Management's Discussion and Analysis Of Financial Condition and Results of Operations

For the Three Month and Year Ended December 31, 2019

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CARGOJET INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Three Month and Year Ended December 31, 2019

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three months and year ended December 31, 2019. The following also includes a discussion of and comparative operating results for the three months and periods ended December 31, 2018.

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

The effective date of the MD&A is February 20, 2020. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the audited consolidated financial statements of the Company for the years ended December 31, 2019 and 2018.

All amounts in the MD&A are expressed in Canadian dollars unless otherwise noted.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company. See page 33 for a more complete discussion of the risks affecting the Company's business.)

Caution Concerning Forward Looking Statements

This MD&A includes certain forward-looking statements that are based upon current expectations which involve risks and uncertainties associated with our business and the environment in which the business operates. Any statements contained herein that are not statements of historical facts may be deemed to be forward-looking statements including those identified by the expressions "anticipate", "believe", "plan", "estimate", "expect", "intend", "project" and similar expressions to the extent they relate to the Company or its management. The forward-looking statements are not historical facts, but reflect Cargojet's current expectations regarding future results or events. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. Examples of the factors that can affect the results are government regulations, competition, seasonal fluctuations, international trade, weather patterns, retention of key personnel, labour relations, terrorist activity, general industry condition and economic sensitivity, the Company's ability to manage growth and profitability, fuel prices, other cost controls and foreign exchange fluctuations, and capability of maintaining its fleet. The risk and uncertainties are detailed in the "Risk Factors" starting on page 33

Forward looking statements are based on a number of material factors, expectations or assumptions of the Company which have been used to develop such statements and information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. The statements are based on the following factors: the continued and timely development of infrastructure, continued availability of debt financing and cash flow, future commodity prices, currency, exchange and interest rates, regulatory framework regarding taxes and environmental matters in the jurisdictions in which the Company operates.

This document contains forward-looking statements that reflect management's current expectations related to matters such as future financial performance and liquidity and capital resources of the Company. Specific forward-looking statements in this document include, but are not limited to, statements with respect to:

- Fleet Overview – Page 5.
- New International Route – Page 7.
- Stock Warrants – Page 7.
- Off - Balance Sheet Arrangements – Page 32.
- Outlook – Page 43.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended December 31,				Year Ended December 31,			
	2019	2018	Change	%	**2019**	2018	Change	%
Financial information								
Revenues	**$139.7**	$132.6	$7.1	5.4%	**$486.6**	$454.9	$31.7	7.0%
Direct expenses	**$98.1**	$95.5	$2.6	2.7%	**$367.4**	$342.6	$24.8	7.2%
Gross margin	**$41.6**	$37.1	$4.5	12.1%	**$119.2**	$112.3	$6.9	6.1%
Gross margin - %	**29.8%**	28.0%	1.8%		**24.5%**	24.7%	-0.2%	
Selling, general & administrative expenses	**$21.0**	$16.9	$4.1	24.3%	**$62.4**	$53.1	$9.3	17.5%
Net finance costs & other gains and losses	**$20.8**	$11.5	$9.3	80.9%	**$36.0**	$29.9	$6.1	20.4%
Earnings before income taxes	**($0.2)**	$8.7	($8.9)	-102.3%	**$20.8**	$29.3	($8.5)	-29.0%
Income taxes	**$4.3**	$2.4	1.9	79.2%	**$9.2**	$9.1	$0.1	1.1%
Net (loss) earnings	**($4.5)**	$6.3	($10.8)	-171.4%	**$11.6**	$20.2	($8.6)	-42.6%
Earnings per share - $CAD								
Basic	**$(0.33)**	$0.47	($0.80)	-170.2%	**$0.86**	$1.51	($0.65)	-43.0%
Diluted	**$(0.32)**	$0.47	($0.79)	-168.1%	**$0.85**	$1.50	($0.65)	-43.3%
EBITDA[1]	**$35.1**	$35.5	($0.4)	-1.1%	**$158.4**	$122.7	$35.7	29.1%
EBITDA margin - %	**25.2%**	26.8%	-1.6%		**32.6%**	27.0%	5.6%	
Adjusted EBITDA[1]	**$47.2**	$40.2	$7.0	17.4%	**$156.0**	$128.0	$28.0	21.9%
Adjusted EBITDA margin - %	**33.8%**	30.3%	3.5%		**32.1%**	28.1%	4.0%	
EBITDAR[1]	**$35.1**	$37.6	($2.5)	-6.6%	**$159.2**	$132.6	$26.6	20.1%
EBITDAR margin - %	**25.2%**	28.4%	-3.2%		**32.7%**	29.1%	3.6%	
Adjusted EBITDAR[1]	**$47.2**	$42.3	$4.9	11.6%	**$156.8**	$137.9	$18.9	13.7%
Adjusted EBITDAR margin - %	**33.8%**	31.9%	1.9%		**32.2%**	30.3%	1.9%	
Adjusted Free Cash flow[1]	**$25.3**	$26.9	($1.6)	-5.9%	**$48.4**	$43.0	$5.4	12.6%
Operating statistics								
Operating days[2]	**48**	48	-	-	**197**	197	-	-
Average cargo revenue per operating day[3]	**$2.15**	$2.00	$0.15	7.5%	**$1.84**	$1.69	$0.15	8.9%
Block hours	**10,176**	9,445	731	7.7%	**35,704**	32,231	3,473	10.8%
Aircraft in operating fleet								
B727-200	**-**	1	(1)		**-**	1	(1)	
B757-200	**8**	8	-		**8**	8	-	
B767-200	**2**	1	1		**2**	1	1	
B767-300	**12**	11	1		**12**	11	1	
Challenger 601	**2**	2	-		**2**	2	-	
	24	23	1	4.3%	**24**	23	1	4.3%
Average volume per operating day (lbs.)	**1,594,282**	1,528,991	65,291	4.3%	**1,350,449**	1,314,911	35,538	2.7%
Average head count	**1,126**	994	132	13.3%	**1,126**	994	132	13.3%

1. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer to page 14 of this MD&A for a more detailed discussion.
2. Operating days refer to the Company's domestic network air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.
3. Average cargo revenue per operating day refers to total domestic network, ACMI and charter revenues earned by the Company per operating day.

Corporate Overview

The Company is Canada's leading provider of time sensitive domestic network air cargo services. Its main air cargo business is comprised of the following:

- Operating a domestic network air cargo co-load network between fourteen major Canadian cities;
- Providing dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis, operating between points in Canada and the USA; and
- Operating scheduled international routes for multiple cargo customers between the USA and Bermuda, between Canada and Germany; and between Canada, Colombia, Mexico and Peru.

The Company operates its business across North America transporting time sensitive air cargo each business night utilizing its fleet of all-cargo aircraft. The Company's domestic network air cargo co-load network consolidates cargo received from customers and transports such cargo to the appropriate destination in a timely and safe manner. The Company continually monitors key performance indicators and uses this information to reduce costs and improve the efficiency of its services.

Fleet Overview

Note: See Caution Concerning Forward Looking Statements, page 2.

The table below sets forth the Company's operating fleet as at December 2017, 2018 and December 31, 2019 as well as the Company's planned operating fleet for the year ending December 31, 2020, 2021 and 2022:

Aircraft Type		Leased or Owned	Average Age	Number of Aircraft in Service						Maximum Payload (lbs.)	Range (miles)
				Actual			Plan				
				Q4		Q4	Q4				
				2017	2018	2019	2020	2021	2022		
B767-300[(1)]	Freighter	Leased	26	6	7	8	8	8	8	125,000	6,000
B767-300[(2)]	Freighter	Owned	25	3	4	4	5	5	5	125,000	6,000
B767-200[(3)]	Freighter	Owned	19	-	-	-	2	2	2	100,000	5,000
B767-200[(4)]	Freighter	Leased	34	1	1	1	-	-	-	100,000	5,000
B757-200 [(5)]	Freighter	Owned	29	5	8	8	8	8	8	80,000	3,900
B757-200	Freighter	Leased	-	1	-	-	-	-	-	80,000	3,900
B727-200[(6)]	Freighter	Owned	-	3	1	-	-	-	-	60,000	1,800
B767-200 [(7)]	Passenger	Owned	23	-	-	1	1	1	1	100,000	5,000
Challenger 601[(8)]	Passenger	Owned	33	2	2	2	2	2	2	6,000	3,300
Total Aircraft [(9)]				21	23	24	26	26	26		

1. Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement ("MLA"). A fifth aircraft was acquired in October 2017, under a lease agreement with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price. Cargojet expects to exercise the purchase option in October 2020. In December 2017, Cargojet purchased a B767-300 aircraft as feedstock for cargo conversion in 2018. In March 2018, Cargojet entered into a sale lease-back arrangement to facilitate the cargo conversion and financing of this aircraft, under terms similar to its other leased aircraft that was leased with terms of six years with a purchase option in favour of Cargojet after three years at a pre-determined price, Cargojet expects to exercise the purchase option in October 2021. In April 2018, Cargojet purchased one B767-300 aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of three years at a pre-determined price, Cargojet expects to exercise the purchase option in December 2021. In October 2018, Cargojet purchased one B767-300 converted freighter aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of the lease term at a pre-determined price, Cargojet expects to exercise the purchase option in November 2023.
2. The four B767-300 aircraft in operation at December 31, 2019 are owned by Cargojet. In October 2019, Cargojet purchased an additional B767-300 aircraft and two spare engines. This aircraft is under conversion with an expected delivery date of Q3 2020 and has been included in the table above.
3. In August 2018 Cargojet purchased two B767-200 aircraft as feed stock for future conversion and engine replacements. One of the aircraft has been fully converted and redelivered into operation in February 2020. This aircraft is included in the above table as addition to the fleet in Q1 2020. The second aircraft will also inducted into cargo conversion with the expected delivery date in Q2 2020. This aircraft is also included in the above table based on the expected date for entry into operations. In July 2019 Cargojet purchased one B767-200 converted freighter aircraft which is currently under lease to third party along with a spare engine, this aircraft has not been included in the table above.
4. The B767-200 aircraft in operation at December 31, 2019 is under a lease that terminates in May 2020.
5. The eight B757-200 aircraft in operation at December 31, 2019 are owned by Cargojet. In November 2017, Cargojet purchased an additional B757-200. Cargojet plans to operate this aircraft through a third party as a passenger charter but eventually convert the aircraft to a cargo aircraft. This aircraft is not currently operational and has not been included in the table above.
6. Cargojet has sold the remaining one B727-200 aircraft in January 2019 due to network growth and regulatory requirements that will prevent the aircraft from being flown in North America.
7. Cargojet purchased one B767-200 aircraft in July 2018. Cargojet has entered in to a charter agreement with a third party to operate and manage this aircraft to provide the aircraft for passenger charter services. This aircraft has entered operations in Q2 2019.
8. Cargojet has entered into a charter agreement with a third party to operate and manage two aircraft to provide passenger charter services.
9. In April 2019 Cargojet purchased two B747-400 aircraft as engine replacements. These aircraft have not been included in the table above.

Recent Events

Performance Share Unit "PSU"

In 2019, the Company introduced a non-dilutive Performance Share Unit ("PSU") Plan (the "PSU Plan") as part of the long-term incentive program. The plan consists of three year cash settled units based on total value of the units awarded multiplied by the performance vesting 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.

Debenture redemption

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 million 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 million 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.

New International Route

Note: See Caution Concerning Forward Looking Statements, page 2.

On September 30, 2019, the Company began operating a new scheduled ACMI route to USA and Mexico. Under this arrangement the Company operates six (6) flights per week with a dedicated B767-300 aircraft. Annual incremental revenues are expected to be approximately $11 million.

Stock Warrants

Note: See Caution Concerning Forward Looking Statements, page 2.

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 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 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 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 million 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 million. 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.

New Pilot Agreement

On July 1, 2018, the Company entered into a five-year collective agreement with the pilots, represented by UNIFOR. It contained a no-strike/no lockout provision covering re–negotiation at the end of the 5 years term. On May 21, 2019, the Company and UNIFOR agreed to bring in changes to the terms of the agreement to meet the requirements of the Transportation Canada fatigue regulations. The changes include the extension of the contract for three more years until June 30, 2026, workload scheduling and introduction of a new incentive program. A detailed discussion on the agreement is available in the outlook section of this document. (See outlook Page 43.)

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 Deferred Share Units ("DSU's") 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 from the sale of the underlying shares.

Aircraft Hangar

On April 30, 2019, the Company acquired an aircraft hangar of approximately 4,129 square meters and associated space at the John C. Munro Hamilton International Airport for a consideration of $6.7 million.

Acquisition of handling business

In December 2018, the Company entered into a share purchase agreement to acquire 100% interest in a ground handling and GSE Company at Mirabel International Airport in Quebec. The Company completed this transaction on January 31, 2019. The Company acquired the shares for a cash consideration of $3.1 million. For the year ended December 31, 2019, the financial statements includes the accounts of this ground handling and GSE Company up to the date of dissolution on May 30, 2019. Upon dissolution of the assets and liabilities were rolled over to Cargojet Airways Ltd. as its sole shareholding Company, without any effect on the financial statements of the Company.

5.75% Hybrid Debenture Issue

On April 2, 2019, the Company entered into an agreement with a syndicate of underwriters under which the underwriters have agreed to purchase $100 aggregate principal amount of listed senior unsecured hybrid debentures due April 30, 2025 (the "Debentures") at a price of $1,000 per Debenture (the "Offering"). The Offering closed on April 16, 2019. The Company had also granted the underwriters an option to purchase up to an additional $15 aggregate principal amount of Debentures, on the same terms and conditions, exercisable in whole or in part, for a period of 30 days following the closing of the Offering. The underwriters provided the Company with a notice of exercise on April 26, 2019 for the full amount of the option to purchase an additional $15 aggregate principal amount of Debentures.

Changes in revolving credit facility

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, amongst other things,amending the pricing grid applicable to all loans, increasing the leverage ratio and extending the maturity date of the facility until April 8, 2024.

On October 28, 2019 the Company further amended its facility to extend the maturity date of the facility until October 28, 2024 and amend the pricing grid limit applicable to all loans.

Acquisition and disposal of Property, Plant and Equipment

During the year ended December 31, 2019, the Company completed the acquisition of one Boeing 767-300 aircraft under a lease term as disclosed below under lease term. The Company also purchased two Boeing 747-400 aircraft along with eight engines and also completed the acquisition of two 767-300 aircraft engines using the revolving credit facility. The Company also sold one Boeing 727-200 aircraft that was previously owned and recorded as Aircraft hull and Engines for $0.6 million and surplus spares for $0.7 million resulting in a total gain of $1.3 million.

Aircraft Finance Lease

During the year ended December 31, 2019, the Company entered into a finance lease arrangement for a Boeing 767-300 aircraft that included a bargain purchase option. The lease for the aircraft matures on the exercise date in December 2021, if the option is exercised, or at the end of the lease term in 5 years. The effective interest rate of the lease is 7.2%.

Revenues

The Company's revenues are primarily generated from its domestic network air cargo service between 14 major Canadian cities each business night. Most customers pre-purchase a guaranteed space and weight allocation on the Company's network and a corresponding guaranteed daily revenue amount is paid to the Company for this space and weight allocation. Remaining capacity is sold on an adhoc basis to contract and non-contract customers. Although a significant portion of domestic network revenues are fixed due to guaranteed customer allocations, Cargojet's revenues will generally rise and fall with the overall level of customer volume typically expressed in pounds.

Revenues and shipping volumes from the Company's domestic network air cargo service are seasonal. Customer demand is highest in the fourth quarter of each year due primarily to the increase in retail activity during the holiday season in December.

The Company's domestic network air cargo service operates primarily on Monday to Thursday with a reduced network operating on Friday and on certain weekdays that are adjacent to certain statutory holidays. The Company defines the term "operating day" to refer to the days on which the full domestic network air cargo network is in operation. Typically, each fiscal year will have between 197 and 199 operating days depending on the timing of certain statutory holidays and leap years. The variance in number of operating days between quarters and year over year will have an impact on comparative quarterly revenues.

The Company also generates revenue from a variety of other primarily air cargo services:

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost as the flights are operating on regular schedules.
- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends for cargo and passenger charters. Adhoc flights for cargo and passengers are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business for cargo targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. The adhoc charter business for passenger flights mostly operate within Canada and between Canada and USA. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer for cargo and passenger charters. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:
    - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
    - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 11). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.

- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

Expenses

Direct expenses consist of fixed and variable expenses that are largely driven by the size of the Company's aircraft fleet and the volume of flight activity required by the level of customer demand. Fixed costs include aircraft lease costs, building lease costs, salaries for full-time employees in maintenance, flight operations, and commercial operations, depreciation and amortization, and insurance. Variable costs that are directly related to the volume of flight activity include fuel expense, navigation fees, landing fees and variable aircraft lease reserves related to engines, auxiliary power units, and landing gear.

Flight activity is measured in "block time" and is expressed in "block hours". Block time represents the total duration of a flight from the time the aircraft releases its brakes when it initially moves from the airport parking area prior to flight, to the time the brakes are set when it arrives at the airport parking area after the completion of the flight.

Administrative expenses are primarily costs associated with executive and corporate management and the overhead of the Company's business that include functions such as load scheduling, flight operations coordination, aircraft maintenance planning and engineering, client relations, administration, accounting, human resources and information systems. Administrative expenses include management bonuses, legal, audit and other consulting fees, bank charges, and data and communication expenses.

Results of Operations and Supplementary Financial Information

(Canadian dollars in millions, except where indicated or an amount per share)

	Three month period ended December 31,		**Year ended December 31,**	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	(audited)	(audited)
	$	$	$	$
Revenues	**139.7**	132.6	**486.6**	454.9
Direct expenses	**98.1**	95.5	**367.4**	342.6
	41.6	37.1	**119.2**	112.3
General and administrative expenses	**20.3**	16.0	**59.5**	50.3
Sales and marketing expenses	**0.7**	0.9	**2.9**	2.8
Finance costs	**11.4**	8.1	**43.6**	27.3
Other loss (gain), net	**9.4**	3.4	**(7.6)**	2.6
	41.8	28.4	**98.4**	83.0
EARNINGS BEFORE INCOME TAXES	**(0.2)**	8.7	**20.8**	29.3
Provision for income taxes				
Deferred	**4.3**	2.4	**9.2**	9.1
Net (loss) earnings and comprehensive (loss) income	**(4.5)**	6.3	**11.6**	20.2
(Loss) earnings per share				
Basic	**$(0.33)**	$0.47	**$0.86**	$1.51
Diluted	**$(0.32)**	$0.47	**$0.85**	$1.50
Average number of shares - basic (in thousands of shares)	**13,813**	13,426	**13,573**	13,410
Average number of shares - diluted (in thousands of shares)	**13,977**	13,510	**13,737**	13,494

Summary of Most Recently Completed Consolidated Quarterly Results (unaudited)
(Canadian dollars in millions, except where indicated or an amount per share)

	Three Month Periods Ended							
	Dec 31 2019	Sep 30 2019	June 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018
Revenues	**$139.7**	$117.4	$119.1	$110.4	$132.6	$114.1	$109.0	$99.2
Net (loss) earnings from continuing operations	**$(4.5)**	$11.8	$4.3	$-	$6.3	$4.7	$4.7	$4.5
(Loss) earnings per Share								
From continuing operations								
- Basic	**$(0.33)**	$0.87	$0.32	$-	$0.47	$0.35	$0.35	$0.34
- Diluted	**$(0.32)**	$0.87	$0.32	$-	$0.47	$0.35	$0.35	$0.33
Average number of shares - basic (in thousands of shares)	**13,813**	13,541	13,478	13,458	13,426	13,417	13,412	13,385
Average number of shares - diluted (in thousands of shares)	**13,977**	13,636	13,611	13,554	13,510	13,516	13,547	13,523

NON-GAAP MEASURES

Non-GAAP measures like EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are not earning measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow may not be comparable to similar measures presented by other issuers. Please refer to the end notes of this MD&A for definitions of these measures.

These alternative measures provide a more consistent basis to compare the performance of the Company between the periods and improve comparability between other companies including other airlines. They provide additional information to users of the MD&A to enhance their understanding of the Company's financial performance. These measures are also used by the Company to guide its decisions on dividend policy, to set financial targets for its management incentive plans and to monitor the Company's compliance with its debt covenants. Investors are cautioned that EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of the Company's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The following table shows the reconciliations of net earnings to EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR and Free Cash Flow to Adjusted Free Cash Flow.

Calculation of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR, Free Cash Flow and Adjusted Free Cash Flow
(Canadian dollars in millions, except where indicated)

	Three Month Period Ended		Year Ended	
	December 31,		December 31,	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net earnings	**(4.5)**	6.3	**11.6**	20.2
Add:				
Interest	**11.4**	8.1	**43.6**	27.3
Provision of deferred taxes	**4.3**	2.4	**9.2**	9.1
Depreciation of property, plant and equipment	**23.9**	18.7	**94.0**	66.1
EBITDA	**35.1**	**35.5**	**158.4**	**122.7**
Add:				
Gain on sale of property, plant and equipment	(0.2)	(0.2)	**(1.3)**	(0.3)
Unrealized foreign exchange (gain) loss	**(1.9)**	3.8	**(4.3)**	5.6
Fair value adjustment and amortization on stock warrant	**12.7**	-	**2.6**	-
Unrealized gain on forward foreign exchange contracts	**-**	(0.2)	**-**	(1.6)
Gain on total return swap	**-**	-	**(2.9)**	(1.1)
Employee pension	**1.5**	1.3	**3.5**	2.7
Adjusted EBITDA	**47.2**	40.2	**156.0**	128.0
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**35.1**	35.5	**158.4**	122.7
Aircraft rent	**-**	2.1	**0.8**	9.9
EBITDAR	**35.1**	37.6	**159.2**	132.6
Add:				
Gain on sale of property, plant and equipment	**(0.2)**	(0.2)	**(1.3)**	(0.3)
Unrealized foreign exchange (gain) loss	**(1.9)**	3.8	**(4.3)**	5.6
Fair value adjustment and amortization on stock warrant	**12.7**	-	**2.6**	-
Unrealized gain on forward foreign exchange contracts	**-**	(0.2)	**-**	(1.6)
Gain on total return swap	**-**	-	**(2.9)**	(1.1)
Employee pension	**1.5**	1.3	**3.5**	2.7
Adjusted EBITDAR	**47.2**	42.3	**156.8**	137.9
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES	**33.2**	18.5	**151.0**	91.3
Add: Effects of exchange rate changes	**(2.2)**	5.0	**(6.1)**	5.4
Less: Maintenance capital expenditures (1)	**(17.6)**	(10.3)	**(84.6)**	(74.4)
Add: Proceeds from disposal of property, plant and equipment	**0.3**	0.2	**1.3**	1.5
Standardized free cash flow	**13.7**	13.4	**61.6**	23.8
Changes in non-cash working capital items and deposits	**11.6**	13.5	**(13.2)**	19.2
Adjusted Free Cash flow	**25.3**	26.9	**48.4**	43.0

1. Refer to the definition of maintenance capital expenditure in End Note (E).

Review of Operations for the Three Month Periods ended December 31, 2019 and 2018
Net (loss) earnings for the three month periods ended December 31, 2019 and 2018

(Canadian dollars in millions except where indicated)

	Q4		CHANGE	
	2019	2018	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Domestic Network Revenues	**74.4**	71.4	3.0	4.2%
ACMI Revenues	**19.1**	14.3	4.8	33.6%
All-in Charter Revenues	**9.8**	10.7	(0.9)	-8.4%
Total domestic network, ACMI and charter revenues	**103.3**	96.4	6.9	7.2%
Total Revenue - Fixed based operations	**0.5**	0.4	0.1	25.0%
Total fuel and other cost pass through	**32.9**	34.8	(1.9)	-5.5%
Fuel surcharge and other pass through revenues	**33.4**	35.2	(1.8)	-5.1%
Other revenue	**3.0**	1.0	2.0	200.0%
Total revenues	**139.7**	132.6	7.1	5.4%
Operating Days	**48**	48	-	-
Average cargo revenue per operating day	**2.15**	2.00	0.15	7.5%
Direct expenses				
Fuel Costs	**28.3**	31.7	(3.4)	-10.7%
Depreciation	**19.6**	14.1	5.5	39.0%
Aircraft Costs	**3.7**	3.4	0.3	8.8%
Heavy Maintenance Amortization	**3.8**	4.0	(0.2)	-5.0%
Maintenance Costs	**8.2**	7.9	0.3	3.8%
Crew Costs	**8.6**	8.1	0.5	6.2%
Commercial and Other Costs	**25.9**	26.3	(0.4)	-1.5%
Total direct expenses	**98.1**	95.5	2.6	2.7%
Gross margin	**41.6**	37.1	4.5	12.1%
Gross margin %	**29.8%**	28.0%	1.8%	
SG&A & Marketing				
General and Administrative Costs	**19.8**	15.3	4.5	29.4%
Sales costs	**0.7**	0.9	(0.2)	-22.2%
Depreciation	**0.5**	0.7	(0.2)	-28.6%
Total SG&A & Marketing expenses	**21.0**	16.9	4.1	24.3%
Other SG&A				
Other losses	**9.4**	3.4	6.0	176.5%
Finance costs	**11.4**	8.1	3.3	40.7%
Total other SG&A	**20.8**	11.5	9.3	80.9%
EARNINGS BEFORE INCOME TAXES	**(0.2)**	8.7	(8.9)	-102.3%
Income Taxes-Deferred	**4.3**	2.4	1.9	79.2%
NET (LOSS) EARNINGS	**(4.5)**	6.3	(10.8)	-171.4%
(Loss) earnings per share - $ CAD				
Basic	**$(0.33)**	$0.47	$(0.80)	-170.2%
Diluted	**$(0.32)**	$0.47	$(0.79)	-168.1%

Highlights for the Three Month Periods ended December 31, 2019 and 2018

- Total revenue for the three month period ended December 31, 2019 was $139.7 million compared to $132.6 million for the same period in 2018, representing an increase of $7.1 million or 5.4%.

- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2019 was $2.15 million per operating day compared to $2.00 million for the same period in 2018, representing an increase of $0.15 million or 7.5%.

- Adjusted EBITDA for the three month period ended December 31, 2019 was $47.2 million compared to $40.2 million for the same period in 2018, an increase of $7.0 million or 17.4%.

- Adjusted EBITDAR for the three month period ended December 31, 2019 was $47.2 million compared to $42.3 million for the same period in 2018, an increase of $4.9 million or 11.6%.

- Adjusted Free Cash Flow was an inflow of $25.3 million for the three month period ended December 31, 2019 compared to an inflow of $26.9 million for the same period in 2018, a decrease of $1.6 million or 5.9%.

Revenue

Total revenue for the three month period ended December 31, 2019 was $139.7 million, compared to $132.6 million for the same period in 2018, representing an increase of $7.1 million or 5.4%. The increase in total revenue was due primarily to a $3.0 million increase in domestic network revenues, a $4.8 million increase in ACMI revenues, and a $2.0 million increase in lease and other revenue. The increase was partially offset by a $0.9 million decrease in all in charter revenues and a $1.8 million decrease in fuel surcharges and other cost pass-through revenues.

Revenue related to the domestic network business excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2019 was $74.4 million compared to $71.4 million for the same period in 2018, an increase of $3.0 million or 4.2%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in a 4.2% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended December 31, 2019 were $19.1 million compared to $14.3 million for the same period in 2018, an increase of $4.8 million or 33.6%. The increase of $4.8 million was primarily due to new scheduled routes to the USA and Mexico that started in November 2018 and September 2019.

All-in scheduled and adhoc charter revenues for the three month period ended December 31, 2019 were $9.8 million compared to $10.7 million for the same period in 2018, a decrease of $0.9 million or 8.4%. The decrease in all-in charter revenue was primarily due to suspension of Columbia and Peru route, partially offset by revenues from charter flights using its Challenger and B767-200 aircraft.

Fuel surcharges and other cost pass-through revenues were $33.4 million for the three month period ended December 31, 2019 compared to $35.2 million for the same period in 2018, representing a decrease of $1.8 million or 5.1%. During the period fuel surcharges decreased due to a 6.7% decrease in fuel prices, partially offset by a 4.2% increase in domestic revenues from new and existing customers that attracted fuel surcharges.Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.5 million for the year ended December 31, 2019 compared to $0.4 million for the same period in 2018, an increase of $0.1 million or 25.0%.

Other revenues consist primarily of hanger rental revenues, maintenance revenue for aircraft line maintenance services provided to other airlines and ground handling services provided to customers. Other revenues were $3.0 million for the three month period ended December 31, 2019 compared to $1.0 million for the same period in 2018, an increase of $2.0 million or 200.0%.

Direct Expenses

Total direct expenses were $98.1 million for the three month period ended December 31, 2019 compared to $95.5 million for the same period in 2018, representing an increase of $2.6 million or 2.7%. As a percentage of revenue, direct expenses decreased from 72.0% in 2018 to 70.2% for the same period in 2019. The overall increase in direct expenses was due primarily to a $5.5 million increase in depreciation, a $0.3 million increase in aircraft costs, a $0.3 million increase in maintenance costs and a $0.5 million increase in crew costs. The increase was partially offset by a $3.4 million decrease in fuel costs, a $0.2 million decrease in heavy maintenance costs and a $0.4 million decrease in commercial and other costs.

Fuel costs were $28.3 million for the three month period ended December 31, 2019 compared to $31.7 million for the same period in 2018. The $3.4 million or 10.7% decrease in fuel costs was due primarily to a 6.7% decrease in fuel prices and suspension of Peru and Colombia operations, partially offset by a 3.1% increase in block hours on the domestic network. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $19.6 million for the three month period ended December 31, 2019 compared to $14.1 million for the same period in 2018. The $5.5 million or 39.0% increase in depreciation expenses was due primarily to the addition of aircraft, hangar and other assets due to capitalization of operating leases following the implementation of IFRS 16.

Aircraft costs were $3.7 million for the three month period ended December 31, 2019 compared to $3.4 million for the same period in 2018, representing an increase of $0.3 million or 8.8%. The increase was primarily due to higher sub charter costs. The increase was partially offset by lower aircraft lease costs due to capitalization of a lease of one Boeing 767-200 aircraft due to the implementation of IFRS 16 and lower temporary engine lease costs. The Company incurs temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events.

Heavy maintenance amortization costs were $3.8 million for the three month period ended December 31, 2019 compared to $4.0 million for the same period in 2018, representing a decrease of $0.2 million or 5.0%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized until the next scheduled heavy maintenance. The heavy maintenance component of newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $8.2 million for the three month period ended December 31, 2019 compared to $7.9 million for the same period in 2018, representing an increase of $0.3 million or 3.8%. The increase in costs was due primarily to higher block hours and hiring of additional maintenance personnel and an increase in the fleet size, partially offset by a decrease in hangar rental costs due to capitalization of operating leases following the implementation of IFRS 16.

Total crew costs including salaries, training and positioning were $8.6 million for the three month period ended December 31, 2019 compared to $8.1 million for the same period in 2018, representing an increase of $0.5 million or 6.2%. The increase was due primarily to the hiring of additional crews, salary increases due to the collective agreement with the union in July 2018 and increased crew positioning costs. This increase was partially offset by the gains in the fair value of the total return swap agreement entered by the company to manage its exposure under the DSU ("Deferred Share Units") issued under the new incentive plan for existing and new pilots.

Commercial and other direct operating costs were $25.9 million for the three month period ended December 31, 2019 compared to $26.3 million for the same period in 2018, representing a decrease of $0.4 million or 1.5% This decrease was due primarily to a $1.5 million decrease in ground handling costs due to insourcing at YMX, a $1.0 million net decrease in cartage and ground linehaul costs due to suspension of Colombia and Peru operation and a $0.5 million decrease in warehouse facilities costs. This decrease was partially offset by a $2.0 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, a $0.4 million increase in de-icing costs and a $0.2 million net increase in landing, parking, aircraft insurance and navigation costs.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2019 were $21.0 million compared to $16.9 million for the same period in 2018, representing an increase of $4.1 million or 24.3%. The increase was primarily due to a $0.2 million increase in employee pension costs, a $0.6 million increase in salaries and benefits due to increase headcount and salary increases, a $3.9 million increase in management's share based incentives, a $0.5 million increase in consulting audit and legal expenses and a $0.2 million increase in data and communication expenses. This increase was partially offset by a $0.9 million increase in other income primarily due to gains in the fair value of the total return swap agreement entered by the company to manage its exposure under the DSU's issued under the new incentive plan for existing and new pilots, a $0.2 million decrease in selling and marketing expenses and a $0.2 million decrease in depreciation.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended December 31, 2019 were $20.8 million compared to $11.5 million for the same period in 2018, representing an increase of $9.3 million or 80.9%. The increase was due primarily to a $6.0 million net increase in other losses and by a $3.3 million increase in finance costs.

Other losses

Other losses for the three month period ended December 31, 2019 were $6.0 million primarily due to $11.5 million loss on fair value adjustment of stock warrants, partially offset by a $5.5 million foreign exchange gains.

Finance costs

Finance costs for the three month period ended December 31, 2019 were $11.4 million compared to $8.1 million for the same period in 2018, representing an increase of $3.3 million or 40.7%. The increase was due primarily to capitalization of operating lease following the implementation of IFRS 16, interest on lease liabilities and issue of two new 5.75% hybrid debentures.

Adjusted EBITDA [1]

Adjusted EBITDA for the three month period ended December 31, 2019 was $47.2 million compared to EBITDA of $40.2 million for the same period in 2018. The increase in Adjusted EBITDA of $7.0 million was due primarily to the following:

- Growth in domestic network revenues due to increase in domestic network volumes
- Significant increase in ACMI and other revenues
- Effect of implementation of IFRS 16 on aircraft and property leases and related costs.

Adjusted EBITDAR [1]

Adjusted EBITDAR for the three month period ended December 31, 2019 was $47.2 million compared to $42.3 million for the same period in 2018, representing an increase of $4.9 million or 11.6%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to lower temporary engine lease costs.

Current Income Taxes

No provision for current income taxes was made due to the current and carryforward losses of prior years for the three month periods ended December 31, 2019 and 2018.

Deferred Income Taxes

The deferred income taxes for the three month period ended December 31, 2019 was a provision of $4.3 million compared to a provision of $2.4 million for the same period in 2018. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $25.3 million for the three month period ended December 31, 2019 compared to an inflow of $26.9 million for the same period in 2018, representing a decrease of $1.6 million. The decrease in Adjusted Free Cash Flow was due primarily to the increase in maintenance capital expenditures, effects of exchange rate changes and the effect of changes in non-cash working capital items and deposits, partially offset by increase in adjusted EBITDA.

[1] Adjusted EBITDA and Adjusted EBITDAR are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures can be found in the "NON-GAAP MEASURES" section of this MD&A.

Dividends

Total dividends declared for the three month period ended December 31, 2019 were $3.6 million or $0.2340 per share. In comparison, total dividends declared for the three month period ended December 31, 2018 were $2.9 million or $0.2120 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 20, 2019	October 04, 2019	-	13,548,057	-	3,170,245
December, 20 2019	January, 06 2020	3,575,931	15,281,756	0.2340	
		3,575,931	-	0.2340	3,170,245

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
September 20, 2018	October 05, 2018	-	13,417,250	-	2,844,457
December 20, 2018	January 07, 2019	2,852,031	13,452,977	0.2120	
		2,852,031	-	0.2120	2,844,457

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $33.2 million for the three month period ended December 31, 2019 (December 31, 2018 - $18.5 million). With the adjustment of exchange rate changes for the three month period ended December 31, 2019, the cash generated from operating activities was $31.0 million (December 31, 2018 - $23.5 million). The $7.5 million increase in cash was due primarily to the increase in operating activity and changes in non-cash working capital items and deposits.

Cash from financing activities during the three month period ended December 31, 2019 was $24.5 million (December 31, 2018 - $8.9 million) and was comprised of proceeds from borrowings of $42.6 million (December 31, 2018 - $nil). proceeds from debenture issue net of issuance costs, $nil (December 31, 2018 - $82.3 million) and proceeds from private placement $nil (December 31, 2018 – $0.7 million).This was partially offset by repayment of obligations under finance lease of $13.9 million (December 31, 2018 - $9.0 million),taxes paid on vested RSU's and options $1.0 million (December 31, 2018 - $nil), repayment of borrowings of $nil (December 31, 2018 - $62.3 million) and the payment of dividends to shareholders of $3.2 million (December 31, 2018 - $2.8 million).

Cash used in investing activities during the three month period ended December 31, 2019 was $53.8 million (December 31, 2018 - $30.9 million) and was comprised of property, plant and equipment additions of $54.2 million (December 31, 2018 - $31.1 million). This was partially offset by proceeds from disposal of property, plant and equipment of $0.3 million (December 31, 2018 - $0.2 million) and proceeds from total return swap and settlement of derivative financial instrument of $0.1 million (December 31, 2018 - $nil).

Capital Expenditures

The property, plant and equipment additions of $54.2 million in the three month period ended December 31, 2019 (December 31, 2018 - $31.1 million) were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, hangar and cross dock facility, spares and rotable spares.

Review of Operations for the Year ended December 31, 2019 and 2018

Net Earnings for the Year Ended December 31, 2019 and 2018

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2019	2018	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Domestic Network Revenues	**264.0**	248.8	15.2	6.1%
ACMI Revenues	**66.3**	46.0	20.3	44.1%
All-in Charter Revenues	**32.8**	38.6	(5.8)	-15.0%
Total domestic network, ACMI and charter revenues	**363.1**	333.4	29.7	8.9%
Total Revenue - Fixed based operations	**1.5**	1.3	0.2	15.4%
Total fuel and other cost pass through	**112.9**	115.0	(2.1)	-1.8%
Fuel surcharge and other pass through revenues	**114.4**	116.3	(1.9)	-1.6%
Other revenue	**9.1**	5.2	3.9	75.0%
Total revenues	**486.6**	454.9	31.7	7.0%
Operating Days	**197**	197	-	-
Average cargo revenue per operating day	**1.84**	1.69	0.15	8.9%
Direct expenses				
Fuel Costs	**101.1**	110.0	(8.9)	-8.1%
Depreciation	**77.2**	51.7	25.5	49.3%
Aircraft Cost	**12.2**	15.9	(3.7)	-23.3%
Heavy Maintenance Amortization	**14.8**	12.3	2.5	20.3%
Maintenance Cost	**33.6**	30.2	3.4	11.3%
Crew Costs	**34.2**	28.8	5.4	18.8%
Commercial and Other Costs	**94.3**	93.7	0.6	0.6%
Total direct expenses	**367.4**	342.6	24.8	7.2%
Gross margin	**119.2**	112.3	6.9	6.1%
Gross margin %	**24.5%**	24.7%	-0.2%	
SG&A & Marketing				
General and Administrative Costs	**57.5**	48.2	9.3	19.3%
Sales costs	**2.9**	2.8	0.1	3.6%
Depreciation	**2.0**	2.1	(0.1)	-4.8%
Total SG&A & Marketing expenses	**62.4**	53.1	9.3	17.5%
Other SG&A				
Other (gains) losses	**(7.6)**	2.6	(10.2)	-392.3%
Finance costs	**43.6**	27.3	16.3	59.7%
Total other SG&A	**36.0**	29.9	6.1	20.4%
EARNINGS BEFORE INCOME TAXES	**20.8**	29.3	(8.5)	-29.0%
Income Taxes-Deferred	**9.2**	9.1	0.1	1.1%
Net earnings	**11.6**	20.2	(8.6)	-42.6%
Earnings per share - $ CAD				
Basic	**$0.86**	$1.51	$(0.65)	-43.0%
Diluted	**$0.85**	$1.50	$(0.65)	-43.3%

Highlights for the year ended December 31, 2019 and 2018

- Total revenue for the year ended December 31, 2019 was $486.6 million compared to $454.9 million for the same period in 2018, representing an increase of $31.7 million or 7.0%.
- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2019 was $1.84 million per operating day compared to $1.69 million for the same period in 2018, representing an increase of $0.15 million per operating day or 8.9%.
- Adjusted EBITDA for the year ended December 31, 2019 was $156.0 million compared to $128.0 million for the same period in 2018, an increase of $28.0 million or 21.9%.
- Adjusted EBITDAR for the year ended December 31, 2019 was $156.8 million compared to $137.9 million for the same period in 2018, an increase of $18.9 million or 13.7%.
- Adjusted Free Cash Flow was an inflow of $48.4 million for the year ended December 31, 2019 compared to an inflow of $43.0 million for the same period in 2018, an increase of $5.4 million or 12.6%.

Revenue

Total revenue for the year ended December 31, 2019 was $486.6 million compared to $454.9 million for the same period in 2018, representing an increase of $31.7 million or 7.0%. The increase in total revenue was due primarily to a $15.2 million increase in domestic network revenues, a $20.3 million increase in ACMI revenues, and a $3.9 million increase in lease and other revenue. The increase was partially offset by a $5.8 million decrease in all in charter revenues and a $1.9 million decrease in fuel surcharges and other cost pass-through revenues

Revenue related to the domestic network business excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2019 was $264.0 million compared to $248.8 million for the same period in 2018, an increase of $15.2 million or 6.1%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in 6.1% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenue for the year ended December 31, 2019 was $66.3 million compared to $46.0 million for the same period in 2018, an increase of $20.3 million or 44.1%. The increase was due primarily to two new scheduled route to the USA and Mexico that started in November 2018 and September 2019.

All-in scheduled and adhoc cargo and passenger charter revenue for the year ended December 31, 2019 was $32.8 million compared to $38.6 million for the same period in 2018, a decrease of $5.8 million or 15.0%. The decrease in all-in charter revenue was primarily due to suspension of Columbia and Peru routes and fewer adhoc charters, partially offset by revenues from charter flights using its Challenger and B767-200 aircraft.

Fuel surcharges and other cost pass-through revenues were $114.4 million for the year ended December 31, 2019 compared to $116.3 million for the same period in 2018. During the period, fuel surcharges decreased due to a 5.5% decrease in fuel prices. partially offset by a 6.1% increase in domestic revenues from new and existing customers that attracted fuel surcharges. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $1.5 million for the year ended December 31, 2019 compared to $1.3 million for the same period in 2018, an increase of $0.2 million or 15.4%.

Other revenues consist primarily of hangar rental revenues, ground handling services provided to customers and maintenance revenues for aircraft line maintenance provided to other airlines. Other revenues for the year ended December 31, 2019 were $9.1 million compared to $5.2 million for the same period in 2018, an increase of $3.9 million or 75.0%.

Direct Expenses

Total direct expenses were $367.4 million for the year ended December 31, 2019 compared to $342.6 million for the year ended December 31, 2018. As a percentage of revenue, direct expenses increased from 75.3% in 2018 to 75.5% for the same period in 2019. The overall increase in direct expenses was due primarily to a $25.5 million increase in depreciation, a $2.5 million increase in heavy maintenance amortization, a $3.4 million increase in maintenance costs, a $5.4 million increase in crew costs, and a $0.6 million increase in commercial and other costs, partially offset by a $3.7 million decrease in aircraft costs and a $8.9 million decrease in fuel costs.

Fuel costs were $101.1 million for the year ended December 31, 2019 compared to $110.0 million for the same period in 2018. The $8.9 million or 8.1% decrease in fuel costs was due primarily to a 5.5% decrease in fuel price and suspension of Peru and Colombia operations, partially offset by a 1.8% increase in block hours on the domestic network. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $77.2 million for the year ended December 31, 2019 compared to $51.7 million for the same period in 2018. The $25.5 million or 49.3% increase in depreciation expenses was due primarily to the addition of aircraft, engines, hangers and other assets, due to capitalization of operating leases following the implementation of IFRS 16.

Aircraft costs were $12.2 million for the year ended December 31, 2019 compared to $15.9 million in 2018, representing a decrease of $3.7 million or 23.3%. The decrease in aircraft costs was due primarily to lower fixed lease costs and variable lease reserve costs due to the conversion of one B767-200 aircraft operating leases to finance leases due to the implementation of IFRS 16 and lower temporary engine lease costs. This decrease was partially offset by higher sub charter costs. The Company incurs temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $14.8 million for the year ended December 31, 2019 compared to $12.3 million for the same period in 2018, representing an increase of $2.5 million or 20.3%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized until the next scheduled heavy maintenance. The heavy maintenance component of newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $33.6 million for the year ended December 31, 2019 compared to $30.2 million for the same period in 2018, representing an increase of $3.4 million or 11.3%. This increase was due to the hiring of additional maintenance personnel and an increase in line maintenance costs primarily due to the increase in total block hours and cycles, the effect of exchange rate on expenditures incurred in USD currency and increase in the fleet size, partially offset by a decrease in hangar rental costs due to capitalization of operating leases following the implementation of IFRS 16.

Total crew costs including salaries, training and positioning were $34.2 million for the year ended December 31, 2019 compared to $28.8 million for the same period in 2018, representing an increase of $5.4 million or 18.8%.This increase was due primarily to the hiring of additional crew, increased training costs to meet increasing demand and annual salary increases due to a new collective agreement reached with the union. This increase was partially offset by the gains in the fair value of the total return swap agreement entered by the company to manage its exposure under the DSU ("Deferred Share Units") issued under the new incentive plan for existing and new pilots.

Commercial and other direct operating costs were $94.3 million for the year ended December 31, 2019 compared to $93.7 million for the same period in 2018, representing an increase of $0.6 million or 0.6%. This increase was comprised primarily of a $4.7 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, $2.0 million higher landing and navigation costs due to increased activity in 2019, $0.8 million higher ground service equipment maintenance and fuel costs, $0.4 million higher de-icing costs and a $0.5 million higher aircraft insurance costs. This increase was partially offset by a $3.4 million reduction in ground handling costs due to the Company providing its own ground handling services at ten of its locations, a $2.7 million decrease in line haul and cartage costs, and a $1.7 million decrease in warehouse facilities costs due to capitalization of leases due to the implementation of IFRS 16.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2019 were $62.4 million compared to $53.1 million for the same period in 2018, representing an increase of $9.3 million or 17.5%. This increase was primarily due to a $3.4 million increase in salaries and benefits due to increased headcount and salary increases, a $0.8 million increase in employee pension costs, a $5.1 million increase in management and staff bonuses, a $1.8 million increase in consulting, audit and legal costs, a $0.8 million increase in data and communication costs and a $1.8 million increase in sales and marketing costs, travel costs and increase in other general and administration expenses. This increase was partially offset by a $0.9 million increase in realized foreign exchange gains and a $2.7 million increase in other income due to gains in the fair value of the total return swap agreement entered by the company to manage its exposure under the DSU's issued under the new incentive plan for existing and new pilots and for settlement of options under the stock option plan, a $0.2 million decrease in depreciation expense and a $0.6 million decrease in rent office rent expenses due to capitalization of leases due to implementation of IFRS 16.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the year ended December 31, 2019 were $36.0 million compared to $29.9 million for the same period in 2018, representing an increase of $6.1 million or 20.4%. The increase was due primarily to a $16.3 million increase in finance costs, partially offset by $10.2 million increase in other gains.

Other gains

Other gains for the year ended December 31, 2019 were $7.6 million (December 31, 2018 – loss of $2.6 million). These gains were comprised primarily of a $4.3 million gain related to foreign exchange (December 31, 2018 – loss of $4.0 million), a $1.3 million gain on disposal of fixed assets (December 31, 2018 - $0.3 million), a $2.9 million gain on the Company's total return swap (December 31, 2018 - $1.1 million), partially offset by a $0.9 million loss on fair value adjustment on stock warrants (December 31, 2018 - $nil).

Finance costs

Finance costs for the year ended December 31, 2019 were $43.6 million compared to $27.3 million for the same period in 2018, representing an increase of $16.3 million or 59.7%. This increase was primarily due to new finance leases entered during the year and the issue of two new 5.75% hybrid debentures and capitalization of operating leases due to the implementation of IFRS 16.

Adjusted EBITDA [(1)]

Adjusted EBITDA for the year ended December 31, 2019 was $156.0 million compared to $128.0 million for the same period in 2018. The increase in Adjusted EBITDA of $28.0 million or 21.9% was due primarily to the following:

- Growth in domestic network revenues due to growth in domestic network volumes
- Significant increase in ACMI revenues with corresponding increase in variable costs;
- Effect of implementation of IFRS 16 on aircraft and property leases and related costs.and
- Lower stock based compensation costs due to gains on equity swaps.

Adjusted EBITDAR [(1)]

Adjusted EBITDAR for the year ended December 31, 2019 was $156.8 million compared to $137.9 million for the same period in 2018, representing an increase of $18.9 million or 13.7%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to lower temporary engine lease costs and capitalization of operating lease.

Current Income Taxes

No provision for current income taxes were made for the year months ended December 31, 2019 or 2018, due to the current and carry forward losses of prior years.

Deferred Income Taxes

The deferred income taxes recognized for the year ended December 31, 2019 was a provision of $9.2 million compared to a provision of $9.1 million for the same period in 2018. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $48.4 million for the year ended December 31, 2019, compared to an inflow of $43.0 million for the same period in 2018, representing an increase of $5.4 million. The increase was due to an increase in adjusted EBITDA partially offset by higher maintenance capital expenditure and changes in non cash working capital items.

(1) Adjusted EBITDA and Adjusted EBITDAR are non-GAAP financial measures. Reconciliations of these measures to comparable GAAP measures can be found in the "NON-GAAP MEASURES" section of this MD&A.

Dividends

Total dividends declared for the year ended December 31, 2019 were $13.1 million or $0.9360 per share. In comparison, total dividends declared for the year ended December 31, 2018 were $11.4 million or $0.8480 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2018	January 07, 2019	-	13,452,977	-	2,852,031
March 20, 2019	April 05, 2019	3,150,705	13,464,552	0.2340	3,150,705
June 20, 2019	July 05, 2019	3,164,264	13,522,495	0.2340	3,164,264
September 20, 2019	October 04, 2019	3,170,245	13,548,057	0.2340	3,170,245
December, 20 2019	January, 06 2020	3,575,931	15,281,756	0.2340	
		13,061,145	-	0.9360	12,337,245

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2017	January 05, 2018	-	13,382,629	-	2,576,156
March 21, 2018	April 05, 2018	2,837,117	13,382,629	0.2120	2,837,117
June 20, 2018	July 05, 2018	2,844,457	13,417,250	0.2120	2,844,457
September 20, 2018	October 05, 2018	2,844,457	13,417,250	0.2120	2,844,457
December 20, 2018	January 07, 2019	2,852,031	13,452,977	0.2120	
		11,378,062	-	0.8480	11,102,187

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $151.0 million (December 31, 2018 - $91.3 million). With the effect of exchange rate changes for the year ended December 31, 2019, the cash generated by operating activities was $144.9 million (December 31, 2018 - $96.7 million). The $48.2 million increase in cash generated was due primarily to the increase in EBITDA and changes in non-cash working capital items and deposits.

Cash provided from financing activities during the year ended December 31, 2019 was $74.8 million (December 31, 2018 – $68.7 million) and was comprised of proceeds from debenture issue net of issuance costs $109.7 million (December 31, 2018 - $82.3 million) and proceeds from the borrowing of $99.8 million (December 31, 2018 – $143.8 million), proceeds from private placement $nil (December 31, 2018 – $0.7 million), partially offset by the repayment of borrowings of $61.6 million (December 31, 2018 - $62.3 million), the repayment of obligations under finance lease of $55.5 million (December 31, 2018 – $74.4 million), options settled in cash of $2.0 million (December 31, 2018 - $7.3 million), tax paid on vested restricted share units and options of the Company of $3.2 million (December 31, 2018 - $3.0 million) and dividends paid to shareholders of $12.4 million (December 31, 2018 – $11.1 million).

Cash used in investing activities during the year ended December 31, 2019 was $217.2 million (December 31, 2018- $172.0 million) and was comprised primarily of property, plant and equipment additions of $218.1 million (December 31, 2018 - $186.7 million), acquisition of business $3.1 million (December 31, 2018 - $nil) and settlement of provision of $1.4 million (December 31, 2018 - $nil). This was partially offset by proceeds from the disposal of property, plant and equipment of $1.3 million (December 31, 2018 - $1.5 million), proceeds from the sale and leaseback of aircraft of $nil (December 31, 2018 - $10.3) and proceeds from total return swap and settlement of derivative financial instrument of $4.1 million (December 31, 2018 - $2.9 million).

The Company had a working capital deficit of $44.0 million as at December 31, 2019, representing the difference between total current assets and current liabilities, compared to a working capital deficit of $0.8 million as at December 31, 2018. The increase of $43.2 million in working capital deficit is primarily due to a decrease in trade and other receivables, an increase in trade and other payables, an increase in the current portion of finance leases payable and an increase in dividends payable to shareholders. This amount was partially offset by an increase in cash balance, an increase in inventories, an increase in the derivative financial instrument receivable net of payable, an increase in the current portion of prepaid expenses and deposits and a decrease in overdraft.

Capital Expenditures

The property, plant and equipment additions of $218.1 million in the current year were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, rotable spares, heavy maintenance, hangar and cross-dock facilities and other equipment and spares.

Selected Annual Information
(Canadian dollars in millions, except where indicated)

	Year Ended December 31		
	2019	2018	2017
	$	**$**	$
Revenue	486.6	454.9	382.9
Direct expenses	367.4	342.6	276.6
Gross margin	119.2	112.3	106.3
Selling, general & administrative expenses and income taxes	107.6	92.1	82.6
Net income	11.6	20.2	23.7
Earning per share - CAD$			
Basic	0.86	1.51	1.96
Diluted	0.85	1.50	1.93
EBITDA [1]	158.4	122.7	108.5
Adjusted EBITDA [1]	156.0	128.0	109.5
EBITDAR [1]	159.2	132.6	121.9
Adjusted EBITDAR [1]	156.8	137.9	122.9
Adjusted Free Cash Flow [1]	48.4	43.0	63.9
Cash, cash equivalents and short term investments	1.6	-	5.7
Total assets	1,098.3	852.9	627.7
Total long-term liabilities	707.6	621.8	368.6
Total liabilities	822.1	695.2	473.1
Dividends per share - CAD$	$0.9360	$0.8480	$0.7700

[1] EBITDA, Adjusted EBITDA, EBIDAR, Adjusted EBIDAR and Adjusted Free Cash Flow are non -GAAP financial measures and are not earning measures recognized by IFRS. Please refer Page 14 of this MD&A for a more detailed discussion

Financial Condition

The following is a comparison of the financial position of the Company as at December 31, 2019 to the financial position of the Company as at December 31, 2018:

Accounts Receivable

Accounts receivable as at December 31, 2019 amounted to $51.3 million compared to $65.2 million as at December 31, 2018. The decrease of $13.9 million was primarily due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at December 31, 2019, property, plant and equipment were $890.2 million compared to $721.3 million as at December 31, 2018. The $168.9 million net increase in property, plant and equipment was primarily due to the net addition of $227.7 million in property plant and equipment and recognition of $35.2 million in right to use asset under IFRS 16 partially offset by depreciation of $84.9 million and amortization of right to use asset of $9.1 million.

Trade and Other Payables

Trade and other payables as at December 31, 2019 were $51.6 million compared to $44.4 million as at December 31, 2018. The increase of $7.2 million was due primarily to the timing of supplier payments.

Lease Liabilities

The lease liabilities are in respect of the lease of eight B767-300, one B767-200 aircraft, hangers and warehouses. Total finance leases including the current portion were $196.3 million as at December 31, 2019 compared to $199.4 million as at December 31, 2018. The change was due to the scheduled monthly repayments made in the year ended December 31, 2019, partially offset by execution of a lease arrangement for one Boeing 767-300 aircraft that also includes a bargain purchase option and capitalization of one Boeing 767-200 aircraft, hangars and warehouses due to adoption of IFRS 16,.

Provisions

Provisions as at December 31, 2019 were $nil compared to $1.4 million as at December 31, 2018 and was comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms. The change was due to settlement of provisions for lease return conditions for $1.4 million during the year ended December 31, 2019.

Summary of Contractual Obligations

	Payments due by Year					
As at December 31, 2019	Total	2020	2021	2022	2023	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Lease liabilities	196.3	59.8	84.5	19.9	17.8	14.3
Borrowings	244.2	-	-	-	-	244.2
Debentures	193.3	-	-	-	-	193.3
Stock warrant obligations	73.5	-	-	-	-	73.5
	707.3	59.8	84.5	19.9	17.8	525.3

Off-Balance Sheet Arrangements

The Company's primary off-balance sheet arrangements are as follows:

(a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircraft. Under the terms of these agreements, the Company agrees to indemnify the lessors of aircraft and facilities for various items including, but not limited to, all liabilities, losses, 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) Indemnities have been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Company has entered into agreements that include indemnities in favour 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.

Note: See Caution Concerning Forward Looking Statements, page 2.

(d) The Company participates in six Fuel Facility Corporations ("FFC") along with other airlines that contract for fuel services at various major airports in Canada. Each FFC operates on a cost recovery basis. The purpose of the FFC is to own and finance the system that distributes fuel to the contracting airlines, including leasing the required land rights. The aggregate debt of these FFC and any liabilities of environmental remediation costs are not considered part of the Financial Statements of the Company and are not consolidated. The airlines that participate in FFC guarantee on a pro-rata basis of the share of the debt based on system usage. There is no major change in the total assets and total debts of these FFC as disclosed in the MD&A for the year ended December 31, 2018. The Company's pro rata share of the FFC's assets and debt is approximately 8% before taking into consideration the value of assets that secure the obligations and cost sharing that would occur among other participating airlines. The Company views the potential for losses in respect of the FFC as remote.

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.

Major Customers

During the year ended December 31, 2019, the Company had sales to three customers that represented 60.7% of the total revenues (December 31, 2018 – 60.3%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $18.7 million as at December 31, 2019. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Risk Factors

Risks Related to the Business

Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 81.3% of Fiscal 2019 revenues of the Company and the Company's top three customers each accounted for over 10% of the Company's Fiscal 2019 revenues. The loss of any one of these contracts of the Company would cause immediate disruption and would adversely affect the Company's revenues. Any such loss could have a material adverse effect on the results of operations of the Company and there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as the existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

Most of the Company's contracts with its customers are for a term of three to ten years with the ability to terminate generally upon six to eighteen months' notice or if the Company is not meeting specified performance targets. When these contracts expire, there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed the Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC"). The terms of contract require the Company to maintain specific on time performance metrics and provide minimum levels of dedicated cargo space. To fulfill its requirements under the contract, the Company has made material investments in its fleet, equipment and the hiring of new personnel. The cancellation of the MSA without penalty would have a material adverse effect on the Company's business, results of operations or financial condition.

Credit Facilities, Finance Lease and Loan Agreement and their Restrictive Covenants

The ability of the Company to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness and finance lease obligations. The degree to which the Company is leveraged could have important consequences to the shareholders, including: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness and amounts payable under the finance leases, thereby reducing funds available for future operations and distribution to the Company; (ii) certain of the Company's borrowings and finance lease obligations will be at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Company's ability to make scheduled payments of principal and interest and other amounts on, or to refinance, its indebtedness and finance lease obligations will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness and finance lease obligations at all or on favorable terms.

The instruments governing the Company's indebtedness and finance lease obligations contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge, amalgamate or consolidate with another entity. In addition, such instruments contain financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the obligations under these instruments were to be accelerated, there can be no assurance that the Company's assets would be sufficient to satisfy such obligations in full. In addition, there can be no assurance that future borrowing or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to fund the Company's refinancing needs and other obligations arising on the maturity of such instruments, including the obligations to purchase the aircraft subject to the finance leases.

Canada — US Open Skies

The current Canada — US "Open Skies" agreement provides regulation of the airline industry, including the air cargo industry, within Canada and currently provides protection of domestic national carriers in each country. The agreement allows cross-border flights between Canada and the United States but provides major restrictions on carriers from operating flight routes between two points within the other's country. The most recent amendments negotiated between the two countries reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers including the Company to establish domestic routes within the United States. There is no assurance that this "Open Skies" agreement will continue in its present form in the future. Increased competition resulting from the liberalization or revocation of this agreement could affect the Company's ability to compete for a market share, which in turn could have a material adverse effect on the Company's business, results of operations or financial condition.

Competition

The Company competes within the industry of air cargo courier services with other dedicated air cargo carriers. In addition, the Company competes for market share with motor carriers, express companies and other air couriers and airlines who offer cargo services on their regularly scheduled passenger flights. In addition to competition from existing competitors, new companies including those entering into expanded joint ventures and other arrangements, or utilizing disruptive business models or technology, may enter the domestic air cargo industry and may be able to offer services at discounted rates. Concentrating only on the air cargo industry does not allow the Company to compete in different modes of freight transportation which may provide a cheaper alternative to air cargo. The Company's inability to compete for a market share of the air cargo industry under these circumstances could have a material adverse effect on the Company's business, results of operations or financial condition.

Agreements with Amazon

There can be no assurance that the Company will realize the anticipated revenue growth and expected benefits from the strategic agreement with Amazon. While the Company believes that the strategic agreement with Amazon will deliver important financial and strategic benefits, including anticipated revenue growth from Amazon's business and the associated margins and that such revenue growth will be meaningfully accretive to Cargojet's earnings and cash flows over time as well as create other benefits and opportunities, including to Cargojet's existing network, there is a risk that some or all of the anticipated benefits associated with the Amazon strategic agreement may fail to materialize, or may not occur within the time periods currently anticipated by the Company. As part of the strategic agreement with Amazon, the Company issued Warrants to the Warrant holder, with vesting tied to the delivery by Amazon of up to $600 million in business volumes over seven and a half years. If, as a result of meeting its business volume requirement and pursuant to its Warrants, Amazon exercises its right to acquire Voting Shares, it will dilute the ownership interests of the Company's then-existing shareholders and reduce the Company's earnings per share. In addition, any sales in the public market of any Voting Shares issuable upon the exercise of the warrants by Amazon could adversely affect prevailing market prices of the Company's Voting Shares. The realization of the expected benefits from the Amazon strategic agreement may be affected by a number of factors, including credit, market, currency, operational, capital expenditures, liquidity and funding risks generally, including changes in economic conditions, interest rates, exchange rates or tax rates, risks and uncertainties relating to retail, e-commerce growth, labour, technology, changes in law or regulation, competition, and business generally and other risks inherent to the Company's business and/or factors beyond its control which could have a material adverse effect on the Company.

Government Regulations

The Company's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals.

The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

The Company is routinely audited by various regulatory bodies including Transport Canada and the Canadian Transportation Agency to ensure compliance with all flight operation and aircraft maintenance requirements. To date, the Company has successfully passed all audits, however, there can be no assurance that the Company will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Company may incur costs to clean up contamination present on, at or under its facilities, even if such contamination was present prior to the commencement of the Company's operations at the facility and was not caused by its activities which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Company may incur costs to clean up contamination present on, at or under its facilities, even if such contamination was present prior to the commencement of the Company's operations at the facility and was not caused by its activities which could have a material adverse effect on the Company's business, results of operations or financial condition.

With widespread attention on climate change has come recent efforts by the Canadian government to reduce greenhouse gas emissions. In short, the federal Greenhouse Gas Pollution Pricing Act requires that provinces that lack their own form of pricing for greenhouse gas emissions, including Manitoba, New Brunswick, Saskatchewan and Ontario, impose a carbon tax on airlines operating flights within provinces that fall under the federal system as well as intra-provincial flights. Outside of Canada, the international audience is paying close attention to climate change with governments and agencies founding initiatives to help reduce the carbon footprint worldwide. As a result, the Company may be subject to environment-related requirements imposed or proposed by foreign governments. These may be duplicative of, or incompatible with Canadian government requirements, resulting in increased compliance efforts and expense.

The Company cannot predict whether, or the manner in which, these or other initiatives will ultimately be implemented or their impact on the Company; however, future developments in Canada and abroad could adversely impact the Company, including by increasing its costs. While the Company is continually focused on efficiency improvements, including carbon footprint reduction initiatives, the impact to the Company of climate and other environmental initiatives may, in part, depend upon the extent to which the increased costs relating to such initiatives, if any, could be recovered, including in the form of higher cargo rates.

The Company cannot provide any assurance that existing laws, agreements, treaties or regulations will not be revised or that new laws, agreements, treaties or regulations, which could have an adverse impact on the Company's operations, will not be adopted or become applicable to the Company. For example, the Company's aircraft currently meet Transport Canada and FAA Stage III noise abatement guidelines. Any future implementation of Stage IV noise abatement guidelines would require the Company to incur expenses to ensure its aircraft meet such guidelines which expenses could negatively impact the Company's earnings. The Company also cannot provide any assurance that it will be able to recover any or all increased costs of compliance from its customers or that the business and financial condition of the Company will not be adversely affected by future changes in applicable laws and regulations.

Insurance

The Company's operations are subject to risks normally inherent in the air-cargo industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by the Company or its agents. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of the Company. There can be no assurance that insurance coverage will be sufficient to cover one or more large claims, or that the applicable insurer will be solvent at the time of any covered loss. There can be no assurance that the Company will be able to obtain insurance at acceptable levels and costs in the future. Further, there has been an increasing trend in the aviation insurance industry for providers to reduce, either in full or in part, the terrorism risks (including war risk insurance) that it covers. To the extent that the Canadian government is unwilling to fill this gap and provide the required coverage, the Company's insurance costs may increase and the Company may run the risk of being in breach of regulatory requirements or contractual agreements requiring specific insurance coverage be maintained. The Company may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies. The occurrence of an aircraft-related accident or mishap involving the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company does not carry any business interruption insurance.

Cyber security

In today's connected business environment, various aspects of an organization's business activities are carried out in "cyberspace". Cyberspace is where people and organizations create an electronic presence and engage in virtual activities, exchanging information, products and services through the Internet While operating in cyberspace offers advantages; it also makes organizations vulnerable to cyber attacks by criminals with far-reaching consequences beyond the theft of information and financial losses. The Company continues to develop and enhance its cyber security in response to cyberspace risks to protect computer systems and data from threats originating in cyberspace. A security breach can cause significant implications that may include disruption in operations, significant financial losses, legal obligations and negative effects on the Company's reputation. The Company has engaged security experts to enhance its cyber security strategy and has secured appropriate insurance coverage to offset potential losses on operation due to a security breach. However, there can be no assurance that the measures will be adequate to protect against all cyber risks or that insurance can cover all losses as a result of any breach. As of the date hereof there have been no incidents of security breach noted by the Company or its security advisors but any such breach could have a material adverse effect on the Company's business, results of operations or financial condition.

Maintaining Leased Aircraft and Availability of Future Aircraft

The Company currently owns and operates eight B757-200, and four B767-300 and has eight B767-300 that are under finance lease. It also leases one B767-200 aircraft. The Company also owns two Challenger 601 and one B767-200 aircraft which are operating under a charter agreement with a third party. The success of the Company will depend, in part, on its ability to replace owned aircraft when necessary and to maintain favorable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favorable leases for its aircraft or be able to arrange financing for its current commitment of aircraft purchases or future replacements and expansions. Such risk could have a material adverse effect on the Company's business, results of operations or financial condition.

Fixed Costs

The Company is subject to a high degree of operating leverage. Since fixed costs comprise a proportion of the operating costs of each flight route, the expenses of each flight route do not vary proportionately with the amount of shipments that the Company carries. Accordingly, a decrease in the Company's revenues could result in a disproportionately higher decrease in the Company's earnings as expenses would remain unchanged.

Fuel Prices

The Company requires significant quantities of fuel for its aircraft. Historically, fuel costs represented 25% to 30% of the Company's direct operating cost. The Company is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. Although the Company historically has implemented fuel surcharges to mitigate the earnings impact of unusually high fuel prices, competitive and other pressures may prevent the Company from passing these costs on to its customers in the future. The Company cannot provide any assurance that its supply of fuel will continue uninterrupted, that rationing will not be imposed or that the prices of, or taxes on, fuel will not increase significantly in the future. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought. Increases in prices that the Company is unable to pass on to its customers could have a material adverse effect on the Company's business, results of operations or financial condition.

Costs Related to Mechanical and Maintenance Problems and Replacement of Equipment and Parts

Maintenance costs will increase as our fleet ages. It includes overhaul of engines, landing gears, APUs and airframes in addition to ongoing maintenance requirements. The Company has a maintenance program schedule and monitors the maintenance of aircraft for owned and leased aircraft. Although costs related to mechanical problems and to maintenance for the Company's aircraft have been forecasted and funded pursuant to its leasing arrangements and maintenance agreements, the actual costs may be higher than those anticipated. Unexpected repairs relating to mechanical problems and to maintenance are beyond the control of the Company and may have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the ability of the Company to obtain equipment and replacement parts on satisfactory terms when required is not always certain. Any inability to obtain equipment or parts, or to obtain the required equipment or parts on satisfactory terms and on a timely basis could have a material adverse effect on the Company's business, results of operations or financial condition.

Foreign Exchange Fluctuations

The Company undertakes sales and purchase transactions including aircraft maintenance cost, lease payments, loan payments, crew training and certain operating costs in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. Changes in the value of the Canadian dollar relative to the United States dollar could have a negative effect on the profitability of the Company. For the year ended December 31, 2019, the Company had a net cash flow exposure to the United States dollar of approximately U.S. $75.2 million and to the Euro of approximately €0.7 million. As of the date of this MD&A, the Company is exposed to fluctuations in the US-dollar exchange rate relating to four B767-300 and one B767-200 lease agreements. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company's business, results of operations or financial condition.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that the Company's business and growth strategy will enable the Company to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including general economic conditions and consumer confidence.

There can be no assurance that the Company will be successful in achieving its strategic plan or that this strategic plan will enable the Company to grow at historical rates or to sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on the Company's business, result of operations or financial condition.

There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations or financial condition.

Industry Risk and Economic Sensitivity

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. The Company's revenues are impacted by the health of the economy in the regional markets in which the Company operates. Although the Company cannot specifically correlate the impact of macro-economic conditions on its business activities, the Company believes that a decline in economic conditions in Canada may result in decreased demand for the services the Company provides and, to the extent that this decline continues or increases in severity, the Company's business, results of operations or financial condition could be materially adversely affected.

Terrorist Activity

The terrorists' attacks of September 11, 2001 and their aftermath negatively impacted the air cargo industry. Following the events of September 11, 2001, a host of countries including Canada introduced new cargo security programs or strengthened existing programs, with the objective to prevent cross-border shipment of illicit goods. The impact on the industry was increased cargo scrutiny and border delays, which translates into higher indirect costs for businesses engaged in cross-border trade. Additional terrorist attacks (whether international or domestic and whether involving the Company, another air cargo company or no air cargo company at all), the fear of such attacks or increased hostilities could further negatively impact the air cargo industry. The perceived threat of terrorist activity could lead to a decrease in customer demand for air cargo courier services, with customers choosing other methods of cargo transport, as well as the potential need for a substantial increase in insurance. The Company could experience a decrease in the use of its air cargo network as a means of transporting goods domestically and internationally and an increase in costs. Any resulting reduction in the use of the Company's cargo network and/or increase in costs could have a material adverse effect on the Company's business, results of operations or financial condition.

Dependence on Key Personnel

The Company's success will be substantially dependent on the continued services of senior management of the Company. In addition, Cargojet operates in an industry that requires specialized skills and knowledge. Cargojet employs individuals who possess specific technical knowledge and experience in the areas of aircraft operation, aircraft maintenance, flight planning, flight dispatch, crew planning, crew training, ground handling and commercial airline cargo management. While Cargojet has not experienced material difficulty in recruiting and retaining appropriate staff to carry out its operations, the Company's continued growth depends on the ability of the Company to attract and retain skilled managers and employees and the ability of its personnel to manage the Company's growth. The inability to attract and retain key personnel could have a material adverse effect on the Company's business, results of operations or financial condition.

Labour Relations

On October 19, 2012, the Company's pilots were certified as a bargaining union by the Canadian Industrial Relations Board (the "CIRB"). As of the date hereof, 181 of the Company's pilots are certified as a union by the CIRB. The Company entered into a five-year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July, 2018.

None of Cargojet's other employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of collective bargaining agreements cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts, and any resulting collective bargaining agreement may increase labour costs or impose terms and conditions that restrict or reduce the Company's ability to sustain its business objectives or pursue its strategic initiatives, all of which could have a material adverse effect on the Company's business, results of operations or financial condition.

In addition to labour relations at the Company, there can be no assurance that there will not otherwise be any labour conflict or action that could also lead to an interruption or stoppage by key suppliers or other parties with whom the Company conducts business or relies on, such as interline partners, which could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

Severe weather conditions and other natural or manmade disasters, including storms, floods, hurricanes, fires, earthquakes or epidemics may result in decreased revenues, as the demand for air cargo courier services may be adversely impacted. The Company may experience an increase in costs or inability to operate its business as a result of severe weather conditions or natural or manmade disasters, which could have a material adverse effect on the Company's business, results of operations or financial condition. In the event that the Company is still able to provide services to its customers during a period of severe weather, particularly during any protracted period of time, there may be forced flight cancellations or the Company may not be able to deliver shipments in a timely manner. Any extended delay in meeting time sensitive shipping deadlines could have a material adverse effect on the Company's business, results of operations or financial condition.

Seasonal Fluctuations

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in the first quarter. Accordingly, the seasonal nature of the business of the Company will affect the quarterly financial results of operation of the Company that will be reported.

Dependence on International Trade

The principal businesses of the Company are indirectly related to, and future performance of the Company is dependent upon, the volume of international trade, including cross-border trade between Canada and the U.S. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, exchange controls, currency fluctuations and Canadian, US and foreign laws relating to duties, trade restrictions, foreign investment and taxation, including but not limited to the United States-Mexico-Canada Agreement ("USMCA").

There can be no assurance that trade-related events beyond the control of the Company, such as the failure to reach or adopt trade agreements, an increase in trade restrictions or the outcome of the ongoing negotiations and discussions related to USMCA, or at all will not have a material adverse effect on the Company's business, results of operations or financial condition.

Future Sales of Voting Shares by the directors and officers of Cargojet

The directors and officers of Cargojet directly or indirectly hold in aggregate [1,019,463] Voting Shares, or approximately 6.55% of the outstanding Voting Shares on a non-diluted basis. If the directors and officers of Cargojet sell substantial amounts of Voting Shares in the public market, the market price of the Voting Shares could decrease. The perception among the public that these sales will occur could also produce such an effect.

Income Tax Matters

Cargojet is subject to federal and provincial income taxes. Although the Company is of the view that all expenses to be claimed by the Company and its subsidiaries in the determination of their respective incomes under the *Income Tax Act* (Canada) (the "Tax Act") will be reasonable and deductible by the appropriate entity in accordance with the applicable provisions of the Tax Act, and that the allocations of income and loss of Cargojet Holdings Limited Partnership ("CHLP") and the Cargojet Partnership ("CJP") to be made for purposes of the Tax Act will be reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that the Canada Revenue Agency ("CRA") or the provincial taxing authority will agree. Counsel can provide no opinion with respect to the reasonableness of any expense or of the allocation of income by a partnership. If the CRA or any provincial tax authority successfully challenges the deductibility of expenses or the allocation of income, Cargojet's liability to income tax may increase.

Increase in Interest Rates

One of the factors that may influence the price of the Voting Shares in public trading markets will be the annual cash-on-cash return from dividends by the Company on the Voting Shares compared to cash-on-cash returns on other financial instruments. Thus, an increase in market interest rates will result in higher cash-on-cash returns on other financial instruments, which could adversely affect the market price of the Voting Shares.

Future legal proceedings

In the course of operating its business, the Company may become subject to various claims and litigation including with respect to its contractual arrangements and current or new laws and regulations. As a result of potential future legal proceedings, the Company may be required to pay significant sums of money in the form of legal fees, judgments or settlements. Any future claims or litigation and any resulting monies owed could have a material adverse effect on the Company's business, results of operations or financial condition.

Interline Partnerships and Alliances

The Company has entered into several strategic interline partnerships/alliances thus providing customers with seamless air cargo courier services around the world to all destinations to and from Canada. The loss of a significant interline partner or its failure to meet its obligations towards the Company could have a material adverse effect on the Company's business, results of operations or financial condition.

Key Supplies and Suppliers

The Company is dependent upon its ability to source, on favorable terms and costs, sufficient quantities of goods and services of desirable quality, in a timely manner, including those required for the Company's business or operations, such as fuel, aircraft and related parts, aircraft maintenance services, and information technology systems and services. If for any reason the Company is required to find new suppliers, including by reason of suppliers increasing their rates, the transition to new or alternative suppliers may not be possible or may take a significant amount of time or require significant resources. A failure, refusal or inability of a supplier may arise as a result of a wide range of causes, many of which are beyond the Company's control. Any failure or inability of the Company to successfully source goods and services, or to source goods and services of desirable quality on terms and pricing and within the timeframes acceptable to the Company, could have a material adverse effect on the Company's business, results of operations or financial condition.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2.

Transport Canada recently announced formal changes to the existing pilot fatigue regulations that will come into effect in December 2020 and are applicable to all commercial airline operators in Canada. The new regulations will increase Cargojet's pilot costs and are expected to contribute further to an existing pilot shortage in our industry. Cargojet must recruit and train additional pilots starting in the latter half of 2019 in order to meet the new requirements that come into effect in December 2020. The recruitment and training process of new pilots takes a number of months and the current pilot shortage in the industry is expected to dramatically increase pilot attrition rates. As other larger Canadian airlines accelerate their pilot hiring campaigns, the shortage of pilots will become more acute.

Cargojet has executed a strategy to mitigate the risk of a pilot shortage in its operations. As part of this strategy, effective July 1st 2018 Cargojet entered into a new five-year collective agreement with its pilots that include no-strike/no lock-out language. While this new contract is expected to provide Cargojet with labour stability and prevent service disruptions to its customers, it increased pilot costs by approximately 20%. Effective July 1, 2019 Cargojet introduced a retention bonus to all of its pilots and extended its pilots union contract by 36 months to June 30, 2026. The cost of the incentive program is expected to be approximately $20 million in total over the 7-year term of the pilots union contract. With the extended contract and added incentives to reduce attrition, Cargojet expects to fully meet its staffing requirements under the new fatigue regulations. Cargojet intends to recover the additional costs of recruiting, training and retaining new pilots to meet the government imposed fatigue regulations from its customers in the form of additional surcharges. Cargojet's customer agreements include provisions that allow Cargojet to recover additional costs incurred as a result of government regulation. Cargojet began recover these costs starting in Q4-2019 in advance of the new regulations coming into effect.

During the period ended December 31, 2019, the Company experienced growth over all revenue streams by 7.0% compared to the same period in 2018. The Company anticipates that revenues will continue to grow due to the continued development and strengthening of its relationships with existing customers and establishing new relationships with national and international carriers to establish new ACMI routes to the USA and charters. The Company continues to retain all of its major customers. Since 2014, the Company added aircraft, staff and network capacity to accommodate growing demand on its domestic network. The Company continues to optimize its domestic network to match customer demand and will continue to do so going forward. This improved the gross margin and EBITDA by optimizing costs of its current operation. The Company will continue to evaluate its investments in fixed assets to ensure high returns on its investments and are in balance with its outlook of global economic conditions.

The Company proactively manages its fleet capacity and maintains strong on-time performance. Management expects to achieve organic growth within its existing customer base and to obtain new customers for both its domestic and international routes as the Company continues its efforts to build on its competitive market position.

The Company also continues to recover fuel price increases through fuel surcharges. Any fuel cost increases due to higher fuel prices are mostly passed on to customers as an increase in the fuel surcharge and are billed to customers on a cost recovery basis only. Similarly, any cost savings due to lower fuel prices are passed on to customers as a decrease in the fuel surcharge. Management is confident that the Company will continue to fully recover any future increases in fuel costs.

Management's principal objective is to maximize free cash flow available for dividends by continuing to provide quality air cargo services, increasing the range of these services, focusing on improving efficiencies and cost controls, and growing the business organically and through strategic and accretive acquisitions. Management continuously reviews and evaluates all of the foregoing initiatives especially those that can improve cash flow.

Future strategic initiatives may be financed from working capital, cash flow from operations, borrowing or the issuance of securities. Any decisions regarding the above, including further increases or decreases in dividends, will be considered and determined as appropriate by the Board of Directors of the Company.

Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. By their nature, judgments and estimates may change in light of new facts and circumstances in the internal and external environment. The following judgments are those deemed by management to be material to the preparation of the financial statements.

Critical accounting judgments

Componentization of property, plant and equipment and goodwill: The componentization of the Company's property, plant and equipment is based on management's judgment of the cost of the component relative 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: Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit (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.

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

Critical Estimates

The table below discloses the methodology and assumptions used by management in the assessment of the accounting estimates.

Critical Accounting Estimate	**Methodology and Assumptions**
Financial instruments	The issuance of a compound instrument, 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.
Impairment of property, plant and equipment and goodwill	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.
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 assess its 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 that it will incur certain maintenance costs 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, 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 change in timing, cost of maintenance or discount rates.

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
Employee future benefits	The cost and related liabilities of the Corporation's pensions, 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.
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 non-employee directors is recognized using a Black-Scholes option pricing model and Monte Carlo simulation involving assumptions including discount rates and exercise dates. Due to the long-term nature of these rights, such estimates are subject to significant uncertainty.

Outstanding Share Data

The Company's common and variable voting shares are listed under the symbol "CJT" and hybrid debentures are listed under the symbol "CJT.DB.D" and "CJT.DB.E" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding and securities convertible into shares of the Company as at December 31, 2019:

Capital	Authorized/ Principal	Outstanding number of shares
Common and Variable Voting Shares	Unlimited	15,575,084

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

Disclosure controls and procedures within the Company are designed to provide reasonable assurance that appropriate and timely decisions are made regarding public disclosure. This is accomplished through the establishment of systems that identify and communicate relevant information to persons responsible for preparing public disclosure items, in accordance with the Disclosure Policy adopted by the Board of Directors of the Company.

Internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of the Company's financial reporting and its preparation of financial statements for external purposes in accordance with IFRS.

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2019 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This MD&A was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

New and amended standards adopted by the company

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 has one aircraft under operating lease and has recorded the asset in use and the lease liability in accordance with the requirements of the standard. The Company has leased hangars and warehouses at its airport locations and has recorded the right-of-use asset and the lease liability under the standard.

Leases are recognized as right-of-use assets and a corresponding liability is recognized at the date of 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.

End Notes

[A] "EBITDA" is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is calculated as net income or loss excluding the following: depreciation, and aircraft heavy maintenance amortization, interest on long-term debt, deferred income taxes and provision for current income taxes. EBITDA is a term used by the Company that does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures used by other issuers. EBITDA is a measure of the Company's operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of depreciation and amortization of aircraft heavy maintenance expenditures,), or non-operating (in the case of interest on long-term debt and provision for current income taxes). The underlying reasons for exclusion of each item are as follows:

Depreciation - as a non-cash item, depreciation has no impact on the determination of EBITDA.

Interest on long-term debt - interest on long-term debt is a function of the Company's treasury/financing activities and represents a different class of expense than those included in EBITDA.

Deferred income taxes - the calculation of deferred income taxes is a function of temporary differences between the financial reporting and the tax basis of balance sheet items for calculating tax expense and is separate from the daily operations of the Company.

Provision for current income taxes – the provision for current income taxes is a non-operating item and represents a different class of expense than those included in EBITDA.

Aircraft heavy maintenance amortization - aircraft heavy maintenance amortization represents a non-cash item and is excluded from EBITDA.

(B) "Adjusted EBITDA" is defined as earnings before interest, taxes, depreciation, amortization, and other adjustments. Adjusted EBITDA is calculated as net income or loss excluding the following: depreciation, aircraft heavy maintenance amortization, interest on long-term debt, deferred income taxes, provision for current income taxes, gain or loss on disposal of property, plant and equipment, amortization of maintenance deposits, impairment of property plant and equipment, unrealized foreign exchange gains or losses and employee pension. Adjusted EBITDA is the term used by the Company that does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures used by other issuers. Adjusted EBITDA is measure of the Company's operating profitability and by definition, excludes certain items as detailed above. These items are viewed by management as non-cash (in the case of depreciation, and aircraft heavy maintenance amortization, gain or loss on disposal of property, plant and equipment, gain or loss on disposal of intangible assets, amortization of maintenance deposits, unrealized foreign exchange gains and losses and deferred income taxes), or non-operating (in the case of interest on long-term debt and provision for current income taxes). The underlying reasons for exclusion of each item are as follows:

Depreciation - as a non-cash item, depreciation has no impact on the determination of Adjusted EBITDA.

Interest on long-term debt - interest on long-term debt is a function of the Company's treasury/financing activities and represents a different class of expense than those included in Adjusted EBITDA.

Deferred income taxes - the calculation of deferred income taxes is a function of temporary differences between the financial reporting and the tax basis of balance sheet items for calculating tax expense and is separate from the daily operations of the Company.

Provision for current income taxes – the provision for current income taxes is a non-operating item and represents a different class of expense than those included in Adjusted EBITDA.

Gain or loss on disposal of property, plant and equipment - the gain or loss arising from the disposal of property, plant and equipment is a non-cash item and has no impact on the determination of Adjusted EBITDA.

Unrealized foreign exchange loss (gain) - the unrealized gain or loss arising from the valuation of the foreign exchange balances at the period end is a non-cash item and has no impact on the determination of Adjusted EBITDA.

Aircraft heavy maintenance amortization - aircraft heavy maintenance amortization represents a non-cash item and is excluded from Adjusted EBITDA.

Gain or loss on forward foreign exchange contracts - the gain or loss arising from the forward foreign exchange contracts is a non-cash item and has no impact on the determination of Adjusted EBITDA. Any cash surrendered value on settlement of forward contact is added back to EBITDA.

Contract asset amortization – contract asset amortization represents a non-cash item and is excluded from Adjusted EBITDA.

Gain or loss on fair value of cash settled share based payment arrangement - the gain or loss arising from the fair value of cash settled share based payment related to a financing arrangement that is a non-cash item and has no impact on the determination of Adjusted EBITDA.

Gain or loss on fair value of total return swap – the gain or loss arising from the fair value of total return swap related to a financing arrangement is a non-cash item and has no impact on the determination of Adjusted EBITDA.

Gain or loss on fair value of stock warrant - the gain or loss arising from the fair value of stock warrant related to treasury/financing arrangement is a non-cash item and has no impact on the determination of Adjusted EBITDA.

Loss on settlement of cash settled share based payment arrangement - the loss arising from the settlement of cash settled share based payment related to a financing arrangement is a function of the Company's treasury/financing activities and represents a different class of expense than those included in Adjusted EBITDA.

Gain on settlement of total return swap - the gain arising from the settlement of total return swap related to a financing arrangement is a function of the Company's treasury/financing activities and represents a different class of income than those included in Adjusted EBITDA.

Loss on extinguishment of debts –The loss on extinguishment of a long term debt is a function of the Company's treasury/financing activities and represents a different loss of expense than those included in Adjusted EBITDTA.

Employee Pension – the provision for employee pension is a non-cash item and represents a different class of expense than those included in EBITDA.

(C) "EBITDAR" is defined as earnings before interest, taxes, depreciation amortization and aircraft rent. EBITDAR is calculated as EBITDA excluding aircraft rents. EBITDAR is a measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft.

(D) "Adjusted EBITDAR" is defined as earnings before interest, taxes, depreciation amortization, other adjustments and aircraft rent. Adjusted EBITDAR is calculated as Adjusted EBITDA excluding aircraft rents. Adjusted EBITDAR is a measure commonly used in the airline industry to evaluate results by excluding differences in the method by which an airline finances its aircraft.

(E) "Adjusted Free Cash Flow" is a term, which does not have a standardized meaning prescribed by IFRS and is therefore unlikely to be comparable to similar measures used by other companies. The objective of presenting this non-IFRS measure is to calculate the amount, which is available for dividend distributions to shareholders. Adjusted Free Cash Flow is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to cash flow as a measure of liquidity. All references in the Management's Discussion and Analysis to "Adjusted Free Cash Flow" have the meaning set out in this note.

In November 2010, the Canadian Institute of Chartered Accountants ("CICA") issued a consultation guidance titled *Reporting Supplementary Financial Measures, General Principles* ("The Guidance"). The Guidance approved the continuation of previously published guidance on EBITDA and free cash flow as they continue to be relevant in the post IFRS environment.

Standardized Free Cash Flow is defined as "Cash flows from operating activities as reported in the IFRS financial statements, including operating cash flows provided from or used in discontinued operations; total maintenance capital expenditures minus proceeds from the disposition of capital assets other than those of discontinued operations, as reported in the IFRS financial statements; and dividends, when stipulated, unless deducted in arriving at cash flows from operating activities."

The Company has adopted a measurement called Adjusted Free Cash Flow to supplement net earnings as a measure of operating performance. Adjusted Free Cash Flow is defined by the Company as Standardized Free Cash Flow as defined by the CICA, less operating cash flows provided from or used in discontinued operations, changes in working capital, plus the provision for current income taxes.

The underlying reasons for the inclusion and exclusion of each item are as follows:

Changes in working capital - Changes in non-cash working capital items and deposits represent timing differences in the Company's working capital from year to year. These items are expected to be recoverable or payable shortly from the balance sheet date. Since it only represents short-term timing differences, it should be excluded from standardized free cash flow to determine a more representative measure of cash that is available for dividend distributions.

Provision for current income taxes – The expected cash outflows from the provision of current income tax is deducted to determine cash that is available for dividend distributions as it has priority over dividend distribution.

Maintenance capital expenditures - These are defined as any fixed assets acquired during a reporting period to maintain the Company's aircraft fleet and other assets at the level required to continue operating the existing business. They also include any capital expenditure required to extend the operational life of the fleet including heavy maintenance. Maintenance capital expenditures exclude any capital expenditures that result in new and additional capacity required to grow operational revenue and cash flows.