DISCOVERY AIR

Interim Condensed Consolidated Financial Statements
July 31, 2015
(Unaudited)

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

(thousands of Canadian dollars)	Note	July 31, 2015	January 31, 2015
Assets			
Current assets:			
Cash		**$ 221**	$ 661
Restricted cash		**22**	955
Trade and other receivables		**50,858**	27,398
Income taxes receivable		**9**	310
Inventory		**27,705**	26,851
Prepaid expenses and other		**13,002**	11,586
Assets held for sale	4	**1,773**	1,732
		93,590	69,493
Property and equipment	5	**204,942**	180,388
Long term receivables		**1,310**	1,472
Goodwill		**37,861**	37,861
Intangible assets		**1,575**	2,818
Investments in associates		**5,417**	4,715
		$ 344,695	$ 296,747
Liabilities and Shareholders' equity			
Current liabilities:			
Operating line of credit	7	**$ 31,871**	$ 11,325
Trade and other payables		**36,441**	30,525
Current portion of loans and borrowings	6	**7,827**	5,998
		76,139	47,848
Loans and borrowings	6	**173,178**	157,659
Deferred income taxes		**14,468**	16,214
		187,646	173,873
Shareholders' equity:			
Share capital	8	**93,713**	83,041
Contributed surplus		**11,884**	11,586
Deficit		**(26,707)**	(21,827)
Accumulated other comprehensive income		**2,020**	2,226
Total equity		**80,910**	75,026
		$ 344,695	$ 296,747

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Income (Loss)

(Unaudited)

(thousands of Canadian dollars, except per share amounts)	Note	For the three months ended July 31, 2015	For the three months ended July 31, 2014	For the six months ended July 31, 2015	For the six months ended July 31, 2014
Revenue		**$ 62,531**	$ 56,813	**$ 104,946**	$ 97,896
Expenses		**46,013**	46,536	**86,633**	89,028
		16,518	10,277	**18,313**	8,868
Depreciation and amortization		**5,900**	5,593	**10,990**	10,866
Finance costs		**4,904**	4,224	**9,415**	8,893
Share of profit from associates (net of income tax)		**(333)**	(548)	**(959)**	(998)
Losses (gains) on equipment	4,5	**6,475**	(626)	**5,380**	(638)
		16,946	8,643	**24,826**	18,123
Income (loss) before income taxes		**(428)**	1,634	**(6,513)**	(9,255)
Income tax provision (recovery):					
Current		**189**	78	**312**	78
Deferred		**(30)**	445	**(1,784)**	(2,708)
		159	523	**(1,472)**	(2,630)
Income (loss)		**$ (587)**	$ 1,111	**$ (5,041)**	$ (6,625)
Basic and diluted income (loss) per share	9	**$ (0.01)**	$ 0.03	**$ (0.07)**	$ (0.26)

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(thousands of Canadian dollars)	For the three months ended July 31, 2015	For the three months ended July 31, 2014	For the six months ended July 31, 2015	For the six months ended July 31, 2014
Income (loss)	**$ (587)**	$ 1,111	**$ (5,041)**	$ (6,625)
Other comprehensive income (loss):				
Exchange differences on translation of foreign operations	**1,380**	(42)	**(45)**	(511)
Total comprehensive Income (loss)	**$ 793**	$ 1,069	**$ (5,086)**	$ (7,136)

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity

(Unaudited)

(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Total equity
Balance at January 31, 2015		**$ 83,041**	**$ 11,586**	**$ (21,827)**	**$ 2,226**	**$ 75,026**
Loss		**-**	**-**	**(5,041)**	**-**	**(5,041)**
Other comprehensive income (loss)		**-**	**-**	**161**	**(206)**	**(45)**
Share-based compensation		**-**	**298**	**-**	**-**	**298**
Recent Rights Offering (net of transaction costs)	8	**10,672**	**-**	**-**	**-**	**10,672**
Balance at July 31, 2015		**$ 93,713**	**$ 11,884**	**$ (26,707)**	**$ 2,020**	**$ 80,910**
Balance at January 31, 2014		$ 68,469	$ 11,353	$ (2,946)	$ (22)	$ 76,854
Loss		-	-	(6,625)	-	(6,625)
Other comprehensive loss		-	-	-	(511)	(511)
Share-based compensation		-	109	-	-	109
Initial Rights Offering (net of transaction costs)	8	14,590	-	-	-	14,590
Balance at July 31, 2014		$ 83,059	$ 11,462	$ (9,571)	$ (533)	$ 84,417

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	Note	For the six months ended July 31, 2015	July 31, 2014
Cash provided by (used in)			
Operating activities:			
Loss		$ **(5,041)**	(6,625)
Adjustments for:			
Current tax provision		**312**	78
Deferred tax recovery		**(1,784)**	(2,708)
Finance costs		**9,415**	8,893
Share-based compensation		**298**	(171)
Depreciation and amortization		**10,990**	10,866
Share of profit from associates (net of income tax)		**(959)**	(998)
Loss (gain) on equipment		**5,380**	(638)
		18,611	8,697
Change in non-cash operating working capital	10	**(20,104)**	(20,734)
Interest paid		**(3,788)**	(3,483)
Net income taxes received		**72**	2,912
Net cash used by operating activities		**(5,209)**	(12,608)
Investing activities:			
Dividends received		**257**	735
Acquisition of property and equipment		**(17,650)**	(9,806)
Long term receivable collections		**150**	139
Proceeds on disposal of property and equipment		**2,448**	4,513
Net cash used in investing activities		**(14,795)**	(4,419)
Financing activities:			
Proceeds from operating line of credit	7	**15,716**	8,355
Loans and borrowings transaction costs		**(265)**	(228)
Proceeds from loans and borrowings	6	**1,000**	23,088
Payment of contingent consideration for business acquistion		**-**	(750)
Repayment of loans, borrowings and finance leases	6	**(8,262)**	(28,028)
Rights Offering	8	**11,000**	14,590
Net cash provided by financing activities		**19,189**	17,027
Increase (decrease) in cash		**(815)**	-
Effect of exchange rate changes on cash and cash equivalents		**375**	-
Cash, balance beginning of period		**661**	-
Cash, balance end of period		$ **221**	$ -

See accompanying notes to the interim condensed consolidated financial statements.

1. Reporting entity:

Discovery Air Inc. (the "**Corporation**") was incorporated on November 12, 2004 under the *Ontario Business Corporations Act* and on March 27, 2006 was continued under the *Canada Business Corporations Act*. The Corporation's Class A common voting shares (the "**Class A Shares**") are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "DA.A". The Corporation also has Class B common variable voting shares (the "**Class B Shares**"), which are not listed for trading on any exchange (the Class B Shares and the Class A Shares are collectively referred to as the "**Shares**"). The registered address of the Corporation is 170 Attwell Drive, Suite 370, Toronto, Ontario. The Corporation operates through two business segments, "**Aviation**" and "**Corporate Support and Other**".

2. Basis of preparation:

Statement of compliance:

The Corporation prepares its interim condensed consolidated financial statements in accordance with International Accounting Standard ("**IAS**") 34, Interim Financial Reporting. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended January 31, 2015, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation's most recent annual audited consolidated financial statements for the year ended January 31, 2015.

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 interim 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.

4. Assets held for sale:

In July 2015, the Corporation's Aviation segment accepted an offer to sell an aircraft for proceeds of USD $0.7 million. As the transaction price is below the carrying value of the asset, the Corporation recorded a loss on sale in the amount of $0.4 million representing the difference between the proceeds and the net carrying value on this aircraft. The transaction closed subsequent to the six months ended July 31, 2015. In addition, the Corporation has committed to a plan to dispose its remaining two aircraft of the same aircraft type. The fair value of these two aircraft was estimated to be $0.9 million and resulted in an impairment loss of $2.0 million recorded in the three months ended July 31, 2015.

5. Property and Equipment:

On April 1, 2015, the Corporation purchased three aircraft for USD $13.3 million (CAD $16.7 million). The purchase of each aircraft was financed by an 8 year secured term loan (see note 6(c)) and a short term loan with a related party (see note 12).

On June 22, 2015, the Corporation announced that they had signed a non-binding letter of intent ("**LOI**") to sell substantially all the assets of Discovery Air Technical Services Inc. ("**Technical Services**"). The Corporation is targeting a signed purchase agreement in the second half of fiscal 2016, however the transaction is contingent on the completion of due diligence and the satisfaction of certain conditions that are beyond the control of the Corporation. The Corporation has recognized an impairment loss of $2.0 million on the assets included in the LOI.

During the three months ended July 31, 2015, the Corporation identified one aircraft that had an estimated recoverable amount less than the carrying value. The recoverable amount was determined by reference to its fair value less cost of disposal. The Corporation recognized an impairment loss of $1.9 million on this aircraft.

6. Loans and borrowings:

(thousands of Canadian dollars)

	Note	**July 31, 2015**	January 31, 2015
10.00% secured convertible debentures, maturing September 30, 2017 ("**Secured Debentures**")	6(a)	$ 93,659	$ 93,578
8.375% unsecured convertible debentures, maturing June 30, 2018 ("**Unsecured Debentures**")	6(b)	33,654	33,206
Long-term secured debt bearing interest at prime rate plus 3.05%, maturing April 1, 2023	6(c)	16,421	-
Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019	6(d)	15,875	16,724
Long-term secured debt bearing interest of lender's base rate plus 3.00%, maturing October 15, 2017	6(e)	13,709	13,857
Short-term unsecured debt bearing a fixed interest rate of 8.00%, maturing Sept 30, 2015	6(f)	2,300	-
Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019	6(g)	1,391	1,410
Long-term unsecured debt bearing a fixed interest rate of 9.00%, maturing July 22, 2015	6(h)	-	740
Various long-term secured debt bearing fixed and floating interest rates at a weighted average of 2.3% (January 31, 2015 - 3.16%), maturing fiscal 2016 through fiscal 2018		530	606
Finance leases		3,466	3,536
Loans and borrowings		**$ 181,005**	$ 163,657
Less current portion of loans and borrowings		**$ 7,827**	$ 5,998
		$ 173,178	$ 157,659

(a) On March 16, 2015, $5.0 million of accrued interest was repaid upon completing the rights offering announced on January 19, 2015 ("**Recent Offering**") (see note 8). As a result of the repayment the Secured Debentures are convertible into 8,814,148 Shares (formerly, 9,291,824 Shares).

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 July 31, 2015, the loan balance included accrued interest of $3.3 million (January 31, 2015 - $7.3 million).

On May 26, 2015, the Secured Debenture holders, Clairvest Group Inc. and its affiliates ("**Clairvest**"), agreed to extend the maturity date to September 30, 2017 and amend covenants (see note 6(i)).

(b) As a result of the Recent Offering (see note 8) 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 (formerly 5,283,308).

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 was extended from June 30, 2016 to June 30, 2018. The extension was subject to the Corporation completing, prior to June 29, 2016, an equity offering of Shares for minimum aggregate net proceeds of $5.0 million. The Corporation satisfied the equity offering requirement upon completing the Recent Offering (see note 8).

(c) 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 $0.7 million until the modifications are complete. The loans are expected to mature on April 1, 2023. From the commencement of the loan 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 $265,000 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 6.27% per annum. The loans are secured by a first charge on the aircraft purchased. The agreement requires that the Corporation observe a variety of non-financial covenants.

(d) 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 (see note 6(i)).

(e) On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement to refinance a portion of 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 (see note 6(i)).

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.

(f) On June 2, 2015, the Corporation entered into an unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. The loan matures on September 30, 2015 and bears interest at 8% per annum. The loan is expected to be repaid through proceeds from near term asset dispositions.

(g) 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 (see note 6(i)).

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.

(h) On June 22, 2012, the Corporation entered into a $4.5 million term loan agreement to refinance a maturing debt. The loan was fully repaid on July 22, 2015.

(i) 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 value 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 September 2015, the PAR covenant was amended to 1.30:1.00 for the period ending July 31, 2016 and the Debt Leverage Covenant to 9.00:1.00 for the periods ending April 30, 2016 and July 31, 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 July 31, 2015.

Repayments on or in respect of the outstanding loans and borrowings as at July 31, 2015 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)		
Within 1 year	$	7,827
Within 2 years		99,778
Within 3 years		47,434
Within 4 years		13,471
Within 5 years		1,740
Thereafter		10,755
Total	$	181,005

Interest expense on or in respect of loans and borrowings for the three and six months ended July 31, 2015, was $4.5 million and $8.5 million (three and six months ended July 31, 2014 - $4.1 million and $8.2 million), respectively.

7. Operating line of credit:

On May 26, 2015, the Corporation entered into a new Operating Line agreement. 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 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 was 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, at 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. The Corporation is compliant with all applicable covenants as of July 31, 2015. Total transactions costs for this facility were $0.4 million.

As at July 31, 2015, the Corporation had available a borrowing capacity of $35.0 million (January 31, 2015 - $15.0 million), against which $1.4 million was applied to issue letters of credit (January 31, 2015 - $1.4 million) and $31.9 million was drawn (January 31, 2015 - $11.3 million).

8. Share capital:

(a) Issued and outstanding:

(thousands of Canadian dollars, except for shares)

	July 31, 2015			January 31, 2015		
	Shares		**Amount**	Shares		Amount
Class A Shares						
Outstanding, beginning of year	**31,510,148**	**$**	**81,622**	14,510,855	$	67,431
Issued from Initial Offering (net of transacation costs)				16,999,293		14,191
Issued from Recent Offering (net of transacation costs)	**50,000,000**		**10,672**	-		-
Outstanding, end of period	**81,510,148**	**$**	**92,294**	31,510,148	$	81,622
Class B Shares						
Outstanding, beginning of year	**487,327**	**$**	**1,419**	44,760	$	1,038
Issued from Initial Offering (net of transacation costs)	**-**		**-**	442,567		381
Outstanding, end of period	**487,327**	**$**	**1,419**	487,327	$	1,419
	81,997,475	**$**	**93,713**	31,997,475	$	83,041

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. 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).

On January 19, 2015, the Corporation announced its intent to complete the Recent Offering in order to raise up to $11.0 million of equity capital through the sale of Shares. 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 $10.7 million in net proceeds (net of transaction costs) from the issuance of 50.0 million Shares. As a result of the Recent Offering Clairvest and its affiliates' became the Corporations majority shareholder (see note 12(a)).

(b) Share-based compensation:

Employee Stock Options (equity settled)

As at July 31, 2015, the Corporation had stock options outstanding that were granted to the officers and employees of the Corporation under three different employee stock option plans. The employee stock option plan created in January 2006 (the "**2006 plan**") was terminated in June 2008, terminating any additional grants under this plan. All outstanding stock options granted under the January 2006 plan are fully vested.

In June 2010, a new employee stock plan (the "**2010 plan**") was approved by the shareholders. Stock options granted under the 2010 plan have an exercise price set at the closing market price of the Class A Shares on the day preceding the date of grant are exercisable for up to 10 years, and have vesting periods of three to five years, as determined by the Corporation`s Board of Directors.

On June 11, 2013, a new employee stock plan (the "**2013 plan**") was approved by the shareholders. Stock options granted under the 2013 plan have an exercise price set by the board provided that it may not be less than the weighted average market price of the common shares on the TSX on the five trading days prior to such date. The Board of Directors will have authority to determine the expiry date for each option, provided that it may not be more than 10 years from the grant dated. The Board of Directors will have authority to determine the vesting schedule for each grant. Any options granted after the effective date of the 2013 plan will be issued under, and will be governed by the terms of the 2013 plan.

At July 31, 2015, 8,138,073 Shares have been reserved for stock options as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$0.01 - $0.50	5,744,475	9.78	$ 0.30	1,148,895	$ 0.30
$0.51 - $2.49	2,270,063	9.25	$ 0.86	454,013	$ 0.86
$2.50 - $4.99	30,000	2.12	$ 2.56	30,000	$ 2.56
$5.00 - $10.00	6,000	0.47	$ 5.00	6,000	$ 5.00
$10.10 - $15.00	15,410	2.57	$ 12.35	15,410	$ 12.35
$15.01 - $17.50	50,685	1.58	$ 16.20	50,685	$ 16.20
$17.51 - $18.50	21,440	1.55	$ 18.50	21,440	$ 18.50
	8,138,073			1,726,443	

On May 11, 2015, 5,744,475 stock options were granted to certain employees and executives of the Corporation. The fair value of the options granted was determined using an option valuation model with the following weighted average assumptions.

	May 2015
Options granted	5,744,475
Exercise price per share	$ 0.30
Risk-free interest rate	1.10%
Dividend yield	0%
Expected volatility	69%
Expected option life	5 years
Expected forfeiture rate (average)	7%
Fair value per option	$ 0.18

Expected volatility is measured at the standard deviation of continuous compounded share returns and is based on statistical analysis of the Corporation's historical weekly share prices.

Stock option transactions for the periods ended July 31, 2015 and January 31, 2015 were as follows:

	July 31, 2015			January 31, 2015		
	Number of options		**Weighted average exercise price**	Number of options		Weighted average exercise price
Outstanding, beginning of year	**2,496,613**	**$**	**1.45**	1,089,350	$	8.67
Granted	**5,744,475**		**0.30**	2,369,728		0.86
Expired/Forfeited	**(103,015)**		**1.39**	(962,465)		6.97
Outstanding, end of period	**8,138,073**	**$**	**0.64**	2,496,613	$	1.45

For the three and six months ending July 31, 2015, the Corporation recognized a net share based compensation expense of $0.3 million and $0.3 million (July 31, 2014 – $0.1 million and $0.1 million), respectively, relating to the estimated fair value of vesting employee stock options.

9. Earnings per share:

(thousands of Canadian dollars, except per share amounts)	For the three months ended				For the six months ended			
		July 31, 2015		July 31, 2014		**July 31, 2015**		July 31, 2014
Basic and Diluted income (loss) per share:								
Income (loss) attributable to shareholders	**$**	**(587)**	$	1,111	**$**	**(5,041)**	$	(6,625)
Weighted average number of Shares outstanding		**81,997**		31,829		**71,251**		25,397
Basic and Diluted income (loss) per share	**$**	**(0.01)**	$	0.03	**$**	**(0.07)**	$	(0.26)

The weighted average number of shares has been retrospectively adjusted for the bonus element of the rights issued pursuant to the Initial Offering and the Recent Offering (see note 8). The Shares attributable to the bonus element of the Initial Offering were 310,983 and attributable to the Recent Offering were 2,526,200 with a 1.08 factor applied.

For the three and six months ended July 31, 2015, 15,618,882 (three and six months ended July 31, 2014 - 14,575,132) potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive. Although the Corporation's Class A Share price as at July 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.

10. Change in non-cash operating working capital:

(thousands of Canadian dollars)	For the six months ended			
		July 31, 2015		July 31, 2014
Restricted cash	**$**	**933**	$	-
Trade and other receivables		**(22,722)**		(19,012)
Inventory		**(4,349)**		(1,964)
Prepaid expenses and other		**1,445**		(833)
Trade and other payables		**4,589**		1,075
	$	**(20,104)**	$	(20,734)

11. Fair value of financial assets and liabilities:

(a) Fair value estimation:

The Corporation classifies its fair value measurements by reference to the following fair value measurement hierarchy:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Carrying values for assets and liabilities classified as loans and receivables and financial liabilities at amortized cost (excluding loans and borrowings) approximate their fair value due to their short-term nature.

The fair value of the Secured Debentures and Unsecured Debentures as at July 31, 2015 was $109.5 million (January 31, 2015 - $110.8 million) as compared to a carrying value of $127.3 million (January 31, 2015 - $126.8 million). At July 31, 2015 and January 31, 2015 the fair value of the Unsecured Debentures was based on the closing share price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

The fair value of the Corporation's variable rate loans and borrowings approximates their carrying value, as the applicable interest rate is at a floating market rate.

12. Related party transactions:

(a) Loans and borrowings:

Clairvest has the ability to exercise control or direction over the rights attaching to the Secured Debentures and have 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 and six months ended July 31, 2015 was $2.3 million and $4.5 million (July 31, 2014 - $1.8 million and $3.9 million), respectively. 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 shares acquired in the Recent Offering (see note 8), Clairvest acquired the majority of the issued and outstanding Shares of the Corporation.

During the six months ended July 31, 2015, the Corporation borrowed on an unsecured commercial terms basis $8.1 million from its majority shareholder and repaid $5.8 million. The remaining loan of $2.3 million bears interest at 8% with maturity date of September 30, 2015 (see note 6(f)).

(b) Transactions with associates:

For the three and six months ended July 31, 2015, the Corporation's revenues include $4.9 million and $8.0 million (three and six months ended July 31, 2014 - $5.8 million and $9.4 million), respectively, and the Corporation's expenses include $1.1 million and $1.9 million, (three and six months ended July 31, 2014 - $0.7 million and $1.3 million), respectively, from transactions with the Corporation's associates. As at July 31, 2015, $3.3 million (January 31, 2015 - $3.0 million) of the Corporation's accounts receivable were due from associates and $1.7 million (January 31, 2015 - $0.9 million) of the Corporation's accounts payable were due to associates.

13. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the three and six months ended July 31, 2015, the Corporation incurred $5.6 million (July 31, 2014 - $4.8 million) and $10.2 million (July 31, 2014 - $7.2 million) in operating lease expenses. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)		
Within 1 year	$	9,448
Within 2 years		6,040
Within 3 years		2,353
Within 4 years		2,200
Within 5 years		1,556
Thereafter		9,060
	$	30,657

The lease terms range from a period of 1 to 50 years, the majority of which are renewable at the end of the lease term at market rates.

14. Segmented information:

The Corporation's reportable segments are "**Aviation**", which includes Great Slave Helicopters Ltd. ("**GSH**"), Discovery Air Defence Services Inc. ("**Defence Services**"), Air Tindi Ltd. ("**Air Tindi**"), and Discovery Air Fire Services Inc. ("**Fire Services**") and "**Corporate Support and Other**", which includes Technical Services, Discovery Mining Services Ltd. ("**Mining Services**"), and Corporate (reflecting direct corporate overhead costs). In assessing the reportable segments, the Corporation considered the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Aviation segment aggregates operating units that have substantially the same basis of deriving revenues, infrastructure to conduct operations and regulatory environment. Corporate Support and Other contains operating units which do not meet the basis for aggregation under Aviation and individually represent less than 10% of the Corporation's total assets, annual revenues and annual earnings.

The revenues disclosed in the tables are from external customers. There are inter-segment revenues; however they are eliminated on consolidation. For the three and six months ended July 31, 2015, Corporate Support and Other inter-segment revenue was $0.3 million and $0.4 million (three and six months ended July 31, 2014 – $0.1 million and $0.2 million), respectively.

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors such as weather conditions can affect the comparability of results from one period to another, particularly from quarter to quarter. Some of the seasonal factors that impact quarterly results are as follows: there is increased demand for the services provided by GSH, Fire Services, Air Tindi, and Mining Services normally commencing in the late spring and continuing through to the end of the summer; Defence Services revenue-generating opportunities are significantly higher in the February to June and September to November time periods; though Defence Services revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customers' priorities; weather conditions can have an impact on flight activity from one period to another, especially in the Corporation's fire suppression activities; the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential; and repair and maintenance on aircraft do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)

For the six months ended July 31, 2015 and 2014

(thousands of Canadian dollars)	For the three months ended July 31, 2015			For the three months ended July 31, 2014		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 58,014**	**$ 4,517**	**$ 62,531**	$ 49,309	$ 7,504	$ 56,813
Expenses	**38,626**	**7,387**	**46,013**	36,738	9,798	46,536
	19,388	**(2,870)**	**16,518**	12,571	(2,294)	10,277
Depreciation and amortization	**5,542**	**358**	**5,900**	5,121	472	5,593
Share of (profit) loss from associates (net of income tax)	**(322)**	**(11)**	**(333)**	(999)	451	(548)
	14,168	**(3,217)**	**10,951**	8,449	(3,217)	5,232
Finance costs			**4,904**			4,224
Losses (gains) on equipment			**6,475**			(626)
Loss before income taxes			**(428)**			1,634
Income tax provision (recovery):						
Current			**189**			78
Deferred			**(30)**			445
			159			523
Income (loss)			**$ (587)**			$ 1,111
Segment assets	**$ 334,440**	**$ 10,255**	**$ 344,695**	$ 293,325	$ 21,608	$ 314,933
Capital expenditures	**$ 10,534**	**$ 100**	**$ 10,634**	$ 5,542	$ 130	$ 5,672
Investments in associates	**$ 5,389**	**$ 28**	**$ 5,417**	$ 5,180	$ 27	$ 5,207

(thousands of Canadian dollars)	For the six months ended July 31, 2015			For the six months ended July 31, 2014		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 95,999**	**$ 8,947**	**$ 104,946**	$ 81,274	$ 16,622	$ 97,896
Expenses	**72,349**	**14,284**	**86,633**	68,865	20,163	89,028
	23,650	**(5,337)**	**18,313**	12,409	(3,541)	8,868
Depreciation and amortization	**10,282**	**708**	**10,990**	9,940	926	10,866
Share of (profit) loss from associates (net of income tax)	**(937)**	**(22)**	**(959)**	(985)	(13)	(998)
	14,305	**(6,023)**	**8,282**	3,454	(4,454)	(1,000)
Finance costs			**9,415**			8,893
Losses (gains) on equipment			**5,380**			(638)
Loss before income taxes			**(6,513)**			(9,255)
Income tax provision (recovery):						
Current			**312**			78
Deferred			**(1,784)**			(2,708)
			(1,472)			(2,630)
Loss			**$ (5,041)**			$ (6,625)
Segment assets	**$ 334,440**	**$ 10,255**	**$ 344,695**	$ 293,325	$ 21,608	$ 314,933
Capital expenditures	**$ 17,316**	**$ 334**	**$ 17,650**	$ 9,536	$ 270	$ 9,806
Investments in associates	**$ 5,389**	**$ 28**	**$ 5,417**	$ 5,180	$ 27	$ 5,207