MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the year ended January 31, 2016 should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2016 and 2015, 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. 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, and expediting and logistics support. 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**") primarily provides forest fire management and court-related air transport services to the Government of Ontario. Discovery Air Defence Services Inc. ("**DA Defence**"), 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 as well as two operating subsidiaries (collectively, "**Corporate**"): 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 provided a range of maintenance, repair and overhaul ("**MRO**") services up to January 8, 2016, when substantially all of its non-financial assets were sold. Mining Services provides remote exploration camp and expediting, logistics and staking services to a broad spectrum of resource exploration companies.

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

Selected Financial Information

(thousands of Canadian dollars, except per share amounts)	Three months ended January 31 (unaudited) 2016	2015	% change	Years ended January 31 2016	2015	% change
Results of continuing operations						
Revenue	**$ 29,904**	$ 27,167	*10%*	**$ 182,181**	$ 163,242	*12%*
Expenses	**$ 36,585**	$ 34,015	*8%*	**$ 157,082**	$ 148,803	*6%*
Depreciation and amortization	**$ 4,673**	$ 4,747	*-2%*	**$ 21,273**	$ 20,389	*4%*
	$ (11,354)	$ (11,595)	*2%*	**$ 3,826**	$ (5,950)	
Finance costs	**$ 5,495**	$ 5,942	*-8%*	**$ 19,676**	$ 19,928	*-1%*
Loss	**$ (13,854)**	$ (14,246)	*3%*	**$ (14,827)**	$ (18,367)	*19%*
Basic and diluted income (loss) per share	**$ (0.17)**	$ (0.41)	*59%*	**$ (0.19)**	$ (0.57)	*67%*
Financial position and liquidity						
Total assets				**$ 319,821**	$ 296,747	*8%*
Total debt				**$ 180,612**	$ 163,657	*10%*
Cash provided by (used in) continuing operations	**$ 10,886**	$ 5,750	*89%*	**$ 12,814**	$ (255)	
Working Capital*				**$ 41,689**	$ 38,968	*7%*
Key non-IFRS performance measures* (unaudited)						
Adjusted profit (loss)	**$ (13,755)**	$ (14,222)	*3%*	**$ (12,763)**	$ (18,880)	*32%*
Basic and diluted Adjusted profit (loss) per share	**$ (0.17)**	$ (0.41)	*59%*	**$ (0.17)**	$ (0.58)	*71%*
EBITDAR	**$ (5,059)**	$ (4,959)	*-2%*	**$ 37,640**	$ 28,183	*34%*
EBITDA	**$ (6,394)**	$ (6,849)	*7%*	**$ 26,652**	$ 15,853	*68%*
EBITDA Margin	**-21%**	-25%		**15%**	10%	
Results of discontinued operations						
Revenue	**$ 5,732**	$ 7,156	*-20%*	**$ 18,391**	$ 27,538	*-33%*
Profit (loss) from discontinued operations	**$ 989**	$ (938)		**$ (1,184)**	$ (514)	*130%*
Basic and diluted income (loss) per share	**$ 0.01**	$ (0.03)		**$ (0.02)**	$ (0.02)	*0%*
Cash provided by discontinued operations	**$ 1,852**	$ 6,001	*-69%*	**$ 1,179**	$ 5,405	*-78%*

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

Recent Developments

- 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.

- In May 2015, GSH was awarded a seven year contract, with a three year renewal option, with Pacific Pilotage Authority ("**PPA**"). GSH has commenced providing helicopter services for the PPA's marine pilot transfers on the west coast of Canada as part of this award.

- In May 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). On December 21, 2015 the New Operating Line was amended to increase the limit to $25.0 million outside of the peak season, until February 27, 2016.

- In January 2016, the Corporation sold substantially all the non-financial assets of Technical Services. For the year ended January 31, 2016 the Corporation has recognized loss on sale of $2.3 million on the assets included in the transaction and classified the results as discontinued operations.

Continuing Operations Consolidated Results

Three months ended January 31, 2016

Revenue

Quarterly revenues were $29.9 million, a 10% increase when compared to the three months ended January 31, 2015 (the "**comparative period**"). The Aviation segment had increased revenue ($2.7 million or 10% increase from the comparative period) with the majority of the increase related to increased activity in the North and increased airborne training in Canada and Germany. The Corporate Support and Other segment also reported a marginal increase in revenues (a $0.1 million or 24% increase from the comparative period).

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 50% of total revenues compared to 44% in the comparative period. The Corporation's revenues from resource-based customers represented 20% of total revenues compared to 22% in the comparative period. The increase in the government sector is primarily attributable to the increase in 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, as typical in the aviation industry, a significant portion of these costs are fixed in nature within a given year.

Quarterly expenses were $36.6 million, an 8% increase from the comparative period. The increase in quarterly expenses are primarily attributable to increased variable based costs related to increased flying hours under the Canadian airborne training standing offers ("**ICATS Standing Offers**") and German Contract.

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

Quarterly EBITDA loss was $6.4 million compared to EBITDA loss of $6.8 million in the comparative period, with the reduced EBITDA loss largely attributable to increased revenue.

EBITDAR loss in the quarter was $5.1 million compared to $5.0 million in the comparative period. The increased EBITDAR loss is a result of decreased aircraft leasing expenses offset by increased EBITDA.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $4.7 million, a 2% decrease from the comparative period.

Finance costs were $5.5 million in the quarter, an 8% decrease from the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were $2.8 million which were consistent with the comparative period.

The Corporation's quarterly income tax recovery was $2.9 million, compared to a recovery of $3.6 million in the comparative period. The effective tax rate for the quarter was 17% compared with the Corporation's statutory income tax rate of 27% with the variance due to taxable permanent differences and other deferred tax assets for which the benefit has not been recognized. In the comparative period, the effective income tax rate of 20% was different from the Corporation's statutory income tax rate of 27% due to taxable permanent differences.

Earnings

Excluding the net of tax gains and losses in connection with the disposal and impairment of assets, Adjusted loss (see "Adjusted profit (loss)" below), was $13.8 million ($0.17 basic and diluted Adjusted loss per share) compared to $14.2 million ($0.41 basic and diluted Adjusted loss per share) loss in the comparative period. The Corporation recorded a quarterly loss of $13.9 million ($0.17 basic and diluted loss per share on weighted average outstanding shares of 81,997,475) compared to loss of $14.2 million ($0.41 basic and diluted earnings per share on weighted average outstanding shares 34,556,760) in the comparative period.

The weighted average number of Shares (defined below) has been retrospectively adjusted for the bonus element of the rights issued pursuant to the recent rights offering completed on March 13, 2015 ("**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 (see "Shareholders Equity" below).

Although the Corporation's Class A Share price at January 31, 2016 and 2015 was below the conversion price of the Unsecured Debentures and Secured Debentures (as defined below), IAS 33, *Earnings per share,* ("**IAS 33**") considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

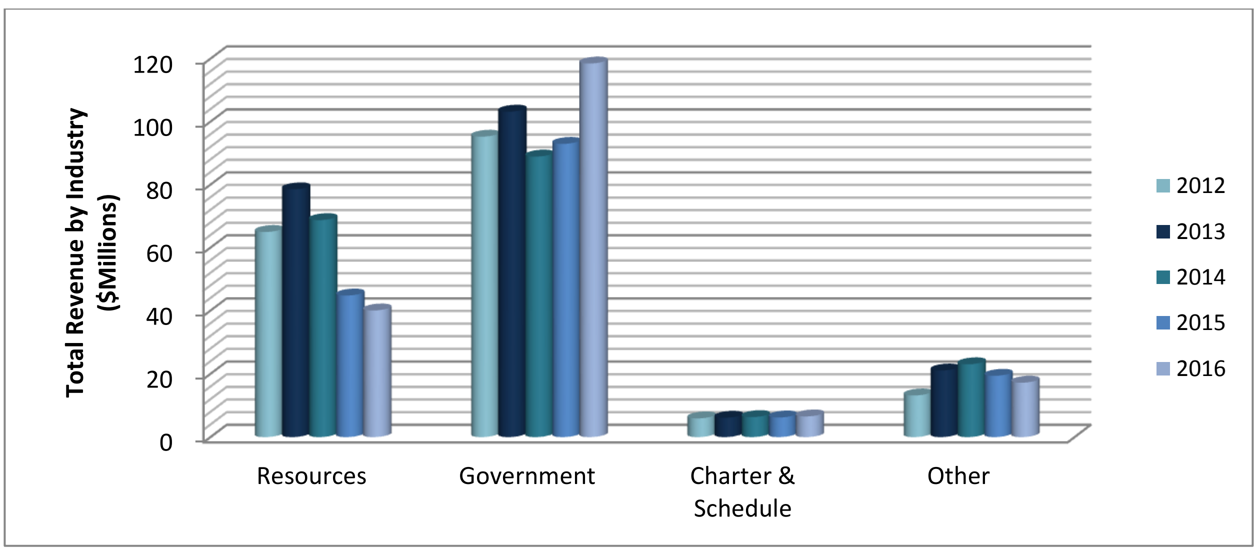
For the year ended January 31, 2016

Revenue

Year-to-date revenues were $182.2 million, a 12% increase when compared to the year ended January 31, 2015 (the "**comparative period**"). The Aviation segment experienced increased activity ($18.4 million or 12% increase from the comparative period) in forest fire suppression operations in North and South America, and airborne training in Canada and Germany, partially offset by a decline in resource industry activity. The Corporate Support and Other segment reported a slight increase in revenues ($0.5 million or 16% increase from the comparative period).

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 59% of total revenues compared to 49% in the comparative period. The Corporation's revenues from resource-based customers represented 20% of total revenues compared to 23% in the comparative period. There was an increase in government sector revenues which was primarily attributable to an increase in airborne training services including the commencement of airborne training services under the German Contract, and an increase in forest fire suppression operations in South & North America.

Consolidated Revenue by Industry Sector



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, as typical in aviation a significant portion of these costs are fixed in nature within a given year.

Year-to-date expenses were $157.1 million, a 6% increase from the comparative period. Rigorous cost saving initiatives continued in the current period was partially offset by increased variable based costs related to increased flying hours.

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

Year-to-date EBITDA was $26.7 million compared to EBITDA of $15.9 million in the comparative period ($10.8 million or 68% increase), with the improved EBITDA largely attributable to increased flight hour activity coupled with continuous emphasis on operational efficiencies.

Year-to-date EBITDAR was $37.6 million compared to $28.2 million in the comparative period. The increase of $9.5 million was attributable to the increase in EBITDA noted above and a reduction in aircraft leasing expense of $1.3 million, or 11% to $11.0 million as compared to $12.3 million in the comparative period. The Corporation utilizes leased aircraft to support a component of its flight services. As part of the continued cost savings initiatives, the Corporation returned underutilized leased aircraft and is managing the increased flight hours with improved optimization of other leased and owned aircraft.

Depreciation, finance and other expenses

Depreciation expense year-to-date was $21.3 million, a 4% increase from the comparative period. The increase is attributable to additional flight hours from increased utilization on owned aircraft and a reduction in leased aircraft utilized on projects.

Finance costs year-to-date were $19.7 million, a 1% decrease from the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings was $11.0 million compared to $11.1 million in the comparative period. The decrease in finance costs is primarily attributable to a lower foreign exchange loss partially offset by the interest on the new loans entered into April 1, 2015 for the purchase of three new aircraft to support the renewed contract with the Stanton Health Authority in the Northwest Territories, and incremental borrowing costs on the increased Operating Line balance,

The Corporation's year-to-date income tax recovery was $2.8 million, compared to $5.4 million in the comparative period. The effective tax rate was 16% compared to the Corporation's statutory income tax rate of 27%, with the variance differences in foreign jurisdiction rates and other deferred tax assets for which the benefit has not been recognized. In the comparative period, the effective income tax rate of 23% was lower than the statutory rate primarily due to non-taxable income from associates.

Earnings

Excluding the $2.1 million (net of tax) losses (January 31, 2015 net of tax gains of $0.5 million) in connection with the disposal and impairment of assets, Adjusted loss (see "Adjusted profit (loss)" below) was $12.8 million ($0.17 basic and diluted Adjusted loss per share) compared to Adjusted loss of $18.9 million ($0.58 basic and diluted Adjusted loss per share) in the comparative period. The Corporation recorded an annual loss of $14.8 million ($0.19 basic and diluted loss per share on weighted average outstanding shares of 76,668,576 compared to a loss of $18.4 million ($0.57 basic and diluted loss per share on weighted average outstanding shares 32,415,897) 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. The Shares attributable to the bonus element of the rights issued was 2.5 million shares with a 1.08 factor applied retrospectively.

Although the Corporation's Class A Share price at January 31, 2016 and 2015 was below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33 considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

Aviation Segment

(thousands of Canadian dollars)	Three months ended January 31 (unaudited)					For the years ended January 31				
		2016		2015	% Change		**2016**		2015	% Change
Revenue	**$**	**29,494**	$	26,837	10%	**$**	**178,332**	$	159,936	12%
Expenses		**33,517**		30,344	10%		**144,299**		135,537	6%
Share of profit from associates		**(281)**		1			**(1,403)**		(1,408)	0%
EBITDA	**$**	**(3,742)**	$	(3,508)	-7%	**$**	**35,436**	$	25,807	37%
Aircraft lease expense		**1,335**		1,890	-29%		**10,988**		12,330	-11%
EBITDAR	**$**	**(2,407)**	$	(1,618)	-49%	**$**	**46,424**	$	38,137	22%
Capital expenditures	**$**	**5,194**	$	5,733	-9%	**$**	**28,052**	$	20,489	37%

	As at January 31				
		2016		2015	% Change
Total assets	**$**	**314,890**	$	282,407	12%
Goodwill	**$**	**37,861**	$	37,861	0%
Intangible assets	**$**	**1,363**	$	2,659	-49%

Three months ended January 31, 2016

The Aviation segment's quarterly revenues were $29.5 million on 8,060 flight hours, compared to revenue of $26.8 million on 8,670 flight hours in the comparative period. The increase in revenue is mainly attributable to the commencement of services under the German Contract in January 2015 and increases in flight hours for certain customers in the North. The increased revenues that were recorded on a decreased flight hour base reflects increased basing fees and other fixed fee revenues not dependent on flight hours, as well as improved flight hour rates associated with certain aircraft types that were utilized more in the current period as compared to the prior year.

Aviation segment quarterly expenses were $33.5 million in the current quarter compared to $30.3 million (in the comparative period. The 10% increase in expenses is mainly attributable to increased revenue and other growth based cost initiatives.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $13.6 million (or 46% of revenues) compared to $11.7 million (or 44% of revenues) in the comparative period. The 16% increase in crew expenses is mainly attributable to increased revenues.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $9.2 million (or 31% of revenues), compared to $8.4 million (or 31% 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 $8.4 million (or 29% of revenues) in the quarter compared to $7.8 million (or 29% of revenues) in the comparative period. General and administrative costs remain consistent with prior year with increased growth based activities.

The profit from associates was $0.3 million compared to nil in the comparative period, with the variance primarily due to increased activity in associates.

The segment's EBITDA loss was $3.7 million compared to an EBITDA loss of $3.5 million in the comparative period, with the decrease in EBITDA attributable to increased expenses as outlined above. EBITDAR loss was $2.4 million compared to an EBITDAR loss of $1.6 million in the comparative period. The decrease in EBITDAR is primarily due to the decrease in EBITDA and reduced aircraft leasing expenses as outlined above.

Depreciation expense in the current quarter was $4.4 million (or 15% of revenues) compared to $4.5 million (or 17% of revenues) in the comparative period, with the decrease driven by reduced flight hours as compared to the comparative period.

For the year ended January 31, 2016

The Aviation segment's year-to-date revenues were $178.3 million on 54,900 flight hours, compared to revenue of $159.9 million on 54,250 flight hours in the comparative period. The increase in revenues and flight hours were primarily attributable to increased aircraft utilization, increased airborne training services and fire suppression operations in North & South America.

Aviation segment year-to-date expenses were $144.3 million (or 81% of revenues) compared to $135.5 million (or 84% of revenues) in the comparative period. The 6% increase in expenses is mainly attributable to increased flight hours, partially offset by continued cost savings measures.

Crew costs, for the year ended January 31, 2016, were $57.9 million (or 33% of revenues) compared to $51.8 million (or 32% of revenues) in the comparative period. The increase of $6.1 million was due to increased flight services.

Fleet costs, excluding fuel costs, year-to-date were $42.3 million (or 24% of revenues) for the year ended January 31, 2016, compared to $40.2 million (or 25% 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, for the year ended January 31, 2016, were $31.8 million (or 18% of revenues) compared to $30.0 million (or 19% of revenues) in the comparative period. The increase was primarily due to the startup of airborne training operations in Germany and increased travel and marketing costs related to other aviation growth initiatives.

The profit from associates was $1.4 million which was consistent with the comparative period.

The segment's quarterly EBITDA was $35.4 million compared to an EBITDA of $25.8 million in the comparative period, with the increase in EBITDA attributable to increased revenues and continued cost saving measures. EBITDAR was $46.4 million compared to an EBITDAR of $38.1 million in the comparative period. The increase in EBITDAR is primarily due to the increase in EBITDA offset by reduced aircraft lease expenses.

Depreciation expense in the current quarter was $20.3 million (or 11% of revenues) compared to $19.5 million (or 12% of revenues) in the comparative period, with the decrease driven by increased non-flight hour revenue.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended January 31 (unaudited)			For the years ended January 31		
	2016	2015	*% Change*	**2016**	2015	*% Change*
Revenue	**$ 410**	$ 330	*24%*	**$ 3,849**	$ 3,306	*16%*
Expenses	**3,068**	3,671	*-16%*	**12,783**	13,266	*-4%*
Share of profit (loss) from associates	**(6)**	-		**(150)**	(6)	
EBITDA	**$ (2,652)**	$ (3,341)	*21%*	**$ (8,784)**	$ (9,954)	*12%*
Capital expenditures	**$ 33**	$ 457	*-93%*	**$ 567**	$ 810	*-30%*

	As at January 31		
	2016	2015	*% Change*
Total assets	**$ 4,931**	$ 14,340	*-66%*
Intangible assets	**$ -**	$ 162	*-100%*

Three months ended January 31, 2016

Corporate Support and Other revenues were $0.4 million in the quarter compared to $0.3 million in the comparative period. The 24% increase in revenue reflects an increase in Mining Services.

The segment incurred expenses totaling $3.1 million compared to $3.7 million in the comparative period, a decrease of 16%. The reduction is primarily attributable to cost savings in corporate support functions.

The segment reported an EBITDA loss of $2.7 million in the quarter, compared to an EBITDA loss of $3.3 million in the comparative period. The decrease in EBITDA loss was due to increased revenues, and cost reductions in corporate support functions.

For the year ended January 31, 2016

Corporate Support and Other year-to-date revenues were $3.8 million compared to $3.3 million in the comparative period. The 16% increase in revenue reflects an increase at Mining Services relating to activity performed in the North.

The segment incurred expenses totaling $12.8 million compared to $13.3 million in the comparative period, a decrease of 4%.

The segment reported a year-to-date EBITDA loss of $8.8 million, compared to $10.0 million in the comparative period. The increase in EBITDA was due to increased revenues in Mining Services businesses as well as cost reductions in Corporate Support and other functions.

Discontinued Operations Results

On January 8, 2016 the Corporation sold substantially all the non-financial assets of Technical Services for net proceeds of $3.7 million in cash and assumed liabilities. For the year ended January 31, 2016 the Corporation has recognized an pre-tax impairment loss of $2.3 million on the assets included in the transaction.

For the year ended January 31, 2016 the year-to-date revenues were $18.4 million compared to $27.5 million in the comparative period. The 33% decrease in revenue is mainly attributable to the termination of a long term component asset management contract with a Canadian airline in the prior year.

The discontinued operations incurred expenses totaling $17.9 million compared to $27.3 million in the comparative period, a decrease of 34%.

For the year ended January 31, 2016, discontinued operations of Technical Services reported year-to-date EBITDA of $0.5 million compared to $0.2 million in the comparative period.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	For the years ended January 31	
(thousands of Canadian dollars)	**2016**	2015
Operating activities	**$ 13,993**	$ 5,150
Investing activities	**(19,979)**	(9,292)
Financing activities	**6,041**	5,350
Exchange gain on cash held in foreign currency	**(358)**	(547)
Net decrease in cash for the period	**$ (303)**	$ 661

Operating Activities

Cash provided by operating activities for the year ended January 31, 2016 was $14.0 million, an $8.8 million increase over the comparative period. The favourable variance was largely attributable to an $11.1 million increase in EBITDA from continuing and discontinued operations, and a decreased investment in non-cash operating working capital of $0.3 million, partially offset by a decrease in income taxes received of $3.1 million.

Working Capital

As at January 31, 2016 the Corporation had Working Capital (defined below) of $41.7 million, compared to $39.0 million at January 31, 2015. The current ratio of Working Capital was 2.3 as at January 31, 2016 and as at January 31, 2015.

The increase in working capital from January 31, 2015 is attributable to the increase in trade and other receivables due to increased revenue, increased prepaid expenses and other due deposits on Additional Fighter Jets (see definition below), and increased inventory due to increased operations. For the year ended January 31, 2016 trade and other receivables increased by $1.5 million, a 5% increase.

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 obtain 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 $20.0 million compared to $9.3 million in the comparative period. Capital expenditures of $28.6 million were mainly comprised of net cash outlays (net of financing) of $7.7 million for the purchase of five fixed wing aircraft and two helicopters along with modifications on these and other recently acquired aircraft, $8.8 million of DA Defence growth initiatives, $11.6 million for sustaining capital expenditures and aircraft overhaul costs. The comparative period's capital expenditures of $22.3 million were comprised of $7.4 million of DA Defence growth initiatives, $2.0 million for the purchase of two aircraft and related upgrades, and $12.9 million for sustaining capital expenditures and aircraft overhaul costs.

Total asset divestures of $7.8 million (net of accounts receivable of $1.8 million) included the disposal of seven aircraft for proceeds of $5.7 million, the sale of Technical Services assets for net cash proceeds of $1.1 million, and other items of property and equipment for $1.0 million. The comparative period asset divestures included the disposal of nine aircraft for proceeds of $9.2 million, two buildings for proceeds of $1.0 million and other items of property and equipment for $0.9 million.

The 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 the DA Defence business.

Financing Activities

As at January 31, 2016, the Corporation had unused borrowing capacity of $11.0 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 second half of the fiscal year.

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 also 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 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 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., 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. Total transactions costs for this facility were $0.4 million.

On December 21, 2015 the Operating Line was amended to increase the borrowing limit to $25.0 million until February 27, 2016.

On March 30, 2016 the Corporation entered into a $12.0 million secured revolving credit agreement with Clairvest Group Inc. ("Revolving Credit Facility"). The Revolving Credit Facility matures December 31, 2016 and bears interest of 12% per annum, payable on a monthly basis.

During the year ended January 31, 2016, the Corporation made debt payments of $12.1 million. Debt payments consisted of $6.1 million of scheduled term debt repayments, $5.0 million in capitalized interest on the Secured Debentures, and a $1.0 million repayment of a short term loan. In the comparative period, the Corporation made debt payments of $10.8 million and $0.8 million installment related to a Fiscal Year 2013 (defined below) business acquisition.

On September 23, 2011, the Corporation closed the private placement of $70.0 million principal amount of Secured Debentures. Transaction costs of $2.0 million and the $3.3 million fair value of the conversion feature at inception are netted against the carrying value of the Secured Debentures and are being accreted to their face value based on the effective interest rate of 11.61% per annum. The Secured Debentures mature on September 30, 2017 (formerly March 22, 2017), subject to adjustment by the holders of the Secured Debentures. The Corporation may redeem the Secured Debentures, provided the weighted average trading price of Class A Shares exceeds 116% of the then-applicable conversion price of the Secured Debentures over a specified trading period prior to issuance of the redemption notice. Further, if the Corporation undergoes a change of control (as defined in the Secured Debentures), the Corporation is required to offer to purchase all of the Secured Debentures. Interest on the Secured Debentures accrues at a rate of 10% per annum and is added to the adjusted principal amount of Secured Debentures on March 22 of each year commencing on March 22, 2012. The original conversion price of the Secured Debentures of $7.50 per Share will also increase at 10% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest will continue to be convertible into 8,814,148 Shares (originally 9,333,334 Shares, and reduced to 9,291,824 Shares due to a partial repayment in July 2014 and further reduced to 8,814,148 as result of a $5.0 million repayment in March 2015 in connection with the completion of the rights offering announced January 19, 2015 ("Recent Offering")). The Secured Debentures have a first-lien security interest in all assets of the Corporation and its subsidiaries, except with respect to accounts receivable, certain inventory, and certain equipment.

The Secured Debentures require the Corporation to comply with several financial covenants, 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").

The Corporation has obtained amendments to the Secured Debentures to: (i) increase the Debt Leverage Covenant to 9.00:1.00 and increase EBITDA for the purposes of the Debt Leverage Covenant for the quarters ended April 30, 2015 through to January 31, 2016; (ii) reduce the PAR Covenant for the quarters ended April 30, 2015 through to January 31, 2016; and (iii) waive the Debt Leverage Covenant and PAR Covenant for the quarters ended April 30, 2016 through to January 31, 2017.

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 January 31, 2016, the loan balance included accrued interest of $8.0 million (January 31, 2015 - $7.3 million).

In May, 2011, the Corporation raised $34.5 million through the issuance of 8.375% convertible unsecured subordinated debentures at a price of $1,000 per debenture. The Unsecured Debentures accrue interest at the rate of 8.375% per annum payable semi-annually and the principal balance is due at maturity on June 30, 2018. At the holders' option, the Unsecured Debentures may be converted into Shares at any time prior to the maturity date at a conversion price of $6.53 per Share (originally $7.30, reduced as a result of the rights offering during the year ended January 31, 2015 (the "**Initial Offering**") and the issuance of Shares pursuant to the Standby Purchase Agreement), subject to standard anti-dilution and adjustment provisions. The Corporation may, at its option and subject to notice period requirements, redeem the Unsecured Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares on the TSX during a specified period prior to redemption is not less than 125% of the conversion price. Further, if the Corporation undergoes a change of control (as defined in the November 2014 amendment for the Unsecured Debentures), the Corporation is required to offer to purchase all of the Unsecured Debentures. Transaction costs of $0.8 million and the $1.4 million fair value of the conversion feature at inception are netted against the carrying value of the Unsecured Debentures and are being accreted to their face value based on an effective interest rate of 11.86% per annum.

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 (formerly 5,283,308), and the maturity date was extended from June 30, 2016 to June 30, 2018.

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 $0.2 million until the modifications are complete. The loans mature on April 1, 2023. From the commencement of the loan to August 1, 2015 the Corporation made 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. Effective April 1, 2016, no monthly reserves will be payable for a twelve month period. 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 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. The loan matures on April 1, 2019 with current payment terms of $0.1 million per month for the period April 1, 2015 to June 30, 2015; deferred scheduled principal payments for the period of July 1, 2015 to September 30, 2015, then monthly payments of $0.2 million thereafter. The loan bears interest at a rate equal to the three-month Canadian dollar bankers' acceptance rate ("**BA rate**") plus 5.15% per annum. The loan is secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $154,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 6.59% per annum. The agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum fixed charge coverage ratio that was reduced to 1.05:1.00 until and including the period ended January 31, 2016, and not exceed a specified level of total liabilities to tangible net worth.

On March 29, 2016, $21.5 million term loan was amended to reduce the scheduled payments to $0.1 million for the period April 1, 2016 to March 31, 2017, and reduce the minimum fixed charge coverage ratio to 1.00:1.00 through to the quarter end January 31, 2017.

On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement. The loan matures on October 15, 2017 (formerly March 15, 2017) and is repayable in monthly instalments of $167,000 plus interest, with interest only payments for the period of March 2015 to August 2015 and 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. Transaction costs of $222,000 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 4.99% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage ratio, that was reduced until and including the period ended January 31, 2016.

On March 29, 2016 the $20.0 million term loan was amended to reduce payments to $58,000 plus interest for April 15, 2016 through to March 15, 2017, to increase the interest rate to lender's floating base rate plus 4.00% per annum, and reduce the minimum fixed charge coverage ratio to 1.00:1.00 through to the quarter ended January 31, 2017.

On June 2, 2015, the Corporation entered into a $2.3 million unsecured short term loan with Clairvest Group Inc. to purchase two new aircraft. The loan matures on May 15, 2016 and bears interest at 8% per annum.

On January 31, 2014, the Corporation entered into a $1.6 million term loan. The loan matures on March 1, 2019 and is repayable in monthly instalments of $19,000 to March 2015, with interest only payments for the period of April 2015 to and including September 2015, and monthly installments of $20,000 thereafter, 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. Transaction costs of $75,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 7.06% per annum. The agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum fixed charge coverage ratio, that was reduced until and including the period ended January 31, 2016, and not exceed a specified level of leverage.

On March 29, 2016 the $1.6 million term loan was amended to reduce payments to $11,000 plus interest for April 1, 2016 through to March 1, 2017, and reduce the minimum fixed charge coverage ratio to 1.00:1.00 through to the quarter ended January 31, 2017.

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.

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 January 31, 2016.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Corporation's contractual principal obligations as at January 31, 2016:

(thousands of Canadian dollars)

January 31, 2016	**Due within 1 year**	**Due between 1 & 2 years**	**Due between 2 & 3 years**	**Due between 3 & 4 years**	**Due between 4 & 5 years**	**Due after 5 years**	**Total**
Trade and other payables	$ 32,207	$ -	$ -	$ -	$ -	$ -	**$ 32,207**
Loans and borrowings	8,031	131,267	38,316	12,145	1,689	8,506	**199,954**
	$ 40,238	$ 131,267	$ 38,316	$ 12,145	$ 1,689	$ 8,506	**$ 232,161**

As reflected in the Corporation's audited consolidated financial statements, the Corporation's loans and borrowings, and finance lease obligation as at January 31, 2016 were $180.6 million. The contractual principal repayment amount in loans and borrowings in the table above assumes the Corporation makes scheduled repayments to maturity and in the case of the Secured Debentures includes the future accrued payment in kind interest that would be added to the principal balance throughout the term of this facility. Both the Unsecured Debentures and Secured Debentures contain early redemption and conversion rights which are not factored in the above table.

The completion of the Recent Offering on March 13, 2015, satisfied the equity offering requirement of the November 27, 2014 Unsecured Debenture amendment extending the maturity date of the Unsecured Debentures to June 2018, to be due within 2 and 3 years as disclosed in the above table.

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

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 24 of the Corporation's audited consolidated financial statements for the years ended January 31, 2016 and 2015.

Shareholders' Equity

At January 31, 2016, there were 79,286,721 Class A Shares and 2,710,754 Class B Shares outstanding. At the same date, there were 8,023,398 stock options outstanding. During the year ended January 31, 2016 the Corporation issued 50,000,000 Shares upon completion of the Recent Offering. During the year ended January 31, 2016, the Corporation issued 5,744,475 stock options to employees and 217,690 stock options expired or were otherwise terminated in accordance with their terms.

As a 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, 2016, which can be found on SEDAR at www.sedar.com.

Related Party

The Secured Debentures held by Clairvest would represent, on a post-conversion basis, approximately 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the year ended January 31, 2015 was $9.2 million (January 31, 2015 - $8.8 million), respectively. In addition, 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, Clairvest acquired the majority of the issued and outstanding Shares of the Corporation.

During the year ended January 31, 2016, 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 a maturity date of May 15, 2016.

For the year ended January 31, 2016, the Corporation's revenues include $19.9 million (January 31, 2015 - $18.1 million), and the Corporation's expenses include $3.9 million (January 31, 2015 - $3.4 million), from transactions with the Corporation's associates. As at January 31, 2016, $3.9 million (January 31, 2015 - $3.0 million) of the Corporation's accounts receivable were due from associates, and $3.0 million (January 31, 2015 - $0.9 million) of the Corporation's accounts payable were due to associates. As at January 31, 2016 $1.1 million (January 31, 2015 - $1.4 million) of the Corporation's long term receivables were due from associates, and $0.4 million (January 31, 2015 - $0.3 million) of the Corporation's loans and borrowings were due to associates.

RISK FACTORS

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

Risks Relating to the Corporation's Financial Condition

The Corporation has significant risks to manage.

Compliance with Covenants

The Corporation is required to maintain certain covenants under its various lending arrangements. In respect of the Corporation's secured term loans (other than the Secured Debentures) and operating line, the Corporation obtained amendments to its loan agreements that reduced the debt service ratio from 1.25 to 1.05 or 1.00 for the quarters ended April 30, 2015 through to January 31, 2017. The Corporation was in compliance with the amended covenants as of January 31, 2016.

With respect to the Secured Debentures, the Corporation is required to comply with several covenants including maintaining a total debt to EBITDA ratio of not more than 6.00:1.00 (the "Debt Leverage Covenant"), and maintaining a pledged asset ratio of 1.50:1.00 (the "PAR Covenant"). The PAR Covenant requires the Corporation to provide the holders of the Secured Debentures a first lien security interest over assets having an appraised value equal to a prescribed ratio of the aggregate principal amount of the Secured Debentures. The Corporation has obtained amendments to the Secured Debentures to: (i) to increase the Debt Leverage Covenant to 9.00:1.00 and increase EBITDA for the purposes of the Debt Leverage Covenant for the quarters ended April 30, 2015 through to January 31, 2016; (ii) reduce the PAR Covenant for the quarters ended April 30, 2015 through to January 31, 2016; and (iii) waive the Debt Leverage Covenant and PAR Covenant for the quarters ended April 30, 2016 through to January 31, 2017.

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

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

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

Deterioration of the Corporation's Financial Condition

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

Liquidity and Access to Capital

The Corporation's cash flows are affected by the seasonality of its operations, in particular, the cash outflows required to support the ramp up in operations in the first quarter of each fiscal year (which, among other things, requires expenditures on aircraft maintenance and ferrying and additional working capital). The Corporation anticipates spending additional funds in Fiscal Year 2017 to fund aircraft sourcing initiatives at DA Defence. In the event that the Corporation's liquidity becomes constrained, the Corporation may need to curtail expenditures on growth projects which could adversely affect the future profitability of its business.

Furthermore, if the Corporation is unable to achieve certain key milestones set out in the Secured Debentures relating to the award to or loss by DA Defence of the CATS Contract, the maturity date of the Secured Debentures may be accelerated and it may be difficult for the Corporation to continue meeting certain financial covenants. Further, if the Corporation's share price fails to rise above the minimum price necessary for the Unsecured Debentures and the Secured Debentures to be converted into equity (whether because the key milestones set in the Secured Debentures are not met or otherwise), the Corporation will owe \$34.5 million on June 30, 2018 and approximately \$117.7 million on September 30, 2017. If this were to occur, there is a risk that the Corporation might not be able to fully repay or refinance those debts as they come due.

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

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

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

Resources Required to Support an Expanded DA Defence Business

Since 2015, DA Defence has derived substantially all of its revenues from the ICATS Standing Offers and, accordingly, has operated almost exclusively in North America on behalf of the Canadian Armed Forces. In December 2013, DA Defence acquired Advanced Training Systems International Inc.), which was subsequently renamed Top Aces Corp. ("**TAC**") in June 2015 and, as of January 2015, began providing training services to the German Armed Forces. As a result of these developments, DA Defence now directly manages, or oversees the management of, operations in Canada, the U.S. and Germany.

To prepare for the further growth of DA Defence, in October 2013 it entered into a sale agreement (the "**Sale Agreement**") for the acquisition of F-16 and A-4N aircraft (the "**Additional Fighter Jets**"). The Sale Agreement was amended and extended in December 2014 and March 2015. The acquisition of the Additional Fighter Jets require, among other regulatory approvals, third party transfer approval from the U.S. State Department ("**TPT Approval**"). If DA Defence is successful in obtaining TPT Approval and the necessary financing for the Additional Fighter Jets, those aircraft will, together with the ten aircraft of TAC, result in a significant increase in the fleet size actively employed (directly and indirectly) in the DA Defence business. While DA Defence has been successful in maintaining its rights to acquire the Additional Fighter Jets, there can be no assurance regarding additional extensions.

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

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

Mining, Oil and Gas Exposure

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

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

Safety of Operations

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

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

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

Additional funding for Pursuit of Growth Projects

In order to continue to fund growth projects at DA Defence, the Corporation will require additional financing in Fiscal Year 2017. There can be no assurance that the Corporation will be able to secure such additional financing on terms acceptable to the Corporation. If the Corporation is unable to secure such financing on terms acceptable to it, the Corporation may need to curtail further expenditures on growth projects at DA Defence, which could impair the ability of DA Defence and its U.S. subsidiaries to secure a combat support contract with the U.S. or other foreign Government.

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

Sale of Underutilized Aircraft And Other Non-Core Assets

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

Attraction and Retention of Required Human Resources

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

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

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

Non-Principal Risks

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

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

Risks to CATS Contract and ICATS Standing Offers

A significant portion of DA Defence' revenues and earnings are derived from the ICATS Standing Offers. Once awarded by Public Works Canada ("**PWGSC**"), through a formal procurement process, a long-term CATS Contract will replace the ICATS Standing Offers. In August 2015, PWGSC published an RFP for contracted airborne training services in Canada (the "CATS Contract"). In February 2016, DA Defence provided its bid submission to PWGSC. If DA Defence is not awarded the CATS Contract or is only able to secure the CATS Contract on significantly reduced profit margins, the Corporation's revenues, EBITDA and cash flows would be materially adversely affected. This could result in the Corporation being unable to meet its obligations as they become due and/or breaching its debt covenants. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

PWGSC is in the process of auditing the profit earned by DA Defence under the ICATS Standing Offers for the period February 1, 2010 to January 31, 2015. Since the rates charged by DA Defence under the ICATS Standing Offers are based on fixed hourly rates (as opposed to a fixed margin), the implications of the audit (if any) are not determinable at this time.

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

Additionally, the ICATS Standing Offers expire in June 2016. DA Defence is currently negotiating an extension to the ICATS Standing Offers intended to bridge the gap between the expiry of the ICATS Standing Offers and the commencement of the operations under the CATS Contract. As with previous extensions, DA Defence expects to negotiate and extension prior to expiry, however no assurances can be given that an extension will be obtained.

Business and Operational Risks

TPT Approval for the Additional Fighter Jets

In order to complete the purchase of the Additional Fighter Jets and certain upgrades and transport of the aircraft, DA Defence or its U.S. subsidiaries must first obtain TPT Approval (among other regulatory approvals). A number of factors could adversely affect the ability of DA Defence to obtain TPT approval, including changes in government policy, laws or political factors with respect to the operation of ex-military aircraft. Given the complexity of the regulatory approval process, there can be no assurances as to whether the required approvals will be obtained, the timing of any such approvals, or conditions or limitations which may accompany any such approval. Furthermore, there can be no assurance that there will be a government procurement for combat airborne training services that will require the use of the Additional Fighter Jets

Financing for the Purchase of the Additional Fighter Jets

In order to complete the purchase of the Additional Fighter Jets, the Corporation will require significant additional capital. The Corporation is in discussions with various funding sources but has not yet agreed to any terms for any such financing. Furthermore, there can be no assurances that any such financing will be available to the Corporation on acceptable terms, or at all, once the TPT Approval and all ancillary regulatory approvals have been obtained.

Additionally, the Corporation will require significant further capital should it proceed to exercise all of its options and rights of first refusal under the Sale Agreement.

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

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

In the event that the Corporation fails to grow revenues, it may not be able to generate sufficient EBITDA and cash flows to remain in compliance with its debt covenants beyond Fiscal Year 2017. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events could have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Political and Economic Risks in Foreign Jurisdictions

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

Importance of Aboriginal Relationships

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

Competitive Conditions

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

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

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

The Corporation also believes that Fire Services is the only Ontario-based company currently equipped and qualified to provide primary airborne fire management services to the Government of Ontario; however, future Ontario-based or current or future out-of-province operators may elect to compete against Fire Services to provide these services.

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

Financial Risks

Foreign Currency Fluctuations

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

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

As of January 31, 2016, the Corporation evaluated the currency risk on unhedged foreign currency liabilities by assessing the impact of a 5.0% rise or fall in the Canadian dollar against the foreign currencies, with all other variables unchanged. Such an exchange rate change would have a $0.3 million impact on the Corporation's loss and equity for the year ended January 31, 2016. This impact would be offset by the change in foreign currency accounts receivables, netting to an immaterial impact.

Changes in Interest Rates

As of January 31, 2016, a substantial portion of the Corporation's debt bears a fixed rate of interest, with $44.4 million of loans and borrowings subject to variable rates. The Corporation may be exposed to future financial risk from fluctuations in interest rates and the resulting interest expense associated with its short-term and long-term debt. A 25 basis point increase or decrease in interest rates on such debt obligations would impact the Corporation's annual interest expense by approximately $0.1 million.

Industry Risks

Industry Regulation

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

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

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

Environmental Conditions

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Fiscal Year 2016 audited consolidated financial statements have been prepared in accordance with IFRS. Management is often required to make judgments, assumptions and estimates that affect the carrying amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. The Corporation's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about accounting policies and the carrying value of assets and liabilities. Significant items subject to such estimates, assumptions and judgments include the carrying amount of property and equipment, intangibles and goodwill, valuation allowances for receivables, inventories, stock-based compensation and contingent liabilities related to lawsuits. Actual results could differ from these estimates.

The significant accounting policies used in the preparation of the audited consolidated financial statements are summarized in Note 3 of the audited consolidated financial statements in Fiscal Year 2016 and Fiscal Year 2015. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the audited consolidated financial statements.

Property and equipment

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

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

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

The cost of day-to-day servicing of property and equipment is recognized in profit and loss when incurred.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

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

Goodwill

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

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

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

Impairment

Financial Assets

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.
Objective evidence that financial assets are impaired can include default or delinquency by a debtor, or indications that a debtor or issuer will enter bankruptcy.

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

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

Non-financial assets

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

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

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

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

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

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

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

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

Income tax

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

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

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

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

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

Stock-based compensation

Equity-settled transactions

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

Cash-settled transactions

The Corporation has a deferred share unit ("**DSU**") plan for directors as described in note 15 of the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2016 and 2015. These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at the end of each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

Provisions

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

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

RECENTLY ISSUED STANDARDS

Unless otherwise noted, the following revised standards and amendments are effective for the Corporation on or after February 1, 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 International Accounting Standards Board ("**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.

In January 2016, the IASB issued IFRS 16, Leases ("**IFRS 16**"). IFRS 16 replaces IAS 7, Leases. IFRS 16 will require all leases, with the exception of those leases that meet the limited exception criteria, to be disclosed on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 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 continuing operations EBITDA and EBITDAR to net profit (loss):

	Three months ended January 31 (unaudited)		For the years ended January 31 (unaudited)	
(thousands of Canadian dollars)	**2016**	2015	**2016**	2015
Net income (loss) from continuing operations	**$ (13,854)**	$ (14,246)	**$ (14,827)**	$ (18,367)
Income tax provision (recovery)	**(2,863)**	(3,607)	**(2,820)**	(5,396)
Finance costs	**5,495**	5,942	**19,676**	19,928
Depreciation and amortization	**4,673**	4,747	**21,273**	20,389
Other (gains) and losses	**155**	315	**3,350**	(701)
EBITDA	**$ (6,394)**	$ (6,849)	**$ 26,652**	$ 15,853
Aircraft lease expenses	**1,335**	1,890	**10,988**	12,330
EBITDAR	**$ (5,059)**	$ (4,959)	**$ 37,640**	$ 28,183

"**Adjusted profit (loss)**" refers to net profit (loss) attributable to shareholders of Discovery Air 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 per share excluding the above noted items.

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

	Three months ended January 31 (unaudited)		For the years ended January 31 (unaudited)	
(thousands of Canadian dollars)	**2016**	2015	**2016**	2015
Net Income (loss) continuing operations Discovery Air	**$ (13,854)**	$ (14,246)	**$ (14,827)**	$ (18,367)
Other (gains) and losses (net of tax)	**99**	24	**(1,655)**	(727)
Impairment loss	**-**	-	**3,719**	214
Adjusted profit (loss)	**$ (13,755)**	$ (14,222)	**$ (12,763)**	$ (18,880)

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

	Three months ended January 31 (unaudited)		For the years ended January 31 (unaudited)	
(thousands of Canadian dollars)	**2016**	2015	**2016**	2015
Net loss attributable to shareholders of Discovery Air Inc.	**$ (12,865)**	$ (15,182)	**$ (16,011)**	$ (18,881)
Other (gains) and losses (net of tax)	**498**	24	**(204)**	(692)
Impairment loss of long term service contract (net of tax)	**-**	-	**-**	708
Impairment loss (net of tax)	**(671)**	215	**3,862**	215
Adjusted profit (loss)	**$ (13,038)**	$ (14,943)	**$ (12,353)**	$ (18,650)

Segmented breakdown of Continuing Operations EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended January 31, 2016			Three months ended January 31, 2015		
	(unaudited)			(unaudited)		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 29,494	$ 410	$ 29,904	$ 26,837	$ 330	$ 27,167
Expenses	33,517	3,068	36,585	30,344	3,671	34,015
Share of (profit) loss from associates	(281)	(6)	(287)	1	-	1
EBITDA	$ (3,742)	$ (2,652)	$ (6,394)	$ (3,508)	$ (3,341)	$ (6,849)
Aircraft lease expenses	1,335	-	1,335	1,890	-	1,890
EBITDAR	$ (2,407)	$ (2,652)	$ (5,059)	$ (1,618)	$ (3,341)	$ (4,959)

(thousands of Canadian dollars)	For the years ended January 31, 2016			For the years ended January 31, 2015		
	(unaudited)			(unaudited)		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 178,332	$ 3,849	$ 182,181	$ 159,936	$ 3,306	$ 163,242
Expenses	144,299	12,783	157,082	135,537	13,266	148,803
Share of profit from associates	(1,403)	(150)	(1,553)	(1,408)	(6)	(1,414)
EBITDA	$ 35,436	$ (8,784)	$ 26,652	$ 25,807	$ (9,954)	$ 15,853
Aircraft lease expenses	10,988		10,988	12,330		12,330
EBITDAR	$ 46,424	$ (8,784)	$ 37,640	$ 38,137	$ (9,954)	$ 28,183

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)								
	(unaudited)							
	Jan-16	Oct-15	Jul-15	Apr-15	Jan-15	Oct-14	Jul-14	Apr-14
Results of operations:								
Total Revenue	$ 35,636	$ 59,989	$ 62,531	$ 42,415	$ 34,323	$ 58,560	$ 56,813	$ 41,083
EBITDA	$ (5,884)	$ 13,716	$ 16,851	$ 2,421	$ (8,186)	$ 14,367	$ 10,825	$ (959)
Cash from (used in) operations	$ 12,738	$ 6,469	$ 4,584	$ (9,793)	$ 11,753	$ 6,005	$ (2,506)	$ (10,102)
Adjusted profit (loss)*	$ (13,038)	$ 1,789	$ 4,008	$ (5,354)	$ (14,943)	$ 3,384	$ 570	$ (7,748)
Profit (loss) attributable to shareholders of Discovery Air	$ (12,865)	$ 1,893	$ (587)	$ (4,454)	$ (15,182)	$ 2,926	$ 1,111	$ (7,736)
Basic earnings (loss) per share	$ (0.16)	$ 0.02	$ (0.01)	$ (0.07)	$ (0.44)	$ 0.08	$ 0.03	$ (0.48)
Basic adjusted profit (loss) per share*	$ (0.16)	$ 0.02	$ 0.05	$ (0.09)	$ (0.43)	$ 0.10	$ 0.02	$ (0.48)
Diluted earnings (loss) per share	$ (0.16)	$ 0.02	$ (0.01)	$ (0.07)	$ (0.44)	$ 0.08	$ 0.03	$ (0.48)
Diluted adjusted profit (loss) per share*	$ (0.16)	$ 0.02	$ 0.05	$ (0.09)	$ (0.43)	$ 0.10	$ 0.02	$ (0.48)

Seasonality and Quarterly Fluctuations

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

- In Canada, demand for the services provided by the Aviation segment is higher commencing in the spring and continuing through the end of the summer.

- DA Defence revenue-generation opportunities are usually significantly higher in the February to June and September to November time periods. Though DA Defence' revenues are relatively predictable over a 12 month period, they can vary substantially from month to month depending on the customers' training priorities and, on occasion, weather conditions.
- The Corporation attempts to perform most major repairs and refurbishments during the slower periods of revenue-generating activity. Since repairs and maintenance on aircraft are not required evenly throughout the year, the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on flight activity from one period to another, particularly as it relates to forest fire suppression operations.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on the Corporation's evaluation as at January 31, 2016, that the Corporation's disclosure controls and procedures are effective and provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, required to be disclosed in reports that the Corporation files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

Management is also responsible for, and has designed, ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer evaluated the design and effectiveness of the Corporation's ICFR based on the Internal Control – Integrated Framework (2013) (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, Management has concluded that as at January 31, 2016, the Corporation's internal controls over financial reporting were effective. There have been no changes to the design of internal controls over financial reporting that occurred during the quarter ended January 31, 2016 that have materially affected or are reasonably likely to materially affect the internal controls over financial reporting.

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

DEFINITIONS

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

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal Year 2013**" means the fiscal year of the Corporation ended January 31, 2013;
(e) "**Fiscal Year 2015**" means the fiscal year of the Corporation ended January 31, 2015;
(f) "**Fiscal Year 2016**" means the fiscal year of the Corporation ended January 31, 2016;
(g) "**Fiscal Year 2017**" means the fiscal year of the Corporation ended January 31, 2017;
(h) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of January 31, 2016, had an adjusted principal amount of $100,381,889 (inclusive of accrued interest);
(i) "**Shares**" means the Class A Shares and the Class B Shares.
(j) "**Working Capital**" means current assets less current liabilities excluding current portion of loans and borrowings and operating line of credit.

FORWARD-LOOKING STATEMENTS

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

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

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

Additional information relating to the Corporation, including the Corporation's Annual Information Form dated April 28, 2016, which contains a further discussion of risk factors, can be found on SEDAR at www.sedar.com.

Dated: April 28, 2016