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

For the Three and Six Month Periods Ended June 30, 2019

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CARGOJET INC.
Management's Discussion and Analysis of Financial Condition and Results of Operations
For the Three and Six Month Periods Ended June 30, 2019

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three and six months periods ended June 30, 2019. The following also includes a discussion of and comparative operating results for the three and six month periods ended June 30, 2018.

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

The effective date of the MD&A is July 31, 2019. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34*, Interim Financial Reporting* ("IAS 34"*).* This MD&A should be read in conjunction with the consolidated financial statements of the Company for the three and six month periods ended June 30, 2019 and 2018 and with the audited consolidated financial statements of the Company for the years ended December 31, 2018 and 2017.

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, 2018 dated February 21, 2019 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, 2018 dated February 21, 2019 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.

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 28.
- Outlook – Page 30.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended June 30,				Six Month Period Ended June 30,			
	2019	2018	Change	%	**2019**	2018	Change	%
Financial information								
Revenues	**$119.1**	$109.0	$10.1	9.3%	**$229.5**	$208.2	$21.3	10.2%
Direct expenses	**$92.5**	$83.5	$9.0	10.8%	**$181.7**	$159.6	$22.1	13.8%
Gross margin	**$26.6**	$25.5	$1.1	4.3%	**$47.8**	$48.6	($0.8)	-1.6%
Gross margin - %	**22.3%**	23.4%	-1.1%		**20.8%**	23.3%	-2.5%	
Selling, general & administrative expenses	**$14.0**	$12.6	$1.4	11.1%	**$27.1**	$23.7	$3.4	14.3%
Net finance costs & other gains and losses	**$6.1**	$6.0	$0.1	1.7%	**$13.5**	$11.5	$2.0	17.4%
Earnings before income taxes	**$6.5**	$6.9	($0.4)	-5.8%	**$7.2**	$13.4	($6.2)	-46.3%
Income taxes	**$2.2**	$2.2	-	-	**$2.9**	$4.2	($1.3)	-31.0%
Net earnings	**$4.3**	$4.7	($0.4)	-8.5%	**$4.3**	$9.2	($4.9)	-53.3%
Earnings per share - $CAD								
Basic	**$0.32**	$0.35	($0.03)	-8.6%	**$0.32**	$0.69	($0.37)	-53.6%
Diluted	**$0.32**	$0.35	($0.03)	-8.6%	**$0.32**	$0.68	($0.36)	-52.9%
EBITDA(1)	**$41.5**	$28.7	$12.8	44.6%	**$75.6**	$56.2	$19.4	34.5%
EBITDA margin - %	**34.9%**	26.4%	8.5%		**32.9%**	27.0%	5.9%	
Adjusted EBITDA(1)	**$37.5**	$28.8	$8.7	30.2%	**$69.8**	$56.3	$13.5	24.0%
Adjusted EBITDA margin - %	**31.5%**	26.4%	5.1%		**30.4%**	27.0%	3.4%	
EBITDAR(1)	**$41.8**	$32.0	$9.8	30.6%	**$76.2**	$61.8	$14.4	23.3%
EBITDAR margin - %	**35.1%**	29.3%	5.8%		**33.1%**	29.6%	3.5%	
Adjusted EBITDAR(1)	**$37.8**	$32.1	$5.7	17.8%	**$70.4**	$61.9	$8.5	13.7%
Adjusted EBITDAR margin - %	**31.7%**	29.4%	2.3%		**30.6%**	29.7%	0.9%	
Adjusted Free Cash flow(1)	**$9.1**	$0.7	$8.4	1200.0%	**$9.9**	$6.4	$3.5	54.7%
Operating statistics								
Operating days(2)	**50**	51	(1)	-2.0%	**99**	100	(1)	-1.0%
Average cargo revenue per operating day(3)	**$1.75**	$1.57	$0.18	11.5%	**$1.72**	$1.52	$0.20	13.2%
Block hours	**8,571**	7,545	1,026	13.6%	**17,159**	14,730	2,429	16.5%
Aircraft in operating fleet								
B727-200	**-**	1	(1)		**-**	1	(1)	
B757-200	**8**	7	1		**8**	7	1	
B767-200	**2**	1	1		**2**	1	1	
B767-300	**12**	9	3		**12**	9	3	
Challenger 601	**2**	2	-		**2**	2	-	
	24	20	4	20.0%	**24**	20	4	20.0%
Average volume per operating day (lbs.)	**1,273,860**	1,257,721	16,139	1.3%	**1,251,511**	1,231,906	19,605	1.6%
Average head count	**1,083**	968	115	11.9%	**1,083**	968	115	11.9%

1. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer to page 13 of this MD&A for a more detailed discussion.
2. Operating days refer to the Company's overnight 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 overnight, ACMI and charter revenues earned by the Company per operating day.

Corporate Overview

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

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

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

Fleet Overview

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

The table below sets forth the Company's operating fleet as at December 2017, 2018 and June 30, 2019 as well as the Company's planned operating fleet for the year ending December 31, 2019, 2020 and 2021:

Aircraft Type		Leased or Owned	Average Age	Number of Aircraft in Service						Maximum Payload (lbs.)	Range (miles)
				Actual			Plan				
				Q4		Q2	Q4				
				2017	2018	2019	2019	2020	2021		
B767-300[1]	Freighter	Leased	26	6	7	8	8	8	8	125,000	6,000
B767-300[2]	Freighter	Owned	25	3	4	4	4	4	4	125,000	6,000
B767-200[3]	Freighter	Owned	19	-	-	-	1	2	2	100,000	5,000
B767-200[4]	Freighter	Leased	34	1	1	1	1	-	-	100,000	5,000
B757-200[5] [6]	Freighter	Owned	29	5	8	8	8	8	8	80,000	3,900
B757-200[6]	Freighter	Leased	29	1	-	-	-	-	-	80,000	3,900
B727-200[7]	Freighter	Owned	39	3	1	-	-	-	-	60,000	1,800
B767-200 [8]	Passenger	Owned	23	-	-	1	1	1	1	100,000	5,000
Challenger 601[9]	Passenger	Owned	33	2	2	2	2	2	2	6,000	3,300
Total Aircraft				21	23	24	25	25	25		

1. Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement ("MLA"). A fifth aircraft was acquired in October 2017, under a lease agreement with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price. Cargojet expects to exercise the purchase option in October 2020. In December 2017, Cargojet purchased a B767-300 aircraft as feedstock for cargo conversion in 2018. In March 2018, Cargojet entered into a sale lease-back arrangement to facilitate the cargo conversion and financing of this aircraft, under terms similar to its other leased aircraft that was leased with terms of six years with a purchase option in favour of Cargojet after three years at a pre-determined price, Cargojet expects to exercise the purchase option in October 2021. In April 2018, Cargojet purchased one B767-300 aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of three years at a pre-determined price, Cargojet expects to exercise the purchase option in December 2021. In October 2018, Cargojet purchased one B767-300 converted freighter aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of the lease term at a pre-determined price, Cargojet expects to exercise the purchase option in November 2023.
2. The four B767-300 aircraft in operation at June 30, 2019 are owned by Cargojet.
3. In August 2018 Cargojet purchased two B767-200 aircraft as feed stock for future conversion and engine replacements. These aircraft have been scheduled for cargo conversion with the expected delivery dates of Q4 2019 and Q2 2020, and are included in the table above based on their expected dates for entry into operations. In July 2019 Cargojet purchased one B767-200 converted freighter aircraft which is currently under lease to third party, this aircraft has not been included in the table above.
4. The B767-200 aircraft in operation at June 30, 2019 is under a lease that terminates in February 2020.
5. The eight B757-200 aircraft in operation at June 30, 2019 are owned by Cargojet. In November 2017, Cargojet purchased an additional B757-200. Cargojet plans to operate this aircraft through a third party as a passenger charter but eventually convert the aircraft to a cargo aircraft. This aircraft is not currently operational and has not been included in the table above.
6. In Q1 2017 and Q3 2017 the Company amended the operating leases of three B757-200 aircraft to require the Company to purchase the aircraft at the end of the term of the leases in October 2017, December 2017 and January 2018 respectively. In September 2017, November 2017 and January 2018 the Company purchased the aircraft with the leases ending in October 2017, December 2017 and January 2018 respectively. These purchased aircraft are classified as owned in the table above.
7. Cargojet has sold the remaining one B727-200 aircraft in January 2019 due to network growth and regulatory requirements that will prevent the aircraft from being flown in North America.
8. Cargojet purchased one B767-200 aircraft in July 2018. Cargojet has entered in to a charter agreement with a third party to operate and manage this aircraft to provide the aircraft for passenger charter services. This aircraft has entered operations in Q2 2019.
9. Cargojet has entered into a charter agreement with a third party to operate and manage two aircraft to provide passenger charter services.
10. In April 2019 Cargojet has entered into an agreement to purchase two B747-400 aircraft as engine replacements. These aircraft have not been included in the table above.

Recent Events

New Pilot Agreement

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

Total return swap

In April 2019, the Company entered into a total return swap agreement with a financial institution to manage its exposure under options to be issued under the Stock Option Plan for certain employees and the DSUs ("Deferred Share Units") to be issued under the new incentive plan for its existing and new pilots. Under the agreement, the Company pays interest to the financial institution based on Canadian LIBOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds from the sale of the underlying shares. As at June 30, 2019, the allotment of options and DSU's was not initiated.

Aircraft Hangar

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

Acquisition of handling business

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

5.75% Hybrid Debenture Issue

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

Changes in revolving credit facility

On April 7, 2019, the Company amended its revolving operating credit facility (the "facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things,amending the pricing grid applicable to all loans, increasing the leverage ratio and extending the maturity date of the facility is extended to expire on April 8, 2024.

Acquisition and disposal of Property, Plant and Equipment

During the six month period ended June 30, 2019, the Company completed the acquisition of one Boeing 767-300 aircraft under a lease term as disclosed below under Aircraft Finance Lease. The Company also completed the acquisition of two 767-300 aircraft engines using the revolving credit facility. The Company also sold one Boeing 727-200 aircraft that were previously owned and recorded as Aircraft hull and Engines for $0.4 million and surplus spares for $1.0 million resulting in a total gain of $0.7 million.

Aircraft Finance Lease

During the six month period ended June 30, 2019, the Company entered into a finance lease arrangement for a Boeing 767-300 aircraft that included a bargain purchase option. The lease for the aircraft matures on the exercise date of the bargain purchase option in December 2021, if the option is exercised, or at the end of the lease term in 5 years. The effective interest rate of the lease is 7.2%.

Revenues

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

Revenues and shipping volumes from the Company's overnight 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 overnight air cargo service operates primarily on Monday to Thursday with a reduced network operating on Friday and on certain weekdays that are adjacent to certain statutory holidays. The Company defines the term "operating day" to refer to the days on which the full overnight 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 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. Adhoc flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business 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. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:
    - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
    - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 9). Variable flight costs such as fuel, navigation fees and landing fees are borne by the customer.
- The Company operates an international route between Newark, New Jersey, USA and Hamilton, Bermuda. This provides a five-day per week air cargo service for multiple customers and is patterned after the domestic business that Cargojet has built in Canada. Customer contracts contain minimum daily revenue guarantees and the ability to pass through increases in fuel costs. Effective June 10, 2016, the Company commenced all cargo flights under contract between Canada and Colombia, Peru and Mexico with B767-300F aircraft. Starting November 19, 2016 the Company expanded this contract to include one flight per week between Canada and Frankfurt, Germany. Commencing February 2018, the Company began operating the Colombia, Peru, and Frankfurt flights directly.

Expenses

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

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

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

Results of Operations and Supplementary Financial Information

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

	Three month period ended June 30,		Six month period ended June 30,	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	$	$	$	$
Revenues	**119.1**	109.0	**229.5**	208.2
Direct expenses	**92.5**	83.5	**181.7**	159.6
	26.6	25.5	**47.8**	48.6
General and administrative expenses	**13.0**	11.7	**25.3**	22.4
Sales and marketing expenses	**1.0**	0.9	**1.8**	1.3
Finance costs	**10.7**	6.3	**20.6**	12.3
Other gains, net	**(4.6)**	(0.3)	**(7.1)**	(0.8)
	20.1	18.6	**40.6**	35.2
EARNINGS BEFORE INCOME TAXES	**6.5**	6.9	**7.2**	13.4
Provision for income taxes				
Deferred	**2.2**	2.2	**2.9**	4.2
Net earnings and comprehensive income	**4.3**	4.7	**4.3**	9.2
Earnings per share				
Basic	**$0.32**	$0.35	**$0.32**	$0.69
Diluted	**$0.32**	$0.35	**$0.32**	$0.68
Average number of shares - basic (in thousands of shares)	**13,478**	13,412	**13,470**	13,398
Average number of shares - diluted (in thousands of shares)	**13,611**	13,547	**13,603**	13,547

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							
	June 30 2019	Mar 31 2019	Dec 31 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017
Revenues	**$119.1**	$110.4	$132.6	$114.1	$109.0	$99.2	$118.2	$89.4
Net earnings from continuing operations	**$4.3**	$-	$6.3	$4.7	$4.7	$4.5	$11.2	$5.6
Earnings per Share								
From continuing operations								
- Basic	**$0.32**	$-	$0.47	$0.35	$0.35	$0.34	$0.83	$0.42
- Diluted	**$0.32**	$-	$0.47	$0.35	$0.35	$0.33	$0.81	$0.41
Average number of shares - basic (in thousands of shares)	**13,478**	13,458	13,426	13,417	13,412	13,385	13,383	13,293
Average number of shares - diluted (in thousands of shares)	**13,611**	13,554	13,510	13,516	13,547	13,523	15,514	13,447

NON-GAAP MEASURES

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

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

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

	Three Month Period Ended June 30,		**Six Month Period Ended June 30,**	
	2019	2018	**2019**	2018
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net earnings	**4.3**	4.7	**4.3**	9.2
Add:				
Interest	**10.7**	6.3	**20.6**	12.3
Provision of deferred taxes	**2.2**	2.2	**2.9**	4.2
Depreciation of property, plant and equipment	**24.3**	15.5	**47.8**	30.5
EBITDA	**41.5**	28.7	**75.6**	56.2
Add:				
Gain on sale of property, plant and equipment	**(0.3)**	(0.4)	**(1.0)**	(0.4)
Unrealized foreign exchange (gain) loss	**(1.4)**	0.4	**(3.2)**	1.4
Unrealized gain on forward foreign exchange contracts	**-**	(0.5)	**-**	(1.5)
(Gain) loss on total return swap	**(2.9)**	0.2	**(2.9)**	(0.3)
Employee pension	**0.6**	0.4	**1.3**	0.9
Adjusted EBITDA	**37.5**	28.8	**69.8**	56.3
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**41.5**	28.7	**75.6**	56.2
Aircraft rent	**0.3**	3.3	**0.6**	5.6
EBITDAR	**41.8**	32.0	**76.2**	61.8
Add:				
Gain on sale of property, plant and equipment	**(0.3)**	(0.4)	**(1.0)**	(0.4)
Unrealized foreign exchange (gain) loss	**(1.4)**	0.4	**(3.2)**	1.4
Unrealized gain on forward foreign exchange contracts	**-**	(0.5)	**-**	(1.5)
(Gain) loss on total return swap	**(2.9)**	0.2	**(2.9)**	(0.3)
Employee pension	**0.6**	0.4	**1.3**	0.9
Adjusted EBITDAR	**37.8**	32.1	**70.4**	61.9
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES	**35.4**	47.9	**81.7**	62.4
Add :Effects of exchange rate changes	**(2.5)**	0.4	**(5.3)**	0.7
Less : Maintenance capital expenditures [1]	**(27.0)**	(30.4)	**(49.4)**	(47.7)
Add: Proceeds from disposal of property, plant and equipment	**1.0**	1.0	**1.0**	1.0
Standardized free cash flow	**6.9**	18.9	**28.0**	16.4
Changes in non-cash working capital items and deposits	**2.2**	(18.2)	**(18.1)**	(10.0)
Adjusted Free Cash flow	**9.1**	0.7	**9.9**	6.4

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

Review of Operations for the Three Month Periods ended June 30, 2019 and 2018

Net earnings for the three month periods ended June 30, 2019 and 2018

(Canadian dollars in millions except where indicated)

	Q2		CHANGE	
	2019	2018	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**64.7**	60.9	3.8	6.2%
ACMI Revenues	**15.8**	10.3	5.5	53.4%
All-in Charter Revenues	**7.2**	8.8	(1.6)	-18.2%
Total overnight, ACMI and charter revenues	**87.7**	80.0	7.7	9.6%
Total Revenue - Fixed based operations	**0.5**	0.4	0.1	25.0%
Total fuel and other cost pass through	**27.3**	26.8	0.5	1.9%
Fuel surcharge and other pass through revenues	**27.8**	27.2	0.6	2.2%
Other revenue	**3.6**	1.8	1.8	100.0%
Total revenues	**119.1**	109.0	10.1	9.3%
Operating Days	**50**	51	(1)	-2.0%
Average cargo revenue per operating day	**1.75**	1.57	0.18	11.5%
Direct expenses				
Fuel Costs	**25.2**	26.8	(1.6)	-6.0%
Depreciation	**20.2**	12.3	7.9	64.2%
Aircraft Costs	**3.1**	5.1	(2.0)	-39.2%
Heavy Maintenance Amortization	**3.9**	2.7	1.2	44.4%
Maintenance Costs	**8.9**	7.6	1.3	17.1%
Crew Costs	**8.4**	6.2	2.2	35.5%
Commercial and Other Costs	**22.8**	22.8	-	-
Total direct expenses	**92.5**	83.5	9.0	10.8%
Gross margin	**26.6**	25.5	1.1	4.3%
Gross margin %	**22.3%**	23.4%	-1.1%	
SG&A & Marketing				
General and Administrative Costs	**12.7**	11.2	1.5	13.4%
Sales costs	**1.0**	0.9	0.1	11.1%
Depreciation	**0.3**	0.5	(0.2)	-40.0%
Total SG&A & Marketing expenses	**14.0**	12.6	1.4	11.1%
Other SG&A				
Other gains	**(4.6)**	(0.3)	(4.3)	1433.3%
Finance costs	**10.7**	6.3	4.4	69.8%
Total other SG&A	**6.1**	6.0	0.1	1.7%
EARNINGS BEFORE INCOME TAXES	**6.5**	6.9	(0.4)	-5.8%
Income Taxes-Deferred	**2.2**	2.2	-	-
Net EARNINGS	**4.3**	4.7	(0.4)	-8.5%
Earnings per share - $ CAD				
Basic	**$0.32**	$0.35	$(0.03)	-8.6%
Diluted	**$0.32**	$0.35	$(0.03)	-8.6%

Highlights for the Three Month Periods ended June 30, 2019 and 2018

- Total revenue for the three month period ended June 30, 2019 was $119.1 million compared to $109.0 million for the same period in 2018, representing an increase of $10.1 million or 9.3%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2019 was $1.75 million per operating day compared to $1.57 million for the same period in 2018, representing an increase of $0.18 million or 11.5%.
- Adjusted EBITDA for the three month period ended June 30, 2019 was $37.5 million compared to $28.8 million for the same period in 2018, an increase of $8.7 million or 30.2%.
- Adjusted EBITDAR for the three month period ended June 30, 2019 was $37.8 million compared to $32.1 million for the same period in 2018, an increase of $5.7 million or 17.8%.
- Adjusted Free Cash Flow was an inflow of $9.1 million for the three month period ended June 30, 2019 compared to an inflow of $0.7 million for the same period in 2018, an increase of $8.4 million or 1200.0%.

Revenue

Total revenue for the three month period ended June 30, 2019 was $119.1 million, compared to $109.0 million for the same period in 2018, representing an increase of $10.1 million or 9.3%. The increase in total revenue was due primarily to a $3.8 million increase in core overnight revenues, a $5.5 million increase in ACMI revenues, a $0.6 million increase in fuel surcharges and other cost pass-through revenues and a $1.8 million increase in lease and other revenue. The increase was partially offset by a $1.6 million decrease in all in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended June 30, 2019 was $64.7 million compared to $60.9 million for the same period in 2018, an increase of $3.8 million or 6.2%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in a 8.4% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended June 30, 2019 were $15.8 million compared to $10.3 million for the same period in 2018, an increase of $5.5 million or 53.4%. The increase of $5.5 million was primarily due to new scheduled routes to the USA that started in July 2018 and November 2018.

All-in scheduled and adhoc charter revenues for the three month period ended June 30, 2019 were $7.2 million compared to $8.8 million for the same period in 2018, a decrease of $1.6 million or 18.2%. The decrease in all-in charter revenue was due primarily due to lower charter volume to Columbia and Peru and fewer adhoc charters.

Fuel surcharges and other cost pass-through revenues were $27.8 million for the three month period ended June 30, 2019 compared to $27.2 million for the same period in 2018, an increase of $0.6 million or 2.2%

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines, ground handling services provided to customers and passenger revenues from charter flights using its Challenger and B767- 200 aircraft. Other revenues were $3.6 million for the three month period ended June 30, 2019 compared to $1.8 million for the same period in 2018, an increase of $1.8 million or 100.0%.

Direct Expenses

Total direct expenses were $92.5 million for the three month period ended June 30, 2019 compared to $83.5 million for the same period in 2018, representing an increase of $9.0 million or 10.8%. As a percentage of revenue, direct expenses increased from 76.6% in 2018 to 77.7% for the same period in 2019. The overall increase in direct expenses was due primarily to a $7.9 million increase in depreciation, a $1.2 million increase in heavy maintenance costs, a $1.3 million increase in maintenance costs and a $2.2 million increase in crew costs. The increase was partially offset by a $2.0 million decrease in aircraft costs and a $1.6 million decrease in fuel costs.

Fuel costs were $25.2 million for the three month period ended June 30, 2019 compared to $26.8 million for the same period in 2018. The $1.6 million or 6.0% decrease in fuel costs was due primarily to a 4.7% decrease in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $20.2 million for the three month period ended June 30, 2019 compared to $12.3 million for the same period in 2018. The $7.9 million or 64.2% increase in depreciation expenses was due primarily to the addition of aircraft, hangar and other assets and due to capitalization of operating leases following the implementation of IFRS 16.

Aircraft costs were $3.1 million for the three month period ended June 30, 2019 compared to $5.1 million for the same period in 2018, representing a decrease of $2.0 million or 39.2%. The decrease was due primarily to capitalization of a lease of one Boeing 767-200 aircraft due to implementation of IFRS 16 and lower temporary engine lease costs. This decrease was partially offset by higher sub charter costs. The Company incurs temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events.

Heavy maintenance amortization costs were $3.9 million for the three month period ended June 30, 2019 compared to $2.7 million for the same period in 2018, representing an increase of $1.2 million or 44.4%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months until the next scheduled heavy maintenance. The heavy maintenance component of newly acquired aircraft is also deferred and amortized until the next scheduled event.

Maintenance costs were $8.9 million for the three month period ended June 30, 2019 compared to $7.6 million for the same period in 2018, representing an increase of $1.3 million or 17.1%. The increase in costs was due primarily to higher block hours and hiring of additional maintenance personnel and increase in the fleet size, partially offset by a decrease in hangar rental costs due to capitalization of operating leases following the implementation of IFRS 16.

Total crew costs including salaries, training and positioning were $8.4 million for the three month period ended June 30, 2019 compared to $6.2 million for the same period in 2018, representing an increase of $2.2 million or 35.5%. The increase was due primarily to the hiring of additional crews, salary increases due to the collective agreement with the union in July 2018 and increased crew positioning costs.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended June 30, 2019 were $14.0 million compared to $12.6 million for the same period in 2018, representing an increase of $1.4 million or 11.1%. The increase was primarily due to a $1.0 million increase in salaries and benefits due to increased headcount and salary increases, a $0.1 million increase in selling and marketing expenses, a $0.2 million increase in employee pension, a $0.6 million increase in consulting audit and legal expenses and a $1.2 million increase in other general and administrative expenses. This increase was partially offset by a $0.2 million decrease in depreciation, a $1.1 million increase in realized foreign exchange gains and a $0.4 million decrease in management's share based incentives.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended June 30, 2019 were $6.1 million compared to $6.0 million for the same period in 2018, representing an increase of $0.1 million or 1.7%. The increase was due primarily to a $4.4 million increase in finance costs, partially offset by a $4.3 million net increase in other gains.

Finance costs

Finance costs for the three month period ended June 30, 2019 were $10.7 million compared to $6.3 million for the same period in 2018, representing an increase of $4.4 million or 69.8%. The increase was due primarily to capitalization of operating lease following the implementation of IFRS 16, interest on lease liabilities and issue of two new 5.75% hybrid debentures.

Other gains and losses

Other gains and losses for the three month period ended June 30, 2019 were a gain of $4.6 million compared to a gain of $0.3 million for the same period in 2018, representing a net change of $4.3 million or 1433.3%. The gains in 2019 are primarily due to a $0.3 million gain on disposal of fixed assets, a $1.4 million foreign exchange gain and $2.9 million gain on total return swap. The gains in 2018 were $0.4 million gain on disposal of fixed assets and a $0.1 net gain on forward exchange contracts partially offset by a $0.2 million loss related to the total return swap.

Adjusted EBITDA [(1)]

Adjusted EBITDA for the three month period ended June 30, 2019 was $37.5 million compared to EBITDA of $28.8 million for the same period in 2018. The increase in Adjusted EBITDA of $8.7 million was due primarily to the following:

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

Adjusted EBITDAR [1]

Adjusted EBITDAR for the three month period ended June 30, 2019 was $37.8 million compared to $32.1 million for the same period in 2018, representing an increase of $5.7 million or 17.8%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to lower temporary engine lease costs.

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 June 30, 2019 and 2018.

Deferred Income Taxes

The deferred income taxes for the three month period ended June 30, 2019 was a provision of $2.2 million compared to a provision of $2.2 million for the same period in 2018. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $9.1 million for the three month period ended June 30, 2019 compared to an inflow of $0.7 million for the same period in 2018, representing an increase of $8.4 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in adjusted EBITDA, partially offset by the decrease in maintenance capital expenditures, and the effect of changes in non-cash working capital items and deposits.

(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 June 30, 2019 were $3.2 million or $0.2340 per share. In comparison, total dividends declared for the three month period ended June 30, 2018 were $2.8 million or $0.2120 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
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	
		6,314,969	-	0.2340	3,150,705

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
March 21, 2018	April 05, 2018		13,382,629	0.2120	2,837,117
June 20, 2018	July 05, 2018	2,844,457	13,417,250	0.2120	
		2,844,457	-	-	2,837,117

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $35.4 million for the three month period ended June 30, 2019 (June 30, 2018 - $47.9 million). With the adjustment of exchange rate changes for the three month period ended June 30, 2019, the cash generated from operating activities was $32.9 million (June 30, 2018 - $48.3 million). The $15.4 million decrease in cash was due primarily to the increase in operating activity and changes in non-cash working capital items and deposits.

Cash from financing activities during the three month period ended June 30, 2019 was $19.2 million (June 30, 2018 cash used - $13.9 million) and was comprised of proceeds from debenture issue of $110.2 million (June 30, 2018 – $nil) and proceeds from borrowings of $nil (June 30, 2018 - $30.5 million). This was partially offset by repayment of borrowings of $70.4 million (June 30, 2018 - $nil), repayment of obligations under finance lease of $17.5 million (June 30, 2018 - $10.6 million), tax paid on vested RSU's and options $nil (June 30, 2018 - $1.3 million), and the payment of dividends to shareholders of $3.1 million (June 30, 2018 - $2.9 million).

Cash used in investing activities during the three month period ended June 30, 2019 was $53.1 million (June 30, 2018 - $62.3 million) and was comprised of property, plant and equipment additions of $52.7 million (June 30, 2018 - $63.3 million) and settlement of provision of $1.4 million (June 30, 2018 - $nil). This was partially offset by proceeds from disposal of property, plant and equipment of $1.0 million (June 30, 2018 - $1.0 million).

Capital Expenditures

The property, plant and equipment additions of $52.7 million in the three month period ended June 30, 2019 (June 30, 2018 - $63.3 million) were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, hangar and cross dock facility,spares and rotable spares.

Review of Operations for the Six Month Periods ended June 30, 2019 and 2018

Net Earnings for the Six Month Periods Ended June 30, 2019 and 2018

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2019	2018	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**125.8**	116.9	8.9	7.6%
ACMI Revenues	**31.2**	19.7	11.5	58.4%
All-in Charter Revenues	**13.7**	15.8	(2.1)	-13.3%
Total overnight, ACMI and charter revenues	**170.7**	152.4	18.3	12.0%
Total Revenue - Fixed based operator	**0.7**	0.6	0.1	16.7%
Total fuel and other cost pass through	**52.2**	51.7	0.5	1.0%
Fuel surcharge and other pass through revenues	**52.9**	52.3	0.6	1.1%
Other revenue	**5.9**	3.5	2.4	68.6%
Total revenues	**229.5**	208.2	21.3	10.2%
Operating Days	**99**	100	(1)	-1.0%
Average cargo revenue per operating day	**1.72**	1.52	0.20	13.2%
Direct expenses				
Fuel Costs	**49.1**	49.7	(0.6)	-1.2%
Depreciation	**39.4**	24.2	15.2	62.8%
Aircraft Cost	**5.5**	8.8	(3.3)	-37.5%
Heavy Maintenance Amortization	**7.6**	5.3	2.3	43.4%
Maintenance Cost	**17.4**	14.6	2.8	19.2%
Crew Costs	**16.4**	13.1	3.3	25.2%
Commercial and Other Costs	**46.3**	43.9	2.4	5.5%
Total direct expenses	**181.7**	159.6	22.1	13.8%
Gross margin	**47.8**	48.6	(0.8)	-1.6%
Gross margin %	**20.8%**	23.3%	-2.5%	
SG&A & Marketing				
General and Administrative Costs	**24.4**	21.4	3.0	14.0%
Sales costs	**1.8**	1.3	0.5	38.5%
Depreciation	**0.9**	1.0	(0.1)	-10.0%
Total SG&A & Marketing expenses	**27.1**	23.7	3.4	14.3%
Other SG&A				
Other gains	**(7.1)**	(0.8)	(6.3)	787.5%
Finance costs	**20.6**	12.3	8.3	67.5%
Total other SG&A	**13.5**	11.5	2.0	17.4%
EARNINGS BEFORE INCOME TAXES	**7.2**	13.4	(6.2)	-46.3%
Income Taxes-Deferred	**2.9**	4.2	(1.3)	-31.0%
Net earnings	**4.3**	9.2	(4.9)	-53.3%
Earnings per share - $ CAD				
Basic	**$0.32**	$0.69	$(0.37)	-53.6%
Diluted	**$0.32**	$0.68	$(0.36)	-52.9%

Highlights for the six month periods ended June 30, 2019 and 2018

- Total revenue for the six month period ended June 30, 2019 was $229.5 million compared to $208.2 million for the same period in 2018, representing an increase of $21.3 million or 10.2%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2019 was $1.72 million per operating day compared to $1.52 million for the same period in 2018, representing an increase of $0.20 million per operating day or 13.2%.
- Adjusted EBITDA for the six month period ended June 30, 2019 was $69.8 million compared to $56.3 million for the same period in 2018, an increase of $13.5 million or 24.0%.
- Adjusted EBITDAR for the six month period ended June 30, 2019 was $70.4 million compared to $61.9 million for the same period in 2018, an increase of $8.5 million or 13.7%.
- Adjusted Free Cash Flow was an inflow of $9.9 million for the six month period ended June 30, 2019 compared to an inflow of $6.4 million for the same period in 2018, an increase of $3.5 million or 54.7%.

Revenue

Total revenue for the six month period ended June 30, 2019 was $229.5 million compared to $208.2 million for the same period in 2018, representing an increase of $21.3 million or 10.2%. The increase in total revenue was due primarily to a $8.9 million increase in core overnight revenues, a $11.5 million increase in ACMI revenues, a $0.6 million increase in fuel surcharges and other cost pass-through revenues and a $2.4 million increase in lease and other revenue. The increase was partially offset by a $2.1 million decrease in all in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the six month period ended June 30, 2019 was $125.8 million compared to $116.9 million for the same period in 2018, an increase of $8.9 million or 7.6%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in 7.6% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenue for the six month period ended June 30, 2019 was $31.2 million compared to $19.7 million for the same period in 2018, an increase of $11.5 million or 58.4%. The increase was due primarily to a new scheduled route to the USA that started in July 2018, partially offset by the discontinuation of the ACMI agreement with Air Canada.

All-in scheduled and adhoc charter revenue for the six month period ended June 30, 2019 was $13.7 million compared to $15.8 million for the same period in 2018, a decrease of $2.1 million or 13.3%. The decrease in all-in charter revenue was due primarily due to lower charter volume to Columbia, Peru and Cologne and fewer adhoc charters.

Fuel surcharges and other cost pass-through revenues were $52.9 million for the six month period ended June 30, 2019 compared to $52.3 million for the same period in 2018. During the period, fuel surcharges increased due to a 7.6% increase in the shipping volumes and revenues from new and existing customers that attracted fuel surcharges, partially offset by a 1.3% decrease in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.7 million for the six months ended June 30, 2019 compared to $0.6 million for the same period in 2018, an increase of $0.1 million or 16.7%.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines and passenger revenue on Challenger and B767-200 series of aircraft. Other revenues for the six month period ended June 30, 2019 were $5.9 million compared to $3.5 million for the same period in 2018, an increase of $2.4 million or 68.6%.

Direct Expenses

Total direct expenses were $181.7 million for the six month period ended June 30, 2019 compared to $159.6 million for the six month period ended June 30, 2018. As a percentage of revenue, direct expenses increased from 76.7% in 2018 to 79.2% for the same period in 2019. The overall increase in direct expenses was due primarily to a $15.2 million increase in depreciation, a $2.3 million increase in heavy maintenance amortization, a $2.8 million increase in maintenance costs, a $3.3 million increase in crew costs, and a $2.4 million increase in commercial and other costs, partially offset by a $3.3 million decrease in aircraft costs and a $0.6 million decrease in fuel costs.

Fuel costs were $49.1 million for the six month period ended June 30, 2019 compared to $49.7 million for the same period in 2018. The $0.6 million or 1.2% decrease in fuel costs was due primarily to a 1.3% decrease in fuel price, partially offset by a 2.5% increase in block hours on the overnight and day networks. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $39.4 million for the six month period ended June 30, 2019 compared to $24.2 million for the same period in 2018. The $15.2 million or 62.8% increase in depreciation expenses was due primarily to the addition of aircraft, engines, hangers and other assets.

Aircraft costs were $5.5 million for the six month period ended June 30, 2019 compared to $8.8 million in 2018, representing a decrease of $3.3 million or 37.5%. The decrease in aircraft costs was due primarily to lower fixed lease costs and variable lease reserve costs due to the conversion of one B767-200 aircraft operating leases to finance leases due to the implementation of IFRS 16 and lower temporary engine lease costs. This decrease was partially offset by higher sub charter costs. The Company incurs temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $7.6 million for the six month period ended June 30, 2019 compared to $5.3 million for the same period in 2018, representing an increase of $2.3 million or 43.4%. Heavy maintenance of aircraft occurs at regular and predetermined intervals and the costs related to these are deferred by the Company and amortized over a period of 24 months 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 $17.4 million for the six month period ended June 30, 2019 compared to $14.6 million for the same period in 2018, representing an increase of $2.8 million or 19.2%. This increase was due to the hiring of additional maintenance personnel and an increase in line maintenance costs primarily due to the increase in total block hours and cycles and the effect of exchange rate on expenditures incurred in USD currency and increase in the fleet size.

Total crew costs including salaries, training and positioning were $16.4 million for the six month period ended June 30, 2019 compared to $13.1 million for the same period in 2018, representing an increase of $3.3 million or 25.2%.This increase was due primarily to the hiring of additional crew, increased training costs to meet increasing demand and annual salary increases due to collective agreement reached with the union.

Commercial and other direct operating costs were $46.3 million for the six month period ended June 30, 2019 compared to $43.9 million for the same period in 2018, representing an increase of $2.4 million or 5.5%. This increase was comprised primarily of a $1.8 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, $2.2 million higher landing and navigation costs due to increased activity in 2019, $0.4 million higher ground service equipment maintenance and fuel costs, a $0.1 million higher de-icing costs and a $0.3 million higher aircraft insurance costs. This increase was partially offset by a $1.0 million reduction in ground handling costs due to the Company providing its own ground handling services at six of its locations, a $0.6 million decrease in line haul and cartage costs and a $0.8 million decrease in warehouse facilities costs due to capitalization of leases due to the implementation of IFRS 16.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the six month period ended June 30, 2018 were $27.1 million compared to $23.7 million for the same period in 2018, representing an increase of $3.4 million or 14.3%. This increase was primarily due to a $0.7 million increase in employee pension and management bonus costs, a $1.4 million increase in salaries and benefits due to increased headcount and salary increases, a $0.5 million increase in sales and marketing costs, due to increased sales commissions to capture new charter business and extra expenditure on domestic business promotion, a $0.6 million increase in consulting, audit and legal costs and a $0.1 million increase in data and communication costs and a $1.7 million increase in other general and administration expenses. This increase was partially offset by a $0.1 million decrease in depreciation expense and a $1.5 million increase in realized foreign exchange gains.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the six month period ended June 30, 2019 were $13.5 million compared to $11.5 million for the same period in 2018, representing an increase of $2.0 million or 17.4%. The increase was due primarily to a $8.3 million increase in finance costs, partially offset by a $6.3 million increase in other gains and losses.

Other gains and losses

Other gains for the six month period ended June 30, 2019 were $7.1 million ($0.8 million gain June 30, 2018). These gains were comprised primarily of a $3.2 million gain related to foreign exchange (June 30, 2018 - $0.1 million), a $1.0 million gain on disposal of fixed assets (June 30, 2018 - $0.4 million) and a $2.9 million gain on the Company's total return swap (June 30, 2018 - $0.3 million).

Finance costs

Finance costs for the six month period ended June 30, 2019 were $20.6 million compared to $12.3 million for the same period in 2018, representing an increase of $8.3 million or 67.5%. This increase was primarily due to new finance leases entered during the year and the issue of two new 5.75% hybrid debentures and capitalization of operating leases due to the implementation of IFRS 16.

Adjusted EBITDA [(1)]

Adjusted EBITDA for the six month period ended June 30, 2019 was $69.8 million compared to $56.3 million for the same period in 2018. The increase in Adjusted EBITDA of $13.5 million or 24.0% was due primarily to the following:

- Growth in overnight network revenues due to growth in overnight volumes
- Significant increase in ACMI revenues with corresponding increase in variable costs; and
- Effect of implementation of IFRS 16 on aircraft and property leases and related costs.

Adjusted EBITDAR [(1)]

Adjusted EBITDAR for the six month period ended June 30, 2019 was $70.4 million compared to $61.9 million for the same period in 2018, representing an increase of $8.5 million or 13.7%. The increase in Adjusted EBITDAR during the period was due primarily to changes in Adjusted EBITDA partially offset by lower aircraft rent addback due to lower temporary engine lease costs.

Current Income Taxes

No provision for current income taxes was made for the six months ended June 30, 2019 or 2018, due to the current and carry forward losses of prior years.

Deferred Income Taxes

The deferred income taxes recognized for the six month period ended June 30, 2019 was a provision of $2.9 million compared to a provision of $4.2 million for the same period in 2018. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $9.9 million for the six month period ended June 30, 2019, compared to an inflow of $6.4 million for the same period in 2018, representing an increase of $3.5

million. The increase was due to increase in adjusted EBITDA partially offset by higher maintenance capital expenditure and changes in non cash working capital items.

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

Dividends

Total dividends declared for the six month period ended June 30, 2019 were $6.3 million or $0.4680 per share. In comparison, total dividends declared for the six month period ended June 30, 2018 were $5.7 million or $0.4240 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2018	January 05, 2019	-	13,452,977	-	2,852,031
March 20, 2019	April 05, 2019	3,150,705	13,464,552	0.2340	3,150,705
June 20, 2019	July 05, 2019	3,164,264	13,522,495	0.2340	
		6,314,969	-	0.4680	6,002,736

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2017	January 05, 2018	-	13,382,629	-	2,576,156
March 21, 2018	April 05, 2018	2,837,117	13,382,629	0.2120	2,837,117
June 20, 2018	July 05, 2018	2,844,457	13,417,250	0.2120	
		5,681,574	-	0.4240	5,413,273

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $81.7 million (June 30, 2018 - $62.4 million). With the effect of exchange rate changes for the six month period ended June 30, 2019, the cash generated by operating activities was $76.4 million (June 30, 2018 - $63.1 million). The $13.3 million increase in cash generated was due primarily to the increase in EBITDA and changes in non-cash working capital items and deposits.

Cash provided from financing activities during the six month period ended June 30, 2019 was $14.9 million (June 30, 2018 – $9.0 million) and was comprised of proceeds from debenture issue net of issuance costs $110.2 million (June 30, 2018 - $nil) and proceeds from the borrowing of $nil (.June 30, 2018 – $77.4 million), partially offset by the repayment of borrowings of $61.6 million (June 30, 2018 - $nil), the repayment of obligations under finance lease of $27.7 million (June 30, 2018 – $58.1 million), the options settled in cash of $nil (June 30, 2018 - $1.8), the tax paid on vested restricted share units and options of the Company of $nil (June 30, 2018 - $3.0) and dividends paid to shareholders of $6.0 million (June 30, 2018 – $5.5 million).

Cash used in investing activities during the six month period ended June 30, 2019 was $90.9 million (June 30, 2018- $78.8 million) and was comprised primarily of property, plant and equipment additions of $87.4 million (June 30, 2018 - $90.1 million), acquisition of business $3.1 million (June 30, 2018 - $nil) and settlement of provision of $1.4 million (June 30, 2018 - $nil). This was partially offset by proceeds from the disposal of property, plant and equipment of $1.0 million (June 30, 2018 - $1.0 million), and proceeds from the sale and leaseback of aircraft of $nil (June 30, 2018 - $10.3).

The Company had a working capital deficit of $27.6 million as at June 30, 2019, representing the difference between total current assets and current liabilities, compared to a working capital deficit of $0.8 million as at December 31, The increase of $26.8 million in working capital deficit is primarily due to a decrease in trade and other receivables, a decrease in the current portion of prepaid expenses and deposits, an increase in the current portion of finance leases payable and an increase in dividends payable to shareholders. This amount was partially offset by an increase in inventories, an increase in the derivative financial instrument receivable net of payable, a decrease in overdraft and a decrease in trade and other payables.

Capital Expenditures

The property, plant and equipment additions of $87.4 million in the current year were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, rotable spares, heavy maintenance, hangar and cross-dock facilities and other equipment and spares.

Financial Condition

The following is a comparison of the financial position of the Company as at June 30, 2019 to the financial position of the Company as at December 31, 2018:

Accounts Receivable

Accounts receivable as at June 30, 2019 amounted to $38.5 million compared to $65.2 million as at December 31, 2018. The decrease of $26.7 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 June 30, 2019, property, plant and equipment were $803.7 million compared to $721.3 million as at December 31, 2018. The $82.4 million net increase in property, plant and equipment was primarily due to the net addition of $97.1 million in property plant and equipment and recognition of $33.1 million in right to use asset under IFRS 16 partially offset by depreciation of $43.3 million and amortization of right to use asset of $4.5 million.

Trade and Other Payables

Trade and other payables as at June 30, 2019 were $34.5 million compared to $44.4 million as at December 31, 2018. The decrease of $9.9 million was due primarily to the timing of supplier payments.

Lease Liabilities

The lease liabilities are in respect of the lease of eight B767-300, one B767-200 aircraft, hangers and warehouses. Total finance leases including the current portion were $215.7 million as at June 30, 2019 compared to $199.4 million as at December 31, 2018. The change was due to the execution of a lease arrangement for one Boeing 767-300 aircraft that also includes a bargain purchase option and capitalization of one Boeing 767-200 aircraft, hangars and warehouses due to adoption of IFRS 16, partially offset by scheduled monthly repayments made in the six month period ended June 30, 2019.

Provisions

Provisions as at June 30, 2019 were $nil compared to $1.4 million as at December 31, 2018 and was comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms. The change was due to settlement of provisions for lease return conditions for $1.4 million during the six month period ended June 30, 2019.

Summary of Contractual Obligations

		Payments due by Year				
As at June 30, 2019	Total	2019	2020	2021	2022	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Lease liabilities	215.7	22.6	59.1	84.8	19.8	29.4
Borrowings	144.4	-	-	-	-	144.4
Debentures	306.0	-	-	-	113.1	192.9
	666.1	22.6	59.1	84.8	132.9	366.7

Off-Balance Sheet Arrangements

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

(a) The Company has provided indemnities under lease agreements for the use of various operating facilities and leased aircraft. Under the terms of these agreements, the Company agrees to indemnify the lessors of aircraft and facilities for various items including, but not limited to, all liabilities, losses, suits and damages arising during, on or after the term of the agreement. The maximum amount of any potential future payment cannot be reasonably estimated.

(b) Indemnities have been provided to all directors and officers of the Company for various items including, but not limited to, all costs to settle suits or actions due to association with the Company, subject to certain restrictions. The Company has purchased directors' and officers' liability insurance to mitigate the cost of any potential future lawsuits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Company. The maximum amount of any potential future payment cannot be reasonably estimated.

(c) In the normal course of business, the Company has entered into agreements that include indemnities in favour of third parties, such as purchase and sale agreements, confidentiality agreements, engagement letters with advisors and consultants, outsourcing agreements, leasing contracts, information technology agreements and service agreements. These indemnification agreements may require the Company to compensate counterparties for losses incurred by the counterparties as a result of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

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

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

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

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

Major Customers

During the six month period ended June 30, 2019, the Company had sales to three customers that represented 61.0% of the total revenues (June 30, 2018 – 60.5%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $18.5 million as at June 30, 2019. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Risk Factors

Risks Related to the Business

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, 2018 dated February 21, 2019 which was filed with SEDAR at www.sedar.com. The Company is not aware of any significant changes to its risk factors from those disclosed at that time.

Outlook

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

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

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

During the period ended June 30, 2019, the Company experienced growth over all revenue streams by 10.2% compared to the same period in 2018. The Company anticipates that revenues will continue to grow due to the continued development and strengthening of its relationships with existing customers and establishing new relationships with national and international carriers to establish new ACMI routes to the USA and charters. The Company continues to retain all of its major customers. Since 2014, the Company added aircraft, staff and network capacity to accommodate growing demand on its core overnight network. The Company continues to optimize its overnight network to match customer demand and will continue to do so going forward. This improved the gross margin and EBITDA by optimizing costs of its current operation. The Company will continue to evaluate its investments in fixed assets to ensure high returns on its investments and are in balance with its outlook of global economic conditions.

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

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

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

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

Critical accounting judgments and key sources of estimation uncertainty

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

Critical accounting judgments

Componentization of property, plant and equipment and goodwill: The componentization of the Company's property, plant and equipment is based on management's judgment of the cost of the component relative to the total cost of an asset and whether these components have different useful lives for determination of depreciation.

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

Right to use asset: Value of lease asset in use and recognition of related obligation requires judgement related to discount rate used for discounting the lease payments and for determination of lease period where judgement is required for the assessment of 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 voting shares are listed under the symbol "CJT", variable voting shares under the symbol "CJT.A" and convertible debentures are listed under the symbol "CJT.DB.C" and "CJT.DB.D" on the Toronto Stock Exchange ("TSX"). The following table sets out the shares of the Company outstanding and securities convertible into shares of the Company as at June 30, 2019:

Capital	Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common and Variable Voting Shares	Unlimited	13,522,495	-
Convertible Debentures - 4.65%	$ 119,439,000	-	2,036,471

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

An evaluation of the effectiveness of the Company's disclosure controls and procedures and internal controls over financial reporting, as defined under the rules of the Canadian Securities Administrators, was conducted at December 31, 2018 by management. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures and internal controls over financial reporting of the Company are effective. This MD&A was reviewed by the Disclosure Officers of the Company (individuals authorized to communicate with the public about information concerning the Company), the Audit Committee and the Board of Directors of the Company, all of whom approved it prior to its publication.

Financial Reporting Update

New and amended standards adopted by the company

Leases:

In January 2016, the IASB issued IFRS 16, *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e., the customer ("lessee") and the supplier ("lessor"). IFRS 16 replaces the previous lease standard, IAS 17 *Leases*, and related interpretations. The most significant effect of the new requirements will be an increase in lease assets and financial liabilities as IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. All leases are 'capitalized' by recognizing the present value of the lease payments and showing them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognizes a financial liability representing its obligation to make future lease payments. The liability will adjust for any prepayments, lease incentives received initial direct costs incurred and an estimation of future restoration, removal or dismantling costs. Straight-line basis of recognition of lease costs will be replaced with a depreciation charge and interest expense on the recognized leased liability. In the statement of cash flows, lease payments will be included in financing activities for principal repayments and operating activities for related interest charge. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted.

The following is the Company's new accounting policy for leases under "IFRS 16"

The Company has applied the standard effective January 1, 2019 using a simplified approach. Under this approach, the Company has determined the effect of applying the standard on the existing leases as at January 1, 2019, the initial date of application. The comparative information has not been restated and will continue to be reported under IAS 17 and IFRIC 4. The Company has elected to use the practical expedients under the simplified approach. The Company will use interest rate implicit in the lease for discounting the lease payments to determine its lease liability and right-of-use asset at the present value of the remaining lease payments if the rate can be readily determined. Otherwise, incremental borrowing rate will be used. It has also elected not to apply the provisions of the standard to short-term leases or where the underlying asset is of low value.

Accounting for right-of-use asset and lease liability

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

Leases are recognized as right-of-use assets and a corresponding liability is recognized at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the Consolidated Statements of Earnings and Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets will be accounted for under IAS 16 Property, Plant and Equipment. Aircraft recorded as right-of-use assets will have the same accounting policies as directly owned aircraft, meaning the right-of-use assets will be componentized and depreciated over the lease term. In accordance with its policy on owned aircrafts, any qualifying maintenance events will be capitalized and depreciated over the lesser of the lease term and expected maintenance life. Maintenance provisions for end-of-lease return obligations will be recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease. Any changes to the provision for end-of-lease conditions will be recognized as an adjustment to the right-of-use asset and subsequently amortized to the income statement over the remaining term of the lease.

End Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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