jetlines

CANADA JETLINES LTD.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2019

(Unaudited)
(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim consolidated financial statements of Canada Jetlines Ltd. (the "Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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

		JUNE 30, 2019		DECEMBER 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	$	**1,621,619**	$	1,220,555
Restricted cash (Note 4)		**427,182**		500,000
Receivables (Note 5)		**117,900**		215,166
Investment (Note 8)		**263,500**		-
Prepaid expenses (Note 6)		**357,999**		144,917
Spare parts inventory (Note 7)		**137,252**		-
		2,925,452		2,080,638
Investment (Note 8)		**-**		200,000
Deposits (Note 9)		**3,463,434**		3,224,974
Equipment (Note 10)		**33,015**		23,883
	$	**6,421,901**	$	5,529,495
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Accounts payable and accrued liabilities	$	**1,457,921**	$	858,798
Due to related parties (Note 13)		**162,295**		242,029
		1,620,216		1,100,827
Future reclamation provision (Note 11)		**-**		20,807
		1,620,216		1,121,634
Shareholders' equity				
Share capital (Note 12)		**26,239,065**		21,370,708
Reserves		**2,019,789**		1,881,064
Deficit		**(23,457,169)**		(18,843,911)
		4,801,685		4,407,861
	$	**6,421,901**	$	5,529,495

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

Approved on August 19, 2019 on behalf of the Board of Directors by:

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

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

CANADA JETLINES LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian Dollars)

	THREE MONTH PERIODS ENDED JUNE 30,		SIX MONTH PERIODS ENDED JUNE 30,	
	2019	**2018**	**2019**	**2018**
OPERATING ITEMS				
Aircraft launch, licensing and route network	$ **937,724**	$ 343,602	$ **1,648,191**	$ 521,210
Depreciation (Note 10)	**3,702**	604	**6,888**	1,131
Finance income	**(11,508)**	(23,931)	**(24,986)**	(47,443)
Foreign exchange loss (gain)	**76,502**	(31,982)	**135,371**	(34,921)
Gain on investment (Note 8)	**(63,500)**	-	**(63,500)**	-
Marketing and investor relations	**229,608**	140,222	**530,343**	298,462
Office and administration	**70,361**	58,905	**136,787**	95,070
Professional fees	**445,325**	469,779	**824,729**	709,253
Regulatory costs	**141,525**	149,429	**234,916**	229,288
Salaries and benefits	**428,582**	273,768	**706,700**	439,028
Share-based payments (Note 12)	**256,524**	115,003	**453,823**	233,358
Travel	**28,128**	36,100	**28,128**	36,100
Loss from continuing operations	**(2,542,973)**	(1,531,499)	**(4,617,390)**	(2,480,536)
Gain (loss) from discontinued operations (Note 11)	**-**	(3,153)	**4,132**	(11,026)
Net loss and comprehensive loss for the period	$ **(2,542,973)**	$ (1,534,652)	$ **(4,613,258)**	$ (2,491,562)
Basic and diluted loss per share	$ **(0.03)**	$ (0.02)	$ **(0.06)**	$ (0.04)
Weighted average number of shares outstanding	**82,266,570**	70,376,979	**79,983,777**	68,167,387

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

CANADA JETLINES LTD.
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTH PERIODS ENDED JUNE 30,
(Unaudited)
(Expressed in Canadian Dollars)

		2019		2018
CASH FLOWS FROM OPERATING ACTIVITIES				
Net loss for the period	$	**(4,613,258)**	$	(2,491,562)
Items not affecting cash:				
Change in estimate of future reclamation provision		**(20,807)**		-
Depreciation		**6,888**		1,131
Share-based payments		**453,823**		233,358
Foreign exchange loss (gain)		**130,617**		(49,947)
Gain on short term investment		**(63,500)**		-
Non-cash working capital item changes:				
Restricted cash		**72,818**		-
Receivables		**97,266**		(60,987)
Prepaid expenses		**(213,082)**		(11,203)
Accounts payable and accrued liabilities		**599,123**		175,602
Due to related parties		**(79,734)**		170,124
Net cash used in operating activities		**(3,629,846)**		(2,033,484)
CASH FLOWS FROM INVESTING ACTIVITIES				
Deposit on aircraft		**(506,329)**		(2,293,173)
Purchase of equipment		**(16,020)**		(2,112)
Net cash used in investing activities		**(522,349)**		(2,295,285)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds on issuance of shares		**4,560,249**		5,380,059
Share issue costs		**(6,990)**		(25,541)
Net cash provided by financing activities		**4,553,259**		5,354,518
Net change in cash and cash equivalents during the period		**401,064**		1,025,749
Cash and cash equivalents, beginning of the period		**1,220,555**		2,981,046
Cash and cash equivalents, end of the period	$	**1,621,619**	$	4,006,795
Cash and cash equivalents				
Cash	$	**1,098,619**	$	3,983,795
Short term investments		**523,000**		23,000
	$	**1,621,619**	$	4,006,795
Cash received for				
Interest	$	**21,394**	$	46,370
Taxes	$	**-**	$	-

Supplemental disclosures with respect to cash flows (Note 14)

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

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

	Share Capital								
	Number of Shares		Amount		Reserves		Deficit		Total
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	1,100,000		473,694		(134,694)		-		339,000
Issuance of shares – warrants exercised	11,945,155		5,242,120		(201,061)		-		5,041,059
Share issue costs	-		(25,541)		-		-		(25,541)
Agents warrants issued	-		(273,330)		273,330		-		-
Share-based payments – stock options	-		-		226,333		-		226,333
Share-based payments – restricted share units	-		-		7,025		-		7,025
Loss for the period	-		-		-		(2,491,562)		(2,491,562)
Balance – June 30, 2018	**71,155,160**		**20,265,290**		**1,498,846**		**(15,622,629)**		**6,141,507**
Issuance of shares – stock options exercised	300,000		81,652		(21,652)		-		60,000
Issuance of shares – warrants exercised	865,544		328,804		(77)		-		328,727
Issuance of shares – private placement	1,627,907		700,000		-		-		700,000
Share issue costs	-		(5,000)		-		-		(5,000)
Agents warrants issued	-		(38)		38		-		-
Share-based payments – stock options	-		-		152,850		-		152,850
Share-based payments – restricted share units	-		-		251,059		-		251,059
Loss for the period	-		-		-		(3,221,282)		(3,221,282)
Balance – December 31, 2018	**73,948,611**		**21,370,708**		**1,881,064**		**(18,843,911)**		**4,407,861**
Issuance of shares – stock options exercised	996,250		368,951		(98,201)		-		270,750
Issuance of shares – warrants exercised	9,368,721		4,509,423		(219,924)		-		4,289,499
Share issue costs	-		(6,990)		-		-		(6,990)
Agents warrants issued	-		(3,027)		3,027		-		-
Share-based payments – stock options	-		-		94,493		-		94,493
Share-based payments – restricted share units	-		-		359,330		-		359,330
Loss for the period	-		-		-		(4,613,258)		(4,613,258)
Balance – June 30, 2019	**84,313,582**	**$**	**26,239,065**	**$**	**2,019,789**	**$**	**(23,457,169)**	**$**	**4,801,685**

The accompanying notes are an integral part of these condensed interim 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. 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 condensed interim 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 June 30, 2019, the Company had working capital of $1,305,236 and a deficit of $23,457,169. 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, fulfill commitments with respect to aircraft (Note 17), and for general and administrative expenditures and working capital. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

These condensed interim 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 condensed interim consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Boards ("IASB") and in accordance with International Accounting Standards ("IAS") 34, *Interim Financial Reporting*. The condensed interim consolidated financial statements do not include all the information required for full annual financial statements.

These condensed interim consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018.

Basis of presentation

These condensed interim 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 condensed interim 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 in which the Company had an 81% interest. Effective March 30, 2019, the Company resigned as a member of The Bootheel Project LLC and no longer has any interest in the Bootheel property (Note 11). 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	Inactive subsidiary
Crosshair Energy USA, Inc.	Nevada, United States	100% ownership by Target	Inactive subsidiary

Significant accounting judgments and estimates

The preparation of these condensed interim 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 condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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 accounting estimates

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)*

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 condensed interim 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

The accounting policies followed by the Company are set out in Note 3 to the audited consolidated financial statements for the year ended December 31, 2018 and have been consistently followed in the preparation of these condensed interim consolidated financial statements, except as outlined below.

Leases

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* (“IFRS 16”) which replaces IAS 17, *Leases* ("IAS 17") and its associated interpretative guidance. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases but can elect to exclude those with a term of less than 12 months, or those where the underlying asset is of low value. A lessee is required to recognize a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have also been impacted, including the definition of a lease. Transitional provisions have been provided.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognizes a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset of the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right of use asset or the lease term using the straight line method as this most closely reflects the expected pattern consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is a function of the Company’s incremental borrowing rate, the nature of the underlying asset, the location of the asset and the length of the lease. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss if the carrying amount of the right of use asset has been reduced to zero.

The Company has elected to apply the practical expedient not to recognize right of use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are recognized as expenses on a straight line basis over the lease term.

No transitional adjustment was required upon adoption of IFRS 16 on January 1, 2019.

Spare parts inventory

Inventories of spare parts are measured at cost being determined using a specific identification basis, net of related obsolescence provision, as applicable.

(Expressed in Canadian Dollars)

4. RESTRICTED CASH

	As at June 30, 2019	As at December 31, 2018
SmartLynx fee (Notes 12 and 18)	$ 327,182	$ -
Employment agreement (Note 13)	100,000	500,000
	$ 427,182	$ 500,000

5. RECEIVABLES

	As at June 30, 2019	As at December 31, 2018
Sales and other tax credits	$ 112,435	$ 213,024
Other receivables	5,465	2,142
	$ 117,900	$ 215,166

6. PREPAID EXPENSES

	As at June 30, 2019	As at December 31, 2018
Aircraft launch	$ 158,535	$ -
Deferred transaction costs (Note 17)	110,769	63,903
Insurance	50,800	48,558
Other	26,103	18,997
Regulatory	11,792	13,459
	$ 357,999	$ 144,917

7. SPARE PARTS INVENTORY

	As at June 30, 2019	As at December 31, 2018
Spare parts for aircraft	$ 137,252	$ -

During the six month period ended June 30, 2019, deposits in the amount of $137,252 were transferred from deposits to spare parts inventory (Note 9).

During the three and six month periods ended June 30, 2019 and 2018, no amounts were recognized as expense with respect to spare parts inventory. The Company did not recognize any impairment losses or reversals thereof during the periods presented.

(Expressed in Canadian Dollars)

8. INVESTMENT

		Voleo Trading Systems Inc. (TSXV: TRAD)
Cost		
Balance – December 31, 2017 and 2018 and June 30, 2019	$	200,000
Adjustment to Fair Value		
Balance – December 31, 2017 and 2018	$	-
Fair value adjustment for the period		63,500
Balance – June 30, 2019	$	63,500
Fair Value		
As at December 31, 2018	$	200,000
As at June 30, 2019	$	263,500

During the six month period ended June 30, 2019, Voleo, Inc. completed a business combination with and became a wholly-owned subsidiary of Voleo Trading Systems Inc. (formerly "Logan Resources Ltd.") ("Voleo"). In connection with the business combination, the Company's investment in Voleo, Inc. was exchanged for 1,700,000 common shares of Voleo. Effective May 31, 2019, the common shares of Voleo began trading on the TSXV.

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

9. DEPOSITS

		As at June 30, 2019		As at December 31, 2018
Aircraft security deposits (Note 17)	$	3,363,434	$	2,987,722
Related party security deposit (Note 13)		100,000		100,000
Deposit on spare parts (Note 7)		-		137,252
	$	3,463,434	$	3,224,974

During the six month periods ended June 30, 2019 and 2018, the Company paid security deposits in the amounts of $506,329 (US$380,000) and $2,293,173 (US$1,777,000), respectively, in accordance with aircraft lease agreements (Note 17).

During the six month period ended June 30, 2019, deposits in the amount of $137,252 were transferred from deposits to spare parts inventory (Note 7).

(Expressed in Canadian Dollars)

10. EQUIPMENT

	Computer Equipment	Office Equipment	Total
Cost			
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
Additions	16,020	-	16,020
Balance – June 30, 2019	$ 54,550	$ 1,112	$ 55,662
Accumulated Depreciation			
Balance – December 31, 2017	$ 11,729	$ -	$ 11,729
Depreciation	3,900	130	4,030
Balance – December 31, 2018	15,629	130	15,759
Depreciation	6,776	112	6,888
Balance – June 30, 2019	$ 22,405	$ 242	$ 22,647
Net Book Value			
As at December 31, 2018	$ 22,901	$ 982	$ 23,883
As at June 30, 2019	$ 32,145	$ 870	$ 33,015

11. DISCONTINUED OPERATIONS

The Company was previously in the business of acquiring, exploring and evaluating mineral resource properties. During the six month period ended June 30, 2019, the Company disposed of its remaining exploration and evaluation assets.

The gain (loss) from discontinued operations included in loss and comprehensive loss is presented below.

	Three month periods ended June 30, 2019	Three month periods ended June 30, 2018	Six month periods ended June 30, 2019	Six month periods ended June 30, 2018
Change in estimate of future reclamation provision	$ -	$ -	$ 20,807	$ -
Property maintenance costs	-	3,153	(16,675)	11,026
Gain (loss) from discontinued operations	$ -	$ (3,153)	$ 4,132	$ (11,026)

The Company incurred maintenance costs, including mineral leases and claims and insurance, with respect to its mineral resource properties prior to disposal.

As at June 30, 2019, the balance of the future reclamation provision was $Nil (December 31, 2018 - $20,807). During the six month period ended June 30, 2019, the estimate of future reclamation costs was revised to $Nil and the change in estimate in the amount of $20,807 was included in the gain from discontinued operations in the condensed interim consolidated statements of loss and comprehensive loss.

12. 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 June 30, 2019, the Company had 70,780,413 common voting shares and 13,533,169 variable voting shares outstanding.

As at June 30, 2019, 1,721,762 Voting Shares were held in escrow and restricted from trading. These trading restrictions expire on 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

Under the Company's Articles, the variable voting shares carry one vote per variable voting share held, subject to an automatic reduction of the voting rights attached to variable voting shares in the event any of the applicable limits are exceeded. In such event, the votes attributable to variable voting shares will be affected as follows:

- first, if required, a reduction of the voting rights of any single non-Canadian owner (inclusive of any single non-Canadian owner authorized to provide air service) carrying more than 25 per cent of the votes (the "Stage 1 Reduction") to ensure that such non-Canadian owners never carry more than 25 per cent of the votes that holders of voting shares cast at any meeting of shareholders;

- second, if required and after giving effect to the Stage 1 Reduction, a further proportional reduction of the voting rights of all non-Canadian owners authorized to provide an air service to ensure that such non-Canadian owners authorized to provide an air service (the "Stage 2 Reduction"), in the aggregate, never carry more than 25 per cent of the votes that holders of voting shares cast at any meeting of shareholders;

- third, if required and after giving effect to the Stage 1 Reduction and the Stage 2 Reduction if any, a proportional reduction of the voting rights for all non-Canadian owners as a class (the "Stage 3 Reduction") to ensure that non-Canadians never carry, in aggregate, more than 49 per cent of the votes that owners of voting shares cast at any meeting of shareholders.

Share issuances

During the six month period ended June 30, 2019:

- The Company issued 996,250 shares for gross proceeds of $270,750 pursuant to the exercise of 996,250 stock options. The fair value of the stock options in the amount of $98,201 was credited to share capital.

- The Company issued 9,368,721 shares for gross proceeds of $4,289,499 pursuant to the exercise of 9,368,721 share purchase warrants. The fair value of the share purchase warrants in the amount of $219,924 was credited to share capital.

- The Company incurred share issue costs in the amount of $6,990 in connection with the issuance of shares.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL AND RESERVES *(continued)*

Share issuances *(continued)*

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

During the year ended December 31, 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 per Subscription Receipt for gross proceeds of $7,500,000 (the "Offering"). The gross proceeds were held in trust by an escrow agent. Subsequent to the six month period ended June 30, 2019, the Company and SmartLynx restructured the Offering, and as a result the gross proceeds were returned to SmartLynx from escrow in addition to a fee in the amount of US$250,000 paid by the Company (Note 18). The Offering was restructured such that the gross proceeds of $7,500,000 will be provided by SmartLynx under the terms of a convertible debenture (Note 17). As at June 30, 2019, the balances of restricted cash and accounts payable and accrued liabilities include $327,182 (December 31, 2018 - $Nil) with respect to the fee payable to SmartLynx in the amount of US$250,000 (Note 4).

Share purchase warrants

The following is a summary of share purchase warrants activities during the six month period ended June 30, 2019 and the year ended December 31, 2018:

	Number of Share Purchase Warrants	Weighted Average Exercise Price
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**
Issued	108,663	$0.50
Exercised	(9,368,721)	$0.46
Expired	(1,918,198)	$0.49
Outstanding, June 30, 2019	**6,276,441**	**$0.38**

During the six month period ended June 30, 2019:

- The Company issued 108,663 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 $3,027 was estimated at the issue dates using the Black-Scholes Option Pricing Model and recorded as share issue costs in the condensed interim consolidated statements of changes in shareholders' equity.

(Expressed in Canadian Dollars)

12. SHARE CAPITAL AND RESERVES *(continued)*

Share purchase warrants *(continued)*

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 condensed interim consolidated statements of changes in shareholders' equity.

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

	Six month period ended June 30, 2019	Six month period ended June 30, 2018
Risk-free interest rate	1.79%	1.76%
Expected life (years)	0.02	1.03
Annualized volatility	40%	40%
Dividend yield	0%	0%

As at June 30, 2019, the Company had the following share purchase warrants outstanding and exercisable:

Number of share purchase warrants	Exercise price	Remaining life (years)	Expiry date
6,276,441	$0.38	0.21	September 16, 2019

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.

During the six month period ended June 30, 2019, the Board of Directors and shareholders of the Company approved the Amended Stock Option Plan, the Amended RSU Plan and the Amended PSU Plan (collectively, the "Amended Plans"), which effectively increased the number of incentive stock reserved for issuance under the Amended Plans from 14,000,000 to 16,000,000. The amendment remains subject to the approval of the TSXV.

Stock options

The Company grants stock options to directors, officers, employees and consultants as compensation for services, pursuant to its Amended Stock 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)

12. SHARE CAPITAL AND RESERVES *(continued)*

Share-based payments *(continued)*

Stock options *(continued)*

The following is a summary of stock option activities during the six month period ended June 30, 2019 and the year ended December 31, 2018:

	Number of stock options	Weighted average exercise price
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**
Granted	300,000	$0.44
Exercised	(996,250)	$0.27
Forfeited	(146,250)	$0.39
Outstanding, June 30, 2019	**5,265,000**	**$0.42**

As at June 30, 2019 the following stock options were outstanding and exercisable:

Outstanding	Exercisable	Exercise Price	Remaining life (years)	Expiry Date
30,000	30,000	$0.30	0.22	September 18, 2019
25,000	25,000	$0.76	0.22	September 18, 2019
15,000	15,000	$0.76	0.24	September 26, 2019
110,000	110,000	$0.30	0.75	March 31, 2020
450,000	450,000	$0.34	1.06	July 22, 2020
2,260,000	2,260,000	$0.30	2.66	February 28, 2022
150,000	150,000	$0.30	2.78	April 10, 2022
225,000	225,000	$0.21	2.86	May 9, 2022
225,000	168,750	$0.21	3.00	July 1, 2022
425,000	212,500	$0.76	3.55	January 18, 2023
450,000	225,000	$0.74	3.58	January 29, 2023
225,000	112,500	$0.70	3.60	February 5, 2023
225,000	56,250	$0.57	4.35	November 8, 2023
150,000	37,500	$0.56	4.44	December 10, 2023
300,000	-	$0.44	4.83	April 30, 2024
5,265,000	**4,077,500**			

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 six month period ended June 30, 2019, the Company recognized share-based payment expense with respect to stock options in the amount of $94,493 (2018 - $226,333).

(Expressed in Canadian Dollars)

12. 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 six month periods ended June 30, 2019 and 2018:

	Six month period ended June 30, 2019	**Six month period ended June 30, 2018**
Risk-free interest rate	1.53%	2.04%
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 Amended RSU 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)

12. SHARE CAPITAL AND RESERVES *(continued)*

Share-based payments *(continued)*

Restricted share units *(continued)*

The following is a summary of RSU activities during the six month period ended June 30, 2019 and the year ended December 31, 2018:

	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**
Granted	960,000	$0.49
Forfeited	(810,000)	$0.51
Outstanding, June 30, 2019	**2,900,000**	**$0.50**

During the six month period ended June 30, 2019, the Company recognized share-based payments expense with respect to RSUs in the amount of $359,330 (2018 - $7,025).

13. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the condensed interim consolidated financial statements not disclosed elsewhere in these condensed interim 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 six month periods ended June 30, 2019 and 2018 is summarized as follows:

	Six month period ended June 30, 2019	Six month period ended June 30, 2018
Short-term benefits [1]	$ 1,099,011	$ 734,913
Share-based payments (Note 12)	409,257	174,546
	$ 1,508,268	$ 909,459

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

(Expressed in Canadian Dollars)

13. RELATED PARTY TRANSACTIONS *(continued)*

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 six month periods ended June 30, 2019 and 2018 include the following:

		Six month period ended June 30, 2019		Six month period ended June 30, 2018
King & Bay West	$	525,720	$	448,353

As at June 30, 2019 and December 31, 2018, 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 (Note 9). 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 June 30, 2019, the balance of restricted cash includes $100,000 (December 31, 2018 - $500,000) pursuant to an employment agreement between the Company and its Chief Executive Officer, Javier Suarez (Note 4). The future payment of the restricted funds to the Chief 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 $150,000 upon the occurrence of certain events, including the receipt of the Air Operator Certificate by Jetlines Operations.

As at June 30, 2019, amounts due to related parties include the following:

- MJM Consulting Corp., an entity owned by Mark Morabito, Executive Chair of the Company - $19,748 (December 31, 2018 - $8,737) in relation to expenses incurred on behalf of the Company.
- King & Bay West - $101,203 (December 31, 2018 - $225,572) in relation to the services described above.
- Javier Suarez, Chief Executive Officer of the Company - $3,364 (December 31, 2018 - $4,088) in relation to expenses incurred on behalf of the Company.
- Protop Limited or Adsajama Consultancy Ltd., entities owned by Alan Bird, Director of the Company - $6,543 (December 31, 2018 - $3,559) in relation to consulting and advisory services provided to the Company.
- Philip Larsen, Vice President of Maintenance of the Company - $156 (December 31, 2018 - $73) in relation to expenses incurred on behalf of the Company.
- Zygimantas Surintas, Director of the Company - $17,559 (December 31, 2018 - $Nil) in relation to accrued director fees.
- Alan Bird, Director of the Company - $8,220 (December 31, 2018 - $Nil) in relation to expenses incurred on behalf of the Company.
- Deborah Robinson, Director of the Company - $1,935 (December 31, 2018 - $Nil) in relation to expenses incurred on behalf of the Company.

13. RELATED PARTY TRANSACTIONS *(continued)*

Other related party transactions and balances *(continued)*

- Jason Grant, Director of the Company - $2,437 (December 31, 2018 - $Nil) in relation to expenses incurred on behalf of the Company.

- Saad Hammad, Director of the Company - $1,130 (December 31, 2018 - $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.

14. SUPPLEMENTAL DISCLOSURES WITH RESPECT TO CASH FLOWS

Non-cash transactions affecting cash flows from investing or financing activities during the six month period ended June 30, 2019 are summarized below:

- Deposits in the amount of $137,252 were transferred to spare parts inventory (Notes 7 and 9).

- The Company issued 108,633 share purchase warrants to agents in connection with underlying agent warrants. The fair value of $3,027 was recorded as share issue costs (Note 12).

- The Company credited $98,201 to share capital in relation to the fair value of stock options exercised (Note 12).

- The Company credited $219,924 to share capital in relation to the fair value of share purchase warrants exercised (Note 12).

Non-cash transactions affecting cash flows from investing or financing activities during the six month period ended June 30, 2018 are summarized below:

- The Company issued 604,731 share purchase warrants to agents in connection with underlying agent warrants. The fair value of $273,330 was recorded as share issue costs (Note 12).

- The Company credited $134,694 to share capital in relation to the fair value of stock options exercised (Note 12).

- The Company credited $201,061 to share capital in relation to the fair value of share purchase warrants exercised (Note 12).

15. 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 six month period ended June 30, 2019.

16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, price 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 15. As at June 30, 2019, the Company had working capital of $1,305,236 and a deficit of $23,457,169. The Company does not currently have sufficient funds to meet domestic licensing financial capability requirements, complete the build-out of the airline, fulfill commitments with respect to aircraft (Note 17), and for general and administrative expenditures and working capital.

Market risk

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

(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 (Note 17). 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 June 30, 2019, a 10% change in the Canadian dollar versus the US dollar would give rise to a gain/loss of approximately $320,000 based on US dollar denominated monetary assets and liabilities.

(c) Price risk

The Company is exposed to price risk with respect to its investment in Voleo (Note 8). The Company closely monitors those prices to determine the appropriate course of action to be taken by the Company. There can be no assurance that the Company can exit its position, if required, resulting in proceeds approximating the carrying value of these securities.

17. COMMITMENTS

Convertible debentures

The Company entered into subscription agreements with InHarv Partners Ltd. ("InHarv") and SmartLynx with respect to convertible debentures for total financing of $14,500,000. The SmartLynx portion of the financing is the result of the restructuring of the terms of the Offering (Note 12).

The offering with InHarv, on behalf of a South Korean special purpose fund (the "SPV Fund"), for a financing of $7,000,000 will consist of 7,000 units (each, an "InHarv Unit"), with each InHarv Unit comprised of one $1,000 principal amount debentures and 2,439.02439 variable voting share purchase warrants (each, an "InHarv Warrant"), and with each InHarv Warrant entitling the holder thereof to acquire one variable voting share of the Company (each, an "InHarv Warrant Share") at a price of $0.41 per InHarv Warrant Share for a period of 36 months from the date of closing. The Company will issue a total of 17,073,170 InHarv Warrants to the SPV Fund as part of the InHarv Units subscribed for by the SPV Fund.

The offering with SmartLynx for a financing of $7,500,000 will consist of 7,500 units (each, a "SmartLynx Unit"), with each SmartLynx Unit comprised of one $1,000 principal amount debentures and 2,439.02439 variable voting share purchase warrants (each, a "SmartLynx Warrant"), and with each SmartLynx Warrant entitling the holder thereof to acquire one variable voting share of the Company (each, a "SmartLynx Warrant Share") at a price of $0.41 per SmartLynx Warrant Share for a period of 36 months from the date of closing. The Company will issue a total of 18,292,682 SmartLynx Warrants to SmartLynx as part of the SmartLynx Units subscribed for by SmartLynx.

The terms of the debentures include: (i) a maturity date on such date that is 36 months from the date of issuance of the debentures and the principal amount of the debentures, together with any accrued and unpaid interest thereon, will be payable on the maturity date, unless earlier converted in accordance with its terms; (ii) each draw of the principal amount will accrue interest ("Interest") from the drawdown date of such draw at the rate of 10% per annum, which Interest will be payable in cash annually on the anniversary date of the drawdown date of such draw, and on the conversion date or the maturity date, as the case may be; (iii) all or a portion of the principal amount outstanding is convertible into variable voting shares of the Company at the option of the holder at a conversion price of $0.41 per share; and (iv) the debentures are subject to an origination fee of 5%, payable in shares on each drawdown date at an issue price equal to the market price at the time of such drawdown date. The funds will be available for drawdown based on the satisfaction of certain conditions. 70% of the proceeds shall be available for drawdown by the Company once it has completed total financings for gross proceeds of $40,000,000 on or before September 1, 2019. In addition, the Company will be required to receive from the Canada Transportation Agency an order allowing it to sell tickets for airline travel. The remaining 30% of the proceeds shall be available for drawdown upon the receipt by the Company's subsidiary, Jetlines Operations, of its Air Operator Certificate from Transport Canada. The obligation of the Company to repay the principal amount and all unpaid Interest thereon will be secured by a security interest granted by the Company over all of the Company's present and after-acquired property pursuant to a general security agreement to be entered into.

These conditions include, among other things, approval of the TSX Venture Exchange, the execution of security documents and an investor rights agreement and the receipt of all other necessary consents, approvals and authorizations required by either party.

As at June 30, 2019, the balance of prepaid expenses includes deferred transaction costs with respect to the convertible debentures financing in the amount of $110,769 (December 31, 2018 - $63,903) (Note 6).

Airbus Lease Agreements

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"). During the six month period ended June 30, 2019, the Airbus Lease Agreements were terminated.

17. COMMITMENTS *(continued)*

Airbus Lease Agreements *(continued)*

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 9).

SmartLynx Lease Agreements

The Company executed definitive aircraft lease agreements with SmartLynx with respect to two Airbus A320 aircraft each for a period of 12 months to commence on November 1, 2019 (the "SmartLynx Lease Agreements").

The Company's commitments with respect to the SmartLynx Lease Agreements are summarized in the tables below.

Due Date	Security deposits
Three (3) business days following the execution of a letter of intent	US$380,000 (paid)
Three (3) business days following authorization to sell tickets, on or before September 1, 2019	US$380,000
Three (3) business days prior to aircraft delivery	US$380,000

During the six month period ended June 30, 2019, the Company paid security deposits in the amount of $506,329 (US$380,000) with respect to the SmartLynx Lease Agreements (Note 9).

Year ending December 31,		Aircraft lease(1)
2019	US$	863,640
2020		4,318,200
	US$	5,181,840

(1) Includes minimum monthly base rent and maintenance contributions.

The Company has not hedged its exposure to exchange rate fluctuations between the US and Canadian dollar with respect to the SmartLynx Lease Agreements. The payments are denominated in US dollars and therefore, the Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Assuming an exchange rate where US$1 equals CAD$1.3087, a 10% increase or decrease in the exchange rate will increase or decrease the future cash flows by approximately CAD$780,000.

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 Company has communicated to Boeing that the Boeing Agreement is terminated.

18. SUBSEQUENT EVENTS

The following events occurred subsequent to the six month period ended June 30, 2019:

- The Company issued 30,000 shares for gross proceeds of $9,000 pursuant to the exercise of 30,000 stock options.

- The Company issued 216,300 shares for gross proceeds of $81,113 pursuant to the exercise of 216,300 share purchase warrants.

- The Company and SmartLynx restructured the Offering, and as a result the gross proceeds were returned to SmartLynx from escrow in addition to a fee in the amount of US$250,000 paid by the Company (Notes 4, 12 and 17).

- In connection with the restructuring of the Offering, the Company executed a subscription agreement with SmartLynx for financing of $7,500,000 in the form of convertible debentures (Note 17).

- The Company granted 225,000 stock options with an exercise price of $0.445 and term of five years.

Canada Jetlines Ltd.
Management Discussion & Analysis
For the Six Month Period Ended June 30, 2019
Date Prepared: August 19, 2019

GENERAL

This Management Discussion & Analysis ("MD&A") is intended to supplement and complement the condensed interim consolidated financial statements and accompanying notes of Canada Jetlines Ltd. (the "Company" or "Jetlines") for the six month period ended June 30, 2019. The information provided herein should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2018 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 Accounting Standards ("IAS") 34, *Interim Financial Reporting*.

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; 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 including the commencement of ticket sales and launch of airline operations.

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 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; 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. The Company's principal business activity is the start-up of an ultra-low cost carrier ("ULCC") scheduled airline service. The Company's shares trade on the TSX Venture Exchange (the "Exchange") under the symbol "JET" and the OTC Market Group's OTCQB Marketplace under the symbol "JETMF".

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

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

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

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 amendments 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). The Company has amended its Articles and By-Laws in order to comply with the amendments.

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. 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, as well as for general and administrative expenditures and working capital.

The Company has announced financing transactions with its European airline partner, SmartLynx Airlines SIA ("SmartLynx"), and a South Korean special purpose fund led and established by InHarv Partners Ltd. ("InHarv") with respect to convertible debentures for total financing of $14,500,000. Refer to "Commitments – Convertible Debentures" for additional detail. 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's previously announced launch date of December 17, 2019 is subject to the Company raising the necessary funding and completing the licensing process. As the Company has not yet secured such necessary funding, it may not be able to meet its planned commercial launch date of December 17, 2019.

The Company has entered into definitive lease agreements 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. Refer to "Commitments" for additional detail.

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

1. Jetlines is a Canadian company or is exempted from that requirement under section 62 of the CTA;

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

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

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

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

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

REVIEW OF CONSOLIDATED FINANCIAL RESULTS

Loss from Continuing Operations

For the six month period ended June 30, 2019, the Company reported a loss from continuing operations in the amount of $4,617,390 or $0.06 per share compared to a loss from continuing operations of $2,480,536 or $0.04 per share for the same period of the prior year. The increase in loss from continuing operations in the amount of $2,136,854 is explained by increased corporate, marketing and operational activities detailed below.

During the six month period ended June 30, 2019, the Company incurred aircraft launch, licensing and route network related costs in the amount of $1,648,191 in connection with advancing the AOC and licensing processes, inspecting aircraft, negotiating and executing airline agreements, recruiting and training, procuring and implementing IT systems, advancing financing efforts, and communicating with key stakeholders. During the six month period ended June 30, 2018, the Company incurred costs in the amount of $521,210 as it commenced the AOC and licensing processes and initial inspection and due diligence of aircraft available for lease.

During the six month period ended June 30, 2019, the Company incurred marketing and investor relations expenses in the amount of $530,343 (2018 - $298,462) which includes ongoing investor outreach, marketing through social media and other channels, merchandising, research coverage, business development and overall public relations. The increase in marketing and investor relations for the six month period ended June 30, 2019 in the amount of $231,881 compared to the same period of the prior year is attributable to the engagement of a marketing agency of record, the rollout of a marketing and branding plan for fiscal 2019, and a campaign to protest the airline duopoly in Canada.

During the six month period ended June 30, 2019, the Company incurred office and administration expenses in the amount of $136,787 (2018 - $95,070) to support ongoing corporate activities and operational initiatives. The increase in office and administration expenses in the amount of $41,717 was driven by increased overall activities and personnel.

Professional fees for the six month period ended June 30, 2019 totaled $824,729 (2018 - $709,253) and related to accounting, audit, consulting and legal fees. The increase in professional fees in the amount of $115,476 is explained by increased corporate activities with respect to the Company's strategic objectives.

During the six month periods ended June 30, 2019 and 2018, the Company incurred regulatory costs in the amounts of $234,916 and $229,288, respectively, which include transfer agent, listing and filing fees, the cost of Board and shareholder meetings and directors' fees to non-management board members.

The Company incurred salaries and benefits in the amount of $706,700 for the six month period ended June 30, 2019 compared to $439,028 for the same period of the prior year. The increase in salaries and benefits in the amount of $267,672 is primarily explained by a retention bonus paid to an executive during the six month period ended June 30, 2019. 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 six month period ended June 30, 2019 in the amount of $453,823 (2018 - $233,358) which reflects the fair value of equity-settled awards recognized over the respective vesting periods.

During the six month periods ended June 30, 2019 and 2018, the Company incurred travel expenses in the amounts of $28,128 and $36,100, respectively, with respect to executive and directors' meetings and recruitment initiatives.

Finance income for the six month period ended June 30, 2019 in the amount of $24,986 (2018 - $47,443) 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 loss for the six month period ended June 30, 2019 in the amount of $135,371 (2018 – gain of $34,921) 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 loss recorded during the six month period ended June 30, 2019 is primarily attributable to the balance of US dollar denominated security deposits paid with respect to aircraft. Refer to "Statement of Financial Position Information" and "Commitments" for additional detail of security deposits on aircraft.

During the six month period ended June 30, 2019, the Company recorded a gain on short term investment in the amount of $63,500 (2018 - $Nil) with respect to common shares held of Voleo Trading Systems Inc. ("Voleo") and the increase in Voleo's share price during the period. Refer to "Statement of Financial Position Information" for additional discussion of the Company's short term investment in Voleo.

Discontinued Operations

The Company was previously in the business of acquiring, exploring and evaluating mineral resource properties. During the six month period ended June 30, 2019, the Company disposed of its remaining exploration and evaluation assets.

During the six month period ended June 30, 2019, the Company recorded a gain from discontinued operations in the amount of $4,132. The estimate of future reclamation costs was revised to $Nil and the change in estimate in the amount of $20,807 was included in the gain from discontinued operations. This gain was partially offset by maintenance costs, including mineral leases and claims and insurance, incurred prior to disposal in the amount of $16,675.

During the six month period ended June 30, 2018, the Company recorded a loss from discontinued operations in the amount of $11,026 with respect to maintenance costs incurred on the mineral resource properties.

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	Q2 June 30, 2019 ($)	Q1 March 31, 2019 ($)	Q4 December 31, 2018 ($)	Q3 September 30, 2018 ($)
Loss from continuing operations	**(2,542,973)**	(2,074,417)	(1,817,245)	(1,388,613)
Loss and comprehensive loss	**(2,542,973)**	(2,070,285)	(1,824,835)	(1,396,447)
Loss per share	**(0.03)**	(0.03)	(0.02)	(0.02)
Description	**Q2 June 30, 2018 ($)**	**Q1 March 31, 2018 ($)**	**Q4 December 31, 2017 ($)**	**Q3 September 30, 2017 ($)**
Loss from continuing operations	**(1,531,499)**	(949,037)	(849,141)	(1,218,233)
Loss and comprehensive loss	**(1,534,652)**	(956,910)	(811,835)	(1,221,383)
Loss per share	**(0.02)**	(0.02)	(0.01)	(0.02)

Historical quarterly results of operations and loss per share data do not necessarily reflect any recurring expenditure patterns or predictable trends except that the Company's loss from continuing operations and comprehensive loss have been generally increasing due to increased activities related to the buildout of the airline and the advancement of the Company's strategic objectives.

SECOND QUARTER

Loss from Continuing Operations

For the three month period ended June 30, 2019, the Company reported a loss from continuing operations in the amount of $2,542,973 or $0.03 per share, compared to a loss from continuing operations of $1,531,499 or $0.02 per share for the same period of the prior year. The increase in loss from continuing operations in the amount of $1,011,474 is explained by increased corporate, marketing and operational activities detailed below.

During the three month period ended June 30, 2019, the Company incurred aircraft launch, licensing and route network related costs in the amount of $937,724 in connection with advancing the AOC and licensing processes, inspecting aircraft, negotiating and executing airline agreements, recruiting and training, procuring and implementing IT systems, advancing financing efforts, and communicating with key stakeholders. During the three month period ended June 30, 2018, the Company incurred costs in the amount of $343,602 as it commenced the AOC and licensing processes and initial inspection and due diligence of aircraft available for lease.

During the three month period ended June 30, 2019, the Company incurred marketing and investor relations expenses in the amount of $229,608 (2018 - $140,222) which includes ongoing investor outreach, marketing through social media and other channels, merchandising, research coverage, business development and overall public relations. The increase in marketing and investor relations for the three month period ended June 30, 2019 in the amount of $89,386 compared to the same period of the prior year is attributable to the engagement of a marketing agency of record and a campaign to protest the airline duopoly in Canada.

During the three month period ended June 30, 2019, the Company incurred office and administration expenses in the amount of $70,361 (2018 - $58,905) to support ongoing corporate activities and operational initiatives. The increase in office and administration expenses in the amount of $11,456 was driven by increased overall activities and personnel.

The Company incurred professional fees for the three month periods ended June 30, 2019 and 2018 in the amounts of $445,325 and $469,779, respectively, which relate to ongoing accounting, audit, consulting and legal fees with respect to the Company's strategic objectives.

During the three month periods ended June 30, 2019 and 2018, the Company incurred regulatory costs in the amounts of $141,525 and $149,429, respectively, which include transfer agent, listing and filing fees, the cost of Board and shareholder meetings and directors' fees to non-management board members.

The Company incurred salaries and benefits in the amount of $428,582 for the three month period ended June 30, 2019 compared to $273,768 for the same period of the prior year. The increase in salaries and benefits in the amount of $154,814 is primarily explained by a retention bonus paid to an executive during the three month period ended June 30, 2019 which was partially offset by organizational changes in the period. 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 June 30, 2019 in the amount of $256,524 (2018 - $115,003) which reflects the fair value of equity-settled awards recognized over the respective vesting periods.

During the three month periods ended June 30, 2019 and 2018, the Company incurred travel expenses in the amounts of $28,128 and $36,100, respectively, with respect to executive and directors' meetings and recruitment initiatives.

Finance income for the three month period ended June 30, 2019 in the amount of $11,508 (2018 - $23,931) 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 loss for the three month period ended June 30, 2019 in the amount of $76,502 (2018 – gain of $31,982) 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 loss recorded during the three month period ended June 30, 2019 is primarily attributable to the balance of US dollar denominated security deposits paid with respect to aircraft. Refer to "Statement of Financial Position Information" and "Commitments" for additional detail of security deposits on aircraft.

During the three month period ended June 30, 2019, the Company recorded a gain on short term investment in the amount of $63,500 (2018 - $Nil) with respect to common shares held of Voleo and the increase in Voleo's share price during the period. Refer to "Statement of Financial Position Information" for additional discussion of the Company's short term investment in Voleo.

Discontinued Operations

The Company was previously in the business of acquiring, exploring and evaluating mineral resource properties up to March 30, 2019. The Company had no discontinued operations during the three month period ended June 30, 2019.

During the three month period ended June 30, 2018, the Company recorded a loss from discontinued operations in the amount of $3,153 with respect to maintenance costs incurred on the mineral resource properties.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2019, the Company had cash and cash equivalents in the amount of $1,621,619 (December 31, 2018 - $1,220,555) and working capital in the amount of $1,305,236 (December 31, 2018 - $979,811). The increase in working capital in the amount of $325,425 is explained by proceeds received from the issuance of shares during the six month period ended June 30, 2019, net of operating activities and deposits paid on aircrafts.

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, as well as for general and administrative expenditures and working capital.

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 six month periods ended June 30, 2019 and 2018 are summarized in the table below.

	June 30, 2019	June 30, 2018
Cash used in operating activities	$ (3,629,846)	$ (2,033,484)
Cash used in investing activities	(522,349)	(2,295,285)
Cash provided by financing activities	4,553,259	5,354,518
Change in cash and cash equivalents during the period	401,064	1,025,749
Cash and cash equivalents, beginning of the period	1,220,555	2,981,046
Cash and cash equivalents, end of the period	**$ 1,621,619**	**$ 4,006,795**

Operating Activities

Cash used in operating activities adjusts loss for the period for non-cash items including, but not limited to, depreciation, share-based payments, 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 six month periods ended June 30, 2019 and 2018.

Investing Activities

During the six month period ended June 30, 2019, the Company paid aircraft security deposits in the amount of $506,329 (US$380,000) and purchased equipment in the amount of $16,020.

During the six month period ended June 30, 2018, the Company paid aircraft security deposits in the amount of $2,293,173 (US$1,777,000) and purchased equipment in the amount of $2,112.

Financing Activities

Financing activities for the six month period ended June 30, 2019 consist of gross proceeds received of $4,560,249 (2018 - $5,380,059) pursuant to the exercise of stock options and warrants, net of share issue costs paid of $6,990 (2018 - $25,541).

STATEMENT OF FINANCIAL POSITION INFORMATION

		As at June 30, 2019		As at December 31, 2018
Cash and cash equivalents	$	1,621,619	$	1,220,555
Restricted cash		427,182		500,000
Receivables		117,900		215,166
Prepaid expenses		357,999		144,917
Spare parts inventory		137,252		-
Investment in Voleo		263,500		200,000
Deposits		3,463,434		3,224,974
Equipment		33,015		23,883
Total Assets	**$**	**6,421,901**	**$**	**5,529,495**
Accounts payable and accrued liabilities	**$**	1,457,921	$	858,798
Due to related parties		162,295		242,029
Future reclamation provision		-		20,807
Share capital		26,239,065		21,370,708
Reserves		2,019,789		1,881,064
Deficit		(23,457,169)		(18,843,911)
Total Liabilities and Equity	**$**	**6,421,901**	**$**	**5,529,495**

Assets

Cash and cash equivalents increased by $401,064 during the six month period ended June 30, 2019 as a result of proceeds received from the issuance of shares, net of operating costs incurred and aircraft deposits paid. Cash flows are detailed in “Liquidity and Capital Resources”. Operating activities are detailed in “Review of Consolidated Financial Results”.

The balance of restricted cash as of June 30, 2019 includes funds restricted for a fee payable to SmartLynx in the amount of $327,182 (December 31, 2018 - $Nil) in connection with subscription receipts issued to SmartLynx and for a retention bonus in the amount of $100,000 (December 31, 2018 - $500,000) pursuant to an employment agreement with a related party. The fee payable to SmartLynx and retention bonus are further discussed below in “Share Capital” and “Related Party Transactions”, respectively.

Receivables decreased by $97,266 during the six month period ended June 30 2019 and relates primarily to Goods and Services Tax (“GST”) input tax credits received, net of GST paid and interest income accrued.

As at June 30, 2019, prepaid expenses increased by $213,082 compared to the balance as at December 31, 2018 and is primarily explained by deposits paid in advance of airline operations, including engineering and maintenance, software licenses, and data subscriptions, as well as deferred transaction costs related to future financings detailed in “Commitments”.

As at June 30, 2019, the Company holds common shares of Voleo with a fair value of $263,500 (December 31, 2018 - $200,000). During the six month period ended June 30, 2019, the Company recorded an unrealized gain on the investment in the amount of $63,500.

During the six month period ended June 30, 2019, deposits in the amount of $137,252 were transferred to spare parts inventory. No amounts were recognized as an expense with respect to spare parts inventory; and the Company did not recognize any impairment losses or reversals thereof during the periods presented.

The balance of the non-current deposits as at June 30, 2019 consists of aircraft security deposits in the amount of $3,363,434 (December 31, 2018 - $2,987,722), a deposit on spare parts in the amount of $Nil (December 31, 2018 - $137,252), and a related party security deposit in the amount of $100,000 (December 31, 2018 - $100,000). The increase in deposits during the six month period ended June 30, 2019 in the amount of $238,460 is explained by additional deposits paid in the amount of $506,329, net of the impact of foreign exchange in the amount of $130,617 and the transfer to spare parts inventory in the amount of $137,252. Refer to “Commitments” and “Related Party Transactions” for additional detail on aircraft security deposits and the related party security deposit, respectively.

As at June 30, 2019, the Company’s equipment had a net book value of $33,015 (December 31, 2018 - $23,883). During the six month period ended June 30, 2019, the Company purchased additional equipment in the amount of $16,020 and recorded depreciation expense in the amount of $6,888 for a net increase in the amount of $9,132 to equipment.

Liabilities

During the six month period ended June 30, 2019, accounts payable and accrued liabilities increased by $599,123 which is explained by increased corporate, operational and commercial activities and the timing of payments to third parties. As at June 30, 2019, accounts payable and accrued liabilities include $327,182 (December 31, 2018 - $Nil) with respect to a fee in the amount of US$250,000 in connection with subscription receipts issued to SmartLynx.

As at June 30, 2019, the balance due to related parties in the amount of $162,295 (December 31, 2018 - $242,029) relates to services rendered to or expenses incurred on behalf of the Company which were unpaid at period-end. For further details with respect to related party balances and transactions, refer to “Related Party Transactions”.

As at June 30, 2019, the balance of the future reclamation provision was $Nil (December 31, 2018 - $20,807). During the six month period ended June 30, 2019, the estimate of future reclamation costs was revised to $Nil and the change in estimate in the amount of $20,807 was included in the gain from discontinued operations in the condensed interim consolidated statements of loss and comprehensive loss. Refer to “Review of Consolidated Financial Results”.

Equity

Share capital increased by $4,868,357 during the six month period ended June 30, 2019 and is explained by proceeds received from share issuances ($4,560,249) and fair value adjustments for stock options and warrants exercised ($318,125), net of share issue costs paid ($6,990) and the fair value of additional agent share purchase warrants issued ($3,027). Equity transactions are further detailed in “Share Capital”.

Reserves decreased by $138,725 during the six month period ended June 30, 2019 and is explained by the fair value adjustments for stock options and warrants exercised ($318,125), net of the fair value of additional agent share purchase warrants issued ($3,027) and share-based payments related to stock options and restricted share units ($453,823).

Deficit increased by the loss for the six month period ended June 30, 2019 in the amount of $4,613,258.

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

Under the Company's Articles, the variable voting shares carry one vote per variable voting share held, subject to an automatic reduction of the voting rights attached to variable voting shares in the event any of the applicable limits are exceeded. In such event, the votes attributable to variable voting shares will be affected as follows:

- first, if required, a reduction of the voting rights of any single non-Canadian owner (inclusive of any single non-Canadian owner authorized to provide air service) carrying more than 25 per cent of the votes (the "Stage 1 Reduction") to ensure that such non-Canadian owners never carry more than 25 per cent of the votes that holders of voting shares cast at any meeting of shareholders;

- second, if required and after giving effect to the Stage 1 Reduction, a further proportional reduction of the voting rights of all non-Canadian owners authorized to provide an air service to ensure that such non-Canadian owners authorized to provide an air service (the "Stage 2 Reduction"), in the aggregate, never carry more than 25 per cent of the votes that holders of voting shares cast at any meeting of shareholders;

- third, if required and after giving effect to the Stage 1 Reduction and the Stage 2 Reduction if any, a proportional reduction of the voting rights for all non-Canadian owners as a class (the "Stage 3 Reduction") to ensure that non-Canadians never carry, in aggregate, more than 49 per cent of the votes that owners of voting shares cast at any meeting of shareholders.

The Company has securities outstanding as follows:

Security Description	**As at June 30, 2019**
Common voting shares – issued and outstanding	70,780,413
Variable voting shares – issued and outstanding	13,533,169
Variable voting share issuable for subscription receipts(1)	22,727,272
Voting Shares issuable on vesting of restricted share units	2,900,000
Voting Shares issuable on exercise of stock options	5,265,000
Voting Shares issuable on exercise of warrants	6,276,441
Voting Shares – fully diluted	121,482,295

(1) Terminated subsequent to the six month period ended June 30, 2019.

Share Issuances

During the six month period ended June 30, 2019:

- The Company issued 996,250 shares for gross proceeds of $270,750 pursuant to the exercise of 996,250 stock options. The fair value of the stock options in the amount of $98,201 was credited to share capital.

- The Company issued 9,368,721 shares for gross proceeds of $4,289,499 pursuant to the exercise of 9,368,721 share purchase warrants. The fair value of the share purchase warrants in the amount of $219,924 was credited to share capital.

- The Company incurred share issue costs in the amount of $6,990 in connection with the issuance of shares.

Subscription Receipts

During the year ended December 31, 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 per Subscription Receipt for gross proceeds of $7,500,000 (the "Offering"). The gross proceeds were held in trust by an escrow agent. Subsequent to the six month period ended June 30, 2019, the Company and SmartLynx restructured the Offering, and as a result the gross proceeds were returned to SmartLynx from escrow in addition to a fee in the amount of US$250,000 paid by the Company. The Offering was restructured such that the gross proceeds of $7,500,000 will be provided by SmartLynx under the terms of a convertible debenture. As at June 30, 2019, the balances of restricted cash and accounts payable and accrued liabilities include $327,182 (December 31, 2018 - $Nil) with respect to the fee payable to SmartLynx in the amount of US$250,000.

RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying condensed interim 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 six month periods ended June 30, 2019 and 2018 is summarized as follows:

		Six month period ended June 30, 2019		Six month period ended June 30, 2018
Short-term benefits [(1)]	$	1,099,011	$	734,913
Share-based payments		409,257		174,546
	$	1,508,268	$	909,459

[(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 six month periods ended June 30, 2019 and 2018 include the following:

		Six month period ended June 30, 2019		**Six month period ended June 30, 2018**
King & Bay West	$	525,720	$	448,353

As at June 30, 2019 and December 31, 2018, 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 June 30, 2019, the balance of restricted cash includes $100,000 (December 31, 2018 - $500,000) pursuant to an employment agreement between the Company and its Chief Executive Officer, Javier Suarez. The future payment of the restricted funds to the Chief 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 $150,000 upon the occurrence of certain events, including the receipt of the Air Operator Certificate by Jetlines Operations.

As at June 30, 2019, amounts due to related parties include the following:

- MJM Consulting Corp., an entity owned by Mark Morabito, Executive Chair of the Company - $19,748 (December 31, 2018 - $8,737) in relation to expenses incurred on behalf of the Company.

- King & Bay West - $101,203 (December 31, 2018 - $225,572) in relation to the services described above.

- Javier Suarez, Chief Executive Officer of the Company - $3,364 (December 31, 2018 - $4,088) in relation to expenses incurred on behalf of the Company.

- Protop Limited or Adsajama Consultancy Ltd., entities owned by Alan Bird, Director of the Company - $6,543 (December 31, 2018 - $3,559) in relation to consulting and advisory services provided to the Company.

- Philip Larsen, Vice President of Maintenance of the Company - $156 (December 31, 2018 - $73) in relation to expenses incurred on behalf of the Company.

- Zygimantas Surintas, Director of the Company - $17,559 (December 31, 2018 - $Nil) in relation to accrued director fees.

- Alan Bird, Director of the Company - $8,220 (December 31, 2018 - $Nil) in relation to expenses incurred on behalf of the Company.

- Deborah Robinson, Director of the Company - $1,935 (December 31, 2018 - $Nil) in relation to expenses incurred on behalf of the Company.

- Jason Grant, Director of the Company - $2,437 (December 31, 2018 - $Nil) in relation to expenses incurred on behalf of the Company.

- Saad Hammad, Director of the Company - $1,130 (December 31, 2018 - $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.

Transactions with related parties, are described above, were for services rendered to the Company in the normal course of operations, and were measured based on the consideration established and agreed to by the related parties. All services were made on terms equivalent to those that prevail with arm's length transactions.

GOING CONCERN

The accompanying condensed interim consolidated financial statements of the Company 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 June 30, 2019, the Company had working capital of $1,305,236 and a deficit of $23,457,169. 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, fulfill commitments with respect to aircraft, and for general and administrative expenditures and working capital. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the accompanying condensed interim 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 condensed interim consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The accompanying condensed interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed interim 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 condensed interim consolidated financial statements requires management to make judgments regarding the going concern of the Company, as discussed in Note 1 of the condensed interim 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.

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 audited consolidated financial statements for the year ended December 31, 2018 and have been consistently followed in the preparation of the accompanying condensed interim consolidated financial statements, except as outlined below.

Leases

Effective January 1, 2019, the Company adopted IFRS 16, *Leases* ("IFRS 16") which replaces IAS 17, *Leases* ("IAS 17") and its associated interpretative guidance. IFRS 16 introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases but can elect to exclude those with a term of less than 12 months, or those where the underlying asset is of low value. A lessee is required to recognize a right of use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have also been impacted, including the definition of a lease. Transitional provisions have been provided.

No transitional adjustment was required upon adoption of IFRS 16 on January 1, 2019. Refer to the accompanying condensed interim consolidated financial statements for additional disclosure with respect to IFRS 16.

Spare parts inventory

Inventories of spare parts are measured at cost being determined using a specific identification basis, net of related obsolescence provision, as applicable.

FINANCIAL INSTRUMENTS

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk, price 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 June 30, 2019, a 10% change in the Canadian dollar versus the US dollar would give rise to a gain/loss of approximately $320,000 based on US dollar denominated monetary assets and liabilities.

(c) Price risk

The Company is exposed to price risk with respect to its investment in Voleo. The Company closely monitors those prices to determine the appropriate course of action to be taken by the Company. There can be no assurance that the Company can exit its position, if required, resulting in proceeds approximating the carrying value of these securities.

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. Please refer to the Company's MD&A for the year ended December 31, 2018 for a description of the more prominent risk factors that may materially affect the Company's future performance, in addition to those referred to above.

COMMITMENTS

Convertible Debentures

The Company entered into subscription agreements with InHarv and SmartLynx with respect to convertible debentures for total financing of $14,500,000. The SmartLynx portion of the financing is the result of the restructuring of the terms of the Offering.

The offering with InHarv, on behalf of a South Korean special purpose fund (the "SPV Fund"), for a financing of $7,000,000 will consist of 7,000 units (each, an "InHarv Unit"), with each InHarv Unit comprised of one $1,000 principal amount debentures and 2,439.02439 variable voting share purchase warrants (each, an "InHarv Warrant"), and with each InHarv Warrant entitling the holder thereof to acquire one variable voting share of the Company (each, an "InHarv Warrant Share") at a price of $0.41 per InHarv Warrant Share for a period of 36 months from the date of closing. The Company will issue a total of 17,073,170 InHarv Warrants to the SPV Fund as part of the InHarv Units subscribed for by the SPV Fund.

The offering with SmartLynx for a financing of $7,500,000 will consist of 7,500 units (each, a "SmartLynx Unit"), with each SmartLynx Unit comprised of one $1,000 principal amount debentures and 2,439.02439 variable voting share purchase warrants (each, a "SmartLynx Warrant"), and with each SmartLynx Warrant entitling the holder thereof to acquire one variable voting share of the Company (each, a "SmartLynx Warrant Share") at a price of $0.41 per SmartLynx Warrant Share for a period of 36 months from the date of closing. The Company will issue a total of 18,292,682 SmartLynx Warrants to SmartLynx as part of the SmartLynx Units subscribed for by SmartLynx.

The terms of the debentures include: (i) a maturity date on such date that is 36 months from the date of issuance of the debentures and the principal amount of the debentures, together with any accrued and unpaid interest thereon, will be payable on the maturity date, unless earlier converted in accordance with its terms; (ii) each draw of the principal amount will accrue interest ("Interest") from the drawdown date of such draw at the rate of 10% per annum, which Interest will be payable in cash annually on the anniversary date of the drawdown date of such draw, and on the conversion date or the maturity date, as the case may be; (iii) all or a portion of the principal amount outstanding is convertible into variable voting shares of the Company at the option of the holder at a conversion price of $0.41 per share; and (iv) the debentures are subject to an origination fee of 5%, payable in shares on each drawdown date at an issue price equal to the market price at the time of such drawdown date. The funds will be available for drawdown based on the satisfaction of certain conditions. 70% of the proceeds shall be available for drawdown by the Company once it has completed total financings for gross proceeds of $40,000,000 on or before September 1, 2019. In addition, the Company will be required to receive from the Canada Transportation Agency an order allowing it to sell tickets for airline travel. The remaining 30% of the proceeds shall be available for drawdown upon the receipt by the Company's subsidiary, Jetlines Operations, of its Air Operator Certificate from Transport Canada. The obligation of the Company to repay the principal amount and all unpaid Interest thereon will be secured by a security interest granted by the Company over all of the Company's present and after-acquired property pursuant to a general security agreement to be entered into.

These conditions include, among other things, approval of the TSX Venture Exchange, the execution of security documents and an investor rights agreement and the receipt of all other necessary consents, approvals and authorizations required by either party.

Airbus Lease Agreements

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"). During the six month period ended June 30, 2019, the Airbus Lease Agreements were terminated.

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.

SmartLynx Lease Agreements

The Company executed definitive aircraft lease agreements with SmartLynx with respect to two Airbus A320 aircraft each for a period of 12 months to commence on November 1, 2019 (the "SmartLynx Lease Agreements").

The Company's commitments with respect to the SmartLynx Lease Agreements are summarized in the tables below.

Due Date	Security deposits
Three (3) business days following the execution of a letter of intent	US$380,000 (paid)
Three (3) business days following authorization to sell tickets, on or before September 1, 2019	US$380,000
Three (3) business days prior to aircraft delivery	US$380,000

During the six month period ended June 30, 2019, the Company paid security deposits in the amount of $506,329 (US$380,000) with respect to the SmartLynx Lease Agreements.

Year ending December 31,		Aircraft lease(1)
2019	US$	863,640
2020		4,318,200
	US$	5,181,840

(1) Includes minimum monthly base rent and maintenance contributions.

The Company has not hedged its exposure to exchange rate fluctuations between the US and Canadian dollar with respect to the SmartLynx Lease Agreements. The payments are denominated in US dollars and therefore, the Company is exposed to fluctuations in the exchange rate between the Canadian dollar and the US dollar. Assuming an exchange rate where US$1 equals CAD$1.3087, a 10% increase or decrease in the exchange rate will increase or decrease the future cash flows by approximately CAD$780,000.

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 Company has communicated to Boeing that the Boeing Agreement is 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 six month period ended June 30, 2019:

- The Company issued 30,000 shares for gross proceeds of $9,000 pursuant to the exercise of 30,000 stock options.
- The Company issued 216,300 shares for gross proceeds of $81,113 pursuant to the exercise of 216,300 share purchase warrants.
- The Company and SmartLynx restructured the Offering, and as a result the gross proceeds were returned to SmartLynx from escrow in addition to a fee in the amount of US$250,000 paid by the Company. Refer to "Share Capital" for additional detail.
- In connection with the restructuring of the Offering, the Company executed a subscription agreement with SmartLynx for financing of $7,500,000 in the form of convertible debentures. Refer to "Commitments" for additional detail.
- The Company granted 225,000 stock options with an exercise price of $0.445 and term of five 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.