CARGOJET INC.

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

For the Three Months and Year Ended December 31, 2018

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The following is the Management's Discussion and Analysis ("MD&A") of the consolidated financial condition and results of operations of Cargojet Inc. ("Cargojet" or the "Company") for the three months and year ended December 31, 2018. The following also includes a discussion of and comparative operating results for the three months and year ended December 31, 2017.

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

The effective date of the MD&A is February 21, 2019. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("GAAP"), as set out in the Chartered Professional Accountant of Canada Handbook- Accounting ("CPA Handbook"), which incorporates International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the consolidated financial statements of the Company for the three months and years ended December 31, 2018 and 2017 and with the audited consolidated financial statements of the Company for the years ended December 31, 2017 and 2016.

All amounts in the MD&A are expressed in Canadian dollars unless otherwise noted.

Key Factors Affecting the Business

The results of operations, business prospects and financial condition of the Company are subject to a number of risks and uncertainties and are affected by a number of factors outside the control of the management of the Company. (See page 32 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 32

Forward looking statements are based on a number of material factors, expectations or assumptions of the Company which have been used to develop such statements and information but which may prove to be incorrect. Although the Company believes that the expectations reflected in such forward-looking statements or information are reasonable, undue reliance should not be placed on forward-looking statements because the Company can give no assurance that such expectations will prove to be correct. The statements are based on the following factors: the continued and timely development of infrastructure, continued availability of debt financing and cash flow, future commodity prices, currency, exchange and interest rates, regulatory framework regarding taxes and environmental matters in the jurisdictions in which the Company operates.

This document contains forward-looking statements that reflect management's current expectations related to matters such as future financial performance and liquidity and capital resources of the Company. Specific forward-looking statements in this document include, but are not limited to, statements with respect to:

- Fleet Overview – Page 5.
- New International Routes – Page 7.
- Off - Balance Sheet Arrangements – Page 31.
- Outlook – Page 41.

Overview

Financial Information and Operating Statistics Highlights

(Canadian dollars in millions, except where indicated)

	Three Month Period Ended December 31,				Year Ended December 31,			
	2018	2017	Change	%	**2018**	2017	Change	%
Financial information								
Revenues	**$132.6**	$118.2	$14.4	12.2%	**$454.9**	$382.9	$72.0	18.8%
Direct expenses	**$95.5**	$80.8	$14.7	18.2%	**$342.6**	$276.6	$66.0	23.9%
Gross margin	**$37.1**	$37.4	($0.3)	-0.8%	**$112.3**	$106.3	$6.0	5.6%
Gross margin - %	**28.0%**	31.6%	-3.6%		**24.7%**	27.8%	-3.1%	
Selling, general & administrative expenses	**$16.9**	$16.4	$0.5	3.0%	**$53.1**	$49.3	$3.8	7.7%
Net finance costs & other gains and losses	**$11.5**	$5.4	$6.1	113.0%	**$29.9**	$23.4	$6.5	27.8%
Earnings before income taxes	**$8.7**	$15.6	($6.9)	-44.2%	**$29.3**	$33.6	($4.3)	-12.8%
Income taxes	**$2.4**	$4.4	($2.0)	-45.5%	**$9.1**	$9.9	($0.8)	-8.1%
Net earnings	**$6.3**	$11.2	($4.9)	-43.8%	**$20.2**	$23.7	($3.5)	-14.8%
Earnings per share - $CAD								
Basic	**$0.47**	$0.83	($0.36)	-43.4%	**$1.51**	$1.96	($0.45)	-23.0%
Diluted	**$0.47**	$0.81	($0.34)	-42.0%	**$1.50**	$1.93	($0.43)	-22.3%
EBITDA[(1)]	**$35.5**	$36.6	($1.1)	-3.0%	**$122.7**	$108.5	$14.2	13.1%
EBITDA margin - %	**26.8%**	31.0%	-4.2%		**27.0%**	28.3%	-1.3%	
Adjusted EBITDA[(1)]	**$40.2**	$37.3	$2.9	7.8%	**$128.0**	$109.5	$18.5	16.9%
Adjusted EBITDA margin - %	**30.3%**	31.5%	-1.2%		**28.1%**	28.6%	-0.5%	
EBITDAR[(1)]	**$37.6**	$39.4	($1.8)	-4.6%	**$132.6**	$121.9	$10.7	8.8%
EBITDAR margin - %	**28.4%**	33.2%	-4.8%		**29.1%**	31.8%	-2.7%	
Adjusted EBITDAR[(1)]	**$42.3**	$40.1	$2.2	5.5%	**$137.9**	$122.9	$15.0	12.2%
Adjusted EBITDAR margin - %	**31.9%**	33.9%	-2.0%		**30.3%**	32.1%	-1.8%	
Adjusted Free Cash flow[(1)]	**$26.9**	$26.8	$0.1	0.4%	**$43.0**	$63.9	($20.9)	-32.7%
Operating statistics								
Operating days[(2)]	**48**	49	(1)	-2.0%	**197**	198	(1)	-0.5%
Average cargo revenue per operating day[(3)]	**$2.00**	$1.82	$0.18	9.9%	**$1.68**	$1.47	$0.21	14.3%
Block hours	**9,445**	9,001	444	4.9%	**32,231**	30,490	1,741	5.7%
Aircraft in operating fleet								
B727-200	**1**	3	(2)		**1**	3	(2)	
B757-200	**8**	6	2		**8**	6	2	
B767-200	**1**	1	-		**1**	1	-	
B767-300	**11**	9	2		**11**	9	2	
Challenger 601	**2**	2	-		**2**	2	-	
	23	21	2	9.5%	**23**	21	2	9.5%
Average volume per operating day (lbs.)	**1,528,991**	1,385,117	143,874	10.4%	**1,314,911**	1,192,612	122,299	10.3%
Average head count	**994**	949	45	4.7%	**994**	949	45	4.7%

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 a more detailed discussion.
2. Operating days refer to the Company's overnight air cargo network operations that run primarily on Monday to Thursday with a reduced network operating on Friday.
3. Average cargo revenue per operating day refers to total overnight, ACMI and charter revenues earned by the Company per operating day.

Corporate Overview

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

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

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

Fleet Overview

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

The table below sets forth the Company's operating fleet as at December 2016, 2017 and December 31, 2018 as well as the Company's planned operating fleet for the year ending December 31, 2019, 2020 and 2021:

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,				
			2016	2017	2018	2019	2020	2021		
B767-300[1]	Finance Lease	25	5	6	7	9	9	9	125,000	6,000
B767-300[2]	Owned	24	3	3	4	4	4	4	125,000	6,000
B767-200[3]	Owned	18	-	-	-	1	2	2	100,000	5,000
B767-200[4]	Operating Lease	33	1	1	1	1	-	-	100,000	5,000
B757-200[5][6]	Owned	28	2	5	8	8	8	8	80,000	3,900
B757-200[6]	Finance Lease	28	-	1	-	-	-	-	80,000	3,900
B757-200[6]	Operating Lease	28	3	-	-	-	-	-	80,000	3,900
B727-200[7]	Owned	39	6	3	1	-	-	-	60,000	1,800
Challenger 601[8]	Owned	32	2	2	2	2	2	2	6,000	3,300
Total Aircraft			22	21	23	25	25	25		

1. Four B767-300 aircraft are currently financed under a single Master Capital Lease Agreement ("MLA"). A fifth aircraft was acquired in October 2017, under a lease agreement with a term of six years and a purchase option in favour of Cargojet to purchase the aircraft after three years at a pre-determined price. Cargojet expects to exercise the purchase option in October 2020, and has recorded the lease as a finance lease. In December 2017, Cargojet purchased a B767-300 aircraft as feedstock for cargo conversion in 2018. In March 2018, Cargojet entered into a sale lease-back arrangement to facilitate the cargo conversion and financing of this aircraft, under terms similar to its other leased aircraft that was leased with terms of six years with a purchase option in favour of Cargojet after three years at a pre-determined price, Cargojet expects to exercise the purchase option in October 2021, and has recorded the lease as a finance lease. In April 2018, Cargojet purchased one B767-300 aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of three years at a pre-determined price, this aircraft has been inducted for cargo conversion with an expected delivery date of Q1 2019. In October 2018, Cargojet purchased one B767-300 converted freighter aircraft under a lease term of five years and a purchase option in favour of Cargojet to purchase the aircraft at the end of the lease term at a pre-determined price, Cargojet expects to exercise the purchase option in November 2023, and has recorded the lease as a finance lease. Cargojet expects to lease or purchase another B767-300 aircraft in 2019 to accommodate the additional ACMI route between USA and Mexico that started in November 2018.
2. The four B767-300 aircraft in operation at December 31, 2018 are owned by Cargojet.
3. Cargojet purchased one B767-200 aircraft in July 2018. Cargojet has entered in to a charter agreement with a third party to operate and manage this aircraft to provide the aircraft for passenger charter services. This aircraft is not currently operational and has not been included in the table above. In August 2018 Cargojet purchased two B767-200 aircraft as feed stock for future conversion and engine replacements. These aircraft have been scheduled for cargo conversion with the expected delivery dates of Q4 2019 and Q2 2020, and are included in the table above based on their expected dates for entry into operations.
4. The B767-200 aircraft in operation at December 31, 2018 is under a lease that terminates in February 2020.
5. The eight B757-200 aircraft in operation at December 31, 2018 are owned by Cargojet. In November 2017, Cargojet purchased an additional B757-200. Cargojet plans to operate this aircraft through a third party as a passenger charter but eventually convert the aircraft to a cargo aircraft. This aircraft is not currently operational and has not been included in the table above.
6. In Q1 2017 and Q3 2017 the Company amended the operating leases of three B757-200 aircraft to require the Company to purchase the aircraft at the end of the term of the leases in October 2017, December 2017 and January 2018 respectively. In September 2017, November 2017 and January 2018 the Company purchased the aircraft with the leases ending in October 2017, December 2017 and January 2018 respectively. These purchased aircraft are classified as owned in the table above.
7. Cargojet has retired the remaining one B727-200 aircraft in January 2019 due to network growth and regulatory requirements that will prevent the aircraft from being flown in North America.
8. The Company has entered into a charter agreement with a third party to operate and manage two aircraft to provide passenger charter services.

Recent Events

Acquisition of handling business

In December 2018, the Company entered into a share purchase agreement to acquire 100% interest in a ground handling and GSE Company at Mirabel International Airport in Quebec. The Company completed this transaction on January 31, 2019. The Company acquired the shares for a cash consideration of $3.1 million. The purpose of the acquisition was to have more efficient, controlled and secure services for its network consistent with Company's strategy to insource all of its ground handling services.

5.75% Hybrid Debenture Issue

In November 2018, $86.3 of senior unsecured hybrid debentures were issued at a price of $1000 per debenture with a term of five years due April 30, 2024. These debentures bear a fixed interest rate of 5.75% per annum, payable semi-annually in arrears on April 30 and October 31 of each year, commencing April 30, 2019. The intended use of the net proceeds of the debentures is to paydown the credit facility and fund anticipated capital expenditure, including the purchase of additional aircraft.

On or after April 30, 2022, but prior to April 30, 2023, the debentures are redeemable, in whole at any time or in part from time to time at the option of the Company at a price equal to 102.875% of the principal amount of the Debentures redeemed plus accrued and unpaid interest. On or after April 30, 2023, but prior to the maturity date of April 30, 2024, the debentures are redeemable at a price equal to their principal amount plus accrued and unpaid interest.

On redemption or at maturity on April 30, 2024, the Company has the option to repay the debentures in either cash or freely tradable voting shares of the Company. The number of common shares to be issued will be determined by dividing the aggregate amount of the principal amount of the debentures by 95% of the current market price of the common shares.

In the event of a change in control, as defined in the indenture agreement, the Company will be required to make an offer to the holders of debentures to repurchase the debentures at a price equal to 101% of the principal amount plus accrued and unpaid interest.

Collective Agreement

The Company has entered into a five year collective agreement with the pilots, represented by UNIFOR. The contract was ratified on July 28, 2018 and is effective as of July 1, 2018 and contains a no-strike/no-lockout provision covering re–negotiation at the end of the 5 year term.

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. The Cargojet employees at Halifax International Airport filed a request to decertify the union as the exclusive bargaining agent. A final order granting the decertification was issued on October 22, 2018.

New International Routes

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

On November 24, 2018, Cargojet began operating a new scheduled ACMI route between USA and Mexico. Under this arrangement Cargojet operates six (6) flights per week with a dedicated B767-200 aircraft. Annual revenues are expected to be approximately $10 million.

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

In February 2018,Cargojet began operating flights for customers between Canada, Colombia and Peru. Cargojet expects to build on the demand for air cargo services to and from South America and Europe in future.

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

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

Acquisition and disposal of Property, Plant and Equipment

During the year ended December 31, 2018, the Company sold one B767-300 aircraft that was previously owned and recorded as property plant and equipment under development and leased the aircraft back from an equipment leasing company, also completed the acquisition of an additional B767-300 aircraft under a lease term as disclosed below under Aircraft Finance Lease. The Company also completed the acquisition of two B757-200 aircraft and two 757-200 aircraft engines and also acquired three B767-200 aircraft and one B757-200 aircraft as feed stock for future conversion and engine replacements using the revolving credit facility. During the year, the Company sold two B727-200 aircraft along with the spares. The Company also sold Challenger 601 aircraft that was part out and held as rotable inventory. The net proceed from the sale of the aircraft was of $1.5 million resulted in a gain of $0.3 million.

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

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

Aircraft Finance Lease

During the year ended December 31, 2018, the Company completed a sale and lease back arrangement for one B767-300 aircraft that includes a bargain purchase option. No gain or loss has been recognized on the sale and lease back arrangement. The estimated effective interest rate for this lease is 6.5%. This lease is deemed to be maturing on the exercise date of the bargain purchase option in October 2021.

The Company also entered in to a finance lease arrangement for two additional Boeing 767-300 aircraft that include bargain purchase options. One Boeing 767-300 aircraft has entered operations and the other Boeing 767-300 aircraft has been inducted for cargo conversion and is included in property, plant and equipment under development. The lease for the aircraft in operations is deemed to be maturing on the exercise date of the bargain purchase option in November 2023 and the effective interest rate is 5.95%. The lease for the aircraft inducted for cargo conversion is deemed to be maturing on the exercise date of the bargain purchase option within 3 years of the aircraft being ready for use or at the end of the lease term at 5 years.

Total Return Swap

The Company had an obligation to pay share-based additional fees under the MLA and certain aircraft facility arrangements. In September 2015, the Company entered into a total return swap agreement with a financial institution to manage its exposure under these arrangements. Under the total return swap agreement, the Company pays interest to the financial institution based on Canadian dollar LIBOR on the total value of the notional equity amount which is equal to the total cost of the underlying shares. At the settlement of the total return swap agreement, the Company will receive or remit the net difference between the total value of the notional equity amount and the total proceeds of sales of the underlying shares. The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. On September 11 2018, the total return swap was settled by disposal of 53,600 of underlying shares of the swap by the counterparty and the Company received $2.9 million from the financial institution that was recorded as gain on settlement share options in consolidated financial statement of the Company .

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

The Company did not designate the total return swap agreement as a hedging instrument for accounting purposes. However, the Company adopted the policy of offsetting the fair value changes of the recognized option liability and the total return swap in the Consolidated Statement of Earnings and Comprehensive Income. As at December 31, 2018, the fair value of the 208,656 underlying shares under swap was $0.5 million in favor of the Company and is offset by change in the fair value of the option liability recorded in salaries and benefits in the Consolidated Statement of Earnings and Comprehensive Income.

Revenues

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

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

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

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

- The Company provides domestic air cargo services for a number of international airlines between points in Canada that connect such airlines' gateways to Canada. This helps to support lower demand legs and provides a revenue opportunity with little or no incremental cost as the flights are operating on regular schedules.
- The Company provides dedicated aircraft to customers on an adhoc and scheduled basis typically in the daytime and on weekends. Adhoc flights are sold under a one-time agreement while scheduled flights are sold under longer term agreements. The adhoc charter business targets livestock shipments, military equipment, emergency relief supplies and virtually any large shipment requiring immediate delivery across North America, to the Caribbean and to Europe. Scheduled charter business provides dedicated aircraft for recurring flights as required by the customer. Adhoc and scheduled flights are sold either on an "all in" basis or on an ACMI basis:
    - Under an all in adhoc or scheduled charter agreement, the customer will pay a single, all-inclusive fixed amount per flight. All costs of the flight including fuel, navigation fees and landing fees are borne by the Company and recognized in its financial statements as direct expenses.
    - Under an ACMI adhoc or scheduled charter agreement, the customer is responsible for all commercial activities and the Company is paid a fixed amount to operate the flight priced as a rate per block hour (see definition of "block hours" in Expenses on page 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 began operating the Colombia, Peru, and Frankfurt flights directly.

Expenses

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

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

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

Results of Operations and Supplementary Financial Information

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

	Three month period ended December 31,		Year ended December 31,	
	2018	2017	**2018**	2017
	(unaudited)	(unaudited)	(audited)	(audited)
	$	$	$	$
Revenues	**132.6**	118.2	**454.9**	382.9
Direct expenses	**95.5**	80.8	**342.6**	276.6
	37.1	37.4	**112.3**	106.3
General and administrative expenses	**16.0**	15.6	**50.3**	47.6
Sales and marketing expenses	**0.9**	0.8	**2.8**	1.7
Finance costs	**8.1**	5.8	**27.3**	25.2
Loss on extinguishment of debt	**-**	-	**-**	2.3
Other loss (gain), net	**3.4**	(0.4)	**2.6**	(4.1)
	28.4	21.8	**83.0**	72.7
EARNINGS BEFORE INCOME TAXES	**8.7**	15.6	**29.3**	33.6
Provision for income taxes				
Deferred	**2.4**	4.4	**9.1**	9.9
Net earnings and comprehensive income	**6.3**	11.2	**20.2**	23.7
Earnings per share				
Basic	**$0.47**	$0.83	**$1.51**	$1.96
Diluted	**$0.47**	$0.81	**$1.50**	$1.93
Average number of shares - basic (in thousands of shares)	**13,426**	13,383	**13,410**	12,117
Average number of shares - diluted (in thousands of shares)	**13,510**	15,514	**13,494**	12,289

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 2018	Sep 30 2018	Jun 30 2018	Mar 31 2018	Dec 31 2017	Sep 30 2017	Jun 30 2017	Mar 31 2017
Revenues	**$132.6**	$114.1	$109.0	$99.2	$118.2	$89.4	$88.2	$87.1
Net earnings from continuing operations	**$6.3**	$4.7	$4.7	$4.5	$11.2	$5.6	$4.4	$2.6
Earnings per Share								
From continuing operations								
- Basic	**$0.47**	$0.35	$0.35	$0.34	$0.83	$0.42	$0.40	$0.25
- Diluted	**$0.47**	$0.35	$0.35	$0.33	$0.81	$0.41	$0.39	$0.24
Average number of shares - basic (in thousands of shares)	**13,426**	13,417	13,412	13,385	13,383	13,293	11,098	10,655
Average number of shares - diluted (in thousands of shares)	**13,510**	13,516	13,547	13,523	15,514	13,447	11,321	10,820

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 December 31,		Year Ended December 31,	
	2018	2017	**2018**	2017
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
	$	$	**$**	$
Calculation of EBITDA and Adjusted EBITDA				
Net earnings	**6.3**	11.2	**20.2**	23.7
Add:				
Interest	**8.1**	5.8	**27.3**	25.2
Provision of deferred taxes	**2.4**	4.5	**9.1**	9.9
Depreciation of property, plant and equipment	**18.7**	15.1	**66.1**	49.7
EBITDA	**35.5**	36.6	**122.7**	108.5
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**-**	1.0
Gain on sale of property, plant and equipment	**(0.2)**	-	**(0.3)**	-
Gain on derecognition of provision for lease return conditions	**-**	-	**-**	(1.6)
Unrealized foreign exchange loss (gain)	**3.8**	0.8	**5.6**	(3.5)
Loss on extinguishment of debt	**-**	-	**-**	2.3
Unrealized (gain) loss on forward foreign exchange contracts	**(0.2)**	(0.7)	**(1.6)**	2.2
Gain on cash settled share based payment arrangements and total return swap	**-**	(0.5)	**(1.1)**	(1.2)
Employee pension	**1.3**	1.1	**2.7**	1.8
Adjusted EBITDA	**40.2**	37.3	**128.0**	109.5
Calculation of EBITDAR and Adjusted EBITDAR				
EBITDA	**35.5**	36.6	**122.7**	108.5
Aircraft rent	**2.1**	2.8	**9.9**	13.4
EBITDAR	**37.6**	39.4	**132.6**	121.9
Add:				
Gain realized on forward exchange contracts settled	**-**	-	**-**	1.0
Gain on sale of property, plant and equipment	**(0.2)**	-	**(0.3)**	-
Gain on derecognition of provision for lease return conditions	**-**	-	**-**	(1.6)
Unrealized foreign exchange loss (gain)	**3.8**	0.8	**5.6**	(3.5)
Loss on extinguishment of debt	**-**	-	**-**	2.3
Unrealized (gain) loss on forward foreign exchange contracts	**(0.2)**	(0.7)	**(1.6)**	2.2
Gain on cash settled share based payment arrangements and total return swap	**-**	(0.5)	**(1.1)**	(1.2)
Employee pension	**1.3**	1.1	**2.7**	1.8
Adjusted EBITDAR	**42.3**	40.1	**137.9**	122.9
Calculation of Standardized Free Cash Flow and Adjusted Free Cash Flow				
NET CASH GENERATED FROM OPERATING ACTIVITIES	**18.5**	21.6	**91.3**	78.7
Add :Effects of exchange rate changes	**5.0**	(0.4)	**5.4**	(1.2)
Less : Maintenance capital expenditures [1]	**(10.3)**	(5.3)	**(74.4)**	(24.6)
Add: Proceeds from disposal of property, plant and equipment	**0.2**	-	**1.5**	-
Standardized free cash flow	**13.4**	15.9	**23.8**	53.0
Changes in non-cash working capital items and deposits	**13.5**	10.9	**19.2**	10.9
Adjusted Free Cash flow	**26.9**	26.8	**43.0**	63.9

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

Review of Operations for the Three Month Periods ended December 31, 2018 and 2017

Net earnings for the three month periods ended December 31, 2018 and 2017

(Canadian dollars in millions except where indicated)

	Q4		CHANGE	
	2018	2017	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**71.4**	64.8	6.6	10.2%
ACMI Revenues	**14.3**	12.6	1.7	13.5%
All-in Charter Revenues	**10.4**	11.6	(1.2)	-10.3%
Total overnight, ACMI and charter revenues	**96.1**	89.0	7.1	8.0%
Total Revenue - Fixed based operator	**0.4**	0.4	-	0.0%
Total fuel and other cost pass through	**34.8**	27.6	7.2	26.1%
Fuel surcharge and other pass through revenues	**35.2**	28.0	7.2	25.7%
Other revenue	**1.3**	1.2	0.1	8.3%
Total revenues	**132.6**	118.2	14.4	12.2%
Operating Days	**48**	49	(1)	-2.0%
Average cargo revenue per operating day	**2.00**	1.82	0.18	9.9%
Direct expenses				
Fuel Costs	**31.7**	24.7	7.0	28.3%
Depreciation	**14.1**	12.1	2.0	16.5%
Aircraft Cost	**3.4**	4.5	(1.1)	-24.4%
Heavy Maintenance Amortization	**4.0**	2.6	1.4	53.8%
Maintenance Cost	**7.9**	7.8	0.1	1.3%
Crew Costs	**8.1**	6.4	1.7	26.6%
Commercial and Other Costs	**26.3**	22.7	3.6	15.9%
Total direct expenses	**95.5**	80.8	14.7	18.2%
Gross margin	**37.1**	37.4	(0.3)	-0.8%
Gross margin %	**28.0%**	31.6%	-3.6%	
SG&A & Marketing				
General and Administrative Costs	**15.3**	15.2	0.1	0.7%
Sales costs	**0.9**	0.8	0.1	12.5%
Depreciation	**0.7**	0.4	0.3	75.0%
Total SG&A & Marketing expenses	**16.9**	16.4	0.5	3.0%
Other SG&A				
Other losses (gains)	**3.4**	(0.4)	3.8	-950.0%
Finance costs	**8.1**	5.8	2.3	39.7%
Total other SG&A	**11.5**	5.4	6.1	113.0%
EARNINGS BEFORE INCOME TAXES	**8.7**	15.6	(6.9)	-44.2%
Income Taxes-Deferred	**2.4**	4.4	(2.0)	-45.5%
Net EARNINGS	**6.3**	11.2	(4.9)	-43.8%
Earnings per share - $ CAD				
Basic	**$0.47**	$0.83	$(0.36)	-43.4%
Diluted	**$0.47**	$0.81	$(0.34)	-42.0%

Highlights for the Three Month Periods ended December 31, 2018 and 2017

- Total revenue for the three month period ended December 31, 2018 was $132.6 million compared to $118.2 million for the same period in 2017, representing an increase of $14.4 million or 12.2%.

- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2018 was $2.0 million per operating day compared to $1.82 million for the same period in 2017, representing an increase of $0.18 million or 9.9%.

- Adjusted EBITDA for the three month period ended December 31, 2018 was $40.2 million compared to $37.3 million for the same period in 2017, an increase of $2.9 million or 7.8%.

- Adjusted EBITDAR for the three month period ended December 31, 2018 was $42.3 million compared to $40.1 million for the same period in 2017, an increase of $2.2 million or 5.5%.

- Adjusted Free Cash Flow was an inflow of $26.9 million for the three month period ended December 31, 2018 compared to an inflow of $26.8 million for the same period in 2017, an increase of $0.1 million or 0.4%.

Revenue

Total revenue for the three month period ended December 31, 2018 was $132.6 million, compared to $118.2 million for the same period in 2017, representing an increase of $14.4 million or 12.2%. The increase in total revenue was due primarily to a $6.6 million increase in core overnight revenues, a $1.7 million increase in ACMI revenues, a $7.2 million increase in fuel surcharges and other cost pass-through revenues, and a $0.1 million increase in lease and other revenue. The increase was partially offset by a $1.2 million decrease in all in charter revenues.

Revenue related to the core overnight business excluding fuel surcharges and other cost pass-through revenues for the three month period ended December 31, 2018 was $71.4 million compared to $64.8 million for the same period in 2017, an increase of $6.6 million or 10.2%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in a 12.5% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenues for the three month period ended December 31, 2018 were $14.3 million compared to $12.6 million for the same period in 2017, representing an increase of $1.7 million or 13.5%. The increase of $1.7 million was primarily due to a new scheduled route to the USA that started in July 2018, partially offset by discontinuation of the ACMI agreement with Air Canada.

All-in scheduled and adhoc charter revenues for the three month period ended December 31, 2018 were $10.4 million compared to $11.6 million for the same period in 2017, a decrease of $1.2 million or 10.3%. The decrease in all-in charter revenue was due primarily due to higher adhoc charters to the Caribbean in 2017 due to the hurricane activity, partially offset by additional flights between Canada, Colombia and Peru and between Canada and Europe.

Fuel surcharges and other cost pass-through revenues were $35.2 million for the three month period ended December 31, 2018 compared to $28.0 million for the same period in 2017, an increase of $7.2 million or 25.7%. During the quarter, fuel surcharges increased due primarily to a 17.8% increase in fuel prices and higher customer volumes.

Other revenues consist primarily of maintenance revenue for aircraft line maintenance services provided to other airlines, ground handling services provided to customers and passenger revenues from charter flights using its Challenger aircraft that started in 2016. Other revenues were $1.3 million for the three month period ended December 31, 2018 compared to $1.2 million for the same period in 2017, an increase of $0.1 million or 8.3%.

Direct Expenses

Total direct expenses were $95.5 million for the three month period ended December 31, 2018 compared to $80.8 million for the same period in 2017, representing an increase of $14.7 million or 18.2%. As a percentage of revenue, direct expenses increased from 68.4% in 2017 to 72.0% for the same period in 2018. The overall increase in direct expenses was due primarily to a $7.0 million increase in fuel costs, a $2.0 million increase in depreciation, a $1.4 million increase in heavy maintenance costs, a $0.1 million increase in maintenance costs, a $1.7 million increase in crew costs, and a $3.6 million increase in commercial and other costs. The increase was partially offset by a $1.1 million decrease in aircraft costs.

Fuel costs were $31.7 million for the three month period ended December 31, 2018 compared to $24.7 million for the same period in 2017. The $7.0 million or 28.3% increase in fuel costs was due primarily to a 7.1% increase in block hours on the overnight and day networks, and a 17.8% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

Depreciation expense was $14.1 million for the three month period ended December 31, 2018 compared to $12.1 million for the same period in 2017. The $2.0 million or 16.5% increase in depreciation expenses was due primarily to the addition of aircraft and other assets and a reduction in the estimated useful life of B727-200 aircraft.

Aircraft costs were $3.4 million for the three month period ended December 31, 2018 compared to $4.5 million for the same period in 2017, representing a decrease of $1.1 million or 24.4%. The decrease was due primarily to lower sub charter activity and lower temporary engine lease costs. The Company incurs temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events.

Heavy maintenance amortization costs were $4.0 million for the three month period ended December 31, 2018 compared to $2.6 million for the same period in 2017, representing an increase of $1.4 million or 53.8%. 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 $7.9 million for the three month period ended December 31, 2018 compared to $7.8 million for the same period in 2017, representing an increase of $0.1 million or 1.3%. The increase in costs was due primarily to higher block hours and hiring of additional maintenance personnel, partially offset by a decrease in line maintenance costs.

Total crew costs including salaries, training and positioning were $8.1 million for the three month period ended December 31, 2018 compared to $6.4 million for the same period in 2017, representing an increase of $1.7 million or 26.6%. The increase was due primarily to the hiring of additional crews, salary increases due to the collective agreement with the union and increased crew positioning costs.

Commercial and other direct operating costs were $26.3 million for the three month period ended December 31, 2018 compared to $22.7 million for the same period in 2017, representing an increase of $3.6 million or 15.9% This increase was due primarily to a $0.2 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, a $0.9 million net increase in handling cartage and ground linehaul costs, a $1.3 million increase in landing, parking and navigation costs due to increase in activity, a $0.5 million increase in warehouse facilities costs, a $0.2 million increase in aircraft insurance costs and a $0.5 million net increase in ground service equipment costs.

Selling, General, Administrative & Marketing Expenses

Selling, general and administrative ("SG&A") expenses for the three month period ended December 31, 2018 were $16.9 million compared to $16.4 million for the same period in 2017, representing an increase of $0.5 million or 3.0%. The increase was primarily due to a $0.4 million increase in salaries and benefits due to increased headcount and salary increases, a $0.2 million increase in selling and marketing expenses, a $0.2 million increase in depreciation, a $0.2 million increase in travel, meals and entertainment, a $0.1 million increase in data and communication expenses and a $0.4 million increase in employee pension and management bonuses. This increase was partially offset by a $0.5 million increase in foreign exchange gain, a $0.3 million decrease in consulting, audit and legal expenses and a $0.2 million decrease in other expenses.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the three month period ended December 31, 2018 were $11.5 million compared to $5.4 million for the same period in 2017, representing an increase of $6.1 million or 113.0%. The increase was due primarily to a $3.8 million net decrease in other losses and gains in 2018 and a $2.3 million increase in finance costs.

Other losses and gains

Other losses and gains for the three month period ended December 31, 2018 were a loss of $3.4 million compared to a gain of $0.4 million for the same period in 2017, representing a net change of $3.8 million or 950.0%. The gain in 2017 was primarily due to a $0.4 million gain on cash settled share based payment arrangement and total return swap. The loss in 2018 was $3.6 million primarily related to foreign exchange, partially offset by a $0.2 million gain on sale of one B727-200 aircraft.

Finance costs

Finance costs for the three month period ended December 31, 2018 were $8.1 million compared to $5.8 million for the same period in 2017, representing an increase of $2.3 million or 39.7%. The increase was due primarily to higher utilization of the credit facility for acquisition of aircraft and other assets, interest on new finance lease and on hybrid debenture. Interest on the credit facility is lower than the rates offered by other lenders on firm loan or non-revolving facilities and will save interest costs on an overall basis.

Adjusted EBITDA

Adjusted EBITDA for the three month period ended December 31, 2018 was $40.2 million compared to EBITDA of $37.3 million for the same period in 2017. The increase in Adjusted EBITDA of $2.9 million was due primarily to the following:

- Growth in overnight network revenues due to increase in overnight volumes
- Significant increase in ACMI revenues

Adjusted EBITDAR

Adjusted EBITDAR for the three month period ended December 31, 2018 was $42.3 million compared to $40.1 million for the same period in 2017, representing an increase of $2.2 million or 5.5%. 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 lower temporary engine lease costs.

Current Income Taxes

No provision for current income taxes was made due to the carryforward losses of prior year for the three month periods ended December 31, 2018 and 2017.

Deferred Income Taxes

The deferred income taxes for the three month period ended December 31, 2018 was a provision of $2.4 million compared to a provision of $4.4 million for the same period in 2017. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $26.9 million for the three month period ended December 31, 2018 compared to an inflow of $26.8 million for the same period in 2017, representing an increase of $0.1 million. The increase in Adjusted Free Cash Flow was due primarily to the proceeds from disposal of property, plant and equipment, effect of changes in non-cash working capital items and deposits, and increase in Adjusted EDITDA, partially offset by the increase in maintenance capital expenditures.

Dividends

Total dividends declared for the three month period ended December 31, 2018 were $2.9 million or $0.2120 per share. In comparison, total dividends declared for the three month period ended December 31, 2017 were $2.6 million or $0.1925 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		**$**	**$**
September 20, 2018	October 05, 2018	-	13,417,250	-	2,844,457
December 20, 2018	January 07, 2019	2,852,031	13,452,977	0.2120	
		2,852,031	-	0.2120	2,844,457

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

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $18.5 million for the three month period ended December 31, 2018 (December 31, 2017 - $21.6 million). With the adjustment of exchange rate changes for the three month period ended December 31, 2018, the cash generated from operating activities was $23.5 million (December 31, 2017 - $21.2 million). The $2.3 million increase in cash was due primarily to the changes in non-cash working capital items and deposits.

Cash provided from financing activities during the three month period ended December 31, 2018 was $8.9 million (December 31, 2017 - $27.5 million) and was comprised of proceeds from borrowings of $nil (December 31, 2017 – $37.9), proceeds from the hybrid debenture issue net of issuance costs of $82.3 million (December 31, 2017 - $nil) and proceeds from private placement of shares of $0.7 million (December 31, 2017 - $nil). The proceeds were partially offset by the repayment of obligations under finance lease of $9.0 million (December 31, 2017 - $7.8 million), and the payment of dividends to shareholders of $2.8 million (December 31, 2017 - $2.6 million) and the repayment of borrowings $62.3 million (December 31, 2017 -$nil)

Cash used in investing activities during the three month period ended December 31, 2018 was $30.9 million (December 31, 2017 - $43.0 million) and was comprised of property, plant and equipment additions of $31.1 million (December 31, 2017 - $43.0 million). This was partially offset by proceeds from the disposal of property, plant and equipment of $0.2 million (December 31, 2017 - $nil).

Capital Expenditures

The property, plant and equipment additions of $31.1 million in the three month period ended December 31, 2018 (December 31, 2017 - $43.0 million) were primarily comprised of additions to aircraft, engines, ground services equipment, leasehold improvements, spares and rotable spares.

Review of Operations for the Year ended December 31, 2018 and 2017

Net Earnings for the Years Ended December 31, 2018 and 2017

(Canadian dollars in millions except where indicated)

	YTD		CHANGE	
	2018	2017	**$**	**%**
	(unaudited)	(unaudited)		
	$	$		
Core Overnight Revenues	**248.8**	222.0	26.8	12.1%
ACMI Revenues	**46.0**	44.7	1.3	2.9%
All-in Charter Revenues	**37.1**	23.4	13.7	58.5%
Total overnight, ACMI and charter revenues	**331.9**	290.1	41.8	14.4%
Total Revenue - Fixed based operator	**1.3**	0.8	0.5	62.5%
Total fuel and other cost pass through	**115.0**	88.6	26.4	29.8%
Fuel surcharge and other pass through revenues	**116.3**	89.4	26.9	30.1%
Other revenue	**6.7**	3.4	3.3	97.1%
Total revenues	**454.9**	382.9	72.0	18.8%
Operating Days	**197**	198	(1)	-0.5%
Average cargo revenue per operating day	**1.68**	1.47	0.21	14.3%
Direct expenses				
Fuel Costs	**110.0**	75.5	34.5	45.7%
Depreciation	**51.7**	38.4	13.3	34.6%
Aircraft Cost	**15.9**	19.6	(3.7)	-18.9%
Heavy Maintenance Amortization	**12.3**	10.0	2.3	23.0%
Maintenance Cost	**30.2**	25.6	4.6	18.0%
Crew Costs	**28.8**	24.3	4.5	18.5%
Commercial and Other Costs	**93.7**	83.2	10.5	12.6%
Total direct expenses	**342.6**	276.6	66.0	23.9%
Gross margin	**112.3**	106.3	6.0	5.6%
Gross margin %	**24.7%**	27.8%	-3.1%	
SG&A & Marketing				
General and Administrative Costs	**48.2**	46.3	1.9	4.1%
Sales costs	**2.8**	1.7	1.1	64.7%
Depreciation	**2.1**	1.3	0.8	61.5%
Total SG&A & Marketing expenses	**53.1**	49.3	3.8	7.7%
Other SG&A				
Other gains and loss on extinguishment of debt	**2.6**	(1.8)	4.4	-244.4%
Finance costs	**27.3**	25.2	2.1	8.3%
Total other SG&A	**29.9**	23.4	6.5	27.8%
EARNINGS BEFORE INCOME TAXES	**29.3**	33.6	(4.3)	-12.8%
Income Taxes-Deferred	**9.1**	9.9	(0.8)	-8.1%
Net earnings	**20.2**	23.7	(3.5)	-14.8%
Earnings per share - $ CAD				
Basic	**1.51**	1.96	(0.45)	-23.0%
Diluted	**1.50**	1.93	(0.43)	-22.3%

Highlights for the years ended December 31, 2018 and 2017

- Total revenue for the year ended December 31, 2018 was $454.9 million compared to $382.9 million for the same period in 2017, representing an increase of $72.0 million or 18.8%.
- Average cargo revenue excluding fuel surcharges and other cost pass-through revenues for the year ended December 31, 2018 was $1.68 million per operating day compared to $1.47 million for the same period in 2017, representing an increase of $0.21 million per operating day or 14.3%.
- Adjusted EBITDA for the year ended December 31, 2018 was $128.0 million compared to $109.5 million for the same period in 2017, an increase of $18.5 million or 16.9%.
- Adjusted EBITDAR for the year ended December 31, 2018 was $137.9 million compared to $122.9 million for the same period in 2017, an increase of $15.0 million or 12.2%.
- Adjusted Free Cash Flow was an inflow of $43.0 million for the year ended December 31, 2018 compared to an inflow of $63.9 million for the same period in 2017, a decrease of $20.9 million or 32.7%.

Revenue

Total revenue for the year ended December 31, 2018 was $454.9 million compared to $382.9 million for the same period in 2017, representing an increase of $72.0 million or 18.8%. The increase in total revenue was due primarily to a $26.8 million increase in core overnight revenues, a $1.3 million increase in ACMI revenues a $13.7 million increase in all in charter revenues, a $26.9 million increase in fuel surcharges and other cost pass-through revenues and a $3.3 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, 2018 was $248.8 million compared to $222.0 million for the same period in 2017, an increase of $26.8 million or 12.1%. The increase was primarily due to increased volumes from existing customers and contractual annual price increases related to the Canadian consumer price index. The increase in shipping volumes and prices during the period resulted in 12.6% increase in the average core overnight revenue per operating day.

ACMI scheduled and adhoc charter revenue for the year ended December 31, 2018 was $46.0 million compared to $44.7 million for the same period in 2017, an increase of $1.3 million or 2.9%. The increase was due primarily to a new scheduled route to the USA that started in July 2018, partially offset by discontinuation of the ACMI agreement with Air Canada.

All-in scheduled and adhoc charter revenue for the year ended December 31, 2018 was $37.1 million compared to $23.4 million for the same period in 2017, an increase of $13.7 million or 58.5%. The increase in all-in charter revenue was due primarily to additional flights between Canada, Colombia and Peru and between Canada and Europe.

Fuel surcharges and other cost pass-through revenues were $116.3 million for the year ended December 31, 2018 compared to $89.4 million for the same period in 2017. During the period, fuel surcharges increased due to a 12.1% increase in the shipping volumes and revenues from new and existing customers that attracted fuel surcharges and a 26.3% increase in fuel prices. Fuel surcharges and other cost pass-through revenues also consist of fuel sales to third parties of $1.3 million for the year ended December 31, 2018 compared to $0.8 million for the same period in 2017, an increase of $0.5 million or 62.5%.

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, 2018 were $6.7 million compared to $3.4 million for the same period in 2017, an increase of $3.3 million or 97.1%.

Direct Expenses

Total direct expenses were $342.6 million for the year ended December 31, 2018 compared to $276.6 million for the year ended December 31, 2017. As a percentage of revenue, direct expenses increased from 72.2% in 2017 to 75.3% for the same period in 2018. The overall increase in direct expenses was due primarily to a $34.5 million increase in fuel costs, a $13.3 million increase in depreciation, a $2.3 million increase in heavy maintenance amortization, a $4.6 million increase in maintenance costs, a $4.5 million increase in crew costs, and a $10.5 million increase in commercial and other costs, partially offset by a $3.7 million decrease in aircraft costs.

Fuel costs were $110.0 million for the year ended December 31, 2018 compared to $75.5 million for the same period in 2017. The $34.5 million or 45.7% increase in fuel costs was due primarily to an 8.7% increase in block hours on the overnight and day networks and a 26.3% increase in fuel prices. Any changes in fuel cost experienced by the Company due to changes in fuel prices are mostly passed on to customers as an increase or decrease in their fuel surcharges.

The depreciation expense was $51.7 million for the year ended December 31, 2018 compared to $38.4 million for the same period in 2017. The $13.3 million or 34.6% 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 resulting in accelerated depreciation.

Aircraft costs were $15.9 million for the year ended December 31, 2018 compared to $19.6 million in 2017, representing a decrease of $3.7 million or 18.9%. The decrease in aircraft costs was due primarily to lower fixed lease costs and variable lease reserve costs due to the conversion of three B757-200 aircraft operating leases to finance leases. This decrease was partially offset by higher temporary engine lease costs to manage its fleet during removal of engines for scheduled maintenance events. All operating aircraft leases are paid in US Dollars.

Heavy maintenance amortization costs were $12.3 million for the year ended December 31, 2018 compared to $10.0 million for the same period in 2017, representing an increase of $2.3 million or 23.0%. 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 $30.2 million for the year ended December 31, 2018 compared to $25.6 million for the same period in 2017, representing an increase of $4.6 million or 18.0%. This increase was due to the hiring of additional maintenance personnel and an increase in line maintenance costs primarily due to the increase in total block hours and cycles and the effect of exchange rate on expenditures incurred in USD currency.

Total crew costs including salaries, training and positioning were $28.8 million for the year ended December 31, 2018 compared to $24.3 million for the same period in 2017, representing an increase of $4.5 million or 18.5%.This increase was due primarily to hiring of additional crew, increased training costs to meet increasing demand and annual salary increases due to collective agreement reached with the union.

Commercial and other direct operating costs were $93.7 million for the year ended December 31, 2018 compared to $83.2 million for the same period in 2017, representing an increase of $10.5 million or 12.6%. This increase was comprised primarily of a $3.8 million increase in commercial salaries due to the hiring of additional personnel and annual wage increases, $4.8 million higher landing, parking and navigation costs due to increased activity in 2018, $1.0 million of higher warehouse rent and repair costs, $3.8 million higher linehaul and cartage costs due to higher domestic and interline activity and $1.0 million higher ground service equipment maintenance and fuel costs. This amount was partially offset by a $3.7 million reduction in ground handling costs due to the Company providing its own ground handling services at six of its locations and a $0.2 million decrease in de-icing costs.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses for the year ended December 31, 2018 were $53.1 million compared to $49.3 million for the same period in 2017, representing an increase of $3.8 million or 7.7%. This increase was primarily due to a $1.9 million increase in employee pension and management bonus costs, a $0.9 million increase in salaries and benefits due to increased headcount and salary increases, a $1.1 million increase in sales and marketing costs, due to increased sales commissions to capture new charter business and extra expenditure on domestic business promotion, a $0.7 million increase in depreciation costs, related to new leasehold improvements, additional furniture, equipment, hardware and software acquisitions. This increase was partially offset by a $0.5 million increase in other income and a $0.3 decrease in other expenses.

Other Selling, General and Administrative Expenses

Other selling, general and administrative expenses for the year ended December 31, 2018 were $29.9 million compared to $23.4 million for the same period in 2017, representing an increase of $6.5 million or 27.8%. The increase was due primarily to a $4.4 million decrease in other gains and losses and extinguishment of debt and a $2.1 million in reduced finance costs.

Other losses and gains

Other losses for the year ended December 31, 2018 were $2.6 million ($1.8 million gain December 31, 2017). These losses were comprised primarily of a $4.0 million loss related to foreign exchange, partially offset by a $0.3 million gain on the sale of two B727-200 aircraft, engines and spare parts and one Challenger 601 aircraft and a $1.1 million gain on the Company's total return swap.

Finance costs

Finance costs for the year ended December 31, 2018 were $27.3 million compared to $25.2 million for the same period in 2017, representing an increase of $2.1 million or 8.3%. This increase was due primarily due to higher utilization of credit facility, new finance leases entered during the year and the issue of 5.75% hybrid debentures, partially offset by the redemption of the Company's 5.5% debentures that was completed in the third quarter of 2017 and settlement of finance leases.

Adjusted EBITDA

Adjusted EBITDA for the year ended December 31, 2018 was $128.0 million compared to $109.5 million for the same period in 2017. The increase in Adjusted EBITDA of $18.5 million or 16.9% was due primarily to the following:

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

Adjusted EBITDAR

Adjusted EBITDAR for the year ended December 31, 2018 was $137.9 million compared to $122.9 million for the same period in 2017, representing an increase of $15.0 million or 12.2%. 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 years ended December 31, 2018 or 2017, due to the carry forward losses of prior years.

Deferred Income Taxes

The deferred income taxes recognized for the year ended December 31, 2018 was a provision of $9.1 million compared to a provision of $9.9 million for the same period in 2017. Deferred taxes result from the change in temporary differences between the financial reporting and tax bases of certain balance sheet items for the period.

Adjusted Free Cash Flow

Adjusted Free Cash Flow was an inflow of $43.0 million for the year ended December 31, 2018, compared to an inflow of $63.9 million for the same period in 2017, representing a decrease of $20.9

million. The decrease was due to higher maintenance capital expenditure partially offset by the proceeds from disposal of property plant and equipment, changes in non-cash working capital items and deposits and increase in Adjusted EBITDA.

Dividends

Total dividends declared for the year ended December 31, 2018 were $11.4 million or $0.8480 per share. In comparison, total dividends declared for the year ended December 31, 2017 were $9.6 million or $0.7700 per share.

Record Date	Date Dividends Paid/Payable	Declared	Number of Shares	Per Share	Paid
		$		$	$
December 20, 2017	January 05, 2018	-	13,382,629	-	2,576,156
March 21, 2018	April 05, 2018	2,837,117	13,382,629	0.2120	2,837,117
June 20, 2018	July 05, 2018	2,844,457	13,417,250	0.2120	2,844,457
September 20, 2018	October 05, 2018	2,844,457	13,417,250	0.2120	2,844,457
December 20, 2018	January 07, 2019	2,852,031	13,452,977	0.2120	
		11,378,062	-	0.8480	11,102,187

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

Liquidity and Capital Resources

Cash generated by operating activities after net changes in non-cash working capital balances was $91.3 million (December 31, 2017 - $78.7 million). With the effect of exchange rate changes for the year ended December 31, 2018, the cash generated by operating activities was $96.7 million (December 31, 2017 - $77.5 million). The $19.2 million increase in cash generated was due primarily to the increase in EBITDA and changes in non-cash working capital items and deposits.

Cash provided from financing activities during the year ended December 31, 2018 was $68.7 million (December 31, 2017 – $56.0 million) and was comprised of proceeds from borrowings of $143.8 million (December 31, 2017 - $124.3 million), proceeds from debenture issue net of issuance costs $82.3 million (December 31, 2017 - $nil) and proceeds from private placement of shares $0.7 million (December 31, 2017 - $nil). The proceeds were partially offset by the repayment of borrowings $62.3 million (December 31, 2017 - $35.2 million), the repayment of obligations under finance lease of $74.4 million (December 31, 2017 – $24.2 million), the options settled in cash of $7.3 million (December 31, 2017 - $nil), the tax paid on vested restricted share units and options of the Company of $3.0 million (December 31, 2017 - $nil) and dividends paid to shareholders of $11.1 million (December 31, 2017 – $8.9 million).

Cash used in investing activities during the year ended December 31, 2018 was $172.0 million (December 31, 2017- $130.0 million) and was comprised primarily of property, plant and equipment additions of $186.7 million (December 31, 2017 - $135.7 million), partially offset by proceeds from the disposal of property, plant and equipment of $1.5 million (December 31, 2017 - $nil), proceeds from the sale and lease back of aircraft of $10.3 million (December 31,2017 - $nil), and proceeds from Company's total return swap and settlement of derivatives of $2.9 (December 31, 2017 - $5.7).

The Company had a working capital deficit of $0.8 million as at December 31, 2018, representing the difference between total current assets and current liabilities, compared to a working capital deficit of $50.1 million as at December 31, 2017. The decrease of $49.3 million is primarily due to a decrease in the current portion of finance leases payable due to the settlement of leases, a decrease in current portion of provisions, an increase in trade and other receivables due to timing of collections, an increase in inventories and an increase in the derivative financial instrument receivable net of payable. This amount was partially offset by an increase in overdraft, an increase in trade and other payables, an increase in dividends payable to shareholders and a decrease in the current portion of prepaid expenses and deposits.

Capital Expenditures

The property, plant and equipment additions of $186.7 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 and spares.

Selected Annual Information
(Canadian dollars in millions, except where indicated)

	Year Ended December 31		
	2018	2017	2016
	$	**$**	$
Revenue	454.9	382.9	331.0
Direct expenses	342.6	276.6	245.2
Gross margin	112.3	106.3	85.8
Selling, general & administrative expenses and income taxes	92.1	82.6	83.4
Net (loss) income	20.2	23.7	2.4
(Loss) earning per share - CAD$			
Basic	1.51	1.96	0.23
Diluted	1.50	1.93	0.22
EBITDA [(1)]	122.7	108.5	75.8
Adjusted EBITDA [(1)]	128.0	109.5	93.1
EBITDAR [(1)]	132.6	121.9	96.0
Adjusted EBITDAR [(1)]	137.9	122.9	113.3
Adjusted Free Cash Flow [(1)]	43.0	63.9	49.9
Cash, cash equivalents and short term investments	-	5.7	2.2
Total assets	852.9	627.7	463.8
Total long-term liabilities	621.8	368.6	315.8
Total liabilities	695.2	473.1	397.2
Dividends per share - CAD$	$0.8480	$0.7700	$0.6482

[(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, 2018 to the financial position of the Company as at December 31, 2017:

Accounts Receivable

Accounts receivable as at December 31, 2018 amounted to $65.2 million compared to $40.1 million as at December 31, 2017. The increase of $25.1 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, 2018, property, plant and equipment were $721.3 million compared to $514.7 million as at December 31, 2017. The $206.6 million net increase in property, plant and equipment was primarily due to the net addition of $273.9 million in property plant and equipment, partially offset by depreciation of $66.1 million and $1.2 million write off of net book value of two B727-200 aircraft, a Challenger 601 aircraft and certain rotable parts due to the disposal of these assets. The Company received $1.5 million as proceeds on the disposal of these aircraft and parts.

Trade and Other Payables

Trade and other payables as at December 31, 2018 were $44.4 million compared to $38.1 million as at December 31, 2017. The increase of $6.3 million was due primarily to the timing of supplier payments.

Finance Leases

The finance leases are in respect of the lease of seven B767-300 aircraft. Total finance leases including the current portion were $199.4 million as at December 31, 2018 compared to $161.2 million as at December 31, 2017. The change was due to execution of a sale and lease back arrangement for one B767-300 aircraft that includes bargain purchase option and the execution of a lease arrangement for two B767-300 aircraft that also includes a bargain purchase options These were partially offset by the settlement of obligations under finance leases of one B757-200 and one B767-300 aircraft paid in full on January 3, 2018 and March 27, 2018 respectively through the revolving credit facility and scheduled monthly repayments made in the year ended December 31, 2018..

Provisions

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

Summary of Contractual Obligations

	Payments due by Year					
As at December 31, 2018	Total	2019	2020	2021	2022	Thereafter
(Canadian dollars in millions)	$	$	$	$	$	$
Finance leases	199.4	25.2	70.0	70.6	17.4	16.2
Provisions	1.4	-	1.4	-	-	-
Borrowings	206.0	-	-	-	-	206.0
Debentures	198.1	-	-	-	115.7	82.4
Operating leases	23.2	4.1	2.6	2.1	1.9	12.5
	628.1	29.3	74.0	72.7	135.0	317.1

Off-Balance Sheet Arrangements

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

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

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

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

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

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

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

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

Major Customers

During the year ended December 31, 2018, the Company had sales to three customers that represented 60.3% of the total revenues (December 31, 2017 – 63.5%). These sales are provided under service agreements that expire over various periods to April 2025.

Contingencies

The Company has provided irrevocable standby letters of credit totaling approximately $18.6 million as at December 31, 2018. The other guarantees are provided to financial institutions as security for its corporate credit cards, and to a number of vendors as a security for the Company's ongoing leases and purchases.

Risk Factors

Risks Related to the Business

Loss of Customer Contracts

The Company's ten largest customers accounted for approximately 79.1% of 2018 revenues of the Company and the Company's top three customers individually accounted for over 10% of the Company's 2018 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 eight B757-200, and four B767-300 and has seven B767-300 that are under finance lease. It also leases one B767-200 aircraft. The Company also owns two Challenger 601 aircraft which are operating under a charter agreement with a third party. 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, 2018, the Company had a net cash flow exposure to the United States dollar of approximately U.S. $36.0 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 four 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. Effective July 1, 2018, the Company entered into a collective agreement with Unifor in respect of these employees expiring December 31, 2023.

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 July 1, 2018, the Company entered into a collective agreement with Unifor in respect of these employees expiring December 31, 2023. The Cargojet employees at Halifax International Airport filed a request to decertify the union as the exclusive bargaining agent. A final order granting the decertification was issued on October 22, 2018.

Currently, except as noted above, 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 1,779,885 voting Shares, or approximately 13.2% 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 year ended December 31, 2018, the Company experienced growth over all revenue streams by 18.8% compared to the same period in 2017. The Company anticipates that revenues will continue to grow due to the continued development and strengthening of its relationships with existing customers and establishing new relationships with national and international carriers to establish new ACMI routes to the USA and charters. The Company continues to retain all of its major customers. Since 2014, the Company added aircraft, staff and network capacity to accommodate growing demand on its core overnight network. The Company continues to optimize its overnight network to match customer demand and will continue to do so going forward. This improved the gross margin and EBITDA by optimizing costs of its current operation. The Company will continue to evaluate its investments in fixed assets to ensure high returns on its investments and are in balance with its outlook of global economic conditions.

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

The Company also continues to recover fuel price increases through fuel surcharges. Any fuel cost increases due to higher fuel prices are mostly passed on to customers as an increase in the fuel surcharge and are billed to customers on a cost recovery basis only. Similarly, any cost savings due to lower fuel prices are passed on to customers as a decrease in the fuel surcharge. Management is confident that the Company will continue to fully recover any future increases in fuel costs. 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.
Cash settled share based payment arrangement	The cost and related liability of the Company's cash settled share based payment arrangement under the stock option plan for certain key executives and non-employee directors is recognized using a Black-Scholes option pricing model involving assumptions including discount rates and exercise dates. Due to the long-term nature of these rights, 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, 2018:

Capital	Authorized/ Principal	Outstanding number of shares	Number of Shares underlying Convertible securities
Common Voting Shares	Unlimited	13,109,090	-
Variable Voting Shares	Unlimited	343,887	-
Convertible Debentures - 4.65%	$ 124,962,000	-	2,105,252

Information Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

Financial Reporting Update

New and amended standards adopted by the company

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

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

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

Standards, amendments and interpretations issued and not yet adopted

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

Application

The Company will apply the standard effective January 1, 2019 with a modified retrospective approach. Under this approach, the Company will determine the effect of applying the standard on the existing leases as at January 1, 2019, the initial date of application. The comparative information will not be restated and continue to be reported under IAS 17 and IFRIC 4. The Company has elected to use the practical expedients under the modified retrospective approach. Accordingly it will measure its lease liability and right-of-use asset at the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. It will also elect not to apply the provisions of the standard to short-term leases or where the underlying asset is of low value.

Leases

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

Accounting for leases and right of use asset

Leases are recognized as right-of-use assets and a corresponding liability is recognized at the date of which the leased asset is available for use by the Company. Each lease payment is allocated between the liability and interest expense. The interest cost is charged to the Consolidated Statements of Earnings and Comprehensive Income over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Right-of-use assets will be accounted for under IAS 16 Property, Plant and Equipment. Aircrafts recorded as right-of-use assets will have the same accounting policies as directly owned aircraft, meaning the right-of-use assets will be componentized and depreciated over the lease term. In accordance with its policy on owned aircraft, any qualifying maintenance events will be capitalized and depreciated over the lesser of the lease term and expected maintenance life. Maintenance provisions for end-of-lease return obligations will be recorded, as applicable, on aircraft leases as a maintenance expense over the term of the lease. Any changes to the provision for end-of-lease conditions will be recognized as an adjustment to the right-of-use asset and subsequently amortized to the income statement over the remaining term of the lease. The application of IFRS 16 requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities which mainly relate to the implicit interest rate for aircraft leases and the incremental borrowing rate at the commencement date of the contract for property leases. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

Impact to Consolidated Financial Statements

Aircraft and property lease rent costs will be eliminated and replaced with amortization of right-of-use assets and interest costs on the liabilities. Qualified maintenance expense on aircraft will be capitalized as part of the right-of-use asset and amortized over the lease period. Revaluation of the aircraft liability denominated in US dollars will result in exchange gain or losses due to volatility in exchange rates.

Assets and liabilities will increase by the value of the right-of-use assets and corresponding liabilities.The Company expects the value of its assets and liabilities to increase within a range of $23 - $28 million. The full impact of the adoption of this standard on its consolidated statements of earnings and comprehensive income is under evaluation.

End Notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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