jetlines

CANADA JETLINES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Canada Jetlines Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Canada Jetlines Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company's total deficit was $18,843,911 as of December 31, 2018, has no current operating income or cash flows, and is dependent upon its ability to continue to raise adequate financing. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Grant P. Block.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 30, 2019

CANADA JETLINES LTD.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(Expressed in Canadian Dollars)

		DECEMBER 31, 2018		DECEMBER 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents	$	**1,220,555**	$	2,981,046
Receivables		**215,166**		119,994
Prepaid expenses		**144,917**		96,077
Restricted cash (Note 11)		**500,000**		-
		2,080,638		3,197,117
Investment in Voleo, Inc. (Note 5)		**200,000**		200,000
Deposits (Note 6)		**3,224,974**		162,727
Equipment (Note 7)		**23,883**		4,987
	$	**5,529,495**	$	3,564,831
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	**858,798**	$	455,569
Due to related parties (Note 11)		**242,029**		43,262
		1,100,827		498,831
Future reclamation provision (Note 8)		**20,807**		20,807
		1,121,634		519,638
Shareholders' equity				
Share capital (Note 10)		**21,370,708**		14,848,347
Reserves		**1,881,064**		1,327,913
Deficit		**(18,843,911)**		(13,131,067)
		4,407,861		3,045,193
	$	**5,529,495**	$	3,564,831

Nature of operations and going concern (Note 1)
Commitments (Note 17)
Subsequent events (Note 18)

Approved on April 30, 2019 by the Board of Directors:

"Jason Grant" Director	*"Réjean Bourque"* Director
Jason Grant	Réjean Bourque

The accompanying notes are an integral part of these consolidated financial statements.

CANADA JETLINES LTD.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

		2018		2017
OPERATING ITEMS				
Aircraft launch, licensing and route network	$	**1,094,072**	$	659,073
Consulting		**-**		4,560
Depreciation (Note 7)		**4,030**		2,239
Finance income		**(76,634)**		(44,688)
Foreign exchange gain		**(134,288)**		(1,458)
Gain on debt forgiveness and settlement (Note 12)		**-**		(35,894)
Impairment of deposits (Note 6)		**97,087**		-
Interest expense (Note 9)		**-**		3,674
Listing expense (Note 4)		**-**		4,990,119
Marketing and investor relations		**682,467**		744,280
Office and administration		**214,172**		161,987
Professional fees		**1,623,696**		784,393
Regulatory costs		**403,788**		247,409
Salaries and benefits		**1,051,330**		864,052
Share-based payments (Note 10)		**637,267**		611,610
Travel		**89,407**		76,338
Loss from continuing operations		**(5,686,394)**		(9,067,694)
Gain (loss) from discontinued operations (Note 8)		**(26,450)**		23,471
Net loss and comprehensive loss for the year	$	**(5,712,844)**	$	(9,044,223)
Basic and diluted loss per share	$	**(0.08)**	$	(0.16)
Weighted average number of shares outstanding		**70,345,842**		57,711,443

The accompanying notes are an integral part of these consolidated financial statements.

CANADA JETLINES LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,
(Expressed in Canadian Dollars)

		2018		2017
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the year	$	**(5,712,844)**	$	(9,044,223)
Items not affecting cash:				
Accrued interest on short-term loan		**-**		3,674
Depreciation		**4,030**		2,239
Gain on debt forgiveness and settlement		**-**		(35,894)
Impairment of deposits		**97,087**		-
Listing expense		**-**		4,936,879
Share-based payments		**637,267**		611,610
Foreign exchange loss (gain)		**(157,555)**		4,594
Non-cash working capital item changes:				
Receivables		**(95,172)**		(56,586)
Prepaid expenses		**(48,840)**		11,436
Restricted cash		**(500,000)**		-
Accounts payable and accrued liabilities		**403,229**		(369,696)
Due to related parties		**198,767**		43,262
Net cash used in operating activities		**(5,174,031)**		(3,892,705)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of Canada Jetlines Operations Ltd.		**-**		225,991
Deposits on aircraft		**(2,864,527)**		-
Deposit on equipment		**(137,252)**		-
Purchase of equipment		**(22,926)**		(6,048)
Net cash provided by (used in) investing activities		**(3,024,705)**		219,943
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds on issuance of shares		**6,468,786**		6,901,687
Share issue costs		**(30,541)**		(389,276)
Short-term loan advances		**-**		50,000
Net cash provided by financing activities		**6,438,245**		6,562,411
Net 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
Cash and cash equivalents, end of the year	$	**1,220,555**	$	2,981,046
Cash and cash equivalents				
Cash	$	**1,197,555**	$	2,958,046
Short term investments		**23,000**		23,000
	$	**1,220,555**	$	2,981,046
Cash received for				
Interest	$	**74,922**	$	41,892
Taxes	$	**-**	$	-

Supplemental disclosures with respect to cash flows (Note 12)

The accompanying notes are an integral part of these consolidated financial statements.

CANADA JETLINES LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Dollars)

	Share Capital				
	Number of Shares	Amount	Reserves	Deficit	Total
Balance – December 31, 2016	**15,268,638**	**$ 2,879,895**	**$ 600,763**	**$ (4,086,844)**	**$ (606,186)**
Issuance of shares – reverse takeover (Note 4)	19,145,527	5,743,658	-	-	5,743,658
Issuance of shares – prospectus offering (Note 10)	22,778,700	6,833,610	-	-	6,833,610
Issuance of shares – warrants exercised (Note 10)	223,596	81,683	(13,606)	-	68,077
Issuance of shares – finders' fees (Note 10)	443,544	133,063	-	-	133,063
Issuance of shares – debt settlement (Note 10)	250,000	70,000	-	-	70,000
Share issue costs (Note 10)	-	(764,416)	-	-	(764,416)
Agents warrants issued (Note 10)	-	(129,146)	129,146	-	-
Share-based payments – stock options (Note 10)	-	-	417,330	-	417,330
Share-based payments – performance shares (Note 10)	-	-	177,244	-	177,244
Share-based payments – warrants (Note 10)	-	-	17,036	-	17,036
Loss for the year	-	-	-	(9,044,223)	(9,044,223)
Balance – December 31, 2017	**58,110,005**	**14,848,347**	**1,327,913**	**(13,131,067)**	**3,045,193**
Issuance of shares – stock options exercised (Note 10)	1,400,000	555,346	(156,346)	-	399,000
Issuance of shares – warrants exercised (Note 10)	12,810,699	5,570,924	(201,138)	-	5,369,786
Issuance of shares – private placement (Note 10)	1,627,907	700,000	-	-	700,000
Share issue costs (Note 10)	-	(30,541)	-	-	(30,541)
Agents warrants issued (Note 10)	-	(273,368)	273,368	-	-
Share-based payments – stock options (Note 10)	-	-	379,183	-	379,183
Share-based payments – restricted share units (Note 10)	-	-	258,084	-	258,084
Loss for the year	-	-	-	(5,712,844)	(5,712,844)
Balance – December 31, 2018	**73,948,611**	**$ 21,370,708**	**$ 1,881,064**	**$ (18,843,911)**	**$ 4,407,861**

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Canada Jetlines Ltd. (the "Company" or "Jetlines") 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 (Note 4). The Company's principal business activity is the start-up of an ultra-low cost carrier ("ULCC") scheduled airline service. The address of the Company's registered office is #1240 – 1140 West Pender Street, Vancouver, British Columbia, Canada V6E 4G1. The Company's shares trade on the TSX Venture Exchange (the "Exchange" or "TSXV") under the symbol "JET" and the OTC Market Group's OTCQB Marketplace under the symbol "JETMF".

These consolidated financial statements have been prepared using International Financial Reporting Standards ("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 (Note 17).

These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption deemed to be inappropriate. These adjustments could be material.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of presentation

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries, and have been prepared using the accrual basis of accounting, except for certain cash flow information.

2. BASIS OF PRESENTATION *(continued)*

Basis of consolidation

These consolidated financial statements include the accounts of the Company, and its wholly owned subsidiaries, Canada Jetlines Operations Ltd. ("Jetlines Operations"), Target Exploration and Mining Corp. ("Target"), Crosshair Energy USA, Inc. ("Crosshair USA") as well as The Bootheel Project LLC ("BHP LLC") in which the Company had an 81% interest. A wholly owned subsidiary is an entity in which the Company has control, directly or indirectly, where control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. All intercompany transactions and balances have been eliminated on consolidation.

Details of the Company's subsidiaries are as follows:

Name	Place of incorporation	Interest %	Principal activity
Canada Jetlines Operations Ltd.	Canada	100% ownership by the Company	Start-up of a ULCC scheduled airline service
Target Exploration and Mining Corp.	British Columbia, Canada	100% ownership by the Company	Maintenance of mineral interests (Note 8)
Crosshair Energy USA, Inc.	Nevada, United States	100% ownership by Target	Maintenance of mineral interests (Note 8)
Bootheel Project LLC[(1)]	Colorado, United States	81% ownership by Crosshair USA	Maintenance of mineral interests (Notes 8 and 18)

(1) 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 property (Notes 8 and 18).

Significant accounting judgments and estimates

The preparation of these 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. These 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.

<u>Critical accounting estimates</u>

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:

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 of 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.

2. BASIS OF PRESENTATION *(continued)*

Significant accounting judgments and estimates *(continued)*

Critical accounting estimates *(continued)*

Fair value of equity investment

The Company holds common shares of Voleo, Inc. ("Voleo"), a privately held company for which a quoted market price in an active market is not available (Note 5). 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.

Critical accounting 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 these consolidated financial statements requires management to make judgments regarding the going concern of the Company, as previously discussed in Note 1.

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.

3. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9"). IFRS 9 provides three different measurement categories for non-derivative financial assets – subsequently measured at amortized cost, fair value through profit or loss ("FVTPL") or fair value through other comprehensive income – while all non-derivative financial liabilities are classified as subsequently measured at amortized cost. The category into which a financial asset is placed and the resultant accounting treatment is largely dependent on the nature of the business of the entity holding the financial asset. All financial instruments are initially recognized at fair value.

The implementation of the new standard did not have a material impact on the measurement of the Company's reported financial results; however additional disclosures have been provided.

Financial instruments that are measured at fair value subsequent to initial recognition are grouped into a hierarchy based on the degree to which the fair value is observable as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Inputs other than quoted prices that are observable for the asset or liability directly or indirectly and;
- Level 3: Inputs that are not based on observable market data.

Financial assets

The Company initially recognizes financial assets on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument. The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

The Company classifies all of its financial assets, except the investment in Voleo, as subsequently measured at amortized cost. The investment in Voleo is classified as FVTPL and measured at fair value under the fair value hierarchy based on level three inputs. All financial assets that do not meet the criteria to be recognized as subsequently measured at amortized cost or subsequently measured at fair value through other comprehensive income are classified as FVTPL.

An expected credit loss ("ECL") model applies to financial assets measured at amortized cost, but not to investments in equity instruments. The impairment methodology applied depends on whether there has been a significant increase in credit risk. The adoption of the ECL impairment model had a negligible impact on the carrying amounts of the Company's financial assets given that receivables are current and have a minimal level of default.

Financial liabilities

The Company measures all of its financial liabilities as subsequently measured at amortized cost. Financial liabilities are recognized initially at fair value, net of transaction costs incurred, and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method.

Impairment of non-financial assets

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an 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 (if any). 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 assets belong. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets *(continued)*

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. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no prior impairment loss been recognized for the asset.

Foreign currency translation

The presentation and functional currency of the Company and its subsidiaries is the Canadian dollar.

The functional currency of the Company is determined based on the currency of the primary economic environment in which the Company operates.

<u>Transactions and balances</u>

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the period in which they arise.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Share capital

Instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's shares, stock options, share purchase warrants and restricted share units are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares, stock options, or warrants are shown in equity as a deduction, net of tax, from the proceeds.

The Company has adopted a residual value method with respect to the measurement of shares and share purchase warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the shares issued in private placements is determined to be the more easily measurable component and are valued at their fair value, as determined by the closing price on the announcement date. The balance, if any, is allocated to the attached share purchase warrants.

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset or services received, or given up is not readily determinable, the fair market value of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate security exchange on the date of the agreement to issue shares as determined by the Board of Directors.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Loss per share

Basic loss per share is computed by dividing the net income or loss applicable to shares of the Company by the weighted average number of shares outstanding for the relevant period.

For diluted per share computations, assumptions are made regarding potential shares outstanding during the period. The weighted average number of shares is increased to include the number of additional shares that would be outstanding if, at the beginning of the period, or at time of issuance, if later, all options and warrants are exercised. Proceeds from exercise are used to purchase the Company's shares at their average market price during the period, thereby reducing the weighted average number of shares outstanding. If these computations prove to be anti-dilutive, diluted loss per share is the same as basic loss per share.

Share-based payments

Where equity-settled compensation arrangements are awarded to employees, the fair value of the equity instruments at the date of grant is charged to profit or loss over the vesting period. Where equity instruments are awarded to employees, the fair value of the benefit (fair value of the equity instrument less consideration received) at the date of grant is charged to profit or loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of equity instruments that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the equity instruments granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of the equity instruments are modified before they vest, the increase in the fair value of the equity instruments, measured immediately before and after the modification, is also charged to the statement of loss and comprehensive loss over the remaining vesting period.

When equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received, unless the fair value of the goods and services received cannot be reasonably measured, in which case they are measured using the fair value of the equity instruments issued. Expenses are recorded in the statement of loss and comprehensive loss. Amounts related to the cost of issuing shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based compensation cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based compensation are reflected in reserves, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

Where a grant of equity-settled share-based compensation is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the date of inception. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Finance leases that transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Company, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in finance costs in profit or loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an operating expense in profit or loss on a straight-line basis over the lease term.

Equipment

Equipment is comprised of computers, office equipment, and deposits on equipment and is carried at cost, less accumulated depreciation. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is provided for at the following rates:

Assets	**Rate**
Computer equipment	3 years, straight-line method
Office equipment	5 years, straight-line method

An item is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the statement of loss and comprehensive loss.

Where an item of equipment is comprised of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

The residual values, useful lives, and methods of depreciation are reviewed at each reporting period and adjusted prospectively if appropriate.

Exploration and evaluation assets and expenditures

Costs incurred before the Company has obtained the legal rights to explore an area are expensed. Costs to acquire exploration and evaluation assets are capitalized as incurred. Costs related to the exploration and evaluation and maintenance of exploration and evaluation assets are expensed as incurred. The Company considers mineral rights to be assets and accordingly, the Company capitalizes certain costs related to the acquisition of mineral rights. The Company considers each exploration and evaluation asset to be a separate cash generating unit.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Exploration and evaluation assets and expenditures *(continued)*

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation asset or shown as an expense recovery depending on the nature of the activity generating the refund. If payments received exceed the capitalized cost of the exploration and evaluation asset, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Future reclamation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of reclamation of mineral interests (exploration and evaluation assets). The net present value of future rehabilitation cost estimates is capitalized to the related assets along with a corresponding increase in the reclamation provision in the period incurred. Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related assets with a corresponding entry to the reclamation provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit or loss for the period.

Income taxes

<u>Current income tax</u>

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

<u>Deferred tax</u>

Deferred tax is recognized using the asset and liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss).

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income taxes *(continued)*

Deferred tax *(continued)*

Deferred tax assets are recognized for all deductible temporary differences, the carry-forward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Such deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or recognized in profit or loss thereafter.

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 (Note 17).

(Expressed in Canadian Dollars)

4. 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"). The shareholders of Jetlines Operations exchanged all of their issued and outstanding shares for 15,268,638 shares of the Company as consideration. One and one-half (1.5) shares of the Company were issued in exchange for every one (1) share held of Jetlines Operations. Outstanding share purchase warrants and stock options of the Company and Jetlines Operations automatically became exercisable for or could be exchanged for options to acquire shares of the Company, subject to all necessary adjustments to reflect the terms of the Transaction and subject to the terms governing the share purchase warrants and stock options. As at the date of the Transaction, the Company had no stock options outstanding and 20,000,000 pre-amalgamation share purchase warrants outstanding. Each share purchase warrant was exercisable at a pre-amalgamation price of $0.25 per share until September 16, 2019. The fair value of the share purchase warrants was $Nil at the date of issuance and therefore was not included as part of the consideration incurred by Jetlines Operations. 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.

The Transaction was recorded as follows:

Consideration:		
Value of equity instruments	$	5,743,658
Transaction costs		186,303
		5,929,961
Value of net assets:		
Cash and cash equivalents		225,991
Loan receivable (Note 9)		267,210
Other receivables		20,622
Deferred transaction costs (Notes 10 and 12)		375,140
Prepaid expenses and deposits (Note 6)		200,101
Investment in Voleo, Inc. (Note 5)		200,000
Reclamation bond (Note 8)		10,598
Accounts payable and accrued liabilities		(339,013)
Future reclamation provision (Note 8)		(20,807)
		939,842
Listing expense	**$**	**4,990,119**

The value of equity instruments in the amount of $5,743,658 represents 19,145,527 outstanding shares of the Company valued at $0.30 per share which was the price per share for the concurrent prospectus offering completed (Note 10).

Transaction costs in the amount of $186,303 include finders' fees and other professional fees in the amounts of $177,417 and $8,886, respectively. The Company paid cash finders' fees in the amount of $44,354 and issued 443,544 shares valued at $133,063 or $0.30 per share which was the price per share for the concurrent prospectus offering completed (Note 10).

(Expressed in Canadian Dollars)

5. INVESTMENT IN VOLEO, INC.

As at December 31, 2018 and 2017, the investment in Voleo consists of 1,000,000 common shares valued at $200,000. Voleo is a privately held mobile-focused fintech company and has developed mobile applications and software platforms to meet the investment expectations of millennial investors, including social trading applications for stocks and cryptocurrencies.

The investment was included in the net assets acquired pursuant to the Transaction (Note 4).

The Executive Chair of the Company is also the Executive Chair of Voleo.

6. DEPOSITS

		As at December 31, 2018		As at December 31, 2017
Aircraft security deposits (Note 17)	$	2,987,722	$	62,727
Equipment deposit		137,252		-
Related party security deposit (Note 11)		100,000		100,000
	$	3,224,974	$	162,727

During the year ended December 31, 2018, the Company paid security deposits in the amount of $2,864,527 (US$2,215,000) in accordance with aircraft purchase and lease agreements (Note 17).

During the year ended December 31, 2018, the Company recorded an impairment of aircraft security deposits in the amount of $97,087 (US$75,000) as a result of terminating a purchase agreement with The Boeing Company (Note 17).

The related party security deposit in the amount of $100,000 was included in the net assets acquired pursuant to the Transaction (Note 4).

(Expressed in Canadian Dollars)

7. EQUIPMENT

		Computer Equipment		Office Equipment		Total
Cost						
Balance - December 31, 2016	$	10,668	$	-	$	10,668
Additions		6,048		-		6,048
Balance - December 31, 2017		16,716		-		16,716
Additions		21,814		1,112		22,926
Balance – December 31, 2018	$	38,530	$	1,112	$	39,642
Accumulated Depreciation						
Balance - December 31, 2016	$	9,490	$	-	$	9,490
Depreciation		2,239		-		2,239
Balance - December 31, 2017		11,729		-		11,729
Depreciation		3,900		130		4,030
Balance - December 31, 2018	$	15,629	$	130	$	15,759
Net Book Value						
As at December 31, 2017	$	4,987	$	-	$	4,987
As at December 31, 2018	$	22,901	$	982	$	23,883

8. DISCONTINUED OPERATIONS

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 (Note 18).

Central Mineral Belt ("CMB") – Silver Spruce (Labrador, Canada)

The Company had a 100% interest in the CMB Silver Spruce property subject to a 2% net smelter 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 (Note 18).

Bootheel (Wyoming, USA)

The Bootheel property is currently owned by The Bootheel Project LLC of which the Company controlled 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 property (Note 18).

8. DISCONTINUED OPERATIONS *(continued)*

Maintenance costs

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 (December 31, 2017 - $23,488) which have been presented as discontinued operations in the consolidated statements of loss and comprehensive loss.

Reclamation bond

During the year ended December 31, 2017, the Company received a refund from the Wyoming Department of Environmental Quality in the amount of $46,959 (US$36,600). The Company previously recorded an impairment loss with respect to the reclamation bonds. The reversal of the impairment loss on receipt of the refund in the amount of $46,959 has been presented as discontinued operations in the consolidated statements of loss and comprehensive loss.

Pursuant to the Transaction, a reclamation bond related to the Bootheel property in the amount of $10,598 (US$8,300) was included in the net assets acquired (Note 4). During the year ended December 31, 2017, the reclamation bond was released by the Wyoming Department of Environmental Quality but had not been received by the Company. As at December 31, 2017, amounts receivable include $10,412 (US$8,300) for the bond refund which was received during the year ended December 31, 2018.

Future reclamation provision

As at December 31, 2018 and 2017, the balance of the future reclamation provision is $20,807 and relates to a property which was abandoned in a prior year. Although the Company no longer has title to the underlying property, it may be required to incur cleanup costs in the future. 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 (Note 4).

9. SHORT-TERM LOAN

On February 24, 2016, the Company entered into a loan agreement with Jetlines Operations (the "Loan Agreement") to lend the principal amount of up to $150,000 which was amended to the principal amount of up to $350,000 on November 18, 2016 (the "Bridge Loan"). The Bridge Loan is secured by a general security agreement.

The Bridge Loan accrued interest on the principal amount outstanding at the rate of ten percent (10%) per annum from the date of each advance until the closing of the Transaction on February 28, 2017. Subsequent to February 28, 2017, the Bridge Loan is non-interest bearing and due on demand.

During the period from January 1, 2017 to February 28, 2017, Bridge Loan advances and accrued interest totaled $50,000 and $3,674, respectively.

As at December 31, 2018 and 2017, the Bridge Loan and accrued interest are eliminated on consolidation.

10. SHARE CAPITAL AND RESERVES

Authorized

The Company has authorized an unlimited number of common voting shares and variable voting shares without par value (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.

As at December 31, 2018, the Company had 60,179,733 common voting shares and 13,768,878 variable voting shares outstanding.

As at December 31, 2018, 2,582,642 (December 31, 2017 - 4,679,402) Voting Shares were held in escrow and restricted from trading. These trading restrictions expire on March 6, 2019 (860,880 Voting Shares), September 6, 2019 (860,880 Voting Shares) and March 6, 2020 (860,882 Voting Shares).

Common voting shares

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

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. 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 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).

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.

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.

10. SHARE CAPITAL AND RESERVES *(continued)*

Share issuances *(continued)*

During the year ended December 31, 2017:

- The Company closed a prospectus offering in connection with the Transaction and issued 22,778,700 units for gross proceeds of $6,833,610. Each unit consists of one share and one-half of one share purchase warrant. 11,389,350 share purchase warrants were issued with an exercise price of $0.50 and expiry of February 28, 2019. In connection with the prospectus offering, the Company paid share issue costs in the amount of $764,416. The Company also issued 1,708,401 agent warrants valued at $116,978 to third parties for finders' fees. 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 (Notes 4 and 12).

- The Company issued 443,544 shares valued at $133,063 to a third party in connection with closing the Transaction which were included in the consideration of the purchase price calculation (Note 4).

- The Company issued 250,000 shares valued at $70,000 and paid cash in the amount of $30,000 to settle amounts payable to a third party in the amount of $75,000, resulting in a loss on settlement of debt in the amount of $25,000.

- The Company issued 223,596 shares for gross proceeds of $68,077 pursuant to the exercise of 223,596 share purchase warrants. The fair value of the share purchase warrants in the amount of $13,606 was credited to share capital.

Subscription receipts

On December 27, 2018, the Company closed a private placement with SmartLynx Airlines SIA ("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. Subsequent to the year ended December 31, 2018, the Company and SmartLynx amended certain terms of the Offering (Note 18).

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")(Note 18).

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.

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.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES *(continued)*

Share purchase warrants

The following is a summary of share purchase warrants activities during the years ended December 31, 2018 and 2017:

	Number of Share Purchase Warrants	**Weighted Average Exercise Price**
Outstanding, December 31, 2016	**5,918,431**	**$0.40**
RTO (Note 4)	13,333,315	$0.38
Issued	13,497,049	$0.47
Exercised	(223,596)	$0.30
Expired	(2,653,262)	$0.37
Outstanding, December 31, 2017	**29,871,937**	**$0.43**
Issued	605,293	$0.50
Exercised	(12,810,699)	$0.42
Expired	(211,834)	$0.48
Outstanding, December 31, 2018	**17,454,697**	**$0.43**

During the year ended December 31, 2018:

- The Company issued 605,293 share purchase warrants with an exercise price of $0.50 and expiry of February 28, 2019 in connection with agent warrants exercised for one share and one half of an additional share purchase warrant. The fair value of $273,368 was estimated at the issue dates using the Black-Scholes Option Pricing Model and recorded as share issue costs in the consolidated statements of changes in shareholders' equity.

During the year ended December 31, 2017:

- The Company issued 11,389,350 share purchase warrants with an exercise price of $0.50 and expiry of February 28, 2019 in connection with a prospectus offering.

- The Company issued 1,708,401 share purchase warrants with an exercise price of $0.30 and expiry of February 28, 2019 to agents in connection with a prospectus offering. Each share purchase warrant is exercisable into one share and one half of an additional share purchase warrant. Each additional share purchase warrant has an exercise price of $0.50 and expires on February 28, 2019. The fair value of $116,978 was estimated at the issue date using the Black-Scholes Option Pricing Model and recorded as share issue costs in the consolidated statements of changes in shareholders' equity.

- The Company issued 300,000 share purchase warrants with an exercise price of $0.30 and expiry of March 10, 2019 to the former Chief Financial Officer of Jetlines Operations upon his resignation from the position. The fair value of $17,036 was estimated at the issue date using the Black-Scholes Option Pricing Model and recorded as share-based payments in the consolidated statements of loss and comprehensive loss.

- The Company issued 99,298 share purchase warrants with an exercise price of $0.50 and expiry of February 28, 2019 in connection with agent warrants exercised for one share and one half of an additional share purchase warrant. The fair value of $12,168 was estimated at the issue date using the Black-Scholes Option Pricing Model and recorded as share issue costs in the consolidated statements of changes in shareholders' equity.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES *(continued)*

Share purchase warrants *(continued)*

The following weighted average assumptions were used to estimate the fair value of share purchase warrants issued to agents and upon employee resignation:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Risk-free interest rate	1.76%	0.77%
Expected life (years)	1.03	1.96
Annualized volatility	40%	40%
Dividend yield	0%	0%

As at December 31, 2018, the Company had the following share purchase warrants outstanding and exercisable:

Number of share purchase warrants	Exercise price	Remaining life (years)	Expiry date
296,952[(1)]	$0.30	0.16	February 28, 2019[(2)]
8,250,138	$0.50	0.16	February 28, 2019[(3)]
300,000	$0.30	0.19	March 10, 2019[(4)]
8,607,607	$0.38	0.71	September 16, 2019
17,454,697			

(1) Each share purchase warrant is exercisable into one share and one half of an additional share purchase warrant. Each additional share purchase warrant has an exercise price of $0.50 and expires on February 28, 2019.
(2) On February 28, 2019, 79,621 share purchase warrants expired unexercised.
(3) On February 28, 2019, 1,838,577 share purchase warrants expired unexercised.
(4) The share purchase warrants were exercised subsequent to the year ended December 31, 2018 (Note 18).

Share-based payments

The maximum number of Voting Shares issuable pursuant to share-based payment arrangements, including stock options and restricted share units, is 14,000,000.

Stock options

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Incentive Share Option Plan (the “Stock Option Plan”). The maximum price shall not be less than the closing price of the Company’s shares on the last trading day preceding the date on which the grant of options is approved by the Board of Directors. Options have a maximum expiry period of ten years from the grant date. Vesting conditions are determined by the Board of Directors in its discretion with certain restrictions in accordance with the Stock Option Plan.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES *(continued)*

Share-based payments *(continued)*

Stock options *(continued)*

The following is a summary of stock option activities during the years ended December 31, 2018 and 2017:

	Number of stock options	Weighted average exercise price
Outstanding, December 31, 2016	**675,000**	**$0.34**
Granted	6,125,000	$0.28
Outstanding, December 31, 2017	**6,800,000**	**$0.28**
Granted	1,605,000	$0.70
Exercised	(1,400,000)	$0.29
Forfeited	(897,500)	$0.28
Outstanding, December 31, 2018	**6,107,500**	**$0.39**

As at December 31, 2018, the following stock options were outstanding and exercisable:

Outstanding	Exercisable	Exercise Price	Remaining life (years)	Expiry Date
12,500	12,500	$0.59	0.24	March 27, 2019[(1)]
230,000	202,500	$0.30	0.25	March 31, 2019[(2)]
450,000	450,000	$0.34	1.56	July 22, 2020
2,885,000	2,028,750	$0.30	3.16	February 28, 2022
150,000	112,500	$0.30	3.28	April 10, 2022
225,000	168,750	$0.21	3.36	May 9, 2022
375,000	281,250	$0.20	3.43	June 1, 2022
225,000	112,500	$0.21	3.50	July 1, 2022
505,000	126,250	$0.76	4.05	January 18, 2023
450,000	112,500	$0.74	4.08	January 29, 2023
225,000	56,250	$0.70	4.10	February 5, 2023
225,000	-	$0.57	4.85	November 8, 2023
150,000	-	$0.56	4.94	December 10, 2023
6,107,500	**3,663,750**			

(1) On March 27, 2019, 12,500 stock options expired unexercised.

(2) On March 31, 2019, the expiry date of 110,000 stock options was extended to March 31, 2020. The remaining 120,000 stock options were exercised subsequent to the year ended December 31, 2018 (Note 18).

The Company recognizes share-based payments expense for all stock options granted using the fair value based method of accounting. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's shares, forfeiture rate, and expected life of the options.

During the year ended December 31, 2018, the Company recognized share-based payment expense with respect to stock options in the amount of $379,183 (December 31, 2017 - $417,330).

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES *(continued)*

Share-based payments *(continued)*

Stock options *(continued)*

The following weighted average assumptions were used to estimate the weighted average grant date fair value of stock options granted during the years ended December 31, 2018 and 2017:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Risk-free interest rate	2.09%	1.09%
Expected life (years)	5.0	5.0
Annualized volatility	40%	40%
Dividend yield	0%	0%

Restricted share units

The Company grants restricted share units ("RSUs") to directors, officers, employees and consultants as compensation for services, pursuant to its Restricted Share Unit Plan (the "RSU Plan"). One restricted share unit has the same value as a Voting Share. The number of RSUs awarded and underlying vesting conditions are determined by the Board of Directors in its discretion.

At the election of the Board of Directors, upon each vesting date, participants receive (a) the issuance of Voting Shares from treasury equal to the number of RSUs vesting, or (b) a cash payment equal to the number of vested RSUs multiplied by the fair market value of a Voting Share, calculated as the closing price of the Voting Shares on the TSXV for the trading day immediately preceding such payment date; or (c) a combination of (a) and (b).

On the grant date of RSUs, the Company determines whether it has a present obligation to settle in cash. If the Company has a present obligation to settle in cash, the RSUs are accounted for as liabilities, with the fair value remeasured at the end of each reporting period and at the date of settlement, with any changes in fair value recognized in profit or loss for the period. The Company has a present obligation to settle in cash if the choice of settlement in shares has no commercial substance, or the Company has a past practice or a stated policy of setting in cash, or generally settles in cash whenever the counterparty asks for cash settlement.

If no such obligation exists, RSUs are accounted for as equity settled share-based payments and are valued using the share price on grant date. Upon settlement:

a. If the Company elects to settle in cash, the cash payment is accounted for as the repurchase of an equity interest (i.e. as a deduction from equity), except as noted in (c) below.
b. If the Company elects to settle by issuing shares, the value of RSUs initially recognized in reserves is reclassified to share capital, except as noted in (c) below.
c. If the Company elects the settlement alternative with the higher fair value, as at the date of settlement, the Company recognizes an additional expense for the excess value given (i.e. the difference between the cash paid and the fair value of shares that would otherwise have been issued, or the difference between the fair value of the shares and the amount of cash that would otherwise have been paid, whichever is applicable).

(Expressed in Canadian Dollars)

10. SHARE CAPITAL AND RESERVES *(continued)*

Restricted share units *(continued)*

The following is a summary of RSU activities during the years ended December 31, 2018 and 2017:

	Number of RSUs	Weighted average grant date fair value per RSU
Outstanding, December 31, 2017	**-**	**-**
Granted	4,528,004	$0.70
Forfeited	(1,778,004)	$0.59
Outstanding, December 31, 2018	**2,750,000**	**$0.51**

During the year ended December 31, 2018, the Company recognized share-based payments expense with respect to RSUs in the amount of $258,084 (December 31, 2017 - $Nil).

Performance shares

Performance shares were shares held in escrow on issuance and were to be released to the holder on the later of (a) the date on which the Company received the necessary funds to launch airline operations and (b) a period of 24 months had elapsed since the issuance of the performance shares. Performance shares are forfeited by the holder upon resignation from the Company or termination for cause. Any differences between the fair value at issuance date and consideration received are expensed as share-based payment expense over the estimated vesting period.

As of February 28, 2017, upon closing the Transaction, all outstanding performance shares were deemed vested (Note 4).

During the year ended December 31, 2018, the Company recorded share-based payments related to performance shares in the amount of $Nil (December 31, 2017 - $177,244).

11. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the consolidated financial statements not disclosed elsewhere in these 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.

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS *(continued)*

Key management personnel *(continued)*

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

	For the year ended December 31, 2018	For the year ended December 31, 2017
Short-term benefits [(1)]	$ 1,655,589	$ 1,005,983
Share-based payments (Note 10)	519,238	348,483
	$ 2,174,827	$ 1,354,466

[(1)] Short-term benefits include base salaries and directors' fees, pursuant to contractual employment or consultancy arrangements, management and consulting fees.

Other related party transactions and balances

King & Bay West Management Corp. ("King & Bay West") is an entity owned by Mark Morabito, Executive Chair of the Company, and provides administrative, management, finance, legal, regulatory, business development and corporate communications services to 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 December 31, 2018	For the year ended 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 (Notes 4 and 6). 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 (December 31, 2017 - $Nil) in relation to expenses incurred on behalf of the Company.

- King & Bay West - $225,572 (December 31, 2017 - $43,262) in relation to the services described above.

- Javier Suarez, Chief Executive Officer of the Company - $4,088 (December 31, 2017 - $Nil) in relation to expenses incurred on behalf of the Company.

11. RELATED PARTY TRANSACTIONS *(continued)*

Other related party transactions and balances *(continued)*

- Adsajama Consultancy Ltd., an entity owned by Alan Bird, Director of the Company - $3,559 (December 31, 2017 - $Nil) in relation to consulting and advisory services provided to the Company.

- Philip Larsen, Vice President of Maintenance of the Company - $73 (December 31, 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.

12. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Non-cash transactions affecting cash flows from investing or financing activities during the year ended December 31, 2018 are summarized below:

- The Company issued 605,293 share purchase warrants to agents in connection with underlying agent warrants. The fair value of $273,368 was recorded as share issue costs (Note 10).

- The Company credited $156,346 to share capital in relation to the fair value of stock options exercised (Note 10).

- The Company credited $201,138 to share capital in relation to the fair value of share purchase warrants exercised (Note 10).

- The Company recorded an impairment of aircraft security deposits in the amount of $97,087 (Notes 6 and 17).

Non-cash transactions affecting cash flows from investing or financing activities during the year ended December 31, 2017 are summarized below:

- The Company applied deferred transactions costs in the amount of $375,140 which were acquired in the Transaction to share issue costs (Notes 4 and 10).

- The Company issued 1,807,699 share purchase warrants to agents in connection with a prospectus offering and related underlying warrants. The fair value of $129,146 was recorded as share issue costs (Note 10).

- The Company recognized a listing expense in the amount of $4,990,119 pursuant to the Transaction (Note 4). The listing expense constitutes a non-cash transaction with the exception of cash payments relating to finders' fees and other professional fees in the amounts of $44,354 and $8,886, respectively.

- The Company credited $13,606 to share capital in relation to the fair value of share purchase warrants exercised (Note 10).

- The Company issued 250,000 shares valued at $70,000 and paid cash in the amount of $30,000 to settle amounts payable to a third party in the amount of $75,000, resulting in a loss on settlement of debt in the amount of $25,000 (Note 10).

- The Company recorded a gain on debt forgiveness in the amount of $60,894 with respect to amounts payable to a third party which were forgiven.

13. SEGMENTED INFORMATION

The Company operates in one segment, which is the development of a ULCC and its operations and head office are in Canada.

The Company's discontinued operations related to exploration and evaluation of mineral properties within North America (Note 8).

14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to advance its strategic investments, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes its components of equity.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire assets or dispose of assets. In order to maximize ongoing development efforts, the Company does not pay out dividends. Management reviews its capital management approach on an ongoing basis and believes that this approach is reasonable given the relative size of the Company.

The Company currently is not subject to externally imposed capital requirements. There were no material changes in the Company's approach to capital management during the year ended December 31, 2018.

15. RISK MANAGEMENT AND 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 as outlined in Note 14. As at December 31, 2018, the Company had working capital of $979,811 and a deficit of $18,843,911. The Company does not currently have sufficient funds to meet domestic licensing financial capability requirements, complete the build-out of the airline, and fulfill commitments with respect to aircraft (Notes 17 and 18).

15. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(continued)*

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.

(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 (Notes 17 and 18). 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.

16. INCOME TAXES

The following is a reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax recovery.

		For the year ended December 31, 2018		For the year ended December 31, 2017
Loss before income taxes from continuing operations	$	(5,686,394)	$	(9,067,694)
Expected income tax recoverable at statutory rate		(1,535,000)		(2,358,000)
Change in statutory rates and other		-		(751,000)
Non-deductible expenses		178,000		1,457,000
Share issuance costs		(8,000)		(105,000)
Adjustment to prior years provision versus statutory tax rates		(24,000)		56,000
Impact of RTO (Note 4)		-		(18,154,000)
Change in unrecognized deductible temporary differences		1,389,000		19,855,000
Total income tax expense (recovery) from continuing operations	$	-	$	-

During the year ended December 31, 2018, the Company recorded a loss from discontinued operations in the amount of $26,450 (December 31, 2017 – gain of $23,471) which resulted in no tax impact.

The effective Canadian Federal and British Columbia Provincial corporate tax rates are 15% and 12%, respectively. Therefore, the combined future tax rate is 27% (December 31, 2017 – 27%). As a result of tax legislation enacted in the United States during the year ended December 31, 2017, the Federal United States corporate tax rate applicable is 21% (December 31, 2017 – 21%).

(Expressed in Canadian Dollars)

16. INCOME TAXES *(continued)*

The significant components of the Company's deferred tax assets and liabilities are as follows:

		As at December 31, 2018		**As at December 31, 2017**
Exploration and evaluation assets	$	10,996,000	$	10,996,000
Non-capital losses available for future periods		9,267,000		8,043,000
Investment tax credits		840,000		840,000
Allowable capital losses		491,000		491,000
Property and equipment		424,000		215,000
Share issue costs		119,000		163,000
Marketable securities		13,000		13,000
		22,150,000		20,761,000
Unrecognized deferred tax assets		(22,150,000)		(20,761,000)
	$	-	$	-

No deferred tax asset has been recognized in respect of the losses and temporary differences as it is not considered probable that sufficient future taxable profits will allow for these deferred tax assets to be recovered.

The significant components of the Company's unrecognized temporary differences and tax losses are as follows:

		December 31, 2018	**Expiry Date Range**		**December 31, 2017**
Temporary Differences					
Exploration and evaluation assets	$	40,726,000	No expiry date	$	40,726,000
Non-capital losses available for future periods		34,321,000	2026 - 2038		29,784,000
Allowable capital losses		1,820,000	No expiry date		1,820,000
Investment tax credit		1,151,000	2028		1,151,000
Property and equipment		1,576,000	No expiry date		800,000
Share issue costs		440,000	2019 - 2022		605,000
Marketable securities		49,000	No expiry date		49,000

Tax attributes are subject to review and potential adjustment by tax authorities.

(Expressed in Canadian Dollars)

17. 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 (Note 18).

The Airbus Lease Agreements required security deposits as follows:

Due Date	Amount
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 (Note 6).

Aircraft purchase

On December 11, 2014, the Company signed a purchase agreement with The Boeing Company ("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 entered 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 obligation 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 (Note 6).

18. 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.

18. SUBSEQUENT EVENTS *(continued)*

- 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 (Note 17). 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 (Note 6).
- The Company resigned as a member of The Bootheel Project LLC and no longer has any interest in the Bootheel property (Note 8).
- The Company surrendered its interest in the CMB Silver Spruce property (Note 8).
- The Company and SmartLynx amended the escrow release conditions of the Offering completed during the year ended December 31, 2018 (Note 10). 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.

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.

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.

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 in 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.

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.

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 issues 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.

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:

	December 31, 2018	December 31, 2017	December 31, 2016
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.

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.

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.

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.

Description	**Q4 December 31, 2018 ($)**	**Q3 September 30, 2018 ($)**	**Q2 June 30, 2018 ($)**	**Q1 March 31, 2018 ($)**
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)
Description	**Q4 December 31, 2017 ($)**	**Q3 September 30, 2017 ($)**	**Q2 June 30, 2017 ($)**	**Q1 March 31, 2017 ($)**
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.

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".

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.

	December 31, 2018	December 31, 2017
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
Cash and cash equivalents, end of the year	**$ 1,220,555**	**$ 2,981,046**

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.

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

		As at December 31, 2018		As at December 31, 2017
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
Total Assets	**$**	**5,529,495**	**$**	**3,564,831**
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)
Total Liabilities and Equity	**$**	**5,529,495**	**$**	**3,564,831**

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.

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.

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:

Security Description	As at December 31, 2018
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.

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:

		For the year ended December 31, 2018		For the year ended December 31, 2017
Short-term benefits [(1)]	$	1,655,589	$	1,005,983
Share-based payments		519,238		348,483
	$	2,174,827	$	1,354,466

[(1)] Short-term benefits include base salaries and directors' fees, pursuant to contractual employment or consultancy arrangements, management and consulting fees.

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 December 31, 2018	For the year ended 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.

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.

<u>Going Concern</u>

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.

<u>Functional Currency</u>

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:

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.

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.

(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.

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.

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.

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:

Due Date	Amount
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.

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.

- 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.

APPROVAL

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