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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

September 6, 2017

Canada Jetlines Ltd. (TSXV: JET): Ultra – Low Cost Airline Start-up in Canada - Initiating Report

Industry: Airlines **www.jetlines.ca**

Market Data (as of September 6, 2017)

Current Price	**C$0.26**
Fair Value	**C$3.03**
Rating*	**BUY**
Risk*	**4 (Speculative)**
52 Week Range	C$0.17 – C$0.32
Shares O/S	57,661,409
Market Cap	C$14.99 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.2x
YoY Return	n/a
YoY TSXV	-6.2%

*see back of report for rating and risk definitions

Investment Highlights

- Canada Jetlines Ltd. (“company”, “Jetlines”) was formed to become Canada’s first successful ultra - low cost carrier (“ULCC”) airline. The ULCC model has been proven to be highly successful globally.
- We believe the Air Canada / WestJet duopoly results in high airline prices in Canada. Jetlines has the potential to be a cost leader.
- Canada Jetlines will be able to generate new passenger growth in the domestic market via low airfare pricing.
- Management has extensive airline industry experience, which we believe is crucial in the pre-revenue stage.
- Canada Jetlines received an exemption order increasing the foreign ownership limit to 49%, up from 25%. This will allow the company to access international capital for investment.
- The company expects to receive the required licensing and complete the airline build-out for an operational launch in 2018.
- With working capital of $4.28 million at the end of Q2, the current Enterprise Value (‘EV”) of Jetlines is just $10.72 million. We believe this offers investors a very attractive entry point to obtain exposure to the untapped Canadian ULCC market.
- **We are initiating coverage with a BUY rating and a fair value of $3.03 per share**

Risks

- The company is in early stages and has yet to commence operations.
- The existing Air Canada / WestJet duopoly dominates the Canadian aviation market.
- Our valuation is dependent on a 2018 launch. Delays or other changes to the operational timeline could significantly impact our valuation.
- Access to capital and share dilution.

Key Financial Data (FYE - Dec 31) (C$)	Q2-2017
Cash	$5,108,804
Working Capital	$4,275,776
Debt	$0
Total Assets	$5,765,146
Net Income (Loss)	-$7,011,005
EPS	-$0.12

Overview

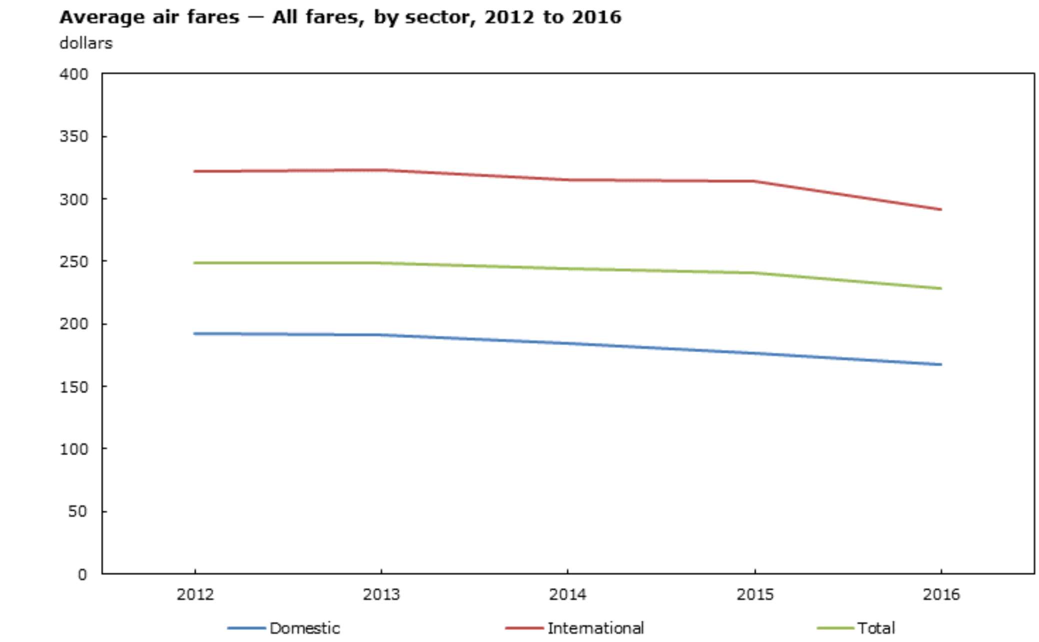
Based out of Vancouver, Canada, and formed in August 2012, Jetlines was taken public via a reverse takeover ("RTO") in February 2017, with a goal of addressing Canadian demand for cheaper airfares. The ULCC business model, which has been highly successful internationally, has yet to be fully established in Canada. This has resulted in a significant segment of the potential airline market that is underserved, as the Canadian aviation industry is effectively controlled by a duopoly consisting of Air Canada (TSE: AC) and WestJet (TSE: WJA). **The lack of competition means that Canadians have little in the way of choice when it comes to airfare pricing.** Jetlines aims to use low airfares to stimulate new demand, whilst simultaneously capturing a share of the domestic aviation market.

Being the only G7 country without a true ULCC airline, Canada is often pointed out as having some of the highest air travel fares in the world. Kiwi.com, an air flight search engine, released an "Aviation Price Index" that **ranked Canada as having the most expensive international flight prices per 100 km flown in 2016**, and ranking Canada 6th most expensive when accounting for domestic flight prices as well. In 2017, Canada ranked 16th in terms of average costs per 100 km, but is still in the highest quartile. By comparison, the U.S. (where there is a well-established ULCC presence) ranked in the lower half of the index at 51st.

#	Country	Short-Haul Flights		Long-Haul Flights		Average cost/100 km
		Low Cost cost/100 km	Full Service cost/100 km	Low Cost cost/100 km	Full Service cost/100 km	
1	Belgium	€79,31	€79,31	€14,23	€27,99	€50,21
2	Netherlands	€73,56	€73,56	€13,55	€39,74	€50,10
3	Qatar	€80,42	€94,04	€11,92	€11,92	€49,58
4	Chile	€11,14	€139,71	€22,98	€22,98	€49,20
5	United Arab Emira	€40,12	€42,34	€35,67	€45,16	€40,82
6	Solomon Islands	€66,13	€66,13	€13,17	€13,17	€39,65
7	Serbia	€68,09	€68,09	€7,56	€7,56	€37,83
8	Austria	€63,27	€63,27	€4,07	€5,62	€34,06
9	Lebanon	€59,82	€59,82	€4,38	€11,70	€33,93
10	Oman	€46,70	€56,73	€9,85	€10,03	€30,83
11	Morocco	€40,19	€40,19	€19,05	€19,05	€29,62
12	Australia	€38,39	€48,06	€8,90	€12,74	€27,02
13	South Korea	€36,31	€38,15	€7,70	€14,16	€24,08
14	Taiwan	€28,32	€32,00	€11,94	€20,06	€23,08
15	Denmark	€30,49	€45,29	€1,78	€10,85	€22,10
16	Canada	€10,33	€24,97	€18,56	€33,02	€21,97
17	Pakistan	€14,52	€45,50	€13,56	€13,56	€21,79
18	Argentina	€15,20	€15,20	€27,68	€28,14	€21,56
19	Albania	€33,76	€33,76	€9,26	€9,26	€21,51
20	Switzerland	€24,11	€34,82	€8,76	€18,13	€21,46

Source: Kiwi.com

Airfares have remained largely stagnant, with only a modest reduction over the last few years (which we believe is a result of the weakness in oil prices):



Source: Statistics Canada

Jetlines intends to disrupt the airline market via a model focused on being the lowest cost airline in Canada, in order to offer the lowest fares and allowing customers to purchase tickets at a base fare and pay for the additional services they desire. **The company forecasts that their costs could be over 30% lower than West Jet and Air Canada's, and even lower than the costs of ULCCs south of the border.**

Source: Company

On May 16, 2016, the company submitted a request for an exemption order regarding the restrictions on foreign ownership. As foreign ownership of Canadian airlines is limited to 25%, the company requested an increase to 49%. On December 2, 2016, the exemption order was issued, and granted for a five year period ending December 1, 2021. The exemption order outlines the following conditions:

- At all times, Canadians must own 51% of voting interest.
- No single foreign entity may own greater than 25% of voting interest.
- No non-Canadian airline or affiliate may own greater than 25% of voting interest.

With the limit raised, Jetlines should be able to access more foreign capital. This is a boon for the pre-operating airline as a significant amount of funding is required to complete the airline build-out and adhere to domestic licensing financial capability requirements. The company estimates that a further $43 million is required before Canada Jetlines can begin operations, likely with two aircraft initially. **Regarding Jetlines' future fleet, the company has entered into a purchase agreement with Boeing (NYSE: BA) for the delivery of five aircraft for 2023, with the option to purchase up to 16 aircraft more.** The company expects that they will be increasing the fleet incrementally at a rate of two aircraft every six months. The main aircraft to be used in the initial fleet will be the Boeing 737 - 800 series. Canada Jetlines hopes to fulfill the Canada Transportation Agency's (CTA) licensing requirements, and complete the airline build-out for an operational launch in 2018.

Planned Routes

The following visual gives a conceptual insight to the planned routes that Jetlines intends to offer:

Source: Company

Jetlines intends to run their operations out of a Southern Ontario airport, with Kitchener or Hamilton being potential candidates. This will help them avoid higher fees at airports such as Pearson or YVR, whilst allowing them to address catchment passenger demand directly.

Once it receives its license to operate domestically, Jetlines plans to apply for international licenses to operate flights to other parts of North America. These include potential applications to the U.S. Department of Transportation to receive a foreign carrier license or exemption order that would allow Jetlines to operate routes to U.S. destinations. Due to the current open skies agreement between Canada and the U.S., we believe Jetlines should obtain a U.S license with relative ease. We believe this would help the company cater to catchment passengers who are within driving distance of U.S. border airports. Also being considered are potential applications to Mexican and Caribbean Basin authorities in order to operate routes to destinations in those regions for the future.

ULCC Model

The ULCC model is an airline business model that emphasizes the reduction of costs in order to minimize air fare charged to customers, whilst earning ancillary revenues via the sale of services and products not included in the base air fare. By offering unbundled services at a lower headline price, ULCCs are able to attract customers who are willing to forego certain amenities for a lower minimum price, a demographic that is largely underserved by full cost carriers and even low-cost carriers that do not unbundle their services to an extent that ULCCs do.

This model has proven to be highly profitable, as shown by other ULCCs like Spirit Airlines (Nasdaq: SAVE), Ryan Air (ISE: RY4C), Air Asia (KLSE: AIRASIA) and others. The ULCC model exhibits the following traits:

- **Standardization** across plane size and seating options.
- Providing flights to **underserved** areas, catchment areas, and secondary airports.
- Maintaining a **lower full-time employee count**, and paying lower wages than those paid by larger full cost carriers.
- Internet based sales with extensive use of mobile apps.
- More effective **yield management**: yield management in the airline industry refers to variable pricing based on anticipation of consumer demand. This often manifests itself as offering reduced prices farther out from the flight date to attract more price sensitive leisure travellers, and increasing prices closer to the flight date to take advantage of more price inelastic business travellers.
- **Extreme unbundling**: exclude almost all costs to the point that headline fares include, in some cases, only seats. Extra charges can then be applied for services such as luggage, carry-on bags, inflight food and beverage etc. These extra charges are optional (though sometimes a necessity) and are often offered at a premium. This allows ULCCs to maximize base revenue whilst also providing significant ancillary revenue from extra charges that customers are likely to pay. **For example, in 2016, Spirit Airlines had passenger and non-ticket revenues of US$1.2 billion and US$1.1 billion respectively, demonstrating the significance of ancillary revenues in the ULCC model.**

The model is highly profitable, with Airline Weekly showing that, **in 2016, three out of four of the most profitable airlines in the world were ULCCs.** These airlines were Allegiant

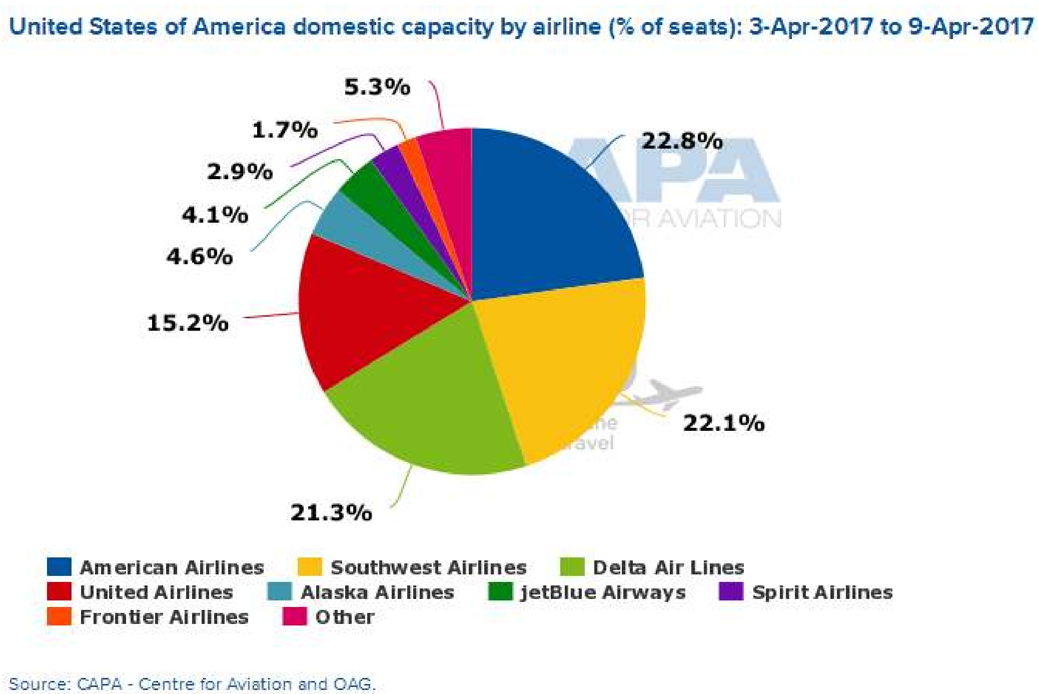
(NASDAQ: ALGT), Ryan Air, and Spirit Airlines. The following table demonstrates the profitability of ULCCs in 2016:

Airline (ULCC)	2016 Revenues (US$ millions)	2016 Net Profit (US$ millions)	2016 Net Margin
Spirit Airlines	$ 2,322.00	$ 264.90	11.4%
Ryan Air	$ 7,673.80	$ 1,830.60	23.9%
Allegiant Air	$ 1,361.80	$ 219.60	16.1%
Air Asia	$ 1,653.60	$ 477.80	28.9%
Air Canada	$ 11,659.20	$ 695.90	6.0%
WestJet	$ 3,275.50	$ 234.70	7.2%

Source: S&P Capital IQ

Industry Overview

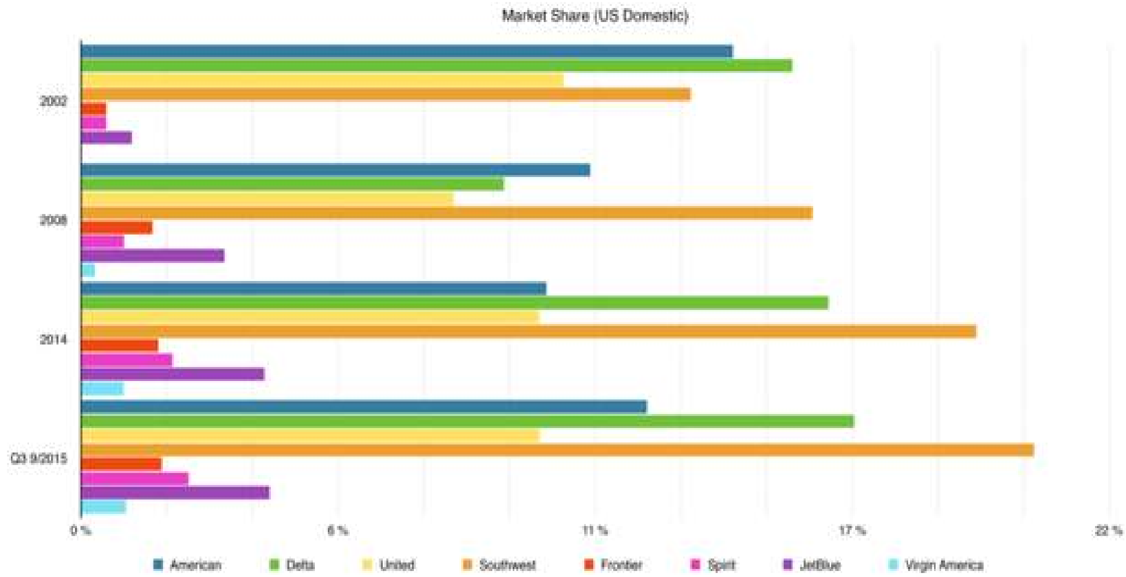
The U.S. aviation market is characterized by a significantly higher degree of market fragmentation than the Canadian market. Where Canada's airline industry is dominated by the Air Canada/ WestJet duopoly, the U.S. market is split up between a myriad of premium/ full service carriers, low cost carriers, and ULCCs. The following chart gives a breakdown:



Source: CAPA (Centre for Aviation)

This market share distribution is increasingly being skewed towards carriers with lower costs, as competition saps the ability of higher cost carriers to charge high airfares. We believe that this could be indicative of the changes that could arise in the Canadian market if a ULCC model is introduced. American ULCCs such as Spirit and Frontier continue to grow their share of the domestic aviation market, as shown below:

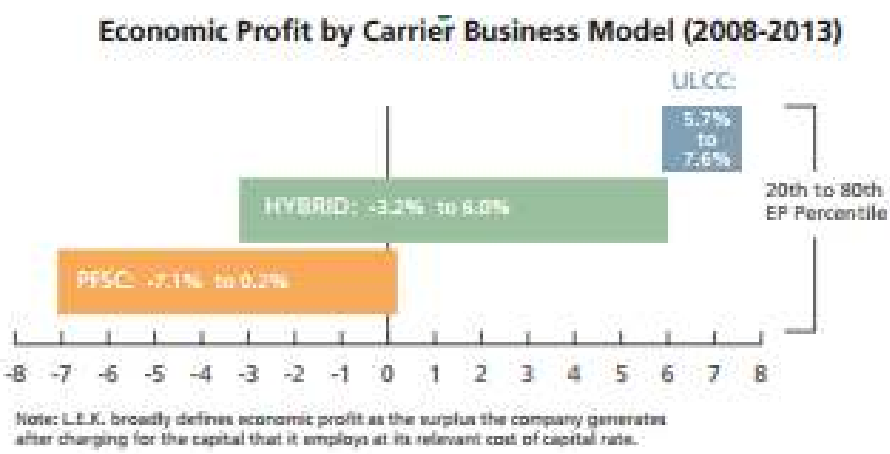
US Domestic Airline Market Share by Carrier



Source: Skift Research

These ULCCs had a combined market share of between 1% and 2% in 2002, according to Skift Research. However, in 2015, this had grown to roughly 5% - 6%. The CAPA graph (previous page) also indicates a similar market share, with Frontier Airlines and Spirit Airlines having 4.6% of the U.S. airline market in 2017.

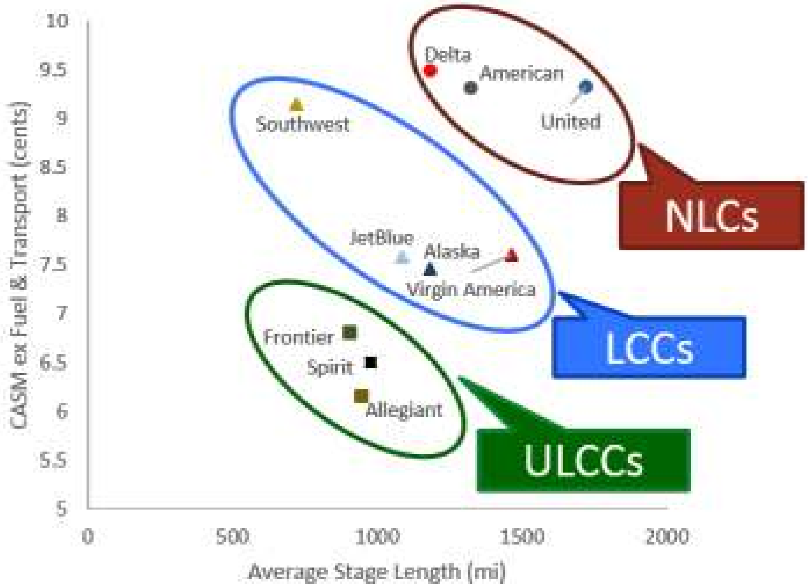
The ULCCs have demonstrated their ability to generate superior economic profits (profits in excess of implicit and explicit costs). The chart below demonstrates that the ULCC airline models generate the highest surplus returns in excess of costs of capital.



**PFSC - Premium Full Service Carrier*

Source: L.E.K Consulting

The chart below compares the average flight length versus airline costs. The cost savings are significant for ULCCs, with a MIT paper finding that *"In 2015, ULCC presence in a market was associated with market base fares 21% lower than average"* (Bachwich & Wittman, 2016).



Source: US DOT Form 41 via MIT airline data project

If we take the following estimates from a 2008 IATA study on airfare price elasticities, a 21% decrease in airfares could induce as much as a 31.5% increase in air travel. Though this source is dated, we believe the information is relevant and allows us to illustrate the relationship between airfare pricing and passenger demand. **If we take Jetline's estimates of having costs 30% lower than the current costs, then their price stimulation could lead to an increase of 45% in new air travelers**. Note that we used the short-haul, intra North America elasticity estimate in the table below, at the route / market level (elasticity of -1.5).

	Route/Market level		National level		Supra-national level	
	Short-haul	Long-haul	Short-haul	Long-haul	Short-haul	Long-haul
Intra N America	-1.5	-1.4	-0.9	-0.8	-0.7	-0.6
Intra Europe	-2.0	-2.0	-1.2	-1.1	-0.9	-0.8
Intra Asia	-1.5	-1.3	-0.8	-0.8	-0.6	-0.6
Intra Sub-Saharan Africa	-0.9	-0.8	-0.5	-0.5	-0.4	-0.4
Intra S America	-1.9	-1.8	-1.1	-1.0	-0.8	-0.8
Trans-Atlantic	-1.9	-1.7	-1.1	-1.0	-0.8	-0.7
Trans-Pacific	-0.9	-0.8	-0.5	-0.5	-0.4	-0.4
Europe-Asia	-1.4	-1.3	-0.8	-0.7	-0.6	-0.5

Source: IATA

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The below table provides a snapshot of the U.S. airline industry:

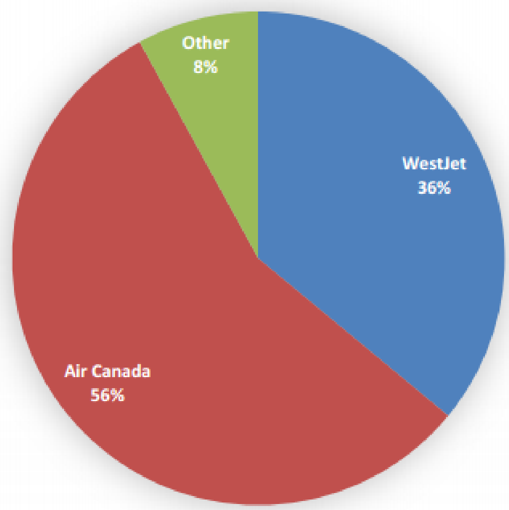
(LTM)	Global Airline Industry	Spirit Airlines	Allegiant Airlines	Ryan Air
Revenue (US$, Billions)	N/A	$ 2.49	$ 1.44	$ 8.26
Revenue Growth (3 Year CAGR)	0%	11.2%	10.9%	9.8%
Gross Margin	16.6%	37.3%	37.9%	37%
EBITDA Margin	13.4%	20.4%	29.5%	32%
Net Margin	3.9%	9.6%	12.2%	21%
Current Ratio	0.7	1.8	0.9	1.4
Debt-Capital Ratio	76.3%	44.0%	65.6%	50%
LT Debt-Capital Ratio	25.2%	40.4%	56.9%	45%
Interest Coverage Ratio	3.2	12.1	10.3	26.2
ROA	4.3%	8.1%	12.3%	9%
ROE	15.9%	17.1%	40.8%	36%
ROC	7.2%	11.1%	17.0%	13%
EV/ R	1	1.1	1.7	3.1
EV/ EBITDA	6.3	5.3	5.7	9.8
P/ E	11.5	10.4	11.2	15.3
P/B	2.1	1.6	4.2	5.1

Source: Date gathered from S&P Capital IQ

As shown above, ULCCs exhibit significantly higher margins, due to their lower costs. Furthermore, ULCC airlines also appear to be significantly more liquid and solvent than the broader market**. Perhaps most important for investors is that ULCCs generate a considerably higher return than the industry average.** However, from a valuation standpoint, there does not seem to be any significant difference in trading multiples. Despite ULCC airlines exhibiting superiority in selected ratios, their shares appear to be trading in line with the airline industry.

The ULCC business model has been successful south of the border, but that same success has not yet found its way to Canada. The competition posed by the existence of multiple ULCCs in the U.S. is noticeably absent; it is estimated that the **two largest airlines in Canada control approximately 92% of the domestic aviation market, as measured by available seat miles (ASM).** What little is left is held by smaller niche airlines like Porter Airlines and Air Inuit (regional airlines that service Northern Canada), where lack of dense population centers warrants less air traffic and attention from the two major Canadian carriers. The following graph breaks down domestic market share by airline.

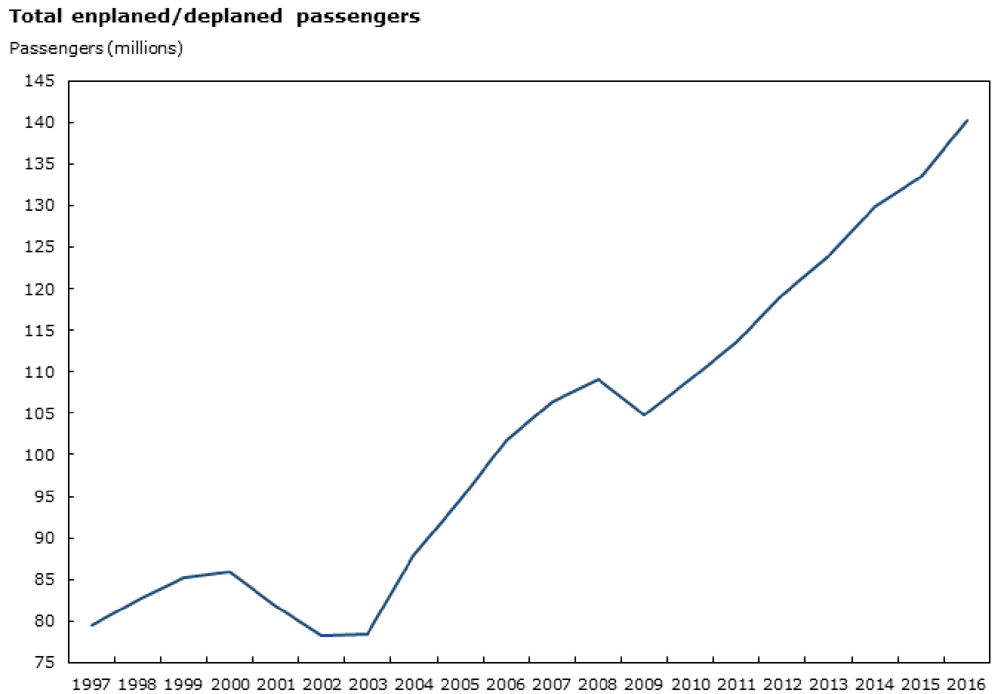
Estimated Domestic Scheduled Capacity Market Share



Source: Air Canada

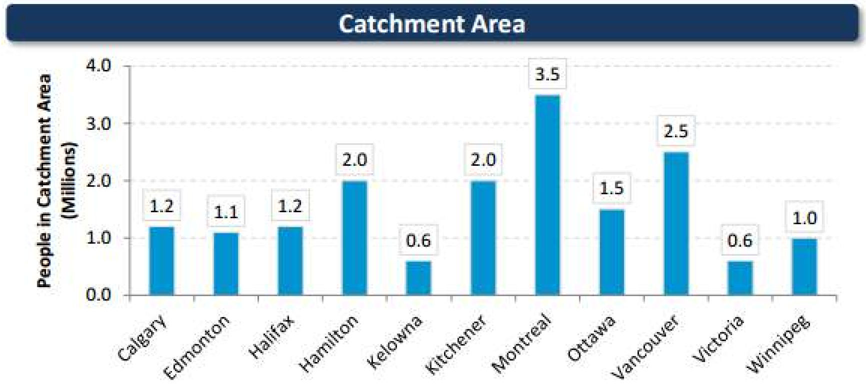
We estimate that the Canadian airline market size is approximately $7.9 billion. This estimate was based on Air Canada's 2016 domestic revenues of $4.4 billion, and their reported 56% domestic market share. Our research also indicates that the market grew at 4% - 5% p.a. from 2011 to 2016. We believe the market growth rate will be significantly higher should there be new entrants offering notably lower pricing.

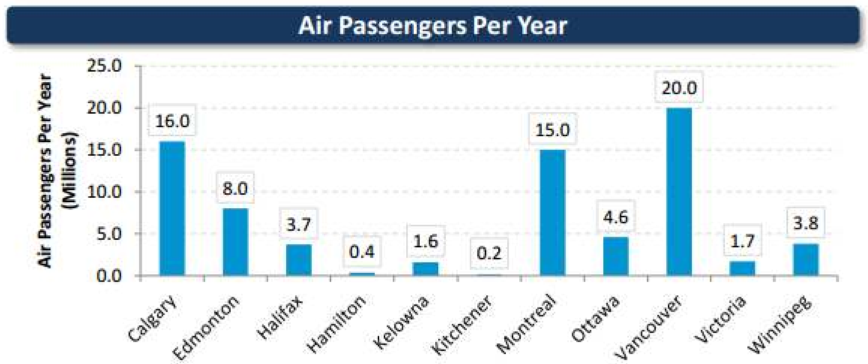
In 2016, Statistics Canada reported that enplaned and deplaned domestic passengers totaled close to 83.4 million, an increase of 4.8% from the previous year. We believe halving the 83.4 million figure to 41.7 million more accurately captures the numbers of domestic air passengers in Canada. Similarly, we estimate that the number of trans border (U.S.) passengers was 13.6 million, and international passengers was another 14.9 million in 2016.



Source: Statistics Canada

A 2012 report by the Conference Board of Canada found that as many as 5 million Canadians cross the border by land in order to fly from U.S. airports on an annual basis. Approximately 75% of Canadians live within 160 km of the U.S. / Canada border, according to various sources. This proximity to the U.S., increases the degree of substitution between U.S. and Canadian airlines, since most Canadians have the option to drive within a few hours to an American airport with ULCC options. Therefore, the emergence of a Canadian ULCC market which offers significantly lower prices is likely to repatriate some of the passenger leakage, especially in catchment areas. The graph below demonstrates that catchment populations could potentially form a significant portion of air passengers for Jetlines.





Source: Company

Jetlines estimates that it could have 1.8 million passengers by the end of its first full year of operations (a small fraction of total domestic passengers), and that this figure could grow by 500,000 to 750,000 passengers per year.

Barriers to Entry

Barriers to entry are significant. One of the reasons for this lies in federal regulations regarding the foreign ownership of Canadian airlines. Previously, Canadian airlines were restricted to a maximum of 25% foreign ownership. Despite their exemption from the Minister of Transport, and subsequent increase in foreign ownership limit from the regular 25% to 49%, this still limits the financing universe available to Jetlines.

High air fares and additional charges in Canada deters cost-conscious travellers. The BC Chamber of Commerce reports that domestic travel within Canada includes the following additional fees and taxes on top of base fare:

- 5 - 15% sales taxes
- An Air Travellers Security Charge (ATSC) of $7.12 per chargeable enplanement, up to a maximum of $14.25. For destinations outside of Canada, this charge is $12.10 per enplanement up to a maximum of $24.21.
- Airport improvement fees. There is no general limit, but Air Canada reports that these fees can range from anywhere from $4 to $40.
- NAV Canada fees: charges for the navigation of aircraft in Canadian airspace.

Compare this to the U.S., which has additional charges on domestic travel of:

- 7.5% sales tax
- $3 domestic passenger federal flight segment tax.
- $4.50 to airport improvement fees per enplanement, to a maximum of $18

The B.C. Chamber of Commerce stated that a Canadian would face an extra $165 on top of their base $600 fare (a 27% extra charge), whereas the U.S. flyer saw an extra $69 (a 11.5% extra charge). This indicates that a Canadian ULCC could still lose Canadian passengers to U.S. airlines, if the pricing differential is not significant enough to justify crossing the border.

Furthermore, the CTA requires that airlines hoping to receive a license to carry out large aircraft operations domestically must be able to satisfy minimum financial capability requirements. These requirements entail that the airline must be able to provide sufficient funding for the start-up and operation of services for a 90 day period assuming zero revenue. This requires Canadian airline start-ups to raise a significant amount of capital in the pre-revenue stage. **In an industry that already demands a significant amount of capital expenditure; the need to demonstrate initial operating capability could also raise barriers to entry.**

Jetlines also faces minor competition from Flair Airlines. On June 27, 2017, Flair Airlines purchased low air fare ticket reseller NewLeaf Travel company, and claimed to be Canada's first ULCC. Based in Kelowna, the airline operates four Boeing aircraft for commercial passengers and has flown over 250,000 passengers since July 2016. **However, our research into the company's pricing indicates that there isn't a significant differential between Flair Airline's prices and existing airfares.** It would also appear the company has stopped marketing itself as a ULCC airline, which would reflect the lack of distinction between their prices and existing prices.

Established air carrier WestJet is also gearing up to introduce the ULCC model. Initially aiming for a late 2017 release, WestJet has pushed back their anticipated launch date to summer 2018 (similar to Jetlines), and plans to unveil a 10 plane fleet. This poses a threat to Canada Jetlines, as a ULCC launched under the WestJet umbrella will have access to an established network of resources**. However, a recent vote by WestJet pilots to unionize could jeopardize WestJet's ability to charge ULCC air fares.** This is due to common employer status regulations that transfer employment agreements to subsidiaries of parent companies.

A common risk in the aviation industry is the risk posed in oil price volatility. A large component of recent increases in airline profitability has been due to decreases in the price of fuel. The following table summarizes the fuel contribution margin and estimated fuel cost in the global aviation industry:

Year	% of Operating Costs	Average Price per Barrel of Crude (US$)	Break-even Price per Barrel (US$)	Total Fuel Cost
2004	17.3%	US$38.3	US$34.7	US$65 billion
2005	22.0%	US$54.5	US$52.0	US$91 billion
2006	27.2%	US$65.1	US$68.1	US$127 billion
2007	28.6%	US$73.0	US$81.7	US$146 billion
2008	35.7%	US$99.0	US$83.3	US$203 billion
2009	28.2%	US$62.0	US$59.1	US$134 billion
2010	26.9%	US$79.4	US$89.8	US$151 billion
2011	29.8%	US$111.2	US$116.1	US$191 billion
2012	32.3%	US$111.8	US$117.1	US$228 billion
2013	32.0%	US$108.8	US$114.8	US$231 billion
2014	29.3%	US$99.9	US$107.4	US$224 billion
2015	24.3%	US$53.9	US$72.5	US$175 billion
2016E	18.8%	US$44.6	US$61.7	US$133 billion
2017F	17.4%	US$54.0	US$68.7	US$129 billion

Source: IATA

We have a bullish long-term outlook on oil prices. We believe that in the long-run, crude will average between US$60 - US$70 per barrel given fundamentals and market forces. This could see fuel contribution margins and overall fuel costs rising in the future, affecting the profitability and returns of unhedged airline companies. This is largely a short term effect, as after a short time lag, this cost can be offset onto passengers.

Execution Strategy and Growth Catalysts

In the run up to a 2018 launch, the company expects to accomplish the following in coming months:

- Begin international investor marketing and presentations. With the foreign ownership exemption order, Jetlines is working on accessing risk capital abroad.
- Select a focus city within the Greater Toronto Area. This city will act as a hub for the company's operation, and will likely be outside pricier hubs such as Toronto's Pearson Airport or Vancouver's YVR.
- Finalize initial route maps.
- Announce international destinations/ routes.
- Sign LOI (letter of intent) for leased Boeing aircraft. Management believes that the initial fleet will consist of two aircraft around mid-2018, increasing to six by the end of the year. The fleet should increase to 12 aircraft by the end of 2020.
- Complete the certification process with the CTA.
- Staff / employee recruitment and training to commence in early 2018.
- Online ticket sales to begin 90 days prior to launch.

Management Background

Canada Jetlines' management team and board of directors have significant capital markets and aviation industry expertise, as demonstrated by their track records. A few directors have also worked directly with the ULCC model during their careers. **The company's board has nine members, of which seven are independent.** We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company.

Management owns 13.6% of the outstanding shares, which we believe strongly aligns management and investors' interests.

Management	Shares	% of Total
Mark Morabito, Executive Chairman & Director	3,900,000	6.76%
Stan Gadek, CEO & Director	2,400,000	4.16%
Dix Lawson, VP Strategic Planning & Cost Control	1,220,000	2.12%
Others	300,000	0.52%
	7,820,000	13.56%

Brief biographies of the management team and board members, as provided by the company, follow:

Mark Morabito, BA, JD - Executive Chairman
Mark Morabito has more than 20 years of experience in the public markets with expertise in raising capital and corporate development. He is the founder of King & Bay West, a merchant bank and technical services company that specializes in identifying, funding, developing and managing high-potential opportunities. Mark has been the principal driving force behind numerous resource development companies including Alderon Iron Ore Corp. and Excelsior Mining Corp., among others. He has raised more than $700 million in capital and commitments to date and has attained two listings on the New York Stock Exchange. Mark has a Bachelor of Arts from Simon Fraser University and completed his Juris Doctor degree at Western University.

Stan Gadek, B.SC, MBA - CEO & Director
Stan Gadek has more than 20 years of experience in the airline industry. He served as President, CEO and CFO of Sun Country Airlines, where he grew revenue and sales, reduced costs and improved customer service, resulting in four consecutive years of profitability. He expanded Sun Country's network to 34 domestic and international destinations and developed a vacation travel division, which created additional revenue diversification. Stan was also the past CFO of AirTran, a 140 Boeing 737 scheduled airline, which was sold to Southwest Airlines in 2011 for more than US$1.3 billion. He has experience with other notable carriers including United Express, a brand of United Airlines, Continental Airlines, and Northwest Airlines.

Carlo Valente, BBA, CA, CPA – CFO
Carlo Valente has nearly two decades of international business development, corporate advisory, M&A, corporate finance and accounting experience. He has served as CFO at five different publicly listed and private companies, leading all financial reporting, management reporting, budgeting, treasury, financial modeling, merger integration, IT system implementation, tax, insurance and administrate matters. He was directly involved in the raising of more than $200 million in capital. He was with PwC for 15 years in both Canada and Europe. Carlo has a Bachelor of Business Administration from Simon Fraser University

and obtained his CA designation in 2000. He is a member of both the Institute of Chartered Accountants of British Columbia and the Canadian Institute of Chartered Accountants.

Dix Lawson, OMM, CD, MPM, PMP, PCIP – VP Strategic Planning and Cost Control
Dix Lawson has more than 30 years of strategic, operational and tactical planning experience in managing and leading projects and programs in the private and public sectors. He has worked on several large projects and programs valued at between $50 million to $80 million, as well as a supply chain re-engineering project that resulted in savings of about $200 million. Dix was the Project Manager of Security for the Vancouver 2010 Olympics. He is a former Canadian Army Officer and is an officer of the Order of Military Merit. He has a Master's Degree in Project Management, maintains his Project Management Professional certification, and has an applied Military Science Diploma from Cranfield University in the UK.

John Stephenson, B.SC – Director
John Stephenson has more than 20 years of senior management and executive experience in the ULCC sector. John was instrumental in the rapid and substantial growth of Wizz Air and EasyJet, two highly successful European ULCCs. In 2006, he joined Wizz Air as Chief Commercial Officer and became Executive Vice President in 2009 until he stepped down in 2016. During his 10-year tenure with Wizz Air, the fleet grew from six to 75 aircraft, revenue increased to more than €1.5 billion and net profit margin grew by more than 15%. John worked at EasyJet from 1997 to 2006 in a variety of roles including Head of Revenue Management, Head of Network and Revenue Management and Acting Commercial Director. He helped EasyJet become one of Europe's most profitable airlines and grow its fleet from three to 100 aircraft. From 1991 to 1997, John was with MVA Consultancy as a consultant in the transport and financial divisions. He obtained his Bachelor of Science degree in mathematics from the University of Brighton.

Jason Grant, BA, MBA – Director
Jason Grant has helped to raise more than US$800 million in aviation and transportation capital over the past 20 years, while working in key financial, operational and leadership roles in the airline, transportation, logistics and private equity sectors. Jason is currently Managing Partner of Headhaul Capital Partners LLC, a New York based private equity investment firm he co-founded in 2014. HeadHaul specializes in acquiring and building businesses in the transportation, logistics and distribution industries. Previously, Jason served as Executive Vice President, CFO and Chief Commercial Officer at United Maritime Group LLC, a Jefferies Capital Partners LLC portfolio company. He was also CFO at Atlas Air Worldwide Holdings, where he helped the company grow its market capitalization by more than 250% to above $1.5 billion. He also led an operational transformation that significantly grew earnings and margins and successfully completed the sale of three operating divisions. Jason also held senior finance roles at both American Airlines and Canadian Airlines. He obtained his Bachelor of Business Administration from Wilfrid Laurier University and has an MBA from Simon Fraser University.

Saad Hammad, BA, MBA – Director
Saad Hammad has more than 30 years of executive, senior management and board

experience, including a proven ability to build a profitable business and create value in the low-cost airline industry. He also serves on the Board of Directors for Pegasus Airlines, a leading low-cost airline in Turkey, and held previous board positions at Air Berlin and Optos Plc, a medical technology company, Saad has a Bachelor of Arts, with Honours, in Politics, Philosophy and Economics at the University of Oxford and obtained his MBA from the INSEAD business school in France.

Réjean Bourque, BAA, ICD.D – Director

Réjean Bourque has more than 35 years of experience in managing large scale and innovative financing, risk and insurance transactions. He currently serves as Senior Vice President of Marsh Canada, a global leader in insurance broking and risk management. Réjean held executive positions with Bombardier in investor and government relations as well as corporate, aerospace and transportation financing. Réjean also sits on the board of Groupe DCM Inc. and served on the boards and executive committees of the Ste-Anne's Hospital Foundation and Fondation Madeli-Aide. He also served on the Board of Directors of a subsidiary of GE Capital for six years. In 2007, he obtained the professional ICD.D designation from the Institute of Corporate Directors.

John Sutherland, CPA, CGA – Director

John Sutherland has served as CFO at a number of publicly listed companies in the transportation, technology and mining sectors, including at Canada Jetlines from July 2015 to February 2017. In his career to date, John helped to take 12 companies public and raised more than $250 million in equity and debt financings. He has served as a director on numerous boards of companies listed on the Toronto Stock Exchange, TSX Venture Exchange and the NYEX Amex. He specializes in audit committee and corporate governance, with specific expertise in M&A.

Deborah Robinson, ICD.D – Director

Deborah Robinson has more than 25 years of experience as a human resources executive, working in dynamic, changing environments. She is the President of Bay Street HR, a company she founded in late 2001. Previously, Deborah was the Executive Director at CIBC World Markets and held senior HR positions at Fidelity Investments and American Express in Boston and New York City. She is a graduate of Rotman School of Corporate Governance, Institute of Corporate Directors, ICD.D, and Institute of Corporate Directors, Human Resources Committee Certification. Deborah is also a director on the board of VIA Rail Canada, where she serves on the Human Resources and Compensation Committee, as well as the Governance and Risk Committee.

Mark Lotz, BBA, CA, CPA - Director

Mark Lotz has more than 22 years of experience as a director and in senior finance roles in the mining industry and related securities businesses. He has been a CFO at a number of publicly listed companies, served as a senior executive officer for two Vancouver-based securities firms and a financial compliance officer for the Vancouver Stock Exchange. He was a member of the Board of Examiners at the Chartered Professional Accountants of British Columbia and author of provincial tax and accounting exams. Mark obtained his Bachelors of Business Administration with a joint major in economics from Simon Fraser

University.

Financials

At the end of Q2-2017 (ended June 30, 2017), the company had cash and working capital of $5.11 million and $4.28 million, respectively. The following table summarizes the company's liquidity position:

(in C$)	Q2-2017
Cash	$5,108,804
Working Capital	$4,275,776
Current Ratio	4.84
LT Debt / Assets	-
Cash from Financing Activities	$6,494,334

With working capital of $4.28 million at the end of Q2, the current EV of Jetlines is just $10.72 million.

The company currently has 6.7 million options outstanding (weighted average exercise price of $0.29 per share) and 30.3 million warrants outstanding.

Valuation

The following table shows our base-case cash projections:

		2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E
	No. of Aircraft (year-end)	2.0	6.0	10.0	14.0	18.0	22.0	25.0	30.0
(a)	Average in the year	1.0	4.0	8.0	12.0	16.0	20.0	23.5	27.5
	Passenger capacity per aircraft	189	189	189	189	189	189	189	189
	Occupancy rate	85%	85%	85%	85%	85%	85%	85%	85%
(b)	Avg no. of passengers per flight (a)	161	161	161	161	161	161	161	161
	Aircraft utilization (block hours per day)	12	12	12	12	12	12	12	12
	No. of flights per day per aircraft	4	4	4	4	4	4	4	4
(c)	Total no. of flights per year per aircraft	1,497	1,497	1,497	1,497	1,497	1,497	1,497	1,497
d = (a x b x c)	Total passengers per year	240,413	961,651	1,923,302	2,884,953	3,846,604	4,808,255	5,649,699	6,611,350
	Average fare (base)	$115	$115	$115	$115	$115	$115	$115	$115
	Average fare (ancillery)	$34	$34	$34	$34	$34	$34	$34	$34
(e)	Average total fare	$149	$149	$149	$149	$149	$149	$149	$149
f = (d x e)	Total Revenues	$35,835,440	$143,341,760	$286,683,520	$430,025,280	$573,367,039	$716,708,799	$842,132,839	$985,474,599
	Operating Costs (all-in)	$31,426,500	$124,448,940	$246,408,901	$365,917,218	$483,010,728	$597,725,776	$695,304,509	$805,517,671
	OPEX / Revenue (all-in)	88%	87%	86%	85%	84%	83%	83%	82%
	EBIT	$4,408,940	$18,892,820	$40,274,619	$64,108,061	$90,356,311	$118,983,023	$146,828,330	$179,956,928
	EBIT Margin	12.3%	13.2%	14.0%	14.9%	15.8%	16.6%	17.4%	18.3%
	Tax	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
	Net Income	$ 3,262,616	$ 13,980,687	$ 29,803,218	$ 47,439,965	$ 66,863,670	$ 88,047,437	$ 108,652,964	$ 133,168,127
	Net Margin	9.1%	9.8%	10.4%	11.0%	11.7%	12.3%	12.9%	13.5%

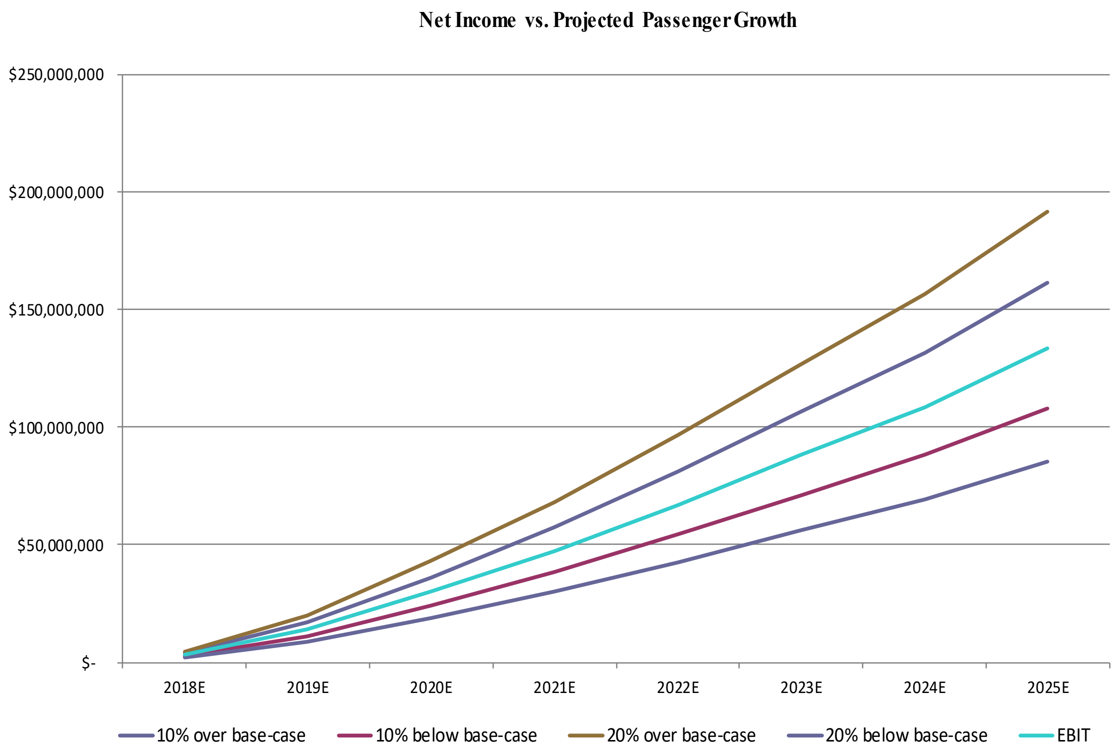
Our projections were based on the following assumptions:

- We believe that a decrease in fares will create significant new demand in the domestic aviation market. Based on our previous discussion on price elasticity of demand, we believe that the domestic airline market of 42 million passengers per year could grow to approximately 80 million by 2025 (based on a price elasticity of 1.5x and an annual industry growth rate of 4% p.a.). Our base-case model assumes that Jetlines will attain a 8% market share, which we believe is a reasonable assumption given the lack of competing ULCC airlines.

- Our average fare projections are based on management's belief that Jetlines' base air fares will be at least 30% lower than the current average. Statistics Canada reported an average domestic air fare of $163.8 in Q4-2016. A 30% discount to this fare reflects an average fare of $114.7 for Canada Jetlines. Added to this are ancillary charges equal to 30% of the base fare, based on management's estimates. We believe that this is both reasonable and conservative, given that many existing ULCCs have higher ancillary revenue contributions.
- Costs estimates are in line with the ULCCs operating in the U.S.

The net present value of the cash flows from our base-case forecasts is $326.67 million based on a discount rate of 20%. Multiple data sources including the return on capital of select ULCCs, were used to arrive at the discount rate. We estimate that the 3-year average return on capital of the ULCC peer group is approximately 13.3%. We have added a 7% premium for our valuation on Jetlines to incorporate liquidity risk, market cap risk, and start-up risk.

The following chart shows the sensitivity of our net income forecasts to changes in our passenger growth assumptions.



The following table shows our comparables valuation based on expected revenue and EBITDA projections for 2025. The estimated values have been discounted back to the present using the same 20% discount rate. The average valuation multiples were based on a peer group of established ULCCs.

Comparables Valuation			
2025 Forecast (Revenues)	$985,474,599	2025 Forecast (EBITDA)	$179,956,928
Average EV / Revenue	1.25	Average EV / EBITDA	6.77
Expected EV at 2025 ($)	$1,231,843,249	Expected EV at 2025 ($)	$1,217,708,549
Present Value of EV ($)	$261,525,991	Present Value of EV ($)	$258,525,129
Avg. Present Value of EV ($)	**$260,025,560**		

The average of our discounted cash flow valuation ($326.67 million) and our comparables valuation ($260.03 million) is $293.35 million.

Our value per share estimate is dependent on the debt to equity mix that the company will use to raise the required $43 million to commence operations (as per the CTA initial capital requirements mentioned earlier). The following table shows the various potential scenarios and our expected fair value per share for each scenario.

	New Shares Issued	Total Shares	Fair Value
100% equity at $0.26 per share	174,089,069	231,750,478	$1.45
50% equity at $0.26 per share	87,044,534	144,705,943	$2.18
100% equity at $0.50 per share	90,526,316	148,187,725	$2.27
50% equity at $0.50 per share	45,263,158	102,924,567	$3.06
100% equity at $1 per share	45,263,158	102,924,567	$3.27
50% equity at $1 per share	22,631,579	80,292,988	$3.92
100% debt	-	57,661,409	$5.09
Average			**$3.03**

The average of all of the scenarios listed above is $3.03 per share. Note that Jetlines' current share price of $0.26 per share is significantly lower than even the $1.45 per share estimate of our worst-case financing alternative (100% equity at $0.26 per share).

Based on our review of the company's business model, the quality of the management team and their execution plan, and our valuation models, we are initiating coverage on Canada Jetlines with a BUY rating and a fair value estimate of C$3.03 per share.

Risks

We believe the company is exposed to the following risks (list is non-exhaustive):

- Our valuation is dependent on a 2018 launch. Delays or other changes to the operational timeline could significantly impact our valuation.

- High barriers to entry due to existing duopoly, as well as large initial operating cash requirement.
- External surcharges that are beyond the company's control could affect their ability to charge sufficiently low prices and stimulate new demand. These charges include taxes, airport fees, etc.
- The company is in early stages and has yet to commence operations.
- The existing Air Canada/ WestJet duopoly dominates the Canadian aviation market.
- WestJet is planning to release their own ULCC fleet.
- Access to capital and share dilution.

We have a risk rating of 4 (Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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