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

For the Three Month and Year Ended December 31, 2020

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CARGOJET INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations
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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, 2020. The following also includes a discussion of and comparative operating results for the three month and year ended December 31, 2019.

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 MD&A was approved by the Board of Directors on February 25, 2021 and authorized for issuance on March 1, 2021. The consolidated financial statements have been prepared in accordance with 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, 2020 and 2019.

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 flows, 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.
- Off - Balance Sheet Arrangements – Page 31.
- 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,			
	2020	2019	Change	%	**2020**	2019	Change	%
Financial information								
Revenues	**$187.1**	$139.7	$47.4	33.9%	**$668.5**	$486.6	$181.9	37.4%
Direct expenses	**$117.8**	$98.1	$19.7	20.1%	**$418.0**	$367.4	$50.6	13.8%
Gross margin	**$69.3**	$41.6	$27.7	66.6%	**$250.5**	$119.2	$131.3	110.2%
Gross margin - %	**37.0%**	29.8%	7.2%		**37.5%**	24.5%	13.0%	
Selling, general & administrative expenses	**$27.2**	$21.0	$6.2	29.5%	**$81.4**	$59.5	$21.9	36.8%
Net finance costs & other gains and losses	**$49.6**	$20.8	$28.8	138.5%	**$212.9**	$38.9	$174.0	447.3%
Earnings before income taxes	**($7.5)**	($0.2)	($7.3)	-3650.0%	**($43.8)**	$20.8	($64.6)	-310.6%
Income taxes	**$13.0**	$4.3	8.7	202.3%	**$44.0**	$9.2	$34.8	378.3%
Net earnings	**($20.5)**	($4.5)	($16.0)	-355.6%	**($87.8)**	$11.6	($99.4)	-856.9%
Earnings per share - $CAD								
Basic	**$(1.31)**	$(0.33)	($0.98)	-297.0%	**($5.63)**	$0.86	($6.49)	-754.7%
Diluted	**$(1.31)**	$(0.32)	($0.99)	-309.4%	**($5.63)**	$0.85	($6.48)	-762.4%
EBITDA	**$29.0**	$35.1	($6.1)	-17.4%	**$95.3**	$158.4	($63.1)	-39.8%
EBITDA margin - %	**15.5%**	25.2%	-9.7%		**14.3%**	32.6%	-18.3%	
Adjusted EBITDA	**$81.9**	$47.2	$34.7	73.5%	**$291.4**	$156.0	$135.4	86.8%
Adjusted EBITDA margin - %	**43.8%**	33.8%	10.0%		**43.6%**	32.1%	11.5%	
EBITDAR	**$29.0**	$35.1	($6.1)	-17.4%	**$95.3**	$159.2	($63.9)	-40.1%
EBITDAR margin - %	**15.5%**	25.2%	-9.7%		**14.3%**	32.7%	-18.4%	
Adjusted EBITDAR	**$81.9**	$47.2	$34.7	73.5%	**$291.4**	$156.8	$134.6	85.8%
Adjusted EBITDAR margin - %	**43.8%**	33.8%	10.0%		**43.6%**	32.2%	11.4%	
Adjusted Free Cash flow	**$52.1**	$25.3	$26.8	105.9%	**$196.8**	$48.4	$148.4	306.6%
Operating statistics								
Operating days	**49**	48	1	2.1%	**199**	197	2	1.0%
Average cargo revenue per operating day	**$2.96**	$2.15	$0.81	37.7%	**$2.78**	$1.84	$0.94	51.1%
Block hours	**15,247**	10,176	5,071	49.8%	**52,225**	35,704	16,521	46.3%
Aircraft in operating fleet								
B757-200	**8**	8	-		**8**	8	-	
B767-200	**4**	2	2		**4**	2	2	
B767-300	**14**	12	2		**14**	12	2	
Challenger 601	**2**	2	-		**2**	2	-	
	28	24	4	16.7%	**28**	24	4	16.7%
Average volume per operating day (lbs.)	**2,233,438**	1,594,282	639,156	40.1%	**1,665,756**	1,350,449	315,307	23.3%
Average head count	**1,237**	1,126	111	9.9%	**1,237**	1,126	111	9.9%

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 15 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. It's main air cargo business is comprised of the following:

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

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 2018, 2019 and 2020 as well as the Company's planned operating fleet for the year ending December 31, 2021, 2022 and 2023:

Aircraft Type		Leased or Owned	Average Age	Number of Aircraft in Service						Maximum Payload (lbs.)	Range (miles)
				Actual			Plan				
				Q4		Q4	Q4				
				2018	2019	2020	2021	2022	2023		
B767-300[(1)]	Freighter	Leased	27	7	8	8	2	2	1	125,000	6,000
B767-300[(2)]	Freighter	Owned	26	4	4	6	13	15	16	125,000	6,000
B767-200[(3)]	Freighter	Owned	20	-	-	2	2	3	4	100,000	5,000
B767-200[(4)]	Freighter	Leased	35	1	1	1	1	1	-	100,000	5,000
B757-200 [(5)]	Freighter	Owned	30	8	8	8	8	8	8	80,000	3,900
B727-200[(6)]	Freighter	Owned	-	1	-	-	-	-	-	60,000	1,800
B767-200 [(7)]	Passenger	Owned	24	-	1	1	1	1	1	100,000	5,000
Challenger 601[(8)]	Passenger	Owned	34	2	2	2	2	2	2	6,000	3,300
Total Aircraft [(9)]				23	24	28	29	32	32		

1. In October 2020 Cargojet exercised a purchase option for a B767-300 aircraft which was previously under a finance lease and accordingly the aircraft is included as owned from Q4 2020. In July 2020 Cargojet executed a finance lease agreement to purchase an additional B767-300 aircraft converted to cargo specification under a lease term of seven 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. This aircraft was delivered to Cargojet in October 2020. Cargojet expects to exercise the purchase option in October 2027. In February 2021 Cargojet exercised the purchase option for the four B767-300 aircraft that were financed under a single Master Capital Lease Agreement ("MLA") and accordingly these aircraft are included as owned in 2021. Cargojet has three other B767-300 under lease arrangements with purchase options in favour of Cargojet at pre-determined prices. Cargojet expects to exercise the purchase options for these three aircraft in October 2021, December 2021 and November 2023.
2. One owned B767-300 was converted and delivered to Cargojet in Q3 2020. In October 2020 Cargojet exercised a purchase option for a B767-300 aircraft which was previously under a finance lease and accordingly the aircraft is included as owned in Q4 2020. In November 2020 and December 2020 Cargojet executed purchase agreements for one B767-300 aircraft and one B767-300 airframe respectively as feed stock for future conversions. These aircraft feedstock purchases did not close in 2020 and have not been included in the table above. In February 2021 Cargojet exercised the purchase option for the four B767-300 aircraft that were financed under a single Master Capital Lease Agreement ("MLA") and accordingly these aircraft are included as owned in 2021. In 2021 Cargojet signed agreements for the conversion of 3 B767-300 aircraft with expected delivery dates in Q4 2021, Q1 2022 and Q3 2022. Cargojet has also signed agreements for the conversion of 2 B767-200 aircraft with the option to substitute the B767-200 aircraft with B767-300 aircraft. Three B767-300 converted aircraft are included in the table above based on their expected dates for entry in to operations
3. Two B767-200 aircraft were converted and redelivered into operation in January 2020 and April 2020 respectively. These aircraft are included in the above table as addition to the fleet in 2020. In July 2019 Cargojet purchased one B767-200 converted freighter aircraft which is currently under lease to third party along with one spare engine. This aircraft has not been included in the table above. In October 2020 Cargojet executed purchase agreements for two B767-200 aircraft as feed stock for future conversions. These aircraft have been scheduled for cargo conversion with the expected delivery dates of Q4 2022 and Q2 2023 respectively and are included in the table above based on their expected dates for entry into operations. Cargojet has an option to substitute the B767-200 aircraft with B767-300 aircraft.
4. The B767-200 aircraft in operation at December 31, 2020 is under a lease that was extended in October 2020 to February 28, 2023.
5. The eight B757-200 aircraft in operation at December 31, 2020 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 prevent the aircraft from being flown in North America.
7. Cargojet purchased one B767-200 aircraft in July 2018. Cargojet has entered into 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 for its B767-300 aircraft. These aircraft have not been included in the table above.

Recent Events

Equity Offering

On February 1, 2021, the Company completed an offering of 1,642,000 common voting shares at a price of $213.25 per share on a bought deal basis for total gross proceeds of $350.2 million. The offering was made pursuant to a short form prospectus dated January 25, 2021. On February 5, 2021, the Company also completed offering of additional 71,500 common voting shares at a price of $213.25 per share on a bought deal basis for a total gross proceeds of $15.2 million pursuant to the partial exercise of over-allotment option granted to the underwriters. In connection with this offering, the Company incurred costs totaling $14.6 million for fees and commissions.

Finance leases

On February 5, 2021, the Company prepaid the entire amount of its total outstanding balance of leases under the MLA of $46.9 million and interest prepayment of $2.5 million.

Expansion of ACMI services

On December 8, 2020, the Company began operating three scheduled ACMI international routes using three dedicated B767-300F freighter aircraft between Canada and USA continuing to Mexico and the United Kingdom. These routes were initially started in April 2020 and October 2020 on an adhoc basis, as global demand for dedicated air cargo services soared because of the COVID-19 pandemic and the resulting reduction in belly cargo capacity in passenger aircraft. The Company operates these routes under a long term contract.

5.25% Hybrid Debenture Issue

On June 26, 2020, the Company entered into an agreement with a syndicate of underwriters under which the underwriters agreed to purchase $100 million aggregate principal amount of listed senior unsecured hybrid debentures due June 30, 2026 (the "Debentures") at a price of $1,000 per Debenture (the "Offering"). The Debentures bear interest at a rate of 5.25% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing December 31, 2020.The Offering closed on July 16, 2020. The Company had also granted the underwriters an option to purchase up to an additional $15 million aggregate principal amount of Debentures, on the same terms and conditions, exercisable in whole or in part, for a period of 30 days following closing of the Offering. The underwriters provided the Company with a notice of exercise on July 22, 2020 for the full amount of the option to purchase an additional $15 million aggregate principal amount of Debentures and the closing of the purchase of the option Debentures was completed on July 24, 2020.

Credit Facility

On July 16, 2020, the Company amended its revolving credit facility ("the facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "lenders"). The available principal amount of the facility was increased to $600 million and the maturity date of the facility was extended to July 16, 2025.

The COVID-19 Pandemic

As of the date of this MD&A, the world is experiencing a global pandemic related to the spread of the COVID-19 virus (the "Pandemic"). Businesses in many countries around the globe, including Canada, the United States and other countries where the Company flies, have been required to close, or materially alter their day-to-day operations due to government-ordered or recommended shut-downs and/or "shelter-in-place", or equivalent, restrictions on individuals and businesses which may prevent many businesses from operating.

The impact of the Pandemic and various public health protection measures, including business closures, travel restrictions, on the business of our customers, and the ongoing demand of those customers for our products and services, is still uncertain at this time, in part due to the uncertainty of the duration and scope of such restrictions on a geography-by-geography basis.

However, the Company's business was deemed by the Canadian government as an essential service in order to keep the supply chains moving and was allowed to continue operating at normal levels. The travel restrictions imposed also did not apply to all-cargo flights nor to aircrew.

During the year ended December 31, 2020, the Company took the following steps to safeguard the health of its employees while continuing to operate safely and maintain employment and economic activity:

- Adopted new cleaning procedures on all flights, including disinfectant spraying on all aircraft and sanitizing high touch areas, cargo containers, packages and facilities
- Provided pay protection to employees who have tested positive for COVID-19, must quarantine due to exposure or travel-related requirements or have self-identified as being at high-risk for illness from COVID-19 according to the Centers for Disease Control and Prevention ("CDC") guidelines
- Provided financial support to employees facing unexpected child-care needs due to school closures, higher prices of daily essentials, shortages and worries about groceries and other daily costs through temporary daily cash allowances and enhanced health benefits
- Implemented significant workforce social distancing and protection measures, including allowing working from home during this period
- Increased cleaning of its facilities using appropriate methods and products,
- Mandatory temperature checks for employees entering its facilities, provided face masks, gloves and shields where required; and
- Adjusted network to meet increased overnight, transborder and international supply chain demands.

As of the date of this MD&A, due to closure of several businesses, the Company has observed some customers with increased shipment volumes related to Business-to-Consumer segment (B2C), and at the same time observed some customers with reduced shipment volumes related to Business-to-Business segment (B2B). While the B-to-B volumes have largely recovered since the onset of the pandemic the timing of such volumes reverting to normal remains uncertain.

The Company remains well positioned to adjust to market conditions to assist our customers as they work to manage their transportation, logistics and supply chain processes during the Pandemic.

Balance Sheet, Cash Flow and Liquidity:

The Company took actions to bolster its financial position by reducing some planned capital expenditures and by obtaining clearances from Transport Canada to delay aircraft heavy maintenance. The Company has assessed its non-financial assets including property, plant and equipment, right to use assets, intangible assets and goodwill for impairment as required by accounting framework in event of adverse economic environment and determined there are no indicators for possible impairments. The capitalized contract cost assets were reassessed and the Company determined that they are not impaired and are still recoverable. The expected credit losses on trade receivables were re-assessed and it was determined that the Company would not have significantly different credit losses due to COVID – 19.

During the year, the company raised $115 million by issue of hybrid debentures and increased limits of its line of credit to $600 million to bolster its cash position that provided substantial liquidity to the Company and allowed flexibility to manage the funds. On January 12, 2021 the Company launched a public offering to issue 1,642,000 shares at a price of $213.25 per share for an aggregated gross proceeds of $350 million. The Company also granted an overallotment option to issue additional 246,300 on same terms and conditions. An additional 71,500 shares were issued on February 5, 2021 under the overallotment option for gross proceeds of $15 million. The Company intends to apply the net proceeds of the Offering to purchase freighter aircraft, expand domestic capacities and facilities, pursue U.S. and international growth strategy and repay indebtedness.

Acquisition and disposal of Property, Plant and Equipment

During the year ended December 31, 2020, the Company completed the conversion and re-deliver of two Boeing 767-200 and two Boeing 767-300 aircraft using the revolving credit facility. The Company also sold surplus spares for $0.8 million resulting in a total gain of $0.8 million.

Revenues

The Company's revenues are primarily generated from its domestic network air cargo service between 15 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, Sunday 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 10). 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,	
	2020	2019	**2020**	2019
	(unaudited)	(unaudited)	(audited)	(audited)
	$	$	$	$
Revenues	**187.1**	139.7	**668.5**	486.6
Direct expenses	**117.8**	98.1	**418.0**	367.4
	69.3	41.6	**250.5**	119.2
General and administrative expenses	**30.6**	21.0	**98.0**	60.9
Sales and marketing expenses	**0.5**	0.7	**4.2**	2.9
Gain on swap derivative	**(3.9)**	(0.7)	**(20.8)**	(4.3)
Impairment of property, plant and equipment	**-**	-	**0.6**	-
Finance costs	**9.6**	11.4	**39.6**	43.6
Fair value adjustment on stock warrant	**47.9**	11.5	**177.9**	0.9
Gain on extinguishment of debt	**(1.1)**	-	**(1.1)**	-
Other gain, net	**(6.8)**	(2.1)	**(4.1)**	(5.6)
	76.8	41.8	**294.3**	98.4
(LOSS) EARNINGS BEFORE INCOME TAXES	**(7.5)**	(0.2)	**(43.8)**	20.8
Provision for income taxes				
Deferred	**13.0**	4.3	**44.0**	9.2
Net (loss) earnings and comprehensive (loss)	**(20.5)**	**(4.5)**	**(87.8)**	11.6
(Loss) earnings per share				
Basic	**$(1.31)**	$(0.33)	**$(5.63)**	$0.86
Diluted	**$(1.31)**	$(0.32)	**$(5.63)**	$0.85
Average number of shares - basic (in thousands of shares)	**15,597**	13,813	**15,592**	13,573
Average number of shares - diluted (in thousands of shares)	**15,597**	13,977	**15,592**	13,737

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

	Three Month Periods Ended							
	Dec 31 2020	Sep 30 2020	June 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	June 30 2019	Mar 31 2019
Revenues	**$187.1**	$162.3	$196.1	$123.0	$139.7	$117.4	$119.1	$110.4
Net (loss) earnings from continuing operations	**$(20.5)**	$(20.4)	$(45.1)	$(1.8)	$(4.5)	$11.8	4.3	$-
(Loss) earnings per Share								
From continuing operations								
- Basic	**$(1.31)**	$(1.31)	$(2.89)	$(0.12)	$(0.33)	$0.87	0.32	$-
- Diluted	**$(1.31)**	$(1.31)	$(2.89)	$(0.12)	$(0.32)	$0.87	0.32	$-
Average number of shares - basic (in thousands of shares)	**15,597**	15,597	15,597	15,578	13,813	13,541	13,478	13,458
Average number of shares - diluted (in thousands of shares)	**15,597**	15,597	15,597	15,578	13,977	13,636	13,611	13,554

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,	
	2020	2019	**2020**	2019
	(unaudited)	(unaudited	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net (loss) earnings	**(20.5)**	(4.5)	**(87.8)**	11.6
Add:				
Interest	**9.6**	11.4	**39.6**	43.6
Provision of deferred taxes	**13.0**	4.3	**44.0**	9.2
Depreciation of property, plant and equipment	**26.9**	23.9	**99.5**	94.0
EBITDA	**29.0**	**35.1**	**95.3**	**158.4**
Add:				
Gain on sale of property, plant and equipment	**(0.2)**	(0.2)	**(0.8)**	(1.3)
Impairment of property, plant and equipment	**-**	-	**0.6**	-
Unrealized foreign exchange gain	**(6.7)**	(1.9)	**(3.3)**	(4.3)
Fair value adjustment and amortization on stock warrant	**49.8**	12.7	**186.4**	2.6
Gain on total return swap	**-**	-	**-**	(2.9)
Employee pension	**10.0**	1.5	**13.2**	3.5
Adjusted EBITDA	**81.9**	47.2	**291.4**	156.0
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**29.0**	35.1	**95.3**	158.4
Aircraft rent	**-**	-	**-**	0.8
EBITDAR	**29.0**	35.1	**95.3**	159.2
Add:				
Gain on sale of property, plant and equipment	**(0.2)**	(0.2)	**(0.8)**	(1.3)
Impairment of property, plant and equipment	**-**	-	**0.6**	-
Unrealized foreign exchange gain	**(6.7)**	(1.9)	**(3.3)**	(4.3)
Fair value adjustment and amortization on stock warrant	**49.8**	12.7	**186.4**	2.6
Gain on total return swap	**-**	-	**-**	(2.9)
Employee pension	**10.0**	1.5	**13.2**	3.5
Adjusted EBITDAR	**81.9**	47.2	**291.4**	156.8
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES	**88.8**	31.0	**292.6**	144.9
Less: Maintenance capital expenditures (1)	**(30.2)**	(17.6)	**(63.0)**	(84.6)
Add: Proceeds from disposal of property, plant and equipment	**0.1**	0.3	**0.8**	1.3
Standardized free cash flow	**58.7**	13.7	**230.4**	61.6
Changes in non-cash working capital items and deposits	**(6.6)**	11.6	**(33.6)**	(13.2)
Adjusted Free Cash flow	**52.1**	25.3	**196.8**	48.4

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

Review of Operations for the Three Month Periods ended December 31, 2020 and 2019
Net earnings for the three month periods ended December 31, 2020 and 2019

(Canadian dollars in millions except where indicated)

	Q4		CHANGE	
	2020	2019	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Domestic Network Revenues	**88.9**	74.4	14.5	19.5%
ACMI Revenues	**43.2**	19.1	24.1	126.2%
All-in Charter Revenues	**13.0**	9.8	3.2	32.7%
Total domestic network, ACMI and charter revenues	**145.1**	103.3	41.8	40.5%
Total Revenue - Fixed based operations revenues	**0.9**	0.5	0.4	80.0%
Total fuel and other cost pass through revenues	**36.4**	32.9	3.5	10.6%
Fuel surcharge and other pass through revenues	**37.3**	33.4	3.9	11.7%
Other revenues	**4.7**	3.0	1.7	56.7%
Total revenues	**187.1**	139.7	47.4	33.9%
Operating Days	**49**	48	1	2.1%
Average cargo revenue per operating day	**2.96**	2.15	0.81	37.7%
Direct expenses				
Fuel Costs	**23.4**	28.3	(4.9)	-17.3%
Depreciation	**24.2**	19.6	4.6	23.5%
Aircraft Costs	**6.5**	3.7	2.8	75.7%
Heavy Maintenance Amortization	**2.2**	3.8	(1.6)	-42.1%
Maintenance Costs	**11.1**	8.2	2.9	35.4%
Crew Costs	**13.4**	8.6	4.8	55.8%
Commercial and Other Costs	**37.0**	25.9	11.1	42.9%
Total direct expenses	**117.8**	98.1	19.7	20.1%
Gross margin	**69.3**	41.6	27.7	66.6%
Gross margin %	**37.0%**	29.8%	7.2%	
SG&A & Marketing				
General and Administrative Costs	**26.2**	19.8	6.4	32.3%
Sales costs	**0.5**	0.7	(0.2)	-28.6%
Depreciation	**0.5**	0.5	-	-
Total SG&A & Marketing expenses	**27.2**	21.0	6.2	29.5%
Other SG&A				
Other losses and fair value adjustment on stock warrant	**40.0**	9.4	30.6	325.5%
Finance costs	**9.6**	11.4	(1.8)	-15.8%
Total other SG&A	**49.6**	20.8	28.8	138.5%
LOSS BEFORE INCOME TAXES	**(7.5)**	(0.2)	(7.3)	-3650.0%
Income Taxes-Deferred	**13.0**	4.3	8.7	202.3%
NET LOSS	**(20.5)**	(4.5)	(16.0)	-355.6%
Loss per share - $ CAD				
Basic	**$(1.31)**	$(0.33)	$(0.98)	-297.0%
Diluted	**$(1.31)**	$(0.32)	$(0.99)	-309.4%

Highlights for the Three Month Periods ended December 31, 2020 and 2019

- Total revenue for the three month period ended December 31, 2020 was $187.1 million compared to $139.7 million for the same period in 2019, representing an increase of $47.4 million or 33.9%.

- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2020 was $2.96 million per operating day compared to $2.15 million for the same period in 2019, representing an increase of $0.81 million or 37.7%.

- Adjusted EBITDA for the three month period ended December 31, 2020 was $81.9 million compared to $47.2 million for the same period in 2019, an increase of $34.7 million or 73.5%.

- Adjusted EBITDAR for the three month period ended December 31, 2020 was $81.9 million compared to $47.2 million for the same period in 2019, an increase of $34.7 million or 73.5%.

- Adjusted Free Cash Flow was an inflow of $52.1 million for the three month period ended December 31, 2020 compared to an inflow of $25.3 million for the same period in 2019, an increase of $26.8 million or 105.9%.

Revenue

Total revenue for the three month period ended December 31, 2020 was $187.1 million, compared to $139.7 million for the same period in 2019, representing an increase of $47.4 million or 33.9%. The increase in total revenue was due primarily to a $14.5 million increase in domestic network revenues, a $24.1 million increase in ACMI revenues a $3.2 million increase in all-in charter revenues, a $3.9 million increase in fuel surcharge and other pass through revenues and a $1.7 million increase in other 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, 2020 was $88.9 million compared to $74.4 million for the same period in 2019, an increase of $14.5 million or 19.5%. The increase was primarily due to an increase in e-Commerce volumes during the period, but partially offset by a decrease in B-to-B volumes, both as a result of the COVID-19 pandemic. The e-Commerce volumes continued to be significantly higher than previous years while the B-to-B volumes have largely recovered since the onset of the pandemic. The increase in shipping volumes during the period resulted in a 17.1% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended December 31, 2020 were $43.2 million compared to $19.1 million for the same period in 2019, an increase of $24.1 million or 126.2%. The increase of $24.1 million was primarily due to two new scheduled routes to Europe that started in April 2020 to replace passenger belly cargo capacity that disappeared as a result of passenger airlines drastically cutting back capacity and flying. Another route to the USA and Mexico was added at the end of September 2020.

All-in scheduled and adhoc charter revenues for the three month period ended December 31, 2020 were $13.0 million compared to $9.8 million for the same period in 2019, an increase of $3.2 million or 32.7%. The increase in revenue was primarily due to higher yields on charters due to the ongoing shortage of wide-body passenger belly cargo capacity on international routes.

Fuel surcharges and other cost pass-through revenues were $37.3 million for the three month period ended December 31, 2020 compared to $33.4 million for the same period in 2019, representing an increase of $3.9 million or 11.7%. During the period fuel surcharges increased due to a 19.5% increase in domestic revenues from new and existing customers that attracted fuel surcharges, partially offset by a 32.0% decrease in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.9 million for the three month period ended December 31, 2020 compared to $0.5 for the same period in 2019, an increase of $0.4 million or 80.0%.

Other revenues consist primarily of aircraft lease revenue, hangar rental revenues, maintenance revenue for aircraft line maintenance services provided to other airlines and ground handling services provided to customers. Other revenues were $4.7 million for the three month period ended December 31, 2020 compared to $3.0 million for the same period in 2019 an increase of $1.7 million or 56.7%.

Direct Expenses

Total direct expenses were $117.8 million for the three month period ended December 31, 2020 compared to $98.1 million for the same period in 2019, representing an increase of $19.7 million or 20.1%. As a percentage of revenue, direct expenses decreased from 70.2% in 2019 to 63.0% for the same period in 2020. The overall increase in direct expenses was due primarily to a $4.6 million increase in depreciation, a $2.8 million increase in aircraft costs, a $2.9 million increase in maintenance costs, a $4.8 million increase in crew costs and an $11.1 million increase in commercial and other costs. The increase was partially offset by a $4.9 million decrease in fuel costs, and a $1.6 million decrease in heavy maintenance costs.

Fuel costs were $23.4 million for the three month period ended December 31, 2020 compared to $28.3 million for the same period in 2019. The $4.9 million or 17.3% decrease in fuel costs was due primarily to a 32.0% decrease in fuel prices, partially offset by a 25.1% increase in block hours on the domestic network and an increase in adhoc all-in charters. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges or adhoc rates.

Depreciation expense was $24.2 million for the three month period ended December 31, 2020 compared to $19.6 million for the same period in 2019. The $4.6 million or 23.5% increase in depreciation expenses was due primarily to the addition of aircraft, right of use assets, rotable spares and facilities.

Aircraft costs were $6.5 million for the three month period ended December 31, 2020 compared to $3.7 million for the same period in 2019, representing an increase of $2.8 million or 75.7%. The increase was primarily due to temporary sub charter costs on certain scheduled ACMI routes.

Heavy maintenance amortization costs were $2.2 million for the three month period ended December 31, 2020 compared to $3.8 million for the same period in 2019, representing a decrease of $1.6 million or 42.1% due to the timing of heavy maintenance checks. Heavy maintenance checks for most of Cargojet's fleet were deferred by 6 to 9 months as approved by Transport Canada to facilitate the increase in adhoc charter flights essential to the Canadian federal and provincial governments. 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 $11.1 million for the three month period ended December 31, 2020 compared to $8.2 million for the same period in 2019, representing an increase of $2.9 million or 35.4%. The increase in costs was due primarily to an increase in line maintenance costs due to additional domestic, ACMI and all-in charters block hours and annual wage increases.

Total crew costs including salaries, training and positioning were $13.4 million for the three month period ended December 31, 2020 compared to $8.6 million for the same period in 2019, representing an increase of $4.8 million or 55.8%.The increase was due primarily to the hiring of additional crews, annual salary increases, and increased crew positioning costs.

Commercial and other direct operating costs were $37.0 million for the three month period ended December 31, 2020 compared to $25.9 million for the same period in 2019, representing an increase of $11.1 million or 42.9% This increase was due partially to a $1.6 million increase in commercial salaries due to the hiring of additional personnel, annual wage increases and the increase in the domestic volumes and adhoc all-in charter activities. Higher activity also resulted in a $0.6 million increase in cartage, interline and ground linehaul costs, a $0.5 million increase in ground handling costs, a $8.0 million increase in aircraft insurance, landing, parking and navigation costs and a $0.4 million increase in other commercial costs.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2020 were $27.2 million compared to $21.0 million for the same period in 2019, representing an increase of $6.2 million or 29.5%.The increase was primarily due to a $7.1 million increase in salaries, bonuses, pension and related costs, a $2.5 million increase in supplies, consulting, audit and legal, and other general and administrative costs, partially offset by a $3.2 million increase in gains on swap derivatives and a $0.2 million decrease in sales and marketing costs.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended December 31, 2020 were $49.6 million compared to $20.8 million for the same period in 2019, representing an increase of $28.8 million or 138.5%.The increase was due primarily to a $30.6 million net increase in other losses and the fair value adjustment on the stock warrant obligation partially offset by a $1.8 million decrease in finance costs.

Other losses and fair value adjustment on stock warrant

Other losses and fair value adjustment on stock warrant for the three month period ended December 31, 2020 were $40.0 million primarily due to $47.9 million loss on fair value adjustment of stock warrant obligation, partially offset by a $6.6 million foreign exchange gain, a $1.1 million gain on extinguishment of debt and a $0.2 million other income.

Finance costs

Finance costs for the three month period ended December 31, 2020 were $9.6 million compared to $11.4 million for the same period in 2019, representing the decrease of $1.8 million or 15.8%. The decrease was due primarily to redemption of 4.65% Debentures in December 2019 and lower total lease liabilities due to scheduled monthly repayments and repayment of credit facility.

Adjusted EBITDA (1)

Adjusted EBITDA for the three month period ended December 31, 2020 was $81.9 million compared to Adjusted EBITDA of $47.2 million for the same period in 2019. The increase in Adjusted EBITDA of $34.7 million was due primarily to the following:

- Growth in domestic network revenues due to an increase in domestic network volumes
- Significant increase in ACMI and All-in charter revenues

Adjusted EBITDAR (1)

Adjusted EBITDAR for the three month period ended December 31, 2020 was $81.9 million compared to $47.2 million for the same period in 2019, representing an increase of $34.7 million or 73.5%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA.

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, 2020 and 2019.

Deferred Income Taxes

The deferred income taxes for the three month period ended December 31, 2020 was a provision of $13.0 million compared to a provision of $4.3 million for the same period in 2019. 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 $52.1 million for the three month period ended December 31, 2020 compared to an inflow of $25.3 million for the same period in 2019, representing an increase of $26.8 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in adjusted EBITDA, proceeds from disposal of property, plant and equipment and the effect of changes in non-cash working capital items and deposits, and by decrease in maintenance capital expenditures.

(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, 2020 were $3.6 million or $0.2340 per share. In comparison, total dividends declared for the three month period ended December 31, 2019 were $3.6 million or $0.2340 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
September, 21 2020	October, 05 2020	-	15,597,068	-	3,649,714
December, 21 2020	January, 05 2021	3,649,714	15,597,068	0.2340	
		3,649,714	-	-	3,649,714

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	-	-	3,170,245

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $88.8 million for the three month period ended December 31, 2020 (December 31, 2019 - $31.0 million). The $57.8 million increase in cash was due primarily to the changes in non-cash working capital items and deposits and increase in operating activity.

Cash used in financing activities during the three month period ended December 31, 2020 was $33.1 million (Cash provided December 31, 2019 - $24.5 million) and was comprised of repayment of borrowings $0.1 million (December 31, 2019 - $nil), repayment of obligations under lease liabilities of $35.2 million (December 31, 2019 - $13.9 million), options settled in cash $5.3 million (December 31, 2019 - $nil), withholding tax paid on vested restricted share units $0.1 million (December 31, 2019 - $1.0 million) and the payment of dividends to shareholders of $3.6 million (December 31, 2019 - $3.2 million). This was partially offset by proceeds from borrowings $11.0 million (December 31, 2019 - $42.6 million).

Cash used in investing activities during the three month period ended December 31, 2020 was $53.4 million (December 31, 2019 - $53.8 million) and was comprised of property, plant and equipment additions of $53.5 million (December 31, 2019 - $54.2 million) This was partially offset by proceeds from disposal of property, plant and equipment of $0.1 million (December 31, 2019 - $0.3 million) and proceeds from total return swap and settlement of derivative financial instrument of $nil (December 31, 2019 - $0.1 million).

Capital Expenditures and ROU additions

The property, plant and equipment additions of $111.5 million in the three month period ended December 31, 2020) were primarily comprised of additions to aircraft, engines, ground services equipment, spares and rotable spares of $101.6 and ROU asset additions of $9.9.

Review of Operations for the Year ended Decemer 31, 2020 and 2019
Net Earnings for the Year Ended December 31, 2020 and 2019

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2020	2019	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Domestic Network Revenues	**300.0**	264.0	36.0	13.6%
ACMI Revenues	**132.4**	66.3	66.1	99.7%
All-in Charter Revenues	**121.5**	32.8	88.7	270.4%
Total domestic network, ACMI and charter revenues	**553.9**	363.1	190.8	52.5%
Total Revenue - Fixed based operations	**2.2**	1.5	0.7	46.7%
Total fuel and other cost pass through	**98.4**	112.9	(14.5)	-12.8%
Fuel surcharge and other pass through revenues	**100.6**	114.4	(13.8)	-12.1%
Other revenue	**14.0**	9.1	4.9	53.8%
Total revenues	**668.5**	486.6	181.9	37.4%
Operating Days	**199**	197	2	1.0%
Average cargo revenue per operating day	**2.78**	1.84	0.94	51.1%
Direct expenses				
Fuel Costs	**83.2**	101.1	(17.9)	-17.7%
Depreciation	**87.0**	77.2	9.8	12.7%
Aircraft Cost	**23.3**	12.2	11.1	91.0%
Heavy Maintenance Amortization	**10.5**	14.8	(4.3)	-29.1%
Maintenance Cost	**41.2**	33.6	7.6	22.6%
Crew Costs	**46.9**	34.2	12.7	37.1%
Commercial and Other Costs	**125.9**	94.3	31.6	33.5%
Total direct expenses	**418.0**	367.4	50.6	13.8%
Gross margin	**250.5**	119.2	131.3	110.2%
Gross margin %	**37.5%**	24.5%	13.0%	
SG&A & Marketing				
General and Administrative Costs	**75.2**	54.6	20.6	37.7%
Sales costs	**4.2**	2.9	1.3	44.8%
Depreciation	**2.0**	2.0	-	-
Total SG&A & Marketing expenses	**81.4**	59.5	21.9	36.8%
Other SG&A				
Other losses (gains) and fair value adjustment on stock warrant	**173.3**	(4.7)	178.0	-3787.2%
Finance costs	**39.6**	43.6	(4.0)	-9.2%
Total other SG&A	**212.9**	38.9	174.0	447.3%
(LOSS) EARNINGS BEFORE INCOME TAXES	**(43.8)**	20.8	(64.6)	-310.6%
Income Taxes-Deferred	**44.0**	9.2	34.8	378.3%
Net (loss) earnings	**(87.8)**	11.6	(99.4)	-856.9%
(Loss) Earnings per share - $ CAD				
Basic	**$(5.63)**	$0.86	$(6.49)	-754.7%
Diluted	**$(5.63)**	$0.85	$(6.48)	-762.4%

Highlights for the year ended December 31, 2020 and 2019

- Total revenue for the year ended December 31, 2020 was $668.5 million compared to $486.6 million for the same period in 2019, representing an increase of $181.9 million or 37.4%.
- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2020 was $2.78 million per operating day compared to $1.84 million for the same period in 2019, representing an increase of $0.94 million per operating day or 51.1%.
- Adjusted EBITDA for the year ended December 31, 2020 was $291.4 million compared to $156.0 million for the same period in 2019, an increase of $135.4 million or 86.8%.
- Adjusted EBITDAR for the year ended December 31, 2020 was $291.4 million compared to $156.8 million for the same period in 2019, an increase of $134.6 million or 85.8%.
- Adjusted Free Cash Flow was an inflow of $196.8 million for the year ended December 31, 2020 compared to an inflow of $48.4 million for the same period in 2019, an increase of $148.4 million or 306.6%.

Revenue

Total revenue for the year ended December 31, 2020 was $668.5 million compared to $486.6 million for the same period in 2019, representing an increase of $181.9 million or 37.4%. The increase in total revenue was due primarily to a $36.0 million increase in domestic network revenues, a $66.1 million increase in ACMI revenues, and a $88.7 million increase in all-in charter revenues and a $4.9 million increase in lease and other revenue. The increase was partially offset by a $13.8 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 year ended December 31, 2020 was $300.0 million compared to $264.0 million for the same period in 2019, an increase of $36.0 million or 13.6%. The increase was primarily due to an increase in e-Commerce volumes during the period, but partially offset by a significant decrease in B-to-B volumes, both as a result of the COVID-19 Pandemic. The e-Commerce volumes continue to be significantly higher than previous years while the B-to-B volumes have largely recovered since the onset of the pandemic. The increase in shipping volumes during the period resulted in a 12.5% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenue for the year ended December 31, 2020 was $132.4 million compared to $66.3 million for the same period in 2019, an increase of $66.1 million or 99.7%. The increase was due primarily to new scheduled routes to the USA and Mexico that started in September 2019 and two new scheduled routes to Europe that started in April 2020. Another route to the USA and Mexico was added at the end of September 2020

All-in scheduled and adhoc cargo and passenger charter revenue for the year ended December 31, 2020 was $121.5 million compared to $32.8 million for the same period in 2019, an increase of $88.7 million or 270.4%. The increase in revenue was primarily due to international relief charters for the federal and some provincial governments of Canada flying PPE and other medical supplies from China and Turkey. Cargojet also earned higher yields on adhoc charters due to the ongoing shortage of wide-body passenger belly cargo capacity on international routes.

Fuel surcharges and other cost pass-through revenues were $100.6 million for the year ended December 31, 2020 compared to $114.4 million for the same period in 2019. During the period, fuel surcharges decreased due to a 34.7% decrease in fuel prices, partially offset by a 13.6% 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 $2.2 million for the year ended December 31, 2020 compared to $1.5 million for the same period in 2019.

Other revenues consist primarily of aircraft lease revenue, 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, 2020 were $14.0 million compared to $9.1 million for the same period in 2019, an increase of $4.9 million or 53.8%.

Direct Expenses

Total direct expenses were $418.0 million for the year ended December 31, 2020 compared to $367.4 million for the year ended December 31, 2019. As a percentage of revenue, direct expenses decreased from 75.5% in 2019 to 62.5% for the same period in 2020. The overall increase in direct expenses was due primarily to a $9.8 million increase in depreciation, a $11.1 million increase in aircraft costs, a $7.6 million increase in maintenance costs, a $12.7 million increase in crew costs, and a $31.6 million increase in commercial and other costs, partially offset by and a $17.9 million decrease in fuel costs and a $4.3 million decrease in heavy maintenance amortization.

Fuel costs were $83.2 million for the year ended December 31, 2020 compared to $101.1 million for the same period in 2019. The $17.9 million or 17.7% decrease in fuel costs was due primarily to a 34.7% decrease in fuel prices, partially offset by a 15.6% increase in block hours on the domestic network and increase in all-in adhoc charters. 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 or adhoc rates.

Depreciation expense was $87.0 million for the year ended December 31, 2020 compared to $77.2 million for the same period in 2019. The $9.8 million or 12.7% increase in depreciation expenses was due primarily to the addition of aircraft, engines, facilities and other assets, and additional capitalization of operating leases under IFRS 16.

Aircraft costs were $23.3 million for the year ended December 31, 2020 compared to $12.2 million in 2019, representing an increase of $11.1 million or 91.0%. The increase in aircraft costs was due primarily to the temporary sub charter costs on certain scheduled ACMI routes, partially offset by lower aircraft engine lease 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 $10.5 million for the year ended December 31, 2020 compared to $14.8 million for the same period in 2019, representing a decrease of $4.3 million or 29.1%. Heavy maintenance checks for most of Cargojet's fleet were deferred by 6 to 9 months as approved by Transport Canada to facilitate the increase in adhoc charter flights essential to the Canadian federal and provincial governments. 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 $41.2 million for the year ended December 31, 2020 compared to $33.6 million for the same period in 2019, representing an increase of $7.6 million or 22.6%. This increase was due to the increase in line maintenance costs due to additional domestic and charters block hours, the hiring of additional maintenance personnel, a temporary daily cash allowance and additional benefits to maintenance personnel due to the COVID-19 pandemic.

Total crew costs including salaries, training and positioning were $46.9 million for the year ended December 31, 2020 compared to $34.2 million for the same period in 2019, representing an increase of $12.7 million or 37.1%.This increase was due primarily to the hiring of additional crew, a temporary daily cash allowance and additional benefits to crew due to the COVID-19 pandemic and annual salary increases due to a new collective agreement reached with the union.

Commercial and other direct operating costs were $125.9 million for the year ended December 31, 2020 compared to $94.3 million for the same period in 2019, representing an increase of $31.6 million or 33.5%. This increase was primarily due to a $9.5 million increase in commercial salaries due to the hiring of additional personnel, annual wage increases, temporary daily cash allowances and additional health benefits due to the COVID-19 pandemic and increase in the domestic volumes and adhoc all-in charter activities. Higher activity resulted in a $3.5 million increase in ground handling costs, a $16.6 million increase in aircraft insurance, landing, parking, and navigation costs and a $2.0 million increase in other commercial costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2020 were $81.4 million compared to $59.5 million for the same period in 2019, representing an increase of $21.9 million or 36.8%. This increase was primarily due to a $23.2 million increase in salaries, bonuses, pension and related costs, a $2.5 million increase in donation expense, a $12.7 million increase in supplies, consulting, audit and legal, sales and marketing costs and other general and administrative costs, partially offset by a $16.5 million increase in gains on swap derivatives.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the year ended December 31, 2020 were $212.9 million compared to $38.9 million for the same period in 2019, representing an increase of $174.0 million or 447.3%. The increase was due primarily to a $178.0 million increase in other losses and the fair value adjustment on the stock warrant obligation, partially offset by a $4.0 million decrease in finance costs.

Other losses and fair value adjustment on stock warrant for the year ended December 31, 2020 were \$173.3 million (December 31, 2019 – gain of \$4.7 million). These losses were comprised primarily of a \$177.9 million loss on fair value adjustment on stock warrants (December 31, 2019 - \$0.9 million), a \$0.6 million impairment of property, plant and equipment (December 31, 2019 - \$nil), partially offset by a \$0.8 million gain on disposal of fixed assets (December 31, 2019 - \$1.3 million), a \$3.3 million gain related to unrealized foreign exchange (December 31, 2019 - \$4.3 million) and a \$1.1 million gain on extinguishment of debt (December 31, 2019 - \$nil).

Finance costs

Finance costs for the year ended December 31, 2020 were \$39.6 million compared to \$43.6 million for the same period in 2019, representing a decrease of \$4.0 million or 9.2%. This decrease was primarily due to redemption of 4.65% Debentures in December 2019 and lower total lease liabilities due to scheduled monthly repayments and repayment of credit facility.

Adjusted EBITDA (1)

Adjusted EBITDA for the year ended December 31, 2020 was \$291.4 million compared to \$156.0 million for the same period in 2019. The increase in Adjusted EBITDA of \$135.4 million or 86.8% was due primarily to the following:

- Growth in domestic network revenues due to growth in domestic network volumes
- Significant increase in ACMI and All-in charter revenues with corresponding increase in variable costs

Adjusted EBITDAR (1)

Adjusted EBITDAR for the year ended December 31, 2020 was \$291.4 million compared to \$156.8 million for the same period in 2019, representing an increase of \$134.6 million or 85.8%. 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 ended December 31, 2020 or 2019, 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, 2020 was a provision of \$44.0 million compared to a provision of \$9.2 million for the same period in 2019. 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 \$196.8 million for the year ended December 31, 2020, compared to an inflow of \$48.4 million for the same period in 2019, representing an increase of \$148.4

million. The increase was due to an increase in adjusted EBITDA, proceeds from disposal of property, plant and equipment and changes in non-cash working capital items partially offset by lower maintenance capital expenditure.

(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, 2020 were $14.6 million or $0.9360 per share. In comparison, total dividends declared for the year ended December 31, 2019 were $13.1 million or $0.9360 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
December, 20 2019	January, 06 2020	-	15,281,756	-	3,575,931
March, 20 2020	April, 06 2020	3,649,268	15,595,161	0.2340	3,649,268
June, 19 2020	July, 06 2020	3,649,714	15,597,068	0.2340	3,649,714
September, 21 2020	October, 05 2020	3,649,714	15,597,068	0.2340	3,649,714
December, 21 2020	January, 05 2020	3,649,714	15,597,068	0.2340	
		14,598,410	-	0.9360	14,524,627

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
December 20, 2018	January 05, 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

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $292.6 million (December 31, 2019 - $144.9 million). The $147.7 million increase in cash generated was due primarily to the increase in EBITDA.

Cash used in financing activities during the year ended December 31, 2020 was $162.8 million (Cash provided December 31, 2019 – $74.8 million) and was comprised of the repayment of borrowings of $171.3 million (December 31, 2019 - $61.6 million), the repayment of obligations under finance lease of $77.3 million (December 31, 2019 – $55.5 million), options settled in cash of $7.1 million (December 31, 2019 - $2.0 million), withholding tax paid on vested restricted share units of the Company of $2.4 million (December 31, 2019 - $3.2 million) and dividends paid to shareholders of $14.6 million (December 31, 2019 – $12.4 million) partially offset by proceeds from debenture issue net of issuance costs $109.9 million (December 31, 2019 - $109.7 million) and proceeds from borrowings $nil (December 31, 2019 - $99.8 million).

Cash used in investing activities during the year ended December 31, 2020 was $127.7 million (December 31, 2019 - $217.2 million) and was comprised primarily of property, plant and equipment additions of $146.6 million (December 31, 2019 - $218.1 million), acquisition of business $nil (December 31, 2019 - $3.1 million) and settlement of provision of $nil (December 31, 2019 - $1.4). This was partially offset by proceeds from the disposal of property, plant and equipment of $0.8 million (December 31, 2019 - $1.3 million), proceeds from insurance claim of $3.6 million (December 31, 2019 - $nil), total return swap and settlement of derivative financial instrument of $14.5 (December 31, 2019 - $4.1 million).

The Company had a working capital deficit of $84.4 million as at December 31, 2020, representing the difference between total current assets and current liabilities, compared to a working capital deficit of $44.0 million as at December 31, 2019. The increase of $40.4 million in working capital deficit is primarily due to a decrease in inventories, a decrease in trade and other receivables, a decrease in prepaid expenses and deposits, an increase in the current portion of lease liabilities and an increase in trade and other payables. This amount was partially offset by an increase in Cash and the derivative financial instrument receivable.

Capital Expenditures and ROU additions

The property, plant and equipment additions of $208.6 million in the current year were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, rotable spares, heavy maintenance, facilities and other equipment and spares of $191.1 million and ROU asset addition of $17.5 million.

Selected Annual Information

(Canadian dollars in millions, except where indicated)

	Year Ended December 31		
	2020	2019	2018
	$	**$**	$
Revenue	668.5	486.6	454.9
Direct expenses	418.0	367.4	342.6
Gross margin	250.5	119.2	112.3
Selling, general & administrative expenses and income taxes	338.3	107.6	92.1
Net income	(87.8)	11.6	20.2
Earning per share - CAD$			
Basic	(5.63)	0.86	1.51
Diluted	(5.63)	0.85	1.50
EBITDA [1]	95.3	158.4	122.7
Adjusted EBITDA [1]	291.4	156.0	128.0
EBITDAR [1]	95.3	159.2	132.6
Adjusted EBITDAR [1]	291.4	156.8	137.9
Adjusted Free Cash Flow [1]	196.8	48.4	43.0
Cash, cash equivalents and short term investments	3.7	1.6	-
Total assets	1,223.9	1,098.3	852.9
Total long-term liabilities	868.1	707.6	621.8
Total liabilities	1,048.7	822.1	695.2
Dividends per share - CAD$	$0.9360	$0.9360	$0.8480

[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 15 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, 2020 to the financial position of the Company as at December 31, 2019:

Accounts Receivable

Accounts receivable as at December 31, 2020 amounted to $41.3 million compared to $51.3 million as at December 31, 2019. The decrease of $10.0 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, 2020, property, plant and equipment were $998.7 million compared to $890.2 million as at December 31, 2019. The $108.5 million net increase in property, plant and equipment was primarily due to the net addition of $191.1 million in property plant and equipment and recognition of $17.5 million in right to use asset under IFRS 16 partially offset by depreciation of $90.2 million and amortization of right to use asset of $9.3 million and impairment of $0.6 million.

Trade and Other Payables

Trade and other payables as at December 31, 2020 were $73.2 million compared to $51.6 million as at December 31, 2019. The increase of $21.6 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, hangars and warehouses. Total finance leases including the current portion were $195.0 million as at December 31, 2020 compared to $196.3 million as at December 31, 2019. The change was due to the scheduled monthly repayments made during the year ended December 31, 2020 and exercise of purchase option for one B767-300 aircraft, partially offset by the capitalization of warehouse and aircraft leases and the effects of foreign exchange on the USD denominated aircraft leases.

Summary of Contractual Obligations

		Payments due by Year				
As at December 31, 2020	Total	2021	2022	2023	2024	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Lease liabilities	195.0	103.8	20.2	25.1	9.8	36.1
Borrowings	72.9	-	-	-	-	72.9
Debentures	304.9	-	-	-	-	304.9
Stock warrant obligations	251.4	-	-	-	-	251.4
	824.2	103.8	20.2	25.1	9.8	665.3

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, 2020. 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 prevent 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, 2020, the Company had sales to three customers that represented 54.2% of the total revenues (December 31, 2019 – 60.7%). 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 $17.4 million as at December 31, 2020. 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 72.6% of Fiscal 2020 revenues of the Company and the Company's top three customers each accounted for over 10% of the Company's Fiscal 2020 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, ten B767-300, two B767-200 and has four 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, 2020, the Company had a net cash flow exposure to the United States dollar of approximately U.S. $91.2 million and to the Euro of approximately €2.5 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 executive officers of Cargojet as a group beneficially own, or control or direct, directly or indirectly, 535,137 Voting Shares, representing approximately 3.43 % of the Company on a non-diluted basis

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.

The COVID-19 pandemic has generally increased the demand for domestic and international air cargo services due to the dramatic increase in e-commerce demand and the reduction of passenger aircraft operating on international routes. Cargojet continues to operate all of its aircraft on domestic and international routes and has seen a surge in charter and ACMI activity. As its primary focus, Cargojet has implemented new safety protocols to protect its employees and customers. Cargojet has provided all of its operational staff with temporary daily cash allowances to help offset any additional financial burdens that employees may be experiencing due to the pandemic. The Company anticipates that some of these measures may be modified or discontinued as the pandemic subsides.

The Company is not able to predict the effect of the pandemic on future revenues and costs. The pandemic has increased the demand for Cargojet's services and improved pricing on its international business. A prolonged pandemic may have negative effects on the overall demand for Cargojet's services and increase the difficulty and costs of protecting its employees and customers from the spread of the virus.

Transport Canada recently announced on December 12, 2018 that formal changes to the existing pilot fatigue regulations would take effect in December 2020 and would apply to all commercial airline operators in Canada. The new regulations will increase Cargojet's pilot costs. Cargojet began recruiting and training additional pilots starting in the latter half of 2019 in order to meet the new requirements that came into effect in December 2020. The recruitment and training process of new pilots normally takes a number of months and until recently, a pilot shortage in the industry was expected to increase pilot attrition rates. However as a direct result of the COVID-19 pandemic, the passenger airline industry worldwide dramatically reduced its operating fleet and pilot headcount. A prolonged downturn in the passenger airline industry will make more pilots available to Cargojet

Prior to the COVID-19 pandemic, Cargojet 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 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. With the extended contract and added incentives to reduce attrition, Cargojet expects to fully meet its staffing requirements under the new fatigue regulations. Cargojet recovered 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 year ended December 31, 2020, the Company experienced growth over all revenue streams by 37.4% compared to the same period in 2019. 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 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**
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", "CJT.DB.E" and "CJT.DB.F" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding as at December 31, 2020:

Capital	Authorized/ Principal	Outstanding number of shares
Common and Variable Voting Shares	Unlimited	15,597,068

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, 2020 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.

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.

Unrealized 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 surrender 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 related to financing arrangement - the gain or loss arising from the fair value of cash settled share based payment related to a financing arrangement is a function of the Company's treasury/financing activities and has no impact on the determination of Adjusted EBITDA

Gain or loss on fair value of total return swap related to financing arrangement – the gain or loss arising from the fair value of total return swap related to a financing arrangement is a function of the Company's treasury/financing activities 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 related to financing 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 related to financing arrangement - 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.