



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

**For the Three and Nine Month Periods Ended September 30,
2020**

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CARGOJET INC.
**Management’s Discussion and Analysis of Financial Condition
and Results of Operations**
For the Three and Nine Month periods Ended September 30, 2020

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CARGOJET INC.

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

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three and nine months periods ended September 30, 2020. The following also includes a discussion of and comparative operating results for the three and nine month periods ended September 30, 2019.

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

The MD&A were approved by the Board of Directors on October 30, 2020 and authorized for issuance on November 3, 2020. These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") 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 and nine month periods ended September 30, 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 29.
- Outlook – Page 31.

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Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended September 30,				Nine Month Period Ended September 30,			
	2020	2019	Change	%	2020	2019	Change	%
Financial information								
Revenues	\$162.3	\$117.4	\$44.9	38.2%	\$481.4	\$346.9	\$134.5	38.8%
Direct expenses	\$104.0	\$87.6	\$16.4	18.7%	\$300.2	\$269.3	\$30.9	11.5%
Gross margin	\$58.3	\$29.8	\$28.5	95.6%	\$181.2	\$77.6	\$103.6	133.5%
Gross margin - %	35.9%	25.4%	10.5%		37.6%	22.4%	15.2%	
Selling, general & administrative expenses	\$9.2	\$14.3	(\$5.1)	-35.7%	\$54.2	\$41.4	\$12.8	30.9%
Net finance costs & other gains and losses	\$56.0	\$1.7	\$54.3	3194.1%	\$163.3	\$15.2	\$148.1	974.3%
Earnings before income taxes	(\$6.9)	\$13.8	(\$20.7)	-150.0%	(\$36.3)	\$21.0	(\$57.3)	-272.9%
Income taxes	\$13.5	\$2.0	11.5	575.0%	\$31.0	\$4.9	\$26.1	532.7%
Net earnings	(\$20.4)	\$11.8	(\$32.2)	-272.9%	(\$67.3)	\$16.1	(\$83.4)	-518.0%
Earnings per share - \$CAD								
Basic	\$(1.31)	\$0.87	(\$2.18)	-250.6%	(\$4.32)	\$1.19	(\$5.51)	-463.0%
Diluted	\$(1.31)	\$0.87	(\$2.18)	-250.6%	(\$4.32)	\$1.19	(\$5.51)	-463.0%
EBITDA	\$28.6	\$47.7	(\$19.1)	-40.0%	\$66.3	\$123.3	(\$57.0)	-46.2%
EBITDA margin - %	17.7%	40.7%	-23.0%		13.8%	35.5%	-21.7%	
Adjusted EBITDA	\$78.1	\$39.1	\$39.0	99.7%	\$209.4	\$108.9	\$100.5	92.3%
Adjusted EBITDA margin - %	48.1%	33.3%	14.8%		43.5%	31.4%	12.1%	
EBITDAR	\$28.6	\$47.9	(\$19.3)	-40.3%	\$66.3	\$124.1	(\$57.8)	-46.6%
EBITDAR margin - %	17.6%	40.8%	-23.2%		13.8%	35.7%	-21.9%	
Adjusted EBITDAR	\$78.1	\$39.3	\$38.8	98.7%	\$209.4	\$109.7	\$99.7	90.9%
Adjusted EBITDAR margin - %	48.1%	33.5%	14.6%		43.5%	31.6%	11.9%	
Adjusted Free Cash flow	\$59.3	\$13.5	\$45.8	339.3%	\$144.8	\$23.4	\$121.4	518.8%
Operating statistics								
Operating days	50	50	-	-	150	149	1	0.7%
Average cargo revenue per operating day	\$2.73	\$1.71	\$1.02	59.6%	\$2.73	\$1.72	\$1.01	58.7%
Block hours	13,519	8,369	5,150	61.5%	36,978	25,528	11,450	44.9%
Aircraft in operating fleet								
B757-200	8	8	-		8	8	-	
B767-200	4	2	2		4	2	2	
B767-300	13	12	1		13	12	1	
Challenger 601	2	2	-		2	2	-	
	27	24	3	12.5%	27	24	3	12.5%
Average volume per operating day (lbs.)	1,690,041	1,312,268	377,773	28.8%	1,480,313	1,271,899	208,414	16.4%
Average head count	1,182	1,086	96	8.8%	1,182	1,086	96	8.8%

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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 13 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 fifteen 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 September 30, 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		Q3	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	5	6	6	6	125,000	6,000
B767-200 ⁽³⁾	Freighter	Owned	20	-	-	2	2	2	2	100,000	5,000
B767-200 ⁽⁴⁾	Freighter	Leased	35	1	1	1	1	1	1	100,000	5,000
B757-200 ⁽⁵⁾	Freighter	Owned	30	8	8	8	8	8	8	80,000	3,900
B727-200 ⁽⁶⁾	Freighter	Owned	-	1	-	-	-	-	-	60,000	1,800
B767-200 ⁽⁷⁾	Passenger	Owned	24	-	1	1	1	1	1	100,000	5,000
Challenger 601 ⁽⁸⁾	Passenger	Owned	34	2	2	2	2	2	2	6,000	3,300
Total Aircraft⁽⁹⁾				23	24	27	28	28	28		

- 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 has exercised the purchase option in October 2020 and accordingly the aircraft will be included as owned from Q4 2020. In December 2017, Cargojet acquired 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 acquired 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 acquired 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 or after 36 months at a pre-determined price. Cargojet expects to exercise the purchase option in November 2021. In July 2020 Cargojet executed a finance lease agreement to purchase an additional B767-300 aircraft converted to cargo specification under a lease term of seven years and a purchase option in favour of Cargojet to purchase the aircraft at the end of the lease term at a pre-determined price. This aircraft has been delivered to Cargojet in October 2020.
- The five B767-300 aircraft in operation at September 30, 2020 are owned by Cargojet and includes the additional B767-300 aircraft and two spare engines purchased in October 2019 which was converted and delivered to Cargojet in Q3 2020. In October 2020 Cargojet exercised a purchase option for a B767-300 aircraft which was previously under a finance lease and accordingly the aircraft is included as owned from Q4 2020.
- In August 2018 Cargojet purchased two B767-200 aircraft as feed stock for future conversion and engine replacements. Both of the aircraft have been fully converted and redelivered into operation in January 2020 and April 2020 respectively. These aircraft are included in the above table as addition to the fleet in Q3 2020. 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 September 30, 2020 is under a lease that was extended in October 2020 to February 28, 2023.
- The eight B757-200 aircraft in operation at September 30, 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 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.
- 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

5.25% Hybrid Debenture Issue

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

Credit Facility

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

The COVID-19 Pandemic

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

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

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

During the nine months period ended September 30, 2020 the Company took the following steps to safeguard the health of its employees while continuing to operate safely and maintain employment and economic activity:

- Adopted new cleaning procedures on all flights, including disinfectant spraying on all aircraft and sanitizing high touch areas, cargo containers, packages and facilities.

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

As of the date of this MD&A, due to closure of several businesses, the Company has observed some customers with increased shipment volumes related to Business-to-Consumer segment (B2C), and at the same time observed some customers with reduced shipment volumes related to Business-to-Business segment (B2B). 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 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.

Acquisition and disposal of Property, Plant and Equipment

During the nine month period ended September 30, 2020, the Company completed the conversion and re-deliver of two Boeing 767-200 and one Boeing 767-300 aircraft using the revolving credit facility. The Company also sold surplus spares for \$0.7 million resulting in a total gain of \$0.7 million

Revenues

The Company's revenues are primarily generated from its domestic network air cargo service between 15 major Canadian cities each business night. Most customers pre-purchase a guaranteed space and weight allocation on the Company's network and a corresponding guaranteed daily revenue amount is paid to the Company for this space and weight allocation. Remaining capacity is sold on an adhoc basis to contract and non-contract customers. Although a significant portion of domestic network revenues are fixed due to guaranteed customer allocations, Cargojet's revenues will generally rise and fall with the overall level of customer volume typically expressed in pounds.

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

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

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

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost as the flights are operating on regular schedules.
- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends for cargo and passenger charters. Adhoc flights for cargo and passengers are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business for cargo targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. The adhoc charter business for passenger flights mostly operate within Canada and between Canada and USA. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer for cargo and passenger charters. Adhoc and scheduled flights are sold either on an "all-in" basis or on an ACMI basis:
 - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
 - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 10). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.
- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs.

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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		Nine month period ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
Revenues	162.3	117.4	481.4	346.9
Direct expenses	104.0	87.6	300.2	269.3
	58.3	29.8	181.2	77.6
General and administrative expenses	14.2	16.2	67.3	41.5
Sales and marketing expenses	0.3	0.4	3.7	2.2
Gain on swap derivative	(5.3)	(2.3)	(16.8)	(2.3)
Impairment of property, plant and equipment	0.6	-	0.6	-
Finance costs	10.4	11.6	30.0	32.2
Fair value adjustment on stock warrant	47.2	(10.6)	130.0	(10.6)
Other (gain) loss, net	(2.2)	0.7	2.7	(6.4)
	65.2	16.0	217.5	56.6
(LOSS) EARNINGS BEFORE INCOME TAXES	(6.9)	13.8	(36.3)	21.0
Provision for income taxes				
Deferred	13.5	2.0	31.0	4.9
Net (loss) earnings and comprehensive (loss)	(20.4)	11.8	(67.3)	16.1
(Loss) earnings per share				
Basic and Diluted	\$(1.31)	\$0.87	\$(4.32)	\$1.19
Average number of shares - basic (in thousands of shares)	15,597	13,541	15,591	13,493
Average number of shares - diluted (in thousands of shares)	15,597	13,636	15,591	13,588

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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							
	Sep 30 2020	June 30 2020	Mar 31 2020	Dec 31 2019	Sep 30 2019	June 30 2019	Mar 31 2019	Dec 31 2018
Revenues	\$162.3	\$196.1	\$123.0	\$139.7	\$117.4	\$119.1	\$110.4	\$132.6
Net (loss) earnings from continuing operations	\$(20.4)	\$(45.1)	\$(1.8)	\$(4.5)	\$11.8	\$4.3	-	\$6.3
(Loss) earnings per Share								
From continuing operations								
- Basic	\$(1.31)	\$(2.89)	\$(0.12)	\$(0.33)	\$0.87	\$0.32	-	\$0.47
- Diluted	\$(1.31)	\$(2.89)	\$(0.12)	\$(0.32)	\$0.87	\$0.32	-	\$0.47
Average number of shares - basic (in thousands of shares)	15,597	15,597	15,578	13,813	13,541	13,478	13,458	13,426
Average number of shares - diluted (in thousands of shares)	15,597	15,597	15,578	13,977	13,636	13,611	13,554	13,510

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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.

CARGOJET INC.
Management's Discussion and Analysis of Financial Condition
and Results of Operations
For the Three and Nine Month periods Ended September 30, 2020

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		Nine Month Period Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
<u>Calculation of EBITDA and Adjusted EBITDA</u>				
Net earnings	(20.4)	11.8	(67.3)	16.1
Add:				
Interest	10.4	11.6	30.0	32.2
Provision of deferred taxes	13.5	2.0	31.0	4.9
Depreciation of property, plant and equipment	25.1	22.3	72.6	70.1
EBITDA	28.6	47.7	66.3	123.3
Add:				
Gain on sale of property, plant and equipment	(0.3)	-	(0.7)	(1.0)
Impairment of property, plant and equipment	0.6	-	0.6	-
Unrealized foreign exchange (gain) loss	(1.9)	0.8	3.4	(2.4)
Fair value adjustment and amortization on stock warrant	50.0	(10.1)	136.6	(10.1)
Gain on total return swap	-	-	-	(2.9)
Employee pension	1.1	0.7	3.2	2.0
Adjusted EBITDA	78.1	39.1	209.4	108.9
<u>Calculation of EBITDAR and Adjusted EBITDAR</u>				
EBITDA	28.6	47.7	66.3	123.3
Aircraft rent	-	0.2	-	0.8
EBITDAR	28.6	47.9	66.3	124.1
Add:				
Gain on sale of property, plant and equipment	(0.3)	-	(0.7)	(1.0)
Impairment of property, plant and equipment	0.6	-	0.6	-
Unrealized foreign exchange (gain) loss	(1.9)	0.8	3.4	(2.4)
Fair value adjustment and amortization on stock warrant	50.0	(10.1)	136.6	(10.1)
Gain on total return swap	-	-	-	(2.9)
Employee pension	1.1	0.7	3.2	2.0
Adjusted EBITDAR	78.1	39.3	209.4	109.7
<u>Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow</u>				
NET CASH GENERATED FROM OPERATING ACTIVITIES	72.1	37.9	203.9	114.3
Less: Maintenance capital expenditures ⁽¹⁾	(4.7)	(17.6)	(32.8)	(67.0)
Add: Proceeds from disposal of property, plant and equipment	0.3	-	0.7	1.0
Standardized free cash flow	67.7	20.3	171.8	48.3
Changes in non-cash working capital items and deposits	(8.4)	(6.8)	(27.0)	(24.9)
Adjusted Free Cash flow	59.3	13.5	144.8	23.4

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

CARGOJET INC.

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

For the Three and Nine Month periods Ended September 30, 2020

Review of Operations for the Three Month Periods ended September 30, 2020 and 2019

Net earnings for the three month periods ended September 30, 2020 and 2019

(Canadian dollars in millions except where indicated)

	Q3		CHANGE	
	2020	2019	\$	%
	(unaudited)	(unaudited)		
	\$	\$		
Domestic Network Revenues	75.5	63.8	11.7	18.3%
ACMI Revenues	37.1	16.0	21.1	131.9%
All-in Charter Revenues	23.8	5.8	18.0	310.3%
Total domestic network, ACMI and charter revenues	136.4	85.6	50.8	59.3%
Total Revenue - Fixed based operations revenues	0.6	0.3	0.3	100.0%
Total fuel and other cost pass through revenues	21.6	27.8	(6.2)	-22.3%
Fuel surcharge and other pass through revenues	22.2	28.1	(5.9)	-21.0%
Other revenues	3.7	3.7	-	-
Total revenues	162.3	117.4	44.9	38.2%
Operating Days	50	50	-	-
Average cargo revenue per operating day	2.73	1.71	1.02	59.6%
Direct expenses				
Fuel Costs	19.9	23.7	(3.8)	-16.0%
Depreciation	22.4	18.2	4.2	23.1%
Aircraft Costs	7.4	3.0	4.4	146.7%
Heavy Maintenance Amortization	2.2	3.5	(1.3)	-37.1%
Maintenance Costs	10.6	8.0	2.6	32.5%
Crew Costs	12.5	9.2	3.3	35.9%
Commercial and Other Costs	29.0	22.0	7.0	31.8%
Total direct expenses	104.0	87.6	16.4	18.7%
Gross margin	58.3	29.8	28.5	95.6%
Gross margin %	35.9%	25.4%	10.5%	
SG&A & Marketing				
General and Administrative Costs	8.4	13.3	(4.9)	-36.8%
Sales costs	0.3	0.4	(0.1)	-25.0%
Depreciation	0.5	0.6	(0.1)	-16.7%
Total SG&A & Marketing expenses	9.2	14.3	(5.1)	-35.7%
Other SG&A				
Other losses (gains) and fair value adjustment on stock warrant	45.6	(9.9)	55.5	-560.6%
Finance costs	10.4	11.6	(1.2)	-10.3%
Total other SG&A	56.0	1.7	54.3	3194.1%
(LOSS) EARNINGS BEFORE INCOME TAXES	(6.9)	13.8	(20.7)	-150.0%
Income Taxes-Deferred	13.5	2.0	11.5	575.0%
NET (LOSS) EARNINGS	(20.4)	11.8	(32.2)	-272.9%
(Loss) earnings per share - \$ CAD				
Basic and Diluted	\$(1.31)	\$0.87	\$(2.18)	-250.6%

CARGOJET INC.

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

For the Three and Nine Month periods Ended September 30, 2020

Highlights for the Three Month Periods ended September 30, 2020 and 2019

- Total revenue for the three month period ended September 30, 2020 was \$162.3 million compared to \$117.4 million for the same period in 2019, representing an increase of \$44.9 million or 38.2%.
- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2020 was \$2.73 million per operating day compared to \$1.71 million for the same period in 2019, representing an increase of \$1.02 million or 59.6%.
- Adjusted EBITDA for the three month period ended September 30, 2020 was \$78.1 million compared to \$39.1 million for the same period in 2019, an increase of \$39.0 million or 99.7%.
- Adjusted EBITDAR for the three month period ended September 30, 2020 was \$78.1 million compared to \$39.3 million for the same period in 2019, an increase of \$38.8 million or 98.7%.
- Adjusted Free Cash Flow was an inflow of \$59.3 million for the three month period ended September 30, 2020 compared to an inflow of \$13.5 million for the same period in 2019, an increase of \$45.8 million or 339.3%.

Revenue

Total revenue for the three month period ended September 30, 2020 was \$162.3 million, compared to \$117.4 million for the same period in 2019, representing an increase of \$44.9 million or 38.2%. The increase in total revenue was due primarily to a \$11.7 million increase in domestic network revenues, a \$21.1 million increase in ACMI revenues and a \$18.0 million increase in all-in charter revenues, partially offset by a \$5.9 million decrease in fuel surcharges and other cost pass-through revenues..

Revenue related to the domestic network business excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2020 was \$75.5 million compared to \$63.8 million for the same period in 2019, an increase of \$11.7 million or 18.3%. The increase was primarily due to an increase in e-Commerce volumes during the period, but partially offset by a significant decrease in B-to-B volumes, both as a result of the COVID-19 pandemic. The e-Commerce volumes continued to be significant higher than previous years while the B-to-B volumes improved during the quarter and were similar to prior year volumes by end of the quarter, as more and more businesses started to re-open. The increase in shipping volumes during the period resulted in a 18.3% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended September 30, 2020 were \$37.1 million compared to \$16.0 million for the same period in 2019, an increase of \$21.1 million or 131.9%. The increase of \$21.1 million was primarily due to new scheduled routes to the USA and Mexico that started in September 2019 and two new scheduled routes to Europe that started in April 2020 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.

CARGOJET INC.

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

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All-in scheduled and adhoc charter revenues for the three month period ended September 30, 2020 were \$23.8 million compared to \$5.8 million for the same period in 2019, an increase of \$18.0 million or 310.3%. The increase in revenue was primarily due to international relief charters for the federal and some provincial governments of Canada flying PPE and other medical supplies from China and Turkey.

Fuel surcharges and other cost pass-through revenues were \$22.2 million for the three month period ended September 30, 2020 compared to \$28.1 million for the same period in 2019, representing a decrease of \$5.9 million or 21.0%. During the period fuel surcharges decreased due to a 34.9% decrease in fuel prices, partially offset by a 18.3% increase in domestic revenues from new and existing customers that attracted fuel surcharges. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of \$0.6 million for the nine ended September 30, 2020 compared to \$0.3 for the same period in 2019, an increase of \$0.3 million or 100.0%.

Other revenues consist primarily of aircraft lease revenue, hangar rental revenues, maintenance revenue for aircraft line maintenance services provided to other airlines and ground handling services provided to customers. Other revenues were \$3.7 million for the three month period ended September 30, 2020 and 2019.

Direct Expenses

Total direct expenses were \$104.0 million for the three month period ended September 30, 2020 compared to \$87.6 million for the same period in 2019, representing an increase of \$16.4 million or 18.7%. As a percentage of revenue, direct expenses decreased from 74.6% in 2019 to 64.1% for the same period in 2020. The overall increase in direct expenses was due primarily to a \$4.2 million increase in depreciation, a \$4.4 million increase in aircraft costs, a \$2.6 million increase in maintenance costs, a \$3.3 million increase in crew costs and a \$7.0 million increase in commercial and other costs. The increase was partially offset by a \$3.8 million decrease in fuel costs, and a \$1.3 million decrease in heavy maintenance costs.

Fuel costs were \$19.9 million for the three month period ended September 30, 2020 compared to \$23.7 million for the same period in 2019. The \$3.8 million or 16.0% decrease in fuel costs was due primarily to a 34.9% decrease in fuel prices, partially offset by a 20.2% increase in block hours on the domestic network and an increase in adhoc all-in charters. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges or adhoc rates.

Depreciation expense was \$22.4 million for the three month period ended September 30, 2020 compared to \$18.2 million for the same period in 2019. The \$4.2 million or 23.1% increase in depreciation expenses was due primarily to the addition of aircraft, right of use assets, rotatable spares and facilities.

Aircraft costs were \$7.4 million for the three month period ended September 30, 2020 compared to \$3.0 million for the same period in 2019, representing an increase of \$4.4 million or 146.7%. The increase was primarily due to temporary sub charter costs on certain scheduled ACMI routes.

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Heavy maintenance amortization costs were \$2.2 million for the three month period ended September 30, 2020 compared to \$3.5 million for the same period in 2019, representing a decrease of \$1.3 million or 37.1% due to the timing of heavy maintenance checks. Heavy maintenance checks for most of Cargojet's fleet were deferred by 6 to 9 months as approved by Transport Canada to facilitate the increase in adhoc charter flights essential to the Canadian federal and provincial governments. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized until the next scheduled heavy maintenance. The heavy maintenance component of newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were \$10.6 million for the three month period ended September 30, 2020 compared to \$8.0 million for the same period in 2019, representing an increase of \$2.6 million or 32.5%. The increase in costs was due primarily to an increase in line maintenance costs due to additional charters block hours, annual wage increases, a temporary daily cash allowance and additional benefits to maintenance personnel due to the COVID-19 pandemic.

Total crew costs including salaries, training and positioning were \$12.5 million for the three month period ended September 30, 2020 compared to \$9.2 million for the same period in 2019, representing an increase of \$3.3 million or 35.9%. 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.

Commercial and other direct operating costs were \$29.0 million for the three month period ended September 30, 2020 compared to \$22.0 million for the same period in 2019, representing an increase of \$7.0 million or 31.8%. This increase was due partially to a \$ 1.5 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 and the increase in the domestic volumes and adhoc all-in charter activities. Higher activity also resulted in a \$0.8 million increase in cartage, interline and ground linehaul costs, a \$4.2 million increase in aircraft insurance, landing, parking and navigation costs and a \$0.5 million increase in other commercial costs.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended September 30, 2020 were \$9.2 million compared to \$14.3 million for the same period in 2019, representing a decrease of \$5.1 million or 35.7%. The decrease was primarily due to a \$11.7 million increase in gains on swap derivative. This decrease was partially offset by a \$5.9 million increase in bonuses and management share based incentives due to fair value adjustment of options liability granted by the Company and a \$0.7 million net increase on other general and administrative expenses.

CARGOJET INC.

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For the Three and Nine Month periods Ended September 30, 2020

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended September 30, 2020 were \$56.0 million compared to \$1.7 million for the same period in 2019, representing an increase of \$54.3 million or 3194.1%. The increase was due primarily to a \$55.5 million net increase in other losses and the fair value adjustment on the stock warrant obligation partially offset by a \$1.2 million decrease in finance costs.

Other losses and fair value adjustment on stock warrant

Other losses and fair value adjustment on stock warrant for the three month period ended September 30, 2020 were \$45.6 million primarily due to \$47.2 million loss on fair value adjustment of stock warrant obligation and a \$0.6 million loss on impairment of property, plant and equipment, partially offset by a \$1.9 million foreign exchange gain and a \$0.3 million gain on disposal of property, plant and equipment.

Finance costs

Finance costs for the three month period ended September 30, 2020 were \$10.4 million compared to \$11.6 million for the same period in 2019, representing the decrease of \$1.2 million or 10.3%. The decrease was due primarily to redemption of 4.65% Debentures in December 2019 and lower total lease liabilities due to scheduled monthly repayments and repayment of credit facility.

Adjusted EBITDA ⁽¹⁾

Adjusted EBITDA for the three month period ended September 30, 2020 was \$78.1 million compared to Adjusted EBITDA of \$39.1 million for the same period in 2019. The increase in Adjusted EBITDA of \$39.0 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 September 30, 2020 was \$78.1 million compared to \$39.3 million for the same period in 2019, representing an increase of \$38.8 million or 98.7%. 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 September 30, 2020 and 2019.

Deferred Income Taxes

The deferred income taxes for the three month period ended September 30, 2020 was a provision of \$13.5 million compared to a provision of \$2.0 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.

CARGOJET INC.
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For the Three and Nine Month periods Ended September 30, 2020

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of \$59.3 million for the three month period ended September 30, 2020 compared to an inflow of \$13.5 million for the same period in 2019, representing an increase of \$45.8 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in adjusted EBITDA, proceeds from disposal of property, plant and equipment and the effect of changes in non-cash working capital items and deposits, and by decrease in maintenance capital expenditures.

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

Dividends

Total dividends declared for the three month period ended September 30, 2020 were \$3.6 million or \$0.2340 per share. In comparison, total dividends declared for the three month period ended September 30, 2019 were \$3.2 million or \$0.2340 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		\$		\$	\$
June, 19 2020	July, 06 2020	3,649,714	15,597,068	0.2340	15,597,068
September, 21 2020	October, 05 2020	3,649,714	15,597,068	0.2340	
		7,299,428	-	-	15,597,068

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		\$		\$	\$
June 20, 2019	July 05, 2019	-	13,522,495	0.2340	3,164,264
September 20, 2019	October 04, 2019	3,170,245	13,548,057	0.2340	
		3,170,245	-	-	3,164,264

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was \$72.1 million for the three month period ended September 30, 2020 (September 30, 2019 - \$37.9 million). The \$34.2 million increase in cash was due primarily to the changes in non-cash working capital items and deposits and increase in operating activity.

Cash used in financing activities during the three month period ended September 30, 2020 was \$58.0 million (September 30, 2019 - Cash provided \$35.1 million) and was comprised of repayment of borrowings of \$150.2 million (proceed from borrowing September 30, 2019 - \$57.2), repayment of obligations under lease liabilities of \$13.8 million (September 30, 2019 - \$13.9 million), options settled in cash \$0.2 million (September 30, 2019 - \$2.3), withholding tax paid on vested restricted share units \$nil (September 30, 2019 - \$2.2 million) and the payment of dividends to shareholders of \$3.7 million (September 30, 2019 - \$3.2 million). This was partially offset by proceeds from debenture issuance net of issuance costs \$109.9 million (payment of issuance costs of debenture September 30, 2019 - \$0.5) and proceeds from borrowings \$nil (September 30, 2019 - \$57.2 million).

CARGOJET INC.

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For the Three and Nine Month periods Ended September 30, 2020

Cash used in investing activities during the three month period ended September 30, 2020 was \$12.6 million (September 30, 2019 - \$72.5 million) and was comprised of property, plant and equipment additions of \$27.4 million (September 30, 2019 - \$76.5 million) This was partially offset by proceeds from disposal of property, plant and equipment of \$0.3 million (September 30, 2019 - \$nil) and total return swap and settlement of derivative financial instrument of \$14.5 million (September 30, 2019 - \$4.0 million).

Capital Expenditures and ROU additions

The property, plant and equipment additions of \$30.9 million in the three month period ended September 30, 2020) were primarily comprised of additions to aircraft, engines, ground services equipment, spares and rotatable spares of \$27.4 and ROU asset additions of \$3.5.

CARGOJET INC.

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

For the Three and Nine Month periods Ended September 30, 2020

Review of Operations for the Nine Month Periods ended September 30, 2020 and 2019

Net Earnings for the Nine Month Periods Ended September 30, 2020 and 2019

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2020 (unaudited) \$	2019 (unaudited) \$	\$	%
Domestic Network Revenues	211.1	189.6	21.5	11.3%
ACMI Revenues	89.2	47.2	42.0	89.0%
All-in Charter Revenues	108.5	19.5	89.0	456.4%
Total domestic network, ACMI and charter revenues	408.8	256.3	152.5	59.5%
Total Revenue - Fixed based operations	1.3	1.0	0.3	30.0%
Total fuel and other cost pass through	62.0	80.0	(18.0)	-22.5%
Fuel surcharge and other pass through revenues	63.3	81.0	(17.7)	-21.9%
Other revenue	9.3	9.6	(0.3)	-3.1%
Total revenues	481.4	346.9	134.5	38.8%
Operating Days	150	149	1	0.7%
Average cargo revenue per operating day	2.73	1.72	1.01	58.7%
Direct expenses				
Fuel Costs	59.8	72.8	(13.0)	-17.9%
Depreciation	62.8	57.6	5.2	9.0%
Aircraft Cost	16.8	8.5	8.3	97.6%
Heavy Maintenance Amortization	8.3	11.0	(2.7)	-24.5%
Maintenance Cost	30.1	25.4	4.7	18.5%
Crew Costs	33.5	25.6	7.9	30.9%
Commercial and Other Costs	88.9	68.4	20.5	30.0%
Total direct expenses	300.2	269.3	30.9	11.5%
Gross margin	181.2	77.6	103.6	133.5%
Gross margin %	37.6%	22.4%	15.2%	
SG&A & Marketing				
General and Administrative Costs	49.0	37.7	11.3	30.0%
Sales costs	3.7	2.2	1.5	68.2%
Depreciation	1.5	1.5	-	-
Total SG&A & Marketing expenses	54.2	41.4	12.8	30.9%
Other SG&A				
Other losses (gains) and fair value adjustment on stock warrant	133.3	(17.0)	150.3	-884.1%
Finance costs	30.0	32.2	(2.2)	-6.8%
Total other SG&A	163.3	15.2	148.1	974.3%
(LOSS) EARNINGS BEFORE INCOME TAXES	(36.3)	21.0	(57.3)	-272.9%
Income Taxes-Deferred	31.0	4.9	26.1	532.7%
Net (loss) earnings	(67.3)	16.1	(83.4)	-518.0%
(Loss) Earnings per share - \$ CAD				
Basic	\$(4.32)	\$1.19	\$(5.51)	-463.0%
Diluted	\$(4.32)	\$1.19	\$(5.51)	-463.0%

CARGOJET INC.

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

For the Three and Nine Month periods Ended September 30, 2020

Highlights for the nine month period ended September 30, 2020 and 2019

- Total revenue for the nine month period ended September 30, 2020 was \$481.4 million compared to \$346.9 million for the same period in 2019, representing an increase of \$134.5 million or 38.8%.
- Average cargo and passenger charter revenue excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2020 was \$2.73 million per operating day compared to \$1.72 million for the same period in 2019, representing an increase of \$1.01 million per operating day or 58.7%.
- Adjusted EBITDA for the nine month period ended September 30, 2020 was \$209.4 million compared to \$108.9 million for the same period in 2019, an increase of \$100.5 million or 92.3%.
- Adjusted EBITDAR for the nine month period ended September 30, 2020 was \$209.4 million compared to \$109.7 million for the same period in 2019, an increase of \$99.7 million or 90.9%.
- Adjusted Free Cash Flow was an inflow of \$144.8 million for the nine month period ended September 30, 2020 compared to an inflow of \$23.4 million for the same period in 2019, an increase of \$121.4 million or 518.8%.

Revenue

Total revenue for the nine month period ended September 30, 2020 was \$481.4 million compared to \$346.9 million for the same period in 2019, representing an increase of \$134.5 million or 38.8%. The increase in total revenue was due primarily to a \$21.5 million increase in domestic network revenues, a \$42.0 million increase in ACMI revenues, and a \$89.0 million increase in all-in charter revenues. The increase was partially offset by and a \$17.7 million decrease in fuel surcharges and other cost pass-through revenues and a \$0.3 million decrease in lease and other revenue

Revenue related to the domestic network business excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2020 was \$211.1 million compared to \$189.6 million for the same period in 2019, an increase of \$21.5 million or 11.3%. The increase was primarily due to an increase in e-Commerce volumes during the period, but partially offset by a significant decrease in B-to-B volumes, both as a result of the COVID-19 Pandemic. The e-Commerce volumes continues to be significantly higher than previous years while the B-to-B volumes improved during the Quarter and were similar to prior year volumes by end of the Quarter, as more and more businesses started to re-open. The increase in shipping volumes during the period resulted in a 11.3% increase in the average domestic network revenue per operating day.

ACMI scheduled and adhoc charter revenue for the nine month period ended September 30, 2020 was \$89.2 million compared to \$47.2 million for the same period in 2019, an increase of \$42.0 million or 89.0%. The increase was due primarily to new scheduled route to the USA and Mexico that started in September 2019 and two new scheduled routes to Europe that started in April 2020. Another route to the USA and Mexico was added at the end of September 2020

CARGOJET INC.

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

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All-in scheduled and adhoc cargo and passenger charter revenue for the nine month period ended September 30, 2020 was \$108.5 million compared to \$19.5 million for the same period in 2019, an increase of \$89.0 million or 456.4%. The increase in revenue was primarily due to international relief charters for the federal and some provincial governments of Canada flying PPE and other medical supplies from China and Turkey.

Fuel surcharges and other cost pass-through revenues were \$63.3 million for the nine month period ended September 30, 2020 compared to \$81.0 million for the same period in 2019. During the period, fuel surcharges decreased due to a 35.7% decrease in fuel prices, partially offset by a 11.3% increase in domestic revenues from new and existing customers that attracted fuel surcharges. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of \$1.3 million for the nine month period ended September 30, 2020 compared to \$1.0 million for the same period in 2019.

Other revenues consist primarily of hangar rental revenues, ground handling services provided to customers and maintenance revenues for aircraft line maintenance provided to other airlines. Other revenues for the nine month period ended September 30, 2020 were \$9.3 million compared to \$9.6 million for the same period in 2019, a decrease of \$0.3 million or 3.1%.

Direct Expenses

Total direct expenses were \$300.2 million for the nine month period ended September 30, 2020 compared to \$269.3 million for the nine month period ended September 30, 2019. As a percentage of revenue, direct expenses decreased from 77.6% in 2019 to 62.4% for the same period in 2020. The overall increase in direct expenses was due primarily to a \$5.2 million increase in depreciation, a \$8.3 million increase in aircraft costs, a \$4.7 million increase in maintenance costs, a \$7.9 million increase in crew costs, and a \$20.5 million increase in commercial and other costs, partially offset by and a \$13.0 million decrease in fuel costs and a \$2.7 million decrease in heavy maintenance amortization.

Fuel costs were \$59.8 million for the nine month period ended September 30, 2020 compared to \$72.8 million for the same period in 2019. The \$13.0 million or 17.9% decrease in fuel costs was due primarily to a 35.7% decrease in fuel costs, partially offset by a 11.7% increase in block hours on the domestic network and increase in all-in adhoc charters. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges or adhoc rates.

Depreciation expense was \$62.8 million for the nine month period ended September 30, 2020 compared to \$57.6 million for the same period in 2019. The \$5.2 million or 9.0% increase in depreciation expenses was due primarily to the addition of aircraft, engines, facilities and other assets, and additional capitalization of operating leases under IFRS 16.

Aircraft costs were \$16.8 million for the nine month period ended September 30, 2020 compared to \$8.5 million in 2019, representing an increase of \$8.3 million or 97.6%. The increase in aircraft costs was due primarily to the temporary sub charter costs on certain scheduled ACMI routes, partially offset by lower aircraft engine lease costs. The Company incurs temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events. All operating aircraft leases are paid in US Dollars.

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Heavy maintenance amortization costs were \$8.3 million for the nine month period ended September 30, 2020 compared to \$11.0 million for the same period in 2019, representing a decrease of \$2.7 million or 24.5%. Heavy maintenance checks for most of Cargojet's fleet were deferred by 6 to 9 months as approved by Transport Canada to facilitate the increase in adhoc charter flights essential to the Canadian federal and provincial governments. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized until the next scheduled heavy maintenance. The heavy maintenance component of newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were \$30.1 million for the nine month period ended September 30, 2020 compared to \$25.4 million for the same period in 2019, representing an increase of \$4.7 million or 18.5%. This increase was due to the increase in line maintenance costs due to additional charters block hours, the hiring of additional maintenance personnel, a temporary daily cash allowance and additional benefits to maintenance personnel due to the COVID-19 pandemic.

Total crew costs including salaries, training and positioning were \$33.5 million for the nine month period ended September 30, 2020 compared to \$25.6 million for the same period in 2019, representing an increase of \$7.9 million or 30.9%. This increase was due primarily to the hiring of additional crew, a temporary daily cash allowance and additional benefits to crew due to the COVID-19 pandemic and annual salary increases due to a new collective agreement reached with the union.

Commercial and other direct operating costs were \$88.9 million for the nine month period ended September 30, 2020 compared to \$68.4 million for the same period in 2019, representing an increase of \$20.5 million or 30.0%. This increase was comprised partially of a \$8.0 million increase in commercial salaries due to the hiring of additional personnel, annual wage increases, temporary daily cash allowances and additional health benefits due to the COVID-19 pandemic and increase in the domestic volumes and adhoc all-in charter activities. Higher activity resulted in a \$3.0 million increase in ground handling costs, a \$8.6 million increase in aircraft insurance, landing, parking, and navigation costs and a \$0.9 million increase in other commercial costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the nine month period ended September 30, 2020 were \$54.2 million compared to \$41.4 million for the same period in 2019, representing an increase of \$12.8 million or 30.9%. This increase was primarily due to a \$1.6 million increase in salaries, bonuses, pension and related costs net of gains on swap derivative, a \$2.5 million increase in donation expense, a \$8.7 million increase in supplies, consulting, audit and legal, sales and marketing costs and other general and administrative costs.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the nine month period ended September 30, 2020 were \$163.3 million compared to \$15.2 million for the same period in 2019, representing an increase of \$148.1 million or 974.3%. The increase was due primarily to a \$150.2 million increase in other losses and the fair value adjustment on the stock warrant obligation, partially offset by a \$2.2 million decrease in finance costs.

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Other losses and fair value adjustment on stock warrant for the nine month period ended September 30, 2020 were \$133.3 million (September 30, 2019 – gain of \$17.0 million). These losses were comprised primarily of a \$3.4 million loss related to unrealized foreign exchange (September 30, 2019 – gain of \$2.5 million) and a \$130.0 million loss on fair value adjustment on stock warrants (September 30, 2019 gain of \$10.6 million) partially offset by a \$0.7 million gain on disposal of fixed assets (September 30, 2019 - \$1.0 million) and a \$nil gain on the Company's total return swap (September 30, 2019 - \$2.9 million)

Finance costs

Finance costs for the nine month period ended September 30, 2020 were \$30.0 million compared to \$32.2 million for the same period in 2019, representing a decrease of \$2.2 million or 6.8%. This decrease was primarily due to redemption of 4.65% Debentures in December 2019 and lower total lease liabilities due to scheduled monthly repayments and repayment of credit facility.

Adjusted EBITDA ⁽¹⁾

Adjusted EBITDA for the nine month period ended September 30, 2020 was \$209.4 million compared to \$108.9 million for the same period in 2019. The increase in Adjusted EBITDA of \$100.5 million or 92.3% was due primarily to the following:

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

Adjusted EBITDAR ⁽¹⁾

Adjusted EBITDAR for the nine month period ended September 30, 2020 was \$209.4 million compared to \$109.7 million for the same period in 2019, representing an increase of \$99.7 million or 90.9%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to lower temporary engine lease costs and capitalization of operating lease.

Current Income Taxes

No provision for current income taxes were made for the nine months ended September 30, 2020 or 2019, due to the current and carry forward losses of prior years.

Deferred Income Taxes

The deferred income taxes recognized for the nine month period ended September 30, 2020 was a provision of \$31.0 million compared to a provision of \$4.9 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 \$144.8 million for the nine month period ended September 30, 2020, compared to an inflow of \$23.4 million for the same period in 2019, representing an increase of \$121.4 million. The increase was due to an increase in adjusted EBITDA, proceeds from disposal of

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property, plant and equipment and changes in non-cash working capital items partially offset by lower maintenance capital expenditure.

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

Dividends

Total dividends declared for the nine month period ended September 30, 2020 were \$10.9 million or \$0.7020 per share. In comparison, total dividends declared for the nine month period ended September 30, 2019 were \$9.5 million or \$0.7020 per share.

Record Date	Date Dividends		Number of Shares	Per Share	Paid
	Paid/Payable	Declared			
		\$		\$	\$
December, 20 2019	January, 06 2020		15,281,756		3,575,931
March, 20 2020	April, 06 2020	3,649,268	15,595,161	0.2340	3,649,268
June, 19 2020	July, 06 2020	3,649,714	15,597,068	0.2340	3,649,714
September, 21 2020	October, 05 2020	3,649,714	15,597,068	0.2340	
		10,948,696	-	0.7020	10,874,913

Record Date	Date Dividends		Number of Shares	Per Share	Paid
	Paid/Payable	Declared			
		\$		\$	\$
December 20, 2018	January 05, 2019	-	13,452,977	-	2,852,031
March 20, 2019	April 05, 2019	3,150,705	13,464,552	0.2340	3,150,705
June 20, 2019	July 05, 2019	3,164,264	13,522,495	0.2340	3,164,264
September 20, 2019	October 04, 2019	3,170,245	13,548,057	0.2340	
		9,485,214	-	0.7020	9,167,000

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was \$203.9 million (September 30, 2019 - \$114.3 million). The \$89.6 million increase in cash generated was due primarily to the increase in EBITDA.

Cash used in financing activities during the nine month period ended September 30, 2020 was \$129.8 million (September 30, 2019 – Cash provided \$49.9 million) and was comprised of the repayment of borrowings of \$182.3 million (net repayment on September 30, 2019 - \$4.5 million), the repayment of obligations under finance lease of \$42.1 million (September 30, 2019 – \$41.6 million), options settled in cash of \$1.8 million (September 30, 2019 - \$2.3 million), withholding tax paid on vested restricted share units of the Company of \$2.5 million (September 30, 2019 - \$2.2 million) and dividends paid to shareholders of \$11.0 million (September 30, 2019 – \$9.2 million) partially offset by proceeds from debenture issue net of issuance costs \$109.9 million (September 30, 2019 - \$109.7 million).

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Cash used in investing activities during the nine month period ended September 30, 2020 was \$74.3 million (September 30, 2019- \$163.4 million) and was comprised primarily of property, plant and equipment additions of \$93.1 million (September 30, 2019 - \$163.9 million), acquisition of business \$nil (September 30, 2019 - \$3.1 million) and settlement of provision of \$nil (September 30, 2019 - \$1.4). This was partially offset by proceeds from the disposal of property, plant and equipment of \$0.7 million (September 30, 2019 - \$1.0 million) and proceeds from insurance claim of \$3.6 million (September 30, 2019 - \$nil).

The Company had a working capital deficit of \$48.2 million as at September 30, 2020, representing the difference between total current assets and current liabilities, compared to a working capital deficit of \$44.0 million as at December 31, 2019. The increase of \$4.2 million in working capital deficit is primarily due to a decrease in cash balance, a decrease in inventories, a decrease in trade and other receivables, a decrease in prepaid expenses and deposits, an increase in the current portion of lease liabilities and an increase in trade and other payables. This amount was partially offset by an increase in the derivative financial instrument receivable.

Capital Expenditures and ROU additions

The property, plant and equipment additions of \$97.1 million in the current year were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, rotatable spares, heavy maintenance, facilities and other equipment and spares of \$89.5 million and ROU asset addition of \$7.6 million.

Financial Condition

The following is a comparison of the financial position of the Company as at September 30, 2020 to the financial position of the Company as at December 31, 2019:

Accounts Receivable

Accounts receivable as at September 30, 2020 amounted to \$47.5 million compared to \$51.3 million as at December 31, 2019. The decrease of \$3.8 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 September 30, 2020, property, plant and equipment were \$914.1 million compared to \$890.2 million as at December 31, 2019. The \$23.9 million net increase in property, plant and equipment was primarily due to the net addition of \$89.5 million in property plant and equipment and recognition of \$7.6 million in right to use asset under IFRS 16 partially offset by depreciation of \$65.7 million and amortization of right to use asset of \$6.9 million and impairment of \$0.6 million.

Trade and Other Payables

Trade and other payables as at September 30, 2020 were \$72.2 million compared to \$51.6 million as at December 31, 2019. The increase of \$20.6 million was due primarily to the timing of supplier payments.

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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 \$175.5 million as at September 30, 2020 compared to \$196.3 million as at December 31, 2019. The change was due to the scheduled monthly repayments made during the nine month period ended September 30, 2020 partially offset by the capitalization of warehouse leases and the effects of foreign exchange on the USD denominated aircraft leases.

Summary of Contractual Obligations

As at September 30, 2020	Payments due by Year					
	Total	2020	2021	2022	2023	Thereafter
(Canadian dollars in millions)	\$	\$	\$	\$	\$	\$
Lease liabilities	175.5	27.1	90.4	20.5	19.9	17.6
Borrowings	62.0	-	-	-	-	62.0
Debentures	304.4	-	-	-	-	304.4
Stock warrant obligations	203.5	-	-	-	-	203.5
	<u>745.4</u>	<u>27.1</u>	<u>90.4</u>	<u>20.5</u>	<u>19.9</u>	<u>587.5</u>

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 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 nine month period ended September 30, 2020, the Company had sales to three customers that represented 59.1% of the total revenues (September 30, 2019 – 60.1%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately \$17.4 million as at September 30, 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 on December 12, 2018 that formal changes to the existing pilot fatigue regulations would be coming 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 are expected to 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 nine month period ended September 30, 2020, the Company experienced growth over all revenue streams by 38.8% 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 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 September 30, 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.

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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.

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

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

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

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

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

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

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

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

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

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

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

Gain or loss on fair value of total return swap related to financing arrangement – the gain or loss arising from the fair value of total return swap related to a financing arrangement is a function of the Company's treasury/financing activities and has no impact on the determination of Adjusted EBITDA

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

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

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

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

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

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

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

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

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

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

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