



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

For the Three Month Period Ended March 31, 2021

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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, 2021

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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, 2021

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, 2021. The following also includes a discussion of and comparative operating results for the three months ended March 31, 2020.

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 April 29, 2021 and authorized for issuance on May 3, 2021. The condensed consolidated interim 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 condensed consolidated interim financial statements of the Company for the three month ended March 31, 2021 and 2020 and 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 the MD&A for the three month period and year ended December 31, 2020 dated March 01, 2021 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, 2020 dated March 01, 2021 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 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.
- Recent Events – Page 7.
- Off - Balance Sheet Arrangements – Page 22.
- 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,			
	2021	2020	Change	%
Financial information				
Revenues	\$160.3	\$123.0	\$37.3	30.3%
Direct expenses	\$115.0	\$90.8	\$24.2	26.7%
Gross margin	\$45.3	\$32.2	\$13.1	40.7%
Gross margin - %	28.3%	26.2%	2.1%	
Selling, general & administrative expenses	\$24.7	\$17.7	\$7.0	39.5%
Net finance costs & other gains and losses	(\$70.5)	\$15.4	(\$85.9)	-557.8%
Earnings (loss) before income taxes	\$91.1	(\$0.9)	\$92.0	10222.2%
Income taxes	\$1.7	\$0.9	0.8	88.9%
Net earnings (loss)	\$89.4	(\$1.8)	\$91.2	5066.7%
Earnings (loss) per share - \$CAD				
Basic	\$5.35	\$(0.12)	\$5.47	4558.3%
Diluted	\$5.24	\$(0.12)	\$5.36	4466.7%
EBITDA ⁽¹⁾	\$127.9	\$32.2	\$95.7	297.2%
EBITDA margin - %	79.8%	26.2%	53.6%	
Adjusted EBITDA ⁽¹⁾	\$64.2	\$44.6	\$19.6	43.9%
Adjusted EBITDA margin - %	40.0%	36.3%	3.7%	
EBITDAR	\$127.9	\$32.2	\$95.7	297.2%
EBITDAR margin - %	79.8%	26.2%	53.6%	
Adjusted EBITDAR ⁽¹⁾	\$64.2	\$44.6	\$19.6	43.9%
Adjusted EBITDAR margin - %	40.0%	36.3%	3.7%	
Adjusted Free Cash flow	\$35.2	\$29.8	\$5.4	18.1%
Operating statistics				
Operating days ⁽²⁾	50	50	-	-
Average cargo revenue per operating day	\$2.51	\$1.86	\$0.65	34.9%
Block hours	13,096	9,341	3,755	40.2%
Aircraft in operating fleet				
B757-200	8	8	-	
B767-200	4	3	1	
B767-300	14	12	2	
Challenger 601	2	2	-	
	28	25	3	12.0%
Average volume per operating day (lbs.) ⁽³⁾	1,755,157	1,296,341	458,816	35.4%
Average head count	1,300	1,126	174	15.5%

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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. Prior year amounts have been restated to reflect the revised definitions of Adjusted EBITDA and Adjusted EBITDAR. Please refer to page 14 of this MD&A for a more detailed discussion.
2. Operating days refer to the Company’s domestic network air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.
3. Average cargo revenue per operating day refers to total domestic network, ACMI and charter revenues earned by the Company per operating day.

Corporate Overview

The Company is Canada’s leading provider of time sensitive domestic network air cargo services. 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 2019, 2020 and March 31, 2021 as well as the Company’s planned operating fleet for the year ending December 31, 2021, 2022 and 2023:

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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				
				2019	2020	2021	2021	2022	2023		
B767-300 ⁽¹⁾	Freighter	Leased	28	8	8	3	2	2	1	125,000	6,000
B767-300 ^{(1) (2)}	Freighter	Owned	27	4	6	11	13	15	16	125,000	6,000
B767-200 ⁽³⁾	Freighter	Owned	21	-	2	2	2	3	4	100,000	5,000
B767-200 ⁽⁴⁾	Freighter	Leased	36	1	1	1	1	1	-	100,000	5,000
B757-200 ⁽⁵⁾	Freighter	Owned	31	8	8	8	9	9	9	80,000	3,900
B767-200 ⁽⁶⁾	Passenger	Owned	25	1	1	1	1	1	1	100,000	5,000
Challenger 601 ⁽⁷⁾	Passenger	Owned	35	2	2	2	2	2	2	6,000	3,300
Total Aircraft⁽⁸⁾				24	28	28	30	33	33		

1. In February 2021 Cargojet prepaid its lease for the four B767-300 aircraft that were financed under a single Master Capital Lease Agreement (“MLA”). In March 2021 Cargojet also prepaid another lease for a B767-300 aircraft under a separate finance lease 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, November 2023 and October 2027.
2. 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. 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 into operations.
3. Two B767-200 aircraft were converted and redelivered into operation in January 2020 and April 2020 respectively. In July 2019 and April 2021 Cargojet purchased two B767-200 converted freighter aircraft that are currently under lease to third party. These aircraft have 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 March 31, 2021 is under a lease that was extended in October 2020 to February 28, 2023.
5. The eight B757-200 aircraft in operation at March 31, 2021 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. In March 2021, Cargojet signed a LOI to purchase one B757-200 aircraft, Cargojet expects to close the purchase in Q2 2021, this aircraft has been included in the table above.
6. 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.
7. Cargojet has entered into a charter agreement with a third party to operate and manage two aircraft to provide passenger charter services.
8. 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

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

New Air Transport Agreement with Amazon Canada

The Company recently entered into a new Air Transportation Services Agreement with Amazon Canada Fulfillment Services, ULC (“Amazon”).

Under the agreement, The Company will expand upon its existing commercial relationship with Amazon. As part of this arrangement, Cargojet expects to operate two Amazon-owned B767-300BDSF aircraft as part of the Amazon Air network on a Crew, Maintenance and Insurance (“CMI”) basis within Canada starting in July 2021. The Company expects the agreement to generate additional revenue growth to its earnings and cash flows over time. The agreement has a four-year term with three successive two-year renewal options.

New public offering

On February 1, the Company successfully completed its public offering to issue 1,642,000 shares at a price of \$213.25 per share for an aggregated gross proceeds of \$365 million. An additional 71,500 shares were issued on February 5, 2021 under the overallotment option for gross proceeds of \$15 million. The Company paid underwriters’ fees and incurred expenses totaling \$15.6 on the offering as transaction costs. 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.

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.

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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.

Since March 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:

- Continued mandatory 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
- Maintained significant workforce social distancing and protection measures, including allowing working from home during this period
- Continued heightened cleaning of its facilities using appropriate methods and products
- Enforced mandatory temperature checks for employees entering its facilities, provided face masks, gloves and shields where required; and
- Adjusted network capacity 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 B2B 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.

In 2020, 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. During the current quarter the Company launched and successfully completed a public offering to issue 1,713,500 shares at a price of \$213.25 per share for an aggregated gross proceeds of \$365 million.

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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.

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- 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,	
	2021	2020
	(unaudited)	(unaudited)
	\$	\$
Revenues	160.3	123.0
Direct expenses	115.0	90.8
	45.3	32.2
General and administrative expenses	12.1	17.2
Sales and marketing expenses	0.1	0.5
Loss on swap derivative	12.5	-
Finance costs	8.8	9.7
Fair value decrease on stock warrant	(81.9)	(1.9)
Loss on extinguishment of lease liabilities	3.7	-
Other (gain) loss, net	(1.1)	7.6
	(45.8)	33.1
EARNINGS (LOSS) BEFORE INCOME TAXES	91.1	(0.9)
Provision for income taxes		
Deferred	1.7	0.9
Net earnings (loss) and comprehensive income (loss)	89.4	(1.8)
Earnings (loss) per share		
Basic	\$5.35	\$(0.12)
Diluted	\$5.24	\$(0.12)
Average number of shares - basic (in thousands of shares)	16,699	15,578
Average number of shares - diluted (in thousands of shares)	17,058	15,578

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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 reconciliations of net earnings to EBITDA, Adjusted EBITDA, EBITDAR and Adjusted EBITDAR and Free Cash Flow to Adjusted Free Cash Flow are provided on Page 14.

Recent changes to the definition of Adjusted EBITDA, and Adjusted EBITDAR

Effective as of this MD&A for the three month period ended March 31, 2021 the Company has excluded share based compensation expense from Adjusted EBITDA and Adjusted EBITDAR measure. These items are excluded as the amount of such expenses in any specific period may not directly correlate to the underlying performance of business operations and these expenses can vary significantly between periods as a result of the timing of grants of new stock-based awards, valuation methodologies and market sentiments. Additionally, excluding stock-based compensation from Adjusted EBITDA assists management and investors in making meaningful comparisons between Company's operating performance between the periods and the operating performance of other companies that may use different forms of employee compensation or different valuation methodologies for their stock-based compensation. However, stock-based compensation is a key incentive offered to employees whose efforts contributed to the operating results in the periods presented and are expected to contribute to operating results in future periods and such expenses will recur in the future..

The Company also excluded gains and losses on swaps from Adjusted EBITDA and Adjusted EBITDAR measure. Swaps are used by Company to offset its exposure on share based compensations. The Company is exposed to market price fluctuation in its share price which is the asset underlying the swaps. The fair value of the swaps can be presented as asset or liability on the Company's consolidated balance sheet. This item is excluded as the amount of income or expense in any specific period may not directly correlate to the underlying performance of business operations and such this income or expenses can vary significantly between periods as a result of the fluctuation in the share price. Additionally, excluding income or expense from swaps from Adjusted EBITDA assists management and investors in making meaningful comparisons between Company's operating performance between the periods and the operating performance of other companies that may or may not use swaps. However, the Company may continue to use swaps to mitigate its exposure due to share based expenses that are expected to recur in future.

Wherever presented prior periods Adjusted EBITDA, and Adjusted EBITDAR are modified accordingly.

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Summary of Most Recently Completed Consolidated Quarterly Results (unaudited)

	Three Month Periods Ended							
	Mar 31 2021	Dec 31 2020	Sep 30 2020	June 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	June 30 2019
Revenues	\$160.3	\$187.1	\$162.3	\$196.1	\$123.0	\$139.7	\$117.4	\$119.1
Net earnings (loss) from continuing operations	\$89.4	\$(20.5)	\$(20.4)	\$(45.1)	\$(1.8)	\$(4.5)	\$11.8	\$4.3
Earnings (loss) per Share								
From continuing operations								
- Basic	\$5.35	\$(1.31)	\$(1.31)	\$(2.89)	\$(0.12)	\$(0.33)	\$0.87	\$0.32
- Diluted	\$5.24	\$(1.31)	\$(1.31)	\$(2.89)	\$(0.12)	\$(0.32)	\$0.87	\$0.32
Average number of shares - basic (in thousands of shares)	16,699	15,597	15,597	15,597	15,578	13,813	13,541	13,478
Average number of shares - diluted (in thousands of shares)	17,058	15,597	15,597	15,597	15,578	13,977	13,636	13,611
EBITDA ⁽¹⁾	\$127.9	\$29.0	\$28.6	\$5.5	\$32.2	\$35.1	\$47.7	\$41.5
Adjusted EBITDA ⁽¹⁾	\$64.2	\$87.0	\$69.8	\$80.2	\$44.6	\$50.6	\$35.9	\$39.6
EBITDAR ⁽¹⁾	\$127.9	\$29.0	\$28.6	\$5.5	\$32.2	\$35.1	\$47.9	\$41.8
Adjusted EBITDAR ⁽¹⁾	\$64.2	\$87.0	\$69.8	\$80.2	\$44.6	\$50.6	\$36.1	\$39.9

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. Prior year amounts have been restated to reflect the revised definitions of Adjusted EBITDA and Adjusted EBITDAR. Please refer to Page 12 of this MD&A for a more detailed discussion.

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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,	
	2021 (unaudited)	2020 (unaudited)
	\$	\$
<u>Calculation of EBITDA and Adjusted EBITDA</u>		
Net earnings (loss)	89.4	(1.8)
Add:		
Interest	8.8	9.7
Provision of deferred taxes	1.7	0.9
Depreciation of property, plant and equipment	28.0	23.4
EBITDA	127.9	32.2
Add:		
Share based compensation	16.0	4.4
Gain on sale of property, plant and equipment	-	(0.3)
Unrealized foreign exchange (gain) loss	(1.1)	7.9
Fair value adjustment and amortization on stock warrant	(78.9)	(0.7)
Loss on extinguishment of debts	3.7	-
Employee pension	(3.4)	1.1
Adjusted EBITDA	64.2	44.6
<u>Calculation of EBITDAR and Adjusted EBITDAR</u>		
EBITDA	127.9	32.2
EBITDAR	127.9	32.2
Add:		
Share based compensation	16.0	4.4
Gain on sale of property, plant and equipment	-	(0.3)
Unrealized foreign exchange (gain) loss	(1.1)	7.9
Fair value adjustment and amortization on stock warrant	(78.9)	(0.7)
Loss on extinguishment of debts	3.7	-
Employee pension	(3.4)	1.1
Adjusted EBITDAR	64.2	44.6
<u>Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow</u>		
NET CASH GENERATED FROM OPERATING ACTIVITIES	65.1	23.1
Less: Maintenance capital expenditures ⁽¹⁾	(21.3)	(10.6)
Add: Proceeds from disposal of property, plant and equipment	-	0.3
Standardized free cash flow	43.8	12.8
Changes in non-cash working capital items and deposits	(8.6)	17.0
Adjusted Free Cash flow	35.2	29.8

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, 2021 and 2020

Net earnings for the three month periods ended March 31, 2021 and 2020

(Canadian dollars in millions except where indicated)

	Q1		CHANGE	
	2021 (unaudited) \$	2020 (unaudited) \$	\$	%
Domestic Network Revenues	76.6	66.3	10.3	15.5%
ACMI Revenues	38.7	19.4	19.3	99.5%
All-in Charter Revenues	10.2	7.3	2.9	39.7%
Total domestic network, ACMI and charter revenues	125.5	93.0	32.5	34.9%
Total Revenue - Fixed based operations revenues	0.4	0.3	0.1	33.3%
Total fuel and other cost pass through revenues	30.8	27.5	3.3	12.0%
Fuel surcharge and other pass through revenues	31.2	27.8	3.4	12.2%
Other revenues	3.6	2.2	1.4	63.6%
Total revenues	160.3	123.0	37.3	30.3%
Operating Days	50	50	-	-
Average cargo revenue per operating day	2.51	1.86	0.65	34.9%
Direct expenses				
Fuel Costs	23.7	21.5	2.2	10.2%
Depreciation	24.6	19.7	4.9	24.9%
Aircraft Costs	3.3	3.3	-	-
Heavy Maintenance Amortization	2.8	3.2	(0.4)	-12.5%
Maintenance Costs	11.6	8.5	3.1	36.5%
Crew Costs	15.2	9.6	5.6	58.3%
Commercial and Other Costs	33.8	25.0	8.8	35.2%
Total direct expenses	115.0	90.8	24.2	26.7%
Gross margin	45.3	32.2	13.1	40.7%
Gross margin %	28.3%	26.2%	2.1%	
SG&A & Marketing				
General and administrative costs	24.0	16.7	7.3	43.7%
Sales costs	0.1	0.5	(0.4)	-80.0%
Depreciation	0.6	0.5	0.1	20.0%
Total SG&A & Marketing expenses	24.7	17.7	7.0	39.5%
Other SG&A				
Other losses and fair value decrease on stock warrant	(79.3)	5.7	(85.0)	-1491.2%
Finance costs	8.8	9.7	(0.9)	-9.3%
Total other SG&A	(70.5)	15.4	(85.9)	-557.8%
EARNINGS (LOSS) BEFORE INCOME TAXES	91.1	(0.9)	92.0	10222.2%
Income Taxes-Deferred	1.7	0.9	0.8	88.9%
NET EARNINGS (LOSS)	89.4	(1.8)	91.2	5066.7%
Earnings (loss) per share - \$ CAD				
Basic	\$5.35	\$(0.12)	\$5.47	4558.3%
Diluted	\$5.24	\$(0.12)	\$5.36	4466.7%

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Highlights for the Three Month Periods ended March 31, 2021 and 2020

- Total revenue for the three month period ended March 31, 2021 was \$160.3 million compared to \$123.0 million for the same period in 2020, representing an increase of \$37.3 million or 30.3%.
- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended March 31, 2021 was \$2.51 million per operating day compared to \$1.86 million for the same period in 2020, representing an increase of \$0.65 million or 34.9%.
- Adjusted EBITDA for the three month period ended March 31, 2021 was \$64.2 million compared to \$44.6 million for the same period in 2020, an increase of \$19.6 million or 43.9%.
- Adjusted EBITDAR for the three month period ended March 31, 2021 was \$64.2 million compared to \$44.6 million for the same period in 2020, an increase of \$19.6 million or 43.9%.
- Adjusted Free Cash Flow was an inflow of \$35.2 million for the three month period ended March 31, 2021 compared to an inflow of \$29.8 million for the same period in 2020, an increase of \$5.4 million or 18.1%.

Revenue

Total revenue for the three month period ended March 31, 2021 was \$160.3 million, compared to \$123.0 million for the same period in 2020, representing an increase of \$37.3 million or 30.3%. The increase in total revenue was due primarily to a \$10.3 million increase in domestic network revenues, a \$19.3 million increase in ACMI revenues a \$2.9 million increase in all-in charter revenues, a \$3.4 million increase in fuel surcharge and other pass through revenues and a \$1.4 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 March 31, 2021 was \$76.6 million compared to \$66.3 million for the same period in 2020, an increase of \$10.3 million or 15.5%. The increase was primarily due to an increase in e-Commerce volumes during the period, but partially offset by a decrease in B2B volumes, both as a result of the COVID-19 pandemic. The e-Commerce volumes continued to be significantly higher than previous years while the B2B volumes have largely recovered since the onset of the pandemic. The increase in shipping volumes during the period resulted in a 15.5% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended March 31, 2021 were \$38.7 million compared to \$19.4 million for the same period in 2020, an increase of \$19.3 million or 99.5%. The increase of \$19.3 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 March 31, 2021 were \$10.2 million compared to \$7.3 million for the same period in 2020, an increase of \$2.9 million or 39.7%. The increase in revenue was primarily due to higher charter activities and higher yields on charters due to the ongoing shortage of wide-body passenger belly cargo capacity on international routes.

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Fuel surcharges and other cost pass-through revenues were \$31.2 million for the three month period ended March 31, 2021 compared to \$27.8 million for the same period in 2020, representing an increase of \$3.4 million or 12.2%. During the period fuel surcharges increased due to a 15.5% increase in domestic revenues from new and existing customers that attracted fuel surcharges, partially offset by a 2.5% decrease in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of \$0.4 million for the three month period ended March 31, 2021 compared to \$0.3 million in March 31, 2020.

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 \$3.6 million for the three month period ended March 31, 2021 compared to \$2.2 million for the same period in 2020 an increase of \$1.4 million or 63.6%.

Direct Expenses

Total direct expenses were \$115.0 million for the three month period ended March 31, 2021 compared to \$90.8 million for the same period in 2020, representing an increase of \$24.2 million or 26.7%. As a percentage of revenue, direct expenses decreased from 73.8% in 2020 to 71.7% for the same period in 2021. The overall increase in direct expenses was due primarily to a \$2.2 million increase in fuel costs, a \$4.9 million increase in depreciation, a \$3.1 million increase in maintenance costs, a \$5.6 million increase in crew costs and an \$8.8 million increase in commercial and other costs. The increase was partially offset by a \$0.4 million decrease in heavy maintenance costs.

Fuel costs were \$23.7 million for the three month period ended March 31, 2021 compared to \$21.5 million for the same period in 2020. The \$2.2 million or 10.2% increase in fuel costs was due primarily to a 10.0% increase in block hours on the domestic network and an increase in adhoc all-in charters partially offset by a 2.5% decrease in fuel prices. 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 \$24.6 million for the three month period ended March 31, 2021 compared to \$19.7 million for the same period in 2020. The \$4.9 million or 24.9% increase in depreciation expenses was due primarily to the addition in aircraft hull, engines, right of use assets, rotatable spares and ground equipment.

Aircraft costs were \$3.3 million for the three month period ended March 31, 2021 and March 31, 2020.

Heavy maintenance amortization costs were \$2.8 million for the three month period ended March 31, 2021 compared to \$3.2 million for the same period in 2020, representing a decrease of \$0.4 million or 12.5% 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 \$11.6 million for the three month period ended March 31, 2021 compared to \$8.5 million for the same period in 2020, representing an increase of \$3.1 million or 36.5%. 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.

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Total crew costs including salaries, training and positioning were \$15.2 million for the three month period ended March 31, 2021 compared to \$9.6 million for the same period in 2020, representing an increase of \$5.6 million or 58.3%. The increase was due primarily to the hiring of additional crews, annual salary increases, and increased crew positioning and training costs, partially offset by gain on revaluation of DSUs recorded as compensation recovery in crew costs.

Commercial and other direct operating costs were \$33.8 million for the three month period ended March 31, 2021 compared to \$25.0 million for the same period in 2020, representing an increase of \$8.8 million or 35.2%. This increase was due partially to a \$2.0 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 \$0.2 million increase in cartage, interline and ground linehaul costs, a \$1.0 million increase in de-icing costs, a \$5.2 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 March 31, 2021 were \$24.7 million compared to \$17.7 million for the same period in 2020, representing an increase of \$7.0 million or 39.5%. The increase was primarily due to a \$0.4 million increase in salaries and benefits costs, a \$12.5 increase in loss on swap derivatives and a \$0.1 million increase in depreciation expense, partially offset by a \$0.4 million decrease in sales and marketing costs, a \$4.5 million decrease in pension costs and a \$1.1 million decrease in other general and administrative costs

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended March 31, 2021 were a gain \$70.5 million compared to an expense \$15.4 million for the same period in 2020, representing an increase of \$85.9 million or 557.8%. The decrease in other SG&A expenses was due primarily to a \$85.0 million net increase in other gains and the fair value adjustment on the stock warrant obligation and \$0.9 million decrease in finance costs.

Other losses and fair value decrease on stock warrant

Other losses and fair value decrease on stock warrant for the three month period ended March 31, 2021 were \$79.3 million primarily due to \$81.9 million gain on fair value adjustment of stock warrant obligation and a \$1.1 million foreign exchange gain, partially offset by a \$3.7 million loss on extinguishment of lease liabilities.

Finance costs

Finance costs for the three month period ended March 31, 2021 were \$8.8 million compared to \$9.7 million for the same period in 2020, representing the decrease of \$0.9 million or 9.3%. The decrease was due primarily due to prepayment of lease liabilities for five aircraft, scheduled monthly repayments and repayment of credit facility.

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Adjusted EBITDA ⁽¹⁾

Adjusted EBITDA for the three month period ended March 31, 2021 was \$64.2 million compared to Adjusted EBITDA of \$44.6 million for the same period in 2020. The increase in Adjusted EBITDA of \$19.6 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 March 31, 2021 was \$64.2 million compared to \$44.6 million for the same period in 2020, representing an increase of \$19.6 million or 43.9%. 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, 2021 and 2020.

Deferred Income Taxes

The deferred income taxes for the three month period ended March 31, 2021 was a provision of \$1.7 million compared to a provision of \$0.9 million for the same period in 2020. 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 \$35.2 million for the three month period ended March 31, 2021 compared to an inflow of \$29.8 million for the same period in 2020, representing an increase of \$5.4 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in adjusted EBITDA, partially offset by the effect of changes in non-cash working capital items and deposits, and by increase in maintenance capital expenditures.

⁽¹⁾Adjusted EBITDA and Adjusted EBITDAR and Adjusted Free Cash Flow 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, 2021 were \$4.5 million or \$0.2600 per share. In comparison, total dividends declared for the three month period ended March 31, 2020 were \$3.6 million or \$0.2340 per share.

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Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		\$		\$	\$
December, 21 2020	January, 05 2021	-	15,597,068	-	3,649,714
March, 19 2021	April, 05 2021	4,500,797	17,310,759	0.2600	
		4,500,797	-	-	3,649,714

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	-	-	3,575,931

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was \$65.1 million for the three month period ended March 31, 2021 (March 31, 2020 - \$23.1 million). The \$42.0 million increase in cash was due primarily to increase in operating activities and the changes in non-cash working capital items and deposits.

Cash provided from financing activities during the three month period ended March 31, 2020 was \$206.7 million (Cash provided March 31, 2020 - \$9.3 million) and was comprised of borrowings \$nil (March 31, 2020 - \$28.9 million) and proceeds from net equity issuance \$349.8 million (March 31, 2020 - \$nil). This was partially offset by proceeds from repayment of borrowings \$62.9 million (March 31, 2020 - \$nil), repayment of obligations under lease liabilities of \$73.8 million (March 31, 2020 - \$13.9 million), withholding tax paid on vested restricted share units \$2.8 million (March 31, 2020 - \$2.1 million) and the payment of dividends to shareholders of \$3.6 million (March 31, 2020 - \$3.6 million).

Cash used in investing activities during the three month period ended March 31, 2021 was \$59.7 million (March 31, 2020 - \$31.8 million) and was comprised of property, plant and equipment additions of \$59.7 million (March 31, 2020 - \$32.1 million) This was partially offset by proceeds from disposal of property, plant and equipment of \$nil (March 31, 2020 - \$0.3 million).

Capital Expenditures and ROU additions

The property, plant and equipment additions of \$59.7 million in the three month period ended March 31, 2021 were primarily comprised of additions to aircraft, engines, ground services equipment, spares and rotatable spares of \$59.6 million and ROU asset additions of \$0.1 million.

Financial Condition

The following is a comparison of the financial position of the Company as at March 31, 2021 to the financial position of the Company as at December 31, 2020:

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Accounts Receivable

Accounts receivable as at March 31, 2021 amounted to \$44.7 million compared to \$41.3 million as at December 31, 2020. The increase of \$3.4 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, 2021, property, plant and equipment were \$1,030.4 million compared to \$998.7 million as at December 31, 2020. The \$31.7 million net increase in property, plant and equipment was primarily due to the net addition of \$59.6 million in property plant and equipment and recognition of \$0.1 million in right to use asset under IFRS 16 partially offset by depreciation of \$25.7 million and amortization of right to use asset of \$2.3 million.

Trade and Other Payables

Trade and other payables as at March 31, 2021 were \$84.1 million compared to \$73.2 million as at December 31, 2020. The increase of \$10.9 million was due primarily to the timing of supplier payments.

Lease Liabilities

The lease liabilities are in respect of the lease of three B767-300, one B767-200 aircraft, hangars and warehouses. Total finance leases including the current portion were \$126.2 million as at March 31, 2021 compared to \$195.0 million as at December 31, 2020. The change was due to prepayment of purchase options for five B767-300 aircraft and the scheduled monthly repayments made during the three month period ended March 31, 2021.

Summary of Contractual Obligations

As at March 31, 2021	Payments due by Year					
	Total	2021	2022	2023	2024	Thereafter
(Canadian dollars in millions)	\$	\$	\$	\$	\$	\$
Lease liabilities	126.2	35.9	19.9	24.9	9.7	35.8
Borrowings	10.0	10.0	-	-	-	-
Debentures	305.5	-	-	-	86.3	219.2
Stock warrant obligations	169.5	-	-	-	-	169.5
	611.2	45.9	19.9	24.9	96.0	424.5

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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 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 three month period ended March 31, 2021, the Company had sales to three customers that represented 62.8% of the total revenues (March 31, 2020 – 59.8%). These sales are provided under service agreements that expire over various periods to April 2025.

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Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately \$1.3 million as at March 31, 2021. 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, 2020 dated March 01, 2021 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.

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

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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 1, 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 three month period ended March 31, 2021, the Company experienced growth over all revenue streams by 30.3% compared to the same period in 2020. 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.

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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.

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 March 31, 2021:

<u>Capital</u>	<u>Authorized/ Principal</u>	<u>Outstanding number of shares</u>
Common and Variable Voting Shares	Unlimited	17,324,258

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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.

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(B) "Adjusted EBITDA" is defined as earnings before share based compensation, interest, taxes, depreciation, amortization, and other adjustments. Adjusted EBITDA is calculated as net income or loss excluding the following: depreciation, aircraft heavy maintenance amortization, contract asset amortization, unrealized gains or losses on fair value of cash settled share based payment arrangement, swaps and warrants, realized gain or losses on settlement of swaps, 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, gains or losses on settlement of debts or finance lease liabilities, share based compensation and provision for 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, aircraft heavy maintenance amortization, contract asset amortization, loss on disposal of property, plant and equipment, loss on disposal of intangible assets, amortization of maintenance deposits, unrealized foreign exchange gains and losses, unrealized gains or losses on fair value of cash settled share based payment arrangement, swaps and warrants, provision or recovery from deferred income taxes), or non-operating (in the case of interest on long-term debt, gain on disposal of property, plant and equipment, gain on disposal of intangible assets, realized gain or losses on settlement of cash settled share based payment arrangement and swaps and provision for current income taxes to be paid). 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.

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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 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 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.

Gain and loss on extinguishment of debts and lease liabilities –The loss on extinguishment of a long term debt and lease liabilities 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.

Shares based compensation expense – expense arising from the grant of stock-based awards to employees is excluded as the amount of such expenses in any specific period may not directly correlate to the underlying performance of business operations and such expenses can vary significantly between periods as a result of the timing of grants of new stock-based awards, valuation methodologies and market sentiments. Additionally, excluding stock-based compensation from Adjusted EBITDA assists management and investors in making meaningful comparisons between company's operating performance between the periods and the operating performance of other companies that may use different forms of employee compensation or different valuation methodologies for their stock-based compensation.

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Gain or loss on fair value or settlement of total return swap related to share based compensation – the gain or loss arising from the fair value of total return swap or its settlement related to share based compensation is excluded from Adjusted EBITDA and Adjusted EBITDAR measure. SWAPs are used by Company to offset its exposure on share based compensations. The Company is exposed to market price fluctuation in its share price which is the asset underlying the SWAPs. This item is excluded as the amount of income or expense in any specific period may not directly correlate to the underlying performance of business operations and such this income or expenses can vary significantly between periods as a result of the fluctuation in the share price. Additionally, excluding income or expense from SWAPs from Adjusted EBITDA assists management and investors in making meaningful comparisons between Company's operating performance between the periods and the operating performance of other companies that may or may not use SWAPs.

- (C) "EBITDAR" is defined as earnings before share based compensation, 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.