 2022	94.7	(91.4)	-	(307.2)	(303.9)
Cash flows	(88.6)	28.5	(308.4)	-	(368.5)
Acquisitions - leases	-	(14.7)	-	-	(14.7)
Interest accretion	-	(7.0)	-	(2.4)	(9.4)
Foreign exchange adjustment	-	(4.4)	-	-	(4.4)
Net debt as at December 31, 2022	6.1	(89.0)	(308.4)	(309.6)	(700.9)
Cash flows	25.7	42.7	(145.5)	86.3	9.2
Loss on extinguishment of lease liabilities	-	(0.2)	-	(0.3)	(0.5)
Acquisitions - leases	-	(66.1)	-	-	(66.1)
Interest accretion	-	(8.0)	-	(2.6)	(10.6)
Foreign exchange adjustment	-	1.5	-	-	1.5
Net debt as at December 31, 2023	31.8	(119.1)	(453.9)	(226.2)	(767.4)

11. TRADE AND OTHER PAYABLES

	December 31, 2023	December 31, 2022
	$	$
Trade payables and accrued charges	134.6	90.5
Current portion of pension liability	9.8	9.5
Payroll and benefits	5.6	5.2
Total trade and other payables	150.0	105.2
Current trade and other payables	147.0	100.4
Non-current trade and other payables	3.0	4.8

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.

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.

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 the market price of $95.84 per DSUs. The Company settled all of the vested awards in cash pursuant to its incentive plan. As of December 31, 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 December 31, 2023, the Company re-measured the fair value of DSUs granted to crew members and recorded a liability of $10.0 (December 31, 2022 - $12.3). For the year ended December 31, 2023, the Company recognized a cost of $5.2 in crew cost for the services rendered in the Consolidated 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 $1.5 as crew cost expenses for the services rendered for the period ended December 31, 2023, in the Consolidated Statements of Earnings and Comprehensive Income. As at December 31, 2023, the Company had a total liability of $2.8 (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 year end. 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. The annual DSU amount for each director is $0.1.

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 selling, general and administrative expenses in the Consolidated Statements of Earnings and Comprehensive Income.

During the year ended December 31, 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 December 31, 2023, a total of 15,279 DSUs were outstanding in the directors' notional accounts with a carrying amount of liability of $1.8 (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.

During the year ended December 31, 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 years ended December 31, 2023 and 2022 is summarized below:

(Canadian dollars in millions except where noted)

RSUs	Number of RSUs	Fair value $
Balance at January 1, 2022	4,115	-
Granted	23,371	3.0
Share dividend	57	-
Vested and settled	(3,812)	-
Share based compensation - unvested and amortized	-	(1.2)
Forfeited	(318)	-
Balance at December 31, 2022	23,413	1.8
Share dividend	116	-
Vested and settled	(15,738)	(1.0)
Share based compensation - unvested and amortized	-	(0.7)
Balance at December 31, 2023	7,791	0.1

During the year ended December 31, 2023, the total share-based compensation expense of $1.7 related to the RSUs was included in the Consolidated Statements of Earnings and Comprehensive Income (2022 – $1.2). Unrecognized share-based compensation expense as at December 31, 2023 related to these RSUs was $0.1 (December 31, 2022 – $1.8).

Options

The Options activity during the years ended December 31, 2023 and 2022 is summarized below:

OPTIONS	Number of Options	Weighted average exercise price
Balance as at January 1, 2022	40,685	125.17
Granted	21,029	146.26
Exercised	(1,169)	101.79
Balance as at December 31, 2022	60,545	132.95
Granted	38,144	108.05
Forfeited	(5,785)	117.19
Balance as at December 31, 2023	92,904	123.71
Vested & exercisable at December 31, 2023	38,531	125.61

As at December 31, 2023, there were 38531 vested Options outstanding (2022 – 22,253) and the weighted average contractual life remaining of the outstanding vested Options is 1.7 years (2022 – 2.25 years).

(Canadian dollars in millions except where noted)

During the year ended December 31, 2023, the fair value of options was determined, and the Company recognized an expense of $0.8 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 $0.8). As at December 31, 2023, the Company had a total liability of $2.2 (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	37,169	1,486	18,278	12,086	15,221	8,665
Fair value per option on grant date	$38.96	$44.37	$46.37	$50.64	$25.85	$23.66
Fair value per option on December 31, 2023	$47.83	$38.33	$28.25	$14.82	$28.82	$29.89

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, 2023, PSUs granted in 2020 fully vested 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 December 31, 2023, an amount of $2.5 was transferred to a 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.

(Canadian dollars in millions except where noted)

During the year ended December 31, 2023, the Company also granted 27,512 PSUs to its executives (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. A cost of $1.1 was recognized in bonus and incentive expense during the year ended December 31, 2023 (2022 – gain of $5.1) with a corresponding amount in liability. As at December 31, 2023, the Company had an outstanding liability of $4.5 on 47,558 outstanding PSUs (December 31, 2022 - $3.4 on 32,238 PSUs)

13. BORROWINGS

The balance of borrowings as at December 31, 2023 and December 31, 2022 consists of the following:

	December 31, 2023	December 31, 2022
	$	$
Delayed-draw term loan facility	426.9	308.4
Revolving credit facility	27.0	-
	453.9	308.4
Long-term portion	453.9	308.4

Revolving syndicate credit facility and term loan

The Company has a syndicated committed revolving credit facility with a syndicate of financial institutions (collectively, the “Lenders”), in respect of which Royal Bank of Canada acts as administrative agent, under which a revolving operating credit facility (the “Credit Facility”) and a delayed-draw term facility (the “DDTL Facility” and, together with the Credit Facility, the “Facilities”) availed through its subsidiary Cargojet Airways Ltd., as borrower. The maturity date of the Facilities is July 22, 2027.

On February 7, 2022, the Company amended the Credit Facility which allowed for an increase of $100 to $600 upon request by the Company and subject to approval by the Lenders. These amendments also included an extension of maturity date of the Credit Facility to February 7, 2027 and a waiver of the requirement for the Company 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 (as defined in the Facilities) exceeds 2.0 as at the end of any fiscal quarter.

On July 22, 2022, the Company further amended its syndicated committed revolving credit facility with the Lenders to establish the DDTL Facility up to an aggregate amount of US$400. Under this 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 criteria that the aggregate drawn amount under the Credit Facility does not exceed $400 for more than ninety consecutive days was waived. The maturity date of the Credit Facility was also further extended to July 22, 2027 to coincide with the maturity date of the DDTL Facility. The DDTL Facility was available to be drawn until January 22, 2024 by way of advances subject to minimum draws. As of January 22, 2024, a principal amount of $427.0 was drawn under the DDTL Facility and any undrawn amount under the DDTL Facility thus expired as of such date.

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 Credit 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 Credit 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 Credit Facility prior to maturity. Amounts drawn on the Credit Facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The Credit Facility is used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

The Facilities are 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 Facilities are 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 Facilities 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 Facilities are 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 Facilities are also subject to the maintenance of a minimum fixed charge coverage ratio and a total adjusted leverage ratio.

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 Facilities 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 the Facilities as at December 31, 2023 and 2022.

Included in the Consolidated Statement of Earnings and Comprehensive Income for the year ended December 31, 2023 was interest expense on the Facilities of $25.8 (2022 - $8.1).

(Canadian dollars in millions except where noted)

The Company has provided irrevocable standby letters of credit totaling $1.2 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.

14. LEASE LIABILITIES

The Company has lease arrangements for two Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rates for these leases is 6.7% and 6.4% respectively. These leases are deemed to be maturing on the exercise date of the bargain purchase options in October 2027 and June 2030 respectively. As at December 31, 2023, the total outstanding balance of these lease arrangements is $79.7 (2022 - $52.4), out of which $11.8 (2022 - $22.4) is presented as a current liability on the Consolidated Balance Sheets.

On November 20, 2023 Company exercised the bargain purchase option for one Boeing 767-300 aircraft in respect of the finance lease ended in November 2023 and paid the entire outstanding amount thereof $10.4 net of all unused reserves and heavy maintenance deposits, resulting in loss of $0.2 on extinguishment of lease liabilities.

During the year ended December 31, 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 December 31, 2023, the total outstanding balance of this finance lease arrangement is $50.4 out of which $5.1 is recognized as a current liability on the consolidated balance sheet.

As at December 31, 2023, the Company also has $34.0 (2022 - $31.6) of right of use assets and $39.4 (2022 - $36.6) of lease liabilities, which consists of hangars, warehouses, offices and one Boeing 767-200 aircraft, out of which $11.1 (2022 - $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, 2023.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	30.6	22.9
Later than one year and not later than five years	78.5	61.9
Later than five years	38.0	34.3
	147.1	119.1
Less: interest	28.0	-
Total obligations under leases	119.1	119.1
Less: current portion	22.9	22.9
Non-current portion	96.2	96.2

Interest amounts on the lease liabilities for the year ended December 31, 2023 totaled $8.0 (2022 - $7.0).

(Canadian dollars in millions except where noted)

15. DEBENTURES

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

	December 31, 2023	December 31, 2022
	$	$
Hybrid debentures - 5.75% due April 30, 2024	-	85.2
Hybrid debentures - 5.75% due April 30, 2025	113.6	112.6
Hybrid debentures - 5.25% due June 30, 2026	112.6	111.8
Balance-end of year	226.2	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.

(Canadian dollars in millions except where noted)

On November 14, 2023, the Company issued a redemption notice to redeem in full on December 29, 2023 (the "Redemption Date") all of its outstanding 5.75% senior unsecured hybrid debentures due April 30, 2024 (the "Debentures") in accordance with the provisions of the indenture dated November 6, 2018. The redemption price for the Debentures is 100% of the aggregate outstanding principal amount, together with accrued and unpaid interest up to, but excluding, the Redemption Date. The Company paid the redemption price in cash using its DDTL Facility.

The following table shows the movements of the hybrid debenture during the years ended December 31, 2023 and December 31, 2022:

	2023	2022
	$	$
Principal balance - beginning of year	85.2	84.4
Loss on extinguishment of debt	0.3	-
Accretion during the year	0.8	0.8
Redeemed during the year	(86.3)	-
Balance - end of year	-	85.2

Interest expense on the hybrid debentures for the year ended December 31, 2023 totaled $5.7 (2022 - $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.

(Canadian dollars in millions except where noted)

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

	2023	2022
	$	$
Principal balance - beginning of year	112.6	111.8
Accretion during the year	1.0	0.8
Balance - end of year	113.6	112.6

Interest expense on the hybrid debentures for the year ended December 31, 2023 totaled $7.6 (2022 - $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.

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.

(Canadian dollars in millions except where noted)

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

	2023	2022
	$	$
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, 2023 totaled $6.9 (2022 - $6.9).

16. INCOME TAXES

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

	2023	2022
	$	$
Earnings before income taxes	51.7	220.0
Provision for income taxes at statutory rate of 26.5% (2022 - 26.5%)	13.7	58.3
Adjustment:		
Share based compensation	0.7	(0.2)
Meals and entertainment	0.1	0.2
Stock warrant	(0.1)	(29.5)
Loss on investment in associates	-	0.6
Provision for income taxes	14.4	29.4

The tax effect of significant temporary differences are as follows:

	December 31, 2022	Recognized in earnings	December 31, 2023
	$	$	$
Property, plant and equipment	138.4	25.1	163.5
Operating loss carryforward	(15.5)	(24.2)	(39.7)
Licenses	0.3	-	0.3
Intangible assets	(0.3)	-	(0.3)
Equity transaction cost	(2.5)	0.8	(1.7)
Pension costs	(5.2)	2.5	(2.7)
Financing costs	(2.4)	0.5	(1.9)
Long-term incentive plan	(5.6)	0.6	(5.0)
Deferred heavy maintenance	27.8	9.1	36.9
Net deferred income tax liability	135.0	14.4	149.4
Deferred income taxes assets	3.1	2.3	5.4
Deferred income taxes liabilities	138.1	16.7	154.8

(Canadian dollars in millions except where noted)

17. DIRECT EXPENSES

	2023	2022
	$	$
Fuel costs	208.9	228.4
Maintenance costs	68.7	63.0
Heavy maintenance amortization	15.8	13.3
Aircraft costs	20.9	24.5
Crew costs	95.6	91.4
Depreciation	160.6	126.7
Ground services	75.1	84.7
Airport services	44.8	47.0
Navigation and insurance	49.0	53.4
Direct expenses	739.4	732.4

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	2023	2022
	$	$
Salaries and benefits	36.7	36.1
Employee pension	-	3.4
Depreciation	2.0	2.2
Net realized foreign exchange gain	(2.9)	(0.5)
Bonuses, incentives and management fees	7.6	5.4
Audit, legal and consulting	4.1	5.6
IT network and communications	5.4	5.0
Sales and marketing expenses	2.5	2.7
Subscription and office supplies	4.5	4.4
Donation	0.2	0.1
Other selling, general and administrative expenses	10.4	10.2
Selling, general and administrative expenses	70.5	74.6

19. FINANCE COSTS

	2023	2022
	$	$
Interest on leases	8.0	7.0
Interest on debentures	20.2	20.0
Credit facilities and other interest	33.6	11.8
Borrowed interest capitalized	(5.0)	(5.2)
Finance costs	56.8	33.6

(Canadian dollars in millions except where noted)

20. OTHER (GAIN) LOSS, NET

	2023	2022
	$	$
Gain on insurance claim*	(12.2)	-
Impairment on assets held for sale*	14.5	-
Impairment of property, plant and equipment*	1.3	-
Unrealized foreign exchange (gain) loss	(0.5)	3.6
Loss (gain) on disposal of property, plant and equipment and assets held for sale *	2.8	(0.7)
Loss on extinguishment of debts	0.5	-
Other loss, net	6.4	2.9

*See Note 8, Property, plant and equipment

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, "Voting Shares") in the open market, subject to the normal terms and limitations of such bids. The program commenced on May 4, 2022, and terminated on May 3, 2023.

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 Voting Shares that may be purchased from 155,000 to 1,500,000.

On November 9, 2023, Cargojet commenced a NCIB and automatic share repurchase plan ("ASPP"). The NCIB allows the Company to repurchase, at its discretion, up to 1,500,000 common voting shares and variable voting shares (together, "Voting Shares") in the open market, subject to the standard terms and limitations. The program will terminate on November 8, 2024. Under the NCIB, other than purchases made under block purchase exemptions, Cargojet may purchase up to the daily limit, as approved by TSX, on the TSX during any trading day, which represents approximately 25% of the average daily trading volume, as calculated in accordance with TSX rules.

During the year ended December 31, 2023, the Company purchased for cancellation an aggregate of 0.4 million Voting Shares (2022 – 0.1 million) under NCIB at a volume weighted average price of $104.66 per Voting Share (2022 - $135.93 per Voting Share), for a total cost of $38.3 (2022 - $16.7).

As at December 31, 2023, the obligation for the repurchase of $26.7 was recognized under the ASPP in trade and other payable and a corresponding amount was recorded in shareholders' equity (December 31, 2022 - $nil).

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.

(Canadian dollars in millions except where noted)

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

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

b) Issued and outstanding

The following table shows the changes in shareholders' capital for the year ended December 31, 2023:

	Number of shares	Amount
		$
Consisting of:		
Common and variable voting shares	17,202,186	650.9
Outstanding - January 1, 2023	17,202,186	650.9
Changes during the year:		
Restricted share units, vested and exercised	7,313	0.9
Share buyback	(342,256)	(42.0)
	16,867,243	609.8
Consisting of:		
Common and variable voting shares	16,867,243	609.8
Outstanding - December 31, 2023	16,867,243	609.8

(Canadian dollars in millions except where noted)

Dividends

Dividends to shareholders declared for the year ended December 31, 2023 amounted to $20.1 ($1.1726 per share) and for the year ended December 31, 2022 amounted to $19.3 ($1.1180 per share) for both common and variable shares.

As at December 31, 2023, a dividend of $5.3 was payable to the shareholders (December 31, 2022 - $4.9).

22. NET EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the year ended December 31, 2023 and 2022:

	2023	2022
Net earnings	$37.3	$190.6
Interest on debentures, net of taxes (1)	-	14.7
Net earnings for shareholders (diluted)	$37.3	$205.3
Weighted average number of shares	17.2	17.3
Dilutive impact of share - based awards, hybrid debentures and vested warrant number of shares	-	3.0
Diluted weighted average number of shares	17.2	20.3
Net earnings per share - basic	$2.17	$11.04
Net earnings per share - diluted	$2.17	$10.15

(1) Interest on debentures, net of taxes was $10.6 for the year ended December 31, 2023. The amount is not included in the table above for the computation of diluted net earnings for shareholders as it is anti-dilutive.

23. EMPLOYEE BENEFITS

The Company has an unfunded defined benefit plan for one of its senior executives. The executive is entitled to receive benefit in the form of lump sum payments. In 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, 2023, the Company paid an amount of $9.7 (2022 - $9.5) to the executive from the benefit plan and accrued interest of $0.4 (2022 - $0.6) in respect of the defined pension plan.

The following table shows the analysis and movement of pension liabilities for the years ended December 31, 2023 and 2022:

(Canadian dollars in millions except where noted)

	2023	2022
	$	$
Balance as at January 1, 2023	19.1	24.7
Past service cost	-	8.1
Interest expense	0.4	0.6
Pension paid	(9.7)	(9.5)
Effect of changes in financial assumptions	-	(4.8)
Balance as at December 31, 2023	9.8	19.1
Pension liability - Current	9.8	9.5
Pension liability - Non-Current	-	9.6

Defined contribution pension plans: The Company terminated the plan with mutual consent effective June 1, 2022.

24. 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. 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.

During the year ended December 31, 2023, the Company made lease payments of $1.1 (2022 - $1.1), out of which $0.5 (2022 - $0.5) was adjusted towards principal payments against the liability and $0.6 (2022 - $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, 2023, the Company had a liability of $7.7 (2022 - $8.4) due under the lease.

Investment in associate

The Company acquired an investment in Avia Acquisition LLC in August 2019. 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.

(Canadian dollars in millions except where noted)

The following is the summary of transactions between the Company and 21 Air for the years ended December 31, 2023 and 2022:

	2023	2022
	$	$
Aircraft lease revenue	4.3	3.9
Engine lease revenue	1.0	-
Sub-charter expenses	0.2	3.4

Compensation of key management personnel

In 2023, the employee benefit expense was $177.9 (2022 - $168.2), of which $141.4 (2022 - $128.0) was recorded in direct expenses and $36.5 (2022 - $40.2) was recorded in selling, general and administrative expenses. The selling, general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2023 and 2022 as follows:

	2023	2022
	$	$
Short term benefits	8.5	11.0
Post-employment benefits	0.2	0.1
Share-based payments	4.0	3.9
Defined pension benefits	-	3.9
Total remuneration	12.7	18.9

25. INFORMATION ON MAJOR CUSTOMERS

In 2023, the Company had sales to three individual customers that represented 59.2% of the total revenues (2022 – 62.4%). These sales are provided under service agreements that expire over various periods to December 2030. The sales to individual customers represented 29.5%, 17.9% and 11.8% respectively of the total revenues (2022 – 28.2%, 21.4 % and 12.8% respectively).

26. CAPITAL MANAGEMENT

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

The Company defines capital as the sum of total equity, borrowings, 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 and the DDTL Facility (See Note 13 Borrowings). As at December 31, 2023 and 2022, the Company was in compliance with all financial covenants.

27. 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.

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 banker's acceptance-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 CDOR will cease publication of CDOR by June 28, 2024 and the Canadian financial benchmark will be replaced by 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, 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 December 31, 2023, the fair value measurement of the 260,000 and 822,500 underlying shares under the swap agreements in effect was a liability of $11.1 (December 31, 2022 – liability of $13.8). The fair value adjustment for the year ended December 31, 2023 was a gain of $0.6 for the 260,000 share units and $2.1 for the 822,500 share units respectively (2022 – loss of $13.2 and $23.3 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 $25.8 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, 2025 as at December 31, 2023, was approximately $112.9 (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 $1.0 respectively.

The fair value of the 5.25% hybrid debentures due June 30, 2026 as at December 31, 2023 was approximately $108.8 (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 $1.7 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 December 31, 2023, the performance share units due March 15, 2024, March 15, 2025 and March 15, 2026 were valued at $0.9, $1.7 and $4.9 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 $110.1 as at December 31, 2023 (December 31, 2022 - $154.8). The revaluation resulted in a gain of $44.7 for the year ended December 31, 2023 (December 31, 2022 – gain of $122.1). 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 41.8% for tranche I, and forecasted revenues from Amazon associated with this arrangement utilized to predict future vesting events. Other inputs include a risk-free rate of 4.1% and a dividend yield of 0.9%. Significant unobservable inputs for the DHL warrant obligation include volatility of the Company's common shares of 40.2% for tranche I and 40.2% 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 3.4% and a dividend yield of 1.0%.

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 gain 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 $2.5 and decrease by $2.5. 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 $23.7 or decrease by $21.1. 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 $6.7 and decrease by $6.8 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 $24.2 or decrease by $21.2.

The fair value of borrowings approximates 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 gain on derivatives are recorded as derivative instrument assets and unrealized losses are recorded as derivative instrument liabilities in the Consolidated Balance Sheets.

Credit risk

The Company's principal financial assets that expose it to credit risk are accounts receivable and 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 90.1% (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 (1.2%) 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. 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 the Credit Facility and the DDTL Facility with a Canadian chartered bank. The borrowing capacity of the Credit Facility and the DDTL Facility are $600 and US$400 respectively. As at December 31, 2023, $27.0 of borrowings were outstanding under the Credit Facility and US$322.9 ($427.0) of borrowings were outstanding under the DDTL Facility. The Company was in compliance with all covenants as at December 31, 2023 and 2022.

(Canadian dollars in millions except where noted)

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 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	-	113.6	566.5	-	680.1
Lease liabilities	22.9	17.6	44.3	34.3	119.1
Derivative financial instruments	11.1	-	-	-	11.1
Interest on leases	7.7	5.8	10.7	3.8	28.0
Interest on debentures	14.5	9.6	3.5	-	27.6
Trade and other payables	147.0	3.0	-	-	150.0
Share-based compensation	1.1	1.7	14.4	4.0	21.2
Dividends payable	5.3	-	-	-	5.3
Total	209.6	151.3	639.4	42.1	1,042.4

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 December 31, 2023, 42% of the total debt outstanding was fixed rate debt and 58% was floating rate debt. A 10% increase in interest rates with all other factors remaining the same will increase the interest expense by $3.1 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 gain and losses due to fluctuations in the foreign currencies. The Company also enters into contracts attributed to asset purchases including aircraft and aircraft parts and pays debt in foreign currency.

Total unrealized foreign exchange gain for the year ended December 31, 2023 on foreign exchange transactions was $0.5 (2022 – loss of 3.6).

As at December 31, 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 $3.5 (December 31, 2022 - $3.8). 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, 2022 - $3.8).

As at December 31, 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 $0.3 (December 31, 2022 - $0.5). 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 (December 31, 2022 - $0.5).

28. GUARANTEES

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

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

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

(c) The Company participates in Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC 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.