DISCOVERY AIR

SECOND QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month and Six- Month Period ended July 31, 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 and six months ended July 31, 2016 should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related notes for the three and six months ended July 31, 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 Canadian Department of National Defence ("**DND**") and to the German Armed Forces.

The Corporate Support and Other segment consists of certain support functions at Discovery Air (collectively, "**Corporate**") as well as two subsidiaries: Discovery Air Technical Services Inc. ("**Technical Services**") and Discovery Mining Services Ltd. ("**Mining Services**"). Corporate support functions include shared services provided by personnel or professional advisors retained by the Corporation, such as finance, treasury, information technology, management, legal and human resources support. Technical Services 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

(unaudited)	Three months ended July 31			Six months ended July 31		
(thousands of Canadian dollars, except per share amounts)	2016	2015	% change	2016	2015	% change
Results of continuing operations						
Revenue	**$ 53,938**	$ 58,883	*-8%*	**$ 96,183**	$ 97,672	*-2%*
Expenses	**$ 39,944**	$ 41,836	*-5%*	**$ 77,749**	$ 78,644	*-1%*
Depreciation and amortization	**$ 5,608**	$ 5,776	*-3%*	**$ 10,501**	$ 10,747	*-2%*
	$ 8,386	$ 11,271	*-26%*	**$ 7,933**	$ 8,281	*-4%*
Finance costs	**$ 5,376**	$ 5,697	*-6%*	**$ 9,617**	$ 9,636	*0%*
Income (loss) from continuing operations	**$ 2,003**	$ 732	*174%*	**$ (1,966)**	$ (3,144)	*37%*
Basic and diluted income (loss) per share	**$ 0.02**	$ 0.01	*100%*	**$ (0.02)**	$ (0.04)	*50%*
Financial position and liquidity						
Total assets	**$ 332,840**	$ 344,695	*-3%*	**$ 332,840**	$ 344,695	*-3%*
Total debt	**$ 183,719**	$ 181,005	*1%*	**$ 183,719**	$ 181,005	*1%*
Cash provided by (used in) continuing operations	**$ 4,269**	$ 10,332	*-59%*	**$ (2,847)**	$ 331	
Working Capital*	**$ 58,830**	$ 57,149	*3%*	**$ 58,830**	$ 57,149	*3%*
Key non-IFRS performance measures for continuing operations* (unaudited)						
Adjusted profit (loss)	**$ 2,135**	$ 4,059	*-47%*	**$ (1,834)**	$ (672)	*-173%*
Basic and diluted Adjusted profit (loss) per share	**$ 0.03**	$ 0.05	*-40%*	**$ (0.02)**	$ (0.01)	*-100%*
EBITDAR	**$ 16,717**	$ 21,702	*-23%*	**$ 23,287**	$ 27,129	*-14%*
EBITDA	**$ 14,493**	$ 17,380	*-17%*	**$ 18,968**	$ 19,987	*-5%*
EBITDA Margin	**27%**	30%		**20%**	20%	
Results of discontinued operations						
Revenue	**$ 30**	$ 3,648	*-99%*	**$ 314**	$ 7,274	*-96%*
Income (loss) from discontinued operations	**$ 12**	$ (1,319)		**$ 43**	$ (1,897)	
Basic and diluted income (loss) per share	**$ 0.00**	$ (0.02)		**$ 0.00**	$ (0.03)	
Cash provided by (used in) discontinued operations	**$ (429)**	$ (5,748)	*93%*	**$ (1,014)**	$ (5,540)	*-82%*

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

Recent Developments

- In June 2016, the DA Defence Standing Offers to provide Interim Contracted Airborne Training Services ("**ICATS**") were extended until December 2017, with two additional six-month option periods.
- On September 8, 2016, the Corporation entered into a definitive agreement with MAG Aerospace Corp., and certain of its subsidiaries and with certain Clairvest Group Inc. affiliates ("**Clairvest**") to sell 100% of its shares in Fire Services for $15.4 million (subject to certain post-closing purchase price adjustments and minority shareholder approval). The Corporation expects to finalize the transaction in November 2016.

Continuing Operations Consolidated Results

Three months ended July 31, 2016

Revenue

Quarterly revenues were $53.9 million, an 8% decrease when compared to the three months ended July 31, 2015 (the "**comparative period**"). The Aviation segment had decreased revenue ($5.5 million or 9% decrease from the comparative period) with the majority of the decrease related to decreased fire suppression activity in Canada.

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 67% of total revenues compared to 71% in the comparative period. The Corporation's revenues from resource-based customers represented 19% of total revenues which was consistent with the comparative period. The decrease in the government sector is primarily attributable to decreased fire suppression revenues due to unusually wet summer weather conditions across Canada.

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

Quarterly expenses were $39.9 million, a 5% decrease from the comparative period. The decrease in quarterly expenses are primarily attributable to decreased variable based costs associated with decreased revenues.

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

Quarterly EBITDA was $14.5 million compared to EBITDA of $17.4 million in the comparative period, with the decreased EBITDA largely attributable to decreased revenue.

EBITDAR in the quarter was $16.7 million compared to $21.7 million in the comparative period. The decreased EBITDAR is a result of decreased EBITDA and aircraft leasing expenses.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $5.6 million, a 3% decrease from the comparative period.

Finance costs were $5.4 million in the quarter, a 6% decrease from the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were $3.1 million which were consistent with the comparative period.

The Corporation's quarterly income tax provision was $1.4 million, compared to $0.7 million in the comparative period. The effective tax rate for the quarter was 40% 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 48% was different from the Corporation's statutory income tax rate of 27% due to losses and other deferred tax assets for which the benefit has not been recognized.

Earnings

Excluding the net of tax gains and losses in connection with the disposal of assets, Adjusted profit (see "Adjusted profit (loss)" below), was $2.1 million ($0.03 basic and diluted Adjusted profit per share) compared to $4.1 million ($0.05 basic and diluted Adjusted profit per share) in the comparative period. The Corporation recorded quarterly income of $2.0 million ($0.02 basic and diluted earnings per share) compared to $0.7 million ($0.01 basic and diluted earnings per share) in the comparative period.

Although the Corporation's Class A Share price at July 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.

Six months ended July 31, 2016

Revenue

Year-to-date revenues were $96.2 million, a 2% decrease when compared to the six months ended July 31, 2015 (the "**Year-to-date comparative period**"). The Aviation segment had decreased revenue ($1.8 million or 2% decrease from the Year-to-date comparative period) with the majority of the decrease related to reduced fire suppression activity, partially offset by airborne training services.

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 68% of total revenues compared to 72% in the Year-to-date comparative period. The Corporation's revenues from resource-based customers represented 19% of total revenues compared to 17% in the Year-to-date comparative period.

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

Year-to-date expenses were $77.7 million, a 1% decrease from the Year-to-date comparative period. The decrease in expenses is primarily attributable to decreased variable based costs associated with decreased revenues.

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

Year-to-date EBITDA was $19.0 million compared to EBITDA of $20.0 million in the Year-to-date comparative period, with the decreased EBITDA largely attributable to decreased revenue.

EBITDAR in the quarter was $23.3 million compared to $27.1 million in the Year-to-date comparative period. The decreased EBITDAR is a result of decreased EBITDA and aircraft leasing expenses.

Depreciation, finance and other expenses

Depreciation expense Year-to-date was $10.5 million, a 2% decrease from the Year-to-date comparative period.

Finance costs were $9.6 million Year-to-date, which were consistent with the Year-to-date comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were $5.9 million which were consistent with the Year-to-date comparative period.

The Corporation's Year-to-date income tax provision was $0.7 million, compared to a tax recovery of $0.7 million in the Year-to-date comparative period. The Corporation recognized income tax expense of $0.7 million due to certain permanent taxable differences and deferred tax assets for which the benefit has not yet been recognized. In the Year-to-date comparative period, the effective income tax rate of 18% was different from the Corporation's statutory income tax rate of 27% due to losses and other deferred tax assets for which the benefit has not been recognized.

Earnings

Excluding the net of tax gains and losses in connection with the disposal of assets, Adjusted loss (see "Adjusted profit (loss)" below), was $1.8 million ($0.02 basic and diluted Adjusted loss per share) compared to $0.7 million ($0.01 basic and diluted Adjusted loss per share) loss in the Year-to-date comparative period. The Corporation recorded a Year-to-date loss of $2.0 million ($0.02 basic and diluted loss per share on weighted average outstanding shares of 81,997,475) compared to $3.1 million ($0.04 basic and diluted loss per share on weighted average outstanding shares 71,251,352) in the Year-to-date comparative period.

Although the Corporation's Class A Share price at July 31, 2016 and 2015 was below the conversion price of the Unsecured Debentures and Secured Debentures (as defined below), 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

(unaudited)

(thousands of Canadian dollars)	Three months ended July 31				Six months ended July 31			
		2016	2015	*% Change*		**2016**	2015	*% Change*
Revenue	**$**	**52,529**	$ 58,014	*-9%*	**$**	**94,153**	$ 95,999	*-2%*
Expenses		**36,526**	38,626	*-5%*		**71,324**	72,349	*-1%*
Share of profit from associates		**(345)**	(322)	*-7%*		**(380)**	(937)	*-59%*
EBITDA	**$**	**16,348**	$ 19,710	*-17%*	**$**	**23,209**	$ 24,587	*-6%*
Aircraft lease expense		**2,224**	4,322	*-49%*		**4,319**	7,142	*-40%*
EBITDAR	**$**	**18,572**	$ 24,032	*-23%*	**$**	**27,528**	$ 31,729	*-13%*
Capital expenditures	**$**	**3,110**	$ 10,534	*-70%*	**$**	**9,528**	$ 17,316	*-45%*

	As at July 31			
		2016	2015	*% Change*
Total assets	**$**	**327,632**	$ 334,440	*-2%*
Goodwill	**$**	**37,861**	$ 37,861	*0%*
Intangible assets	**$**	**1,369**	$ 1,501	*-9%*

Three months ended July 31, 2016

The Aviation segment's quarterly revenues were $52.5 million on 17,000 flight hours, compared to revenue of $58.0 million on 19,700 flight hours in the comparative period. The decrease in revenue and flight hours is mainly attributable to decreased fire suppression services in Canada.

Aviation segment quarterly expenses were $36.5 million in the current quarter compared to $38.6 million in the comparative period. The 5% decrease in expenses is mainly attributable to decreased revenue.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter was $10.2 million (or 20% of revenues), compared to $11.8 million (or 20% of revenues) in the comparative period. The 13% decrease in fleet costs is mainly attributable to reduced aircraft leasing. 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 $6.5 million (or 12% of revenues) in the quarter compared to $7.1 million (or 12% of revenues) in the comparative period. The 8% decrease in general and administrative expenses is mainly attributable to cost containment efforts.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $16.5 million (or 32% of revenues) compared to $16.1 million (or 28% of revenues) in the comparative period.

The quarterly profit from associates was $0.3 million, which was consistent with the comparative period.

The segment's EBITDA was $16.3 million compared to EBITDA of $19.7 million in the comparative period, with the decrease in EBITDA attributable to decreased revenue partially offset by decreased expenses, as outlined above. EBITDAR was $18.6 million compared to EBITDAR of $24.0 million in the comparative period. The decrease in EBITDAR is primarily due to the decrease in EBITDA and reduced aircraft leasing expenses.

Depreciation expense in the current quarter was $5.4 million (or 10% of revenues) compared to $5.5 million (or 10% of revenues) in the comparative period.

Six months ended July 31, 2016

The Aviation segment's Year-to-date revenues were $94.2 million on 28,100 flight hours, compared to revenue of $96.0 million on 30,800 flight hours in the Year-to-date comparative period. The decrease in revenue and flight hours is mainly attributable to decreased fire suppression services partially offset by increased airborne training.

Aviation segment Year-to-date expenses were $71.3 million compared to $72.3 million in the Year-to-date comparative period. The 1% decrease in expenses is mainly attributable to decreased revenue.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter was $20.4 million (or 22% of revenues), compared to $22.0 million (or 23% of revenues) in the Year-to-date comparative period. The 7% decrease in fleet costs is mainly attributable to reduced aircraft leasing. 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 $13.4 million (or 14% of revenues) in the quarter compared to $14.2 million (or 15% of revenues) in the Year-to-date comparative period. The 5% decrease in general and administrative expenses is mainly attributable to cost containment efforts.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $31.6 million (or 34% of revenues) compared to $29.8 million (or 31% of revenues) in the Year-to-date comparative period. The 6% increase in crew expenses is mainly attributable to increased costs related to increased airborne training services revenue.

The Year-to-date profit from associates was $0.4 million compared to $0.9 million in the Year-to-date comparative period.

The segment's EBITDA was $23.2 million compared to EBITDA of $24.6 million in the Year-to-date comparative period, with the decrease in EBITDA attributable to decreased revenue and decreased income from associates partially offset by decreased expenses, as outlined above. EBITDAR was $27.5 million compared to EBITDAR of $31.7 million in the Year-to-date comparative period. The decrease in EBITDAR is primarily due to the decrease in EBITDA and reduced aircraft leasing expenses.

Depreciation expense in the current quarter was $10.1 million (or 11% of revenues) compared to $10.3 million (or 11% of revenues) in the Year-to-date comparative period.

Corporate Support and Other

(unaudited)

(thousands of Canadian dollars)	Three months ended July 31			Six months ended July 31		
	2016	2015	*% Change*	**2016**	2015	*% Change*
Revenue	**$ 1,409**	$ 869	*62%*	**$ 2,030**	$ 1,673	*21%*
Expenses	**3,418**	3,210	*6%*	**6,425**	6,295	*2%*
Share of profit (loss) from associates	**(154)**	(11)		**(154)**	(22)	
EBITDA	**$ (1,855)**	$ (2,330)	*20%*	**$ (4,241)**	$ (4,600)	*8%*
Capital expenditures	**$ 83**	$ 100	*-17%*	**$ 114**	$ 334	*-66%*

	As at July 31		
	2016	2015	*% Change*
Total assets	**$ 5,208**	$ 10,255	*-49%*
Intangible assets	**$ -**	$ 73	*-100%*

Three months ended July 31, 2016

Corporate Support and Other revenues were $1.4 million in the quarter compared to $0.9 million in the comparative period. The 62% increase in revenue reflects an increase in Mining Services activities during the quarter.

The segment incurred expenses totaling $3.4 million compared to $3.2 million, a 6% increase, in the comparative period.

The segment reported an EBITDA loss of $1.9 million in the quarter, compared to an EBITDA loss of $2.3 million in the comparative period. The decrease in EBITDA loss was due to increased revenues in Mining Services and decreased Corporate expenses.

Six months ended July 31, 2016

Corporate Support and Other Year-to-date revenues were $2.0 million compared to $1.7 million in the Year-to-date comparative period. The 21% increase in revenue reflects an increase in Mining Services activities during the quarter.

The segment incurred expenses totaling $6.4 million compared to $6.3 million, a 2% increase, in the Year-to-date comparative period.

The segment reported a Year-to-date EBITDA loss of $4.2 million, compared to an EBITDA loss of $4.6 million in the Year-to-date comparative period. The decrease in EBITDA loss was due to increased revenues in Mining Services and decreased Corporate expenses.

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 July 31, 2016 Technical Services had minimal activity. In the comparative period revenues were $3.6 million with expenses totaling $4.2 million.

Year-to-date revenues were $0.3 million compared to $7.3 million in the Year-to-date comparative period. Expenses totaled $0.2 million compared to $8.0 million in the Year-to-date comparative period.

For the three months ended July 31, 2016, discontinued operations of Technical Services reported EBITDA of nil compared to an EBITDA loss $0.5 million in the comparative period. Year-to-date EBITDA was $0.1 million compared to an EBITDA loss of $0.7 million in the Year-to-date comparative period.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

(unaudited)

	Six months ended July 31	
(thousands of Canadian dollars)	**2016**	2015
Operating activities	**$ (3,861)**	$ (5,209)
Investing activities	**(9,340)**	(14,795)
Financing activities	**12,921**	19,189
Exchange gain on cash held in foreign currency	**388**	375
Net increase (decrease) in cash for the period	**$ 108**	$ (440)

Operating Activities

Cash used in operating activities for the six months ended July 31, 2016 was $3.9 million, a $1.3 million improvement over the Year-to-date comparative period. The favourable variance was largely attributable to decreased use of working capital.

Working Capital

As at July 31, 2016, the Corporation had Working Capital (defined below) of $58.8 million, compared to $41.7 million at January 31, 2016 and $57.1 million at July 31, 2015. The current ratio of Working Capital was 3.0 as at July 31, 2016, 2.3 as at January 31, 2016 and 2.6 at July 31, 2015.

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 $9.3 million compared to $14.8 million in the Year-to-date comparative period. Capital expenditures of $9.6 million were mainly comprised of net cash outlays (net of financing) of $4.6 million in growth initiatives, and $5.0 million for sustaining capital expenditures and aircraft overhaul costs. The Year-to-date comparative period's capital expenditures of $17.7 million were comprised of $7.7 million for the purchase of seven aircraft and modifications of these and other aircraft, $4.9 million of growth initiatives, $6.5 million for sustaining capital expenditures and aircraft overhaul costs, with a partial offset of $1.4 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 Year-to-date comparative period asset divestures of $2.4 million included the disposal of two aircraft for proceeds of $1.7 million, and other items of property and equipment for $0.7 million.

Financing Activities

As at July 31, 2016, the Corporation had an unused borrowing capacity of $11.9 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 June 30, 2017.

On March 30, 2016 the Corporation entered into a $12.0 million secured revolving credit agreement (the "**Revolver**") with 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 six months ended July 31, 2016, the Corporation made debt payments of $2.9 million. Debt payments consisted of scheduled term debt repayments. In the Year-to-date comparative period, the Corporation made debt payments of $8.3 million, consisting of $2.3 million of scheduled term debt repayments and $5.0 million in capitalized interest on the Secured Debentures, and a $1.0 million repayment of a short term loan.

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 July 31, 2016, the loan balance included accrued interest of $3.6 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 July 31, 2016 through to July 31, 2017.

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 secured short term loan with Clairvest Group Inc. to purchase two new aircraft. On September 7, 2016, the maturity date was extended to December 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 July 31, 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 12 of the Corporation's interim condensed consolidated financial statements for the three and six months ended July 31, 2016 and 2015.

Shareholders' Equity

At July 31, 2016, there were 79,286,721 Class A Shares and 2,710,754 Class B Shares outstanding. At the same date, there were 7,946,723 stock options outstanding. During the six months ended July 31, 2016, 76,675 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 and six months ended July 31, 2016 was $2.6 million and $4.9 million (three and six months ended July 31, 2015 - $2.3 million and 4.5 million), respectively. The interest on the Revolver for the three and six months ended July 31, 2016 was $0.2 million and $0.3 million (three and six months ended July 31, 2015 – nil), 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 a secured commercial terms basis $2.3 million from Clairvest Group Inc. The loan bears interest at 8% and has a maturity date of December 15, 2016.

For the three and six months ended July 31, 2016, the Corporation's revenues include $3.4 million and $7.2 million (three and six months ended July 31, 2015 - $4.9 million and $8.0 million), respectively, and the Corporation's expenses include $1.1 million and $1.9 million (three and six months ended July 31, 2015 - $1.1 million and $1.9 million), respectively, from transactions with the Corporation's associates. As at July 31, 2016, $5.2 million (January 31, 2016 - $3.9 million) of the Corporation's accounts receivable were due from associates, and $2.9 million (January 31, 2016 - $3.0 million) of the Corporation's accounts payable were due to associates. As at July 31, 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 July 31		Six months ended July 31	
(unaudited)				
(thousands of Canadian dollars)	**2016**	2015	**2016**	2015
Income (loss) from continuing operations	**$ 2,003**	$ 732	**$ (1,966)**	$ (3,144)
Income tax provision (recovery)	**1,353**	670	**663**	(667)
Finance costs	**5,376**	5,697	**9,617**	9,636
Depreciation and amortization	**5,608**	5,776	**10,501**	10,747
Other (gains) and losses	**153**	4,505	**153**	3,415
EBITDA	**$ 14,493**	$ 17,380	**$ 18,968**	$ 19,987
Aircraft lease expenses	**2,224**	4,322	**4,319**	7,142
EBITDAR	**$ 16,717**	$ 21,702	**$ 23,287**	$ 27,129

"**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 income (loss):

	Three months ended July 31		Six months ended July 31	
(unaudited)				
(thousands of Canadian dollars)	**2016**	2015	**2016**	2015
Income (loss) from continuing operations	**$ 2,003**	$ 732	**$ (1,966)**	$ (3,144)
Other (gains) and losses (net of tax)	**132**	3,327	**132**	2,472
Adjusted profit (loss)	**$ 2,135**	$ 4,059	**$ (1,834)**	$ (672)

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

	Three months ended July 31		Six months ended July 31	
(unaudited)				
(thousands of Canadian dollars)	**2016**	2015	**2016**	2015
Income (loss)	**$ 2,015**	$ (587)	**$ (1,923)**	$ (5,041)
Other (gains) and losses (net of tax)	**132**	4,770	**132**	3,916
Adjusted profit (loss)	**$ 2,147**	$ 4,183	**$ (1,791)**	$ (1,125)

Segmented breakdown of Continuing Operations EBITDA and EBITDAR

(thousands of Canadian dollars)	**Three months ended July 31, 2016**			Three months ended July 31, 2015		
(unaudited)	**Aviation**	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 52,529**	**$ 1,409**	**$ 53,938**	$ 58,014	$ 869	$ 58,883
Expenses	**36,526**	**3,418**	**39,944**	38,626	3,210	41,836
Share of profit from associates	**(345)**	**(154)**	**(499)**	(322)	(11)	(333)
EBITDA	**$ 16,348**	**$ (1,855)**	**$ 14,493**	$ 19,710	$ (2,330)	$ 17,380
Aircraft lease expenses	**2,224**	**-**	**2,224**	4,322	-	4,322
EBITDAR	**$ 18,572**	**$ (1,855)**	**$ 16,717**	$ 24,032	$ (2,330)	$ 21,702

(thousands of Canadian dollars)	**Six months ended July 31, 2016**			Six months ended July 31, 2015		
(unaudited)	**Aviation**	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 94,153**	**$ 2,030**	**$ 96,183**	$ 95,999	$ 1,673	$ 97,672
Expenses	**71,324**	**6,425**	**77,749**	72,349	6,295	78,644
Share of profit from associates	**(380)**	**(154)**	**(534)**	(937)	(22)	(959)
EBITDA	**$ 23,209**	**$ (4,241)**	**$ 18,968**	$ 24,587	$ (4,600)	$ 19,987
Aircraft lease expenses	**4,319**	**-**	**4,319**	7,142	-	7,142
EBITDAR	**$ 27,528**	**$ (4,241)**	**$ 23,287**	$ 31,729	$ (4,600)	$ 27,129

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

	(unaudited)							
	Jul-16	Apr-16	Jan-16	Oct-15	Jul-15	Apr-15	Jan-15	Oct-14
Results of operations:								
Total Revenue	**$ 53,968**	$ 42,529	$ 35,636	$ 59,989	$ 62,531	$ 42,415	$ 34,323	$ 58,560
EBITDA	**$ 14,532**	$ 4,580	$ (5,884)	$ 13,716	$ 16,851	$ 2,421	$ (8,186)	$ 14,367
Cash from (used in) operations	**$ 3,840**	$ (7,701)	$ 12,738	$ 6,469	$ 4,584	$ (9,793)	$ 11,753	$ 6,005
Adjusted profit (loss)*	**$ 2,147**	$ (3,938)	$ (13,038)	$ 1,789	$ 4,008	$ (5,354)	$ (14,943)	$ 3,384
Income (loss)	**$ 2,015**	$ (3,938)	$ (12,865)	$ 1,893	$ (587)	$ (4,454)	$ (15,182)	$ 2,926
Basic earnings (loss) per share	**$ 0.02**	$ (0.05)	$ (0.16)	$ 0.02	$ (0.01)	$ (0.07)	$ (0.44)	$ 0.08
Basic adjusted profit (loss) per share*	**$ 0.03**	$ (0.05)	$ (0.16)	$ 0.02	$ 0.05	$ (0.09)	$ (0.43)	$ 0.10
Diluted earnings (loss) per share	**$ 0.02**	$ (0.05)	$ (0.16)	$ 0.02	$ (0.01)	$ (0.07)	$ (0.44)	$ 0.08
Diluted adjusted profit (loss) per share*	**$ 0.03**	$ (0.05)	$ (0.16)	$ 0.02	$ 0.05	$ (0.09)	$ (0.43)	$ 0.10

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, periodically, weather conditions.

- The Corporation schedules 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 and six months ended July 31, 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) "**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 July 31, 2016, had an adjusted principal amount of $105,285,949 (inclusive of accrued interest);
(e) "**Shares**" means the Class A Shares and the Class B Shares.
(f) "**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: September 8, 2016