CARGOJET INC.

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

For the Three Months and Year Ended December 31, 2017

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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 months and year ended December 31, 2017. The following also includes a discussion of and comparative operating results for the three months and year ended December 31, 2016.

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, L5K 2S3 Ontario.

The effective date of the MD&A is March 12, 2018. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook - Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), This MD&A should be read in conjunction with the 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. The company has also reclassified previous year figures in accordance with the change in presentation applicable in the current year.

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 page 33 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" starting on page 33.

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:

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Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended December 31,				Year Ended December 31,			
	2017	2016	Change	%	**2017**	2016	Change	%
Financial information								
Revenues	**$118.2**	$94.1	$24.1	25.6%	**$382.9**	$331.0	$51.9	15.7%
Direct expenses	**$80.8**	$66.6	$14.2	21.3%	**$276.6**	$245.2	$31.4	12.8%
Gross margin	**$37.4**	$27.5	$9.9	36.0%	**$106.3**	$85.8	$20.5	23.9%
Gross margin - %	**31.6%**	29.2%	2.4%		**27.8%**	25.9%	1.9%	
Selling, general & administrative expenses	**$16.4**	$19.3	($2.9)	-15.0%	**$49.3**	$45.5	$3.8	8.4%
Net finance costs & other gains and losses	**$5.4**	$9.0	($3.6)	-40.0%	**$23.4**	$37.3	($13.9)	-37.3%
Earnings before income taxes	**$15.6**	($0.8)	$16.4	1950.0%	**$33.6**	$3.0	$30.6	1020.0%
Income taxes	**($4.4)**	($0.2)	($4.2)	2200.0%	**($9.9)**	($0.6)	($9.3)	1650.0%
Net earning	**$11.2**	($1.0)	$12.2	1120.0%	**$23.7**	$2.4	$21.3	887.5%
Earnings per share - $CAD								
Basic	**$0.83**	($0.09)	$0.92	922.2%	**$1.96**	$0.23	$1.73	752.2%
Diluted	**$0.81**	($0.09)	$0.90	900.0%	**$1.93**	$0.22	$1.71	777.3%
EBITDA(1)	**$36.6**	$17.4	$19.2	110.3%	**$108.5**	$75.8	$32.7	43.1%
EBITDA margin - %	**31.0%**	18.5%	12.5%		**28.3%**	22.9%	5.4%	
Adjusted EBITDA(1)	**$37.3**	$27.9	$9.4	33.7%	**$109.5**	$93.1	$16.4	17.6%
Adjusted EBITDA margin - %	**31.5%**	29.6%	1.9%		**28.6%**	28.1%	0.5%	
EBITDAR(1)	**$39.4**	$21.8	$17.6	80.7%	**$121.9**	$96.0	$25.9	27.0%
EBITDAR margin - %	**33.2%**	23.2%	10.0%		**31.8%**	29.0%	2.8%	
Adjusted EBITDAR(1)	**$40.1**	$32.3	$7.8	24.1%	**$122.9**	$113.3	$9.6	8.5%
Adjusted EBITDAR margin - %	**33.9%**	34.3%	-0.4%		**32.1%**	34.2%	-2.1%	
Adjusted Free Cash flow(1)	**$26.8**	$19.0	$7.8	41.1%	**$63.9**	$49.9	$14.0	28.1%
Operating statistics								
Operating days(2)	**49**	49	-	-	**198**	199	(1)	-0.5%
Average cargo revenue per operating day(3)	**$1.82**	$1.44	$0.38	26.4%	**$1.47**	$1.27	$0.20	15.7%
Block hours	**9,001**	7,525	1,476	19.6%	**30,490**	25,618	4,872	19.0%
Aircraft in operating fleet								
B727-200	**3**	6	(3)		**3**	6	(3)	
B757-200	**6**	5	1		**6**	5	1	
B767-200	**1**	1	-		**1**	1	-	
B767-300	**9**	8	1		**9**	8	1	
Challenger 601	**2**	2	-		**2**	2	-	
	21	22	(1)	-4.5%	**21**	22	(1)	-4.5%
Average volume per operating day (lbs.)	**1,385,117**	1,299,691	85,426	6.6%	**1,192,612**	1,144,830	47,782	4.2%
Average head count	**949**	727	222	30.5%	**949**	727	222	30.5%

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 14 of this MD&A for 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.
- Operating scheduled international routes for multiple cargo customers between the USA and Bermuda, between Canada and Germany; and between Canada and Colombia and Peru; and
- Providing specialty charter service across North America, to the Caribbean and to Europe.

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 2015, 2016 and December 31, 2017 as well as the Company's planned operating fleet for the year ending December 31, 2018:

Type of Freighter Aircraft	Leased or Owned	Average Age	Number of Aircraft in Service				Maximum Payload (lbs.)	Range (miles)
			Actual			Plan		
			December 31,		December 31,	December 31,		
			2015	2016	2017	2018		
B767-300(1)	Finance Lease	24	5	5	6	6	125,000	6,000
B767-300(2)	Owned	24	2	3	3	4	125,000	6,000
B767-200(3)	Operating Lease	32	3	1	1	1	100,000	5,000
B757-200(4)(5)	Owned	30	2	2	5	7	80,000	3,900
B757-200(5)	Finance Lease	30	-	-	1	-	80,000	3,900
B757-200(5)	Operating Lease	28	3	3	-	-	80,000	3,900
B727-200(6)	Owned	38	7	6	3	-	60,000	1,800
Challenger 601(7)	Owned	31	1	2	2	2	6,000	3,300
Total Aircraft			23	22	21	20		

1. Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement ("MLA"). The fifth and the sixth aircraft were acquired in March 2015 and October 2017, respectively, under lease agreements 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 options in April 2018 and October 2020 respectively, and has recorded the leases as finance leases. In December 2017, Cargojet purchased a B767-300 aircraft as feedstock for cargo conversion in 2018. Cargojet expects to enter into a sale lease-back arrangement to facilitate the cargo conversion and financing of this aircraft. Cargojet expects to lease this aircraft under terms similar to its other two leased aircraft that were leased with terms of six years with a purchase option in favour of Cargojet after three years at a pre-determined price.
2. The three B767-300 aircraft in operation at December 31, 2017 are owned by Cargojet.
3. The B767-200 aircraft in operation at December 31, 2017 is under a lease that terminates in February 2019.
4. The five B757-200 aircraft in operation at December 31, 2017 are owned by Cargojet. During 2017, the Company purchased one aircraft fuselage and five engines. The aircraft fuselage has been inducted into cargo conversion with an expected delivery date in Q2 2018. Three of the purchased engines have been installed on a B757-200 currently in operation to replace engines that are due for restoration shop visits. The cost of these three purchased engines has been classified as maintenance capital expenditures. 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 executed a letter of intent to purchase an additional B757-200 aircraft as feed stock for future freighter conversions. This aircraft is not included in the table above. Cargojet expects to convert one of the B757-200 feedstock aircraft into cargo configuration by Q4 2018.
5. 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 and November 2017, the Company purchase the aircraft with the leases ending in October 2017 and December 2017. These purchased aircraft are classified as owned on the table. The remaining lease is classified as a finance lease for purpose of the MD&A. The Company purchased this aircraft in January 2018.
6. Cargojet expects to retire the remaining 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.
7. 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

Extension of CPGOC contract

On October 23, 2017, Cargojet extended the initial term of the Master Services Agreement originally entered into in February 2014 with the Canada Post Group of Companies ("CPGOC"). Prior to the extension, the initial term of the agreement was until March 31, 2022 with three (3) additional thirty-six (36) month renewal terms. Pursuant to the extension, the parties elected to exercise the first thirty-six (36) month renewal term. As a result, the initial term of the agreement now continues until March 31, 2025.

Scheduled ACMI Contracts and New International Routes

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

On April 23, 2017, Cargojet began operating a new scheduled ACMI route between Canada and the USA under a three (3) year contract. Under this contract, Cargojet operates six (6) flights per week with a dedicated B767-300 aircraft. Annual revenues are approximately $11 million.

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.

Cargojet expects demand for air cargo service to South America and Europe will 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.

Redemption of 5.5% debentures

On May 15, 2017, the Company issued a redemption notice pursuant to the convertible debenture indenture dated April 29, 2014 (the "Indenture") to redeem all of the outstanding debentures issued under the Indenture (the "5.5% Debentures") on July 5, 2017. Pursuant to the Indenture, the Company elected to satisfy its obligation to pay the redemption price of the 5.5% Debentures due at redemption by issuing that number of voting shares of the Company obtained by dividing the outstanding principal amount of the 5.5% Debentures by 95% of the volume weighted average trading price of the common voting shares on the TSX for the 20 consecutive trading days ending five trading days before the redemption date and to pay accrued and unpaid interest thereon up to but excluding the redemption date in cash to the holders of the 5.5% Debentures. From December 31, 2016 to July 4, 2017, $72.4 million of the outstanding 5.5% Debentures were converted to 2,518,911 common voting shares of the Company by the holders thereof pursuant to the Indenture. The remaining $1.4 of the outstanding 5.5% Debentures were redeemed by issuing 30,788 common voting shares of the Company and paying accrued and unpaid interest in cash to the holders thereof.

Syndicated Operating Facility and Term Loan

On April 7, 2017, the Company amended its revolving operating credit facility (the "Facility") availed through its subsidiary, Cargojet Airways Ltd., as borrower, with a syndicate of financial institutions (collectively, the "Lenders") by, amongst other things, increasing the maximum revolving credit available from $175 million to $200 million and establishing a non-revolving $75 million delayed-draw term loan facility (the "DDTL Facility"). The maturity date of the Facility is extended to April 7, 2020 and the maturity date of the DDTL Facility is April 7, 2022. The Company can draw the amount under the DDTL Facility until April 6, 2018. Any undrawn amount under the DDLT Facility at the end of this period will expire and will reduce the amount under the Facility. The DDTL Facility can be used to purchase aircraft, refinancing aircraft loans, make termination payments of aircraft capital leases and other capital expenditures. Any advance under the DDTL Facility is repayable in equal monthly payments based on the amount of the advance and a straight line amortization from the borrowing date to the DDLT Facility maturity date. As of the date of the MD&A, the Company has drawn $75 million under the DDTL Facility. The balance outstanding under the Facility including the DDTL Facility as of the date of MD&A is $67 million.

New Head Office

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly and beneficially owned by one of the Company's executive officers and directors (the "Interested Party").The transaction is in the normal course of business and will be measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The lease was negotiated on behalf of the Company by an independent director of the Company after an independent appraisal and review by outside counsel to ensure the lease was on markets terms and approved by the directors other than the Interested Party. Entering into the lease is not subject to minority shareholder approval nor valuation requirements of Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* as neither the fair market value of the subject matter of, nor the fair market value of the consideration for, the lease, insofar as it involves the Interested Party, exceed 25 per cent of the Company's current market capitalization.

The lease term is for a period of 15 years. The annual rental payments will be approximately $1.0 million plus taxes, maintenance and insurance costs. The basic rent is subject to revision every five years at a predetermined rate per the terms of the lease.

Acquisition of Property, Plant and Equipment

During the year ended December 31, 2017, the Company completed the acquisition of one B757-200 fuselage and three B757-200 engines and also amended the operating leases of three B757-200 aircraft. Pursuant to these amended leases, the Company was required to purchase the aircraft at the end of the term of the leases in October 2017, December 2017 and January 2018 respectively. Accordingly, the leases have been classified as finance leases. On September 29, 2017, November 30, 2017 and January 3, 2018, the Company purchased these aircraft using the DDTL Facility. The Company also purchased ground service equipment to permit the Company to provide its own ground handling at certain locations instead of utilizing the services and equipment of third parties.

Aircraft Finance Lease

During the year ended December 31, 2017, the Company entered into a finance lease for a B767-300 aircraft that includes a bargain purchase option. The estimated effective interest rate for the lease during the period is 6.63%. The lease is expected to mature on the early exercise date of the bargain purchase option in October 2020.

Aircraft Loans

The Company executed a loan agreement on March 31, 2015 with a US based lender for USD $27.5 million to acquire a B767-300 aircraft. The estimated effective annual interest rate for this loan agreement was 8.52%. On February 1, 2017, the Company prepaid the entire outstanding amount in respect of this loan agreement including the prepayment fees using the Company's revolving operating credit facility. The prepayment resulted in a pre-tax loss of $2.3 million including prepayment fees and unamortized costs, which were recorded as a loss on the extinguishment of debt. The settlement also resulted in the pre-tax exchange loss of $1.3 million.

Total Return Swap

The Company had an obligation to pay share-based additional fees under a Master Capital Lease Agreement and Aircraft Loan Facility Agreements with a Canadian equipment leasing and finance Company. 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 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 cash flow hedge for accounting purposes.

The fair value of the underlying shares pending settlement as at December 31, 2017 was $1.8 million in favour of the Company and is included under derivative financial instruments on the balance sheet. The net change in the fair value of the swap pending settlement as at December 31, 2017 was $1.2 million and is included as other gains in the consolidated statements of earnings and comprehensive income. The total return swap of $4.7 million was settled during the year ended December 31, 2017.

Foreign Exchange Forward Contracts

As at December 31, 2017, the Company had foreign exchange forward contracts outstanding to buy 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 December 31, 2017 is a payable of $1.6 million and is included under derivative financial instruments on the balance sheet. Foreign exchange contracts of $30.7 million were settled during the year ended December 31, 2017 resulting in a gain of $1.0 million.

Revenues

The Company's revenues are primarily generated from its overnight air cargo service between fourteen 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 11). 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 will operate Colombia, Peru, and Frankfurt 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 December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
	(unaudited)	(unaudited)	(audited)	(audited)
	$	$	$	$
Revenues	**118.2**	94.1	**382.9**	331.0
Direct expenses	**80.8**	66.6	**276.6**	245.2
	37.4	27.5	**106.3**	85.8
General and administrative expenses	**15.6**	18.5	**47.6**	43.2
Sales and marketing expenses	**0.8**	0.8	**1.7**	2.3
Impairment of property, plant and equipment	**-**	-	**-**	3.9
Finance costs	**5.8**	7.3	**25.2**	30.8
Loss on extinguishment of debt	**-**	1.5	**2.3**	7.5
Other (gain) loss	**(0.4)**	0.2	**(4.1)**	(4.9)
	21.8	28.3	**72.7**	82.8
EARNINGS (LOSS) BEFORE INCOME TAXES	**15.6**	(0.8)	**33.6**	3.0
Provision for income taxes				
Deferred	**4.4**	0.2	**9.9**	0.6
Net earnings (loss)	**11.2**	(1.0)	**23.7**	2.4
Earnings (Loss) per share				
Basic	**$0.83**	$(0.09)	**$1.96**	$0.23
Diluted	**$0.81**	$(0.09)	**$1.93**	$0.22
Average number of shares - basic (in thousands of shares)	**13,383**	10,643	**12,117**	10,450
Average number of shares - diluted (in thousands of shares)	**15,514**	10,643	**12,289**	10,787

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							
	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017	Dec 31 2016	Sep 30 2016	Jun 30 2016	Mar 31 2016
Revenues	**$118.2**	$89.4	$88.2	$87.1	$94.1	$80.7	$79.3	$76.9
Net earnings (Loss) from continuing operations	**$11.2**	$5.6	$4.4	$2.6	$(1.0)	$(4.8)	$3.8	$4.4
Earnings (Loss) per Share								
From continuing operations								
- Basic	**$0.83**	$0.42	$0.40	$0.25	$(0.09)	$(0.46)	$0.36	$0.43
- Diluted	**$0.81**	$0.41	$0.40	$0.25	$(0.09)	$(0.46)	$0.36	$0.43
Average number of shares - basic (in thousands of shares)	**13,383**	13,293	11,098	10,655	10,643	10,540	10,476	10,135
Average number of shares - diluted (in thousands of shares)	**15,514**	13,447	11,321	10,820	10,643	10,778	10,640	10,135

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 15 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		Year Ended	
	December 31,		December 31,	
	2017	2016	**2017**	2016
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net earnings (loss)	**11.2**	(1.0)	**23.7**	2.4
Add:				
Interest	**5.8**	7.3	**25.2**	30.8
Provision of deferred taxes	**4.5**	0.2	**9.9**	0.6
Depreciation of property, plant and equipment	**15.1**	10.9	**49.7**	42.0
EBITDA	**36.6**	17.4	**108.5**	75.8
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**1.0**	-
Impairment of property, plant and equipment	**-**	-	**-**	3.9
Gain on derecognition of provision for lease return conditions	**-**	-	**(1.6)**	-
Unrealized foreign exchange (gain) loss	**0.8**	2.3	**(3.5)**	(4.0)
Loss on extinguishment of debt	**-**	1.5	**2.3**	7.5
Unrealized loss (gain) on forward foreign exchange contracts	**(0.7)**	(1.1)	**2.2**	3.4
Gain on cash settled share based payment arrangements and total return swap	**(0.5)**	(0.9)	**(1.2)**	(2.2)
Employee pension	**1.1**	8.7	**1.8**	8.7
Adjusted EBITDA	**37.3**	27.9	**109.5**	93.1
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**36.6**	17.4	**108.5**	75.8
Aircraft rent	**2.8**	4.4	**13.4**	20.2
EBITDAR	**39.4**	21.8	**121.9**	96.0
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**1.0**	-
Impairment of property, plant and equipment	**-**	-	**-**	3.9
Gain on derecognition of provision for lease return conditions	**-**	-	**(1.6)**	-
Unrealized foreign exchange (gain) loss	**0.8**	2.3	**(3.5)**	(4.0)
Loss on extinguishment of debt	**-**	1.5	**2.3**	7.5
Unrealized loss (gain) on forward foreign exchange contracts	**(0.7)**	(1.1)	**2.2**	3.4
Gain on cash settled share based payment arrangements and total return swap	**(0.5)**	(0.9)	**(1.2)**	(2.2)
Employee pension	**1.1**	8.7	**1.8**	8.7
Adjusted EBITDAR	**40.1**	32.3	**122.9**	113.3
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES (1)	**21.6**	20.3	**78.7**	62.0
Add :Effects of exchange rate changes	**(0.4)**	0.6	**(1.2)**	(0.6)
Less : Maintanance capital expenditures(2)	**(5.3)**	(2.5)	**(24.6)**	(9.1)
Standardized free cash flow	**15.9**	18.4	**53.0**	52.3
Changes in non-cash working capital items and deposits	**10.9**	0.6	**10.9**	(2.4)
Adjusted Free Cash flow	**26.8**	19.0	**63.9**	49.9

1. Proceeds from the total return swap and the settlement of derivative financial instruments have been reclassed from cash generated from operating activities to cash generated/used in investing activities, accordingly amounts have been restated
2. Refer to the definition of maintenance capital expenditure in End Note (E).

Review of Operations for the Three Month Periods ended December 31, 2017 and 2016

Net earnings (loss) for the three month periods ended December 31, 2017 and 2016

(Canadian dollars in millions except where indicated)

	Q4		CHANGE	
	2017	2016	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**64.8**	58.2	6.6	11.3%
ACMI Revenues	**12.6**	9.0	3.6	40.0%
All-in Charter Revenues	**11.6**	3.5	8.1	231.4%
Total overnight, ACMI and charter revenues	**89.0**	70.7	18.3	25.9%
Total Revenue - FBO	**0.4**	0.2	0.2	100.0%
Total fuel and other cost pass through	**27.6**	22.5	5.1	22.7%
Fuel surcharge and other pass through revenues	**28.0**	22.7	5.3	23.3%
Lease and other revenue	**1.2**	0.7	0.5	71.4%
Total revenues	**118.2**	94.1	24.1	25.6%
Operating Days	**49**	49	-	-
Average cargo revenue per operating day	**1.82**	1.44	0.38	26.4%
Direct expenses				
Fuel Costs	**24.7**	18.4	6.3	34.2%
Depreciation	**12.1**	8.7	3.4	39.1%
Aircraft Cost	**4.5**	6.4	(1.9)	-29.7%
Heavy Maintenance Amortization	**2.6**	1.9	0.7	36.8%
Maintenance Cost	**7.8**	5.4	2.4	44.4%
Crew Costs	**6.4**	5.2	1.2	23.1%
Commercial and Other Costs	**22.7**	20.6	2.1	10.2%
Total direct expenses	**80.8**	66.6	14.2	21.3%
Gross margin	**37.4**	27.5	9.9	36.0%
Gross margin %	**31.6%**	29.2%	2.4%	
SG&A & Marketing				
General and Administrative Costs	**15.2**	18.2	(3.0)	-16.5%
Sales costs	**0.8**	0.8	-	-
Depreciation	**0.4**	0.3	0.1	33.3%
Total SG&A & Marketing expenses	**16.4**	19.3	(2.9)	-15.0%
Other SG&A				
Other gains and loss on extinguishment of debt	**(0.4)**	1.7	(2.1)	-123.5%
Finance costs	**5.8**	7.3	(1.5)	-20.5%
Total other SG&A	**5.4**	9.0	(3.6)	-40.0%
EARNING BEFORE INCOME TAXES	**15.6**	(0.8)	16.4	1950.0%
Income Taxes-Deferred	**(4.4)**	(0.2)	(4.2)	2200.0%
Net EARNING (LOSS)	**11.2**	(1.0)	12.2	1120.0%
Earning (Loss) per share - $ CAD				
Basic	**$0.83**	$(0.09)	$0.92	922.2%
Diluted	**$0.81**	$(0.09)	$0.90	900.0%

Highlights for the Three Month Periods ended December 31, 2017 and 2016

- Total revenue for the three month period ended December 31, 2017 was $118.2 million compared to $94.1 million for the same period in 2016, representing an increase of $24.1 million or 25.6%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2017 was $1.82 million per operating day compared to $1.44 million for the same period in 2016, representing an increase of $0.38 million or 26.4%.
- Adjusted EBITDA for the three month period ended December 31, 2017 was $37.3 million compared to $27.9 million for the same period in 2016, an increase of $9.4 million or 33.7%.
- Adjusted EBITDAR for the three month period ended December 31, 2017 was $40.1 million compared to $32.3 million for the same period in 2016, a decrease of $7.8 million or 24.1%.
- Adjusted Free Cash Flow was an inflow of $26.8 million for the three month period ended December 31, 2017 compared to an inflow of $19.0 million for the same period in 2016, an increase of $7.8 million or 41.1%.

Revenue

Total revenue for the three month period ended December 31, 2017 was $118.2 million, compared to $94.1 million for the same period in 2016, representing an increase of $24.1 million or 25.6%. The increase in total revenue was due primarily to a $6.6 million increase in core overnight revenues, a $3.6 million increase in ACMI revenues, a $8.1 million increase in all in charter revenues, a $5.3 million increase in fuel surcharge and other cost pass-through revenues, and a $0.5 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 December 31, 2017 was $64.8 million compared to $58.2 million for the same period in 2016, an increase of $6.6 million or 11.3%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Consumer Price Index. The increase in shipping volumes and prices during the period resulted in a 11.3% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended December 31, 2017 were $12.6 million, compared to $9.0 million for the same period in 2016, an increase of $3.6 million or 40.0%. The increase of $3.6 million was primarily due to a new scheduled route to the USA that started in April 2017.

All-in scheduled and adhoc charter revenues for the three month period ended December 31, 2017 were $11.6 million compared to $3.5 million for the same period in 2016, an increase of $8.1 million or 231.4%. The increase in all-in charter revenue was due primarily to higher adhoc charters to the Caribbean due to hurricane activity.

Fuel surcharges and other cost pass-through revenues were $28.0 million for the three month period ended December 31, 2017 compared to $22.7 million for the same period in 2016. During the quarter, fuel surcharges increased due primarily to a 15.9% increase in fuel prices and higher customer volumes.

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines and passenger revenues from charter flights using its Challenger aircraft that started in 2016. Other revenues were $1.2 million for the three month period ended December 31, 2017 compared to $0.7 million for the same period in 2016, an increase of $0.5 million or 71.4%.

Direct Expenses

Total direct expenses were $80.8 million for the three month period ended December 31, 2017 compared to $66.6 million for the same period in 2016, representing an increase of $14.2 million or 21.3%. As a percentage of revenue, direct expenses decreased from 70.8% in 2016 to 68.4% for the same period in 2017. The overall increase in direct expenses was due primarily to a $6.3 million increase in fuel costs, a $3.4 million increase in depreciation, a $0.7 million increase in heavy maintenance costs, a $2.4 million increase in maintenance costs, a $1.2 million increase in crew costs and a $2.1 million increase in commercial and other costs. The increase was partially offset by a $1.9 million decrease in aircraft costs.

Fuel costs were $24.7 million for the three month period ended December 31, 2017 compared to $18.4 million for the same period in 2016. The $6.3 million or 34.2% increase in fuel costs was due primarily to an 8.5% increase in block hours on the overnight and day networks, increase in adhoc charter activity and a 15.9% 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 $12.1 million for the three month period ended December 31, 2017 compared to $8.7 million for the same period in 2016. The $3.4 million or 39.1% 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 $4.5 million for the three month period ended December 31, 2017 compared to $6.4 million in 2016, representing a decrease of $1.9 million or 29.7%. The decrease was due primarily to lower fixed lease rental costs and variable lease costs due to the conversion of three B757-200 aircraft operating leases to finance leases in 2017 and decrease in passenger charter activity, partially offset by temporary engine lease costs, and higher sub charter costs.

Heavy maintenance amortization costs were $2.6 million for the three month period ended December 31, 2017 compared to $1.9 million in 2016, representing an increase of $0.7 million or 36.8%. The increase was due primarily to the timing of heavy maintenance "c-checks" of aircraft that started ahead of schedule. 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 $7.8 million for the three month period ended December 31, 2017 compared to $5.4 million in 2016, representing an increase of $2.4 million or 44.4%. The increase in costs was due primarily to higher block hours and hiring of additional maintenance personnel.

Total crew costs including salaries, training and positioning was $6.4 million for the three month period ended December 31, 2017 compared to $5.2 million in 2016, representing an increase of $1.2 or 23.1%. This increase was due to the hiring of additional crew and annual salary increases.

Commercial and other direct operating costs were $22.7 million for the three month period ended December 31, 2017 compared to $20.6 million in 2016, representing an increase of $2.1 million or 10.2% This increase was due primarily to a $2.1 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases and, $1.9 million higher landing, navigation, deicing and ground service equipment costs due to increased activity in 2017. This increase was partially offset by a $1.5 million reduction in ground handling costs due to the Company providing its own ground handling services during the three month period ended December 31, 2017 at six of its locations,a $0.2 million net decrease in cartage and ground linehaul costs and a $0.2 million net decrease in warehouse costs.

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

The Company plans to provide its own ground handling services at most of its locations in 2018.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2017 were $16.4 million compared to $19.3 million for the same period in 2016, representing a decrease of $2.9 million or 15.0%. The decrease was primarily due to, a $7.6 million decrease in pension benefit costs due to one-time increase of $8.7 million in pension costs for the CEO recognized at the inception of the defined benefit plan for past services in 2016, partially offset by, a $0.8 million increase in salaries and benefits due to increased head count and annual salary increases, a $1.4 million increase in foreign exchange losses, a $0.8 million increase in bonuses and incentives, a $0.4 million increase in audit, legal and consulting expenses, a $0.3 million increase in travel, meals and entertainment expenses, a $0.3 million increase in office rent expenses, a $0.1 million increase in depreciation, a $0.1 million increase in data and communication expenses, and a $0.5 million increase on other SG&A expenses.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended December 31, 2017 were $5.4 million compared to $9.0 million for the same period in 2016, representing a decrease of $3.6 million or 40.0%. The decrease was due primarily to a $2.1 million increase in other gains & losses and loss on extinguishment of debt and a $1.5 million reduction in finance costs.

Other gains & losses and loss on extinguishment of debt

Other gains for the three month period ended December 31, 2017 were a $0.4 million gain compared to a loss of $1.7 million for the same period in 2016, representing an increase of $2.1 million or 123.5%. The increase was due to a $1.5 million loss on extinguishment of debt due to the prepayment of aircraft loan facility agreements in 2016 and a $0.6 million increase in foreign exchange gains.

Finance costs

Finance costs for the three month period ended December 31, 2017 were $5.8 million compared to $7.3 million for the same period in 2016, representing a decrease of $1.5 million or 20.5%. The decrease was due primarily to the repayment of aircraft loans.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended December 31, 2017 was $37.3 million compared to EBITDA of $27.9 million for the same period in 2016. The increase in Adjusted EBITDA of $9.4 million was due primarily to the following:

- Significant increase in adhoc charters and ACMI revenues with corresponding increase in variable costs.
- Conversion of B757-200 aircraft operating leases to finance leases.
- Growth in overnight network volumes.

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended December 31, 2017 was $40.1 million compared to $32.3 million for the same period in 2016, representing an increase of $7.8 million or 24.1%. 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 three month periods ended December 31, 2017 and 2016.

Deferred Income Taxes

The deferred income taxes for the three month period ended December 31, 2017 was a provision of $4.4 million compared to a provision of $0.2 million for the same period in 2016. 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 $26.8 million for the three month period ended December 31, 2017, compared to an inflow of $19.0 million for the same period in 2016, representing an increase of $7.8 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in Adjusted EBITDA and changes in non-cash working capital items partially offset by effects of exchange rate changes.

Dividends

Total dividends declared for the three month period ended December 31, 2017 were $2.6 million or $0.1925 per share. In comparison, total dividends declared for the three month period ended December 31, 2016 were $1.9 million or $0.1750 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
September 20, 2017	October 05, 2017		13,330,307		2,566,084
December 20, 2017	January 05, 2018	2,576,156	13,382,629	0.1925	-
		2,576,156	-	0.1925	2,566,084

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
September 20, 2016	September 20, 2016	-	10,543,331		1,845,053
December 20, 2016	January 05, 2017	1,862,589	10,643,365	0.1750	-
		1,862,589	-	0.1750	1,845,053

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $21.6 million (December 31, 2016 - $20.3 million). With the adjustment of exchange rate changes for the three month period ended December 31, 2017, the cash generated from operating activities was $21.2 million (December 31, 2016 - $20.9 million). The $0.3 million increase in cash was due primarily to the increase in EBITDA partially offset by changes in non-cash working capital items and deposits.

Cash provided from financing activities during the three month period ended December 31, 2017 was $27.5 million (December 31, 2016 - Cash used of $28.0 million) and was comprised of proceeds from borrowings of $37.4 million (December 31, 2016 – $nil).The proceeds were partially offset by the repayment of borrowings of $0.5 million (December 31, 2016- $21.4 million), the repayment of obligations under finance lease of $7.8 million (December 31, 2016 - $4.8 million), and the payment of dividends to shareholders of $2.6 million (December 31, 2016 - $1.8 million).

Cash used in investing activities during the three month period ended December 31, 2017 was $43.0 million (December 31, 2016 - $14.9 million) and was comprised of property, plant and equipment additions of $43.0 million (December 31, 2016 - $14.9 million).

Capital Expenditures

The property, plant and equipment additions of $43.0 million in the current period (December 31, 2016 - $14.9 million) were primarily comprised of additions to aircraft, ground services equipment, leasehold improvements and rotable spares.

Review of Operations for the years ended December 31, 2017 and 2016

NET EARNINGS FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2017	2016	**$**	**%**
	(audited)	(audited)		
	$	$		
Core Overnight Revenues	**222.0**	209.2	12.8	6.1%
ACMI Revenues	**44.7**	30.6	14.1	46.1%
All-in Charter Revenues	**23.4**	13.3	10.1	75.9%
Total overnight, ACMI and charter revenues	**290.1**	253.1	37.0	14.6%
Total Revenue - FBO	**0.8**	0.5	0.3	60.0%
Total fuel and other cost pass through	**88.6**	74.6	14.0	18.8%
Fuel surcharge and other pass through revenues	**89.4**	75.1	14.3	19.0%
Lease and other revenue	**3.4**	2.8	0.6	21.4%
Total revenues	**382.9**	331.0	51.9	15.7%
Operating Days	**198**	199	(1)	-0.5%
Average cargo revenue per operating day	**1.47**	1.27	0.20	15.7%
Direct expenses				
Fuel Costs	**75.5**	59.2	16.3	27.5%
Depreciation	**38.4**	33.6	4.8	14.3%
Aircraft Cost	**19.6**	25.7	(6.1)	-23.7%
Heavy Maintenance Amortization	**10.0**	7.4	2.6	35.1%
Maintenance Cost	**25.6**	21.5	4.1	19.1%
Crew Costs	**24.3**	22.0	2.3	10.5%
Commercial and Other Costs	**83.2**	75.8	7.4	9.8%
Total direct expenses	**276.6**	245.2	31.4	12.8%
Gross margin	**106.3**	85.8	20.5	23.9%
Gross margin %	**27.8%**	25.9%	1.9%	
SG&A & Marketing				
General and Administrative Costs	**46.3**	42.2	4.1	9.7%
Sales costs	**1.7**	2.3	(0.6)	-26.1%
Depreciation	**1.3**	1.0	0.3	30.0%
Total SG&A & Marketing expenses	**49.3**	45.5	3.8	8.4%
Other SG&A				
Other gains and loss on extinguishment of debt	**(1.8)**	6.5	(8.3)	-127.7%
Finance costs	**25.2**	30.8	(5.6)	-18.2%
Total other SG&A	**23.4**	37.3	(13.9)	-37.3%
EARNINGS BEFORE INCOME TAXES	**33.6**	3.0	30.6	1020.0%
Income Taxes-Deferred	**(9.9)**	(0.6)	(9.3)	1650.0%
Net earnings	**23.7**	2.4	21.3	887.5%
Earnings per share - $ CAD				
Basic	**1.96**	0.23	1.73	752.2%
Diluted	**1.93**	0.22	1.71	777.3%

Highlights for the years ended December 31, 2017 and 2016

- Total revenue for the year ended December 31, 2017 was $382.9 million compared to $331.0 million for the same period in 2016, representing an increase of $51.9 million or 15.7%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2017 was $1.47 million per operating day compared to $1.27 million for the same period in 2016, representing an increase of $0.20 million per operating day or 15.7%.
- Adjusted EBITDA for the year ended December 31, 2017 was $109.5 million compared to $93.1 million for the same period in 2016, an increase of $16.4 million or 17.6%.
- Adjusted EBITDAR for the year ended December 31, 2017 was $122.9 million compared to $113.3 million for the same period in 2016, an increase of $9.6 million or 8.5%.
- Adjusted Free Cash Flow was an inflow of $63.9 million for the year ended December 31, 2017 compared to an inflow of $49.9 million for the same period in 2016, an increase of $14.0 million or 28.1%.

Revenue

Total revenue for the year ended December 31, 2017 was $382.9 million, compared to $331.0 million for the same period in 2016, representing an increase of $51.9 million or 15.7%. The increase in total revenue was due primarily to a $12.8 million increase in core overnight revenues, a $14.1 million increase in ACMI revenues, a $10.1 million increase in all in charter revenues, a $14.3 million increase in fuel surcharges and other cost pass-through revenues and a $0.6 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 year ended December 31, 2017 was $222.0 million compared to $209.2 million for the same period in 2016, an increase of $12.8 million or 6.1%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the consumer price index. The increase in shipping volumes and prices during the period resulted in 6.7% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenue for the year ended December 31, 2017 was $44.7 million, compared to $30.6 million for the same period in 2016, an increase of $14.1 million or 46.1%. The increase was due primarily to additional block hours flown to the USA, South America and to Europe.

All-in scheduled and adhoc charter revenue for the year ended December 31, 2017 was $23.4 million compared to $13.3 million for the same period in 2016, an increase of $10.1 million or 75.9%. The increase in all-in charter revenue was due primarily to higher adhoc charters to the Caribbean due to hurricane activity.

Fuel surcharges and other cost pass-through revenues were $89.4 million for the year ended December 31, 2017 compared to $75.1 million for the same period in 2016. During the period, fuel surcharges increased due to a 6.1% increase in the shipping volumes and revenues from new and existing customers that attracted fuel surcharges and a 18.6% increase in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $0.8 million for the year ended December 31, 2017 compared to $0.5 million for the same period in 2016,an increase of $0.3 million or 60.0%.

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 year ended December 31, 2017 were $3.4 million compared to $2.8 million for the same period in 2016 an increase of $0.6 million or 21.4%.

Direct Expenses

Total direct expenses were $276.6 million for the year ended December 31, 2017 compared to $245.2 million for the year ended December 31, 2016. As a percentage of revenue, direct expenses decreased from 74.1% in 2016 to 72.2% for the same period in 2017. The overall increase in direct expenses was due primarily to a $16.3 million increase in fuel costs, a $4.8 million increase in depreciation, a $2.6 million increase in heavy maintenance amortization, a $4.1 million increase in maintenance costs, a $2.3 million increase in crew costs, a $7.4 million increase in commercial and other costs, partially offset by a $6.1 million decrease in aircraft costs. For the year ended December 31, 2017, there were no one-time startup costs related to the CPGOC contract compared to $1.1 million for the same period in 2016.

Fuel costs were $75.5 million for the year ended December 31, 2017 compared to $59.2 million for the same period in 2016. The $16.3 million or 27.5% increase in fuel costs was due primarily to a 7.6% increase in block hours on the overnight and day networks and a 18.6% 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.

Depreciation expense was $38.4 million for the year ended December 31, 2017 compared to $33.6 million for the same period in 2016. The $4.8 million or 14.3% 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 $19.6 million for the year ended December 31, 2017 compared to $25.7 million in 2016, representing a decrease of $6.1 million or 23.7%. The decrease in aircraft costs was due primarily to lower fixed lease costs of $5.8 million and lower variable lease reserve costs of $2.7 million due to the return of the two B767-200 aircraft at the expiry of their lease terms and the conversion of three B757-200 aircraft operating leases to finance leases. This decrease was partially offset by $0.7 million of higher sub-charter costs due to the charter agreement with a third party to operate and manage two Challenger aircraft and a $1.7 million of temporary engine lease costs. For the year ended December 31, 2017, aircraft costs included no one-time startup costs related to the CPGOC contract compared to $1.1 million for the same period in 2016. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $10.0 million for the year ended December 31, 2017 compared to $7.4 million for the same period in 2016, representing an increase of $2.6 million or 35.1%. The increase was due primarily to the timing of heavy maintenance "c-checks" that started ahead of schedule. 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 $25.6 million for the year ended December 31, 2017 compared to $21.5 million in 2016, representing an increase of $4.1 million or 19.1%. $1.7 million of the increase was due to the hiring of additional maintenance personnel and $2.4 million increase in higher line maintenance costs primarily due to the expansion of the fleet.

Total crew costs including salaries, training and positioning were $24.3 million for the year ended December 31, 2017 compared to $22.0 million in 2016, representing an increase of $2.3 million or 10.5%.This increase was due primarily to hiring of additional crew, annual salary increases and increased training costs.

Commercial and other direct operating costs were $83.2 million for the year ended December 31, 2017 compared to $75.8 million for the same period in 2016, representing an increase of $7.4 million or 9.8%. This increase was comprised primarily of a $4.7 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, $3.8 million higher landing, parking deicing and navigation costs due to increased activity in 2017, $0.2 million of higher warehouse rent, $0.7 million higher linehaul and cartage costs, and $0.5 million higher ground service equipment costs, partially offset by a $0.3 million decrease in aircraft insurance and a $2.2 million reduction in ground handling costs due to the Company providing its own ground handling services at six of its locations.

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

The Company plans to provide its own ground handling services at most of its locations by end of 2018.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2017 were $49.3 million compared to $45.5 million for the same period in 2016, representing an increase of $3.8 million or 8.4%. This increase was primarily due to a $2.5 million increase in salaries and allowances due to increased headcount and annual salary increases, a $1.0 million increase in bonuses and incentives, a $0.5 million increase in legal, audit and consulting fees, a $6.2 million increase in realized foreign exchange losses primarily due to prepayment of a loan facility with a US based lender and losses on settlement of future contracts due to the strengthening of the Canadian dollar, a $0.3 million increase in depreciation costs, and a $0.8 million increase in other expenses, partially offset by a $6.9 million decrease in pension benefit costs due to a one-time pension cost of $8.7 million in 2016, and a $0.6 million decrease in sales and marketing costs.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the year ended December 31, 2017 were $23.4 million compared to $37.3 million for the same period in 2016, representing a decrease of $13.9 million or 37.3%. The decrease was due primarily to a $8.3 million increase in other gains, and a $5.6 million in reduced finance costs.

Other gains and loss on extinguishment of debt

Other gains for the year ended December 31, 2017 were $1.8 million compared to loss of $6.5 million for the same period in 2016, representing an increase of $8.3 million or 127.7%. This increase was comprised primarily of a $5.2 million decreased loss on extinguishment of debt due to the prepayment of aircraft loans, a $3.9 million decrease in loss due to impairment of property, plant and equipment in 2016, a $1.6 million increase in gain on the de-recognition of lease return costs related to the conversion of B757-200 aircraft operating leases to finance leases in 2017, and a $0.7 million increase in other gains related primarily to foreign exchange, partially offset by a $3.1 million decrease in gain on the total return swap.

Finance costs

Finance costs for the year ended December 31, 2017 were $25.2 million compared to $30.8 million for the same period in 2016, representing a decrease of $5.6 million or 18.2%. This decrease was due primarily to the repayment of US dollar denominated loans in 2016 and 2017 and the redemption of 5.5% debentures that was completed in the third quarter of 2017, partially offset by an increase in the interest cost due to higher utilization of credit facility in 2017 and the interest amount of 4.65% debentures issued in the third quarter of 2016.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2017 was $109.5 million compared to $93.1 million for the same period in 2016. The increase in Adjusted EBITDA of $16.4 million or 17.6% was due primarily to the following:

- Significant increase in adhoc charters and ACMI revenues with corresponding increase in variable costs
- Elimination of start-up costs related to the CPGOC contract
- Conversion of B757-200 aircraft operating leases to finance leases
- Return of leased aircraft in 2016 at the expiry of their lease term
- Realized exchange gain on settlement of debt in USD currency in 2016

Adjusted EBITDAR

Adjusted EBITDAR for the year ended December 31, 2017 was $122.9 million compared to $113.3 million for the same period in 2016, representing an increase of $9.6 million or 8.5%. 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 expiry of the aircraft leases later in 2016 and the conversion of aircraft operating leases to finance leases.

Current Income Taxes

No provision for current income taxes was made for the years ended December 31, 2017 or 2016, due to the carry forward losses of prior years.

Deferred Income Taxes

The deferred income taxes recognized for the year ended December 31, 2017 was a provision of $9.9 million compared to a provision of $0.6 million for the same period in 2016. 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 $63.9 million for the year ended December 31, 2017, compared to an inflow of $49.9 million for the same period in 2016, representing an increase of $14.0 million. The increase in Adjusted Free Cash Flow was due primarily to the increase in Adjusted EBITDA partially offset by the changes in non-cash working capital items and deposits and higher maintenance capital expenditure.

Dividends

Total dividends declared for the year ended December 31, 2017 were $9.6 million or $0.7700 per share. In comparison, total dividends declared for the year ended December 31, 2016 were $6.8 million or $0.6482 per share.

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 05, 2017	2,566,084	13,330,307	0.1925	2,566,084
December 20, 2017	January 05, 2018	2,576,156	13,382,629	0.1925	-
		9,624,280	-	0.7700	8,910,713

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 18, 2015	January 5, 2016	-	10,108,457	-	1,507,171
March 21, 2016	April 5, 2016	1,515,152	10,161,982	0.1491	1,515,152
June 20, 2016	July 5, 2016	1,570,865	10,535,645	0.1491	1,570,865
September 20, 2016	October 5, 2016	1,845,053	10,543,331	0.1750	1,845,053
December 20, 2016	January 05, 2017	1,862,589	10,643,365	0.1750	-
		6,793,659	-	0.6482	6,438,241

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $78.7 million (December 31, 2016 - $62.0 million). With the effect of exchange rate changes for the year ended December 31, 2017, the cash generated by operating activities was $77.5 million (December 31, 2016 - $61.4 million). The $16.1 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 in financing activities during the year ended December 31, 2017 was $56.0 million (December 31, 2016 – cash used $5.6 million) and was comprised of proceeds from borrowings of $124.3 million (December 31, 2016 - proceeds from borrowings of $38.0 million, $3.3 million from a private placement of common shares and $119.3 million from an issuance of convertible debentures). The proceeds were partially offset by the repayment of borrowings $35.2 million (December 31, 2016 - $137.4 million), the repayment of obligations under finance lease of 24.2 million (December 31, 2016 – $22.4 million), and dividends paid to shareholders of $8.9 million (December 31, 2016 – $6.4 million).

Cash used in investing activities during the year ended December 31, 2017 was $130.0 million (December 31, 2016- $59.6 million) and was comprised primarily of property, plant and equipment additions of $135.7 million (December 31, 2016 - $59.8 million), partially offset by proceeds from the total return swap and settlement of derivatives of $5.7 million (December 31, 2016 - collection of notes receivable - $0.2).

The Company had a working capital deficit as at December 31, 2017, representing the difference between total current assets and current liabilities, of $50.1 million, compared to a working capital deficit of $43.0 million as at December 31, 2016. The increase of $7.1 million is primarily due to an increase in the current portion of finance leases, an increase in dividends payable, an increase in trade and other payables, and a decrease in the fair value of derivative financial instruments, partially offset by a decrease in borrowings and provisions, an increase in cash, trade and other receivables due to timing of collections and an increase in prepaid expenses and deposits.

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

Management anticipates that the cash flow from operations and the unutilized balance of the Company's credit facility will be adequate to manage the operations of the Company. There are no provisions in debt, lease or other arrangements that could trigger an additional funding requirement or early payment based on current or expected results. There are no circumstances that management is aware of that would impair the Company's ability to undertake any transaction which is essential to the Company's operations.

Capital Expenditures

The property, plant and equipment additions of $135.7 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.

Selected Annual Information

(Canadian dollars in millions, except where indicated)

	Year Ended December 31		
	2017	2016	2015
	$	**$**	$
Revenue	382.9	331.0	289.0
Direct expenses	276.6	245.2	250.7
Gross margin	106.3	85.8	38.3
Selling, general & administrative expenses and income taxes	82.6	83.4	56.3
Net (loss) income	23.7	2.4	(18.0)
(Loss) earning per share - CAD$			
Basic	1.96	0.23	(1.86)
Diluted	1.93	0.22	(1.86)
EBITDA [1]	108.5	75.8	34.6
Adjusted EBITDA [1]	109.5	93.1	36.0
EBITDAR [1]	121.9	96.0	66.8
Adjusted EBITDAR [1]	122.9	113.3	68.3
Adjusted Free Cash Flow [1]	63.9	49.9	13.1
Cash, cash equivalents and short term investments	5.7	2.2	6.0
Total assets	627.7	463.8	450.8
Total long-term liabilities	368.6	315.8	350.0
Total liabilities	473.1	397.2	396.0
Dividends per share - CAD$	$0.7700	$0.6482	$0.5964

[1] EBITDA, Adjusted EBITDA, EBIDAR, Adjusted EBIDAR and Adjusted Free Cash Flow are non -GAAP financial measures and are not earning measures recognized by IFRS. Please refer Page 14 of this MD&A for a more detailed discussion

Financial Condition

The following is a comparison of the financial position of the Company as at December 31, 2017 to the financial position of the Company as at December 31, 2016.

Accounts Receivable

Accounts receivable as at December 31, 2017 amounted to $40.1 million compared to $25.7 million as at December 31, 2016. The increase of $14.4 million was primarily due to the timing of cash collections from customers. The quality of the Company's net receivable balances and its current collections, in management's opinion, remain excellent.

Property, Plant and Equipment

As at December 31, 2017, property, plant and equipment were $514.7 million compared to $371.1 million as at December 31, 2016. The $143.6 million net increase in property, plant and equipment was primarily due to the addition of $193.3 million in property plant and equipment partially offset by depreciation of $49.7 million.

Trade and Other Payables

Trade and other payables as at December 31, 2017 were $38.1 million compared to $30.4 million as at December 31, 2016. The increase of $7.7 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of six B767-300 and one B757-200 aircraft. Total finance leases including the current portion were $161.2 million as at December 31, 2017 compared to $130.3 million as at December 31, 2016. The change was due to the execution of one new finance lease to purchase an additional B767-300 and, the conversion of one B757-200 aircraft operating lease to finance lease, partially offset by scheduled monthly repayments made in the current period. The Company also converted two other operating leases of B757-200 aircraft into finance leases that were fully paid during the year ended December 31, 2017. The leases of one B767-300 and one B757-200 aircraft will expire within the next twelve months of the balance sheet date; accordingly these are classified under the current portion. The finance lease of the remaining B757-200 aircraft was paid in full on January 3, 2018 through the revolving credit facility.

Provisions

Provisions as at December 31, 2017 were $1.3 million compared to $2.4 million as at December 31, 2016 and was comprised of maintenance liabilities for leased aircraft estimated to be incurred at the end of their lease terms. The change in provision was primarily due to derecognition of provisions due to the conversion of three B757-200 aircraft operating leases to finance leases, partially offset by recognition of additional provision due to the extension of the operating lease period of one B767-200 aircraft.

Summary of Contractual Obligations

	Payments due by Year					
As at December 31, 2017	Total	2018	2019	2020	2021	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Finance leases	161.2	62.1	14.7	35.1	38.8	10.5
Provisions	1.3	0.1	1.2	-	-	-
Borrowings	124.5	-	-	-	124.5	-
Convertible Debentures	114.8	-	-	-	114.8	-
Operating leases	28.1	6.5	3.6	2.2	1.7	14.1
	429.9	68.7	19.5	37.3	279.8	24.6

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 suits 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 year ended December 31, 2017, the Company had sales to three customers that represented 63.3% of the total revenues (December 31, 2016 – 66.3%). 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 $18.7 million as at December 31, 2017. 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.

Related Party Transactions

In February 2017, the Company entered into a lease agreement with respect to a new 62,000 square feet head office and warehouse area. The lessor of the property is indirectly beneficially owned by one of the Company's executive officers and directors. See Page 8 - Recent Events for further details.

Risk Factors

Risks Related to the Business

Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 72.7% of 2017 revenues of the Company and the Company's top three customers each accounted for over 10% of the Company's 2017 revenues. The loss of any one of these contracts of the Company would cause immediate disruption and would adversely affect the Company's revenues. Any such loss could have a material adverse effect on the results of operations of the Company and there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as the existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

Most of the Company's contracts with its customers are for a term of three to ten years with the ability to terminate generally upon six to eighteen months' notice or if the Company is not meeting specified performance targets. When these contracts expire, there is no assurance that the contracts will be renewed for an additional term or that the commercial terms of any such renewal would be as favorable to the Company as existing contracts. The inability of the Company to renew these contracts could have a material adverse effect on the Company's business, results of operations or financial condition.

In 2014, the Company was awarded the Domestic Air Cargo Network Services ("DACNS") contract and signed the Master Services Agreement ("MSA") with the Canada Post Group of Companies ("CPGOC"). The terms of contract require the Company to maintain specific on time performance metrics and provide minimum levels of dedicated cargo space. To fulfill its requirements under the contract, the Company has made material investments in its fleet, equipment and the hiring of new personnel. The cancellation of the MSA without penalty would have a material adverse effect on the Company's business, results of operations and financial conditions.

Credit Facilities, Finance Lease and Loan Agreement and their Restrictive Covenants

The ability of the Company to make distributions, pay dividends or make other payments or advances will be subject to applicable laws and contractual restrictions contained in the instruments governing any indebtedness and finance lease obligations. The degree to which the Company is leveraged could have important consequences to the shareholders, including: (i) a portion of the Company's cash flow from operations will be dedicated to the payment of the principal of and interest on the indebtedness and amounts payable under the finance leases, thereby reducing funds available for future operations and distribution to the Company; (ii) certain of the Company's borrowings and finance lease obligations will be at variable rates of interest, which exposes the Company to the risk of increased interest rates; and (iii) the Company's ability to obtain additional financing for working capital, capital expenditures or acquisitions in the future may be limited. The Company's ability to make scheduled payments of principal and interest and other amounts on, or to refinance, its indebtedness and finance lease obligations will depend on its future operating performance and cash flow, which are subject to prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. These factors might inhibit the Company from refinancing the indebtedness and finance lease obligations at all or on favorable terms.

The instruments governing the Company's indebtedness and finance lease obligations contain restrictive covenants that limit the discretion of management with respect to certain business matters. These covenants place restrictions on, among other things, the ability of the Company to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, such instruments contain financial covenants that require the Company to meet certain financial ratios and financial conditions tests. A failure to comply with these obligations could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness. If the obligations under these instruments were to be accelerated, there can be no assurance that the Company's assets would be sufficient to satisfy such obligations in full. In addition, there can be no assurance that future borrowing or equity financing will be available to the Company or available on acceptable terms, in an amount sufficient to fund the Company's refinancing needs and other obligations arising on the maturity of such instruments, including the obligations to purchase the aircraft subject to the finance leases.

Canada — US Open Skies

The current Canada — US "Open Skies" agreement provides regulation of the airline industry, including the air cargo industry, within Canada and currently provides protection of domestic national carriers in each country. The agreement allows cross-border flights between Canada and the United States but provides major restrictions on carriers from operating flight routes between two points within the other's country. The most recent amendments negotiated between the two countries reinforced the restriction of cabotage and does not allow United States carriers to establish domestic flight routes within Canada and Canadian carriers including the Company to establish domestic routes within the United States. There is no assurance that this "Open Skies" agreement will continue in its present form in the future. Increased competition resulting from the liberalization or revocation of this agreement could affect the Company's ability to compete for a market share, which in turn could have a material adverse effect on the Company's business, results of operations or financial condition.

Competition

The Company competes within the industry of air-cargo courier services with other dedicated air cargo carriers. In addition, the Company competes for market share with motor carriers, express companies and other air couriers and airlines who offer cargo services on their regularly scheduled passenger flights. In addition to competition from competitors, new companies may enter the domestic air cargo industry and may be able to offer services at discounted rates. Concentrating only on the air cargo industry does not allow the Company to compete in different modes of freight transportation which may provide a cheaper alternative to air cargo. The Company's inability to compete for a market share of the air cargo industry under these circumstances could have a material adverse effect on the Company's business, results of operations or financial condition.

Government Regulations

The Company's operations are subject to complex aviation, transportation, environmental, labour, employment and other laws, treaties and regulations. These laws and regulations generally require the Company to maintain and comply with a wide variety of certificates, permits, licenses and other approvals.

The Company's inability to maintain required certificates, permits or licenses, or to comply with applicable laws, ordinances or regulations, could result in substantial fines or possible revocation of its authority to conduct operations.

The Company is routinely audited by various regulatory bodies including Transport Canada and the Canadian Transportation Agency to ensure compliance with all flight operation and aircraft maintenance requirements. To date, the Company has successfully passed all audits, however, there can be no assurance that the Company will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company is subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present releases of hazardous materials. Certain of these laws and regulations may impose liability on certain classes of persons for the costs of investigation or remediation of such contamination, regardless of fault or the legality of the original disposal. These persons include the present or former owner or a person in care or control of a contaminated property and companies that generated, disposed of or arranged for the disposal of hazardous substances found at the property. As a result, the Company may incur costs to clean up contamination present on, at or under its facilities, even if such contamination was present prior to the commencement of the Company's operations at the facility and was not caused by its activities which could have a material adverse effect on the Company's business, results of operations or financial condition.

The Company cannot provide any assurance that existing laws, agreements, treaties or regulations will not be revised or that new laws, agreements, treaties or regulations, which could have an adverse impact on the Company's operations, will not be adopted or become applicable to the Company. For example, the Company's aircraft currently meet Transport Canada and FAA Stage III noise abatement guidelines. Any future implementation of Stage IV noise abatement guidelines would require the Company to incur expenses to ensure its aircraft meet such guidelines which expenses could negatively impact the Company's earnings. The Company also cannot provide any assurance that it will be able to recover any or all increased costs of compliance from its customers or that the business and financial condition of the Company will not be adversely affected by future changes in applicable laws and regulations.

Insurance

The Company's operations are subject to risks normally inherent in the air-cargo industry, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by the Company or its agents. The availability of, and ability to collect on, insurance coverage is subject to factors beyond the control of the Company. There can be no assurance that insurance coverage will be sufficient to cover one or more large claims, or that the applicable insurer will be solvent at the time of any covered loss. There can be no assurance that the Company will be able to obtain insurance at acceptable levels and costs in the future. The Company may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies. The occurrence of an aircraft-related accident or mishap involving the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company does not carry any business interruption insurance.

Cyber security

In today's connected business environment, various aspects of an organization's business activities are carried out in "cyberspace". Cyberspace is where people and organizations create an electronic presence and engage in virtual activities, exchanging information, products and services through the Internet While operating in cyberspace offers advantages; it also makes organizations vulnerable to cyber attacks by criminals with far-reaching consequences beyond the theft of information and financial losses. The Company continues to develop and enhance its cyber security in response to cyberspace risks to protect computer systems and data from threats originating in cyberspace. A security breach can cause significant implications that may include disruption in operations, significant financial losses, legal obligations and negative effects on the Company's reputation. The Company has engaged security experts to enhance its cyber security strategy and has secured appropriate insurance coverage to offset potential losses on operation due to a security breach. However, there can be no assurance that the measures will be adequate to protect against all cyber risks or that insurance can cover all losses as a result of any breach. As of the date hereof there have been no incidents of security breach noted by the Company or its security advisors but any such breach could have a material adverse effect on the Company's business, results of operations or financial condition.

Maintaining Leased Aircraft and Availability of Future Aircraft

The Company currently owns and operates three B727-200, six B757-200, and three B767-300 and has six B767-300 that are under finance lease. It also leases one B767-200 aircraft. The Company also acquired five Challenger 601 aircraft in 2014, two of which are operating under a charter agreement with a third party. Remaining aircraft will be sold or part out and used for spares. The success of the Company will depend, in part, on its ability to replace owned aircraft when necessary and to maintain favorable leases for its leased aircraft. There can be no assurance that the Company will be able to lease or purchase aircraft in the future on acceptable terms or to maintain favorable leases for its aircraft or be able to arrange financing for its current commitment of aircraft purchases or future replacements and expansions. Such risk could have a material adverse effect on the Company's business, results of operations or financial condition.

Fixed Costs

The Company is subject to a high degree of operating leverage. Since fixed costs comprise a proportion of the operating costs of each flight route, the expenses of each flight route do not vary proportionately with the amount of shipments that the Company carries. Accordingly, a decrease in the Company's revenues could result in a disproportionately higher decrease in the Company's earnings as expenses would remain unchanged.

Fuel Prices

The Company requires significant quantities of fuel for its aircraft. Historically, fuel costs represented 25% to 30% of the Company’s direct operating cost. The Company is therefore exposed to commodity price risk associated with variations in the market price for petroleum products. The price of fuel is sensitive to, among other things, the price of crude oil, which has increased dramatically over the past few years, refining costs, and the cost of delivering the fuel. Although the Company historically has implemented fuel surcharges to mitigate the earnings impact of unusually high fuel prices, competitive and other pressures may prevent the Company from passing these costs on to its customers in the future. The Company cannot provide any assurance that its supply of fuel will continue uninterrupted, that rationing will not be imposed or that the prices of, or taxes on, fuel will not increase significantly in the future. An extremely high fuel cost could adversely affect customer volumes as other cheaper modes of transportation are sought. Increases in prices that the Company is unable to pass on to its customers could have a material adverse effect on the Company’s business, results of operations or financial condition.

Costs Related to Mechanical and Maintenance Problems and Replacement of Equipment and Parts

Maintenance costs will increase as our fleet ages. It includes overhaul of engines, landing gears, APUs and airframes in addition to ongoing maintenance requirements. The Company has a maintenance program schedule and monitors the maintenance of aircraft for owned and leased aircraft. Although costs related to mechanical problems and to maintenance for the Company’s aircraft have been forecasted and funded pursuant to its leasing arrangements and maintenance agreements, the actual costs may be higher than those anticipated. Unexpected repairs relating to mechanical problems and to maintenance are beyond the control of the Company and may have a material adverse effect on the Company’s business, results of operations or financial condition. In addition, the ability of the Company to obtain equipment and replacement parts on satisfactory terms when required is not always certain. Any inability to obtain equipment or parts, or to obtain the required equipment or parts on satisfactory terms and on a timely basis could have a material adverse effect on the Company’s business, results of operations or financial condition.

Foreign Exchange Fluctuations

The Company undertakes sales and purchase transactions including aircraft maintenance cost, lease payments, loan payments, crew training and certain operating costs in foreign currencies, and therefore is subject to gains and losses due to fluctuations in the foreign currencies. Changes in the value of the Canadian dollar relative to the United States dollar could have a negative effect on the profitability of the Company. For the year ended December 31, 2017, the Company had a net cash flow exposure to the United States dollar of approximately U.S. $8.0 million and to the Euro of approximately €1.0 million. As of the date of this MD&A, the Company is exposed to fluctuations in the US-dollar exchange rate relating to two B767-300 lease agreement. To the extent that the Company does not adequately hedge its foreign exchange risk, changes in the exchange rate between the Canadian dollar and the United States dollar may have a material adverse effect on the Company’s business, results of operations or financial condition.

Ability to Maintain Profitability and Manage Growth

There can be no assurance that the Company's business and growth strategy will enable the Company to sustain profitability in future periods. The Company's future operating results will depend on a number of factors, including general economic conditions and consumer confidence.

There can be no assurance that the Company will be successful in achieving its strategic plan or that this strategic plan will enable the Company to grow at historical rates or to sustain profitability. Failure to successfully execute any material part of the Company's strategic plan could have a material adverse effect on the Company's business, result of operations or financial condition.

There can be no assurance that the Company will be able to effectively manage its growth, and any failure to do so could have a material adverse effect on the Company's business, results of operations or financial condition.

Industry Risk and Economic Sensitivity

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. The Company's revenues are impacted by the health of the economy in the regional markets in which the Company operates. Although the Company cannot specifically correlate the impact of macro-economic conditions on its business activities, the Company believes that a decline in economic conditions in Canada may result in decreased demand for the services the Company provides and, to the extent that this decline continues or increases in severity, the Company's business, results of operations or financial condition could be materially adversely affected.

Terrorist Activity

The terrorists' attacks of September 11, 2001 and their aftermath negatively impacted the air cargo industry. Additional terrorist attacks, the fear of such attacks or increased hostilities could further negatively impact the air cargo industry. The Company could experience a decrease in the use of its air cargo network as a means of transporting goods domestically and internationally and an increase in costs.

Dependence on Key Personnel

The Company's success will be substantially dependent on the continued services of senior management of the Company. The loss of the services of one or more key members of senior management of the Company could have a material adverse effect on the Company's business, results of operations or financial condition. In addition, the Company's continued growth depends on the ability of the Company to attract and retain skilled managers and employees and the ability of its personnel to manage the Company's growth. The inability to attract and retain key personnel could have a material adverse effect on the Company's business, results of operations or financial condition.

Labour Relations

On October 19, 2012, 65 of the Company's pilots were certified as a union by the Canadian Industrial Relations Board (the "CIRB"). As of the date hereof, 155 of the Company's pilots are certified as a union by the CIRB. The National Automobile, Aerospace, Transportation and General Workers Union of Canada (CAW – Canada) was certified as the bargaining agent for the Company's pilots. The Company entered into a five year collective agreement with the union representing the Company's pilots. The pilots ratified the agreement in July 2013. On June 1, 2015, the CIRB certified all cargo agents and load planners of the Company at Halifax International Airport, consisting of 16 employees as at the date hereof, with Unifor being certified as the bargaining agent for such employees. Effective November 10, 2015, the Company entered into a collective agreement with Unifor in respect of these employees expiring December 31, 2018. Currently, none of the Company's other employees are unionized. The maintenance of a productive and efficient labour environment and the successful negotiation of a collective bargaining agreement cannot be assured. Protracted and extensive work stoppages or labour disruptions such as strikes or lockouts could have a material adverse effect on the Company's business, results of operations or financial condition.

Severe Weather Patterns

The Company serves numerous industries and customers that experience significant fluctuations in demand based on economic conditions and other factors beyond the control of the Company. Demand for the Company's services could be materially adversely affected by downturns in the businesses of its customers. Severe weather during any extended period could prevent shipments from being delivered on a timely basis and could force flight cancellations. Any extended delay in meeting time sensitive shipping deadlines could have a material adverse effect on the Company's business, results of operations or financial condition.

Seasonal Fluctuations

Traditionally, the Company has experienced its best operating results in the third and fourth quarters of each year. Shipping activity is usually the best in the fourth quarter as a result of the holiday season and is usually the lowest in the first quarter. Accordingly, the seasonal nature of the business of the Company will affect the quarterly financial results of operation of the Company that will be reported.

Dependence on International Trade

The principal businesses of the Company are indirectly related to, and future performance is dependent upon, the volume of international trade, including cross-border trade between Canada and the US. Such trade is influenced by many factors, including North American and overseas economic and political conditions, major work stoppages, wars, terrorist acts or security operations, exchange controls, currency fluctuations and Canadian, US and foreign laws relating to duties, trade restrictions, foreign investment and taxation. There can be no assurance that trade-related events beyond the control of the Company, such as failure to reach or adopt trade agreements and an increase in trade restrictions, will not have a material adverse effect on the Company's business, results of operations or financial condition.

Future Sales of Voting Shares by the directors and officers of Cargojet

The directors and officers of Cargojet directly and indirectly hold in aggregate 1,788,114 voting Shares, or approximately 13.36% of the outstanding Voting Shares. If the directors and officers of Cargojet sell substantial amounts of Voting Shares in the public market, the market price of the Voting Shares could decrease. The perception among the public that these sales will occur could also produce such an effect.

Income Tax Matters

Cargojet is subject to federal and provincial income taxes. Although the Company is of the view that all expenses to be claimed by the Company and its subsidiaries in the determination of their respective incomes under the Tax Act will be reasonable and deductible by the appropriate entity in accordance with the applicable provisions of the Tax Act, and that the allocations of income and loss of Cargojet Holdings Limited Partnership ("CHLP") and Cargojet Partnership ("CJP") to be made for purposes of the Tax Act will be reasonable, there can be no assurance that the Tax Act or the interpretation of the Tax Act will not change, or that Canada Revenue Agency ("CRA") or the provincial taxing authority will agree. Counsel can provide no opinion with respect to the reasonableness of any expense or of the allocation of income by a partnership. If CRA or any provincial tax authority successfully challenges the deductibility of expenses or the allocation of income, Cargojet's liability to income tax may increase.

Increase in Interest Rates

One of the factors that may influence the price of the Voting Shares in public trading markets will be the annual cash-on-cash return from dividends by the Company on the Voting Shares compared to cash-on-cash returns on other financial instruments. Thus, an increase in market interest rates will result in higher cash-on-cash returns on other financial instruments, which could adversely affect the market price of the Voting Shares.

Outlook

Note: See Caution Concerning Forward Looking Statements, page 2

During the quarter ended December 31, 2017, the Company experienced growth over all revenue streams by 25.6% compared to the same period in 2016. 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 South America and adhoc 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 following judgments are those deemed by management to be material to the preparation of the financial statements.

Critical accounting judgments

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

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

Classification of leases: Assessing whether a lease is a finance lease or an operating lease is based on management's judgment of the criteria applied in IAS 17 – Leases. The most prevalent leases are those for aircraft.

Critical Estimates

The table below discloses the methodology and assumptions used by management in the assessment of the accounting estimates.

Critical Accounting Estimate	Methodology and Assumptions
Financial instruments	The issuance of a compound instrument, such as convertible debentures, requires the Company to estimate the debt and equity components of the instruments issued or repurchased. The component parts of the convertible debentures are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability is measured separately using an estimated market rate for a similar liability without an equity component and the residual is allocated to the conversion option.
Impairment of property, plant and equipment and goodwill	At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, intangibles and goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been Adjusted. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Determining whether goodwill is impaired requires the Company to determine the recoverable amount of the cash-generating unit. To determine the recoverable amount of the cash-generating unit, management is required to estimate its fair value by evaluating expected future cash flow using an appropriate growth rate, margins, and a suitable discount rate to calculate the value in use.
Deferred taxes	Deferred tax assets are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future. The Company reviews the carrying amount of deferred tax assets at the end of each reporting period and assess its recoverability using forecasts that are based on the actual operating results and the expected future performance based on management's estimates and assumptions of revenue growth and the development. The deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Provisions	The Company has estimated that it will incur certain maintenance costs at the end of its aircraft lease terms and has recorded a maintenance provision liability for these costs. Such costs have been estimated based on contractual commitments, current and estimated future aircraft utilization rate, Company's maintenance program, rates provided by current maintenance service providers and Company specific history. The Company reviews the provisions at each reporting period to determine the change in estimated liability. The Company believes that the assumptions used are reasonable based on the information currently available but the final payments may change materially due to change in timing, cost of maintenance or discount rates.
Employee future benefits	The cost and related liabilities of the Corporation's pensions, other post-retirement and post-employment benefit programs are determined using actuarial valuations. The actuarial valuations involve assumptions including discount rates, future salary increases, mortality rates and future benefit increases. Also, due to the long-term nature of these programs, such estimates are subject to significant uncertainty.

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 December 31, 2017:

Capital	Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares	Unlimited	13,090,977	-
Variable Voting Shares	Unlimited	291,652	-
Convertible Debentures - 4.65%	$ 124,990,000	-	2,131,117

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

Standards, amendments and interpretations issued and not yet adopted

Financial instruments: In July 2014, the IASB issued IFRS 9 (2014), *Financial Instruments* ("IFRS 9"), which replaces *IAS 39, Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety.

IFRS 9 introduces a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, a single, forward-looking "expected loss" impairment model and a substantially reformed approach to hedge accounting. Under IFRS 9, the criteria for classifying and measuring financial assets are principally based on how an entity manages such financial instruments in the context of its business model and whether the contractual cash flows of the financial assets give rise to payments on specified dates that are solely payments of principal and interest ("SPPI"). IFRS 9 also replaces the 'incurred loss' model in IAS 39 with a forward-looking expected credit loss ("ECL") model that applies to all financial instruments, which will require more timely recognition of expected credit losses. It also includes changes in respect of own credit risk in measuring liabilities elected to be measured at fair value, so that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognized in consolidated statement of earnings and comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company has made considerable progress in assessing its existing financial assets and financial liabilities. In assessing the cash flow characteristics of its existing financial assets, the Company has assessed its business model objectives and reviewed the underlying contractual terms to determine whether the SPPI criteria have been met. The Company anticipates that the majority of its existing receivables will be measured at amortized cost. For those receivables measured at amortized cost, the Company will assess whether an expected impairment loss exists by taking the practical expedient to measure lifetime expected credit losses for these instruments. Historically the credit losses have been minimal. The Company does not currently anticipate that there will be any material change in the measurement and classification of its existing financial assets and financial liabilities that are measured on a fair value basis. The Company plans to adopt the new standard on a retrospective basis.

Revenue from Contracts with Customers: IFRS 15, Revenue from Contracts with Customers ("IFRS 15") which was issued by the IASB on May 28, 2014 outlines a single comprehensive model to account for revenue arising from contracts with customers and will replace 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 IFRS 15. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company expects no significant change in revenue recognition. The company expect to adopt the new standard on a retrospective basis.

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. 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 statement of earnings and comprehensive income.

IFRS 2, Share-based payments ("IFRS 2"), has been amended to address (i) certain issues related to the accounting for cash settled awards, and (ii) the accounting for equity settled awards that include a "net settlement" feature in respect of employee withholding taxes. The amendments are effective for annual periods beginning on or after January 1, 2018. For cash settled award in item (i) above IASB incorporated under IFRS 2 specify accounting for the cash-settled share based transactions which include a performance condition. The added guidance will introduce accounting requirements for cash-settled share-based payments to have similar approach as equity-settled share-based payments. For item (ii), an exception is introduced with respect to share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature. Also, upon change from a cash settled share based payment arrangement to equity settled share based payment, IFRS 2 now specifies to derecognize the cash settle payment liability and replace with equity settle payment amount at the modification date value to the extent the services have been rendered. Any difference between the carrying amount of the liability as at the modification date and the amount recognized in equity at the same date would be recognized in consolidated statement of earnings and comprehensive income immediately.

IFRS 7, *Financial Instruments: Disclosure ("IFRS 7")* has been amended due to IFRS 9 to make a significant number of additional disclosures. IFRS 7 sets out disclosure requirements that are intended to enable users to evaluate the significance of financial instruments for an entity's financial position and performance, and to understand the nature and extent of risks arising from those financial instruments to which the entity is exposed. These risks include credit risk, liquidity risk and market risk. It is applicable to all entities that have financial instruments. The amendment is effective for annual periods beginning on or after January 1, 2018.

IFRIC 22 Interpretation on Foreign Currency Transactions and Advance Consideration: On December 8, 2016, the IFRS Interpretations Committee of the International Accounting Standards Board (IASB) issued IFRS Interpretation, IFRIC 22, Foreign Currency Transactions and Advance Consideration which clarifies the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income, when an entity has received or paid advance consideration in foreign currency. As per IFRC 22, the date of transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in accordance with IFRS standards. In case there are multiple payments or receipts in advance, the entity should determine a date of the transaction for each payment or receipt of advance consideration. IFRIC 22 applies to foreign currency transaction (or part of it), when an entity recognises a non-monetary asset or non-monetary liability arising from payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). IFRIC 22 does not apply when an entity measures the related asset, expense or income on initial recognition at: a) fair value b) the fair value of the consideration paid or received at a date other than the date of the initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration. Further IFRIC 22 does not apply to: a) insurance contracts that an entity issues or reinsurance contracts that it holds and b) income taxes. IFRIC 22 is applicable for annual periods on or after January 1, 2018.The Company does not anticipate any material change on the foreign currency transactions due to the adoption of IFRIC 22.The Company plans to adopt this interpretation on a retrospective basis.

End Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Gain or loss on fair value of cash settled share based payment arrangement - the gain or loss arising from the fair value of cash settled share based payment arrangement 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 cash settled share based payment 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 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 is a function of the Company's treasury/financing activities and represents a different class of expense 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.