DISCOVERY AIR

FIRST QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month Period ended April 30, 2016

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the three months ended April 30, 2016 should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related notes for the three months ended April 30, 2016 and 2015, and the annual consolidated financial statements and related notes for the year ended January 31, 2016, and the annual MD&A for the year ended January 31, 2016, all of which are available on SEDAR at www.sedar.com.*

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

Business Profile

Discovery Air, founded in 2004, is a Canadian specialty aviation company. 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 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 April 30 (unaudited) 2016	2015	% change
Results of continuing operations			
Revenue	**$ 42,245**	$ 38,789	*9%*
Expenses	**$ 37,806**	$ 36,808	*3%*
Depreciation and amortization	**$ 4,893**	$ 4,971	*-2%*
	$ (454)	$ (2,990)	*85%*
Finance costs	**$ 4,240**	$ 3,939	*8%*
Loss	**$ (3,969)**	$ (3,876)	*-2%*
Basic and diluted income (loss) per share	**$ (0.05)**	$ (0.06)	*17%*
Financial position and liquidity			
Total assets	**$ 324,170**	$ 329,142	*-2%*
Total debt	**$ 181,511**	$ 179,642	*1%*
Cash used in continuing operations	**$ (7,116)**	$ (10,001)	*29%*
Working Capital*	**$ 51,068**	$ 48,136	*6%*
Key non-IFRS performance measures for continuing operations* (unaudited)			
Adjusted profit (loss)	**$ (3,969)**	$ (4,771)	*17%*
Basic and diluted Adjusted profit (loss) per share	**$ (0.05)**	$ (0.08)	*38%*
EBITDAR	**$ 6,569**	$ 5,427	*21%*
EBITDA	**$ 4,474**	$ 2,607	*72%*
EBITDA Margin	**11%**	7%	*57%*
Results of discontinued operations			
Revenue	**$ 284**	$ 3,626	*-92%*
Profit (loss) from discontinued operations	**$ 31**	$ (578)	
Basic and diluted income (loss) per share	**$ 0.00**	$ (0.01)	
Cash provided by (used in) discontinued operations	**$ (585)**	$ 208	

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

Recent Developments

- In March 2016, Fire Services was awarded a three year air transport services contract, with the option for a two year extension, to support court related activities in Northern Ontario.
- In April 2016, GSH hosted a 32nd annual Anniversary event. This event raised money for the Yellowknife community foundation and brought many of the local community and indigenous partners together for a weekend celebration and helicopter tours.
- During the three months ended April 30, 2016, DA Defence participated in a number of international training exercises in both the U.S. and Europe, further establishing its presence in both these growing markets. Discovery Air Defence expanded its German program to include additional revenue flying in support of a German Navy frigate upgrade program, as well as the German Air Force Eurofighter fighter weapons instructor course.
- In April 2016, GSH was actively deployed in fire suppression activities in Western Canada, which was earlier than expected due to dry weather conditions in this region. In May 2016, GSH was deployed to Fort McMurray to assist in the much needed fire suppression efforts in that community.

Continuing Operations Consolidated Results

Three months ended April 30, 2016

Revenue

Quarterly revenues were $42.2 million, a 9% increase when compared to the three months ended April 30, 2015 (the "**comparative period**"). The Aviation segment had increased revenue ($3.6 million or 10% increase from the comparative period) with the majority of the increase related to increased airborne training in Canada and Germany and increased activity in the North.

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 70% of total revenues compared to 67% in the comparative period. The Corporation's revenues from resource-based customers represented 19% of total revenues compared to 15% in the comparative period. The increase in the government sector is primarily attributable to the increase in airborne training services at DA Defence.

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 $37.8 million, a 3% increase from the comparative period. The increase in quarterly expenses are primarily attributable to increased variable based costs related to increased flying hours at DA Defence.

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

Quarterly EBITDA was $4.5 million compared to EBITDA of $2.6 million in the comparative period, with the increased EBITDA largely attributable to increased revenue.

EBITDAR in the quarter was $6.6 million compared to $5.4 million in the comparative period. The increased EBITDAR is a result of increased EBITDA partially offset by decreased aircraft leasing expenses.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $4.9 million, a 2% decrease from the comparative period.

Finance costs were $4.2 million in the quarter, an 8% increase 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 $0.7 million, compared to a recovery of $1.3 million in the comparative period. The effective tax rate for the quarter was 15% 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 25% 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 $4.0 million ($0.05 basic and diluted Adjusted loss per share) compared to $4.8 million ($0.08 basic and diluted Adjusted loss per share) loss in the comparative period. The Corporation recorded a quarterly loss of $4.0 million ($0.05 basic and diluted loss per share on weighted average outstanding shares of 81,997,475) compared to loss of $3.9 million ($0.06 basic and diluted loss per share on weighted average outstanding shares 60,143,000) in the comparative period.

Although the Corporation's Class A Share price at April 30, 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.

Aviation Segment

(thousands of Canadian dollars)	Three months ended April 30 (unaudited)		
	2016	2015	*% Change*
Revenue	**$ 41,623**	$ 37,985	*10%*
Expenses	**34,799**	33,800	*3%*
Share of profit from associates	**(35)**	(615)	*94%*
EBITDA	**$ 6,859**	$ 4,800	*43%*
Aircraft lease expense	**2,095**	2,820	*-26%*
EBITDAR	**$ 8,954**	$ 7,620	*18%*
Capital expenditures	**$ 6,418**	$ 6,782	*-5%*

	As at April 30 (unaudited)		
	2016	2015	*% Change*
Total assets	**$ 320,456**	$ 313,419	*2%*
Goodwill	**$ 37,861**	$ 37,861	*0%*
Intangible assets	**$ 1,344**	$ 2,080	*-35%*

Three months ended April 30, 2016

The Aviation segment's quarterly revenues were $41.6 million on 11,100 flight hours, compared to revenue of $38.0 million on 11,080 flight hours in the comparative period. The increase in revenue is mainly attributable to a favourable variance in the hourly revenue rates as well as increased basing fees.

Aviation segment quarterly expenses were $34.8 million in the current quarter compared to $33.8 million in the comparative period. The 3% 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 $15.1 million (or 36% of revenues) compared to $13.0 million (or 34% 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 $10.1 million (or 24% of revenues), compared to $10.1 million (or 27% 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 $6.9 million (or 17% of revenues) in the quarter compared to $7.9 million (or 21% of revenues) in the comparative period. The 13% decrease in general and administrative costs is mainly attributable to continued cost containment efforts.

The profit from associates was nil compared to $0.6 million in the comparative period, with the variance primarily due to decreased income from associates as a result of reduced activities within these entities.

The segment's EBITDA was $6.9 million compared to EBITDA of $4.8 million in the comparative period, with the increase in EBITDA attributable to increased revenue partially offset by increased expenses and lower income from associates, as outlined above. EBITDAR was $9.0 million compared to EBITDAR of $7.6 million in the comparative period. The increase in EBITDAR is primarily due to the increase in EBITDA partially offset by reduced aircraft leasing expenses.

Depreciation expense in the current quarter was $4.7 million (or 11% of revenues) compared to $4.7 million (or 12% of revenues) in the comparative period.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended April 30		
	(unaudited)		
	2016	2015	*% Change*
Revenue	**$ 622**	$ 804	*-23%*
Expenses	**3,007**	3,008	*0%*
Share of profit (loss) from associates	**-**	(11)	
EBITDA	**$ (2,385)**	$ (2,193)	*-9%*
Capital expenditures	**$ 31**	$ 234	*-87%*

	As at April 30		
	(unaudited)		
	2016	2015	*% Change*
Total assets	**$ 3,714**	$ 15,723	*-76%*
Intangible assets	**$ -**	$ 118	

Three months ended April 30, 2016

Corporate Support and Other revenues were $0.6 million in the quarter compared to $0.8 million in the comparative period. The 23% decrease in revenue reflects a decrease in Mining activities during the quarter.

The segment incurred expenses totaling $3.0 million which were consistent with the comparative period.

The segment reported an EBITDA loss of $2.4 million in the quarter, compared to an EBITDA loss of $2.2 million in the comparative period. The increase in EBITDA loss was due to decreased revenues in Mining Services.

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 three months ended April 30, 2016 revenues were $0.3 million compared to $3.6 million in the comparative period. Expenses totaled $0.2 million compared to $3.8 million in the comparative period.

For the three months ended April 30, 2016, discontinued operations of Technical Services reported EBITDA of $0.1 million compared to an EBITDA loss $0.2 million in the comparative period.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	Three months ended April 30	
	(unaudited)	
(thousands of Canadian dollars)	**2016**	2015
Operating activities	**$ (7,701)**	$ (9,793)
Investing activities	**(6,270)**	(5,573)
Financing activities	**13,642**	14,864
Exchange gain on cash held in foreign currency	**700**	225
Net increase (decrease) in cash for the period	**$ 371**	$ (277)

Operating Activities

Cash used in operating activities for the three months ended April 30, 2016 was $7.7 million, a $2.1 million improvement over the comparative period. The favourable variance was largely attributable to an increase in EBITDA.

Working Capital

As at April 30, 2016, the Corporation had Working Capital (defined below) of $51.1 million, compared to $41.7 million at January 31, 2016 and $48.1 million at April 30, 2015. The current ratio of Working Capital was 2.8 as at April 30, 2016, 2.3 as at January 31, 2016 and 2.5 at April 30, 2015.

The increase in working capital from January 31, 2016 is attributable to the increase in trade and other receivables due to increased revenue. For the three months ended April 30, 2016 trade and other receivables increased by $8.7 million, a 30% 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 $6.3 million compared to $5.6 million in the comparative period. Capital expenditures of $6.4 million were mainly comprised of net cash outlays (net of financing) of $2.6 million in growth initiatives, and $3.3 million for sustaining capital expenditures and aircraft overhaul costs. The comparative period's capital expenditures of $7.0 million were comprised of $3.3 million for the purchase of four aircraft and modifications of these and other aircraft, $2.4 million of growth initiatives, $2.1 million for sustaining capital expenditures and aircraft overhaul costs, with a partial offset of $0.8 million due to expenditures financed by working capital.

Total asset divestures of $0.1 million included the disposal of aircraft parts for proceeds of $0.1 million. The comparative period asset divestures of $1.1 million included the disposal of one aircraft for proceeds of $0.8 million, and other items of property and equipment for $0.3 million.

Financing Activities

As at April 30, 2016, the Corporation had an unused borrowing capacity of $12.3 million to fund its operating requirements. Consistent with the seasonal nature of its business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased working capital. These draws are typically reduced during the second half of the fiscal year.

The Operating line of credit ("**Operating Line**") 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. The maturity of the additional credit facility was extended subsequent to April 30, 2016 to June 30, 2017.

On March 30, 2016 the Corporation entered into a $12.0 million secured revolving credit agreement (the "**Revolver**") with certain Clairvest Group Inc. affiliates ("**Clairvest**"). The Revolver matures December 31, 2016 and bears interest of 12% per annum, payable on a monthly basis. Total transaction costs for this facility were $0.1 million.

During the three months ended April 30, 2016, the Corporation made debt payments of $2.0 million. Debt payments consisted of scheduled term debt repayments. In the comparative period, the Corporation made debt payments of $6.5 million, consisting of $1.5 million of scheduled term debt repayments and $5.0 million in capitalized interest on the Secured Debentures.

On March 22, 2016, $9.2 million of accrued interest that was payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at April 30, 2016, the loan balance included accrued interest of $1.1 million (January 31, 2016 - $8.0 million).

The Corporation has obtained amendments to the Secured Debentures to waive the Debt Leverage Covenant and PAR Covenant for the quarters ended April 30, 2016 through to April 30, 2018.

On March 29, 2016 the following amendments were finalized:

- the $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.

- 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.

- 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.

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 was to mature on May 15, 2016 and was subsequently extended to September 15, 2016.

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, 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 April 30, 2016.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 11 of the Corporation's interim condensed consolidated financial statements for the three months ended April 30, 2016 and 2015.

Shareholders' Equity

At April 30, 2016, there were 79,286,721 Class A Shares and 2,710,754 Class B Shares outstanding. At the same date, there were 7,947,393 stock options outstanding. During the three months ended April 30, 2016, 76,005 stock options expired or were otherwise terminated in accordance with their terms.

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 three months ended April 30, 2016 was $2.3 million (April 30, 2015 - $2.2 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.

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 September 15, 2016.

For the three months ended April 30, 2016, the Corporation's revenues include $3.8 million (April 30, 2015 - $3.1 million), and the Corporation's expenses include $0.8 million (April 30, 2015 - $0.9 million), from transactions with the

Corporation's associates. As at April 30, 2016, $2.9 million (January 31, 2016 - $3.9 million) of the Corporation's accounts receivable were due from associates, and $2.7 million (January 31, 2016 - $3.0 million) of the Corporation's accounts payable were due to associates. As at April 30, 2016 $1.0 million (January 31, 2016 - $1.1 million) of the Corporation's long term receivables were due from associates, and $0.4 million (January 31, 2016 - $0.4 million) of the Corporation's loans and borrowings were due to associates.

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Some of those risks and uncertainties are described in this MD&A and are supplemented by risks and uncertainties described in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2016, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 28, 2016, both of which can be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the unaudited interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporation's financial condition and results. There have been no changes to the Corporation's significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2016, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

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 the Corporation for the annual period beginning on February 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 the Corporation for the annual period beginning on February 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 the Corporation for the annual period beginning on February 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 profit (loss):

	Three months ended April 30 (unaudited)	
(thousands of Canadian dollars)	**2016**	2015
Loss from continuing operations	**$ (3,969)**	$ (3,876)
Income tax provision (recovery)	**(690)**	(1,337)
Finance costs	**4,240**	3,939
Depreciation and amortization	**4,893**	4,971
Other (gains) and losses	**-**	(1,090)
EBITDA	**$ 4,474**	$ 2,607
Aircraft lease expenses	**2,095**	2,820
EBITDAR	**$ 6,569**	$ 5,427

"**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 profit (loss):

	Three months ended April 30 (unaudited)	
(thousands of Canadian dollars)	**2016**	2015
Loss from continuing operations	**$ (3,969)**	$ (3,876)
Other (gains) and losses (net of tax)	**-**	(895)
Adjusted profit (loss)	**$ (3,969)**	$ (4,771)

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

	Three months ended April 30 (unaudited)	
(thousands of Canadian dollars)	**2016**	2015
Loss	**$ (3,938)**	$ (4,454)
Other (gains) and losses (net of tax)	**-**	(900)
Adjusted profit (loss)	**$ (3,938)**	$ (5,354)

Segmented breakdown of Continuing Operations EBITDA and EBITDAR

(thousands of Canadian dollars)	**Three months ended April 30, 2016**						Three months ended April 30, 2015					
	(unaudited)						(unaudited)					
		Aviation		**Corporate Support and Other**		**Total**		Aviation		Corporate Support and Other		Total
Revenue	**$**	**41,623**	**$**	**622**	**$**	**42,245**	$	37,985	$	804	$	38,789
Expenses		**34,799**		**3,007**		**37,806**		33,800		3,008		36,808
Share of (profit) loss from associates		**(35)**		**-**		**(35)**		(615)		(11)		(626)
EBITDA	**$**	**6,859**	**$**	**(2,385)**	**$**	**4,474**	$	4,800	$	(2,193)	$	2,607
Aircraft lease expenses		**2,095**		**-**		**2,095**		2,820		-		2,820
EBITDAR	**$**	**8,954**	**$**	**(2,385)**	**$**	**6,569**	$	7,620	$	(2,193)	$	5,427

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)																
							(unaudited)									
		Apr-16		Jan-16		Oct-15		Jul-15		Apr-15		Jan-15		Oct-14		Jul-14
Results of operations:																
Total Revenue	**$**	**42,529**	$	35,636	$	59,989	$	62,531	$	42,415	$	34,323	$	58,560	$	56,813
EBITDA	**$**	**4,580**	$	(5,884)	$	13,716	$	16,851	$	2,421	$	(8,186)	$	14,367	$	10,825
Cash from (used in) operations	**$**	**(7,701)**	$	12,738	$	6,469	$	4,584	$	(9,793)	$	11,753	$	6,005	$	(2,506)
Adjusted profit (loss)*	**$**	**(3,938)**	$	(13,038)	$	1,789	$	4,008	$	(5,354)	$	(14,943)	$	3,384	$	570
Profit (loss)	**$**	**(3,938)**	$	(12,865)	$	1,893	$	(587)	$	(4,454)	$	(15,182)	$	2,926	$	1,111
Basic earnings (loss) per share	**$**	**(0.05)**	$	(0.16)	$	0.02	$	(0.01)	$	(0.07)	$	(0.44)	$	0.08	$	0.03
Basic adjusted profit (loss) per share*	**$**	**(0.05)**	$	(0.16)	$	0.02	$	0.05	$	(0.09)	$	(0.43)	$	0.10	$	0.02
Diluted earnings (loss) per share	**$**	**(0.05)**	$	(0.16)	$	0.02	$	(0.01)	$	(0.07)	$	(0.44)	$	0.08	$	0.03
Diluted adjusted profit (loss) per share*	**$**	**(0.05)**	$	(0.16)	$	0.02	$	0.05	$	(0.09)	$	(0.43)	$	0.10	$	0.02

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

There were no material changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the three months ended April 30, 2016 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

DEFINITIONS

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

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal Year 2015**" means the fiscal year of the Corporation ended January 31, 2015;
(e) "**Fiscal Year 2016**" means the fiscal year of the Corporation ended January 31, 2016;
(f) "**Fiscal Year 2017**" means the fiscal year of the Corporation ended January 31, 2017;
(g) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of April 30, 2016, had an adjusted principal amount of $101,546,260 (inclusive of accrued interest);
(h) "**Shares**" means the Class A Shares and the Class B Shares.
(i) "**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: June 14, 2016