Consolidated Financial Statements of

CARGOJET

For the years ended December 31, 2019 and 2018

(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, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2019 and 2018;
- 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 a summary of significant accounting policies.

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.

Other information

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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

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

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

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

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

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

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

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

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 20, 2020

CARGOJET INC.

Consolidated Balance Sheets

As at December 31, 2019 and December 31, 2018

(in millions of Canadian dollars)

	Note	2019	2018
		$	$
ASSETS			
CURRENT ASSETS			
Cash		1.6	-
Trade and other receivables		51.3	65.2
Inventories	3	2.3	1.6
Prepaid expenses and deposits		6.9	5.2
Income taxes recoverable		0.1	0.1
Derivative financial instruments	29	8.3	0.5
		70.5	72.6
NON-CURRENT ASSETS			
Property, plant and equipment	8,13	890.2	721.3
Goodwill	11	48.3	46.4
Intangible assets	7	2.0	2.0
Deposits		6.1	7.1
Contract asset	5	78.0	-
Deferred income taxes	17	3.2	3.5
		1,098.3	852.9
LIABILITIES			
CURRENT LIABILITIES			
Bank overdraft		-	0.9
Trade and other payables	9	51.6	44.4
Lease liabilities	2,14	59.3	25.2
Dividends payable		3.6	2.9
		114.5	73.4
NON-CURRENT LIABILITIES			
Borrowings	13	244.2	206.0
Lease liabilities	2,14	137.0	174.2
Stock warrant obligations	5	73.5	-
Provisions	15	-	1.4
Debentures	16	193.3	198.1
Deferred income taxes	17	35.5	26.6
Employee pension, crew incentive and option liability	12,24	24.1	15.5
		822.1	695.2
EQUITY		276.2	157.7
		1,098.3	852.9

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

CARGOJET INC.

Consolidated Statements of Earnings and Comprehensive Income

Year ended December 31, 2019 and 2018

(in millions of Canadian dollars except per share data)

	Note	2019	2018
		$	$
REVENUES		486.6	454.9
DIRECT EXPENSES	18	367.4	342.6
		119.2	112.3
General and administrative expenses	19	59.5	50.3
Sales and marketing expenses		2.9	2.8
Finance costs	20	43.6	27.3
Other (gain) loss, net	21	(7.6)	2.6
		98.4	83.0
EARNINGS BEFORE INCOME TAXES		20.8	29.3
PROVISION FOR INCOME TAXES	17		
Deferred		9.2	9.1
NET EARNINGS AND COMPREHENSIVE INCOME		11.6	20.2
EARNINGS PER SHARE	23		
- Basic		$0.86	$1.51
- Diluted		$0.85	$1.50

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

CARGOJET INC.

Consolidated Statements of Changes in Equity
Year ended December 31, 2019 and 2018

(in millions of Canadian dollars)

	Note	Shareholders' capital	Contributed surplus	Conversion option	Surplus on debenture settlement	Deficit	Total shareholders' equity
		$	$	$	$	$	$
Balance, January 1, 2019		177.9	2.1	5.1	8.0	(35.4)	157.7
Net earnings and comprehensive income		-	-	-	-	11.6	11.6
Share-based compensation	12	-	5.1	-	-	-	5.1
Restricted shares, dividend shares vested and exercised	22,12	2.2	(2.2)	-	-	-	-
Tax paid on vested RSU's and options	12	-	(2.6)	-	-	(0.6)	(3.2)
Conversion option on debenture redemption		-	-	(5.1)	5.1	-	-
Dividend Shares		0.1	-	-	-	-	0.1
Convertible debenture-conversion		118.0	-	-	-	-	118.0
Dividends	22	-	-	-	-	(13.1)	(13.1)
Balance, December 31, 2019		298.2	2.4	-	13.1	(37.5)	276.2
Balance, January 1, 2018		174.4	2.6	5.1	8.0	(35.5)	154.6
Net earnings and comprehensive income		-	-	-	-	20.2	20.2
Vested options settled in cash		-	(0.5)	-	-	(1.5)	(2.0)
Effect of change in method of settlement of		-	(2.2)	-	-	(5.0)	(7.2)
Private placement of shares		0.7	-	-	-	-	0.7
Restricted shares and options vested and exercised		1.4	(1.4)	-	-	-	-
Share-based compensation		-	4.4	-	-	-	4.4
Tax paid on vested RSU's and options		-	(0.8)	-	-	(2.2)	(3.0)
Convertible debenture-conversion		1.4	-	-	-	-	1.4
Dividends	22	-	-	-	-	(11.4)	(11.4)
Balance, December 31, 2018		177.9	2.1	5.1	8.0	(35.4)	157.7

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

CARGOJET INC.

Consolidated Statements of Cash Flows
Year ended December 31, 2019 and 2018

(in millions of Canadian dollars)

	Note	2019	2018
		$	$
CASH FLOWS FROM OPERATING ACTIVITIES			
Net earnings		11.6	20.2
Adjustments to reconcile net cash from operating activities			
Depreciation of property, plant and equipment	8	94.0	66.1
Share-based compensation	12	10.5	4.8
Finance costs	20	43.6	27.3
Crew Incentive		1.9	-
Gain on disposal of property, plant and equipment	8	(1.3)	(0.3)
Employees pension liability	19	3.5	2.7
Income tax provision	17	9.2	9.1
Other gains and expenses	21	(9.8)	(1.6)
Interest paid		(25.4)	(17.8)
Cash generated from operating activities		137.8	110.5
Changes in non-cash working capital items and deposits			
Contract acquisition asset		(6.5)	-
Trade and other receivables		13.9	(25.1)
Inventories		(0.7)	(0.7)
Prepaid expenses and deposits		(0.7)	0.3
Trade and other payables		7.2	6.3
NET CASH GENERATED FROM OPERATING ACTIVITIES		151.0	91.3
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	8	(218.1)	(186.7)
Proceeds from disposal of property, plant and equipment		1.3	1.5
Proceeds from sale and lease back of aircraft		-	10.3
Proceeds from total return swap & settlement of derivative financial instrument		4.1	2.9
Acquisition of business	11	(3.1)	-
Settlement of provision		(1.4)	-
NET CASH USED IN INVESTING ACTIVITIES		(217.2)	(172.0)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of borrowings		(61.6)	(62.3)
Proceeds from borrowings		99.8	143.8
Repayment of obligations under lease liabilities	2,14	(55.5)	(74.4)
Options settled in cash		(2.0)	(7.3)
Proceeds from debenture issuance net of issuance costs		109.7	82.3
Tax paid on vested RSU's and options		(3.2)	(3.0)
Dividends paid to shareholders	22	(12.4)	(11.1)
Proceeds from private placement		-	0.7
NET CASH FROM FINANCING ACTIVITIES		74.8	68.7
EFFECT OF EXCHANGE RATE CHANGES		(6.1)	5.4
NET CHANGE IN CASH		2.5	(6.6)
(BANK OVERDRAFT) CASH, BEGINNING OF YEAR		(0.9)	5.7
CASH (BANK OVERDRAFT), END OF YEAR		1.6	(0.9)

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 network air cargo co-load network between fourteen major Canadian cities. The Company also provides dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance (“ACMI”) basis, operating between points in Canada and the USA. As well, the Company operates scheduled international routes for multiple cargo customers between the USA and Bermuda and Canada and Germany and flights between Canada and Mexico.

Cargojet is publicly listed with shares and convertible 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 and authorized for issuance by the Board of Directors on February 20, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of preparation

These financial statements include the accounts of the Company and its wholly owned subsidiaries, Cargojet GP Inc. (“CGP”), Cargojet Holdings Limited Partnership (“CHLP”), and CHLP’s wholly owned subsidiaries, Cargojet Holdings Ltd. (“CJH”), CJH’s wholly owned subsidiary, 2422311 Ontario Inc., CJH’s wholly owned subsidiary, ACE Air Charter Inc. (“ACE”), ACE’s wholly owned subsidiaries, ACE Maintenance Ontario Inc. (“ACEM”), 2166361 Ontario Inc. (“ACEO”), and ACEO’s wholly owned subsidiary, Navigatair Inc. (“NAVIGATAIR”), CJH’s wholly owned subsidiary, Cargojet Airways Ltd. (“CJA”), Cargojet Partnership (“CJP”) and Aeroship Handling Ltd. (“AH”).

For the year ended December 31, 2019, the financial statements also include the accounts of the wholly owned subsidiary Services Aeroportuaires G.E.S Inc. (“GTA”) up to the date of dissolution of GTA on May 30, 2019. Upon dissolution of GTA the assets and liabilities were rolled over to “CJA”, its sole shareholding Company, without any effect on the financial statements of the Company.

Cash

Cash balance consists of cash on hand and bank overdrafts.

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 seperable is capitalized at historic cost and includes expenditure 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 consolidated statement of earnings and comprehensive income.

The estimated useful lives are as follows:

Asset	Estimated useful life
Aircraft hull	30 – 45 years from the date of manufacture
Engines	4 - 15 years
Rotable parts	Up to 10 years
Spare parts	Actual usage
Ground equipment	Up to 20 years
Hangar and cross-dock facility	Up to 30 years
Vehicles	Up to 8 years
Computer hardware and software	Up to 5 years
Furniture and fixtures	Up to 10 years
Leasehold improvements	Lesser of useful life and term of lease
Right of use assets	Term of lease
Deferred heavy maintenance	Up to the date of the next scheduled heavy maintenance or end of lease term whichever is earlier

Intangible assets

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

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

Impairment of tangible and intangible assets excluding goodwill

At the end of each 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 statement 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 statement 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 on April 1. 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.

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.

Exchange differences are recognized in consolidated statement of earnings and comprehensive income 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 are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognized in consolidated statement of earnings and comprehensive income in the period in which they are incurred.

Income taxes

Deferred taxes

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

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

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

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

Current and deferred taxes for the period

Current and deferred taxes are recognized in consolidated statement of earnings and comprehensive income, except when they relate to items that are recognized outside income (such as in other comprehensive income or directly in equity), in which case the current and deferred tax is also recognized outside income, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows to settle the present obligation, its carrying amount is the present value of those estimated cash flows.

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 service is provided to the Company.

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 service is provided to the Company

The Company recently changed its method of settlement of options issued under the Stock Option Plan for non-employee directors and certain key executives by providing 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 subsequent change in its settlement practice and on establishment of 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 change in the fair value of the options using Black Scholes valuation method and recorded as part of long-term liabilities. The compensation expense is recognized for vested options immediately and based on elapsed vesting period for non-vested options.

The Company has a derivative in the form of total return swap to manage its exposure under this incentive program that is not designated as hedge accounting relationship with the option liability but regarded as an economic hedge. Gains and losses on the option liability and the total return swap are recognized in the same line item in the income statement to offset the exposure due to change in their fair values. This policy is changed from the normal practice of recognizing the change in fair value of swap in other gains and losses.

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 11, which are measured at each reporting date and the settlement date. Changes in 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 statement 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.

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 statement 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.

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 statement 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 earnings and comprehensive income.

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

Revenue recognition

The Company has adopted *IFRS 15, Revenue from Contract with Customers* on a full retrospective basis as of January 1, 2018. Under the full retrospective method, the provisions of IFRS 15 are applied to each period presented in the financial statements, in accordance with *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors,* subject to certain practical expedients that are outlined in IFRS 15. There were no material retrospective adjustments.

On adoption of IFRS 15, the Company adopted and implemented the following accounting policy:

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. Revenue from cargo services 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.

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

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

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

Financial Instruments

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

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

Financial assets/liabilities	**Original classification (IAS 39)**	**New classification (IFRS 9)**
Cash and cash equivalents	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Current and long term debt	Amortized cost	Amortized cost
Interest payable	Amortized cost	Amortized cost
Derivative financial instruments	Fair value	Fair value

(b) Measurement
Financial assets and liabilities at amortized cost:
Financial assets and liabilities at amortized cost are initially recognized at fair value, 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 if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the credit risk of the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

(d) Derecognition of

Financial assets:
The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated Statements of Earnings and Comprehensive Income.

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.

Interest revenue is recognized when earned.

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

Convertible debentures

The component parts of compound instruments issued by the Company 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. The liability component is subsequently recognized on an amortized cost basis using the effective interest method until extinguished upon conversion or at the instrument’s maturity date. The equity component is recognized and included in equity, and is not subsequently re-measured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to another equity account. Transaction costs are divided between the liability and equity components in proportion to their values.

On the early redemption or repurchase of convertible debentures, the Company allocates the consideration paid on extinguishment to the liability based on its fair value at the date of the transaction and the residual is allocated to the conversion option. Any resulting gain or loss relating to the liability element is credited or charged to the consolidated statement of earnings and comprehensive income and the difference between the carrying amount and the amount considered to be settled relating to the holder option is treated as a capital transaction.

Hybrid Debentures

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

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

Critical accounting judgments and key sources of estimation uncertainty

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

Critical judgments in applying accounting policies

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

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

Key sources of estimation uncertainty

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

Impairment of property, plant and equipment, goodwill and intangibles assets
At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication 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 to which the asset belongs.

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

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

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

Provisions
The Company has estimated certain maintenance costs that will incur at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, the Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The Company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to a change in timing, cost of maintenance or discount rates.

Financial instruments

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

Employee future benefits

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

Stock warrants

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

New Accounting standards effective for 2019

Leases:

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaced the previous lease standard, IAS 17, *Leases* and related interpretations. The most significant effect of the new requirements was an increase in lease assets and financial liabilities as IFRS 16 eliminated the classification of leases as either operating leases or finance leases for a lessee.

The Company has applied IFRS 16 effective January 1, 2019 using the simplified approach. Under this approach, the Company has determined the effect of applying the standard on the existing leases as at January 1, 2019, the initial date of application. The comparative information has not been restated and will continue to be reported under IAS 17 and IFRIC 4. On transition, the Company used the practical expedients under the simplified approach. The Company used the interest rate implicit in the lease for discounting the lease payments to determine its lease liability and right of use asset at the present value of the remaining lease payments if the rate can be readily determined. Otherwise, the Company's incremental borrowing rate was used. The Company also elected not to apply the provisions of the standard to short-term leases or where the underlying asset is of low value.

Accounting for right of use asset and lease liability

The Company had one aircraft under operating lease at the transition date and has recorded the right of use asset and the lease liability in accordance with the requirements of the standard. The Company had leased hangars and warehouses at its airport locations. On adoption of IFRS 16, the Company recognized the lease liabilities that were measured at the present value of the remaining lease payments determined using the incremental borrowing rate as of January 1, 2019 and has recorded the right of use asset and the lease liability under the standard. The weighted average incremental rate applied to all the lease liabilities on January 1, 2019 was 7%.

Leases are recognized as right of use assets and a corresponding lease liability is recognized at the date at which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the consolidated statements of earnings and comprehensive income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right of use assets will be accounted for under IAS 16 Property, Plant and Equipment. Aircraft recorded as right of use assets will have the same accounting policies as directly owned aircraft, meaning the right of use assets will be componentized and depreciated over the lease term. In accordance with its policy on owned aircrafts, any qualifying maintenance events will be capitalized and depreciated over the lesser of the lease term and expected maintenance life. Maintenance provisions for end-of-lease return obligations will be recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease. Any changes to the provision for end-of-lease conditions will be recognized as an adjustment to the right of use asset and subsequently amortized to the income statement over the remaining term of the lease.

Impact to Financial Statements

Aircraft and property lease rent costs have been eliminated and replaced with amortization of right of use assets and interest costs on the lease liabilities. A qualified maintenance expense on an aircraft is capitalized as part of the right of use asset and amortized over the lease period. Revaluation of the aircraft liability denominated in US dollars has resulted in exchange gains or losses due to volatility in exchange rates.

Assets and liabilities increased as at January 1, 2019, by the value of the right of use assets and corresponding liabilities of $30.8. During the year ending December 31, 2019, the Company recognized $2.1 amount of interest on lease liability as part of finance costs and $9.1 amount of depreciation of the right of use asset in depreciation and amortization as part of direct expenses.

(in millions of Canadian dollars except where noted)

	Reconciliation of lease liability pursuant to IFRS 16	$
	Off Balance sheet lease obligation as at December 31, 2018	23.2
Less:	Leases of low value assets	(0.3)
	Current leases with lease terms of 12 months or less	(0.2)
Add:	Aircraft lease changes due to election of practical expedient	1.9
	Property lease changes due to extension and termination options	3.6
	Property lease changes due to election of practical expedient	2.6
	Lease liability as at January 1, 2019	**30.8**
Add:	Additional property lease liabilities recognized	3.2
Less:	Lease payments	(6.7)
	Lease liability as at December 31, 2019	**27.3**
	Right of use assets - Aircraft	2.0
	Right of use assets - Hangars and Warehouses	24.1
	Total right of use assets as at December 31, 2019	**26.1**
	Depreciation of right of use assets	9.1
	Interest expense on lease liabilities	2.1
	Weighted average discount rate	7%
	Undiscounted operating leases and commitments	0.2

3. INVENTORIES

	December 31, 2019	December 31, 2018
	$	$
Fuel Inventory	2.1	1.4
Glycol Inventory	0.2	0.2
Total Inventory	2.3	1.6

For the years ended December 31, 2019 and 2018, costs of fuel inventory of $101.1 and $110.0, respectively, and costs of glycol inventory of $0.6 and $0.5, respectively, were recognized in direct expenses.

(in millions of Canadian dollars except where noted)

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Company has recognized the following amounts relating to revenue in the consolidated statements of earnings and comprehensive income:

	December 31, 2019	December 31, 2018
	$	$
Revenue from air cargo services	476.0	448.4
Revenue from other sources	10.6	6.5
Total revenue	486.6	454.9

The following revenue streams are recognized at a point of time:

Revenue recognized at a point of time

	December 31, 2019	December 31, 2018
	$	$
Domestic Network	264.0	248.8
Fuel and Other Surcharges	114.4	116.3
ACMI	66.3	46.0
All-in charter	29.3	38.6
Ground handling and maintenance revenue	7.8	5.0
Total revenue	481.8	454.7

The following revenue streams are recognized from the transfer of services overtime:

Revenue recognized from transfer of services overtime

	December 31, 2019	December 31, 2018
	$	$
Aircraft lease and hanger rental revenue	4.8	0.2
Total revenue	4.8	0.2

(in millions of Canadian dollars except where noted)

Contract assets and liabilities

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

	December 31, 2019	December 31, 2018
	$	$
Contract asset	78.0	-
Trade receivables	38.1	57.2
Other receivables	6.7	2.9
Total contract assets	122.8	60.1
Stock warrant obligations	73.5	-
Contract liability - expected rebates to customers	0.6	0.4
Total contract liabilities	74.1	0.4

5. STOCK WARRANT

On August 23, 2019, the Company entered into a new 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 will grant Amazon the right to acquire up to 14.9% of the issued and outstanding voting shares. The Tranche I warrant shares would represent 9.9% and the Tranche II warrant shares would represent 5.0% of the aggregate of the issued and outstanding shares of the Company, excluding any shares issuable upon conversion or redemption of the 2021 Debentures. The 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 will be determined based on 30-day volume weighted average trading price as of the earlier of August 23, 2021 and the date upon which all of the Tranche I will vest in full. 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 completion of vesting under Tranche I in full, vesting of Tranche II warrants will be tied to revenue generated by Amazon and its affiliates aggregated to an amount specified in the agreement of up to a maximum of $200. Tranche I is exercisable in accordance with its terms through February 23, 2026 and Tranche II is exercisable in accordance with its terms through February 23, 2027.

(in millions of Canadian dollars except where noted)

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 warrants of $72.6 issued to Amazon on August 23, 2019 was recorded as stock warrant obligations, having a fair value of $32.67 per warrant for Tranche I and $25.81 per warrant for Tranche II. The fair value of warrants under Tranche I and Tranche II was determined using an American option pricing model utilizing Monte Carlo simulation and were classified within Level 3 of the valuation hierarchy. (See Financial Instruments Note 29) The corresponding contract asset was recognized at inception and will amortize against revenue over the duration of the agreement. The fair value of the warrant obligations was revalued as at December 31, 2019 using the same Monte Carlo an American option pricing model utilizing Monte Carlo simulation and it resulted in a non-operating loss of $0.9 before the effect of income tax.

	December 31, 2019	December 31, 2018
Contract Asset	$	$
Stock Warrant Intial Valuation	72.6	-
Add: Other contract assets	7.1	-
Less: Amortization	(1.7)	-
Total contract Assets	78.0	-
Stock warrant obligations		
Stock Warrant Intial Valuation	72.6	-
Add: Fair value adjustment	0.9	-
Total Stock warrant obligations	73.50	-

6. GOODWILL

For purposes of testing goodwill impairment, the Company reports its results as a single cash-generating unit. Goodwill is tested for impairment annually on April 1, or more frequently when there is an indication of potential impairment. 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 3.5 % per annum growth rate thereafter (2018 – 3.5%), 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 14.4 % per annum (2018 – 14.4%). Based on the Company’s analysis the estimated recoverable amount exceeded the carrying amount of cash generating unit. 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.

7. INTANGIBLE ASSETS

Intangible assets at December 31, 2019 and 2018 consist of licenses with indefinite lives carried at $2.0 (2018 - $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.

(in millions of Canadian dollars except where noted)

8. PROPERTY, PLANT AND EQUIPMENT

Cost	Balance as at January 1, 2019	Adjustments due to adoption of IFRS 16	Additions	Transfers	Disposal	Balance as at December 31, 2019
	$	$	$	$	$	$
Aircraft hull	375.4	-	3.4	51.5	(3.1)	427.2
Engines	246.0	-	0.8	122.9	(1.0)	368.7
Right of Use Assets	-	35.2	-	-	-	35.2
Spare parts	6.9	-	0.5	-	-	7.4
Ground equipment	40.4	-	10.6	-	-	51.0
Rotable spares	36.0	-	12.5	0.3	-	48.8
Computer hardware and software	11.2	-	0.6	0.1	-	11.9
Furniture and fixtures	3.4	-	0.4	-	-	3.8
Leasehold improvements	22.0	-	-	0.9	-	22.9
Vehicles	3.2	-	0.2	-	-	3.4
Hangar and cross-dock facilities	24.1	-	6.8	-	-	30.9
Property, plant and equipment under development	115.3	-	178.5	(175.7)	-	118.1
Deferred heavy maintenance	71.4	-	13.4	-	-	84.8
	955.3	35.2	227.7	-	(4.1)	1,214.1

Accumulated Depreciation & Impairment	Balance as at January 1, 2019	Depreciation	Disposals	Balance as at December 31, 2019	Net Book Value as at December 31, 2019
	$	$	$	$	$
Aircraft hull	60.3	19.8	(3.1)	77.0	350.2
Engines	77.0	36.1	(1.0)	112.1	256.6
Right of Use Assets	-	9.1	-	9.1	26.1
Spare parts	-	-	-	-	7.4
Ground equipment	15.6	3.6	-	19.2	31.8
Rotable spares	13.0	5.4	-	18.4	30.4
Computer hardware and	7.9	1.4	-	9.3	2.6
Furniture and fixtures	1.7	0.3	-	2.0	1.8
Leasehold improvements	10.0	1.6	-	11.6	11.3
Vehicles	1.9	0.3	-	2.2	1.2
Hangar and cross-dock facilities	8.0	1.1	-	9.1	21.8
Property, plant and equipment under development	-	-	-	-	118.1
Deferred heavy maintenance	38.6	15.3	-	53.9	30.9
	234.0	94.0	(4.1)	323.9	890.2

(in millions of Canadian dollars except where noted)

Cost	Balance as at January 1, 2018	Additions	Transfers	Adjustments	Balance as at December 31, 2018
	$	$	$		$
Aircraft hull	296.7	40.0	40.3	(1.6)	375.4
Engines	173.6	52.2	20.9	(0.7)	246.0
Spare parts	4.0	2.9	-	-	6.9
Ground equipment	37.8	2.6	-	-	40.4
Rotable spares	35.4	7.8	-	(7.2)	36.0
Computer hardware and software	9.9	0.6	0.7	-	11.2
Furniture and fixtures	3.1	0.3	-	-	3.4
Leasehold improvements	20.8	1.1	0.1	-	22.0
Vehicles	3.1	0.1	-	-	3.2
Hangar and cross-dock facilities	24.1	-	-	-	24.1
Property, plant and equipment under development	31.7	146.2	(62.6)	-	115.3
Deferred heavy maintenance	50.7	22.5	0.6	(2.4)	71.4
	690.9	276.3	-	(11.9)	955.3

Accumulated Depreciation & Impairment	Balance as at January 1, 2018	Depreciation	Disposals/ Transfers	Balance as at December 31, 2018	Net Book Value December 31, 2018
	$	$	$	$	$
Aircraft hull	45.9	15.3	(0.9)	60.3	315.1
Engines	50.3	27.2	(0.5)	77.0	169.0
Spare parts	-	-	-	-	6.9
Ground equipment	12.7	2.9	-	15.6	24.8
Rotable spares	15.4	4.5	(6.9)	13.0	23.0
Computer hardware and software	6.7	1.2	-	7.9	3.3
Furniture and fixtures	1.6	0.1	-	1.7	1.7
Leasehold improvements	8.7	1.3	-	10.0	12.0
Vehicles	1.5	0.4	-	1.9	1.3
Hangar and cross-dock facilities	7.1	0.9	-	8.0	16.1
Property, plant and equipment under development	-	-	-	-	115.3
Deferred heavy maintenance	26.3	12.3	-	38.6	32.8
	176.2	66.1	(8.3)	234.0	721.3

Property, plant and equipment under development of $118.1 (2018 - $115.3) relates to the purchase and/or modification primarily of aircraft and aircraft engines that are not yet available for use.

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

During the year ended December 31, 2019, the Company completed the acquisition of one Boeing 767-300 aircraft under a lease term, two Boeing 767-200 aircraft and three 767-300 aircraft engines using the revolving credit facility and term loan. The Company also sold one Boeing 727-200 aircraft that was previously owned and recorded as Aircraft hull and Engines for $0.6 and surplus spares for $0.7 resulting in a total gain of $1.3.

(in millions of Canadian dollars except where noted)

Depreciation expense on property, plant and equipment for the year ended December 31, 2019 totaled $94.0 (2018 - $66.1) out of which $92.0 (2018 – $64.0) was recorded in direct expenses and $2.0 (2018 - $2.1) was recorded in general and administrative expenses.

9. TRADE AND OTHER PAYABLES

	December 31, 2019	December 31, 2018
	$	$
Trade payables and accrued charges	45.6	35.8
Payroll and benefits	6.0	8.6
Trade and other payables	51.6	44.4

10. NET DEBT RECONCILIATION

The analysis of net debt and the movements in net debt for the years ended December 31, 2019 and 2018 is presented below.

	December 31,2019	December 31,2018
	$	$
Cash and cash equivalents	1.6	-
Borrowings - repayable within one year (including overdraft)	(59.3)	(26.1)
Borrowings - repayable after one year	(576.1)	(578.3)
Net Debt	(633.8)	(604.4)
Gross Debt - fixed interest rates	(389.8)	(397.7)
Gross Debt - variable interest rates	(244.0)	(206.7)
Net Debt	(633.8)	(604.4)

(in millions of Canadian dollars except where noted)

	Cash / bank overdraft	lease liabilities due within one year	lease liabilities due after one year	Borrowings due after one year
	$	$	$	$
Net Debt as at January 1 2018	5.70	(62.10)	(99.10)	(239.30)
Cashflows	(6.60)	66.00	-	(164.80)
Acquisitions - finance leases	-	(29.10)	(68.30)	-
Foreign exchange adjustment	-	-	(6.80)	-
Net Debt as at December 31, 2018	(0.90)	(25.20)	(174.20)	(404.10)
Cashflows	2.50	-	40.60	(35.00)
Acquisitions - finance leases	-	(34.10)	(9.50)	-
Foreign exchange adjustment	-	-	6.10	-
Net Debt as at December 31, 2019	1.60	(59.30)	(137.00)	(439.10)

11. BUSINESS COMBINATION

On January 31, 2019, the Company acquired all of the outstanding shares of Services Aeroportuaires G.E.S. Inc., DBA, GTA Aviation thus obtaining control. Cash consideration paid for the acquisition was $3.1. The Company determined that the transaction represented a business combination with the Company being identified as acquirer. The Company accounted for the combination under the acquisition method.

The Company acquired assets comprised of ground service equipment of total fair value of $1.2. Goodwill of $1.9 was recognized as the difference in the fair value of the assets acquired and the consideration paid. The Company's purchase price allocation for the acquisition is as follows:

	$
Goodwill	1.9
Property plant and equipment	1.2
Consideration paid	3.1

12. SHARE-BASED COMPENSATION

Crew incentive program

During the year ended December 31, 2019, the Company implemented a long-term incentive plan for its pilots. Under the plan, the Company provided an option of $0.1 of cash or a one time grant of $0.1 value of deferred stock units ("DSU's"). to all active crewmembers. The cash payment or DSUs will vest 50% on June 30, 2023 and the remaining 50% on June 30, 2026. For the purpose of this offer, the grant and valuation of DSUs took place on July 1, 2019 based on the market price of the Company's shares on that date.

As the liability under the plan will be settled in cash based on value of the common shares at a future date, the fair value of the service received is recognized as expense with corresponding increase in the liability at the end of each reporting period up to the date of the settlement. Changes in value will be recognized as compensation expense in the consolidated statements of earnings and comprehensive income proportional to the period of service rendered by the employees.

Based on the dollar amount allotted and market price per share, 1,188 DSUs were granted to each crew member. The Company re-measured the fair value of DSUs as at December 31, 2019 and recognized $1.5 in salaries and benefits expenses for the services rendered.

For the crew members who elected to receive $0.1 cash at the end of the vesting period, the Company also recognized $0.3 salaries and benefits expenses for the services rendered and $0.2 in interest cost in the consolidated statements of earnings and comprehensive income.

Restricted Share Units

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

During the year ended December 31, 2019, in accordance with the RSU Plan, the Company granted 47,309 RSUs to certain key executives and independent outside directors. Each RSU had an average value of $98.90 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. 17,121 of these RSUs vested immediately. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 7,892 shares were issued to certain key executives, independent outside directors and senior management for vested RSUs and the Company remitted an amount of $0.9 equal to the monetary value of the tax obligation determined based on the Market Price of $98.90 per share of withheld that otherwise would have been issued upon vesting. An amount of $0.8 was transferred to share capital from contributed surplus. Of the remaining 30,188 RSUs granted in 2019, 15,094 will vest in each of the first quarters of 2020 and 2021 respectively.

(in millions of Canadian dollars except where noted)

During the year ended December 31, 2019 in accordance with the RSU Plan, the Company granted 29,411 RSUs to certain key executives. Each RSU had an average value of $84.75 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. 9,804 of these RSUs vested immediately. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 4,556 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of $0.4 equal to the monetary value of the tax obligation determined based on the Market Price of $84.75 per share of withheld that otherwise would have been issued upon vesting. An amount of $0.4 was transferred to share capital from contributed surplus. Of the remaining 19,607 RSUs granted in 2019, 9,804 and 9,803 will vest in each of the first quarters of 2020 and 2021 respectively. The Company also granted 1,616 RSUs to independent outside directors at an average rate of $80.59 calculated as the volume weighted average closing price of the common voting shares of the Company on the TSX for the five trading days prior to the grant date. All 1,616 of RSUs vested and net settled in June 2019 and 743 shares were issued to the independent outside directors for vested RSUs.

During the year ended December 31, 2019, 37,914 RSUs out the 56,253 remaining RSUs granted in prior years also vested. Prior to vesting, and in accordance with the RSU Plan, the Company accrued notional dividends on the RSUs equivalent to 728 RSUs that were also issued and vested upon the satisfaction of the RSUs vesting conditions. Vested RSUs were net settled due to the Company's obligation to withhold tax equal to the tax obligation of each participant and the amount withheld was remitted to the tax authority per the terms and conditions of the RSU Plan. Accordingly, 17,956 shares were issued to the executives and senior management for vested RSUs and the Company remitted an amount of $1.8 equal to the monetary value of the tax obligation determined based on the Market Price of $84.75 per share of 20,686 shares withheld that otherwise would have been issued upon vesting. An amount of $1.0 was transferred to share capital from contributed surplus. The remaining 18,339 RSUs will vest in the first quarter of 2020.

The RSU activity for the years ended December 31, 2019 and 2018 are summarized below

	Number of RSUs	Fair value $
Balance at January 1, 2018	63,276	1.1
Granted in the year	56,566	3.6
Share dividend	622	-
Share based compensation-Vested and settled	(62,789)	(1.7)
Share based compensation-Unvested and amortized	-	(1.8)
Balance at December 31, 2018	57,675	1.2
Share dividend	728	0.1
Granted in the year	78,336	7.3
Share based compensation-Vested and settled	(67,183)	(3.2)
Share based compensation-Unvested and amortized	-	(2.0)
Forfeited during the year	(1,422)	-
Balance at December 31, 2019	68,134	3.4

During the year ended December 31, 2019, the total share based compensation expense of $5.1 related to under settlement and unvested RSUs was included in the consolidated statements of earnings and comprehensive income (for the year ended December 31 2018 – $3.5). Unrecognized share-based compensation expense as at December 31, 2019 related to these RSUs was $3.4 (December 31, 2018 – $1.2) and will be amortized on a pro-rated basis in the consolidated statements of earnings and comprehensive income over the vesting period.

(in millions of Canadian dollars except where noted)

Options :

The Options activity during the year ended December 31, 2019 is summarized below:

OPTIONS (in Canadian dollars)	Number of Options	Weighted average exercise price in $
Balance as at January 1, 2019	208,656	$61.87
Granted during the year	29,915	$98.90
Forfeited during the year	(4,288)	$25.91
Exercised during the year	(54,677)	$58.25
Balance as at December 31, 2019	179,606	$70.00
Vested & exercisable at December 31, 2019	49,695	$69.08

As at December 31, 2019, there were 72,827 vested Options outstanding and the weighted average contractual life remaining of the outstanding vested Options is 2.71 years.

During the second quarter, certain executives exercised 26,670 Options granted on May 23, 2018, when the volume weighted average trading price per share was $84.75. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed to the executives was net of the obligation to withhold tax equal to the tax obligation of each participant and the Company remitted the amount withheld to the tax authority per the terms and conditions of the Stock Option Plan. Accordingly, a payment of $0.4 was issued to the executives for vested and exercised Options and the Company remitted an amount of $0.1 equal to the monetary value of the tax obligation determined based on the Market price of the shares.

During the third quarter, certain other executives exercised 28,007 Options granted on November 16, 2017, when the volume weighted average trading price per share was $102.30. The Company settled the Options at the request of option holders in cash pursuant to the Stock Option Plan. The cash disbursed to the executives was net of the obligation to withhold tax equal to the tax obligation of each participant and the Company remitted the amount withheld to the tax authority per the terms and conditions of the Stock Option Plan. Accordingly, a payment of $1.0 was issued to the executives for vested and exercised Options and the Company remitted an amount of $0.4 equal to the monetary value of the tax obligation determined based on the Market price of the shares.

The Company recognized an expense of $4.8 in share based compensation expense in general and administrative expenses due to change in the fair value of options.

(in millions of Canadian dollars except where noted)

Weighted average assumptions on grant date

	29-Nov-19 Series 5	23-May-18 Series 4
Exercise price redemption	$98.90	$64.23
Expected volatility	28.47%	27.97%
Option life in years	5	3-5
Dividend yield	0.94%	1.33%
Risk free rate	1.00%	0.75% -1.75%
Vesting period	2020-2022	immediate, 2019-2021
Options granted	29,915	185,148
Options outstanding	29,915	149,691
Fair value per option on grant date	$23.66	$14.50
Fair value per option December 31, 2019	$26.49	$42.00

Performance Share Units

The Company's performance share unit plan (the "PSU Plan") provides the Company the ability to grant PSUs to certain of its executive officers and senior management as part of its long-term incentive plan. The plan consists of three year cash settled units based on total value of the units awarded multiplied by the performance factors. PSUs will vest over a three-year period but are settled only at the end of 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. Over achievement 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 ending December 31, 2019, the Company granted 14,315 PSU units to its executives. The fair value of the units for the TSR was determined using Monte Carlo simulation based on the estimated market price per share, risk free discount rate, volatility and applicable multiplier on the date of the settlement and for the ROIC was determined by dividing the net profit after tax with the capital invested including debt. An amount of $0.3 was recognized as salaries and benefits expense based on the units vested during the year end with corresponding recognition of the liability.

Stock Appreciation Rights

The Company granted also 23,132 SARs to its four independent outside directors. At year end, the fair value of the vested rights was determined and expense of $0.4 was recognized as compensation expense with corresponding recognition of the liability.

(in millions of Canadian dollars except where noted)

13. BORROWINGS

Borrowings consist of the following:

	December 31, 2019	December 31, 2018
	$	$
Revolving credit facility	244.0	205.8
Other borrowings	0.2	0.2
	244.2	206.0
Long-term portion	244.2	206.0

Revolving syndicate credit facility and term loan

The Company has a revolving operating credit facility (the “facility”) availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) in the principal amount of $400. The facility bears interest payable monthly; at the lead Lender’s prime lending rate / US base rate plus 125 basis points to 175 basis points, depending on the currency of the advance and certain financial ratios of the Company. No scheduled repayments of principal are required under the facility prior to maturity. On April 7, 2019, the Company amended its revolving operating credit facility (the “facility”) availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the “Lenders”) by amending the pricing grid limit applicable to all loans, increasing the leverage ratio and extending the maturity date of the facility to expire on April 8, 2024.
Amounts drawn on the facility may be advanced to the Company and its subsidiaries by way of intercompany loans. The facility will be used primarily to finance the working capital requirements and capital expenditures of the Company and its subsidiaries.

The facility is secured by the following:

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

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

The Company was in compliance with the terms of the lending agreements for current and prior facilities as at December 31, 2019 and 2018.

(in millions of Canadian dollars except where noted)

Included in the consolidated statement of earnings and comprehensive income for the year ended December 31, 2019 was interest expense on the revolving credit facility of $10.0 respectively (2018 - $9.8 respectively).

14. LEASE LIABILITIES

The Company has a Master Capital Lease Agreement (“MLA”) with an equipment finance and leasing company. The leases under the MLA are guaranteed by the Company and its subsidiaries.

The MLA is subject to the maintenance of certain financial covenants. The Company was in compliance with all such covenants as at December 31, 2019 and December 31, 2018.

As at December 31, 2019, the total outstanding balance of the leases under the MLA is $58.9 out of which $9.7 is recognized as a current liability on the consolidated balance sheet.

The Company also has lease arrangements for three Boeing 767-300 aircraft that include a bargain purchase option. The estimated effective interest rate for these leases are 6.6%, 6.5% and 5.9% respectively. These leases are deemed to be maturing on the exercise date of the bargain purchase options in October 2020, October 2021 and November 2023 respectively. As at December 31, 2019, the total outstanding balance of these finance lease arrangements is $90.4 out of which $38.0 is recognized as a current liability on the consolidated balance sheet.

During the year ended December 31, 2019 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 7.2%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in December 2021 or at the end of the lease term in December 2023. As at December 31, 2019, the total outstanding balance of this finance lease arrangement is $19.7 out of which $6.7 is recognized as a current liability on the consolidated balance sheet.

As at January 1, 2019, the Company has adopted IFRS 16 on a simplified basis. The Company has recognized a right of use asset and lease liability of $26.1 As at December 31, 2019, the total outstanding balance of the lease liabilities is $27.3 out of which $4.9 is recognized as a current liability on the consolidated balance sheet.

The following is a schedule of future minimum annual lease payments for aircraft, hangars and warehouses under leases together with the balance of the obligations as at December 31, 2019.

	Minimum lease payments	Present value of minimum lease payments
	$	$
Not later than one year	71.7	59.8
Later than one year and not later than five years	134.5	122.8
Later than five years	17.7	13.7
	223.9	196.3
Less: interest	27.6	-
Total obligations under finance leases	196.3	196.3
Less: current portion	59.3	59.3
Non-current portion	137.0	137.0

Interest amounts on the lease liabilities for the year ended December 31, 2019 totaled $14.9 respectively (2018 - $8.6 respectively).

(in millions of Canadian dollars except where noted)

15. PROVISIONS

The Company's aircraft operating lease agreement requires leased aircraft to be returned to the lessor in a specified operating condition. The Company initially estimated that it will incur certain maintenance costs at the end of the lease terms and has recorded a maintenance provision liability for these costs. A reconciliation of the carrying amount of the provision is as follows:

	December 31, 2019	December 31, 2018
	$	$
Balance, beginning of year	1.4	1.3
Settlement of provision for lease return conditions	(1.4)	-
Accretion	-	0.1
Balance, end of year	-	1.4
Non-current portion	-	1.4

The provision for lease return conditions represents the present value of management's best estimate of the future outflow of economic benefits that will be required to settle the obligation at the end of the leases. Such costs have been estimated based on contractual commitments and the Company's specific history. Any subsequent change in estimate will be accounted in accordance with IFRIC 1 with a corresponding change in right of use asset.

16. DEBENTURES

The balance of debentures as at December 31, 2019 and December 31, 2018 consists of the following

	December 31, 2019	December 31, 2018
	$	$
Convertible debentures - 4.65%	-	115.7
Hybrid debentures - 5.75% due April 30, 2024	83.1	82.4
Hybrid debentures - 5.75% due April 30, 2025	110.2	-
Balance	193.3	198.1

Convertible debentures – 4.65% due December 31, 2021

In September 2016, $125.0 of unsecured subordinated convertible debentures were issued at a price of 1,000 (dollars) per debenture with a term of five years due December 31, 2021. These debentures bear a fixed interest rate of 4.65% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2016. The intended use of the net proceeds of the debentures was to refinance three US dollar denominated aircraft finance loans.

(in millions of Canadian dollars except where noted)

On October 31 2019, the Company issued a redemption notice pursuant to the convertible debenture indenture dated September 15, 2016 (the “Indenture”) to redeem all of the outstanding debentures issued under the Indenture (the “4.65% Debentures”) on December 31, 2019. Pursuant to the Indenture, the Company elected to satisfy its obligation to pay the redemption price of the 4.65% Debentures due at redemption by issuing that number of voting shares of the Company obtained by dividing the outstanding principal amount of the 4.65% Debentures by 95% of the volume weighted average trading price of the common voting shares on the TSX for the 20 consecutive trading days ending five trading days before the redemption date and to pay accrued and unpaid interest thereon up to but excluding the redemption date in cash to the holders of the 4.65% Debentures. From September 30, 2016 to December 31, 2019, $122.9 of the outstanding 4.65% Debentures were converted to 2,094,798 common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining $2.1 of the outstanding 4.65% Debentures were redeemed by issuing 22,196 common voting shares of the Company and paying accrued and unpaid interest in cash to the holders thereof.

The debt component is measured at amortized cost. The balance of the debt component as at December 31, 2019 and December 31, 2018 consists of the following:

	December 31, 2019	December 31, 2018
Principal balance - beginning of year	115.7	125.0
Less:		
Issuance costs	-	(5.8)
Conversion option at inception	-	(7.1)
Accretion during the year	2.3	5.0
Converted during the year	(118.0)	(1.4)
Balance	-	115.7

Interest expense on the convertible debentures for the year ended December 31, 2019 totaled $8.0 (December 31, 2018 - $8.0).

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.

(in millions of Canadian dollars except where noted)

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, the Company will be required to make an offer to the holders of the debentures to repurchase the debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest.

The 5.75% debentures were therefore recorded as a financial instrument. The debt was recorded at fair value of $82.4 net of deferred financing costs of $3.9. Each embedded feature was evaluated separately and it was determined that the economic and risk characteristics are closely related to the host contract and therefore were not accounted for as separate financial instruments.

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at December 31, 2019 and December 31, 2018 consists of the following:

	December 31, 2019	December 31, 2018
	$	$
Principal balance - beginning of year	82.4	86.3
Less:		-
Issuance costs	-	(4.0)
Accretion during the year	0.7	0.1
Balance - end of year	83.1	82.4

Interest expense on the hybrid debentures for the year ended December 31, 2019 totaled $5.6 (December 31, 2018 - $0.8).

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 millions of Canadian dollars except where noted)

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

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

The debentures are measured subsequently at amortized cost using the effective interest method over the life of the debenture. The balance of the hybrid debentures as at December 31, 2019 and December 31, 2018 consists of the following:

	December 31, 2019	December 31, 2018
	$	$
Principal balance	115.0	-
Less:		
Issuance costs	(5.3)	-
Accretion	0.5	-
Balance	110.2	-

Interest expense on the hybrid debentures for the years ended December 31, 2019 totaled $5.0 (December 31, 2018 - $nil).

17. INCOME TAXES

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

	December 31, 2019	December 31, 2018
	$	$
Earnings before income taxes	20.8	29.3
Basic rate of 26.5% (2019 - 26.5%)	5.5	7.8
Share - based compensation	2.8	1.3
Meals and entertainment	0.2	0.1
Stock warrant	0.7	-
Sundry items	-	(0.1)
Provision for income taxes	9.2	9.1

(in millions of Canadian dollars except where noted)

The tax effect of significant temporary differences are as follows:

	December 31, 2018	Adjustment	Recognized in Profit & Loss	December 31, 2019
	$	$	$	$
Property, plant and equipment	26.3	0.7	18.0	45.0
Operating loss carryforward	(8.8)	(0.6)	(8.2)	(17.6)
Licenses	0.3	-	-	0.3
Intangible assets	(0.4)	-	-	(0.4)
Pension costs	(3.5)	-	(0.9)	(4.4)
Financing costs	(0.2)	-	2.1	1.9
Convertible debentures	1.2	-	(1.2)	-
Provision for lease retirement costs	(0.4)	-	0.4	-
Deferred heavy maintenance	8.6	-	(1.1)	7.5
Net deferred income tax liability	23.1	0.1	9.1	32.3

18. DIRECT EXPENSES

	December 31, 2019	December 31, 2018
	$	$
Fuel costs	101.1	110.0
Maintenance costs	33.6	30.2
Heavy maintenance amortization	15.3	12.3
Aircraft costs	12.2	15.9
Crew costs	34.2	28.8
Depreciation	76.7	51.7
Commercial and other costs	94.3	93.7
Direct expenses	367.4	342.6

19. GENERAL AND ADMINISTRATIVE EXPENSES

	December 31, 2019	December 31, 2018
	$	$
Salaries and benefits	25.6	22.2
Employee pension	3.5	2.7
Depreciation	2.0	2.1
Net realized foreign exchange (gain) loss	(0.2)	0.7
Bonuses and incentives	14.2	9.2
Audit, legal and consulting	3.8	2.0
IT network and communications	3.1	2.7
Other general and administrative expenses	7.5	8.7
General and administrative expenses	59.5	50.3

(in millions of Canadian dollars except where noted)

20. FINANCE COSTS

	December 31, 2019	December 31, 2018
	$	$
Interest on leases	14.9	8.6
Interest on debentures	18.6	8.9
Credit facilities and other interest	10.1	9.8
Finance costs	43.6	27.3

21. OTHER GAINS & LOSSES

	December 31, 2019	December 31, 2018
Net gain on forward foreign exchange contracts	-	(1.6)
Gain on total return swap	(2.9)	(1.1)
Unrealized foreign exchange (gain) loss	(4.3)	5.6
Gain on disposal of property, plant and equipment	(1.3)	(0.3)
Fair value adjustment on stock warrant	0.9	-
Other (gain) loss, net	(7.6)	2.6

22. SHAREHOLDERS' CAPITAL

a) Authorized

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

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

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

(in millions of Canadian dollars except where noted)

b) Issued and outstanding

The following table shows the changes in shareholders' capital from December 31,2018 to December 31, 2019:

	Number of shares	Amount
		$
Variable voting shares	343,887	4.55
Common voting shares	13,109,090	173.35
Outstanding- December 31, 2018	13,452,977	177.90
Changes during the year:		
Restricted share units settled	31,147	2.30
Conversion of convertible debentures	2,090,960	118.00
	15,575,084	298.20
Consisting of:		
Common voting shares	15,575,084	298.20
Outstanding- December 31, 2019	15,575,084	298.20

Dividends

Dividends to shareholders declared for the years ended December 31, 2019 and December 31, 2018 were $13.1 ($0.9360 per share) and $11.4 ($0.8480 per share) for both common and variable shares.

As at December 31, 2019, a dividend of $3.6 was payable to the shareholders (December 31, 2018 - $2.9).

23. EARNINGS PER SHARE

The following table shows the computation of basic earnings per share for the years ended December 31, 2019 and 2018:

	December 31,	December 31,
Basic earnings per share	2019	2018
Net earnings	$11.6	$20.2
Weighted average number of shares	13.5	13.4
Dilutive impact of share- based awards and vested warrant	0.1	0.1
Diluted weighted average number of shares	13.6	13.5
Total basic earnings per share	$0.86	$1.51
Total diluted earnings per share	$0.85	$1.50

Diluted earnings includes the potentially dilutive impact of share-based awards outstanding at year end, consisting of the incremental shares assumed to be issued on the exercise of stock options and the incremental shares assumed to be issued under restricted stock unit arrangements.

(in millions of Canadian dollars except where noted)

24. EMPLOYEE BENEFITS

In 2016, the Company established an unfunded defined benefit plan for one of its senior executives (for plan descriptions refer to policy Note 2 on employee benefits). The movement in the defined benefit pension cost during the year is as follows:

	December 31, 2019 $	December 31, 2018 $
Balance as at January 1, 2019	13.2	10.5
Current service cost	0.7	0.7
Interest expense	0.5	0.4
Effect of experience adjustment	0.8	1.9
Effect of changes in financial assumptions	1.5	(0.6)
Effect of changes in demographic assumptions	-	0.3
Balance as at December 31, 2019	16.7	13.2

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

Assumptions for 2019

Discount rate:	3.1% per year
Increase in pensionable earnings:	2.0% per year
Inflation:	2.0% per year
Longevity post retirement:	CPM 2014 mortality table with generational mortality improvements using CPM-B improvement scale.
Retirement age:	65 years

Assumptions for 2018

Discount rate:	3.8% per year
Increase in pensionable earnings:	2.0% per year
Inflation:	2.0% per year
Longevity post retirement:	CPM 2014 mortality table with generational mortality improvements using CPM-B improvement scale.
Retirement age:	65 years

(in millions of Canadian dollars except where noted)

Sensitivity Analysis

Certain assumptions were used in the actuarial valuation of the pension obligation as at December 31, 2019. Due to uncertainty inherent in a projection over a long period of time due to changing factors, the alternative outcomes and amounts cannot be determined. Accordingly, the Company performed a sensitivity analysis on the projections. Sensitivity analysis of pension expense is performed based on changing one assumption at a time while keeping all other assumptions constant. This may be an unlikely event to occur in practice where changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to variations in significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as for calculating the liability recognized in the consolidated statement of financial position. Sensitivity analysis performed on pension expense relating to pension benefit liabilities, based on different actuarial assumptions with respect to discount rate is given below.

Change in discount rate: A 0.50 percentage point decrease in discount rate would have increased the benefit obligation by 6.6%. A 0.50 percentage point increase in discount rate would have decreased the benefit obligation by 6.4%.

Change in salary scale: A 0.25 percentage point increase in salary scale would have increased the benefit obligation by 0.1%. A 0.25 percentage point decrease in salary scale would have decreased the benefit obligation by 0.1%.

Change in mortality assumption: A one year increase in life expectancy would have increased the total of benefit obligation by 2.2%. A one year decrease in life expectancy would have decreased the total of benefit obligation by 2.3%.

Defined Contribution Pension Plans: During the year ended December 31, 2019, the Company contributed to the plan an amount equal to the Money Purchase Limit for the year.

25. COMMITMENTS AND CONTINGENCIES

Commitments

The Company is committed to the following annual minimum lease payments under operating leases for its office premises and certain equipment:

	$
Not later than one year	0.1
Later than one year and not later than five years	0.1
Total	0.2

In the normal course of business, the Company has certain commitments for expenditures related to the continuation of operations and the maintenance and acquisition of property, plant and equipment.

(in millions of Canadian dollars except where noted)

Contingencies

The Company has provided irrevocable standby letters of credit totaling $18.6 to financial institutions as security for its loan, corporate credit cards and to several vendors as security for the Company's ongoing purchases. The letters of credit expire unless further renewed as follows:

	$
December 31, 2019	18.6
Total	18.6

26. RELATED PARTY TRANSACTIONS

Head Office

During 2019, the Company paid an amount of $1.0 (2018 – $1.0) as lease rent to the lessor of the property where its head office and warehouse are located. The lessor is indirectly and beneficially owned by one of the Company's Executive Officers and Directors of the Company. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. This property is capitalized as right to use asset as per IFRS 16

Compensation of key management personnel

In 2019, the employee benefit expense was $106.4 (2018 - $87.9) of which $62.5 (2018 - $53.2) was recorded in direct expenses and $43.9 (2018 - $34.7) was recorded in general and administrative expenses. The general and administrative expenses include the remuneration of directors and other members of key management personnel for the years ended December 31, 2019 and 2018 as follows:

	December 31, 2019	December 31, 2018
	$	$
Short term benefits	8.4	8.3
Post-employment benefits	0.1	0.1
Share-based payments	5.8	4.2
Defined pension benefits	3.5	2.7
Total remuneration	17.8	15.3

27. ECONOMIC DEPENDENCE

In 2019, the Company had sales to three individual customers that represented 60.7% of the total revenues (2018 – 60.3%). These sales are provided under service agreements that expire over various periods to April 2025. Each of these customers had sales in excess of 9% of total revenues in each of 2019 and 2018. The sales to individual customers represented 32.0%, 13.2% and 15.5% respectively of the total revenues (2018 – 33.5%, 17.4% and 9.4%).

28. 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, including the current portion, obligations under leases, convertible and hybrid debentures, cash, and the present value of the future lease payments.

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, finance leases and aircraft facility arrangement (Note 13 and Note 14, respectively). As at December 31, 2019 and 2018, the Company was in compliance with all financial covenants.

29. FINANCIAL INSTRUMENTS

Derivative financial instruments

Derivative financial instruments are utilized by the Company occasionally in the management of its foreign currency exposures, interest rate risks and share price. The Company's policy is not to utilize derivative financial instruments for trading or speculative purposes. All derivative financial instruments are recorded at their fair values.

Derivatives are initially recognized at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in income immediately.

A derivative with a positive fair value is recognized as a financial asset; a derivative with a negative fair value is recognized as a financial liability.

Total return swap

In April 2019, the Company entered into a total return swap agreement with a financial institution to manage its exposure under options to be issued under the Stock Option Plan for certain employees and the DSUs ("Deferred Share Units") to be issued under the new incentive plan for its existing and new pilots. Under the agreement, the Company pays interest to the financial institution based on Canadian LIBOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sale of the underlying shares.

The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. However, the Company adopted the policy of offsetting the fair value changes of the total return swap with the expense to be recognized under the incentive plan in the statement of consolidated statements of earnings and comprehensive income. The fair value of the 260,000 underlying shares under the swap was $6.3 in favour of the Company and the gains for year ended December 31, 2019 of $6.3 is offset by salaries and benefits under direct expenses and recorded as other gains in the consolidated statements of earnings and comprehensive income.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the Black Scholes model. This model uses the following inputs: market price of the underlying asset, strike price of the underlying asset, risk free rate, dividend yield and expected volatility. An increase or decrease of 10% in the market price of the underlying asset will result in a gain of $2.0 and a loss of $1.7 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

The Company recently changed its method of settlement of options issued under the Stock Option Plan for executives and management by providing a choice to settle either in (i) fully paid Common Voting Shares or Variable Voting Shares, as applicable, or (ii) as a cash payment subject to management's approval. Due to this change in the settlement practice and on subsequent establishment of the present obligation to settle in cash, a prospective change was made to account for the options as cash-settled liabilities. Accordingly, the Company's ultimate obligation will depend on the difference between the exercise price of 208,656 outstanding options and the market price on the date when the option holders exercise these options. In September 2018, the Company entered into a total return swap agreement with a financial institution to manage its exposure under this obligation. Under the agreement, the Company will pay interest to the financial institution based on Canadian dollar LIBOR and the total value of the notional equity amount, which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares. The total return swap has a one-year term, may be extended annually, and the contract allows for early termination at the option of the counterparties.

Under the terms of the swap agreement, the expiring old swap was rolled over into a new 1-year equity swap based on share price on the date of roll over. The old swap settled at the same date and a cash settlement amount of $4.1 was received by the Company and recognized in the salaries and operating income under general administrative expenses in the Consolidated Statements of Earnings and Comprehensive Income.

The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. However, the Company adopted the policy of offsetting the fair value changes of the recognized option liability and the total return swap in the statement of Consolidated Statement of Earnings and Comprehensive Income. As at December 31, 2019 the fair value of the 208,656 underlying shares under swap was $2.0 in favour of the Company, the gains for the three month and year ended December 31, 2019 of $0.4 and $1.5 respectively and the gain on rollover settlement of $3.9 is offset by salaries and benefits under general and administrative expenses in the Consolidated Statements of Earnings and Comprehensive Income.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the Black Scholes model. This model uses the following inputs: market price of the underlying asset, strike price of the underlying asset, risk free rate, dividend yield and expected volatility. An increase or decrease of 10% in the market price of the underlying asset will result in a gain of $1.4 and a loss of $0.8 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

Fair Values

The fair value of the 5.75% hybrid debentures due April 30, 2024 as at December 31, 2019 was approximately $79.6 (December 31, 2018 was $82.4). The fair value of the debentures was determined using the discounted cash flow method using a discount rate of 7.0%. The discount rate is determined by using the government of Canada's benchmark bond rate adjusted for the Company's specific credit risk. The debentures are categorized as Level 3 under the fair value hierarchy. An increase or decrease of 10% in the discount rate used for valuation of the debentures will decrease or increase the fair value by $2.1 respectively.

The fair value of the 5.75% hybrid debentures due April 30, 2025 as at December 31, 2019 was approximately $105.4 (on December 31, 2018 the value - $nil). 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 $3.2 respectively.

The fair value of the performance shares units due March 15, 2022 as at December 31, 2019 was approximately $2.2 (on December 31, 2018 the value - $nil). The Company used an option pricing model utilizing Monte Carlo simulation to value TSR-PSU Level 3 financial liabilities at inception and on subsequent valuation dates and analytically to value ROIC-PSU Level 3 financial liabilities at inception and on subsequent valuation dates. The discount rate is 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 approximately $72.6 at inception and was revalued as at December 31, 2019 to approximately $73.5. The revaluation resulted in a non-operating loss of $0.9. The warrants were classified as Level 3 derivative liabilities that are valued using unobservable inputs to the valuation methodology which are significant to the measurement of the fair value. 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.

The Company used an American option pricing model utilizing Monte Carlo simulation to value Level 3 financial liabilities at inception and on subsequent valuation dates. Significant unobservable inputs include volatility of the Company's common shares 29.6% for tranche I and 29.0% for tranche II, risk free rate of 2.1% and a dividend yield of 1.4% and forecasted revenue from Amazon associated with this arrangement utilized to predict future vesting events.

A significant increase in the volatility in isolation, would result in a significantly higher fair value measurement. Changes in the values of the derivative liabilities were recorded in other gains or losses on the Company's Consolidated Statements of Earnings and Comprehensive Income. A significant change to the forecasted revenue may change the vesting dates. Changes to the vesting dates will not significantly affect the fair value of the warrant obligations. For every increase or decrease of volatility by 10% with all other factors remaining same, the estimated fair value of warrants will increase or decrease by $5.0. For every increase or decrease in share price by 20% with all other factors remaining same, the estimated fair value of warrants will increase or decrease by $26.0.

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

Credit risk

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

The Company is subject to risk of non-payment of accounts receivable and notes receivable. The amounts disclosed in the balance sheet represent the maximum credit risk and are net of allowances for bad debts, based on management estimates taking into account the Company's prior experience and its assessment of the current economic environment. The Company's receivables are concentrated among several of its largest customers with approximately 79.6% (December 31, 2018 – 76.2%) of total 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 (0.5%) of trade receivables is outstanding for more than 60 days and is considered past due. The Company considers all of these amounts to be fully collectible. Trade receivables that are not past due are also considered by the Company to be fully collectible. For trade receivables only, the Company applies the simplified approach as permitted by IFRS 9 which requires expected lifetime losses to be recognized from initial recognition of receivables. Such expected lifetime losses were immaterial and consistent with its past collection history, the Company has not recognized any significant provisions for bad debts.

(b) The Company mitigates credit risk by monitoring the creditworthiness of its customers.

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

Liquidity risk

The Company monitors and manages its liquidity risk to ensure it has access to sufficient funds to meet operational and investing requirements. Management of the Company believes that future cash flows from operations, the availability of credit under existing bank arrangements, and current debt market financing is adequate to support the Company's financial liquidity needs. Available sources of liquidity include a revolving credit facility with a Canadian chartered bank. The available facility is to a maximum of $400 million. The Company was in compliance with all covenants as at December 31, 2019 and 2018.

(in millions of Canadian dollars except where noted)

The Company has financial liabilities with varying contractual maturity dates. Total financial liabilities at December 31, 2019 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	-	-	437.5	-	437.5
Lease liabilities	59.8	84.5	38.2	13.8	196.3
Interest on finance leases	11.9	7.3	4.4	4.0	27.6
Trade and other payables	51.6	-	-	-	51.6
Pension and option liability	-	-	-	24.1	24.1
Dividends payable	3.6	-	-	-	3.6
Total	126.9	91.8	480.1	41.9	740.7

Total financial liabilities at December 31, 2018 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	-	-	404.1	-	404.1
Lease liabilities	25.2	70.0	104.2	-	199.4
Interest on finance leases	11.3	9.2	7.4	-	27.9
Trade and other payables	44.4	-	-	-	44.4
Provisions	-	1.4	-	-	1.4
Pension and option liability	-	-	-	15.5	15.5
Dividends payable	2.9	-	-	-	2.9
Total	83.8	80.6	515.7	15.5	695.6

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

Interest rate risk is the risk that the fair value or future cash flows of a financial liability will fluctuate because of changes in market interest rates. The Company enters into both fixed and floating rate debt and also leases certain assets with fixed rates. The Company risk management objective is to minimize the potential for changes in interest rates to cause adverse changes in cash flows to the Company. The ratio of fixed to floating rate obligations outstanding is designed to maintain flexibility in the Company's capital structure and is based upon a long term objective of minimum 70% fixed and maximum 30% floating but allows flexibility in the short-term to adjust to prevailing market conditions. These practices aim to minimize the net interest cost volatility. The ratio at December 31, 2019 is 100% fixed after repayment of the floating rate loans in September 2016.

At December 31, 2019, the Company had no interest rate risk due to fixed interest rates of all existing financing arrangements.

The Company earns revenue and undertakes purchase transactions in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. The company also enters into contracts attributed to asset purchases including aircraft and aircraft parts and pays debt in foreign currency.

Total unrealized foreign exchange gains during the year ended December 31, 2019 on foreign exchange transactions were gain of $4.3 (2018 – loss of $5.6).

At December 31, 2019, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of US dollars would increase the value of the Company's other net financial assets and liabilities denominated in US dollars by approximately $12 (2018 - $13.4). An increase in the exchange rate for the purchase of US dollars of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2018 - $13.4).

At December 31, 2019, a weakening of the Canadian dollar that results in a 10 percent decrease in the exchange rate for the purchase of EURO would increase the value of the Company's other net financial assets and liabilities denominated in EURO by an immaterial amount (2018 - $0.3). An increase in the exchange rate for the purchase of EURO of 10 percent would decrease the value of these net financial assets and liabilities by the same amount (2018 - $0.3).

30. 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 operate 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.