DISCOVERY AIR

FIRST QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month Period ended April 30, 2015

*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 three months ended April 30, 2015 should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related notes as at April 30, 2015, the annual audited consolidated financial statements and related notes for the year ended January 31, 2015, and the annual MD&A for the year ended January 31, 2015, all of 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 148 aircraft with approximately 910 team members. Its subsidiaries provide airborne training to the Canadian and German military, helicopter services, medevac equipped aircraft 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**"), primarily provides 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

	Three months ended April 30 (unaudited)		
(thousands of Canadian dollars, except per share amounts)	2015	2014	% change
Results of operations			
Revenue	**$ 42,415**	$ 41,083	*3%*
Expenses	**$ 40,620**	$ 42,492	*-4%*
Depreciation of property, equipment and intangible assets	**$ 5,090**	$ 5,273	*-3%*
	$ (3,295)	$ (6,682)	*51%*
Finance costs	**$ 4,511**	$ 4,669	*-3%*
Loss attributable to shareholders of Discovery Air Inc.	**$ (4,454)**	$ (7,736)	*-42%*
Basic and diluted loss per share	**$ (0.07)**	$ (0.48)	*-85%*
Financial position and liquidity			
Total assets	**$ 329,142**	$ 309,238	*6%*
Total debt	**$ 179,642**	$ 188,128	*-5%*
Cash used in operations	**$ (9,793)**	$ (10,102)	*-3%*
Working Capital*	**$ 48,136**	$ 39,774	*21%*
Key non-IFRS performance measures* (unaudited)			
Adjusted profit (loss)	**$ (5,354)**	$ (7,748)	*-31%*
Basic and diluted Adjusted profit (loss) per share	**$ (0.09)**	$ (0.48)	*-81%*
EBITDAR	**$ 5,241**	$ 1,130	*364%*
EBITDA	**$ 2,421**	$ (959)	*352%*
EBITDA Margin	**6%**	-2%	

* 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. Each aircraft was primarily financed by an 8 year secured term loan, totalling USD $11.9 million (CAD $15.1 million) from a related party of the aircraft vendor.

- 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. (see "Shareholders Equity" below)

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

- On May 26, 2015, the Corporation renewed the operating line of credit ("**New Operating Line**") to replace the Operating Line. The New Operating Line matures on June 30, 2017, and increases the borrowing limit to $30.0 million during the Corporation's peak season and $20.0 million outside of the peak season (see "Financing Activities" below).

Consolidated Results

Three months ended April 30, 2015

Revenue

Quarterly revenues were $42.4 million, a 3% increase when compared to the three months ended April 30, 2014 (the "**comparative period**"). The Aviation segment experienced increased activity (a $6.0 million or 19% increase from the comparative period) in forest fire suppression operations in South America and airborne training in Germany. The Corporate Support and Other segment reported a decline in revenues (a $4.7 million or 51% decrease from the comparative period).

The Corporation's two largest customer sectors are government and resource-based. Revenues from the government sector represented 67% of total revenues compared to 50% in the comparative period. The Corporation's revenues from resource-based customers represented 16% of total revenues compared to 17% in the comparative period. The increase in the government sector is primarily attributable to the increase in forest fire suppression operations in South America and the commencement of airborne training services to the German Armed Forces (the "**German Contract**").

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 were $40.6 million, a 4% decrease from the comparative period. Cost saving initiatives implemented in the latter part of Fiscal Year 2015 (defined below) were partially offset by increased variable based costs related to increased flying hours.

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

Quarterly EBITDA was $2.4 million compared to EBITDA loss of $1.0 million in the comparative period, with the improved EBITDA largely attributable to increased flight hour activity and operational efficiencies in the quarter.

EBITDAR in the quarter was $5.2 million compared to $1.1 million in the comparative period. While increased flight hours improved EBITDA in the quarter, it also increased aircraft leasing expense by 35% to $2.8 million as compared to $2.1 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 $5.1 million, a 3% decrease from the comparative period and consistent with increased lease expense.

Finance costs were $4.5 million in the quarter, a 3% decrease from the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were consistent with the comparative period at $2.8 million. The decrease in finance costs is primarily attributable to reduced average loan balances outstanding in the current period.

The Corporation's quarterly income tax recovery was $1.6 million, compared to $3.2 million in the comparative period. The effective tax rate for the quarter was consistent with the Corporation's statutory income tax rate of 27%. In the comparative period, the effective income tax rate of 29% 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 $4.5 million ($0.07 basic and diluted loss per share on weighted average outstanding shares of 60,143,000) compared to a loss of $7.7 million ($0.48 basic and diluted loss per share on weighted average outstanding shares 16,115,760) in the comparative period. Excluding the tax effected non-cash gains and losses noted below (see "Adjusted profit (loss)" below), Adjusted loss was $5.4 million ($0.09 basic and diluted Adjusted loss per share) compared to $7.7 million ($0.48 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 permitted 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 April 30, 2015 and 2014 was below the conversion price of the Unsecured Debentures and Secured Debentures (as defined below), 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.

Aviation Segment

		(unaudited)			
		2015		2014	*% Change*
Revenue	**$**	**37,985**	$	31,965	*19%*
Expenses		**33,723**		32,127	*5%*
Share of (profit) loss from associates		**(615)**		14	*-4493%*
EBITDA	**$**	**4,877**	$	(176)	*2871%*
Aircraft lease expense		**2,820**		2,089	*35%*
EBITDAR	**$**	**7,697**	$	1,913	*302%*
Capital expenditures	**$**	**6,782**	$	3,994	*70%*

		As at April 30			
		(unaudited)			
		2015		2014	*% Change*
Total assets	**$**	**313,419**	$	280,728	*12%*
Goodwill	**$**	**37,861**	$	37,861	*0%*
Intangible assets	**$**	**2,080**	$	4,988	*-58%*

Three months ended April 30, 2015

The Aviation segment's quarterly revenues were $38.0 million on 11,000 flight hours, compared to revenue of $32.0 million on 10,100 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 and the commencement of the German Contract in January 2015.

Aviation segment quarterly expenses were $33.7 million (or 89% of revenues) in the current quarter compared to $32.1 million (or 101% of revenues) in the comparative period. The 5% increase in expenses is mainly attributable to increased flight hours, partially offset by cost savings measures implemented during the latter part of Fiscal Year 2015.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $13.0 million (or 34% of revenues) compared to $12.3 million (or 38% 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 $10.1 million (or 27% of revenues), compared to $9.3 million (or 29% 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 21% of revenues) in the quarter compared to $7.4 million (or 23% of revenues) in the comparative period, with the increase primarily due to increased travel and marketing costs related to the startup of German operations and Defence Services business development.

The profit from associates was $0.6 million compared to nil in the comparative period. The increase is attributable to the transfer of the equity holdings in Global Aviation Tools and Equipment (GATE) Inc. from Technical Services to Defence Services in the second quarter of Fiscal Year 2015.

The segment's quarterly EBITDA was $4.9 million compared to an EBITDA loss of $0.2 million in the comparative period, with the increase in EBITDA attributable to increased revenues and cost saving measures implemented during latter part of Fiscal Year 2015. EBITDAR was $7.7 million compared to an EBITDAR of $1.9 million in the comparative period. The increase in EBITDAR is primarily due to the increase in EBITDA and increased aircraft lease expense related to significantly higher forest fire suppression operations in South America.

Depreciation expense in the current quarter was $4.7 million (or 12% of revenues) compared to $4.8 million (or 15% of revenues) in the comparative period, representing a nominal decrease.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended April 30 (unaudited)				
		2015		2014	*% Change*
Revenue	**$**	**4,430**	$	9,118	*-51%*
Expenses		**6,897**		10,365	*-33%*
Share of profit from associates		**(11)**		(464)	*-98%*
EBITDA	**$**	**(2,456)**	$	(783)	*-214%*
Capital expenditures	**$**	**234**	$	140	*67%*
	As at April 30 (unaudited)				
		2015		2014	*% Change*
Total assets	**$**	**15,723**	$	28,510	*-45%*
Intangible assets	**$**	**118**	$	295	*-60%*

Three months ended April 30, 2015

Corporate Support and Other revenues were $4.4 million in the quarter compared to $9.1 million in the comparative period. The 51% decrease in revenue reflects decreased MRO activities and softness in the mining industry.

The segment incurred expenses totaling $6.9 million compared to $10.4 million in the comparative period, a decrease of 33%.

The segment reported an EBITDA loss of $2.5 million in the quarter, compared to an EBITDA loss of $0.8 million in the comparative period. The increase in EBITDA loss was due to decreased revenues, partially offset by significantly reduced variable based costs in the MRO and Mining Services businesses, and the transfer of the investment in GATE, as outlined above.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	Three months ended April 30 (unaudited)			
(thousands of Canadian dollars)		**2015**		2014
Operating activities	**$**	**(9,793)**	$	(10,102)
Investing activities		**(5,573)**		(3,991)
Financing activities		**14,864**		14,093
Exchange gain on cash held in foreign currency		**225**		-
Net decrease in cash for the period	**$**	**(277)**	$	-

Operating Activities

Cash used by operating activities for the three months ended April 30, 2015 was $9.8 million, a $0.3 million decrease over the comparative period. The favourable variance was largely attributable to a $3.4 million increase in EBITDA partially offset by an incremental $3.1 million investment in non-cash working capital.

Working Capital

As at April 30, 2015, the Corporation had positive Working Capital of $48.1 million, compared to a Working Capital position of $39.0 million at January 31, 2015 and $39.8 million as at April 30, 2014. The current ratio of Working Capital was 2.5 as at April 30, 2015, 2.3 at January 31, 2015 and 2.2 as at April 30, 2014.

There are no significant commitments for any expenditure that would significantly change the Corporation's working capital requirements for existing 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.

Investing Activities

Net cash outlays for investing activities was $5.6 million compared to $4.0 million in the comparative period. Capital expenditures of $7.0 million were comprised of net cash outlays (net of financing) of $3.3 million for the purchase of four aircraft and modifications on these and other recently acquired aircraft, $2.4 million of Defence Services growth initiatives $2.1 million for sustaining capital expenditures and aircraft overhaul costs, with a partial offset of $0.8 million due to expenditures financed by working capital. The comparative period's capital expenditures of $4.1 million were comprised of $1.3 million of Defence Services growth initiatives and $2.8 million for sustaining capital expenditures and aircraft overhaul costs.

Total asset divestures of $1.1 million included the sale of one aircraft for proceeds of $0.8 million, and other items of property and equipment for $0.3 million.

The Corporation has invested in the combat support contract for the German Armed Forces 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 (see definition below) for further expansion of Defence Services' business.

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 (as defined below) and 2015, the Corporation placed a USD $4.1 million deposit for the acquisition of the Additional Fighter Jets which is refundable under certain conditions, including the requirement to receive approval from the U.S. Department of State. In April 2015, the Corporation entered into an unsecured short term loan agreement with Clairvest Group Inc. ("**Clairvest**") to finance additional deposits of US $2.6 million towards further options under this contract. These deposits are also refundable under certain conditions.

Financing Activities

As at April 30, 2015, the Corporation had unused borrowing capacity of $1.7 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 May 26, 2015, the Corporation entered into the New Operating Line to replace the Operating Line. The New Operating Line matures on June 30, 2017, and increases the borrowing limit to $30.0 million during the Corporation's peak season and $20.0 million outside of the peak season. Aggregate borrowings are also limited to eligible accounts receivable, inventory and aircraft parts, and an amount (no greater than $5.0 million) guaranteed by Clairvest, subject to an allowance for specific reserves. The Corporation is required to have no advances outstanding under the line of credit for thirty consecutive days during its non-peak season; this requirement is waived for the fiscal year ended January 31, 2016. The New Operating Line also includes an additional $10.0 million credit facility that is available subject to the lender receiving a letter of credit, or guarantee from Clairvest, for 103% of the amount drawn. This additional credit facility matures on May 26, 2016 with an option for the lender to extend it for an additional year.

During the three months ended April 30, 2015, the Corporation made debt payments of $6.5 million. Debt payments consisted of $1.5 million of scheduled term debt repayments and $5.0 million in capitalized interest on the Secured Debentures. In the comparative period, the Corporation made debt payments of $23.7 million, consisting of $20.4 million to refinance five loans and $3.3 million of scheduled debt payments.

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.

On March 16, 2015, $5.0 million of accrued interest was repaid upon completing the Recent Offering. As a result of the repayment the Secured Debentures are convertible into 8,814,148 Shares (formerly, 9,291,824 Shares)

On May 26, 2015, the Secured Debenture holders, Clairvest, agreed to extend the maturity date to September 30, 2017 and amend covenants (noted below).

On March 22, 2015, $3.5 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at April 30, 2015, the loan balance included accrued interest of $1.0 million (January 31, 2015 - $7.3 million).

As a result of the Recent Offering the Unsecured Debentures conversion price changed to $5.07 per Share (formerly $6.53 per Share) for a potential debt conversion to Class A Shares of 6,804,734 (adjusted from 5,283,308).

On April 1, 2015, the Corporation entered into three loan agreements, each for $5.8 million, to purchase three new aircraft and related modifications. The lender has retained $0.8 million per aircraft until the modifications are complete. The loans are expected to mature on April 1, 2023. For the period of April 1, 2015 to August 1, 2015 the Corporation will make interest only payments. The loans bear interest at the Canadian prime rate plus 3.05% per annum. Two of the loans are repayable commencing August 1, 2015 with estimated blended monthly instalments of $75,000 for twenty four months, and estimated payments of $62,000 per month thereafter, with the balance due at maturity. The third loan is repayable commencing August 1, 2015 with estimated blended monthly instalments of $80,000 for five months, followed by four months of interest only payments while modifications to the aircraft are completed, then returning to estimated blended payments of $80,000 commencing May 1, 2016 for fifteen months, and estimated payments of $64,000 per month thereafter, with the balance due at maturity. In addition, commencing on August 1, 2015 the Corporation will make monthly payments of $13,000 per aircraft to the lender for engine reserves. Transaction costs of $256,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on an effective interest rate of 6.25% per annum. The loans are secured by first charge on the aircraft purchased. The agreement requires that the Corporation observe a variety of non-financial covenants.

On March 31, 2014, the Corporation entered into a $21.5 million term loan agreement to refinance five existing loans. The loan matures on April 1, 2019 and 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. The 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 loan was 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 March 26, 2012, the Corporation entered into a $20.0 million term loan agreement to refinance a portion an existing debt. The loan matures on March 15, 2017 and is repayable in monthly instalments of $167,000 plus interest, with the balance due at maturity. The loan bears an interest rate equal to the lender's floating base rate plus 3.00% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage.

On March 3, 2015, the loan was amended to defer scheduled principal payments for six months, extend the maturity to October 15, 2017, and to reduce the minimum fixed charge coverage until and including the period ended January 31, 2016.

On April 24, 2015, the Corporation entered into a $3.1 million unsecured short term loan with Clairvest to fund additional deposits on aircraft. These deposits are included in prepaid expenses and other and are refundable under certain conditions. Total aircraft deposits included in prepaid expense and other are USD $6.7 million (CAD $7.6 million). The loan matures on June 25, 2015 and bears interest at 8% per annum. The Corporation intends to satisfy this short-term borrowing as part of the renewal of its Operating Line.

On March 30, 2015, the Corporation entered into a $1.7 million unsecured short term loan to provide additional financing for the aircraft purchased during the three months ended April 30, 2015. The loan matures on June 25, 2015 and bears interest at 8% per annum. The Corporation intends to satisfy this short-term borrowing as part of the renewal of its Operating Line.

On January 31, 2014, the Corporation entered into a $1.6 million term loan agreement to finance a previously acquired aircraft. 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 charge on the aircraft, as well as certain subsidiary guarantees and general security agreements. 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 defer 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 loan bears a fixed interest rate of 9.00% and is payable monthly. The loan is secured by a subordinated general security agreement with the Corporation and certain of its subsidiaries. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage. On March 2, 2015, the loan was amended to reduce the minimum fixed charge coverage for the remaining term of the loan.

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 March 2015, the Secured Debentures were 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. Further in May 2015, the PAR covenant was amended to 1.37:1.00 for the period ending April 30, 2016.

Lenders' consent is required 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 that the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant.

The Corporation was in compliance with all financial and non-financial covenants as at April 30, 2015.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 13 of the Corporation's interim condensed consolidated financial statements for the three months ended April 30, 2015

Shareholders' Equity

At April 30, 2015, there were 81,510,148 Class A Shares and 487,327 Class B Shares outstanding. At the same date, there were 2,395,273 stock options outstanding. During the year the Corporation issued 50,000,000 Class A shares upon completion of the Recent Offering. During the current quarter, the Corporation issued no stock options to employees and 101,340 stock options expired or were otherwise terminated in accordance with their terms.

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 three months ended April 30, 2015 was $1.4 million (April 30. 2014 - $1.3 million). In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest on a monthly pro-rata basis.

As a result of the Recent Offering, Clairvest and its affiliates acquired the majority of the issued and outstanding Shares of the Corporation.

During the three months ended April 30, 2015, the Corporation borrowed on an unsecured commercial terms basis $4.8 million from Clairvest. The loans bear interest at 8% and mature on June 25, 2015.

For the three months ended April 30, 2015, the Corporation's revenues reflect $3.1 million (April 30, 2014 - $4.2 million) and expenses of $0.9 million (April 30, 2014 - $0.4 million) from the Corporation's associates. As at April 30, 2015, $2.9 million (January 31, 2015 - $3.0 million) of the Corporation's accounts receivable were due from associates and $1.1 million (January 31, 2015 - $0.9 million) of the Corporation's accounts payable were due to associates.

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Some of those risks and uncertainties are described in this MD&A and are supplemented by risks and uncertainties described in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2015, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 30, 2015, both of which can be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the unaudited interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporation's financial condition and results. There have been no changes to the Corporation's significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2015, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

Unless otherwise noted, the following revised standards and amendments are effective for the Corporation on or after February 1, 2015.

The Corporation adopted various annual amendments including the disclosure on the aggregation of operating segments in IFRS 8, Operating Segments, and the definition of related party in IAS 24, Related Party Disclosures. The adoption of these amendments did not have a material impact on the Corporation's consolidated financial statements

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, 2018, 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 April 30 (unaudited)	
(thousands of Canadian dollars)	**2015**	2014
Net loss attributable to shareholders' of Discovery Air Inc.	**$ (4,454)**	$ (7,736)
Income tax recovery	**(1,631)**	(3,153)
Finance costs	**4,511**	4,669
Depreciation of property, equipment and intangible assets	**5,090**	5,273
Gain on disposal of property and equipment	**(1,095)**	(12)
EBITDA	**$ 2,421**	$ (959)
Aircraft lease expenses	**2,820**	2,089
EBITDAR	**$ 5,241**	$ 1,130

"**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):

(thousands of Canadian dollars)	Three months ended April 30 (unaudited) 2015	2014
Net loss attributable to shareholders of Discovery Air Inc.	**$ (4,454)**	$ (7,736)
Gain on disposal of property and equipment	**(1,095)**	(12)
Tax effect on disposal of property and equipment	**195**	
Adjusted profit (loss)	**$ (5,354)**	$ (7,748)

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	**Three months ended April 30, 2015 (unaudited)**			Three months ended April 30, 2014 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 37,985**	**$ 4,430**	**$ 42,415**	$ 31,965	$ 9,118	$ 41,083
Expenses	**33,723**	**6,897**	**40,620**	32,127	10,365	42,492
Share of (profit) loss from associates	**(615)**	**(11)**	**(626)**	14	(464)	(450)
EBITDA	**$ 4,877**	**$ (2,456)**	**$ 2,421**	$ (176)	$ (783)	$ (959)
Aircraft lease expenses	**2,820**	**-**	**2,820**	2,089	-	2,089
EBITDAR	**$ 7,697**	**$ (2,456)**	**$ 5,241**	$ 1,913	$ (783)	$ 1,130

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

(unaudited)	**Apr-15**	Jan-15	Oct-14	Jul-14	Apr-14	Jan-14	Oct-13	Jul-13
Results of operations:								
Total Revenue	**$ 42,415**	$ 34,323	$ 58,560	$ 56,813	$ 41,083	$ 32,638	$ 64,985	$ 72,308
EBITDA	**$ 2,421**	$ (8,186)	$ 14,367	$ 10,825	$ (959)	$ (9,464)	$ 15,394	$ 21,017
Cash from (used in) operations	**$ (9,793)**	$ 11,753	$ 6,005	$ (2,506)	$ (10,102)	$ 10,992	$ 14,995	$ 5,360
Adjusted profit (loss)*	**$ (5,354)**	$ (14,943)	$ 3,384	$ 570	$ (7,748)	$ (14,795)	$ 3,624	$ 7,572
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ (4,454)**	$ (15,182)	$ 2,926	$ 1,111	$ (7,736)	$ (21,440)	$ 3,050	$ 9,239
Basic earnings (loss) per share	**$ (0.07)**	$ (0.44)	$ 0.08	$ 0.03	$ (0.48)	$ (1.34)	$ 0.19	$ 0.58
Basic adjusted profit (loss) per share*	**$ (0.09)**	$ (0.43)	$ 0.10	$ 0.02	$ (0.48)	$ (0.92)	$ 0.23	$ 0.47
Diluted earnings (loss) per share	**$ (0.07)**	$ (0.44)	$ 0.08	$ 0.03	$ (0.48)	$ (1.34)	$ 0.18	$ 0.38
Diluted adjusted profit (loss) per share*	**$ (0.09)**	$ (0.43)	$ 0.10	$ 0.02	$ (0.48)	$ (0.92)	$ 0.20	$ 0.33

*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. The seasonality and quarterly fluctuations are substantially unchanged from the description found under the heading "Seasonality and Quarterly Fluctuations" in the Corporation's MD&A for the fiscal year ended January 31, 2015, which is available on SEDAR at www.sedar.com

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There were no material changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the three months ended April 30, 2015 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

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 2014**" means the fiscal year of the Corporation ended January 31, 2014;
(e) "**Fiscal Year 2015**" means the fiscal year of the Corporation ended January 31, 2015;
(f) "**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 April 30, 2015, had an adjusted principal amount of $93,394,398 (inclusive of accrued interest);
(g) "**Shares**" means the Class A Shares and the Class B Shares.
(h) "**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 dated April 30, 2015, which contains a further discussion of risk factors, can be found on SEDAR at www.sedar.com.

Dated: June 12, 2015