MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the year ended January 31, 2015 should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2015 and 2014, which are available on SEDAR at www.sedar.com.*

*This MD&A includes statements which are forward-looking in nature; please refer to "Forward Looking Statements" below for an explanation of the assumptions, uncertainties and risks associated with these statements. This MD&A also includes a number of defined terms and abbreviations as well as several financial terms, such as "EBITDA", "EBITDAR" and "Adjusted profit", that are not defined by International Financial Reporting Standards ("**IFRS**") but which are considered by the Corporation's management to be important in understanding the Corporation's financial results. Please refer to "Non-IFRS Measures" for explanations of the financial terms that are not defined by IFRS and the section titled "Definitions" for the meaning of all other defined terms and abbreviations.*

Business Profile

Discovery Air, founded in 2004, is a Canadian specialty aviation company, operating over 160 aircraft with over 880 team members. Its subsidiaries provide airborne training to the Canadian and German military, helicopter services, air ambulance services, airborne fire services, fixed-wing air charter services, expediting and logistics support, and a range of maintenance, repair, overhaul, modification, engineering and certification services. The Corporation has two reportable segments: Aviation, and Corporate Support and Other.

The Aviation segment includes four subsidiaries. Great Slave Helicopters Ltd. ("**GSH**"), one of the largest helicopter operators in Canada, has bases throughout Canada and South America from which it provides flight services to support mining, oil and gas seismic and exploration work, forest fire suppression, aerial construction and precision external load work, and environmental impact surveys. Air Tindi Ltd. ("**Air Tindi**"), a commercial fixed-wing operator with bases in Yellowknife and Cambridge Bay, utilizes a diversified fleet of fixed-wing aircraft to provide scheduled and charter passenger and cargo services, as well as medevac equipped aircraft services in northern and western Canada. Discovery Air Fire Services Inc. ("Fire Services") provides primarily forest fire management and court-related air transport services to the Government of Ontario. Discovery Air Defence Services Inc. ("**Defence Services**"), formerly Top Aces Inc., provides primarily airborne training services to the Department of National Defence and the Canadian Forces ("**DND**") and to the German Armed Forces.

The Corporate Support and Other segment consists of certain support functions at Discovery Air (collectively, "**Corporate**") as well as two operating subsidiaries: Discovery Air Technical Services Inc. ("**Technical Services**") and Discovery Mining Services Ltd. ("**Mining Services**"). Corporate support functions include shared services provided by personnel or professional advisors retained by the Corporation, such as finance, treasury, information technology, management, legal and human resources support. Technical Services provides a range of maintenance, repair and overhaul ("**MRO**"), modification, engineering and certification services. Mining Services provides remote exploration camp and expediting, logistics and staking services to a broad spectrum of resource exploration companies.

The Corporation's Class A Shares and Unsecured Debentures (as defined below) trade on the Toronto Stock Exchange (symbols DA.A and DA.DB.A, respectively).

Selected Financial Information

(thousands of Canadian dollars, except per share amounts)	Three months ended January 31 (unaudited) 2015	2014	% change	For the year ended January 31 2015	2014	% change
Results of operations						
Revenue	**$ 34,323**	$ 32,638	*5%*	**$ 190,779**	$ 213,526	*-11%*
Expenses	**$ 42,508**	$ 42,547	*0%*	**$ 176,146**	$ 190,572	*-8%*
Depreciation of property, equipment and intangible assets	**$ 4,866**	$ 4,810	*1%*	**$ 21,218**	$ 22,985	*-8%*
	$ (13,051)	$ (14,719)	*11%*	**$ (6,585)**	$ (31)	
Finance costs	**$ 5,067**	$ 5,106	*-1%*	**$ 18,838**	$ 17,561	*7%*
Loss attributable to shareholders of Discovery Air Inc.	**$ (15,182)**	$ (21,440)	*-29%*	**$ (18,881)**	$ (17,955)	*5%*
Basic and diluted loss per share	**$ (0.44)**	$ (1.34)	*-67%*	**$ (0.63)**	$ (1.12)	*-44%*
Financial position and liquidity						
Total assets	**$ 296,747**	$ 300,155	*-1%*	**$ 296,747**	$ 300,155	*-1%*
Total debt	**$ 163,657**	$ 162,031	*1%*	**$ 163,657**	$ 162,031	*1%*
Cash provided by (used in) operations	**$ 11,753**	$ 10,992	*7%*	**$ 5,150**	$ 17,879	*-71%*
Working Capital*	**$ 38,968**	$ 31,119	*25%*	**$ 38,968**	$ 31,119	*25%*
Key non-IFRS performance measures* (unaudited)						
Adjusted profit (loss)	**$ (14,943)**	$ (14,795)	*1%*	**$ (18,650)**	$ (12,403)	*50%*
Basic and diluted Adjusted profit (loss) per share	**$ (0.43)**	$ (0.92)	*-53%*	**$ (0.62)**	$ (0.77)	*-19%*
EBITDAR	**$ (6,296)**	$ (7,702)	*18%*	**$ 28,377**	$ 39,111	*-27%*
EBITDA	**$ (8,186)**	$ (9,464)	*14%*	**$ 16,047**	$ 24,758	*-35%*
EBITDA Margin	**-24%**	-29%		**8%**	12%	

* See "Non-IFRS measures" and "Definitions" below

Recent Developments

In January 2015, Air Tindi, renewed a contract with the Stanton Health Authority in the Northwest Territories, to provide medevac equipped aircraft services for a period of eight years plus two option years. In April 2015, the Corporation purchased three King Air 250s for USD $13.3 million (approximately CAD $16.7 million) to support this contract. The purchase was primarily financed with a $15.0 million loan from the aircraft vendor with a term of eight years.

In April 2015, the Corporation renewed its fire services contract with the Ontario Ministry of Natural Resources and Forestry for a period of seven years.

On January 19, 2015, the Corporation announced its intent to complete a second rights offering ("**Recent Offering**") in order to raise up to $ 11.0 million of equity capital through the sale of Shares (as defined below). Under the Recent Offering the Corporation distributed a total of 31,997,475 rights to its shareholders of record on February 10, 2015 entitling them to subscribe for up to an aggregate of 50.0 million shares at a price of $0.22 per Share.

The Recent Offering was completed on March 13, 2015. The Corporation raised $11.0 million in gross proceeds for the issuance of 50.0 million Shares. As a result of the Recent Offering the Unsecured Debentures conversion price changed to $5.07 per Share (formerly $6.53 per Share).

In connection with the Recent Offering the Corporation was required to use $5.0 million of the proceeds to repay the Secured Debentures in accordance with the amendment made in December 2014 (see Financing Activities below).

In January 2015, the Corporation commenced operations in Germany, providing the German Armed Forces airborne training services under a five year term contract awarded on January 30, 2014.

On November 27, 2014, the holders of the Unsecured Debentures voted in favor of two amendments to the Unsecured Debentures. As a result: a) the definition of "change of control" was amended to allow for any shareholder controlling in excess of 10% of the Corporation's common shares as at the date of the amendment, to increase its equity interest above 50% without requiring the Company to repurchase the Unsecured Debentures; and b) the maturity date of the Unsecured Debentures was extended from June 30, 2016 to June 30, 2018. The extension was subject to the Company completing, prior to June 29, 2016, an equity offering of Shares for minimum aggregate net proceeds of $5.0 million. In March 2015, the Corporation completed an $11.0 million equity offering thereby fulfilling the equity financing condition in the debenture amendment.

Consolidated Results

Three months ended January 31, 2015

Revenue

Quarterly revenues were $34.3 million, a 5% increase when compared to the three months ended January 31, 2014 (collectively with the year ended January 31, 2014, the "comparative period"). The Aviation segment experienced increased activity (an 8% increase from the comparative period) in forest fire suppression operations in South America. The Corporate Support and Other segment reported a slight decline in revenues (a 3% decrease from the comparative period).

The Corporation's two largest customer sectors are government and resource-based. Revenues from the government sector represented 44% of total revenues compared to 36% in the comparative period. The Corporation's revenues from resource-based customers represented 22% of total revenues compared to 20% in the comparative period. The increase in the government sector is primarily attributable to the increase in forest fire suppression operations in South America. This increase in forest fire suppression operations during the period resulted in the reduction in revenue as a percentage of total revenue from resource-based customers.

Expenses

The largest expense items for the Corporation are crew, fleet and parts costs, as well as general and administrative expenses. While there are variable components to these costs, a significant portion of these costs are fixed in nature within a given year.

Quarterly expenses remained consistent with prior year at $42.5 million. Costs saving initiatives in the quarter were partially offset by increased variable based costs related to increased flying hours. The current quarter expenses include $2.5 million in business development costs to support airborne training opportunities in the US and internationally, compared to $0.5 million in the comparative period.

EBITDA and EBITDAR (see "Non-IFRS Measures" below)

Quarterly EBITDA loss was $8.2 million compared to $9.5 million in the comparative period, with the improved EBITDA largely attributable to increased flight hour activity in the quarter.

EBITDAR loss in the quarter was $6.3 million compared to $7.7 million in the comparative period. While increased flight hours improved EBITDA in the quarter, it also increased aircraft leasing expense by 7% to $1.9 million as compared to $1.8 million in the comparative period. The Corporation utilizes leased aircraft to support a component of its flight services.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $4.9 million, a 1% increase from the comparative period and consistent with higher flight hours.

Finance costs of $5.1 million in the quarter were comparable to the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were $2.8 million compared to $2.6 million in the comparative period. The increase in finance costs is primarily attributable to increased costs related to the loan amendments and the Initial & Recent Offerings, and increased interest on the operating line based on additional amounts drawn in the current period.

The Corporation's quarterly income tax recovery was $3.3 million, compared to $6.7 million in the comparative period. The effective tax rate for the quarter was 18% compared to the Corporation's statutory income tax rate of

27% with the variance primarily due to non-taxable income from associates and losses recorded in certain subsidiaries that did not meet the criteria for deferred tax asset recognition. In the comparative period, the effective income tax rate of 24% was different from the Corporation's statutory income tax rate of 27% due to differences in provincial rates and non-deductible permanent differences.

Earnings

The Corporation recorded a quarterly loss of $15.2 million ($0.44 basic and diluted loss per share) compared to a loss of $21.4 million ($1.34 basic and diluted loss per share) in the comparative period. Excluding the tax effected non-cash gains and losses noted below (see "Adjusted profit (loss)" below), Adjusted loss was $ 14.9 million ($0.43 basic and diluted Adjusted profit per share) compared to $14.8 million ($0.92 basic and diluted adjusted loss per share) in the comparative period.

The weighted average number of Shares has been retrospectively adjusted for the bonus element of the rights issued pursuant to the Recent Offering, which allowed shareholders of record on February 10, 2015 to purchase up to an additional 50.0 million Shares at a price of $0.22 per Share. The Shares attributable to the bonus element of the rights issued was 2.5 million shares with a 1.08 factor applied retrospectively.

Although the Corporation's Class A Share price at January 31, 2015 and 2014 was below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33, *Earnings per share,* considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

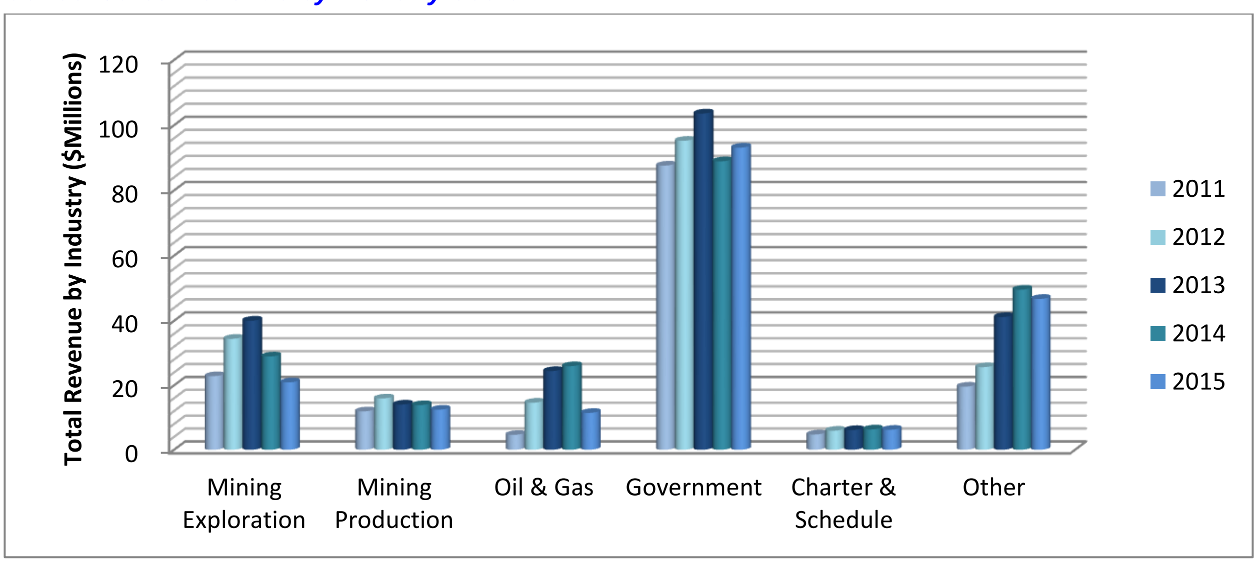
For the year ended January 31, 2015

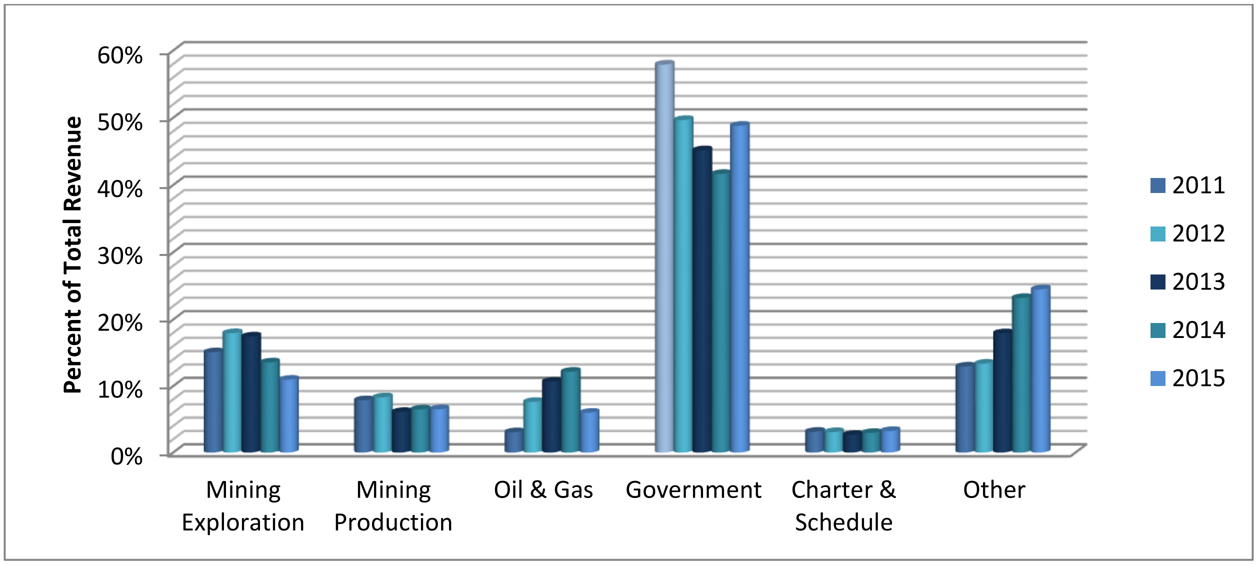
Revenue

Year-to-date revenue decreased 11% from the comparative period to $190.8 million.

Year-to-date revenues from government customers represented 49% of total revenues compared to 42% in the comparative period with the increase primarily attributable to increased flight hours in South America (outlined above). Year-to-date revenue from resource-based customers represented 23% of total revenues, compared to 32% in the comparative period, primarily due to reduced revenue from the Corporation's Mining and Oil and Gas customer base.

Consolidated Revenue by Industry Sector





Expenses

Year-to-date expenses were $176.1 million (or 92% of revenues) compared to $190.6 million (or 89% of revenues) in the comparative period, a decline of $14.5 million. Reduced costs primarily related to crew and fleet charges as a result of a reduction in flight hours and cost savings initiatives implemented during the period. Year-to-date expenses include $6.7 million in business development costs to support airborne training opportunities in the US and internationally, compared to $3.6 million in the comparative period. The Corporation commenced revenue generating flight hours in Germany in January 2015.

EBITDA and EBITDAR (see "Non-IFRS Measures" below)

Year-to-date EBITDA was $16.0 million compared to $24.8 million in the comparative period, and EBITDA margin was 8% and 12%, respectively. Year-to-date EBITDAR was $28.4 million, compared to $39.1 million in the comparative period, reflecting the trend in EBITDA.

Depreciation, finance and other expenses

Depreciation expense year-to-date was $21.2 million compared to $23.0 million in the comparative period.

Finance costs year-to-date were $18.8 million compared to $17.6 million in the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were $11.1 million compared to $10.1 million in the comparative period.

The Corporation's year-to-date income tax recovery was $5.4 million, compared to $5.7 million in the comparative period. The effective tax rate of 22% is lower than the statutory rate primarily due to non-taxable income from associates and losses recorded in certain subsidiaries that did not meet the criteria for deferred tax asset recognition. In the comparative period, a permanent difference arose primarily due to a revaluation of the contingent consideration discussed below and a lower income tax base.

Earnings

The Corporation's year-to-date loss was $18.9 million ($0.63 basic and diluted loss per share) compared to a loss of $18.0 million ($1.12 basic and diluted loss per share) in the comparative period. The Corporation's year-to-date loss includes a $0.7 million tax-effected gain on the disposal of property and equipment and a $0.7 million tax-effected impairment of long term service contract that was terminated in November 2014. The comparative year-to-date profit includes a tax-effected asset impairment of $5.2 million, a tax-effected goodwill and customer list intangible impairment of $1.7 million, a tax-effected gain of $0.4 million from the sale of Hudson Bay Helicopters Ltd. ("**HBH**"), and a non-taxable gain of $1.2 million related to the revaluation of contingent consideration for the purchase of Helicopters.cl SpA ("**Helicopters Chile**"). Excluding the impact of these transactions, the year-to-date Adjusted loss was $18.7 million ($0.62 basic and diluted Adjusted loss per share) compared to an Adjusted loss of $12.4 million ($0.77 basic and diluted Adjusted loss per share) in the comparative period (See "Non-IFRS Measures" and "Adjusted profit (loss)" below).

Aviation Segment

(thousands of Canadian dollars)	Three months ended January 31			For the years ended January 31		
	2015	2014	% Change	**2015**	2014	% Change
Revenue	**$ 26,837**	$ 24,886	*8%*	**$ 159,936**	$ 182,351	*-12%*
Expenses	**30,344**	31,923	*-5%*	**135,542**	147,757	*-8%*
Share of (profit) loss from associates	**1**	(104)	*-101%*	**(1,408)**	(390)	*261%*
EBITDA	**$ (3,508)**	$ (6,933)	*49%*	**$ 25,802**	$ 34,984	*-26%*
Aircraft lease expense	**1,890**	1,762	*7%*	**12,330**	16,289	*-24%*
EBITDAR	**$ (1,618)**	$ (5,171)	*69%*	**$ 38,132**	$ 51,273	*-26%*
Capital expenditures	**$ 5,733**	$ 12,137	*-53%*	**$ 20,489**	$ 23,331	*-12%*

	As at January 31		
	2015	2014	% Change
Total assets	**$ 282,407**	$ 274,319	*3%*
Goodwill	**$ 37,861**	$ 37,861	*0%*
Intangible assets	**$ 2,656**	$ 6,049	*-56%*

Three months ended January 31, 2015

The Aviation segment's quarterly revenues were $26.8 million on 8,700 flight hours, compared to revenue of $24.9 million on 8,600 flight hours in the comparative period. The increase in revenues and flight hours were primarily attributable to increased activity in forest fire suppression operations in South America.

Aviation segment quarterly expenses were $30.3 million (or 113% of revenues) in the current quarter compared to $31.9 million (or 128% of revenues) in the comparative period. The 5% decrease in expenses is mainly attributable to cost savings measures implemented during the year. The decrease in expenses were partially offset by increased flight hours in the quarter and increased business development costs of $2.5 million compared to $0.5 million in the comparative period.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $11.6 million (or 43% of revenues) compared to $11.5 million (or 46% of revenues) in the comparative period.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $8.4 million (or 31% of revenues), compared to $10.3 million (or 41% of revenues) in the comparative period. The Corporation's fuel costs are typically recovered from customers and recorded as revenue with the exception of non-contracted ferrying costs or training-related costs.

General and administrative expenses primarily consist of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. General and administrative expenses were $7.9 million (or 29% of revenues) in the quarter compared to $7.0 million (or 28% of revenues) in the comparative period, with the increase due to business development costs.

The loss from associates was nil compared to $0.1 million profit in the comparative period.

The segment's quarterly EBITDA loss was $3.5 million compared to an EBITDA loss of $6.9 million in the comparative period, with the decrease in EBITDA loss attributable to increased revenues and cost saving measures implemented during the year. The current quarter EBITDA loss includes $2.5 million in business development costs compared to $0.5 million in the comparative period. EBITDAR loss was $1.6 million compared to an EBITDAR loss of $5.2 million in the comparative period. The decrease in EBITDAR loss is primarily due to the decrease in EBITDA loss and a slight increase in aircraft lease expense.

Depreciation expense in the current quarter was $4.5 million (or 17% of revenues) compared to $4.3 million (or 17% of revenues) in the comparative period, which is consistent with the increased flight hours.

For the year ended January 31, 2015

Aviation segment year-to-date revenues were $159.9 million on 54,000 flight hours, compared to revenue of $182.4 million on 65,000 flight hours in the comparative period. The 12% decrease in revenue and 17% decrease in flight hours are attributable to the factors noted above.

The Aviation segment's year-to-date expenses were $135.5 million (or 85% of revenues) compared to $147.8 million (or 81% of revenues) in the comparative period. The 8% decrease in expenses is mainly attributable to decreased flight hours and cost savings measures implemented. The decreases in expenses were partially offset by increased business development costs of $6.7 million compared to $2.5 million in the comparative period.

Crew costs were $51.5 million (or 32% of revenues) compared to $52.1 million (or 29% of revenues) in the comparative period due to lower flight hour activity.

Fleet costs, excluding fuel costs, were $40.2 million (or 25% of revenues), compared to $47.4 million (or 26% of revenues) in the comparative period, with the variance also due to lower flight activity.

General and administrative expenses were $30.3 million (or 19% of revenues) compared to $31.9 million (or 17% of revenues) in the comparative period. The Corporation has implemented measures to reduce general and administrative costs in Fiscal Year 2016 and beyond.

The profit from associates was $1.4 million compared to $0.4 million in the comparative period. The increase is attributable to transferring of the 49% equity holdings in Global Aviation Tools and Equipment (GATE) Inc. ("**GATE**"), a corporate venture incorporated in Canada; from Technical Services to Defence Services. GATE provides supplies and repairs aircraft parts.

EBITDA for the segment was $25.8 million compared to $35.0 million in the comparative period primarily due to lower revenues and increased business development costs of $4.2 million from the comparative period, yielding EBITDA margins of 16% in the current period and 19% in the comparative period. EBITDAR was $38.1 million compared to $51.3 million in the comparative period, reflecting the impact of lower EBITDA and decreased utilization of leased aircraft in the current year.

Depreciation expense was $19.5 million (12% of revenues) compared to $21.3 million (12% of revenues) in the comparative period, primarily driven by lower flight hours.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended January 31			For the years ended January 31		
	2015	2014	*% Change*	**2015**	2015	*% Change*
Revenue	**$ 7,486**	$ 7,752	*-3%*	**$ 30,843**	$ 31,175	*-1%*
Expenses	**12,164**	10,624	*14%*	**40,604**	42,815	*-5%*
Share of loss (profit) from associates	**-**	(341)	*-100%*	**(6)**	(1,414)	*-100%*
EBITDA	**$ (4,678)**	$ (2,531)	*-85%*	**$ (9,755)**	$ (10,226)	*5%*
Capital expenditures	**$ 584**	$ 287	*103%*	**$ 1,794**	$ 3,504	*-49%*

	As at January 31		
	2015	2014	*% Change*
Total assets	**$ 14,340**	$ 25,836	*-44%*
Intangible assets	**$ 162**	$ 340	*-52%*

Three months ended January 31, 2015

Corporate Support and Other revenues were $7.5 million in the quarter compared to $7.8 million in the comparative period. The 3% decrease in revenue reflects decreased MRO activities and softness in the mining industry. The decrease was partially offset by the sale of inventory in relation to the termination of a long term contract.

The segment incurred expenses totaling $12.2 million compared to $10.6 million in the comparative period, an increase of 14%. The increase in the segment expenses was largely attributable to the termination of a long term contract that resulted in the sale of inventory for $3.4 million. In November, 2014, the Corporation terminated a component asset management contract with a Canadian airline. Under the terms of the agreement, the Corporation sold the related inventory to the Canadian airline.

The segment reported an EBITDA loss of $4.7 million in the quarter, compared to an EBITDA loss of $2.5 million in the comparative period. The 85% increase in EBITDA loss was due to decreased revenues, increased costs related to the termination of a long term contact, and the transfer of the investment in GATE, as outlined above.

For the year ended January 31, 2015

Revenues in the Corporate Support and Other segment were $30.8 million compared to $31.2 million in comparative period. The decreased revenue in MRO activities and continued softness in the mining industry was partially offset by the sale of inventory, as described above.

The segment's expenses were $40.6 million compared to $42.8 million in the comparative period, a 5% decrease primarily due to cost efficiency measures implemented during the year.

EBITDA loss was $9.8 million compared to an EBITDA loss of $10.2 million in the comparative period. The decrease in EBITDA loss was a result of a more efficient cost structure and $1.1 million less in business development costs offsetting the unfavourable variance in revenues.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	For the years ended January 31	
(thousands of Canadian dollars)	**2015**	2014
Operating activities	**$ 5,150**	$ 17,879
Investing activities	**(9,292)**	(24,707)
Financing activities	**5,350**	1,022
Exchange loss on cash held in foreign currency	**(547)**	-
Net increase (decrease) in cash for the period	**$ 661**	$ (5,806)

Operating Activities

Cash provided by operating activities for the year ended January 31, 2015 was $5.2 million, a $12.7 million decrease over the comparative period. The unfavourable variance was largely attributable to an $8.7 million reduction in EBITDA, and a $4.0 million increase in non-cash working capital.

Working Capital

As at January 31, 2015, the Corporation had positive Working Capital of $39.0 million, compared to a Working Capital position of $31.1 million at January 31, 2014. The current ratio of Working Capital was 2.3 as at January 31, 2015, and 2.1 as at January 31, 2014.

With respect to the Corporation's existing operations, there are no significant commitments for any expenditure that would significantly change its working capital requirements for these operations. Each significant, non-maintenance related capital expenditure for these operations is assessed to gain reasonable assurance that the capital expenditure will at least be matched by projected revenues or cost savings generated by the expenditure. In addition to the acquisition of ATSI in Fiscal Year 2014, the Corporation has been pursuing an opportunity to acquire six F-16, six A-4N aircraft, and related support packages (the "**Additional Fighter Jets**") for the expansion of the Defence Services' airborne training services business. The cost of acquiring these assets and bringing them into service is estimated to be USD $40.0 to $50.0 million. In Fiscal Year 2014, the Corporation placed a USD $2.5 million deposit for the acquisition of the Additional Fighter Jets which is refundable should the Corporation not receive the required approval from the U.S. Department of State. In addition, the Corporation would only complete the acquisition of these assets upon securing the necessary financing for these assets. In July 2014, the Corporation made an additional deposit of USD $1.9 million towards further options under this contract. This deposit is refundable under certain conditions.

Investing Activities

Net cash outlays for investing activities was $9.3 million compared to $24.7 million in the comparative period. Capital expenditures of $22.3 million were comprised of $7.4 million for Defence Services growth initiatives, $2.0 million for the purchase of two aircraft and related upgrades, and $12.9 million for sustaining capital expenditures and aircraft overhaul costs. The comparative period capital's expenditures of $21.5 million included $1.2 million for the purchase of one helicopter, $3.7 million for Defence Services growth initiatives and facility enhancements, and $16.6 million related to sustaining capital expenditures and aircraft overhaul costs.

Total asset divestures of $11.1 million included nine aircraft for proceeds of $9.2 million, two buildings for proceeds of $1.0 million, and other items of property and equipment for $0.9 million. The comparative period asset divestures included the disposal of two aircraft for total proceeds of $2.2 million.

In the comparative period the Corporation acquired Advanced Training Systems International, Inc. ("**ATSI**") for $7.2 million and disposed of GSH`s wholly-owned subsidiary, HBH, for $1.2 million.

The Corporation has invested in the combat support contract for the German Armed Forces (the "**German Contract**") which commenced in January 2015. While the Corporation is not otherwise committed to fund other material growth-related projects, the Corporation intends, subject to obtaining certain government approvals and securing financing, to acquire the Additional Fighter Jets for further expansion of Defence Services' business.

Financing Activities

As at January 31, 2015, the Corporation had unused borrowing capacity of $2.3 million to fund its operating requirements. Consistent with the seasonal nature of its business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased working capital. These draws are typically reduced during the latter half of the fiscal year. On April 7, 2015 the maturity date of the Operating Line was extended to May 15, 2015.

The Corporation expects to renew the Operating Line for multiple years at similar terms and conditions.

The Corporation made debt payments of $31.4 million and $0.8 million as the final installment on the contingent consideration related to the purchase of Helicopters Chile. Debt payments consisted of $20.4 million to refinance five loans (which closed on March 31, 2014), $2.5 million related to asset divestitures, and $8.5 million of scheduled term debt repayments. The loan refinancing transaction also eliminated an undertaking to restore the airworthiness of two aircraft (or, in the alternative, repay $4.0 million in debt secured by those aircraft) and provided the Corporation with approximately $0.9 million in cash. In the comparative period, the Corporation made scheduled debt payments of $9.5 million and $0.8 million as the first of two installments related to the purchase of Helicopters Chile.

On November 27, 2014, the holders of the Unsecured Debentures voted in favor of two amendments to the Unsecured Debentures. As a result: a) the definition of "change of control" was changed to allow for any shareholder controlling in excess of 10% of the Corporation's common shares as at the date of the amendment, to increase its equity interest above 50% without requiring the Company to repurchase the Unsecured Debentures; and b) the maturity date of the Unsecured Debentures was extended from June 30, 2016 to June 30, 2018. The extension was subject to the Company completing, prior to June 29, 2016, an equity offering of Shares for a minimum aggregate net proceeds of $5.0 million. In March 2015, the Corporation completed an $11.0 million equity offering thereby fulfilling the equity financing condition in the debenture amendment.

These amendments give the Corporation the financial flexibility and access to capital it needs to pursue its growth strategies.

On March 31, 2014, the Corporation entered into a $21.5 million term loan agreement to refinance five existing loans On June 13, 2014 the loan was amended for a $2.5 million loan repayment related to the sale of aircraft, to require additional monthly payments of $0.1 million for the following twelve months over and above the regular $0.3 million per month principal amortization, with the balance due at maturity on April 1, 2019. The loan bears interest at a rate equal to the three-month Canadian dollar bankers' acceptance rate ("**BA rate**") plus 5.15% per annum. The loan is secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $154,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 6.59% per annum. The loan agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum debt service coverage ratio and not exceed a specified level of total liabilities to tangible net worth.

On March 4, 2015 the loans were amended, subject to certain conditions, to reduce the scheduled principal repayments to $0.1 million for the period April 1, 2015 to June 30, 2015, defer scheduled principal payments for the period of July 1, 2015 to September 30, 2015, require monthly payments of $0.2 million thereafter, and reduce the minimum fixed charge coverage ratio until and including the period ended January 31, 2016.

On January 31, 2014, the Corporation entered into a $1.6 million term loan agreement to finance a previously acquired aircraft. Proceeds were advanced in full on February 18, 2014. The loan matures on March 1, 2019 and is repayable in monthly instalments of $19,000, with the balance due at maturity. The loan bears interest at a rate equal to the three-month Canadian dollar BA rate plus 4.55% per annum. The loan is secured by a charge on the aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $75,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 7.06% per annum. The agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

On March 4, 2015, the loan was amended to suspend scheduled principal payments for six months, require monthly payments of $20,000 thereafter, and reduced the minimum fixed charge coverage ratio until and including the period ended January 31, 2016.

On June 22, 2012, the Corporation entered into a $4.5 million term loan agreement to refinance a maturing debt. On June 12, 2014 the loan was amended to postpone the principal payments for three months, and adjust the maturity date to July 22, 2015.

The Corporation is required to maintain a minimum fixed charge coverage ratio and minimum debt service coverage ratio under several loan agreements. The Corporation is also required to comply with several other financial covenants in its debt agreements, including: a debt leverage covenant, which requires the Corporation to maintain a total debt to EBITDA (as specifically defined in the Secured Debentures) ratio of not more than 6.00:1.00 (the "Debt Leverage Covenant"), and a pledged asset ratio covenant, which requires the Corporation to provide the holders of the Secured Debentures with a first-lien security interest over assets having an appraised value equal to a prescribed ratio of the adjusted principal amount of the Secured Debentures (the "PAR Covenant"); a trailing four quarter consolidated EBITDAR to fixed charge ratio; a debt service coverage ratio; a total liabilities to tangible net worth ratio; and a total funded debt to EBITDAR ratio. The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the adequacy of the security pledged to its lenders in relation to its debt levels. Since interest on the Secured Debentures is paid in kind (i.e., accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time.

In May 2014, the Corporation received irrevocable waivers from the Debt Leverage Covenant and the PAR Covenant for the quarter ending January 31, 2015. The Corporation was in compliance with all other financial covenants in its debt agreements for the year ended January 31, 2015.

In September 2014, the Secured Debentures were amended to increase the Debt Leverage Covenant to 7.80:1.00 for the period ending April 30, 2015 and to decrease the PAR Covenant to 1.41:1.00 and 1.37:1.00 for the periods ending April 30, 2015 and July 31, 2015, respectively.

In connection with the amendment the Corporation agreed to not request the Secured Debenture holders subordinate their security interest in the assets of the Corporation, and the Secured Debenture holders shall not be required to subordinate their security interest in the assets of the Corporation, prior to the later of December 31, 2016, and the date on which the Corporation is in compliance with the covenants (subject to certain exclusions) in the Secured Debentures for the eight quarters preceding the request. While this restriction is in effect the Secured Debenture holders are not permitted to convert any or all of the Secured Debentures into Shares, except in connection with the maturity of the Secured Debentures, or in connection with or following a Change of Control (as defined in the Secured Debentures). The Corporation also consented not to incur additional indebtedness without the prior consent of the Secured Debentures holders on yet-to-be acquired assets until August 1, 2015.

In December 2014, the Secured Debentures were amended to increase the Debt Leverage Covenant to 9.00:1.00 for the periods April 30, 2015 through to October 31, 2015; and to decrease the PAR Covenant to 1.40:1.00 for the period ending October 31, 2015. As part of this amendment, the Corporation also agreed to apply 50% of the proceeds of any equity financing conducted prior to July 29, 2016, up to a maximum of $5.0 million, to repay the Secured Debentures.

Subsequent to the year ended January 31, 2015 the Secured Debentures were further amended to increase the Debt Leverage Covenant to 9.00:1.00 and increase EBITDA for the purpose of the covenant calculation for the periods April 30, 2015 until and including the period ended January 31, 2016 and decrease the PAR Covenant to 1.37:1.00 for the period ending January 31, 2016.

In addition to the aforementioned amendments, the Corporation obtained amendments reducing the fixed charge ratio and minimum debt service ratio from 1.25:1.00 to 1.05:1.00 or 1.00:1.00, on its other significant loans and borrowings for the four quarters ending January 31, 2016.

In addition, lenders' consent is required, among other things, to incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem its capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally. There is no assurance that following the periods covered by the waivers and amendments that the Corporation will be able to remain in compliance with its covenants.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Corporation's contractual principal obligations as at January 31, 2015:

(thousands of Canadian dollars)

January 31, 2015	**Due within 1 year**	**Due between 1 & 2 years**	**Due between 2 & 3 years**	**Due between 3 & 4 years**	**Due between 4 & 5 years**	**Due after 5 years**	**Total**
Trade and other payables	$ 30,525	$ -	$ -	$ -	$ -	$ -	**$ 30,525**
Loans and borrowings	5,455	38,325	129,757	2,027	10,192	275	**186,031**
	$ 35,980	$ 38,325	$ 129,757	$ 2,027	$ 10,192	$ 275	**$ 216,556**

As reflected in the Corporation's audited consolidated financial statements, the Corporation's loans and borrowings, and finance lease obligation as at January 31, 2015 were $163.7 million. The contractual principal repayment amount in loans and borrowings in the table above assumes the Corporation makes scheduled repayments to maturity and in the case of the Secured Debentures includes the future accrued payment in kind interest that would be added to the principal balance throughout the term of this facility. Both the Unsecured Debentures and Secured Debentures contain early redemption and conversion rights which are not factored in the above table.

The completion of the Recent Offering, subsequent to January 31, 2015, satisfied the equity offering requirement of the November 27, 2014 Unsecured Debenture amendment extending the maturity date of the Unsecured Debentures to June 2018, to be due within 3 and 4 years rather than within 1 and 2 years as disclosed in the above table.

The Corporation's operating leases relate to aircraft and premises obligations. The Corporation typically enters into short-term (less than one year) aircraft operating lease arrangements in the first quarter of each year. The arrangements allow the Corporation to manage its fleet in a more cost-efficient manner.

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 25 of the Corporation's consolidated financial statements for the years ended January 31, 2015 and 2014.

Shareholders' Equity

At January 31, 2015, there were 31,510,148 Class A Shares and 487,327 Class B Shares outstanding. At the same date, there were 2,496,613 stock options outstanding. During the year the Corporation issued 1,952,009 Class A shares upon completion of the Initial Offering (defined below), and 15,047,284 Class A Shares and 442,567 Class B Shares upon the completion of the Standby Purchase Agreement. During the current quarter, the Corporation issued 2,369,728 stock options to employees and 962,465 stock options expired or were otherwise terminated in accordance with their terms. The stock options issued in the current period have an exercise price of $0.86 and vest in five equal tranches, with the first tranche vesting immediately and the remaining tranches vesting over a period of four years.

In February 2014, the Corporation announced its intent to complete a rights offering ("**Initial Offering**") in order to raise up to $15.0 million of equity capital through the sale of Shares. Under the Initial Offering, the Corporation distributed a total of 14,555,661 rights to its shareholders of record on April 1, 2014 entitling them to subscribe for up to an aggregate of 17,441,860 Shares at a price of $0.86 per Share. Clairvest agreed, in accordance with the terms of the standby purchase agreement between Clairvest Group Inc. ("Clairvest") and the Corporation, dated February 24, 2014 ("**Standby Purchase Agreement**"), to purchase from the Corporation such number of Shares that were available to be purchased, but not otherwise subscribed for under the Initial Offering, up to a predetermined cap. Clairvest also agreed to provide the Corporation with a subordinated, secured loan in the event that Clairvest was unable (due to the cap) to backstop the entire Initial Offering and the Corporation was unable to raise gross proceeds from the Initial Offering in an amount of $15.0 million.

The Initial Offering was completed in April 2014. The Corporation raised approximately $1.7 million in gross proceeds from the issuance of 1,952,009 Class A Shares. In May 2014, the Corporation issued 15,047,284 Class A Shares and 442,567 Class B Shares, for gross proceeds of $13.3 million (at $0.86 per Share) to Clairvest and/or certain of its funds and co-investors pursuant to the Standby Purchase Agreement in relation to the Initial Offering. In connection with the closing of this transaction, the holders of the Corporation's Secured Debentures irrevocably agreed to waive their right to direct (in certain circumstances) the manner in which 50% of the Common Shares held by certain current and former management shareholders are voted.

The Corporation's Unsecured Debentures provide for potential debt conversion to Class A Shares of 5,283,308 (adjusted from 4,726,027 due to the Initial Offering) and the Secured Debentures provide for a potential debt conversion to 9,291,824 Shares.

As noted in "Recent Developments", the Corporation raised approximately $11.0 million in gross proceeds from the issuance of 50 million Shares in connection with the Recent Offering. As result of the Recent Offering, the Corporation's Unsecured Debentures provide for potential debt conversion to Class A Shares of 6,804,734 (adjusted from 5,283,308).

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2015, which can be found on SEDAR at www.sedar.com.

Related Party

Clairvest and its affiliates have the ability to exercise control or direction over the rights attaching to the Secured Debentures and has certain director nomination rights in relation to the Corporation. The Secured Debentures would represent, on a post-conversion basis, more than 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the year ended January 31, 2015 was $8.4 million, (January 31, 2014 - $8.0 million). In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest on a monthly basis.

As a result of the Recent Offering, subsequent to January 31, 2015, Clairvest and its affiliates acquired the majority of the issued and outstanding Shares of the Corporation.

Subsequent to January 31, 2015, the Corporation borrowed on an unsecured commercial terms basis $4.8 million from its majority shareholder. The loan bears interest at 8% and matures on May 14, 2015. The Corporation expects to refinance this short-term borrowing as part of the renewal of its Operating Line.

The Corporation's revenues reflect $18.1 million (January 31, 2014 - $28.4 million) and expenses of $3.4 million (January 31, 2014 - $2.3 million) from the Corporation's associates. As at January 31, 2015, $3.0 million (January 31, 2014 - $1.6 million) of the Corporation's accounts receivable were due from associates and $0.9 million (January 31, 2014 - $0.7 million) of the Corporation's accounts payable were due to associates.

RISK FACTORS

The Corporation's operations involve a variety of risks and uncertainties and the Corporation analyzes and, where appropriate, actively manages such risks. Certain risks are mitigated through the use of common management techniques such as business and cash forecasting, variance analysis, the development and use of standard policies and operating procedures, and the use of internal reviews to monitor compliance. Other risks are mitigated by arranging with third parties to bear them on the Corporation's behalf, as is achieved through the Corporation's commercial insurance arrangements. Other risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The discussion below summarizes some of the more important and relevant risks that the Corporation currently views as having the potential to significantly impact its business, financial condition, liquidity or results of operations. These risks may become more or less important with the passage of time, and additional risks may exist that the Corporation has not identified, or that it currently deems to be immaterial. The Corporation's Annual Information Form available on SEDAR at www.sedar.com may also include additional risks not otherwise identified below along with risk mitigation strategies associated with the principal risks identified therein.

Risks Relating to the Corporation's Financial Condition

The Corporation has significant risks to manage.

Compliance with Covenants

The Corporation is required to maintain certain covenants under its various lending arrangements. In respect of the Corporation's secured term loans (other than the Secured Debentures) and operating line, the Corporation obtained amendments to its loan agreements that waived the debt service ratio covenant for the quarter ended July 31, 2014 and reduced the debt service ratio from 1.25 to 1.05 or 1.00 for the quarters ended October 31, 2014 through to January 31, 2016. The Corporation was in compliance with the amended covenants as of January 31, 2015.

With respect to the Secured Debentures, the Corporation is required to comply with several covenants including maintaining a total debt to EBITDA ratio of not more than 6.00:1.00 (the "Debt Leverage Covenant"), and maintaining a pledged asset ratio of 1.50:1.00 (the "PAR Covenant"). The PAR Covenant requires the Corporation to provide the holders of the Secured Debentures a first lien security interest over assets having an appraised value equal to a prescribed ratio of the aggregate principal amount of the Secured Debentures. The Corporation has obtained amendments to the Secured Debentures: (i) waiving the Debt Leverage Covenant and PAR Covenant for the quarters ended April 30, 2014 through to January 31, 2015; (ii) to increase the Debt Leverage Covenant to 9.00:1.00 and increase EBITDA for the purposes of the Debt Leverage Covenant for the quarters ended April 30, 2015 through to January 31, 2016; and (iii) reduce the PAR Covenant for the quarters ended April 30, 2015 through to January 31, 2016.

There can be no assurances that the Corporation will be able to comply with the revised covenants or obtain waivers or amendments going forward. Factors that could negatively affect covenant compliance include:

- negative pressure on EBITDA;
- negative revaluations on assets currently held in connection with the Corporation's secured term loans; and
- increases in debt service payments due to increased borrowing costs or changes to loan amortization.

Absent waivers, amendments or other concessions from the Corporation's lenders whose loans are then in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Deterioration of the Corporation's Financial Condition

Should the Corporation experience deterioration in its financial condition due, among other factors, to a deterioration in its consolidated revenues and relationships with suppliers and/or the ability to manage costs, the Corporation may be materially adversely affected and may not be able to pay its debts as they become due. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Liquidity and Access to Capital

The Corporation's cash flows are affected by the seasonality of its operations, in particular, the cash outflows required to support the ramp up in operations in the first quarter of each fiscal year (which, among other things, requires expenditures on aircraft maintenance and ferrying and additional working capital). The Corporation anticipates spending additional funds in Fiscal Year 2016 to fund aircraft sourcing initiatives at Defence Services. In the event that the Corporation's liquidity becomes constrained, the Corporation may need to curtail expenditures on growth projects which could adversely affect the future profitability of its business.

Furthermore, if the Corporation is unable to achieve certain key milestones set out in the Secured Debentures relating to the award to or loss by Defence Services of the CATS Contract, the maturity date of the Secured Debentures may be accelerated and it may be difficult for the Corporation to continue meeting certain financial covenants. Further, if the Corporation's share price fails to rise above the minimum price necessary for the Unsecured Debentures and the Secured Debentures to be converted into equity (whether because the key milestones set in the Secured Debentures are not met or otherwise), the Corporation will owe $34.5 million on June 30, 2018 and approximately $112 million on March 22, 2017. If this were to occur, there is a risk that the Corporation might not be able to fully repay or refinance those debts as they come due.

The Corporation's other debt agreements also contain affirmative and negative covenants that could limit the Corporation's ability to respond to changes in business and economic conditions or to undertake profitable growth initiatives. Failure to observe those covenants could result in a default under one or more of the Corporation's debt agreements, and upon such default and any related cross defaults, the Corporation's lenders could elect to declare all principal and interest owing under such debt agreements to be immediately due and payable.

If the Corporation is unable to fully repay or refinance debts as they came due or the Corporation's lenders choose to take enforcement action as a result of a default by the Corporation of one or more of its debt covenants, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares could decline or become worthless.

The Corporation currently carries a significant amount of debt relative to its peers. Adverse changes in credit conditions, including significant increases in interest rates or the adoption of more restrictive lending practices, could have an adverse effect on the Corporation's ability to fund future growth or refinance existing debt as it matures.

Resources Required to Support an Expanded Defence Services Business

Over the last ten years, Defence Services has derived substantially all of its revenues from the Standing Offers and, accordingly, has operated almost exclusively in North America on behalf of the Canadian Armed Forces. Defence Services recently acquired ATSI and, as of January 2015, began providing training services to the German Armed Forces. As a result of these developments, Defence Services now directly manages, or oversees the management of, operations in Canada, the U.S. and Germany.

If Defence Services is successful in obtaining TPT Approval and the necessary financing for the F-16 and A-4N aircraft, those aircraft will, together with the ten aircraft of ATSI, result in a significant increase in the fleet size actively employed (directly and indirectly) in the Defence Services business.

The expansion of the Defence Services business requires Defence Services and its subsidiaries to recruit, hire and train experienced pilots, maintenance engineers and management personnel in Canada, the U.S. and Germany. To the extent that the subsidiaries of Defence Services are required to hold security clearances from the Canadian, U.S. or German governments, those subsidiaries may be required to abide by certain measures designed to limit influence or control by foreign persons and, therefore, may need to operate at arm's length from Defence Services' management in Canada. Although the Corporation's management believes that the human resources required by

Defence Services and its subsidiaries are readily available, there is a risk that Defence Services or its subsidiaries may be unable to recruit, hire and train all of the required personnel on a timely basis.

In addition to the capital required to purchase the F-16 and A-4N aircraft, Defence Services and its subsidiaries will also have elevated capital requirements associated with the on-going maintenance of a larger fleet of aircraft. The Corporation may need to fund future capital requirements of the Defence Services business from external sources of financing. There can be no assurance that the necessary equity or debt financing will be available to the Corporation when required or, if available, that it will be on terms acceptable to the Corporation. If the Corporation is not able to meet its capital requirements, this could adversely affect the Corporation's ability to maintain its aircraft (and, therefore, the value of its aircraft) and service commitments to customers.

Mining, Oil and Gas Exposure

The earnings and cash flow of the Corporation's GSH, Mining Services and Air Tindi businesses are exposed to changes in commodity prices and the general performance of the oil & gas and mining sectors more generally. These businesses derive a significant amount of their earnings and cash flow from the services provided to these sectors. As a result, a decrease in commodity prices or activity levels in the oil & gas or mining sectors may materially reduce demand for services provided by GSH, Mining Services and/or Air Tindi, which may in turn materially adversely affect the Corporation's business, prospects, operations, financial condition and operating results.

The management of each of the Corporation's subsidiaries is continually assessing its revenue mix and dependence on specific industry segments. The Corporation's subsidiaries engaged in commercial operations have recently undertaken a review of the markets in which they operate and commenced the development of sales and marketing plans for specific customer segments.

Safety of Operations

Hazards are inherent in the operation of aircraft, particularly in the challenging environments in which the Corporation's aviation subsidiaries operate. Such hazards can be significant and could, among other things, result in: personal injury or fatality; damage to, or destruction of, the Corporation's aircraft or other equipment; damage to third party property; delays, suspensions or permanent reductions in the services the Corporation offers, or is able to offer; litigation and, ultimately, legal liability; regulatory or governmental intervention imposing fines or limitations on the Corporation's operations; and monetary losses. In addition, if the Corporation's safety record were to materially deteriorate, or be perceived to have materially deteriorated, its ability to attract and retain customers and employees could be adversely affected. Furthermore, although Discovery Air maintains insurance against the principal risks arising from aviation accidents, the coverage provided by its insurance is subject to limits, including exclusions and coverage limits, which could cause the Corporation to incur direct financial exposure if the liability arising from an accident exceeded its coverage limit or were excluded from coverage. The foregoing hazards, factors, limitations and other considerations could have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares could decline or become worthless.

While safety is a primary consideration for Discovery Air and its customers, no assurances can be given that the Corporation will be able to operate without significant incident. For example, in 2014 and 2015 to date, the Corporation's aviation subsidiaries had a forced airplane landing due to weather and two helicopter accidents, one of which regrettably resulted in the fatality of an employee.

In Fiscal Year 2013, Discovery Air formed a company-wide safety committee comprised of flight and occupational health and safety representatives from each of the Corporation's subsidiaries. This committee meets regularly to collaborate on safety initiatives, review reported safety incidents, their causes and corrective action plans, and share best practices with a view to facilitating each subsidiary's continuous improvement efforts. However, no assurances can be given that this committee, or other of the Corporation's safety initiatives, will be able to prevent any particular future incident.

Additional funding for Pursuit of Growth Projects

In order to continue to fund growth projects at Defence Services, the Corporation will require additional financing in Fiscal Year 2016. There can be no assurance that the Corporation will be able to secure such additional financing on terms acceptable to the Corporation. If the Corporation is unable to secure such financing on terms acceptable to it, the Corporation may need to curtail further expenditures on growth projects at Defence Services, which could impair the ability of Defence Services and its U.S. subsidiaries to secure a combat support contract with the U.S.

Government.

If, in addition to being unable to secure such additional financing, the Corporation's financial condition deteriorates further, the Corporation may be unable to maintain adequate liquidity solely by curtailing expenditures on growth projects. In such case, the Corporation may be unable to pay its debts as they become due. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Sale of Underutilized Aircraft And Other Non-Core Assets

The Corporation continually reviews its fleet to determine whether to dispose of any underutilized aircraft or other assets. There can be no assurance as to if and when any of the other underutilized aircraft or assets will be sold and, if so, whether the sale prices will be at or above their carrying value. Proceeds from the sale of aircraft and other assets will be used to pay down outstanding loan balances, or provide additional working capital for the Corporation or purchase other required assets. Should the value realized on the sale of assets be lower than their associated loan balances, the Corporation may be required to use additional cash from operations to repay the deficiency. The timing of these sales will be dependent on the demand from purchasers, which is currently not determinable.

Attraction and Retention of Required Human Resources

Qualified pilots, aircraft mechanics and other highly trained personnel are in high demand and are likely to remain a scarce resource for the foreseeable future. This is made even more challenging by the Corporation's need to place personnel in remote geographic locations and by the need to meet high minimum levels of experience stipulated by some of Discovery Air's largest customers. If the Corporation is unable to successfully attract and retain personnel possessing the skills and experience required for its business at a sustainable cost, it may be unable to profitably retain its most profitable customers and/or grow the business.

The compensation paid by the Corporation and its subsidiaries to their employees is, in most cases, competitive in the geographic areas in which it operates. Discovery Air periodically reviews its compensation practices and adjusts them when necessary or advisable having regard to market conditions.

The Corporation's management acknowledges, however, there are a number of factors unrelated to compensation that affect Discovery Air's ability to attract and retain the human resources it requires to be successful. In this regard, the Corporation conducted an employee survey in February 2013 aimed at identifying the principal drivers of satisfaction and dissatisfaction among its employees. Discovery Air used this information to develop human resources programs and practices aimed at enhancing employee engagement and improving the Corporation's ability to attract and retain qualified personnel.

Non-Principal Risks

The discussion below describes risks that could have a significant impact on the Corporation but which, due to their most recently assessed probability and impact, are not considered to be principal risks. These risks are organized into the following categories: Business and Operational Risks; Financial Risks; and Industry Risks.

As indicated above, the significance of these risks may change over time. Furthermore, certain risks that the Corporation has not yet identified, or that it currently considers to be immaterial, may be or may become principal or otherwise significant risks.

Business and Operational Risks

Risks to CATS Contract and ICATS Standing Offers

Substantially all of Defence Services' revenues and earnings are derived from the Standing Offers. Once awarded by PWGSC, through a formal procurement process, a long-term CATS Contract will replace the Standing Offers. Therefore, if Defence Services is not awarded the CATS Contract or is only able to secure the CATS Contract on significantly reduced profit margins, the Corporation's revenues, EBITDA and cash flows would be materially adversely affected. This could result in the Corporation being unable to meet its obligations as they become due and/or breaching its debt covenants. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the

Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

PWGSC is in the process of auditing the profit earned by Defence Services under the ICATS Standing Offers for the period February 1, 2010 to January 31, 2013. Since the rates charged by Defence Services under the ICATS Standing Offers are based on fixed hourly rates (as opposed to a fixed margin), the implications of the audit (if any) are not determinable at this time.

The Corporation is undertaking a number of actions to mitigate the probability and impact of this risk materializing, including pursuing combat support services opportunities in international markets. To this end, Defence Services completed the ATSI acquisition, secured the German Contract and (through its subsidiary) entered into the Sale Agreement in order to source a fleet of supersonic and high subsonic aircraft that management expects will position Defence Services to secure new business in the U.S. and international combat support markets.

TPT Approval for the F-16 and A-4N Aircraft

In order to complete the Initial Purchase and certain upgrades and transport of the aircraft, Defence Services or its U.S. subsidiaries must first obtain TPT Approval (among other regulatory approvals). A number of factors could adversely affect the ability of Defence Services to obtain TPT approval, including changes in government policy, laws or political factors with respect to the operation of ex-military aircraft. Furthermore, given the complexity of the regulatory approval process, there can be no assurances as to whether the required approvals will be obtained, the timing of any such approvals, or conditions or limitations which may accompany any such approval. Although Defence Services is permitted to apply for TPT Approval under the Standing Offers, there is no assurance that TPT Approval would be granted for this use.

Financing for the Purchase of the F-16 and A-4N Aircraft

In order to complete the Initial Purchase, the Corporation will require approximately USD $40 to $50 million The Corporation is in discussions with various funding sources but has not yet agreed to any terms for any such financing. Furthermore, there can be no assurances that any such financing will be available to the Corporation on acceptable terms, or at all, once the TPT Approval and all ancillary regulatory approvals have been obtained.
Additionally, the Corporation will require significant further capital should it proceed to exercise all of its options and rights of first refusal under the Sale Agreement.

Challenges to Growing the Corporation's Business if the Sale Agreement is not Completed

The Corporation believes that the F-16 and A-4N aircraft will, if ultimately acquired by Defence Services, provide Defence Services with the most advanced fleet of combat support aircraft in the world and, accordingly, provide Defence Services with a highly competitive offering with which to grow in the U.S. and international combat support markets. If the Corporation is unable to obtain TPT Approval and complete the purchase of the F-16 and A-4N aircraft, Defence Services' prospects for competitive advantage in the U.S. and international combat support markets will be significantly reduced. Although Defence Services may continue to pursue revenue diversification in the U.S. and other international jurisdictions leveraging the strength of its track record as an experienced combat support services provider, the Corporation believes that the lack of an advanced offering, such as the F-16 aircraft, would limit Defence Services' growth prospects. Absent the identification and execution of significant, offsetting growth opportunities in the Corporation's other subsidiaries, the Corporation's long-term growth prospects may be limited.

In the event that the Corporation fails to grow revenues, it may not be able to generate sufficient EBITDA and cash flows to remain in compliance with its debt covenants beyond Fiscal Year 2016. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events could have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Political and Economic Risks in Foreign Jurisdictions

Through its subsidiaries, the Corporation began providing helicopter services in Peru in 2010 and Chile in February 2012 and began operations in Germany in January 2015. The Corporation is also actively seeking additional opportunities to expand its business into jurisdictions where there is a demand for its services, where appropriate risk-adjusted returns can be earned and where the Corporation is able to maintain the flight safety standards comparable to those employed in its Canadian operations. It is possible that political and economic conditions in foreign jurisdictions in which the Corporation's subsidiaries operate could change in a manner unfavourable to the Corporation. Such changes could include, among other things, changes in laws affecting ownership of assets, taxation, rates of exchange, safety standards, environmental protection, labour relations, repatriation of income or return of capital, all or any of which could adversely affect the ability of the Corporation's subsidiaries to continue carrying on business in such jurisdictions.

Importance of Aboriginal Relationships

The Aboriginal joint ventures to which the Corporation's subsidiaries are parties are important to the success of those subsidiaries. An inability to maintain such relationships and comply with local requirements could adversely affect the Corporation's business in northern and western Canada.

Competitive Conditions

Specialty aviation services are typically purchased through competitive bid processes in which proponents compete on the basis of their reputation for safety, dispatch reliability, service quality, aircraft specifications and availability, operational experience, reputation and pricing.

For example, the Corporation believes GSH's large fleet and record for quality provide a competitive advantage in the helicopter services industry. However, the industry has a large number of operators whose fleet ranges from one or two aircraft to more than twenty, and so the environment for helicopter services remains competitive.

Further, while the Corporation believes that Defence Services is the only Canadian-based aviation services company that is currently operationally capable of performing airborne training services for the Canadian Armed Forces, there is no assurance that operationally capable competitors for these services will not emerge in the future.

The Corporation also believes that Fire Services is the only Ontario-based company currently equipped and qualified to provide primary airborne fire management services to the Government of Ontario; however, future Ontario-based or current or future out-of-province operators may elect to compete against Fire Services to provide these services.
With respect to Technical Services, the Corporation believes that its competitive advantages include Technical Services' ability to provide competitive pricing and the range of services it can offer to its customers. Technical Services' present service offering includes traditional MRO work, engineering and certification services as well as component support and maintenance for customers such as Canadian North. Notwithstanding such advantages, the MRO industry remains highly competitive in Canada and abroad.

Finally, the Corporation believes that Air Tindi's competitive advantages include its strategic network of loyal clients, strong aboriginal joint-ventures, and highly experienced, long standing staff. Notwithstanding such advantages, the aviation market in Yellowknife and the northern territories remains stagnant as a result of few new junior mining exploration clients entering the market.

Financial Risks

Foreign Currency Fluctuations

Much of the revenues and expenses from the Corporation's growing foreign operations are primarily in U.S. Dollars, which increases its exposure to foreign currency risk. The Corporation also incurs payment obligations on the purchase of aircraft, maintenance expenditures related to overhauls and spare parts procurement in U.S. dollars and Euros.

Furthermore, Defence Services may receive all or a substantial portion of its revenues under the German Contract in Canadian Dollars even though a majority or a significant portion of its expenses in incurred in connection with that contract are expected to be incurred in Euros and U.S. Dollars.

As of January 31, 2015, the Corporation evaluated the currency risk on unhedged foreign currency liabilities by assessing the impact of a 5.0% rise or fall in the Canadian dollar against the foreign currencies, with all other variables unchanged. Such an exchange rate change would have a $0.3 million impact on the Corporation's loss and equity for the year ended January 31, 2015. This impact would be offset by the change in foreign currency accounts receivables, netting to an immaterial impact.

Changes in Interest Rates

As of January 31, 2015, a substantial portion of the Corporation's debt bears a fixed rate of interest, with $32 million of loans and borrowings subject to variable rates. The Corporation may be exposed to future financial risk from fluctuations in interest rates and the resulting interest expense associated with its short-term and long-term debt. A 25 basis point increase or decrease in interest rates on such debt obligations would impact the Corporation's annual interest expense by approximately $0.1 million.

Industry Risks

Industry Regulation

The air transport industry is subject to a number of aviation, environmental, employment, competition and other laws relating to various aspects of the business. These laws generally require aircraft operators and maintenance facilities to maintain and comply with the terms of a variety of certificates, permits, licences or approvals. As an air operator, Defence Services is subject to the same regulatory provisions as the Corporation's other subsidiaries; however, the military nature of its operations and equipment subject Defence Services to regulatory approval under the airworthiness rules of the Canadian Armed Forces and to additional government regulations, including the Controlled Goods Regulations (Canada), the ITAR and similar foreign regulations.

Furthermore and with respect to aviation laws, the ability of GSH, Air Tindi, Defence Services, Technical Services and Fire Services to conduct business depends on their ability to comply with applicable regulatory requirements. Although the Corporation and its subsidiaries are committed to complying with all applicable laws, there is no assurance that it will be in full compliance with all requirements at all times.

In addition, the Corporation's aviation subsidiaries are subject to routine audits by Transport Canada to ensure compliance with all applicable flight operation and aircraft maintenance requirements. Defence Services also undergoes regular audits by DND Operational and Technical Airworthiness authorities. Failure to pass such audits could result in fines or the grounding of aircraft.

Environmental Conditions

The demand for certain services which the Corporation's subsidiaries offer are subject to environmental conditions, which in turn affect the number of flight hours booked in a given reporting period. For example, a significant portion of Fire Services' revenues is dependent on the level of forest fire activity in Ontario, and weather conditions which decrease the likelihood of such activity during the forest fire peak season (May through to September) would decrease the revenues Fire Services may be able to earn in a fiscal year. Similarly, air operations are affected across all subsidiaries by weather. Unusually harsh conditions may affect the ability to complete operations.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Fiscal Year 2015 audited consolidated financial statements have been prepared in accordance with IFRS. Management is often required to make judgments, assumptions and estimates that affect the carrying amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. The Corporation's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about accounting policies and the carrying value of assets and liabilities. Significant items subject to such estimates, assumptions and judgments include the carrying amount of property and equipment, intangibles and goodwill, valuation allowances for receivables, inventories, stock-based compensation and contingent liabilities related to lawsuits. Actual results could differ from these estimates.

The significant accounting policies used in the preparation of the audited consolidated financial statements are summarized in Note 3 of the audited consolidated financial statements in Fiscal Year 2015 and Fiscal Year 2014. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the audited consolidated financial statements.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. In particular, aircraft airframes, engines and components are inspected, repaired and overhauled at pre-specified intervals. These subsequent costs are capitalized, as incurred, when the above criteria are met and amortized over their useful life based on hours flown. The carrying amount of a major inspection is derecognized if a new major inspection is completed.

When major parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of that property and equipment.

The cost of day-to-day servicing of property and equipment is recognized in profit and loss when incurred.
Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

Depreciation is calculated using the "depreciable amount", which is the cost of an asset, or other amount substituted for cost, less its residual value, on either a straight line basis, or flight hours. If the useful lives of significant components of individual assets have a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment.

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred by the Corporation, including the recognized amount of any non-controlling interest in the acquiree, over the Corporation's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

Impairment

Financial Assets

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, or indications that a debtor or issuer will enter bankruptcy.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through an allowance account and the amount of the loss is recognized in profit or loss.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

Non-financial assets

Assets that have an indefinite useful life, (goodwill and trade names), are not subject to amortization and are tested for impairment annually in the Corporation's fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (a cash-generating unit or "**CGU**").

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized in profit or loss for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Previously impaired financial assets other than goodwill are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Income tax

Income tax expense for the period is comprised of current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized in other comprehensive income or directly in equity.

Current income tax is the expected tax payable calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Corporation intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock-based compensation

Equity-settled transactions

The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. An option valuation model is used to fair value the stock options on the grant date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Cash-settled transactions

The Corporation has a deferred share unit ("**DSU**") plan for directors as described in note 15 of the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2014 and 2013. These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at the end of each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

Provisions

Provisions are recognized when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can been reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at management's best estimate of the expenditures expected to be required to settle the obligation at the balance sheet date. Where material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in a provision due to passage of time is recognized as finance cost.

RECENTLY ISSUED STANDARDS

Unless otherwise noted, the following revised standards and amendments are effective for the Corporation on or after February 1, 2014.

In July 2014, the IASB issued IFRS 9, Financial Instruments ("IFRS 9"). IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. IFRS 9 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("IFRS 15"). IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

NON-IFRS MEASURES

Management believes "**EBITDA**" to be an important metric in measuring the performance of the Corporation's day-to-day operations. This measurement is useful in assessing the Corporation's ability to service debt and to meet other payment obligations, and as a basis for valuation. "**EBITDAR**" is a measure commonly used in the aviation industry to evaluate results by excluding differences in the method by which companies finance aircraft.

The following is a reconciliation of EBITDA and EBITDAR to net profit (loss):

	Three months ended January 31		For the years ended January 31	
(thousands of Canadian dollars)	**2015**	2014	**2015**	2014
Net loss attributable to shareholders' of Discovery Air Inc.	**$ (15,182)**	$ (21,440)	**$ (18,881)**	$ (17,955)
Income tax recovery	**(3,264)**	(6,660)	**(5,444)**	(5,663)
Impairment loss	**294**	8,366	**294**	9,169
Gain on contingent consideration for business acquisition	**-**	-	**-**	(1,248)
Gain on disposal of subsidiary	**-**	-	**-**	(414)
Finance costs	**5,067**	5,106	**18,838**	17,561
Depreciation of property, equipment and intangible assets	**4,866**	4,810	**21,218**	22,985
Gain on disposal of property and equipment	**33**	50	**(948)**	19
Impairment of long term service contract	**-**	-	**970**	-
Non-controlling interest	**-**	304	**-**	304
EBITDA	**$ (8,186)**	$ (9,464)	**$ 16,047**	$ 24,758
Aircraft lease expenses	**1,890**	1,762	**12,330**	14,353
EBITDAR	**$ (6,296)**	$ (7,702)	**$ 28,377**	$ 39,111

"**Adjusted profit (loss)**" refers to net profit (loss) attributable to shareholders of Discovery Air Inc. excluding a non-recurring gain on extinguishment of debt, gains and losses on disposal of property and equipment, gains on acquisitions and disposals, gains and losses resulting from the change in fair value of financial liabilities, and impairment loss, net of related taxes. Management believes Adjusted profit (loss) better reflects the Corporation's operational performance. Adjusted profit (loss) per common share is equal to profit (loss) attributable to shareholders of Discovery Air Inc. per share excluding the above noted items.

The following is a reconciliation of Adjusted profit (loss) to net profit (loss):

	Three months ended January 31		For the year ended January 31	
(thousands of Canadian dollars)	**2015**	2014	**2015**	2014
Net loss attributable to shareholders of Discovery Air Inc.	**$ (15,182)**	$ (21,440)	**$ (18,881)**	$ (17,955)
(Gain) loss on disposal of property and equipment	**33**	50	**(948)**	19
Tax effect on disposal of property and equipment	**(9)**	-	**256**	-
Impairment of long term service contract	**-**	-	**970**	-
Tax effect on Impairment of long term service contract	**-**	-	**(262)**	-
Impairment loss	**294**	8,366	**294**	9,169
Tax effect on impairment loss	**(79)**	(2,075)	**(79)**	(2,291)
Gain on sale of subsidiary	**-**	-	**-**	(414)
Tax effect on gain on sale of subsidiary	**-**	-	**-**	13
Gain on contingent consideration for business acquisition	**-**	-	**-**	(1,248)
Restricturing costs	**-**	304	**-**	304
Adjusted profit (loss)	**$ (14,943)**	$ (14,795)	**$ (18,650)**	$ (12,403)

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended January 31, 2015 (unaudited)			Three months ended January 31, 2014 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 26,837**	**$ 7,486**	**$ 34,323**	$ 24,886	$ 7,752	$ 32,638
Expenses	**30,344**	**12,164**	**42,508**	31,923	10,624	42,547
Share of (profit) loss from associates	**1**	**-**	**1**	(104)	(341)	(445)
EBITDA	**$ (3,508)**	**$ (4,678)**	**$ (8,186)**	$ (6,933)	$ (2,531)	$ (9,464)
Aircraft lease expenses	**1,890**	**-**	**1,890**	1,762	-	1,762
EBITDAR	**$ (1,618)**	**$ (4,678)**	**$ (6,296)**	$ (5,171)	$ (2,531)	$ (7,702)

(thousands of Canadian dollars)	For the year ended January 31, 2015 (unaudited)			For the year ended January 31, 2014 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 159,936**	**$ 30,843**	**$ 190,779**	$ 182,351	$ 31,175	$ 213,526
Expenses	**135,542**	**40,604**	**176,146**	147,757	42,815	190,572
Share of profit from associates	**(1,408)**	**(6)**	**(1,414)**	(390)	(1,414)	(1,804)
EBITDA	**$ 25,802**	**$ (9,755)**	**$ 16,047**	$ 34,984	$ (10,226)	$ 24,758
Aircraft lease expenses	**12,330**	**-**	**12,330**	14,353		14,353
EBITDAR	**$ 38,132**	**$ (9,755)**	**$ 28,377**	$ 49,337	$ (10,226)	$ 39,111

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)					(unaudited)			
	Jan-15	Oct-14	Jul-14	Apr-14	Jan-14	Oct-13	Jul-13	Apr-13
Results of operations:								
Total Revenue	**$ 34,323**	$ 58,560	$ 56,813	$ 41,083	$ 32,638	$ 64,985	$ 72,308	$ 43,594
EBITDA	**$ (8,186)**	$ 14,367	$ 10,825	$ (959)	$ (9,464)	$ 15,394	$ 21,017	$ (2,190)
Cash from (used in) operations	**$ 11,753**	$ 6,005	$ (2,506)	$ (10,102)	$ 10,992	$ 14,995	$ 5,360	$ (13,468)
Adjusted profit (loss)*	**$ (14,943)**	$ 3,384	$ 570	$ (7,748)	$ (14,795)	$ 3,624	$ 7,572	$ (8,804)
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ (15,182)**	$ 2,926	$ 1,111	$ (7,736)	$ (21,440)	$ 3,050	$ 9,239	$ (8,804)
Basic earnings (loss) per share	**$ (0.44)**	$ 0.08	$ 0.03	$ (0.48)	$ (1.34)	$ 0.19	$ 0.58	$ (0.55)
Basic adjusted profit (loss) per share*	**$ (0.43)**	$ 0.10	$ 0.02	$ (0.48)	$ (0.92)	$ 0.23	$ 0.47	$ (0.55)
Diluted earnings (loss) per share	**$ (0.44)**	$ 0.08	$ 0.03	$ (0.48)	$ (1.34)	$ 0.18	$ 0.38	$ (0.55)
Diluted adjusted profit (loss) per share*	**$ (0.43)**	$ 0.10	$ 0.02	$ (0.48)	$ (0.92)	$ 0.20	$ 0.33	$ (0.55)

*See "Non-IFRS Measures"

Seasonality and Quarterly Fluctuations

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors can affect the comparability of results from one period to another, particularly from quarter to quarter.

- In Canada, demand for the services provided by the Aviation segment is higher commencing in the spring and continuing through the end of the summer.
- Defence Services revenue-generation opportunities are usually significantly higher in the February to June and September to November time periods. Though Defence Services' revenues are relatively predictable over a 12

month period, they can vary substantially from month to month depending on the customers' training priorities and, on occasion, weather conditions.

- The Corporation attempts to perform most major repairs and refurbishments during the slower periods of revenue-generating activity. Since repairs and maintenance on aircraft are not required evenly throughout the year, the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on flight activity from one period to another, particularly as it relates to forest fire suppression operations.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS ("ICFR")

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Corporation is identified and communicated to the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, in order to allow timely decisions regarding required disclosure.

The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on the Corporation's evaluation as at January 31, 2015, that the Corporation's disclosure controls and procedures are effective and provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, required to be disclosed in reports that the Corporation files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Management is also responsible for, and has designed, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer evaluated the design and effectiveness of the Corporation's ICFR based on the Internal Control – Integrated Framework (2013) (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management has concluded that as at January 31, 2015, the Corporation's internal controls over financial reporting were effective. There have been no changes to the design of internal controls over financial reporting that occurred during the quarter ended January 31, 2015 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

Due to its inherent limitations, ICFR can provide only a reasonable level of assurance and may not prevent all errors and fraud or detect misstatements. Furthermore, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

DEFINITIONS

In this MD&A, the following terms have the meanings ascribed to them below:

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal Year 2013**" means the fiscal year of the Corporation ended January 31, 2013;
(e) "**Fiscal Year 2014**" means the fiscal year of the Corporation ended January 31, 2014;
(f) "**Fiscal Year 2015**" means the fiscal year of the Corporation ended January 31, 2015;
(g) "**Fiscal Year 2016**" means the fiscal year of the Corporation ended January 31, 2016;
(h) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of January 31, 2015, had an adjusted principal amount of $96,188,906 (inclusive of accrued interest); and
(i) "**Shares**" means the Class A Shares and the Class B Shares.
(j) "**Working Capital**" means current assets less current liabilities excluding current portion of loans and borrowings and operating line of credit.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this MD&A contains forward-looking statements relating to: the seasonality of the Corporation's business; its business development; the impact of current economic conditions on the results of its operations and/or financial condition; management's outlook for the future; management's ability to reduce costs and/or contain them at their existing levels; management's ability to continue to manage working capital effectively; the impact of weather conditions on the results of the Corporation's operations and/or financial condition; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet its debt covenants and other terms and conditions of its credit agreements; and plans and/or requirements to make new capital investments.

All forward-looking information and statements presented in this document are based on reasonable assumptions, estimates and analysis that take into account management's experience and perception of trends and interpretation of external factors, such as economic conditions. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the Corporation's ability to secure operating contracts; the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Corporation conducts operations; the effects of changes in interest rates; the effects of competition in the markets in which the Corporation operates; inflation; capital market fluctuations, including the availability of equity and/or debt capital to the Corporation; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings and decisions; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implied by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking information and statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

Additional information relating to the Corporation, including the Corporation's Annual Information Form which contains a further discussion of risk factors, can be found on SEDAR at www.sedar.com.

Dated: April 27, 2015