



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

For the Three Month Period Ended March 31, 2020

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CARGOJET INC.
**Management’s Discussion and Analysis of Financial Condition
and Results of Operations**
For the Three Month period Ended March 31, 2020

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The following is the Management's Discussion and Analysis ("MD&A") of the condensed consolidated interim financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three months ended March 31, 2020. The following also includes a discussion of and comparative operating results for the three months ended March 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 effective date of the MD&A is May 7, 2020. The condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34, *Interim Financial Reporting* ("IAS 34"). This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three months ended March 31, 2020 and 2019 and with the audited consolidated financial statements of the Company for the years ended December 31, 2019 and 2018.

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

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company. See the MD&A for the three month period and the year ended December 31, 2019 dated February 20, 2020 which was filed with SEDAR at www.sedar.com 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" section of the MD&A for the three month period and year ended December 31, 2019 dated February 20, 2020 which was filed with SEDAR at www.sedar.com and the Company is not aware of any significant changes to its risk factors from those disclosed at that time.

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

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

- Fleet Overview – Page 5.
- Off - Balance Sheet Arrangements – Page 21.
- Outlook – Page 23.

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Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended March 31,			
	2020	2019	Change	%
Financial information				
Revenues	\$123.0	\$110.4	\$12.6	11.4%
Direct expenses	\$90.8	\$89.2	\$1.6	1.8%
Gross margin	\$32.2	\$21.2	\$11.0	51.9%
Gross margin - %	26.2%	19.2%	7.0%	
Selling, general & administrative expenses	\$17.7	\$13.1	\$4.6	35.1%
Net finance costs & other gains and losses	\$15.4	\$7.4	\$8.0	108.1%
Earnings before income taxes	(\$0.9)	\$0.7	(\$1.6)	-228.6%
Income taxes	\$0.9	\$0.7	0.2	28.6%
Net (loss) earnings	(\$1.8)	-	(\$1.8)	-100.0%
Earnings per share - \$CAD				
Basic	\$(0.12)	\$ -	(\$0.12)	-100.0%
Diluted	\$(0.12)	\$ -	(\$0.12)	-100.0%
EBITDA⁽¹⁾	\$32.2	\$34.1	(\$1.9)	-5.6%
EBITDA margin - %	26.2%	30.9%	-4.7%	
Adjusted EBITDA⁽¹⁾	\$40.2	\$32.3	\$7.9	24.5%
Adjusted EBITDA margin - %	32.7%	29.3%	3.4%	
EBITDAR⁽¹⁾	\$32.2	\$34.4	(\$2.2)	-6.4%
EBITDAR margin - %	26.2%	31.2%	-5.0%	
Adjusted EBITDAR⁽¹⁾	\$40.2	\$32.6	\$7.6	23.3%
Adjusted EBITDAR margin - %	32.7%	29.5%	3.2%	
Adjusted Free Cash flow⁽¹⁾	\$29.8	\$0.8	\$29.0	3625.0%
Operating statistics				
Operating days ⁽²⁾	50	49	1	2.0%
Average cargo revenue per operating day ⁽³⁾	\$1.86	\$1.69	\$0.17	10.1%
Block hours	9,341	8,588	753	8.8%
Aircraft in operating fleet				
B757-200	8	8	-	
B767-200	3	1	2	
B767-300	12	12	-	
Challenger 601	2	2	-	
	25	23	2	8.7%
Average volume per operating day (lbs.)	1,296,341	1,228,705	67,636	5.5%
Average head count	1,126	1,076	50	4.6%

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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 12 of this MD&A for a more detailed discussion.
2. Operating days refer to the Company's domestic network air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.
3. Average cargo revenue per operating day refers to total domestic network, ACMI and charter revenues earned by the Company per operating day.

Corporate Overview

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

- Operating a domestic network air cargo co-load network between fourteen major Canadian cities;
- Providing dedicated aircraft to customers on an Aircraft, Crew, Maintenance and Insurance ("ACMI") basis, operating between points in Canada and the USA; and
- Operating scheduled international routes for multiple cargo customers between the USA and Bermuda, between Canada and Germany; and between Canada 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 March 31, 2020 as well as the Company's planned operating fleet for the year ending December 31, 2020, 2021 and 2022:

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Aircraft Type		Leased or Owned	Average Age	Number of Aircraft in Service						Maximum Payload (lbs.)	Range (miles)
				Actual			Plan				
				Q4		Q1	Q4				
				2018	2019	2020	2020	2021	2022		
B767-300 ⁽¹⁾	Freighter	Leased	27	7	8	8	8	8	8	125,000	6,000
B767-300 ⁽²⁾	Freighter	Owned	26	4	4	4	5	5	5	125,000	6,000
B767-200 ⁽³⁾	Freighter	Owned	20	-	-	1	2	2	2	100,000	5,000
B767-200 ⁽⁴⁾	Freighter	Leased	35	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	25	26	26	26		

- Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement (“MLA”). A fifth aircraft was acquired in October 2017, under a lease agreement with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price. Cargojet expects to exercise the purchase option in October 2020. In December 2017, Cargojet purchased a B767-300 aircraft as feedstock for cargo conversion in 2018. In March 2018, Cargojet entered into a sale lease-back arrangement to facilitate the cargo conversion and financing of this aircraft, under terms similar to its other leased aircraft that was leased with terms of six years with a purchase option in favour of Cargojet after three years at a pre-determined price, Cargojet expects to exercise the purchase option in October 2021. In April 2018, Cargojet purchased one B767-300 aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of three years at a pre-determined price, Cargojet expects to exercise the purchase option in December 2021. In October 2018, Cargojet purchased one B767-300 converted freighter aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of the lease term at a pre-determined price, Cargojet expects to exercise the purchase option in November 2023.
- The four B767-300 aircraft in operation at March 31, 2020 are owned by Cargojet. In October 2019, Cargojet purchased an additional B767-300 aircraft and two spare engines. This aircraft is under conversion with an expected delivery date of Q3 2020 and has been included in the table above.
- In August 2018 Cargojet purchased two B767-200 aircraft as feed stock for future conversion and engine replacements. One of the aircraft has been fully converted and redelivered into operation in January 2020. This aircraft is included in the above table as addition to the fleet in Q1 2020. The second aircraft will also inducted into cargo conversion and was redelivered into operations in April 2020. This aircraft is also included in the above table based on its date of entry into operations. In July 2019 Cargojet purchased one B767-200 converted freighter aircraft which is currently under lease to third party along with two spare engines, this aircraft has not been included in the table above.
- The B767-200 aircraft in operation at March 31, 2020 is under a lease that was extended in April 2020 to August 31, 2020 with an option to extend the lease for another three months.
- The eight B757-200 aircraft in operation at March 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.
- 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.
- Cargojet purchased one B767-200 aircraft in July 2018. Cargojet has entered in to a charter agreement with a third party to operate and manage this aircraft to provide the aircraft for passenger charter services. This aircraft has entered operations in Q2 2019.
- Cargojet has entered into a charter agreement with a third party to operate and manage two aircraft to provide passenger charter services.
- 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.

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Recent Events

The COVID-19 Pandemic

In March 2020, the World Health Organization declared a global pandemic related to COVID-19. Various restrictions were imposed by federal, provincial and local governments and by enterprises including travel restrictions, restrictions on public gatherings, stay at home orders, advisories, and quarantining of people who may have been exposed to the virus. However, the Company's business was deemed 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 three months period ended March 31, 2020 the Company took numerous 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, providing face masks, gloves and shields where required.
- Adjusted network to meet increased overnight, transborder and international supply chain demands.

The Company experienced a surge in e-commerce and health care related volumes partially offset by a decline in its business-to-business volumes. Overall volumes for the three months period were higher than the previous year.

Balance Sheet, Cash Flow and Liquidity:

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The Company took actions to bolster its financial position by reducing some planned capital expenditures and delaying 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 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.

Acquisition and disposal of Property, Plant and Equipment

During the three month period ended March 31, 2020, the Company completed the acquisition of one Boeing 767-200 aircraft using the revolving credit facility. The Company also sold surplus spares for \$0.3 million resulting in a total gain of \$0.3 million

Changes in revolving credit facility

The Company has negotiated an increase in the maximum available credit on its revolving operating credit facility from \$400 million to \$510 million. The Company expects to amend its revolving credit facility agreement accordingly in early May 2020.

Revenues

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

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

The Company's domestic network air cargo service operates primarily on Monday to Thursday with a reduced network operating on Friday, 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.

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- 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 9). 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.

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Results of Operations and Supplementary Financial Information

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

	Three month period ended March 31,	
	2020 (unaudited)	2019 (unaudited)
	\$	\$
Revenues	123.0	110.4
Direct expenses	90.8	89.2
	32.2	21.2
General and administrative expenses	17.2	12.3
Sales and marketing expenses	0.5	0.8
Finance costs	9.7	9.9
Other loss (gain), net	5.7	(2.5)
	33.1	20.5
EARNINGS BEFORE INCOME TAXES	(0.9)	0.7
Provision for income taxes		
Deferred	0.9	0.7
Net (loss) earnings and comprehensive (loss) income	(1.8)	-
(Loss) earnings per share		
Basic and Diluted	\$(0.12)	\$-
Average number of shares - basic (in thousands of shares)	15,578	13,458
Average number of shares - diluted (in thousands of shares)	15,578	13,554

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

	Three Month Periods Ended							
	Mar 31 2020	Dec 31 2019	Sep 30 2019	June 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018
Revenues	\$123.0	\$139.7	\$117.4	\$119.1	\$110.4	\$132.6	\$114.1	\$109.0
Net (loss) earnings from continuing operations	\$(1.8)	\$(4.5)	\$11.8	\$4.3	\$-	\$6.3	\$4.7	\$4.7
(Loss) earnings per Share								
From continuing operations								
- Basic	\$(0.12)	\$(0.33)	\$0.87	\$0.32	\$-	\$0.47	\$0.35	\$0.35
- Diluted	\$(0.12)	\$(0.32)	\$0.87	\$0.32	\$-	\$0.47	\$0.35	\$0.35
Average number of shares - basic (in thousands of shares)	15,578	13,813	13,541	13,478	13,458	13,426	13,417	13,412
Average number of shares - diluted (in thousands of shares)	15,578	13,977	13,636	13,611	13,554	13,510	13,516	13,547

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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.

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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	
	March 31,	
	2020 (unaudited)	2019 (unaudited)
	\$	\$
<u>Calculation of EBITDA and Adjusted EBITDA</u>		
Net earnings	(1.8)	-
Add:		
Interest	9.7	9.9
Provision of deferred taxes	0.9	0.7
Depreciation of property, plant and equipment	23.4	23.5
EBITDA	32.2	34.1
Add:		
Gain on sale of property, plant and equipment	(0.3)	(0.7)
Unrealized foreign exchange (gain) loss	7.9	(1.8)
Fair value adjustment and amortization on stock warrant	(0.7)	-
Employee pension	1.1	0.7
Adjusted EBITDA	40.2	32.3
<u>Calculation of EBITDAR and Adjusted EBITDAR</u>		
EBITDA	32.2	34.1
Aircraft rent	-	0.3
EBITDAR	32.2	34.4
Add:		
Gain on sale of property, plant and equipment	(0.3)	(0.7)
Unrealized foreign exchange (gain) loss	7.9	(1.8)
Fair value adjustment and amortization on stock warrant	(0.7)	-
Employee pension	1.1	0.7
Adjusted EBITDAR	40.2	32.6
<u>Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow</u>		
NET CASH GENERATED FROM OPERATING ACTIVITIES	23.1	43.5
Less: Maintenance capital expenditures ⁽¹⁾	(10.6)	(22.4)
Add: Proceeds from disposal of property, plant and equipment	0.3	-
Standardized free cash flow	12.8	21.1
Changes in non-cash working capital items and deposits	17.0	(20.3)
Adjusted Free Cash flow	29.8	0.8

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

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Review of Operations for the Three Month Periods ended March 31, 2020 and 2019

Net (loss) earnings for the three month periods ended March 31, 2020 and 2019

(Canadian dollars in millions except where indicated)

	Q1		CHANGE	
	2020 (unaudited) \$	2019 (unaudited) \$	\$	%
Domestic Network Revenues	66.3	61.1	5.2	8.5%
ACMI Revenues	19.4	15.4	4.0	26.0%
All-in Charter Revenues	7.3	6.7	0.6	9.0%
Total domestic network, ACMI and charter revenues	93.0	83.2	9.8	11.8%
Total Revenue - Fixed based operations revenues	0.3	0.2	0.1	50.0%
Total fuel and other cost pass through revenues	27.5	24.9	2.6	10.4%
Fuel surcharge and other pass through revenues	27.8	25.1	2.7	10.8%
Other revenues	2.2	2.1	0.1	4.8%
Total revenues	123.0	110.4	12.6	11.4%
Operating Days	50	49	1	2.0%
Average cargo revenue per operating day	1.86	1.70	0.16	9.4%
Direct expenses				
Fuel Costs	21.5	23.9	(2.4)	-10.0%
Depreciation	19.7	19.2	0.5	2.6%
Aircraft Costs	3.3	2.4	0.9	37.5%
Heavy Maintenance Amortization	3.2	3.7	(0.5)	-13.5%
Maintenance Costs	8.5	8.5	-	-
Crew Costs	9.6	8.0	1.6	20.0%
Commercial and Other Costs	25.0	23.5	1.5	6.4%
Total direct expenses	90.8	89.2	1.6	1.8%
Gross margin	32.2	21.2	11.0	51.9%
Gross margin %	26.2%	19.2%	7.0%	
SG&A & Marketing				
General and Administrative Costs	16.7	11.7	5.0	42.7%
Sales costs	0.5	0.8	(0.3)	-37.5%
Depreciation	0.5	0.6	(0.1)	-16.7%
Total SG&A & Marketing expenses	17.7	13.1	4.6	35.1%
Other SG&A				
Other losses	5.7	(2.5)	8.2	-328.0%
Finance costs	9.7	9.9	(0.2)	-2.0%
Total other SG&A	15.4	7.4	8.0	108.1%
EARNINGS BEFORE INCOME TAXES	(0.9)	0.7	(1.6)	-228.6%
Income Taxes-Deferred	0.9	0.7	0.2	28.6%
NET (LOSS) EARNINGS	(1.8)	-	(1.8)	-100.0%
(Loss) earnings per share - \$ CAD				
Basic and Diluted	\$(0.12)	\$ -	\$(0.12)	-100.0%

CARGOJET INC.

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

- Total revenue for the three month period ended March 31, 2020 was \$123.0 million compared to \$110.4 million for the same period in 2019, representing an increase of \$12.6 million or 11.4%.
- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2020 was \$1.86 million per operating day compared to \$1.70 million for the same period in 2019, representing an increase of \$0.16 million or 9.4%.
- Adjusted EBITDA for the three month period ended March 31, 2020 was \$40.2 million compared to \$32.3 million for the same period in 2019, an increase of \$7.9 million or 24.5%.
- Adjusted EBITDAR for the three month period ended March 31, 2020 was \$40.2 million compared to \$32.6 million for the same period in 2019, an increase of \$7.6 million or 23.3%.
- Adjusted Free Cash Flow was an inflow of \$29.8 million for the three month period ended March 31, 2020 compared to an inflow of \$0.8 million for the same period in 2019, an increase of \$29.0 million or 3625.0%.

Revenue

Total revenue for the three month period ended March 31, 2020 was \$123.0 million, compared to \$110.4 million for the same period in 2019, representing an increase of \$12.6 million or 11.4%. The increase in total revenue was due primarily to a \$5.2 million increase in domestic network revenues, a \$4.0 million increase in ACMI revenues, a \$0.6 million increase in all in charter revenues, a \$2.7 million increase in fuel surcharges and other cost pass-through revenues and a \$0.1 million increase in lease and other revenue.

Revenue related to the domestic network business excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2020 was \$66.3 million compared to \$61.1 million for the same period in 2019, an increase of \$5.2 million or 8.5%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in a 6.3% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended March 31, 2020 were \$19.4 million compared to \$15.4 million for the same period in 2019, an increase of \$4.0 million or 26.0%. The increase of \$4.0 million was primarily due to new scheduled routes to the USA and Mexico that started in September 2019.

All-in scheduled and adhoc charter revenues for the three month period ended March 31, 2020 were \$7.3 million compared to \$6.7 million for the same period in 2019, an increase of \$0.6 million or 9.0%. The increase in all-in charter revenue was primarily due to revenues from charter flights using its Challenger and B767-200 aircraft, partially offset by a decrease in revenue due to suspension of Columbia and Peru route.

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Fuel surcharges and other cost pass-through revenues were \$27.8 million for the three month period ended March 31, 2020 compared to \$25.1 million for the same period in 2019, representing an increase of \$2.7 million or 10.8%. During the period fuel surcharges increased due to a 8.5% increase in domestic revenues from new and existing customers that attracted fuel surcharges, partially offset by a 14.5% decrease in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of \$0.3 million for the three ended March 31, 2020 compared to \$0.2 million for the same period in 2019, an increase of \$0.1 million or 50.0%.

Other revenues consist primarily of aircraft lease revenue, hanger rental revenues, maintenance revenue for aircraft line maintenance services provided to other airlines and ground handling services provided to customers. Other revenues were \$2.2 million for the three month period ended March 31, 2019 compared to \$2.1 million for the same period in 2019, an increase of \$0.1 million or 4.8%.

Direct Expenses

Total direct expenses were \$90.8 million for the three month period ended March 31, 2020 compared to \$89.2 million for the same period in 2019, representing an increase of \$1.6 million or 1.8%. As a percentage of revenue, direct expenses decreased from 80.8% in 2019 to 73.8% for the same period in 2020. The overall increase in direct expenses was due primarily to a \$0.5 million increase in depreciation, a \$0.9 million increase in aircraft costs, a \$1.6 million increase in crew costs and a \$1.5 million increase in commercial and other costs. The increase was partially offset by a \$2.4 million decrease in fuel costs, and a \$0.5 million decrease in heavy maintenance costs.

Fuel costs were \$21.5 million for the three month period ended March 31, 2020 compared to \$23.9 million for the same period in 2019. The \$2.4 million or 10.0% decrease in fuel costs was due primarily to a 14.5% decrease in fuel prices and suspension of Peru and Colombia operations, partially offset by a 7.8% increase in block hours on the domestic network. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was \$19.7 million for the three month period ended March 31, 2020 compared to \$19.2 million for the same period in 2019. The \$0.5 million or 2.6% increase in depreciation expenses was due primarily to the addition of aircraft, right of use assets, rotatable spares and hangar ceiling.

Aircraft costs were \$3.3 million for the three month period ended March 31, 2020 compared to \$2.4 million for the same period in 2019, representing an increase of \$0.9 million or 37.5%. The increase was primarily due to higher sub charter costs.

Heavy maintenance amortization costs were \$3.2 million for the three month period ended March 31, 2020 compared to \$3.7 million for the same period in 2019, representing a decrease of \$0.5 million or 13.5% due to the timing of heavy maintenance checks. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized until the next scheduled heavy maintenance. The heavy maintenance component of newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were \$8.5 million for the three month period ended March 31, 2020 and 2019. The increase in costs was due primarily to higher block hours, annual wage increases, a temporary daily cash allowance and additional benefits to maintenance personnel due to the COVID-19 pandemic, partially offset by a decrease of an equal amount in line maintenance costs.

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Total crew costs including salaries, training and positioning were \$9.6 million for the three month period ended March 31, 2020 compared to \$8.0 million for the same period in 2019, representing an increase of \$1.6 million or 20.0%. The increase was due primarily to the hiring of additional crews, annual salary increases, a temporary daily cash allowance provided to all pilots due to the COVID-19 pandemic and increased crew positioning costs. This increase was partially offset by the gains in the fair value of the total return swap agreement entered by the company to manage its exposure under the DSU ("Deferred Share Units") issued under a retention incentive plan introduced in 2019.

Commercial and other direct operating costs were \$25.0 million for the three month period ended March 31, 2020 compared to \$23.5 million for the same period in 2019, representing an increase of \$1.5 million or 6.4%. This increase was due primarily to a \$1.1 million increase in commercial salaries due to the hiring of additional personnel, annual wage increases and a temporary daily cash allowance and additional benefits to all commercial personnel due to the COVID-19 pandemic, a \$0.3 million increase in de-icing costs, a \$0.1 million increase in ground service equipment and vehicle costs, a \$0.2 million increase in warehouse facilities costs and a \$1.0 million net increase in landing, aircraft insurance and navigation costs. This increase was partially offset by \$0.5 million decrease in ground handling costs due to insourcing at YMX and a \$0.7 million net decrease in cartage, interline and ground linehaul costs due to suspension of charter operation to Colombia and Peru operations and lower interline activity.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended March 31, 2020 were \$17.7 million compared to \$13.1 million for the same period in 2019, representing an increase of \$4.6 million or 35.1%. The increase was primarily due to a \$0.4 million increase in employee pension costs, a \$0.9 million increase in salaries and benefits due to increased headcount, annual salary increases and temporary daily cash allowances and additional benefits to all administrative personnel due to the COVID-19 pandemic, a \$2.4 million increase in management share based incentives, a \$0.5 million increase in consulting audit and legal expenses and a \$0.8 million increase in data and communication and other expenses. This increase was partially offset by a \$0.3 million decrease in selling and marketing expenses and a \$0.1 million decrease in depreciation.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended March 31, 2020 were \$15.4 million compared to \$7.4 million for the same period in 2019, representing an increase of \$8.0 million or 108.1%. The increase was due primarily to a \$8.2 million net increase in other losses partially offset by a \$0.2 million decrease in finance costs.

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Other losses

Other losses for the three month period ended March 31, 2020 were \$5.7 million primarily due to a \$7.9 million foreign exchange loss, partially offset by a \$ 1.9 million gain on fair value adjustment of stock warrants and a \$0.3 million gain on disposal of property, plant and equipment.

Finance costs

Finance costs for the three month period ended March 31, 2020 were \$9.7 million compared to \$9.9 million for the same period in 2019, representing the decrease of \$0.2 million or 2.0%. The decrease was due primarily to redemption of 4.65% Debentures in December 2019 and lower total lease liabilities due to scheduled monthly repayments, partially offset by higher utilization of credit facility and the issue of 5.75% hybrid debentures in April 2019.

Adjusted EBITDA ⁽¹⁾

Adjusted EBITDA for the three month period ended March 31, 2020 was \$40.2 million compared to EBITDA of \$32.3 million for the same period in 2019. The increase in Adjusted EBITDA of \$7.9 million was due primarily to the following:

- Growth in domestic network revenues due to increase in domestic network volumes
- Significant increase in ACMI and other revenues

Adjusted EBITDAR ⁽¹⁾

Adjusted EBITDAR for the three month period ended March 31, 2020 was \$40.2 million compared to \$32.6 million for the same period in 2019, representing an increase of \$7.6 million or 23.3%. 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 March 31, 2020 and 2019.

Deferred Income Taxes

The deferred income taxes for the three month period ended March 31, 2020 was a provision of \$0.9 million compared to a provision of \$0.7 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 \$29.8 million for the three month period ended March 31, 2020 compared to an inflow of \$0.8 million for the same period in 2019, representing an increase of \$29.0 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in adjusted EBITDA, effects of exchange rate changes, 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.

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(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 March 31, 2020 were \$3.6 million or \$0.2340 per share. In comparison, total dividends declared for the three month period ended March 31, 2019 were \$3.2 million or \$0.2340 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	-	0.2340	3,575,931

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		\$		\$	\$
December 20, 2018	January 07, 2019	-	13,452,977	-	2,852,031
March 20, 2019	April 05, 2019	3,150,705	13,464,552	0.2340	
		3,150,705	-	0.2340	2,852,031

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was \$23.1 million for the three month period ended March 31, 2020 (March 31, 2019 - \$43.5 million). The \$20.4 million decrease in cash was due primarily to the changes in non-cash working capital items and deposits, partially offset by increase in operating activity.

Cash from financing activities during the three month period ended March 31, 2020 was \$9.3 million (March 31, 2019 - Cash used \$4.3 million) and was comprised of proceeds from borrowings of \$28.9 million (March 31, 2019 - \$8.8). This was partially offset by repayment of obligations under lease liabilities of \$13.9 million (March 31, 2019 - \$10.2 million), tax paid on vested RSU’s and options of \$2.1 million (March 31, 2019 - \$nil) and the payment of dividends to shareholders of \$3.6 million (March 31, 2019 - \$2.9 million).

Cash used in investing activities during the three month period ended March 31, 2020 was \$31.8 million (March 31, 2019 - \$37.8 million) and was comprised of property, plant and equipment additions of \$32.1 million (March 31, 2019 - \$34.7 million) and acquisition of business \$nil (March 31, 2019 - \$3.1). This was partially offset by proceeds from disposal of property, plant and equipment of \$0.3 million (March 31, 2019 - \$nil)

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Capital Expenditures

The property, plant and equipment additions of \$32.1 million in the three month period ended March 31, 2020 (March 31, 2019 - \$34.7 million) were primarily comprised of additions to aircraft, engines, ground services equipment, hangar and cross dock facility, spares and rotatable spares.

Financial Condition

The following is a comparison of the financial position of the Company as at March 31, 2020 to the financial position of the Company as at December 31, 2019:

Accounts Receivable

Accounts receivable as at March 31, 2020 amounted to \$59.3 million compared to \$51.3 million as at December 31, 2019. The increase of \$8.0 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 March 31, 2020, property, plant and equipment were \$902.1 million compared to \$890.2 million as at December 31, 2019. The \$11.9 million net increase in property, plant and equipment was primarily due to the net addition of \$32.4 million in property plant and equipment and recognition of 2.9 million in right to use asset under IFRS 16 partially offset by depreciation of \$21.1 million and amortization of right to use asset of \$2.3 million

Trade and Other Payables

Trade and other payables as at March 31, 2020 were \$41.0 million compared to \$51.6 million as at December 31, 2019. The decrease of \$10.6 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 \$198.5 million as at March 31, 2020 compared to \$196.3 million as at December 31, 2019. The change was due to the capitalization of warehouse leases and the effects of foreign exchange on the USD denominated aircraft leases partially offset by scheduled monthly repayments made during the three month period ended March 31, 2020.

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Summary of Contractual Obligations

As at March 31, 2020 (Canadian dollars in millions)	Payments due by Year					
	Total	2020	2021	2022	2023	Thereafter
Lease liabilities	198.5	53.5	88.9	21.2	19.8	15.1
Borrowings	273.1	-	-	-	-	273.1
Debentures	193.6	-	-	-	-	193.6
Stock warrant obligations	71.6	-	-	-	-	71.6
	736.8	53.5	88.9	21.2	19.8	553.4

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.

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(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, 2019. The Company's pro rata share of the FFC's assets and debt is approximately 8% before taking into consideration the value of assets that secure the obligations and cost sharing that would occur among other participating airlines. The Company views the potential for losses in respect of the FFC as remote.

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

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

Major Customers

During the three month period ended March 31, 2020, the Company had sales to three customers that represented 59.8% of the total revenues (March 31, 2019 – 61.9%). 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 \$17.5 million as at March 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

A detailed description of risk factors associated with the Company's business is given in the "Risk Factors" section of the MD&A for the three months and year ended December 31, 2019 dated February 20, 2020 which was filed with SEDAR at www.sedar.com. The Company is not aware of any significant changes to its risk factors from those disclosed at that time.

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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 increase 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 formal changes to the existing pilot fatigue regulations that will come into effect in December 2020 and are applicable to all commercial airline operators in Canada. The new regulations will increase Cargojet's pilot costs. Cargojet began recruiting and training additional pilots starting in the latter half of 2019 in order to meet the new requirements that come into effect in December 2020. The recruitment and training process of new pilots 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 has 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 new contract is expected to provide Cargojet with labour stability and prevent service disruptions to its customers, it increased pilot costs by approximately 20%. Effective July 1, 2019 Cargojet introduced a retention bonus to all of its pilots and extended its pilots union contract by 36 months to June 30, 2026. With the extended contract and added incentives to reduce attrition, Cargojet expects to fully meet its staffing requirements under the new fatigue regulations. Cargojet intends to recover the additional costs of recruiting, training and retaining new pilots to meet the government imposed fatigue regulations from its customers in the form of additional surcharges. Cargojet's customer agreements include provisions that allow Cargojet to recover additional costs incurred as a result of government regulation. Cargojet began recover these costs starting in Q4-2019 in advance of the new regulations coming into effect.

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During the period ended March 31, 2020, the Company experienced growth over all revenue streams by 11.4% 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.

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

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

Outstanding Share Data

The Company's common and variable voting shares are listed under the symbol "CJT" and hybrid debentures are listed under the symbol "CJT.DB.D" and "CJT.DB.E" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding as at March 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, 2019 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This MD&A was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

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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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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:

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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.