CARGOJET INC.

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

For the Three and Nine Month Periods Ended September 30, 2018

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three and nine month periods ended September 30, 2018. The following also includes a discussion of and comparative operating results for the three and nine month periods ended September 30, 2017.

Cargojet is publicly listed with shares and convertible 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 November 13, 2018. The condensed consolidated interim financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), using International Accounting Standard 34*, Interim Financial Reporting* ("IAS 34"*).* This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the Company for the three and nine month periods ended September 30, 2018 and 2017 and with the audited consolidated financial statements of the Company for the years ended December 31, 2017 and 2016.

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, 2017 dated March 12, 2018 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, 2017 dated March 12, 2018 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.
- New International Routes – Page 8.
- Off - Balance Sheet Arrangements – Page 31.
- Outlook – Page 33.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended September 30,				Nine Month Period Ended September 30,			
	2018	2017	Change	%	**2018**	2017	Change	%
Financial information								
Revenues	**$114.1**	$89.4	$24.7	27.6%	**$322.3**	$264.7	$57.6	21.8%
Direct expenses	**$87.5**	$64.7	$22.8	35.2%	**$247.1**	$195.8	$51.3	26.2%
Gross margin	**$26.6**	$24.7	$1.9	7.7%	**$75.2**	$68.9	$6.3	9.1%
Gross margin - %	**23.3%**	27.6%	-4.3%		**23.3%**	26.0%	-2.7%	
Selling, general & administrative expenses	**$12.5**	$12.4	$0.1	0.8%	**$36.2**	$32.9	$3.3	10.0%
Net finance costs & other gains and losses	**$6.9**	$4.1	$2.8	68.3%	**$18.4**	$18.0	$0.4	2.2%
Earnings before income taxes	**$7.2**	$8.2	($1.0)	-12.2%	**$20.6**	$18.0	$2.6	14.4%
Income taxes	**$2.5**	$2.6	($0.1)	-3.8%	**$6.7**	$5.4	$1.3	24.1%
Net earnings	**$4.7**	$5.6	($0.9)	-16.1%	**$13.9**	$12.6	$1.3	10.3%
Earnings per share - $CAD								
Basic	**$0.35**	$0.42	($0.07)	-16.7%	**$1.04**	$1.08	($0.04)	-3.7%
Diluted	**$0.35**	$0.41	($0.06)	-14.6%	**$1.03**	$1.06	($0.03)	-2.8%
EBITDA[1]	**$31.0**	$26.6	$4.4	16.5%	**$87.2**	$72.0	$15.2	21.1%
EBITDA margin - %	**27.2%**	29.8%	-2.6%		**27.1%**	27.2%	-0.1%	
Adjusted EBITDA[1]	**$31.5**	$25.4	$6.1	24.0%	**$87.8**	$72.3	$15.5	21.4%
Adjusted EBITDA margin - %	**27.6%**	28.4%	-0.8%		**27.2%**	27.3%	-0.1%	
EBITDAR[1]	**$33.2**	$29.4	$3.8	12.9%	**$95.0**	$82.6	$12.4	15.0%
EBITDAR margin - %	**29.0%**	32.9%	-3.9%		**29.5%**	31.2%	-1.7%	
Adjusted EBITDAR[1]	**$33.7**	$28.2	$5.5	19.5%	**$95.6**	$82.9	$12.7	15.3%
Adjusted EBITDAR margin - %	**29.5%**	31.5%	-2.0%		**29.7%**	31.3%	-1.6%	
Adjusted Free Cash flow[1]	**$9.7**	$19.3	($9.6)	-49.7%	**$16.1**	$37.1	($21.0)	-56.6%
Operating statistics								
Operating days[2]	**49**	49	-	-	**149**	149	-	-
Average cargo revenue per operating day[3]	**$1.70**	$1.42	$0.28	19.7%	**$1.58**	$1.35	$0.23	17.0%
Block hours	**8,056**	7,092	964	13.6%	**22,786**	21,263	1,523	7.2%
Aircraft in operating fleet								
B727-200	**1**	3	(2)		**1**	3	(2)	
B757-200	**7**	6	1		**7**	6	1	
B767-200	**1**	1	-		**1**	1	-	
B767-300	**9**	8	1		**9**	8	1	
Challenger 601	**2**	2	-		**2**	2	-	
	20	20	-	-	**20**	20	-	-
Average volume per operating day (lbs.)	**1,281,400**	1,128,626	152,774	13.5%	**1,245,945**	1,136,548	109,397	9.6%
Average head count	**994**	863	131	15.2%	**994**	863	131	15.2%

1. EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are non-GAAP financial measures and are not earning measures recognized by IFRS. Please refer to page 15 of this MD&A for a more detailed discussion.
2. Operating days refer to the Company's 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 and Colombia 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 2016, 2017 and September 30, 2018 as well as the Company's planned operating fleet for the year ending December 31, 2018, 2019 and 2020:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service						Maximum Payload (lbs.)	Range (miles)
			Actual			Plan				
			December 31,		September 30,	December 31,				
			2016	2017	2018	2018	2019	2020		
B767-300(1)	Finance Lease	25	5	6	5	7	8	8	125,000	6,000
B767-300(2)	Owned	24	3	3	4	4	4	4	125,000	6,000
B767-200(3)	Owned	18	-	-	-	-	1	2	100,000	5,000
B767-200(4)	Operating Lease	33	1	1	1	1	-	-	100,000	5,000
B757-200(5)(6)	Owned	28	2	5	7	8	8	8	80,000	3,900
B757-200(6)	Finance Lease	28	-	1	-	-	-	-	80,000	3,900
B757-200(6)	Operating Lease	28	3	-	-	-	-	-	80,000	3,900
B727-200(7)	Owned	39	6	3	1	-	-	-	60,000	1,800
Challenger 601(8)	Owned	32	2	2	2	2	2	2	6,000	3,300
Total Aircraft			22	21	20	22	23	24		

1. Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement ("MLA"). The 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, and has recorded the lease as a finance lease. 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. This aircraft has now completed cargo conversion and has entered service in Q4 2018. 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, this aircraft has been inducted for cargo conversion with an expected delivery date of Q1 2019. 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, the expected delivery date of this aircraft is Q4 2018.
2. The four B767-300 aircraft in operation at March 31, 2018 are owned by Cargojet.
3. Cargojet purchased one B767-200 aircraft in July 2018 and two B76-200 aircraft in August 2018 as feed stock for future conversion and engine replacements. Two of these aircraft have been scheduled for cargo conversion with the expected delivery date of Q4 2019 and Q2 2020
4. The B767-200 aircraft in operation at March 31, 2018 is under a lease that terminates in February 2019
5. The seven B757-200 aircraft in operation at March 31, 2018 are owned by Cargojet. In November 2017, Cargojet purchased an additional B757-200 as feedstock for future cargo conversion. This aircraft has not yet been scheduled for cargo conversion and is not included in the table above. In January 2018, Cargojet purchased an additional B757-200 aircraft as feed stock for a future freighter conversion. This aircraft has now completed freighter conversion and has entered service on October 1, 2018.
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 expects to retire the remaining one B727-200 aircraft before the end of 2018 due to network growth and regulatory requirements that will prevent the aircraft from being flown in North America.
8. The Company has entered into a charter agreement with a third party to operate and manage two aircraft to provide individual and corporate charter services.

Recent Events

5.75% Hybrid Debenture Issue

On October 17, 2018 The Company entered into an agreement with a syndicate of underwriters under which the underwriters have agreed to purchase $75 million aggregate principal amount of listed senior unsecured hybrid debentures due April 30, 2024 (the "Debentures") at a price of $1,000 per Debenture (the "Offering"). The Company had also granted the underwriters an option to purchase up to an additional $11.25 million aggregate principal amount of Debentures, on the same terms and conditions, exercisable in whole or in part, for a period of 30 days following closing of the Offering. The Offering closed on November 6, 2018. The underwriters provided the Company with a notice of exercise on November 8, 2018 for the full amount of the option to purchase an additional $11.25 million aggregate principal amount of Debentures.

The Debentures will be direct, senior unsecured obligations of the Company and will rank subordinate to all existing and future senior secured and other secured indebtedness of the Company, and will rank *pari passu* to all existing and future senior unsecured, and other unsecured and unsubordinated indebtedness of the Company. The Debentures will rank senior to the Company's 4.65% convertible unsecured subordinated debentures due December 31, 2021. The Debentures will bear interest at a rate of 5.75% per annum, payable semi annually in arrears on April 30 and October 31 of each year, with the first interest payment on April 30, 2019. The April 30, 2019 interest payment will represent accrued interest from the closing of the Offering, up to, but excluding. April 30, 2019. The Debentures will mature on April 30, 2024.

The Debentures will not be redeemable by the Company prior to April 30, 2022. On or after April 30, 2022 and prior to April 30, 2023, the Debentures may be redeemed by the Company, in whole or in part from time to time, on not more than 60 days and not less than 40 days prior notice at a redemption price equal to 102.875% of the principal amount of the Debentures redeemed plus accrued and unpaid interest, if any, up to but excluding, the date set for redemption. On and after April 30, 2023 and prior to the Maturity Date, the Debentures may be redeemed in whole or in part at the option of the Company on not more than 60 days and not less than 40 days prior notice at a price equal to their principal amount plus accrued and unpaid interest, if any, up to but excluding the date set for redemption. The Company has the option to satisfy its obligations to repay the principal amount of the Debentures, plus accrued and unpaid interest, due at redemption or maturity by issuing and delivering that number of freely tradeable Common Voting Shares and/or Variable Voting Shares, as applicable, in accordance with the terms of the indenture governing the Debentures.

Collective Agreement

The Company has entered into a five year collective agreement with the pilots, represented by UNIFOR. The contract was ratified on July 28, 2018 and is effective as of July 01, 2018 and contains no-strike/no-lockout provision covering re–negotiation at the end of the 5 year term.

New International Routes

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

On July 16, 2018, Cargojet began operating a new scheduled ACMI route between Canada and the USA. Under this arrangement Cargojet operates five (5) flights per week with a dedicated B757-200 aircraft. Annual revenues are expected to be approximately $6 million.

Cargojet expects demand for air cargo service to South America and Europe to remain strong and began operating its own co-load flights in February 2018. Commencing in February 2018, Cargojet began operating flights for customers twice a week between Canada, Colombia and Peru.

In February 2018, Cargojet also added a second frequency between Canada and Europe.

Cargojet's exclusive ACMI agreement with Air Canada (to fly two flights per week to Mexico, two flights per week to South America and one flight per week to Europe) expired on December 31, 2017. This agreement represented annual gross revenues of approximately $9 million. Cargojet expects to continue working together with Air Canada to build upon their strong commercial cooperation and explore synergies in the marketplace.

Acquisition and disposal of Property, Plant and Equipment

During the nine month period ended September 30, 2018, the Company sold one B767-300 aircraft that was previously owned and recorded as property plant and equipment under development and leased the aircraft back from an equipment leasing company as disclosed below under Aircraft Finance Lease. The Company also sold one B727-200 aircraft along with spares, and one Challenger 601 aircraft that were previously owned and recorded as Aircraft hull, Engines and Rotable spares respectively, for $1.3 million resulting in a gain of $0.1 million. The Company also completed the acquisition of an additional B757-200 aircraft and acquired three B767-200 aircraft as feed stock for future conversion and engine replacements using the revolving credit facility.

Increase in Revolving Credit Facility and termination of the delayed-draw term loan facility ("the DDTL Facility")

Pursuant to the terms of its Credit Agreement, the Company requested an increase in the Aggregate Revolving Credit Facility from $200.0 million to $225.0 million and from $225.0 million to $400.0 million. These increases were approved on July 30, 2018 and September 28. 2018 respectively, and formed the part of the Aggregated Revolving Credit Facility in all respects. In addition, the maturity date of the Revolving Credit Facility was further extended to August 17, 2023 and the DDTL Facility was terminated. All other terms, conditions, pricing, covenants and security requirements remained the same.

Aircraft Finance Lease

During the nine month period ended September 30, 2018, the Company completed a sale and lease back arrangement for one B767-300 aircraft that includes a bargain purchase option. This lease is deemed to be maturing on the exercise date of the bargain purchase option within 3 years of the aircraft being ready for use. No gain or loss has been recognized on the sale and lease back arrangement. The Company also entered in to a finance lease arrangement for another B767-300 aircraft that includes a bargain purchase option. This lease is deemed to be maturing on the exercise date of the bargain purchase option within 3 years of the aircraft being ready for use or at the end of the lease term at 5 years. On October 22, 2018, the Company also entered in to a finance lease arrangement for a term of five years for one B767-300 converted freighter aircraft that includes a bargain purchase option. This lease is deemed to be maturing on the exercise date of the bargain purchase option at the end of the lease term.

Total Return Swap

The Company had an obligation to pay share-based additional fees under the MLA and certain aircraft facility arrangements. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company pays interest to the financial institution based on Canadian dollar 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 of sales of the underlying shares. The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. On September 11 2018, the total return swap was settled by disposal of 53,600 of underlying shares of the swap by the counterparty and the Company received $2.9 million from the financial institution.

The Company recently changed its method of settlement of options issued under the Stock Option Plan for executives and management by providing a choice to settle either in (i) fully paid Common Voting Shares or Variable Voting Shares, as applicable, or (ii) as a cash payment subject to management's approval. Due to this change in the settlement practice and on subsequent establishment of the present obligation to settle in cash, a prospective change was made to account for the options as cash-settled liabilities. Accordingly, the Company's ultimate obligation will depend on the difference between the exercise price of 208,656 outstanding options and the market price on the date when the option holders exercise these options. In September 2018, the Company entered into a total return swap agreement with a financial institution to manage its exposure under this obligation. Under the agreement, the Company will pay interest to the financial institution based on Canadian dollar LIBOR and 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 of sales of the underlying shares. The total return swap has a one-year term, may be extended annually, and the contract allows for early termination at the option of the counterparties.

The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. However, the Company adopted the policy of offsetting the fair value changes of the recognized option liability and the total return swap in the statement of Consolidated Statement of Earnings and Comprehensive Income. The fair value adjustment of the As at September 30, 2018, the fair value of the 129,600 underlying shares under swap was $1.0 million in favor of the Company and is offset by salaries and benefits in the Consolidated Statement of Earnings and Comprehensive Income.

The fair value of the total return swap is classified as level 3 under the fair value hierarchy and is determined by using the Black Scholes model. This model uses the following inputs: market price of the underlying asset, strike price of the underlying asset, risk free rate, dividend yield and expected volatility. An increase or decrease of 10% in the market price of the underlying asset will result in a gain or loss of $0.8 respectively. A 10% increase or decrease in other inputs will result in an immaterial amount of gain or loss respectively.

As on the date of this MD&A, the financial institution completed the acquisition of 208,656 Company shares underlying the swap at a weighted average price of $80.75.

Foreign Exchange Forward Contracts

As at September 30, 2018, the Company had foreign exchange forward contracts outstanding to buy US $6.0 million at a weighted average contracted rate of CAD $1.32235 per US dollar (December 31, 2017 – US$ 38.0 million at a weighted average contracted rate of CAD $1.2993 per US dollar). The estimated value of the foreign exchange forward contracts as at September 30, 2018 is a payable of $0.1 million (December 31, 2017 – payable of $1.6 million) and is included under derivative financial instruments on the balance sheet.

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 12). 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 September 30,		Nine month period ended September 30,	
	2018	2017	**2018**	2017
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	$	$	$	$
Revenues	**114.1**	89.4	**322.3**	264.7
Direct expenses	**87.5**	64.7	**247.1**	195.8
	26.6	24.7	**75.2**	68.9
General and administrative expenses	**11.9**	12.2	**34.3**	32.0
Sales and marketing expenses	**0.6**	0.2	**1.9**	0.9
Finance costs	**6.9**	5.5	**19.2**	19.4
Loss on extinguishment of debt	**-**	-	**-**	2.3
Other gain, net	**-**	(1.4)	**(0.8)**	(3.7)
	19.4	16.5	**54.6**	50.9
EARNINGS BEFORE INCOME TAXES	**7.2**	8.2	**20.6**	18.0
Provision for income taxes				
Deferred	**2.5**	2.6	**6.7**	5.4
Net earnings and comprehensive income	**4.7**	5.6	**13.9**	12.6
Earnings per share				
Basic	**$0.35**	$0.42	**$1.04**	$1.08
Diluted	**$0.35**	$0.41	**$1.03**	$1.06
Average number of shares - basic (in thousands of shares)	**13,417**	13,293	**13,405**	11,692
Average number of shares - diluted (in thousands of shares)	**13,516**	13,447	**13,516**	11,846

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

	Three Month Periods Ended							
	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016
Revenues	**$114.1**	$109.0	$99.2	$118.2	$89.4	$88.2	$87.1	$94.1
Net earnings (Loss) from continuing operations	**$4.7**	$4.7	$4.5	$11.2	$5.6	$4.4	$2.6	$(1.0)
Earnings (Loss) per Share								
From continuing operations								
- Basic	**$0.35**	$0.35	$0.34	$0.83	$0.42	$0.40	$0.25	$(0.09)
- Diluted	**$0.35**	$0.35	$0.33	$0.81	$0.41	$0.39	$0.24	$(0.09)
Average number of shares - basic (in thousands of shares)	**13,417**	13,412	13,385	13,383	13,293	11,098	10,655	10,643
Average number of shares - diluted (in thousands of shares)	**13,516**	13,547	13,523	15,514	13,447	11,321	10,820	10,643

EBITDA [(A)], Adjusted EBITDA [(B)], EBITDAR [(C)], Adjusted EBITDAR [(D)] and Adjusted Free Cash Flow [(E)]

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.

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 calculations of EBITDA, Adjusted EBITDA, EBITDAR, Adjusted EBITDAR and Adjusted Free Cash Flow are shown on page 16 of the MD&A.

(A) Please refer to End Note [(A)] included at the end of this MD&A.
(B) Please refer to End Note [(B)] included at the end of this MD&A.
(C) Please refer to End Note [(C)] included at the end of this MD&A.
(D) Please refer to End Note [(D)] included at the end of this MD&A.
(E) Please refer to End Note [(E)] included at the end of this MD&A.

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 September 30,		Nine Month Period Ended September 30,	
	2018	2017	**2018**	2017
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net earnings	**4.7**	5.6	**13.9**	12.6
Add:				
Interest	**6.9**	5.5	**19.2**	19.4
Provision of deferred taxes	**2.5**	2.6	**6.7**	5.4
Depreciation of property, plant and equipment	**16.9**	12.9	**47.4**	34.6
EBITDA	**31.0**	26.6	**87.2**	72.0
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**-**	1.0
Loss (gain) on sale of property, plant and equipment	**0.3**	-	**(0.1)**	-
Gain on derecognition of provision for lease return conditions	**-**	(1.0)	**-**	(1.6)
Unrealized foreign exchange loss (gain)	**0.4**	(1.3)	**1.8**	(4.3)
Loss on extinguishment of debt	**-**	-	**-**	2.3
Unrealized loss (gain) on forward foreign exchange contracts	**0.1**	1.1	**(1.4)**	2.9
Gain on cash settled share based payment arrangements and total return swap	**(0.8)**	(0.2)	**(1.1)**	(0.7)
Employee pension	**0.5**	0.2	**1.4**	0.7
Adjusted EBITDA	**31.5**	25.4	**87.8**	72.3
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**31.0**	26.6	**87.2**	72.0
Aircraft rent	**2.2**	2.8	**7.8**	10.6
EBITDAR	**33.2**	29.4	**95.0**	82.6
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**-**	1.0
Loss (gain) on sale of property, plant and equipment	**0.3**	-	**(0.1)**	-
Gain on derecognition of provision for lease return conditions	**-**	(1.0)	**-**	(1.6)
Unrealized foreign exchange loss (gain)	**0.4**	(1.3)	**1.8**	(4.3)
Loss on extinguishment of debt	**-**	-	**-**	2.3
Unrealized loss (gain) on forward foreign exchange contracts	**0.1**	1.1	**(1.4)**	2.9
Gain on cash settled share based payment arrangements and total return swap	**(0.8)**	(0.2)	**(1.1)**	(0.7)
Employee pension	**0.5**	0.2	**1.4**	0.7
Adjusted EBITDAR	**33.7**	28.2	**95.6**	82.9
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES	**10.4**	23.5	**72.8**	57.2
Add :Effects of exchange rate changes	**(0.3)**	(1.8)	**0.4**	(0.8)
Less : Maintenance capital expenditures	**(16.4)**	(1.3)	**(64.1)**	(19.3)
Add: Proceeds from disposal of property, plant and equipment	**0.3**	-	**1.3**	-
Standardized free cash flow	**(6.0)**	20.4	**10.4**	37.1
Changes in non-cash working capital items and deposits	**15.7**	(1.1)	**5.7**	-
Adjusted Free Cash flow	**9.7**	19.3	**16.1**	37.1

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

Review of Operations for the Three Month Periods ended September 30, 2018 and 2017
Net earnings for the three month periods ended September 30, 2018 and 2017

(Canadian dollars in millions except where indicated)

	Q3		CHANGE	
	2018	2017	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**60.5**	52.2	8.3	15.9%
ACMI Revenues	**12.0**	11.9	0.1	0.8%
All-in Charter Revenues	**10.9**	5.3	5.6	105.7%
Total overnight, ACMI and charter revenues	**83.4**	69.4	14.0	20.2%
Total Revenue - FBO	**0.3**	0.1	0.2	200.0%
Total fuel and other cost pass through	**28.5**	19.4	9.1	46.9%
Fuel surcharge and other pass through revenues	**28.8**	19.5	9.3	47.7%
Lease and other revenue	**1.9**	0.5	1.4	280.0%
Total revenues	**114.1**	89.4	24.7	27.6%
Operating Days	**49**	49	-	-
Average cargo revenue per operating day	**1.70**	1.42	0.28	19.7%
Direct expenses				
Fuel Costs	**28.6**	17.0	11.6	68.2%
Depreciation	**13.4**	9.8	3.6	36.7%
Aircraft Cost	**3.7**	4.2	(0.5)	-11.9%
Heavy Maintenance Amortization	**3.0**	2.8	0.2	7.1%
Maintenance Cost	**7.7**	5.8	1.9	32.8%
Crew Costs	**7.6**	5.9	1.7	28.8%
Commercial and Other Costs	**23.5**	19.2	4.3	22.4%
Total direct expenses	**87.5**	64.7	22.8	35.2%
Gross margin	**26.6**	24.7	1.9	7.7%
Gross margin %	**23.3%**	27.6%	-4.3%	
SG&A & Marketing				
General and Administrative Costs	**11.5**	11.9	(0.4)	-3.4%
Sales costs	**0.6**	0.2	0.4	200.0%
Depreciation	**0.4**	0.3	0.1	33.3%
Total SG&A & Marketing expenses	**12.5**	12.4	0.1	0.8%
Other SG&A				
Other gains	**-**	(1.4)	1.4	100.0%
Finance costs	**6.9**	5.5	1.4	25.5%
Total other SG&A	**6.9**	4.1	2.8	68.3%
EARNINGS BEFORE INCOME TAXES	**7.2**	8.2	(1.0)	-12.2%
Income Taxes-Deferred	**2.5**	2.6	(0.1)	-3.8%
Net EARNINGS	**4.7**	5.6	(0.9)	-16.1%
Earnings per share - $ CAD				
Basic	**$0.35**	$0.42	$(0.07)	-16.7%
Diluted	**$0.35**	$0.41	$(0.06)	-14.6%

Highlights for the Three Month Periods ended September 30, 2018 and 2017

- Total revenue for the three month period ended September 30, 2018 was $114.1 million compared to $89.4 million for the same period in 2017, representing an increase of $24.7 million or 27.6%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2018 was $1.70 million per operating day compared to $1.42 million for the same period in 2017, representing an increase of $0.28 million or 19.7%.

- Adjusted EBITDA for the three month period ended September 30, 2018 was $31.5 million compared to $25.4 million for the same period in 2017, an increase of $6.1 million or 24.0%.

- Adjusted EBITDAR for the three month period ended September 30, 2018 was $33.7 million compared to $28.2 million for the same period in 2017, an increase of $5.5 million or 19.5%.

- Adjusted Free Cash Flow was an inflow of $9.7 million for the three month period ended September 30, 2018 compared to an inflow of $19.3 million for the same period in 2017, a decrease of $9.6 million or 49.7%.

Revenue

Total revenue for the three month period ended September 30, 2018 was $114.1 million, compared to $89.4 million for the same period in 2017, representing an increase of $24.7 million or 27.6%. The increase in total revenue was due primarily to an $8.3 million increase in core overnight revenues, a $0.1 million increase in ACMI revenues, a $5.6 million increase in all in charter revenues, a $9.3 million increase in fuel surcharges and other cost pass-through revenues, and a $1.4 million increase in lease and other revenue.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended September 30, 2018 was $60.5 million compared to $52.2 million for the same period in 2017, an increase of $8.3 million or 15.9%. 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 15.9% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended September 30, 2018 were $12.0 million compared to $11.9 million for the same period in 2017, representing a increase of $0.1 million or 0.8%. The increase of $0.1 million was primarily due to a new scheduled route to the USA that started in July 2018, partially offset by discontinuation of the ACMI agreement with Air Canada.

All-in scheduled and adhoc charter revenues for the three month period ended September 30, 2018 were $10.9 million compared to $5.3 million for the same period in 2017, an increase of $5.6 million or 105.7%. The increase in all-in charter revenue was due primarily due to additional flights between Canada, Colombia and Peru and between Canada and Europe.

Fuel surcharges and other cost pass-through revenues were $28.8 million for the three month period ended September 30, 2018 compared to $19.5 million for the same period in 2017, an increase of $9.3 million or 47.7%. During the quarter, fuel surcharges increased due primarily to a 37.2% increase in fuel prices and higher customer volumes.

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 aircraft that started in 2016. Other revenues were $1.9 million for the three month period ended September 30, 2018 compared to $0.5 million for the same period in 2017, an increase of $1.4 million or 280.0%.

Direct Expenses

Total direct expenses were $87.5 million for the three month period ended September 30, 2018 compared to $64.7 million for the same period in 2017, representing an increase of $22.8 million or 35.2%. As a percentage of revenue, direct expenses increased from 72.4% in 2017 to 76.7% for the same period in 2018. The overall increase in direct expenses was due primarily to a $11.6 million increase in fuel costs, a $3.6 million increase in depreciation, a $0.2 million increase in heavy maintenance costs, a $1.9 million increase in maintenance costs, a $1.7 million increase in crew costs, and a $4.3 million increase in commercial and other costs. The increase was partially offset by a $0.5 million decrease in aircraft costs.

Fuel costs were $28.6 million for the three month period ended September 30, 2018 compared to $17.0 million for the same period in 2017. The $11.6 million or 68.2% increase in fuel costs was due primarily to a 11.9% increase in block hours on the overnight and day networks, an increase in adhoc charter activity and an 37.2% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $13.4 million for the three month period ended September 30, 2018 compared to $9.8 million for the same period in 2017. The $3.6 million or 36.7% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and a reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $3.7 million for the three month period ended September 30, 2018 compared to $4.2 million for the same period in 2017, representing a decrease of $0.5 million or 11.9%. The decrease was due primarily to lower fixed lease rental costs and variable lease costs due to the buyback of three B757-200 aircraft operating leases, partially offset by 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 $3.0 million for the three month period ended September 30, 2018 compared to $2.8 million for the same period in 2017, representing an increase of $0.2 million or 7.1%. 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 $7.7 million for the three month period ended September 30, 2018 compared to $5.8 million for the same period in 2017, representing an increase of $1.9 million or 32.8%. The increase in costs was due primarily to higher block hours and hiring of additional maintenance personnel and an increase in line maintenance costs primarily due to the increase in total block hours and cycles and effect of exchange rate on expenditures incurred in USD currency.

Total crew costs including salaries, training and positioning were $7.6 million for the three month period ended September 30, 2018 compared to $5.9 million for the same period in 2017, representing an increase of $1.7 million or 28.8%. The increase was due primarily to the hiring of additional crews, salary increases due to collective agreement with the union and increased crew positioning costs.

Commercial and other direct operating costs were $23.5 million for the three month period ended September 30, 2018 compared to $19.2 million for the same period in 2017, representing an increase of $4.3 million or 22.4% This increase was due primarily to a $0.9 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, a $1.4 million net increase in cartage and ground linehaul costs, a $2.2 million increase in landing, parking, navigation and ground service equipment costs due to increase in activity, a $0.1 million increase in de-icing costs and a $0.2 million net increase in warehouse rent and repair costs. This increase was partially offset by a $0.5 million reduction in ground handling costs due to the Company providing its own ground handling services during the three month period ended September 30, 2018 at six of its locations.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended September 30, 2018 were $12.5 million compared to $12.4 million for the same period in 2017, representing an increase of $0.1 million or 0.8%. The increase was primarily due to a $0.7 million increase in salaries and benefits due to increased headcount and salary increases, a $0.4 million increase in selling and marketing expenses and a $0.1 million increase in depreciation. This increase was partially offset by a $0.9 million decrease in management bonuses due to netting off of total return swap gain with management bonuses in 2018 and a $0.2 million decrease in consulting, audit and legal expenses.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended September 30, 2018 were $6.9 million compared to $4.1 million for the same period in 2017, representing an increase of $2.8 million or 68.3%. The increase was due primarily to a $1.4 million net decrease in other gains in 2018 and a $1.4 million increase in finance costs.

Other gains

Other gains for the three month period ended September 30, 2018 were nil compared to a gain of $1.4 million for the same period in 2017, representing a decrease of $1.4 million or 100.0%. The gain in 2017 was primarily due to a $1.0 million gain on de-recognition of lease returns costs related to the conversion of B757-200 aircraft operating leases to finance leases in 2017, a $1.5 million gain primarily related to foreign exchange, cash settled share based payment arrangement and total return swap in 2017, partially offset by a $1.1 million loss on forward foreign exchange contracts.

Finance costs

Finance costs for the three month period ended September 30, 2018 were $6.9 million compared to $5.5 million for the same period in 2017, representing an increase of $1.4 million or 25.5%. The increase was due primarily to higher utilization of credit facility for acquisition of aircraft and other assets. Interest on credit facility is lower than the rates offered by other lenders on firm loan or non-revolving facilities and will save interest costs on overall basis.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended September 30, 2018 was $31.5 million compared to EBITDA of $25.4 million for the same period in 2017. The increase in Adjusted EBITDA of $6.1 million was due primarily to the following:

- Growth in overnight network revenues due to increase in overnight volumes
- Significant increase in all - in charter revenues with corresponding increase in variable costs; and
- Buyback of three B757-200 aircraft operating leases.

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended September 30, 2018 was $33.7 million compared to $28.2 million for the same period in 2017, representing an increase of $5.5 million or 19.5%. 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 the buyback of three B757-200 aircraft operating leases.

Current Income Taxes

No provision for current income taxes was made due to the carryforward losses of prior year for the three month periods ended September 30, 2018 and 2017.

Deferred Income Taxes

The deferred income taxes for the three month period ended September 30, 2018 was a provision of $2.5 million compared to a provision of $2.6 million for the same period in 2017. 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 $9.7 million for the three month period ended September 30, 2018 compared to an inflow of $19.3 million for the same period in 2017, representing a decrease of $9.6 million. The decrease in Adjusted Free Cash Flow was due primarily to the increase in maintenance capital expenditure partially offset by the proceeds from disposal of property, plant and equipment, effect of changes in non-cash working capital items and deposits, and increase in Adjusted EDITDA.

Dividends

Total dividends declared for the three month period ended September 30, 2018 were $2.8 million or $0.2120 per share. In comparison, total dividends declared for the three month period ended September 30, 2017 were $2.6 million or $0.1925 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 20, 2018	July 05, 2018	-	13,417,250	0.2120	2,844,457
September 20, 2018	October 05, 2018	2,844,457	13,417,250	0.2120	
		2,844,457	-	-	2,844,457

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
June 20, 2017	July 05, 2017	-	12,635,336	0.1925	2,432,302
September 20, 2017	October 05, 2017	2,566,084	13,330,307	0.1925	-
		2,566,084	-	-	2,432,302

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $10.4 million for the three month period ended September 30, 2018 (September 30, 2017 - $23.5 million). With the adjustment of exchange rate changes for the three month period ended September 30, 2018, the cash generated from operating activities was $10.1 million (September 30, 2017 - $21.7 million). The $11.6 million decrease in cash was due primarily to the changes in non-cash working capital items and deposits.

Cash provided from financing activities during the three month period ended September 30, 2018 was $50.8 million (September 30, 2017 - $12.9 million) and was comprised of proceeds from borrowings of $66.4 million (September 30, 2017 – $19.8), the repayment of borrowings $nil (September 30, 2017 - $0.1 million). The proceeds were partially offset by the repayment of obligations under finance lease of $7.3 million (September 30, 2017 - $4.6 million), the options settled in cash of $5.5 million (September 30, 2017 - $nil), and the payment of dividends to shareholders of $2.8 million (September 30, 2017 - $2.4 million).

Cash used in investing activities during the three month period ended September 30, 2018 was $62.3 million (September 30, 2017 - $36.2 million) and was comprised of property, plant and equipment additions of $65.5 million (September 30, 2017 - $36.2 million). This was partially offset by proceeds from the disposal of property, plant and equipment of $0.3 million (September 30, 2017 - $nil) and the proceeds from the Company's total return swap and the settlement of derivative financial instruments $2.9 (September 30, 2017 - $nil).

Capital Expenditures

The property, plant and equipment additions of $65.5 million in the three month period ended September 30, 2018 (September 30, 2017 - $36.2 million) were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, spares and rotable spares.

Review of Operations for the Nine Month Periods ended September 30, 2018 and 2017
Net Earnings for the Nine Month Periods Ended September 30, 2018 and 2017

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2018	2017	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**177.4**	157.2	20.2	12.8%
ACMI Revenues	**31.7**	32.1	(0.4)	-1.2%
All-in Charter Revenues	**26.7**	11.8	14.9	126.3%
Total overnight, ACMI and charter revenues	**235.8**	201.1	34.7	17.3%
Total Revenue - FBO	**0.9**	0.4	0.5	125.0%
Total fuel and other cost pass through	**80.2**	61.0	19.2	31.5%
Fuel surcharge and other pass through revenues	**81.1**	61.4	19.7	32.1%
Lease and other revenue	**5.4**	2.2	3.2	145.5%
Total revenues	**322.3**	264.7	57.6	21.8%
Operating Days	**149**	149	-	-
Average cargo revenue per operating day	**1.58**	1.35	0.23	17.0%
Direct expenses				
Fuel Costs	**78.3**	50.8	27.5	54.1%
Depreciation	**37.6**	26.3	11.3	43.0%
Aircraft Cost	**12.5**	15.1	(2.6)	-17.2%
Heavy Maintenance Amortization	**8.3**	7.4	0.9	12.2%
Maintenance Cost	**22.3**	17.8	4.5	25.3%
Crew Costs	**20.7**	17.9	2.8	15.6%
Commercial and Other Costs	**67.4**	60.5	6.9	11.4%
Total direct expenses	**247.1**	195.8	51.3	26.2%
Gross margin	**75.2**	68.9	6.3	9.1%
Gross margin %	**23.3%**	26.0%	-2.7%	
SG&A & Marketing				
General and Administrative Costs	**32.9**	31.1	1.8	5.8%
Sales costs	**1.9**	0.9	1.0	111.1%
Depreciation	**1.4**	0.9	0.5	55.6%
Total SG&A & Marketing expenses	**36.2**	32.9	3.3	10.0%
Other SG&A				
Other gains and loss on extinguishment of debt	**(0.8)**	(1.4)	0.6	-57.1%
Finance costs	**19.2**	19.4	(0.2)	-1.0%
Total other SG&A	**18.4**	18.0	0.4	2.2%
EARNINGS BEFORE INCOME TAXES	**20.6**	18.0	2.6	14.4%
Income Taxes-Deferred	**6.7**	5.4	1.3	24.1%
Net earnings	**13.9**	12.6	1.3	10.3%
Earnings per share - $ CAD				
Basic	**1.04**	1.08	(0.04)	-3.7%
Diluted	**1.03**	1.06	(0.03)	-2.8%

Highlights for the nine month periods ended September 30, 2018 and 2017

- Total revenue for the nine month period ended September 30, 2018 was $322.3 million compared to $264.7 million for the same period in 2017, representing an increase of $57.6 million or 21.8%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2018 was $1.58 million per operating day compared to $1.35 million for the same period in 2017, representing an increase of $0.23 million per operating day or 17.0%.
- Adjusted EBITDA for the nine month period ended September 30, 2018 was $87.8 million compared to $72.3 million for the same period in 2017, an increase of $15.5 million or 21.4%.
- Adjusted EBITDAR for the nine month period ended September 30, 2018 was $95.6 million compared to $82.9 million for the same period in 2017, an increase of $12.7 million or 15.3%.
- Adjusted Free Cash Flow was an inflow of $16.1 million for the nine month period ended September 30, 2018 compared to an inflow of $37.1 million for the same period in 2017, a decrease of $21.0 million or 56.6%.

Revenue

Total revenue for the nine month period ended September 30, 2018 was $322.3 million compared to $264.7 million for the same period in 2017, representing an increase of $57.6 million or 21.8%. The increase in total revenue was due primarily to a $20.2 million increase in core overnight revenues, a $14.9 million increase in all in charter revenues, a $19.7 million increase in fuel surcharges and other cost pass-through revenues and a $3.2 million increase in lease and other revenue, partially offset by a $0.4 million decrease in ACMI revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the nine month period ended September 30, 2018 was $177.4 million compared to $157.2 million for the same period in 2017. This represents an increase of $20.2 million or 12.8%. 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 12.8% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenue for the nine month period ended September 30, 2018 was $31.7 million compared to $32.1 million for the same period in 2017, a decrease of $0.4 million or 1.2%. The decrease was due primarily to discontinuation of the ACMI agreement with Air Canada.

All-in scheduled and adhoc charter revenue for the nine month period ended September 30, 2018 was $26.7 million compared to $11.8 million for the same period in 2017, an increase of $14.9 million or 126.3%. The increase in all-in charter revenue was due primarily to additional flights between Canada, Colombia and Peru and between Canada and Europe.

Fuel surcharges and other cost pass-through revenues were $81.1 million for the nine month period ended September 30, 2018 compared to $61.4 million for the same period in 2017. During the period, fuel surcharges increased due to an 12.8% increase in the shipping volumes and revenues from new and existing customers that attracted fuel surcharges and a 30.6% increase in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.9 million for the nine month period ended September 30, 2018 compared to $0.4 million for the same period in 2017, an increase of $0.5 million or 125.0%.

Other revenues consist primarily of hangar rental revenues, maintenance revenues for aircraft line maintenance provided to other airlines and passenger revenue on Challenger series of aircraft. Other revenues for the nine month period ended September 30, 2018 were $5.4 million compared to $2.2 million for the same period in 2017, an increase of $3.2 million or 145.5%.

Direct Expenses

Total direct expenses were $247.1 million for the nine month period ended September 30, 2018 compared to $195.8 million for the nine month period ended September 30, 2017. As a percentage of revenue, direct expenses increased from 74.0% in 2017 to 76.7% for the same period in 2018. The overall increase in direct expenses was due primarily to a $27.5 million increase in fuel costs, a $11.3 million increase in depreciation, a $0.9 million increase in heavy maintenance amortization, a $4.5 million increase in maintenance costs, a $2.8 million increase in crew costs, and a $6.9 million increase in commercial and other costs, partially offset by a $2.6 million decrease in aircraft costs.

Fuel costs were $78.3 million for the nine month period ended September 30, 2018 compared to $50.8 million for the same period in 2017. The $27.5 million or 54.1% increase in fuel costs was due primarily to a 9.3% increase in block hours on the overnight and day networks and a 30.6% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are passed on to customers as an increase or decrease in their fuel surcharges.

The depreciation expense was $37.6 million for the nine month period ended September 30, 2018 compared to $26.3 million for the same period in 2017. The $11.3 million or 43.0% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $12.5 million for the nine month period ended September 30, 2018 compared to $15.1 million in 2017, representing a decrease of $2.6 million or 17.2%. The decrease in aircraft costs was due primarily to lower fixed lease costs and variable lease reserve costs due to the conversion of three B757-200 aircraft operating leases to finance leases. This decrease was partially offset by higher sub-charter costs due to the charter agreement with a third party to operate and manage two Challenger aircraft and 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 $8.3 million for the nine month period ended September 30, 2018 compared to $7.4 million for the same period in 2017, representing an increase of $0.9 million or 12.2%. 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 $22.3 million for the nine month period ended September 30, 2018 compared to $17.8 million for the same period in 2017, representing an increase of $4.5 million or 25.3%. 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.

Total crew costs including salaries, training and positioning were $20.7 million for the nine month period ended September 30, 2018 compared to $17.9 million for the same period in 2017, representing an increase of $2.8 million or 15.6%.This increase was due primarily to 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 $67.4 million for the nine month period ended September 30, 2018 compared to $60.5 million for the same period in 2017, representing an increase of $6.9 million or 11.4%. This increase was comprised primarily of a $3.6 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, $3.5 million higher landing, parking and navigation costs due to increased activity in 2018, $0.5 million of higher warehouse rent and repair costs, $2.9 million higher linehaul and cartage costs due to higher domestic and interline activity and $0.5 million higher ground service equipment maintenance and fuel costs. This amount was partially offset by a $3.7 million reduction in ground handling costs due to the Company providing its own ground handling services at six of its locations, a $0.2 million decrease in de-icing costs and a $0.2 million decrease in aircraft insurance costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the nine month period ended September 30, 2018 were $36.2 million compared to $32.9 million for the same period in 2017, representing an increase of $3.3 million or 10.0%. This increase was primarily due to a $1.4 million increase in employee pension and bonus costs, a $1.0 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 $0.5 million increase in depreciation costs, related to new leasehold improvements, additional furniture, equipment, hardware and software acquisitions, a $0.4 million increase in data and communication expenses for additional hires.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the nine month period ended September 30, 2018 were $18.4 million compared to $18.0 million for the same period in 2017, representing an increase of $0.4 million or 2.2%. The increase was due primarily to a $0.6 million decrease in other gains and a $0.2 million in reduced finance costs.

Other gains

Other gains for the nine month period ended September 30, 2018 were $0.8 million. This gain was comprised primarily of a $0.1 million gain on the sale of one B727-200 aircraft, engines and spare parts and one Challenger 601 aircraft, a $1.1 million gain on the Company's total return swap, partially offset by a $0.4 million loss related primarily to foreign exchange.

Finance costs

Finance costs for the nine month period ended September 30, 2018 were $19.2 million compared to $19.4 million for the same period in 2017, representing a decrease of $0.2 million or 1.0%. This decrease was due primarily to the redemption of the Company's 5.5% debentures that was completed in the third quarter of 2017 and settlement of finance leases, partially offset by an increase in the interest cost due to higher utilization of credit facility.

Adjusted EBITDA

Adjusted EBITDA for the nine month period ended September 30, 2018 was $87.8 million compared to $72.3 million for the same period in 2017. The increase in Adjusted EBITDA of $15.5 million or 21.4% was due primarily to the following:

- Growth in overnight network revenues due to growth in overnight volumes
- Significant increase in all - in charter revenues with corresponding increase in variable costs; and
- Buy back of three B757-200 aircraft operating leases.

Adjusted EBITDAR

Adjusted EBITDAR for the nine month period ended September 30, 2018 was $95.6 million compared to $82.9 million for the same period in 2017, representing an increase of $12.7 million or 15.3%. 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 the conversion of aircraft operating leases to finance leases.

Current Income Taxes

No provision for current income taxes was made for the nine month periods ended September 30, 2018 or 2017, due to the carry forward losses of prior years.

Deferred Income Taxes

The deferred income taxes recognized for the nine month period ended September 30, 2018 was a provision of $6.7 million compared to a provision of $5.4 million for the same period in 2017. 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 $16.1 million for the nine month period ended September 30, 2018, compared to an inflow of $37.1 million for the same period in 2017, representing a decrease of $21.0 million. The decrease was due to higher maintenance capital expenditure partially offset by the proceeds from disposal of property plant and equipment, changes in non-cash working capital items and deposits and increase in Adjusted EBITDA.

Dividends

Total dividends declared for the nine month period ended September 30, 2018 were $8.5 million or $0.6360 per share. In comparison, total dividends declared for the nine month period ended September 30, 2017 were $7.0 million or $0.5775 per share.

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	2,844,457
September 20, 2018	October 05, 2018	2,844,457	13,417,250	0.2120	
		8,526,031	-	0.6360	8,257,730

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2016	January 05, 2017	-	10,643,365	-	1,862,589
March 20, 2017	April 05, 2017	2,049,738	10,647,989	0.1925	2,049,738
June 20, 2017	July 05, 2017	2,432,302	12,635,336	0.1925	2,432,302
September 20, 2017	October 5, 2017	2,566,084	13,330,307	0.1925	
		7,048,124	-	0.5775	6,344,629

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $72.8 million (September 30, 2017 - $57.2 million). With the effect of exchange rate changes for the nine month period ended September 30, 2018, the cash generated by operating activities was $73.2 million (September 30, 2017 - $56.4 million). The $16.8 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 nine month period ended September 30, 2018 was $59.8 million (September 30, 2017 – $28.5 million) and was comprised of proceeds from borrowings of $143.8 million (September 30, 2017 - $86.9 million). The proceeds were partially offset by the repayment of borrowings $nil (September 30, 2017 - $35.7 million), the repayment of obligations under finance lease of $65.4 million (September 30, 2017 – $16.4 million), the options settled in cash of $7.3 million (September 30, 2017 - $nil), the tax paid on vested restricted share units and options of the Company of $3.0 million (September 30, 2017 - $nil) and dividends paid to shareholders of $8.3 million (September 30, 2017 – $6.3 million).

Cash used in investing activities during the nine month period ended September 30, 2018 was $141.1 million (September 30, 2017- $87.0 million) and was comprised primarily of property, plant and equipment additions of $155.6 million (September 30, 2017 - $92.7 million), partially offset by proceeds from the disposal of property, plant and equipment of $1.3 million (September 30, 2017 - $nil), proceeds from the sale and lease back of aircraft of $10.3 million (September 30,2017 - $nil), and proceeds from Company's total return swap and settlement of derivatives of $2.9 (September 30, 2017 - $5.7).

The Company had a working capital deficit of $2.7 million as at September 30, 2018, representing the difference between total current assets and current liabilities, compared to a working capital deficit of $50.1 million as at December 31, 2017. The decrease of $47.4 million is primarily due to a decrease in the current portion of finance leases payable due to the settlement of leases, a decrease in trade and other payables, an increase in inventories, an increase in trade and other receivables due to timing of collections, an increase in the current portion of prepaid expenses and deposits and an increase in the net derivative financial instrument receivable net of payable. This amount was partially offset by, an increase in overdraft, an increase in provisions, and an increase in dividends payable to shareholders.

Capital Expenditures

The property, plant and equipment additions of $155.6 million in the current year were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, rotable spares, heavy maintenance and other equipment and spares.

Financial Condition

The following is a comparison of the financial position of the Company as at September 30, 2018 to the financial position of the Company as at December 31, 2017:

Accounts Receivable

Accounts receivable as at September 30, 2018 amounted to $42.6 million compared to $40.1 million as at December 31, 2017. The increase of $2.5 million was primarily due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at September 30, 2018, property, plant and equipment were $650.7 million compared to $514.7 million as at December 31, 2017. The $136.0 million net increase in property, plant and equipment was primarily due to the net addition of $184.6 million in property plant and equipment, partially offset by depreciation of $47.4 million and $1.2 million write off of net book value of a B727-200 aircraft, a Challenger 601 aircraft and certain rotable parts due to the disposal of these assets. The Company received $1.3 million as proceeds on the disposal of these aircraft and parts.

Trade and Other Payables

Trade and other payables as at September 30, 2018 were $36.1 million compared to $38.1 million as at December 31, 2017. The decrease of $2.0 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of seven B767-300 aircraft. Total finance leases including the current portion were $143.0 million as at September 30, 2018 compared to $161.2 million as at December 31, 2017. The change was due to the settlement of obligations under finance leases of one B757-200 and one B767-300 aircraft paid in full on January 3, 2018 and March 27, 2018 respectively through the revolving credit facility and scheduled monthly repayments made in the nine month period ended September 30, 2018. These were partially offset by the execution of a sale and lease back arrangement for one B767-300 aircraft that includes bargain purchase option and the execution of a lease arrangement for one B767-300 aircraft that also includes a bargain purchase option.

Provisions

Provisions as at September 30, 2018 were $1.4 million compared to $1.3 million as at December 31, 2017 and was comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms.

Summary of Contractual Obligations

		Payments due by Year				
As at September 30, 2018	Total	2018	2019	2020	2021	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Finance leases	143.0	5.4	14.0	74.4	38.8	10.4
Provisions	1.4	-	1.4	-	-	-
Borrowings	268.3	-	-	-	-	268.3
Convertible Debentures	116.5	-	-	-	116.5	-
Operating leases	23.9	1.6	3.9	2.3	1.8	14.3
	553.1	7.0	19.3	76.7	157.1	293.0

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 this 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, 2017. 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 nine month period ended September 30, 2018, the Company had sales to three customers that represented 59.7% of the total revenues (September 30, 2017 – 63.5%). 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 September 30, 2018. 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, 2017 dated March 12, 2018 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.

During the three month period ended September 30, 2018, the Company experienced growth over all revenue streams by 27.6% compared to the same period in 2017. 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 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. The CPGOC contract also has a variable price component that will allow Company to recover costs related to fuel prices increases.

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 critical accounting judgment and estimations used in preparation of the Company's unaudited financial statements are described in the "Critical accounting judgments and key sources of estimation uncertainty" section of the MD&A for the three month period and year ended December 31, 2017 dated March 12, 2018 which was filed with SEDAR at www.sedar.com.

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 and "CJT.DB.C" 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 September 30, 2018:

Capital		Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares		Unlimited	13,112,484	-
Variable Voting Shares		Unlimited	305,107	-
Convertible Debentures - 4.65%	$	124,962,000	-	2,130,639

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, 2017 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

IFRS 15, Revenue from Contracts with Customers ("IFRS 15") as issued by IASB on May 28, 2014 outlines a single comprehensive model to account for revenue arising from contracts with customers and replaced the majority of existing IFRS requirements on revenue recognition including IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The core principle of the standard is to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The standard has prescribed a five-step model to apply the principles. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract as well as requiring more informative and relevant disclosures. IFRS 15 applies to nearly all contracts with customers, unless covered by another standard, such as leases, financial instruments and insurance contracts. In April 2016, the IASB issued amendments to IFRS 15, which provided additional guidance on the identification of performance obligations, on assessing principal versus agent considerations and on licensing revenue. The amendments also provide additional transition relief upon initial adoption of IFRS 15 and have the same effective date as the IFRS 15 standard.

The Company has adopted IFRS 15 on a full retrospective basis as of January 1, 2018. There were no material retrospective adjustments.

IFRS 9 *Financial Instruments* ("IFRS 9") sets out requirements for the recognition and measurement of financial assets and liabilities and some contracts to buy or sell non-financial items. It replaced IAS 39 *Financial Instruments: Recognition and Measurements* ("IAS 39") and is applicable as of January 1, 2018. IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 so the Company's accounting policy with respect to financial liabilities is not materially changed. The change did not impact the carrying value of any financial assets / liabilities on the transition date.

Standards, amendments and interpretations issued and not yet adopted

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 the 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 cost will be replaced with a depreciation charge and interest expense on recognized leased liability. This change in method will improve EBITDA (Earnings before Interest, Tax, Depreciation and Amortization). In the statement of cash flow, lease payments will be part of the financing activity as principal repayment and either operating or financing activity as 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 Company is currently evaluating the impact of the adoption of this standard on its consolidated statements of earnings and comprehensive income.

<u>End Notes</u>

(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.