

**Canada Jetlines Ltd.**  
**Management Discussion & Analysis**  
**For the Year Ended December 31, 2018**  
Date Prepared: April 30, 2019

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**GENERAL**

This Management Discussion & Analysis (“MD&A”) is intended to supplement and complement the consolidated financial statements and accompanying notes of Canada Jetlines Ltd. (the “Company” or “Jetlines”) for the year ended December 31, 2018. The information provided herein should be read in conjunction with the Company’s audited consolidated financial statements and the accompanying notes thereto.

All dollar figures presented are expressed in Canadian dollars unless otherwise noted. Financial statements and summary information derived therefrom are prepared in accordance with International Financial Reporting Standards (“IFRS”).

Management is responsible for the preparation and integrity of the financial statements and MD&A, including the maintenance of appropriate information systems, procedures and internal controls and to ensure that information used internally or disclosed externally, including the financial statements and MD&A, is complete and reliable. The Company’s Board of Directors follows recommended corporate governance guidelines for public companies to ensure transparency and accountability to shareholders. The Board’s audit committee meets with management quarterly to review the financial statements including the MD&A and to discuss other financial, operating and internal control matters.

The reader is encouraged to review the Company’s statutory filings on [www.sedar.com](http://www.sedar.com).

**FORWARD LOOKING STATEMENTS**

This MD&A contains forward-looking statements and forward-looking information (collectively, “forward-looking statements”) within the meaning of applicable securities laws. These forward-looking statements relate to future events or the future performance of the Company. All statements other than statements of historical fact may be forward-looking statements. In some cases, forward-looking statements can be identified by terminology such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “continue”, or the negative of these terms or other comparable terminology. These forward-looking statements are only predictions. Actual events or results may differ materially. In addition, this MD&A may contain forward-looking statements attributed to third party industry sources. Undue reliance should not be placed on these forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. By their nature, forward-looking statements involve numerous assumptions and known and unknown risks and uncertainties, both general and specific, which contribute to the possibility that the predictions, forecasts, projections and other forward-looking statements will not occur. Forward-looking statements in this MD&A speak only as of the date of this MD&A.

Forward-looking statements in this MD&A include, but are not limited to, statements with respect to: expectations as to future operations of the Company; the Company’s anticipated financial performance following completion of the Transaction (as defined below); future development and growth prospects; expected operating costs, general and administrative costs, costs of services and other costs and expenses; expected revenues; ability to meet current and future obligations; ability to obtain aircraft, equipment, services and supplies in a timely manner; ability to obtain financing on acceptable terms or at all; the Company’s business model and strategy; the anticipated increase in the size of the airline passenger market in Canada; the ability of the Company to operate at lower costs than competitors; the ability of the Company to offer airfares at a lower price than competitors; and timelines for the Company to achieve key milestones in its development process.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct. The Company cannot guarantee future results, levels of activity, performance or achievements. Neither the Company nor any other person assumes responsibility for the outcome of the forward-looking statements.

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Many of the risks and other factors are beyond the control of the Company, which could cause results to differ materially from those expressed in the forward-looking statements contained in this MD&A. The risks and other factors include, but are not limited to: failure to realize the anticipated benefits of the Transaction (as defined below); failure of the Company to operate and grow the airline business effectively; the availability of financial resources to fund the Company's expenditures; competition for, among other things, capital reserves and skilled personnel; protection of intellectual property; the impact of competition and the competitive response to the Company's business strategy; third party performance of obligations under contractual arrangements; prevailing regulatory, tax and other applicable laws and regulations; stock market volatility and market valuations; risks related to disputes with The Boeing Company ("Boeing") regarding the agreement to acquire 737-Max aircraft; uncertainty in global financial markets; the successful negotiation of the sale and leaseback of aircrafts; the completion of the financing necessary to commence airline operations; and the other factors described under the heading "Risk Factors" in this MD&A.

These factors should not be considered exhaustive. With respect to forward-looking statements contained in this MD&A, the Company has made assumptions regarding, among other things: the impact of increasing competition; conditions in general economic and financial markets; current technology; cash flow; future exchange rates; timing and amount of capital expenditures; effects of regulation by governmental agencies; future operating costs; and the Company's ability to obtain financing on acceptable terms. Readers are cautioned that the foregoing list of factors is not exhaustive and that additional information on these and other factors that could affect the Company's operations or financial results is discussed in this MD&A. The above summary of assumptions and risks related to forward-looking statements is included in this MD&A in order to provide readers with a more complete perspective on the future operations of the Company. Readers are cautioned that this information may not be appropriate for other purposes.

The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company is not under any duty to update or revise any of the forward-looking statements except as expressly required by applicable securities laws.

## **DESCRIPTION OF BUSINESS**

The Company was incorporated under the laws of British Columbia and continued as a Federal corporation pursuant to the Canada Business Corporations Act effective February 28, 2017 in connection with the completion of a reverse takeover transaction, as detailed below. The Company's principal business activity is the start-up of an ultra-low cost carrier ("ULCC") scheduled airline service. The Company's shares trade on the TSX Venture Exchange (the "Exchange") under the symbol "JET" and the OTC Market Group's OTCQB Marketplace under the symbol "JETMF".

The Company is currently in the pre-operating stage. Jetlines plans to launch an airline in Canada that applies ULCC operating principles. Its vision is to be Canada's ultra-low fare carrier of choice, with a mission of providing Canadians with the best value in air travel while focusing on safety and reliability. The Company expects that passenger demand will be stimulated through low airfares and revenue will be generated from both base airfare and the sale of ancillary products. Consistent with the successful ULCC model applied in other countries, Jetlines intends to focus on cost discipline in order to keep operating costs low. Jetlines plans to operate scheduled point-to-point all jet air service nationally, to the USA and other Mexican and Caribbean destinations.

Jetlines expects that by applying the ULCC model, a new market of Canadian travelers will be created comprised of persons who: (1) are not presently flying from Canadian airports due to high airfares; (2) are not flying because of the lack of jet service from Canada's over 30 secondary airports; (3) are using American ULCC airlines in United States border towns near Canada; or (4) are not flying to trans-border destinations because the service is not currently offered, or is offered via multiple stops and connections. Jetlines anticipates this new market of passengers to be comprised of price sensitive travelers, which could include budget conscious leisure travelers, students, families and business travelers seeking to contain costs.

Canada has six cities/metro areas with a population of greater than 1 million and there are 30 metro areas with a population of more than 100,000.

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Adopting proven ULCC business principles, Jetlines expects to have a cost base at least 40% below existing legacy airlines in the Canadian market and comparable to other ULCCs in the U.S. Jetlines plans to offer a fully unbundled approach to fares, allowing it to offer average base fares that are approximately 50% below current Canadian legacy airlines. The worldwide use of other ULCC airlines such as Allegiant Air and Spirit Airlines in the United States, Air Asia in Asia, and Ryanair and EasyJet in Europe demonstrates the power of these ULCC airlines to attract and significantly stimulate passenger traffic and lead the markets they operate in, while generating strong returns for shareholders.

On May 16, 2016, Jetlines submitted to the Honourable Marc Garneau, Minister of Transport, a request for the issuance of an exemption order pursuant to subsection 62(1) of the *Canada Transportation Act* (“CTA”). The request was for Jetlines to be exempt from the current 25% foreign voting interest limit in the CTA and be permitted to have up to an aggregate of 49% foreign voting interests. The Exemption Order was granted for a five-year term ending on December 1, 2021 and will permit the Company’s subsidiary, Canada Jetlines Operations Ltd. (“Jetlines Operations”), to conduct domestic air services once it satisfies all of the remaining licensing requirements.

Subsequent to granting the Exemption Order, on June 27, 2018, the Honourable Marc Garneau, Minister of Transport, announced that, following the Royal Assent of the Transportation Modernization Act, new rules for airline ownership have officially come into force. These changes increase international ownership limits from 25% to 49% of voting interests for all Canadian air carriers. A single international investor (individually or in affiliation) cannot hold more than 25% of the voting interests of a Canadian air carrier, and no combination of international air carriers can own more than 25% of a Canadian carrier (individually or in affiliation).

#### **REVERSE TAKEOVER (“RTO”)**

On February 28, 2017, the Company acquired all of the issued and outstanding shares of Jetlines Operations by completing a three-cornered amalgamation pursuant to a definitive agreement dated April 12, 2016 (the “Transaction”). All references to share and per share amounts have been retroactively restated to reflect the share exchange.

Prior to the Transaction, the Company was a dormant publicly listed company and did not meet the definition of a business. Accordingly, the Transaction was accounted for as a purchase of the net assets of the Company by Jetlines Operations. The purchase consideration was determined as an equity-settled share-based payment in accordance with IFRS 2, *Share-based payment*, at the fair value of the equity instruments retained by the shareholders of the Company, based on the market value of the Company’s shares on the closing date of the Transaction.

For financial reporting purposes, the Company is considered a continuation of Jetlines Operations, the legal subsidiary, except with regard to authorized and issued share capital which is that of the Company, the legal parent.

#### **OUTLOOK**

The proceeds from the issuance of shares are being used to further the business objectives of the Company in launching an ULCC airline in Canada through its pre-operating stage, including making deposit payments for initial aircraft, advancing the domestic licensing process, augmenting the leadership team with operations, financial and commercial personnel, branding and marketing activities, signing of commercial and operational agreements, as well as advancing internet, digital media and information technology systems initiatives. Management believes that it has sufficient funds to carry out most or all of the aforementioned pre-operating activities; however, further funding, in the form of debt, equity or other facilities, will be required to take delivery of aircraft, meet domestic licensing financial capability requirements and to complete the build-out of the airline with aircraft, personnel, inventory, training, paying necessary up-front deposits, finalizing sales and administrative systems and other launch activities.

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The Company has announced financing transactions with its European airline partner SmartLynx Airlines SIA (“SmartLynx”) for up to \$15 million and a South Korean special purpose fund led and established by InHarv Partners Ltd. for up to \$14 million. Management will continue its fundraising efforts in the coming months to raise the capital necessary to take delivery of aircraft, commence operations, and complete the licensing process which is described below.

The Company has set a targeted launch date for commercial service of December 17, 2019, using Vancouver International Airport as its home airport. As a result of this determination, the Company and AerCap have mutually agreed to terminate the leases for two Airbus A320 aircraft, and the Company has entered into a letter of intent with SmartLynx for the lease of two alternative Airbus A320s that will be available for delivery in the fourth quarter of fiscal 2019, in line with the expected commencement of the Company’s operations.

The process to start a new airline commences with the Canadian Transportation Agency (the “Agency”), which acting on behalf of the Canadian Government, is an independent, quasi-judicial tribunal and regulator with the powers of a superior court. As a regulator, the Agency makes determinations and issues authorities, licenses and permits to transportation carriers under federal jurisdiction. There are four criteria that must be satisfied to achieve a domestic 705 license:

1. Jetlines is a Canadian company or is exempted from that requirement under section 62 of the CTA;
2. Jetlines holds a Canadian aviation document (Air Operator Certificate issued by Transport Canada) that is valid in respect of the air service to be provided under the licence;
3. Jetlines has the liability insurance coverage required by section 7 of the CTA in respect of the air service to be provided under the licence and has complied with section 8 of the CTA; and
4. Where Jetlines is required to meet the financial requirements set out in section 8.1 of the CTA, Jetlines meets those requirements.

The application to acquire a domestic service, large aircraft license includes establishing an agreed value for the work, deposits and reserves required to complete the pre-revenue build-out and the first 90 days of operations.

The Company has retained a team of experienced subject matter experts in order to complete the Transport Canada Air Operator Certificate process. Pending funding to the approval of the Agency, the completion of the Transport Canada Air Operator Certificate (“AOC”) and being properly insured, the Company will receive its airline licence to operate as an ULCC airline in Canada. The Company can make a request to the Agency to sell airline tickets prior to the licensing process being completed. The pre-selling of airline tickets combined with full operational funding could allow first operational flight to occur forthwith the completion of the licensing process.

Upon receipt of its licence to operate in Canada and once otherwise eligible, Jetlines intends to apply for a foreign air carrier permit or an exemption therefrom from the U.S. Department of Transportation (the “U.S. Department”) in order to allow Jetlines to fly into destinations in the United States. Jetlines also intends to concurrently apply for similar approvals from the regulatory authorities in Mexico and certain Caribbean countries. Provided such licences, permits or exemptions are received, Jetlines expects to grow its business significantly by increasing its route network throughout Canada and to selected locations in the United States, Mexico and the Caribbean. Jetlines believes a total new opportunity of more than 90 twinjet narrow-body aircraft is available in Canada before growth will be linked to a percentage increase of the annual GDP.

Jetlines expects to commence operations with two aircraft and to lease further aircraft at an average incremental rate of approximately four per year.

## **EXPLORATION AND EVALUATION ASSETS**

Prior to the closing of the Transaction, the Company was in the business of acquiring, exploring and evaluating mineral resource properties. Subsequent to the year ended December 31, 2018, the Company disposed of its remaining exploration and evaluation assets.

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**Central Mineral Belt (“CMB”) Project**

The CMB Project was located in central Labrador and the claims were subject to a 2% Net Smelter Return Royalty (“NSR”) payable to Silver Spruce Resources Inc. and a 2% NSR payable to Expedition Mining Inc. on 60% of any production from the property. Subsequent to the year ended December 31, 2018, the Company surrendered its interest in the CMB Silver Spruce property.

**Bootheel Uranium Project**

The Bootheel property is currently owned by The Bootheel Project LLC of which the Company had an 81% interest, subject to certain royalties. The remaining 19% ownership of The Bootheel Project LLC was held by UR-Energy USA Inc. (“URE”). Subsequent to the year ended December 31, 2018, the Company resigned as a member of The Bootheel Project LLC and no longer has any interest in the Bootheel Uranium Project.

The Company incurred maintenance costs, including mineral leases and claims and insurance, with respect to its exploration and evaluation assets while management evaluated opportunities for sale or disposal.

During the year ended December 31, 2018, the Company incurred maintenance costs in the amount of \$26,450 (2017 - \$23,488), net of a recovery of reclamation bonds in the amount of \$Nil (2017 - \$46,959) which have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss.

**SELECTED ANNUAL INFORMATION**

The following financial data are selected information for the Company for the three most recently completed financial years:

|                                    | <b>December 31, 2018</b> | <b>December 31, 2017</b> | <b>December 31, 2016</b> |
|------------------------------------|--------------------------|--------------------------|--------------------------|
| Revenue                            | \$ -                     | \$ -                     | \$ -                     |
| Loss from continuing operations    | (5,686,394)              | (9,067,694)              | (942,925)                |
| Loss and comprehensive loss        | (5,712,844)              | (9,044,223)              | (942,925)                |
| Loss per share (basic and diluted) | (0.08)                   | (0.16)                   | (0.07)                   |
| Total assets                       | 5,529,495                | 3,564,831                | 199,496                  |

**Loss and Comprehensive Loss**

Loss and comprehensive loss for the year ended December 31, 2018 reflect advancements with respect to the domestic licensing process, augmenting the leadership team with executive, financial, operations and commercial personnel, branding and marketing activities, as well as information technology systems initiatives.

The increased loss for the year ended December 31, 2017 is directly attributable to the closing of the Transaction, including the listing expense of \$4,990,119, and the Company’s transition to a publicly traded company. The Company began undertaking corporate and operational initiatives in order to advance commercial operations subsequent to closing the Transaction on February 28, 2017.

During the year ended December 31, 2016, the Company was focused on raising financing for continued operations and evaluating strategic opportunities, including the Transaction.

Refer to “Review of Consolidated Financial Results” for further detail of losses incurred during the years ended December 31, 2018 and 2017.

**Total Assets**

The increase in total assets as at December 31, 2018 compared to as at December 31, 2017 is primarily attributable to security deposits paid to secure aircraft and equipment for fiscal 2019, net of cash used in operating activities. Refer to “Statement of Financial Position Information” for further detail of asset balance changes and “Liquidity and Capital Resources” for cash flow information by activity during the year ended December 31, 2018.

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The increase in total assets as at December 31, 2017 compared to as at December 31, 2016 is explained by the Transaction, including the assets directly acquired and the concurrent financing completed.

Total assets at December 31, 2016 were acquired prior to the Transaction and related primarily to cash on hand, short-term receivables, and security deposits on aircraft.

## **REVIEW OF CONSOLIDATED FINANCIAL RESULTS**

### **Loss from Continuing Operations**

For the year ended December 31, 2018, the Company reported a loss from continuing operations in the amount of \$5,686,394 or \$0.08 per share, compared to a loss from continuing operations of \$9,067,694 or \$0.16 per share for the prior year. The decrease in loss from continuing operations in the amount of \$3,381,300 is directly attributable to the closing of the Transaction and resulting listing expense recorded in the amount of \$4,990,119 during the year ended December 31, 2017. The listing expense includes the costs of closing the Transaction and is essentially comprised of the difference between the non-cash fair value of the equity instruments retained by the shareholders of the Company and the non-cash fair value of the net assets of the Company acquired by Jetlines Operations. The decrease resulting from the listing expense was partially offset by increased corporate and operations activities detailed below.

The year ended December 31, 2017 reflects the loss from continuing operations of Jetlines Operations only for the period from January 1, 2017 to February 28, 2017, the Transaction closing date, and the consolidated entity thereafter.

During the year ended December 31, 2018, the Company incurred aircraft launch, licensing and route network related costs in the amount of \$1,094,072 (2017 - \$659,073) in connection with the CTA licensing process, the Transport Canada AOC submission, inspecting and securing aircraft, negotiating airport agreements, recruiting and training, procuring and implementing IT systems, and communicating with key stakeholders. During the year ended December 31, 2017, the Company was primarily focused on developing the route network strategy and commencing the AOC and licensing processes.

During the year ended December 31, 2018, the Company incurred marketing and investor relations expenses in the amount of \$682,467 (2017 - \$744,280) which includes ongoing investor outreach, marketing through social media and other channels, merchandising, research coverage, business development and overall public relations. The decrease in marketing and investor relations expenses in the amount of \$61,813 is explained by non-recurring items such as corporate re-branding, and website and merchandising portal development that were initiated subsequent to closing the Transaction during fiscal 2017.

During the year ended December 31, 2018, the Company incurred office and administration expenses in the amount of \$214,172 (2017 - \$161,987) to support ongoing corporate activities and operational initiatives. The increase in office and administration expenses in the amount of \$52,185 was driven by increased overall activities and personnel.

Professional fees for the year ended December 31, 2018 totaled \$1,623,696 (2017 - \$784,393), representing an increase of \$839,303 which is explained by accounting, audit, consulting and legal fees, executive and international recruitment, the transition from a private to a public entity, and increased corporate activities with respect to the Company's strategic objectives.

Regulatory costs increased to \$403,788 for the year ended December 31, 2018 from \$247,409 for the prior year. The increase in the amount of \$156,379 is explained by the transition from a private to public entity upon closing the Transaction and the Company's annual general meeting. Regulatory costs include transfer agent, listing and filing fees and the cost of Board and shareholder meetings. In addition, effective May 1, 2017, the Company commenced paying directors' fees to non-management board members which are included in regulatory costs.

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The Company incurred salaries and benefits in the amount of \$1,051,330 for the year ended December 31, 2018 compared to \$864,052 for the prior year, representing an increase of \$187,278 relating to organizational changes effected since the closing of the Transaction, including augmenting the Company's leadership team and obligations to departing personnel. Salaries and benefits reflect senior management and executive leadership personnel. Operational and commercial personnel are included in aircraft, licensing and route network expenses and marketing, respectively.

The Company recorded share-based payments expense for the year ended December 31, 2018 in the amount of \$637,267 (2017 - \$611,610) which reflects the fair value of equity-settled awards recognized over the respective vesting periods.

During the year ended December 31, 2018, the Company incurred travel expenses in the amount of \$89,407 (2017 - \$76,338) with respect to executive and directors' meetings and recruitment initiatives.

Finance income for the year ended December 31, 2018 in the amount of \$76,634 (2017 - \$44,688) relates to interest income earned on excess cash on hand and is a function of average cash and cash equivalent balances during the year.

The Company recorded a foreign exchange gain for the year ended December 31, 2018 in the amount of \$134,288 (2017 - \$1,458) with respect to transactions and balances denominated in US dollars and the impact of fluctuations in the exchange rate. The increase in the foreign exchange gain recorded during the year ended December 31, 2018 compared to the prior year in the amount of \$132,830 is explained by increased aircraft security deposits which are denominated in US dollars. Refer to "Statement of Financial Position Information" and "Commitments" for additional detail of security deposits on aircraft.

During the year ended December 31, 2018, the Company recorded an impairment loss with respect to security deposits on aircraft in the amount of \$97,087. Refer to "Statement of Financial Position Information" and "Commitments" for additional detail of security deposits on aircraft.

**Gain (Loss) from Discontinued Operations**

During the year ended December 31, 2018, the Company incurred maintenance costs in the amount of \$26,450 (2017 - \$23,488), net of a recovery of reclamation bonds in the amount of \$Nil (2017 - \$46,959) which have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss. Refer to "Exploration and Evaluation Assets" for additional discussion of the historical exploration and evaluation properties to which discontinued operations relate.

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**SUMMARY OF QUARTERLY RESULTS**

The following table summarizes the Company's financial operations for the last eight quarters. For more detailed information, please refer to the consolidated financial statements.

| <b>Description</b>              | <b>Q4<br/>December 31, 2018<br/>(\$)</b> | <b>Q3<br/>September 30, 2018<br/>(\$)</b> | <b>Q2<br/>June 30, 2018<br/>(\$)</b> | <b>Q1<br/>March 31, 2018<br/>(\$)</b> |
|---------------------------------|--|---|--------------------------------------|---------------------------------------|
| Loss from continuing operations | (1,817,245)                              | (1,388,613)                               | (1,531,499)                          | (949,037)                             |
| Loss and comprehensive loss     | (1,824,835)                              | (1,396,447)                               | (1,534,652)                          | (956,910)                             |
| Loss per share                  | (0.02)                                   | (0.02)                                    | (0.02)                               | (0.02)                                |
| <b>Description</b>              | <b>Q4<br/>December 31, 2017<br/>(\$)</b> | <b>Q3<br/>September 30, 2017<br/>(\$)</b> | <b>Q2<br/>June 30, 2017<br/>(\$)</b> | <b>Q1<br/>March 31, 2017<br/>(\$)</b> |
| Loss from continuing operations | (849,141)                                | (1,218,233)                               | (1,476,408)                          | (5,523,912)                           |
| Loss and comprehensive loss     | (811,835)                                | (1,221,383)                               | (1,484,473)                          | (5,526,532)                           |
| Loss per share                  | (0.01)                                   | (0.02)                                    | (0.03)                               | (0.10)                                |

Historical quarterly results of operations and loss per share data do not necessarily reflect any recurring expenditure patterns or predictable trends.

Expenditures over the last seven quarters have been relatively consistent and reflect the advancement of the Company's strategic objectives subsequent to closing the Transaction and concurrent financing. The loss for the quarter ended March 31, 2017 is larger because it includes a listing expense in the amount of \$4,990,119, which as previously discussed, is primarily a non-cash item.

**FOURTH QUARTER**

**Loss from Continuing Operations**

For the three month period ended December 31, 2018, the Company reported a loss from continuing operations in the amount of \$1,817,245 (2017 - \$849,141) or \$0.02 per share (2017 - \$0.01 per share).

During the three month period ended December 31, 2018, the Company incurred aircraft launch, licensing and route network related costs in the amount of \$379,799 (2017 - \$143,785) in connection with advancing the licensing process, negotiating airport agreements, recruiting and training, procuring and implementing IT systems, and communicating with key stakeholders. During the three month period ended December 31, 2017, the Company was focused on the early stages of the AOC and licensing processes.

During the three month period ended December 31, 2018 the Company incurred marketing and investor relations expenses in the amount of \$235,418 (2017 - \$204,795) which includes ongoing investor outreach, marketing through social media and other channels, business development and overall public relations. The increase in marketing and investor relations expenses in the amount of \$30,623 is primarily explained by the Company engaging a marketing agency of record and implementing an internal commercial team during the three month period ended December 31, 2018.

During the three month period ended December 31, 2018, the Company incurred office and administration expenses in the amount of \$56,047 (2017 - \$36,572) to support ongoing corporate and operational activities. The increase in office and administration expenses in the amount of \$19,475 was driven by increased overall activities and personnel.



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Professional fees for the three month period ended December 31, 2018 totaled \$599,827 (2017 - \$160,842), representing an increase of \$438,985 which is explained by accounting, audit, consulting and legal fees, recruitment, and increased corporate and operational activities with respect to the Company's strategic objectives.

During the three month period ended December 31, 2018, the Company incurred regulatory costs in the amount of \$72,114 (2017 - \$84,618) which include transfer agent, listing and filing fees and directors' fees.

The Company incurred salaries and benefits in the amount of \$343,141 for the three month period ended December 31, 2018 compared to \$181,539 for the same period of the prior year, representing an increase of \$161,602 relating to organizational changes and augmenting the Company's leadership team. Salaries and benefits reflect senior management and executive leadership personnel. Operational and commercial personnel are included in aircraft, licensing and route network expenses and marketing, respectively.

The Company recorded share-based payments expense for the three month period ended December 31, 2018 in the amount of \$272,552 (2017 - \$92,175) which reflects the fair value of equity-settled awards recognized over the respective vesting periods.

Finance income for the three month period ended December 31, 2018 in the amount of \$11,956 (2017 - \$12,768) relates to interest income earned on excess cash on hand and is a function of average cash and cash equivalent balances during the period.

The Company recorded a foreign exchange gain for the three month period ended December 31, 2018 in the amount of \$140,044 (2017 – loss of \$506) with respect to transactions and balances denominated in US dollars and the impact of fluctuations in the exchange rate. The increase in the foreign exchange gain recorded during the three month period ended December 31, 2018 compared to the same period of the prior year in the amount of \$140,550 is explained by increased aircraft security deposits which are denominated in US dollars. Refer to "Statement of Financial Position Information" and "Commitments" for additional detail of security deposits on aircraft.

During the three month period ended December 31, 2017, the Company recorded a net gain on debt forgiveness and settlement in the amount of \$35,894 with respect to amounts payable to and re-negotiated with third parties.

#### **Loss from Discontinued Operations**

During the three month period ended December 31, 2018, the Company incurred maintenance costs in the amount of \$7,590 (2017 - \$9,653), net of a recovery of reclamation bonds in the amount of \$Nil (2017 - \$46,959) which have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss. Refer to "Exploration and Evaluation Assets" for additional discussion of the historical exploration and evaluation properties to which discontinued operations relate.

#### **LIQUIDITY AND CAPITAL RESOURCES**

As at December 31, 2018, the Company had cash and cash equivalents in the amount of \$1,220,555 (2017 - \$2,981,046) and working capital in the amount of \$979,811 (2017 - \$2,698,286). The decrease in working capital in the amount of \$1,718,475 is explained by operating activities, aircraft security deposits paid and aircraft equipment procured, net of proceeds received from the issuance of shares during the year ended December 31, 2018.

At present, the Company has no current operating income or cash flows. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms. See "Risk Factors".

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The proceeds from the issuance of shares are being used to further the business objectives of the Company in launching an ultra-low cost carrier airline in Canada through its pre-operating stage, including making deposit payments on initial aircraft, advancing the domestic licensing process, augmenting the leadership team with operations, financial and commercial personnel, branding and marketing activities, signing of commercial and operational agreements, as well as advancing internet, digital media and information technology systems initiatives. Further funding, in the form of debt, equity or other facilities, will be required to meet domestic licensing financial capability requirements and to complete the build-out of the airline with aircraft, personnel, inventory, training, paying necessary up-front deposits, take delivery of initial aircraft (including making deposit and lease payments for aircraft), finalizing sales and administrative systems and other launch activities.

The Company's cash and cash equivalents and restricted cash are held in Schedule 1 Canadian financial institutions in highly liquid accounts and interest bearing investments. No amounts have been or are invested in asset-backed commercial paper.

To date, the Company's operations have been almost entirely financed from equity financings. The Company will continue to identify financing opportunities in order to provide additional financial flexibility. While the Company has been successful raising the necessary funds in the past, there can be no assurance it can do so in the future.

#### **Cash Flows**

The Company's cash flows for the years ended December 31, 2018 and 2017 are summarized in the table below.

|   | <b>December 31, 2018</b> | <b>December 31, 2017</b> |
|---|--------------------------|--------------------------|
| Cash used in operating activities                   | \$ (5,174,031)           | \$ (3,892,705)           |
| Cash provided by (used in) investing activities     | (3,024,705)              | 219,943                  |
| Cash provided by financing activities               | 6,438,245                | 6,562,411                |
| Change in cash and cash equivalents during the year | (1,760,491)              | 2,889,649                |
| Cash and cash equivalents, beginning of the year    | 2,981,046                | 91,397                   |
| <b>Cash and cash equivalents, end of the year</b>   | <b>\$ 1,220,555</b>      | <b>\$ 2,981,046</b>      |

#### Operating Activities

Cash used in operating activities adjusts loss for the year for non-cash items including, but not limited to, depreciation, accrued interest, listing expense recorded as a result of the Transaction, share-based payments, impairment losses and unrealized gains and losses. Cash used in operating activities also reflects changes in working capital items, such as amounts receivable, prepaid expenses and amounts payable, which fluctuate in a manner that does not necessarily reflect predictable patterns for the overall use of cash, the generation of which depends almost entirely on sources of external financing to fund operations.

Refer to "Review of Consolidated Financial Results" for further details with respect to operating activities for the year ended December 31, 2018.

#### Investing Activities

During the year ended December 31 2018, the Company paid aircraft security deposits totaling \$2,864,527 (US\$2,215,000), as detailed in "Commitments", paid an equipment deposit in the amount of \$137,252 and purchased office and computer equipment in the amount of \$22,926.

Pursuant to the Transaction, the Company acquired cash in the amount of \$225,991 during the year ended December 31, 2017 which is presented as an investing activity. The Company also purchased computer equipment in the amount of \$6,048.

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Financing Activities

Financing activities for the year ended December 31, 2018 include gross proceeds received of \$6,468,786 pursuant to a private placement and the exercise of stock options and warrants, net of share issue costs of \$30,541.

During the year ended December 31, 2017, financing activities consisted of shares issued for gross proceeds of \$6,901,687, net of share issue costs paid of \$389,276, and a loan advance in the amount of \$50,000 received prior to closing the Transaction. In addition, deferred transaction costs in the amount of \$375,140 were included in the net assets acquired pursuant to the Transaction and applied to the share issue costs of the prospectus offering for cumulative cash share issue costs in the amount of \$764,416.

**STATEMENT OF FINANCIAL POSITION INFORMATION**

|  | <b>As at<br/>December 31, 2018</b> | <b>As at<br/>December 31, 2017</b> |
|--|------------------------------------|------------------------------------|
| Cash and cash equivalents                | \$ 1,220,555                       | \$ 2,981,046                       |
| Receivables                              | 215,166                            | 119,994                            |
| Prepaid expenses                         | 144,917                            | 96,077                             |
| Restricted cash                          | 500,000                            | -                                  |
| Investment in Voleo, Inc.                | 200,000                            | 200,000                            |
| Deposits                                 | 3,224,974                          | 162,727                            |
| Equipment                                | 23,883                             | 4,987                              |
| <b>Total Assets</b>                      | <b>\$ 5,529,495</b>                | <b>\$ 3,564,831</b>                |
| Accounts payable and accrued liabilities | \$ 858,798                         | \$ 455,569                         |
| Due to related parties                   | 242,029                            | 43,262                             |
| Future reclamation provision             | 20,807                             | 20,807                             |
| Share capital                            | 21,370,708                         | 14,848,347                         |
| Reserves                                 | 1,881,064                          | 1,327,913                          |
| Deficit                                  | (18,843,911)                       | (13,131,067)                       |
| <b>Total Liabilities and Equity</b>      | <b>\$ 5,529,495</b>                | <b>\$ 3,564,831</b>                |

**Assets**

Cash and cash equivalents decreased by \$1,760,491 during the year ended December 31, 2018 as a result of operating costs incurred, aircraft security deposits paid and equipment procured, net of proceeds received from the issuance of shares. Cash flows are detailed in “Liquidity and Capital Resources”. Operating activities are detailed in “Review of Consolidated Financial Results”.

Receivables increased by \$95,172 during the year ended December 31, 2018 and relates primarily to Goods and Services Tax (“GST”) input tax credits paid on increased operating activities.

As at December 31, 2018, prepaid expenses increased by \$48,840 compared to the balance as at December 31, 2017 and is primarily explained by transaction costs incurred and deferred in the amount of \$63,903 in connection with a private placement for which shares had not been issued as of year-end. Refer to “Share Capital” for further discussion of the private placement on December 27, 2018. The increase from deferred transaction costs was partially offset by reductions in annual insurance premiums.

The balance of restricted cash as of December 31, 2018 is discussed further in “Related Party Transactions”.

As at December 31, 2018 and 2017, the investment in Voleo, Inc. (“Voleo”) consists of 1,000,000 common shares with a carrying value of \$200,000. The common shares of Voleo were included in the net assets acquired pursuant to the Transaction during the year ended December 31, 2017.

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The balance of the non-current deposits as at December 31, 2018 consists of aircraft security deposits in the amount of \$2,987,722 (2017 - \$62,727), an equipment deposit in the amount of \$137,252 (2017 - \$Nil), and a related party security deposit in the amount of \$100,000 (2017 - \$100,000). The increase in deposits during the year ended December 31, 2018 in the amount of \$3,062,247 is explained by aircraft security deposits paid in the amount of \$2,864,527 (US\$2,215,000), an equipment deposit paid in the amount of \$137,252 and the impact of foreign exchange in the amount of \$157,555, net of an impairment loss recorded in the amount of \$97,087 (US\$75,000). The impairment loss was recorded as a result of terminating a purchase agreement with Boeing. Refer to “Commitments” and “Related Party Transactions” for additional detail of aircraft security deposits and the related party security deposit, respectively.

As at December 31, 2018, the Company’s equipment had a net book value of \$23,883 (2017 - \$4,987). During the year ended December 31, 2018 the Company purchased additional equipment in the amount of \$22,926 and recorded depreciation expense in the amount of \$4,030 for a net increase in the amount of \$18,896 to equipment.

### **Liabilities**

During the year ended December 31, 2018, accounts payable and accrued liabilities increased by \$403,229 and is explained by increased corporate, operational and commercial activities and the timing of payments to third parties.

As at December 31, 2018, the balance due to related parties in the amount of \$242,029 (2017 - \$43,262) relates to services rendered to or expenses incurred on behalf of the Company which were unpaid at year-end. For further details with respect to related party balances and transactions, refer to “Related Party Transactions”.

As at December 31, 2018 and 2017, the balance of the future reclamation provision relates to cleanup costs for an exploration and evaluation property which the Company abandoned in a prior year. The timing of the cleanup costs is uncertain. The future reclamation provision in the amount of \$20,807 was included in the net assets acquired pursuant to the Transaction.

### **Equity**

Share capital increased by \$6,522,361 during the year ended December 31, 2018 and is explained by proceeds received from share issuances (\$6,468,786) and fair value adjustments for stock options and warrants exercised (\$357,484), net of share issue costs paid (\$30,541) and the fair value of additional agent share purchase warrants issued (\$273,368). Equity transactions are further detailed in “Share Capital”.

Reserves increased by \$553,151 during the year ended December 31, 2018 and is explained by the fair value of additional agent share purchase warrants issued (\$273,368) and share-based payments related to stock options and restricted share units (\$637,267), net of fair value adjustments for stock options and warrants exercised (\$357,484) during the year.

Deficit increased by the loss for the year ended December 31, 2018 in the amount of \$5,712,844.

### **SHARE CAPITAL**

The Company’s authorized capital consists of unlimited number of common voting shares without par value and an unlimited number of variable voting shares without par value (collectively, the “Voting Shares”). The common voting shares and variable voting shares rank equally as to dividends on a share-for-share basis, and all dividends declared in any fiscal year shall be declared in equal or equivalent amounts per share on all Voting Shares then outstanding, without preference or distinction.

### **Common Voting Shares**

A common voting share carries one vote per common voting share.

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**Variable Voting Shares**

A variable voting share carries one vote per variable voting share, unless (a) the number of issued and outstanding variable voting shares exceeds 25% of the total number of all issued and outstanding Voting Shares (or any higher percentage that the Governor in Council may specify pursuant to the Canada Transportation Act); or (b) the total number of votes cast by or on behalf of holders of variable voting shares at any meeting exceeds 25% (or any higher percentage that the Governor in Council may specify pursuant to the Canada Transportation Act) of the total number of votes that may be cast at such meeting. Due to the Exemption Order issued to the Company by the Minister of Transport (and the recent changes to the rules for airline ownership under the Transportation Modernization Act), references above to 25% are increased to 49%.

If either of the above noted thresholds is surpassed at any time, the vote attached to each variable voting share will decrease automatically and without further act or formality to equal the maximum permitted vote per variable voting share.

The Company has securities outstanding as follows:

| <b>Security Description</b>                                 | <b>As at<br/>December 31, 2018</b> |
|---|------------------------------------|
| Common voting shares – issued and outstanding               | 60,179,733                         |
| Variable voting shares – issued and outstanding             | 13,768,878                         |
| Variable voting share issuable for subscription receipts    | 22,727,272                         |
| Voting Shares issuable on vesting of restricted share units | 2,750,000                          |
| Voting Shares issuable on exercise of stock options         | 6,107,500                          |
| Voting Shares issuable on exercise of warrants              | 17,603,173                         |
| Voting Shares – fully diluted                               | 123,136,556                        |

**Share Issuances**

During the year ended December 31, 2018:

- The Company issued 1,400,000 shares for gross proceeds of \$399,000 pursuant to the exercise of 1,400,000 stock options. The fair value of the stock options in the amount of \$156,346 was credited to share capital.
- The Company issued 12,810,699 shares for gross proceeds of \$5,369,786 pursuant to the exercise of 12,810,699 share purchase warrants. The fair value of the share purchase warrants in the amount of \$201,138 was credited to share capital.
- The Company issued 1,627,907 shares for gross proceeds of \$700,000 in connection with a private placement.
- The Company incurred share issue costs in the amount of \$30,541 in connection with the issuance of shares.

**Subscription Receipts**

On December 27, 2018, the Company closed a private placement with SmartLynx pursuant to which the Company sold 22,727,272 subscription receipts (each a “Subscription Receipt”) at a price of \$0.33 (the “Offering Price”) per Subscription Receipt for gross proceeds of \$7,500,000 (the “Offering”). Each Subscription Receipt entitles SmartLynx to receive, without payment of additional consideration or further action on the part of the holder, one unit of the Company (each a “Unit” and collectively the “Units”), upon receipt by the escrow agent, prior to August 31, 2019 (the “Deadline”), of a release notice from the Company and SmartLynx (the “Release Notice”) confirming that: (a) the Company has raised additional gross proceeds of \$40 million (the “Funding Milestone”) from a subsequent financing by May 31, 2019 (such completion date subject to waiver by SmartLynx); (b) the receipt by the Company’s subsidiary, Jetlines Operations, of its air operator certificate from Transport Canada; and (c) no termination event has occurred.

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Each Unit will consist of one variable voting share of the Company and one common share purchase warrant. Each share purchase warrant shall entitle the holder thereof to purchase one variable voting share of the Company at a price of \$0.45 for a period of 36 months from the closing date.

If: (i) the Release Notice is not delivered by the Deadline, or (ii) the Offering is terminated in accordance with the terms of the subscription receipt agreement, then SmartLynx will be entitled to receive an amount per Subscription Receipt equal to the Offering Price and an entitlement to the interest earned thereon. Any shortfall will be funded by the Company. In addition, the Company is obligated to pay a termination fee of US\$250,000 if the Company has not achieved the Funding Milestone by May 31, 2019 or commits certain other material breaches and SmartLynx terminates the underlying agreements (the “Termination Fee”).

SmartLynx retains the option to acquire additional shares of the Company valued at up to \$7,500,000 based on the maximum discounted market price permitted under TSXV rules at the time the option is exercised. The option is exercisable for a period of twelve months following the closing of the Offering.

Subsequent to the year ended December 31, 2018, the Company and SmartLynx amended certain terms of the Offering. Refer to “Subsequent Events” below.

As at December 31, 2018, the escrow agent holds \$7,501,746 in trust for SmartLynx with respect to the Subscription Receipts, comprising gross proceeds and accrued interest in the amounts of \$7,500,000 and \$1,746, respectively.

As at December 31, 2018, the balance of prepaid expenses includes deferred transaction costs in the amount of \$63,903 with respect to the Offering.

## **RELATED PARTY TRANSACTIONS**

Related parties and related party transactions impacting the accompanying consolidated financial statements are summarized below and include transactions with the following individuals or entities:

### **Key Management Personnel**

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company’s Board of Directors, corporate officers, including the Company’s Chief Executive Officer, Chief Financial Officer, and Vice Presidents.

Remuneration attributed to key management personnel for the years ended December 31, 2018 and 2017 is summarized as follows:

|                                    | <b>For the year ended<br/>December 31, 2018</b> |           | <b>For the year ended<br/>December 31, 2017</b> |           |
|------------------------------------|---|-----------|---|-----------|
| Short-term benefits <sup>(1)</sup> | \$  | 1,655,589 | \$  | 1,005,983 |
| Share-based payments               |   | 519,238   |   | 348,483   |
|                                    | \$  | 2,174,827 | \$  | 1,354,466 |

<sup>(1)</sup> Short-term benefits include base salaries and directors’ fees, pursuant to contractual employment or consultancy arrangements, management and consulting fees.

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**Other Related Party Transactions and Balances**

King & Bay West Management Corp. (“King & Bay West”) is an entity that is owned by Mark Morabito, the Executive Chair of the Company. King & Bay West employs or retains certain directors, officers and consultants of the Company and provides administrative, management, finance, legal, regulatory, business development and corporate communications services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The fees are consistent with what King & Bay West charges its arm’s length clients for similar services. The amount set out in the table below represents amounts paid or accrued to King & Bay West for the services of King & Bay West personnel and for overhead and third party costs incurred by King & Bay West on behalf of the Company.

Transactions entered into with related parties other than key management personnel during the years ended December 31, 2018 and 2017 include the following:

|                 | For the year ended<br>December 31, 2018 | For the year ended<br>December 31, 2017 |
|-----------------|---|---|
| King & Bay West | \$ 887,414                              | \$ 538,320                              |

As at December 31, 2018 and 2017, King & Bay West holds a security deposit in accordance with the management services agreement between King & Bay West and the Company (the “Management Services Agreement”) in the amount of \$100,000. Upon termination of the Management Services Agreement, the security deposit will be applied to the final invoice rendered by King & Bay West to the Company.

As at December 31, 2018, the balance of restricted cash in the amount of \$500,000 (December 31, 2017 - \$Nil) is held in a separate guaranteed investment certificate pursuant to an employment agreement between the Company and an executive officer. The future payment of the restricted funds to the executive officer is contingent upon the occurrence of certain events and/or conditions.

Pursuant to employment agreements between the Company and executive officers, the Company would be required to pay bonuses up to \$300,000 upon the occurrence of certain events, including the completion of financing and/or the Company’s receipt of the Air Operator Certificate.

As at December 31, 2018, amounts due to related parties include the following:

- MJM Consulting Corp., an entity owned by Mark Morabito, Executive Chair of the Company - \$8,737 (2017 - \$Nil) in relation to expenses incurred on behalf of the Company.
- King & Bay West - \$225,572 (2017 - \$43,262) in relation to the services described above.
- Javier Suarez, Chief Executive Officer of the Company - \$4,088 (2017 - \$Nil) in relation to expenses incurred on behalf of the Company.
- Adsajama Consultancy Ltd., an entity owned by Alan Bird, Director of the Company - \$3,559 (2017 - \$Nil) in relation to consulting and advisory services provided to the Company.
- Philip Larsen, Vice President of Maintenance of the Company - \$73 (2017 - \$Nil) in relation to expenses incurred on behalf of the Company.

The amounts due to related parties are unsecured, non-interest bearing and have no stated terms of repayment.

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**GOING CONCERN**

The consolidated financial statements of the Company have been prepared using IFRS on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. At present, the Company has no current operating income or cash flows. The continuing operations of the Company are dependent upon the Company's ability to continue to raise adequate financing and to commence profitable operations in the future. The Company intends to finance its future requirements through a combination of debt and/or equity issuance. There is no assurance that the Company will be able to obtain such financings or obtain them on favorable terms.

As at December 31, 2018, the Company had working capital of \$979,811 and a deficit of \$18,843,911. Proceeds raised from the issuance of shares will be used to further the business objectives of the Company in launching a ULCC in Canada; however further funding, in the form of debt, equity or other facilities, will be required to meet domestic licensing financial capability requirements, to complete the build-out of the airline, and fulfill commitments with respect to aircraft.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of the accompanying consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The accompanying consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**Critical Judgments**

Critical accounting judgments are accounting policies that have been identified as being complex or involving subjective judgments or assessments.

Going Concern

The preparation of the accompanying consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1 of the consolidated financial statements.

Functional Currency

The functional currency is the currency of the primary economic environment in which an entity operates, and has been determined for each entity within the Company. The functional currency for the Company and its subsidiaries has been determined to be the Canadian dollar.

**Key Sources of Estimation Uncertainty**

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to the following:



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Share-based Payments

Estimating fair value for granted stock options and compensatory warrants requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option or warrant, volatility, dividend yield, and rate of forfeitures and making assumptions about them.

Estimating fair value for granted restricted share units requires estimating the number or awards likely to vest on grant and at each reporting date up to the vesting date. The estimated forfeiture rate is adjusted for actual forfeitures in the period.

Fair Value of Equity Investment

The Company holds common shares of Voleo, a privately held company for which a quoted market price in an active market is not available. The Company estimates the fair value of this investment based on information available to management, including but not limited to subsequent financings completed by Voleo and announcements with respect to corporate transactions.

Deferred Tax Assets and Liabilities

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

Future Reclamation Provision

The Company assesses its provision for reclamation related to its historical exploration and evaluation activities at each reporting period or when new material information becomes available. Accounting for reclamation obligations requires management to make estimates of the future costs that will be incurred to complete the reclamation to comply with existing laws and regulations. Actual future costs that will be incurred may differ from those amounts estimated as a result of changes to environmental laws and regulations, timing of future cash flows, changes to future costs, technical advances, and other factors. In addition, the actual work required may prove to be more extensive than estimated because of unexpected geological or other technical factors. The measurement of the present value of the future obligation is dependent on the selection of a suitable discount rate and the estimate of future cash outflows. Changes to either of these estimates may materially affect the present value calculation of the obligation.

**ACCOUNTING POLICIES**

The accounting policies followed by the Company are set out in Note 3 to the accompanying consolidated financial statements for the year ended December 31, 2018.

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**New Accounting Pronouncement**

The following accounting pronouncement has been made, but is not yet effective for the Company as at December 31, 2018.

- IFRS 16, *Leases* - The standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly. The liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses). The Company will adopt IFRS 16 in its consolidated financial statements on January 1, 2019. The adoption of this standard will not have a material impact on the Company until aircraft are delivered to the Company and lease payments commence.

**FINANCIAL INSTRUMENTS**

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

**Credit risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company is subject to credit risk on its cash and cash equivalents, receivables and deposits. The Company limits its exposure to credit loss by placing its cash and cash equivalents with major financial institutions. The Company has no investments in asset-backed commercial paper. The Company's receivables consist mainly of Goods and Services Tax receivable due from the Government of Canada. The Company's deposits are primarily held by AerCap, a global leader in aircraft leasing and aviation finance. The Company does not believe it is exposed to significant credit risk.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its capital management. See "Outlook" and "Liquidity and Capital Resources" sections for further details.

**Market Risk**

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and foreign exchange rates.

**(a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The risk that the Company will realize a loss as a result of a decline in the fair value of any short-term investments included in cash and cash equivalents and restricted cash is minimal because these investments generally have a fixed yield rate.

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**(b) Currency risk**

At present the Company's expenditures are predominantly in Canadian dollars. The Company has US dollar commitments with respect to aircraft leases. Future equity raised may be in either Canadian or US dollars. At this time, the Company does not have any currency hedges in place for fluctuations in the exchange rate between the Canadian dollar and the US dollar. As at December 31, 2018, a 10% change in the Canadian dollar versus the US dollar would give rise to a gain/loss of approximately \$280,000 based on US dollar denominated monetary assets and liabilities.

**RISK FACTORS**

The development and ultimate operation of an ULCC airline involves significant risks and uncertainties, which even a combination of careful evaluation, experience and knowledge may not eliminate. Certain of the more prominent risk factors that may materially affect the Company's future performance, in addition to those referred to above, are listed hereunder.

**Ability to Obtain Additional Capital**

The ability of the Company to execute its build-out strategy and achieve operations will depend on acquiring substantial additional financing through debt financing, equity financing or other means. There are no assurances that such financing will be available, or if available, available upon terms acceptable to the Company. Failure to obtain such financing may result in the delay or indefinite postponement of such growth strategy or even impact the ability of the Company to continue as a going concern.

There can be no assurance that additional capital or other types of financing will be available if needed or that, if available, the terms of such financing will be favourable to the Company. If additional financing is raised by the Company through the issuance of securities from treasury, control of the Company may change and shareholders may suffer dilution. If additional financing is not available, or if available, not available on satisfactory terms, this could result in a material adverse effect or could require the Company to reduce, delay, scale back or eliminate portions of its actual or proposed operations at the applicable time or could prevent the Company from continuing as a going concern. In such circumstance, purchasers could lose their entire investment in the Company.

**Ability to Obtain Aircraft**

Critical to the Company's business model is a supply of modern and cost-effective aircraft that can service the various sectors required to fly the Company's planned route network. Should these aircraft not be available for start-up to complete the licensing process or to support the Company's growth strategy, or should the aircraft lease or maintenance costs increase drastically there could be an impact on the Company's ability to complete the licensing process, commence operations, growth strategy, cost structure and potential profitability. In particular, the Company needs to raise additional debt or equity financing in order to actually take delivery of its initial aircraft. Failure to complete such financing will result in an indefinite delay to the Company's estimated timeline to launch commercial operations.

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**Potential Dispute with Respect to the Boeing Agreement**

The Company, through its subsidiary Jetlines Operations, entered into the Boeing Agreement (defined below) for the firm purchase of five Boeing 737 MAX aircraft with delivery commencing in 2023. The terms of the Boeing Agreement required the Company to make initial deposits. In addition to the initial deposits under the Boeing Agreement, the terms of the Boeing Agreement required the Company to make advance payments on account of the purchase price of the five Boeing 737 MAX aircraft commencing in 2021 and eventual aircraft delivery payments in 2023. The Boeing Agreement also contained a clause that if the Company enters into an agreement to operate or purchase non-Boeing aircraft, the full 1% deposit (less previous payments) for all aircraft would be due and payable immediately. As disclosed above, the Company entered into lease agreements for Airbus aircraft. The Company and Boeing may be in a dispute regarding the continued validity of the Boeing Agreement in general as a result of, among other things, the Company's inability to secure Boeing aircraft for the start-up of airline operations. The Company has communicated to Boeing that the Boeing Agreement is terminated. To date Boeing has not objected to that termination, and Boeing has not commenced legal proceedings with respect to any alleged violation of the terms of the Boeing Agreement by the Company.

The ultimate resolution of any dispute with Boeing would be inherently unpredictable. As such, the Company's financial condition and results of operations could be adversely affected in any particular period by an unfavorable outcome. The potential financial and other impacts on the Company are uncertain but could be materially adversely to the business of the Company.

**The Company may not be able to meet the deadlines under the financing with SmartLynx, which would allow SmartLynx to terminate its financing commitments**

On December 27, 2018, the Company closed a private placement with SmartLynx pursuant to which the Company sold 22,727,272 Subscription Receipts at a price of \$0.33 per Subscription Receipt for gross proceeds of \$7,500,000. Each Subscription Receipt entitles SmartLynx to receive, without payment of additional consideration or further action on the part of the holder, one Unit of the Company upon receipt by the escrow agent, prior to the Deadline of the Release Notice confirming that: (a) the Company has completed the Funding Milestone by May 31, 2019 (such completion date subject to waiver by SmartLynx); (b) the receipt by the Company's subsidiary, Jetlines Operations, of its air operator certificate from Transport Canada; and (c) no termination event has occurred.

If: (i) the Release Notice is not delivered by the Deadline, or (ii) the Offering is terminated in accordance with the terms of the subscription receipt agreement, then SmartLynx will be entitled to receive an amount per Subscription Receipt equal to the Offering Price and an entitlement to the interest earned thereon. Any shortfall will be funded by the Company. In addition, the Company is obligated to pay a termination fee of US\$250,000 if the Company has not achieved the Funding Milestone by May 31, 2019 or commits certain other material breaches and SmartLynx terminates the underlying agreements. Due to the Company's updated launch timeline, there is a risk that it will not achieve the milestones set out in the agreements with SmartLynx, allowing SmartLynx to terminate the Offering and receive the return of its proceeds from escrow. If this were to occur, the Company would need to raise funding for other sources and this may impact its plan commercial operations launch timeline.

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**The Company may be a party to litigation in the normal course of business or otherwise, which could affect its financial position and liquidity**

From time to time, the Company is a party to or otherwise involved in legal proceedings, claims and government inspections or investigations and other legal matters, both inside and outside Canada, arising in the ordinary course of our business or otherwise. The Company is currently involved in legal proceedings and claims that have not yet been fully resolved, and additional claims may arise in the future. Legal proceedings can be complex and take many months, or even years, to reach resolution, with the final outcome depending on a number of variables, some of which are not within our control. Litigation is subject to significant uncertainty and may be expensive, time-consuming, and disruptive to our operations. Although the Company will vigorously defend ourselves in such legal proceedings, their ultimate resolution and potential financial and other impacts on us are uncertain. For these and other reasons, the Company may choose to settle legal proceedings and claims, regardless of their actual merit. If a legal proceeding is resolved against the Company, it could result in significant compensatory damages, and in certain circumstances punitive or trebled damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief imposed on us. If our existing insurance does not cover the amount or types of damages awarded, or if other resolution or actions taken as a result of the legal proceeding were to restrain the Company's ability to operate or market our services, our consolidated financial position, results of operations or cash flows could be materially adversely affected. In addition, legal proceedings, and any adverse resolution thereof, can result in adverse publicity and damage to the Company's reputation, which could adversely impact its business.

**General economic conditions in Canada, the United States and other parts of the world**

Consumer purchases of discretionary items, which include the purchase of the Company's airfares and other products of the Company, may be adversely affected by economic conditions such as employment levels, salary and wage levels, the availability of consumer credit, inflation, interest rates, tax rates, fuel prices and consumer confidence with respect to current and future economic conditions. Consumer purchases may decline during recessionary periods or at other times when unemployment is higher or disposable income is lower. Consumer willingness to make discretionary purchases may decline, may stall or may be slow to increase due to national and regional economic conditions.

There remains considerable uncertainty and volatility in the Canadian and U.S. economy. Further or future slowdowns or disruptions in the economy could adversely affect passenger demand for the Company's airfares and products and could materially and adversely affect the Company and its growth plans. The Company may not be able to maintain its recent rate of growth in net revenue if there is a decline in consumer spending. In addition, a deterioration of economic conditions and future recessionary periods may impact the other risks faced by the Company's business, including those risks it may encounter as it attempts to execute growth plans.

**The Company has a history of losses and expects to incur losses for the foreseeable future**

The Company has incurred losses since its inception and expects to incur losses for the foreseeable future. The Company expects to continue to incur losses unless and until such time as airline operations commence and generate sufficient revenues to fund continuing operations. The development of the Company's airline operations will require the commitment of substantial financial resources. The amount and timing of expenditures will depend on a number of factors, including the progress of the licensing process, the results of consultant analysis and recommendations, the rate at which operating losses are incurred, and the execution of agreements with strategic partners and service providers. Some of these factors are beyond the Company's control. There can be no assurance that the Company will ever launch airline operations or achieve profitability.

**The Company's securities are subject to price volatility**

In recent years, the securities markets in the United States and Canada have experienced a high level of price and volume volatility, and the market prices of securities of many companies have experienced wide fluctuations that have not been necessarily related to the operating performance, underlying asset values or prospects of such companies. There can be no assurance that fluctuations in the Company's share price will not occur. It may be anticipated that any quoted market for our common shares will be subject to market trends generally, notwithstanding any potential success in creating revenues, cash flows or earnings. The value of the Company's common shares will be affected by such volatility.

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**COMMITMENTS**

**Aircraft**

Aircraft Lease

On June 12, 2018, the Company entered into definitive aircraft lease agreements for two Airbus A320 aircraft scheduled for delivery in fiscal 2019 (the “Airbus Lease Agreements”). Subsequent to the year ended December 31, 2018, the Airbus Lease Agreements were terminated.

The Airbus Lease Agreements required security deposits as follows:

| <b>Due Date</b>                                | <b>Amount</b>      |
|--|--------------------|
| April 26, 2018                                 | US\$876,000 (paid) |
| June 15, 2018                                  | US\$876,000 (paid) |
| October 1, 2018                                | US\$438,000 (paid) |
| Three business days prior to aircraft delivery | US\$438,000        |

Security deposits paid by the Company in the amount of US\$2,190,000 were retained by the lessor and may be applied in the lessor’s determination as financial accommodation to potential future aircraft lease transactions between the Company and the lessor entered into prior to April 3, 2020 subject to certain conditions. It is management’s intent to conclude such aircraft lease transactions prior to April 3, 2020 with the lessor.

Aircraft Purchase

On December 11, 2014, the Company signed a purchase agreement with Boeing to acquire up to twenty-one Boeing 737 MAX aircraft for delivery commencing in 2023 (the “Boeing Agreement”). The Boeing Agreement included five initial orders, purchase rights for an additional sixteen 737 MAX and some conversion rights to the 737-8 MAX aircraft.

The Boeing Agreement also contained a clause that if the Company enters into an agreement to operate or purchase non-Boeing aircraft, the full 1% deposit (less previous payments) for all aircraft would be due and payable immediately. As disclosed above, the Company has entered into the Airbus Lease Agreements. The Company and Boeing may be in a dispute regarding the continued validity of the Boeing Agreement in general as a result of, among other things, the Company’s inability to secure Boeing aircraft for the start-up of airline operations and the obligations of Boeing and the Company thereunder. The Company has communicated to Boeing that the Boeing Agreement is terminated. To date Boeing has not objected to that termination, and Boeing has not commenced legal proceedings with respect to any alleged violation of the terms of the Boeing Agreement by the Company.

The ultimate resolution of any dispute with Boeing would be inherently unpredictable. As such, the Company’s financial condition and results of operations could be adversely affected in any particular period by an unfavorable outcome. The potential financial and other impacts on the Company are uncertain but could be material and adverse.

The terms of the Boeing Agreement required the Company to pay security deposits. During the year ended December 31, 2018, the Company recorded an impairment loss in the amount of \$97,087 (US\$75,000) with respect to security deposits held by Boeing as a result of the Boeing Agreement being terminated.

**OFF BALANCE SHEET ARRANGEMENTS**

The Company has not entered into any off balance sheet financing arrangements.

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**INTERNAL CONTROLS OVER FINANCIAL REPORTING**

As permitted, the Chief Executive Officer and Chief Financial Officer of the Company will file a Venture Issuer Basic Certificate with respect to the financial information contained in the condensed interim consolidated financial statements and corresponding accompanying Management's Discussion and Analysis. In contrast to the certificates under National Instrument 52-109 (Certification of Disclosure in an Issuer's Annual and Interim Filings), the Venture Issuer Basic Certification does not include representations relating to the establishment and maintenance of disclosure controls and procedures and internal control over financial reporting as defined by National Instrument 52-109.

**SUBSEQUENT EVENTS**

The following events occurred subsequent to the year ended December 31, 2018:

- The Company issued 701,250 shares for gross proceeds of \$182,250 pursuant to the exercise of 701,250 stock options.
- The Company issued 7,037,555 shares for gross proceeds of \$3,415,311 pursuant to the exercise of 7,037,555 share purchase warrants.
- The Company granted 250,000 RSUs which vest over three years.
- The Company cancelled 750,000 unvested RSUs.
- The Company executed a letter of intent with a South Korean special purpose fund (the "SPV") led and established by InHarv Partners Ltd. for a financing of up to \$14,000,000 which will consist of convertible debentures (each, a "Debenture") and 1,785.71 variable voting share purchase warrants (each, a "Warrant") for every \$1,000 of principal of the Debentures. The initial tranche provides for gross proceeds in the amount of \$7,000,000. Each Warrant is exercisable into one additional variable voting share (each, a "Warrant Share") at an exercise price of \$0.56 per Warrant Share for a period of 36 months from the date of closing.

The Debentures will have a maturity date of 36 months from the date of issuance (the "Maturity Date") and the principal amount of the Debentures, together with any accrued and unpaid interest, will be payable on the Maturity Date, unless earlier converted. The Debentures bear interest at a rate of 10% per annum, payable in cash annually, unless earlier converted. The principal amount of the Debentures is convertible into variable voting common shares of the Company at the option of the holders at a conversion price of \$0.56 per variable voting common share. The Debentures are subject to an origination fee of 5% payable in variable voting common shares based on the market price at the time of issuance of such shares. The funds will be available to the Company once certain conditions have been satisfied. The Debentures will be secured by a charge over the assets of the Company.

The closing of the Debentures is conditional on the execution of a definitive subscription agreement and the satisfaction of conditions to closing that will be contained in the subscription agreement.

- The Company executed a letter of intent with SmartLynx with respect to the lease for two Airbus A320 aircraft each for a period of five months to commence on November 1, 2019 (the "SmartLynx LOI") and paid security deposits in the amount of US\$380,000. The SmartLynx LOI is subject to executing a definitive lease agreement and other conditions customary to a transaction of this nature.
- The Company terminated the Airbus Lease Agreements. Security deposits paid by the Company in the amount of US\$2,190,000 were retained by the lessor and may be applied in the lessor's determination as financial accommodation to potential future aircraft lease transactions between the Company and the lessor entered into prior to April 3, 2020 subject to certain conditions.
- The Company resigned as a member of The Bootheel Project LLC and no longer has any interest in the Bootheel property.
- The Company surrendered its interest in the CMB Silver Spruce property.

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- The Company and SmartLynx amended the escrow release conditions of the Offering completed during the year ended December 31, 2018. The proceeds in the amount of \$7,500,000 shall be released to the Company as follows: (a) \$5,250,000 upon (i) the Company completing the Funding Milestone from a subsequent financing by June 30, 2019 (such completion date subject to waiver by SmartLynx) and (ii) the receipt by Jetlines Operations from the Canada Transportation Agency an order providing an exemption from Section 59 of the *Canada Transportation Act*, to allow it to sell tickets for air travel; and (b) \$2,250,000 upon the receipt by Jetlines Operations of its air operator certificate from Transport Canada. In addition, the Termination Fee is required to be held in escrow. The Company is obligated to pay the Termination Fee if the Company has not achieved the Funding Milestone by June 30, 2019 or commits certain other material breaches and SmartLynx terminates the underlying agreements.
- The Company granted 710,000 RSUs of which 660,000 RSUs vest over three years and 50,000 RSUs vest over one year.
- The Company granted 300,000 stock options which vest over two years.

**ADDITIONAL INFORMATION**

Additional information relating to the Company is on SEDAR at [www.sedar.com](http://www.sedar.com).

**APPROVAL**

The Board of Directors of the Company has approved the disclosures contained in this MD&A.