DISCOVERY AIR

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

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(thousands of Canadian dollars)	Note	October 31, 2015	January 31, 2015
Assets			
Current assets:			
Cash		**$ 344**	$ 661
Restricted cash		**21**	955
Trade and other receivables		**48,688**	27,398
Income taxes receivable		**230**	310
Inventory		**29,229**	26,851
Prepaid expenses and other		**12,045**	11,586
Assets held for sale	4	**864**	1,732
		91,421	69,493
Property and equipment	5	**201,974**	180,388
Long term receivables		**1,228**	1,472
Goodwill		**37,861**	37,861
Intangible assets		**1,371**	2,818
Investments in associates		**5,381**	4,715
		$ 339,236	$ 296,747
Liabilities and Shareholders' equity			
Current liabilities:			
Operating line of credit	7	**$ 31,708**	$ 11,325
Trade and other payables		**27,350**	30,525
Current portion of loans and borrowings	6	**8,289**	5,998
		67,347	47,848
Loans and borrowings	6	**173,313**	157,659
Deferred income taxes		**15,853**	16,214
		189,166	173,873
Shareholders equity:			
Share capital	8	**93,713**	83,041
Contributed surplus		**12,013**	11,586
Deficit		**(24,814)**	(21,827)
Accumulated other comprehensive income		**1,811**	2,226
Total equity		**82,723**	75,026
		$ 339,236	$ 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 October 31, 2015	October 31, 2014	For the nine months ended October 31, 2015	October 31, 2014
Revenue		**$ 59,989**	$ 58,560	**$ 164,935**	$ 156,456
Expenses		**46,579**	44,610	**133,212**	133,638
		13,410	13,950	**31,723**	22,818
Depreciation and amortization		**5,966**	5,486	**16,956**	16,352
Finance costs		**4,637**	4,878	**14,052**	13,771
Share of profit from associates (net of income tax)		**(306)**	(417)	**(1,265)**	(1,415)
Losses (gains) on equipment	4,5	**(64)**	627	**5,316**	(11)
		10,233	10,574	**35,059**	28,697
Income (loss) before income taxes		**3,177**	3,376	**(3,336)**	(5,879)
Income tax provision (recovery):					
Current		**(190)**	(24)	**122**	54
Deferred		**1,474**	474	**(310)**	(2,234)
		1,284	450	**(188)**	(2,180)
Income (loss)		**$ 1,893**	$ 2,926	**$ (3,148)**	$ (3,699)
Basic and diluted income (loss) per share	9	**$ 0.02**	$ 0.08	**$ (0.04)**	$ (0.13)

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

(thousands of Canadian dollars)	For the three months ended October 31, 2015	October 31, 2014	For the nine months ended October 31, 2015	October 31, 2014
Income (loss)	**$ 1,893**	$ 2,926	**$ (3,148)**	$ (3,699)
Other comprehensive income (loss):				
Exchange differences on translation of foreign operations	**(370)**	508	**(415)**	(3)
Total comprehensive Income (loss)	**$ 1,523**	$ 3,434	**$ (3,563)**	$ (3,702)

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		**-**	**-**	**(3,148)**	**-**	**(3,148)**
Other comprehensive income (loss)		**-**	**-**	**161**	**(415)**	**(254)**
Employee stock options		**-**	**427**	**-**	**-**	**427**
Recent Rights Offering (net of transaction costs)	8	**10,672**	**-**	**-**	**-**	**10,672**
Balance at October 31, 2015		**$ 93,713**	**$ 12,013**	**$ (24,814)**	**$ 1,811**	**$ 82,723**
Balance at January 31, 2014		$ 68,469	$ 11,353	$ (2,946)	$ (22)	$ 76,854
Loss		-	-	(3,699)	-	(3,699)
Other comprehensive loss		-	-	-	(3)	(3)
Employee stock options		-	163	-	-	163
Initial Rights Offering (net of transaction costs)	8	14,590	-	-	-	14,590
Balance at October 31, 2014		$ 83,059	$ 11,516	$ (6,645)	$ (25)	$ 87,905

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 nine months ended October 31, 2015	October 31, 2014
Cash provided by (used in)			
Operating activities:			
Loss		$ (3,148)	(3,699)
Adjustments for:			
Current tax provision		122	54
Deferred tax recovery		(310)	(2,234)
Finance costs		14,052	13,771
Total share-based compensation		407	(326)
Depreciation and amortization		16,956	16,352
Share of profit from associates (net of income tax)		(1,265)	(1,415)
Losses (gains) on equipment		5,316	(11)
		32,130	22,492
Change in non-cash operating working capital	10	(25,833)	(27,567)
Interest paid		(4,992)	(4,862)
Net income taxes received		(45)	3,334
Net cash provided by (used in) operating activities		1,260	(6,603)
Investing activities:			
Dividends received		600	1,485
Acquisition of property and equipment		(23,383)	(15,966)
Long term receivable collections		192	210
Proceeds on disposal of property and equipment		3,889	7,931
Net cash used in investing activities		(18,702)	(6,340)
Financing activities:			
Proceeds from operating line of credit	7	15,553	6,163
Loans and borrowings transaction costs		(271)	(228)
Proceeds from loans and borrowings	6	1,000	2,488
Payment of contingent consideration for business acquistion		-	(750)
Repayment of loans, borrowings and finance leases	6	(10,339)	(9,320)
Rights Offering	8	11,000	14,590
Net cash provided by financing activities		16,943	12,943
Decrease in cash		(499)	-
Effect of exchange rate changes on cash and cash equivalents		182	-
Cash, balance beginning of period		661	-
Cash, balance end of period		$ 344	$ -

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, except as described below:

Reclassification of condensed consolidated statements of cash flows:

Certain amounts in the prior period have been reclassified to conform to the current period's presentation. Proceeds from loans and borrowings are now presented on a net basis with related repayment of loans, borrowings and finance leases in the condensed consolidated interim statements of cash flows. This change in classification has no effect on previously reported cash flows provided by finance activities, and has no effect on the previously reported condensed consolidated interim statements of financial position and condensed consolidated interim statements of income (loss).

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:

The Corporation has undertaken a plan to dispose its remaining two aircraft of the same aircraft type. The fair value of these two aircraft were estimated to be $0.9 million, which was below their carrying value and resulted in an impairment loss of $2.0 million recorded in the nine months ended October 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 11).

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 working towards a signed purchase agreement and completion of the transaction in the fourth quarter of fiscal 2016, however the transaction is contingent on the completion of due diligence by the buyer and the satisfaction of certain conditions that are beyond the control of the Corporation. For the three and nine months ended October 31, 2015 the Corporation has recognized an impairment loss of $0.1 million and $2.1 million, respectively, on the assets included in the LOI.

During the nine months ended October 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.

During the nine months ended October 31, 2015, the Corporation's Aviation segment disposed of five aircraft and related parts for proceeds of $5.5 million. A gain of $0.8 million, representing the difference between the proceeds and the net carrying value of the aircraft and related parts, was recorded on the disposal of the aircraft.

6. Loans and borrowings:

(thousands of Canadian dollars)

	Note	**October 31, 2015**	January 31, 2015
10.00% secured convertible debentures, maturing September 30, 2017 ("**Secured Debentures**")	6(a)	$ 96,273	$ 93,578
8.375% unsecured convertible debentures, maturing June 30, 2018 ("**Unsecured Debentures**")	6(b)	33,491	33,206
Long-term secured debt bearing interest at prime rate plus 3.05%, maturing April 1, 2023	6(c)	16,180	-
Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019	6(d)	15,723	16,724
Long-term secured debt bearing interest of lender's base rate plus 3.00%, maturing October 15, 2017	6(e)	12,464	13,857
Short-term unsecured debt bearing a fixed interest rate of 8.00%, maturing January 15, 2016	6(f)	2,300	-
Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019	6(g)	1,380	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 1.74% (January 31, 2015 - 3.16%)		493	606
Finance leases		3,298	3,536
Loans and borrowings		**$ 181,602**	$ 163,657
Less current portion of loans and borrowings		**$ 8,289**	$ 5,998
		$ 173,313	$ 157,659

(a) On March 16, 2015, $5.0 million was repaid upon completing the rights offering announced on January 19, 2015 ("**Recent Offering**") (see note 8(a)). 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 October 31, 2015, the loan balance included accrued interest of $5.6 million (January 31, 2015 - $7.3 million).

On May 26, 2015, the Secured Debenture holders, certain Clairvest Group Inc. affiliates ("**Clairvest**"), agreed to extend the maturity date to September 30, 2017 and amend certain 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), and the maturity date was extended from June 30, 2016 to June 30, 2018.

(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 $0.5 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 4, 2015, the $21.5 million term 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 3, 2015, the $20.0 million term 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 maturity was extended to on January 15, 2016 and bears interest at 8% per annum.

(g) On March 4, 2015, the $1.6 million term 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.

During the nine months ended October 31, 2015 the Secured Debentures were amended to increase the Debt Leverage Covenant to 9.00:1.00 for the periods April 30, 2015 until and including July 31, 2016; increase EBITDA for the purpose of the covenant calculation for the periods April 30, 2015 until and including the period ended January 31, 2016; decrease the PAR Covenant to 1.37:1.00 for the period ending January 31, 2016, and to 1.30:1.00 for the period ending July 31, 2016. Further in December 2015, the PAR covenant was amended to 1.25:1.00 and the Debt Leverage Covenant to 9.00:1.00 for the period ending October 31, 2016. In addition, the PAR covenant was amended to 1.30:1.00 for the periods ending January 31, 2017 and April 30, 2017.

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 October 31, 2015.

(j) The fair value of the Secured Debentures and Unsecured Debentures as at October 31, 2015 was $114.8 million (January 31, 2015 - $110.8 million) as compared to a carrying value of $129.8 million (January 31, 2015 - $126.8 million). At October 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.

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

(thousands of Canadian dollars)		
Within 1 year	$	8,289
Within 2 years		110,868
Within 3 years		37,423
Within 4 years		12,941
Within 5 years		1,746
Thereafter		10,335
Total	$	181,602

Interest expense on or in respect of loans and borrowings for the three and nine months ended October 31, 2015, was $4.0 million and $12.5 million (three and nine months ended October 31, 2014 - $4.1 million and $12.3 million), respectively.

7. Operating line of credit:

On May 26, 2015, the Corporation entered into a new operating line of credit ("**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 Group Inc., subject to an allowance for specific reserves. The Corporation is required to have no advances outstanding under the Operating Line 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 Group Inc., 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 October 31, 2015. Total transactions costs for this facility were $0.4 million.

As at October 31, 2015, the Corporation had available 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 $31.7 million was drawn (January 31, 2015 - $11.3 million).

8. Share capital:

(a) Issued and outstanding:

(thousands of Canadian dollars, except for shares)

	October 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 became the Corporations majority shareholder (see note 11(a)).

(b) Share-based compensation:

Employee Stock Options (equity settled)

At October 31, 2015, 8,136,733 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	50,350	1.58	$ 16.19	50,350	$ 16.19
$17.51 - $18.50	20,435	1.55	$ 18.50	20,435	$ 18.50
	8,136,733			1,725,103	

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:

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 October 31, 2015 and January 31, 2015 were as follows:

	October 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	**(104,355)**	**1.61**	(962,465)	6.97
Outstanding, end of period	**8,136,733**	**$ 0.63**	2,496,613	$ 1.45

For the three and nine months ending October 31, 2015, the Corporation recognized a net share based compensation expense of $0.1 million and $0.4 million (three and nine months ending October 31, 2014 – $0.1 million and $0.2 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 nine months ended	
	October 31, 2015	October 31, 2014	**October 31, 2015**	October 31, 2014
Basic and Diluted income (loss) per share:				
Income (loss) attributable to shareholders	**$ 1,893**	$ 2,926	**$ (3,148)**	$ (3,699)
Weighted average number of Shares outstanding	**81,997**	34,557	**74,873**	28,484
Basic and Diluted income (loss) per share	**$ 0.02**	$ 0.08	**$ (0.04)**	$ (0.13)

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 nine months ended October 31, 2015, 15,618,882 (three and nine months ended October 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 October 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 nine months ended	
	October 31, 2015	October 31, 2014
Restricted cash	**$ 934**	$ -
Trade and other receivables	**(18,886)**	(20,447)
Inventory	**(6,663)**	(2,619)
Prepaid expenses and other	**1,877**	(1,064)
Trade and other payables	**(3,095)**	(3,437)
	$ (25,833)	$ (27,567)

11. Related party transactions:

(a) Loans and borrowings:

The Secured Debentures held by Clairvest 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 nine months ended October 31, 2015 was $2.3 million and $6.9 million (October 31, 2014 - $2.2 million and $6.1 million), respectively. The Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest Group Inc. 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 nine months ended October 31, 2015, the Corporation borrowed on an unsecured commercial terms basis $8.1 million from Clairvest Group Inc. and repaid $5.8 million. The remaining loan of $2.3 million bears interest at 8% with maturity date of January 15, 2016 (see note 6(f)).

(b) Transactions with associates:

For the three and nine months ended October 31, 2015, the Corporation's revenues include $7.0 million and $15.3 million (three and nine months ended October 31, 2014 - $7.3 million and $18.9 million), respectively, and the Corporation's expenses include $0.8 million and $2.7 million, (three and nine months ended October 31, 2014 - $0.7 million and $1.8 million), respectively, from transactions with the Corporation's associates. As at October 31, 2015, $5.0 million (January 31, 2015 - $3.0 million) of the Corporation's accounts receivable were due from associates and $0.7 million (January 31, 2015 - $0.9 million) of the Corporation's accounts payable were due to associates.

12. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the three and nine months ended October 31, 2015, the Corporation incurred $3.9 million (October 31, 2014 - $4.2 million) and $14.1 million (October 31, 2014 - $11.4 million) in operating lease expenses. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)		
Within 1 year	$	9,366
Within 2 years		4,756
Within 3 years		2,448
Within 4 years		2,159
Within 5 years		1,452
Thereafter		8,867
	$	29,048

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.

13. 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 nine months ended October 31, 2015, Corporate Support and Other inter-segment revenue was nil and $0.4 million (three and nine months ended October 31, 2014 – $0.1 million and $0.3 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.

(thousands of Canadian dollars)	For the three months ended October 31, 2015			For the three months ended October 31, 2014		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 53,071	$ 6,918	$ 59,989	$ 51,825	$ 6,735	$ 58,560
Expenses	38,437	8,142	46,579	36,333	8,277	44,610
	14,634	(1,224)	13,410	15,492	(1,542)	13,950
Depreciation and amortization	5,611	355	5,966	5,012	474	5,486
Share of (profit) loss from associates (net of income tax)	(184)	(122)	(306)	(424)	7	(417)
	9,207	(1,457)	7,750	10,904	(2,023)	8,881
Finance costs			4,637			4,878
Losses (gains) on equipment			(64)			627
Income before income taxes			3,177			3,376
Income tax provision (recovery):						
Current			(190)			(24)
Deferred			1,474			474
			1,284			450
Income			$ 1,893			$ 2,926
Segment assets	$ 326,404	$ 12,832	$ 339,236	$ 289,423	$ 22,628	$ 312,051
Capital expenditures	$ 5,543	$ 190	$ 5,733	$ 5,220	$ 940	$ 6,160
Investments in associates	$ 5,231	$ 150	$ 5,381	$ 4,855	$ 25	$ 4,880

(thousands of Canadian dollars)	For the nine months ended October 31, 2015			For the nine months ended October 31, 2014		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 149,070	$ 15,865	$ 164,935	$ 133,099	$ 23,357	$ 156,456
Expenses	110,786	22,426	133,212	105,198	28,440	133,638
	38,284	(6,561)	31,723	27,901	(5,083)	22,818
Depreciation and amortization	15,893	1,063	16,956	14,952	1,400	16,352
Share of profit from associates (net of income tax)	(1,121)	(144)	(1,265)	(1,409)	(6)	(1,415)
	23,512	(7,480)	16,032	14,358	(6,477)	7,881
Finance costs			14,052			13,771
Losses (gains) on equipment			5,316			(11)
Loss before income taxes			(3,336)			(5,879)
Income tax provision (recovery):						
Current			122			54
Deferred			(310)			(2,234)
			(188)			(2,180)
Loss			$ (3,148)			$ (3,699)
Segment assets	$ 326,404	$ 12,832	$ 339,236	$ 289,423	$ 22,628	$ 312,051
Capital expenditures	$ 22,859	$ 524	$ 23,383	$ 14,756	$ 1,210	$ 15,966
Investments in associates	$ 5,231	$ 150	$ 5,381	$ 4,855	$ 25	$ 4,880