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, 2017 should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2017 and 2016, 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" and "EBITDAR", 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**") provided forest fire management and court-related air transport services to the Government of Ontario up to January 31, 2017, when the subsidiary was sold. 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) 2017	2016	% change	Years ended January 31 2017	2016	% change
Results of continuing operations						
Revenue	**$ 31,957**	$ 29,904	*7%*	**$ 171,055**	$ 182,181	*-6%*
Expenses	**$ 35,516**	$ 36,585	*-3%*	**$ 150,085**	$ 157,082	*-4%*
Depreciation and amortization	**$ 4,441**	$ 4,676	*-5%*	**$ 19,748**	$ 21,273	*-7%*
	$ (8,000)	$ (11,357)	*30%*	**$ 1,222**	$ 3,826	
Finance costs	**$ 5,740**	$ 5,495	*4%*	**$ 20,431**	$ 19,676	*4%*
Loss	**$ (12,210)**	$ (13,399)	*9%*	**$ (18,075)**	$ (14,827)	*-22%*
Basic and diluted income (loss) per share	**$ (0.15)**	$ (0.17)	*12%*	**$ (0.22)**	$ (0.19)	*-16%*
Financial position and liquidity						
Total assets				**$ 297,898**	$ 319,821	*-7%*
Total debt				**$ 177,625**	$ 180,612	*-2%*
Cash provided by (used in) continuing operations	**$ (3,930)**	$ 6,094		**$ 2,808**	$ 12,814	*-78%*
Working Capital*				**$ 47,833**	$ 41,689	*15%*
Key non-IFRS performance measures* (unaudited)						
EBITDAR	**$ (1,016)**	$ (5,059)	*80%*	**$ 30,836**	$ 37,640	*-18%*
EBITDA	**$ (3,389)**	$ (6,394)	*47%*	**$ 21,768**	$ 26,652	*-18%*
EBITDA Margin	**-11%**	-21%		**13%**	15%	
Results of discontinued operations						
Revenue	**$ -**	$ 5,732	*-100%*	**$ 318**	$ 18,391	*-98%*
Income (loss) from discontinued operations	**$ (28)**	$ 989		**$ 27**	$ (1,184)	
Basic and diluted income (loss) per share	**$ -**	$ 0.01		**$ -**	$ (0.02)	*100%*
Cash provided by (used in) discontinued operations	**$ (3)**	$ 6,639	*-100%*	**$ (414)**	$ 1,179	

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

Recent Developments

- In March 2017, DA Defence along with Air Affairs Australia Pty Ltd., was awarded a two-year trial contract by the Commonwealth of Australia to provide Red Air and fighter support to the Australian Defence Force.
- On January 31, 2017, the Corporation completed the sale of Fire Services for total proceeds of $16.0 million, which resulted in a pre-tax gain on disposal of $0.3 million.
- In January 2017, GSH was awarded a five year contract for two aircraft with the government of Alberta. During the contract period, GSH will be performing fire suppression activities.
- In January 2017, GSH was hired as the prime helicopter contractor to service a resource development project in Bolivia. The contract is for two aircraft and a minimum of one year.
- In December 2016, Air Tindi was awarded a three year contract in northern Canada to transport personnel and equipment to remote worksites.
- On December 20, 2016, DA Defence entered into a $25.0 million secured revolving loan agreement with certain Clairvest Group Inc. affiliates ("**Clairvest**") that matures on June 30, 2017.

- On March 24, 2017, the Corporation announced that certain funds managed by Clairvest Group Inc. have entered into a definitive agreement which will result in Clairvest, along with certain management shareholders of the Corporation, holding all of the issued and outstanding shares in the capital of the Corporation by way of a plan of arrangement (the "**Arrangement**") pursuant to the Canada Business Corporations Act. This transaction would not constitute a change of control, as it relates to the Unsecured Debentures.

Continuing Operations Consolidated Results

Three months ended January 31, 2017

Revenue

Quarterly revenues were $32.0 million, a 7% increase when compared to the three months ended January 31, 2016 (the "**comparative period**"). The Aviation segment had increased revenue ($2.2 million or 8% increase from the comparative period) with the majority of the increase related to increased forest fire suppression activity in South America.

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 71% of total revenues compared to 59% in the comparative period. The Corporation's revenues from resource-based customers represented 14% of total revenues compared to 24% in the comparative period. The increase in the government sector is primarily attributable to the increase in forest fire suppression activity in South America.

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 $35.5 million, a 3% decrease from the comparative period. The decrease in quarterly expenses are primarily attributable to reduced administrative expense as a result of cost containment efforts.

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

Quarterly EBITDA loss was $3.4 million compared to EBITDA loss of $6.4 million in the comparative period, with the reduced EBITDA loss largely attributable to increased revenue.

EBITDAR loss in the quarter was $1.0 million compared to $5.1 million in the comparative period. The increased EBITDAR is a result of increased EBITDA and increased aircraft leasing costs.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $4.4 million, a 5% decrease from the comparative period.

Finance costs were $5.7 million in the quarter, a 5% increase from the comparative period. Non-cash finance charges and interest accretion on the loans and borrowings were $2.6 million, a marginal decrease in comparison with the comparative period.

The Corporation's quarterly income tax recovery was $3.2 million, compared to a recovery of $2.9 million in the comparative period. The effective tax rate for the quarter was 26% 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 16% was different from the Corporation's statutory income tax rate of 27% due to the same reasons.

Earnings

The Corporation recorded a quarterly loss of $12.2 million ($0.15 basic and diluted loss per share) compared to loss of $13.9 million ($0.17 basic and diluted earnings per share) in the comparative period.

Although the Corporation's Class A Share price at January 31, 2017 and 2016 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 only if the interest savings per share (net of tax) is less than the basic earnings per share.

For the year ended January 31, 2017

Revenue

Year-to-date revenues were $171.1 million, a 6% decrease when compared to the year ended January 31, 2016 (the "**comparative year**"). The Aviation segment experienced decreased activity ($11.2 million or 6% decrease from the comparative year) in forest fire suppression operations in North and South America, and decreased mining activity in the North. The Corporate Support and Other segment reported a modest increase in revenues ($0.1 million or 3% increase from the comparative year).

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 66% of total revenues compared to 65% in the comparative period. The Corporation's revenues from resource-based customers represented 19% of total revenues compared to 22% in the comparative year.

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 $150.1 million, a 4% decrease from the comparative year. The decrease in the current period was attributable to decreased variable based costs related to decreased flying hours as well as reduced corporate and administrative costs based on continued cost efficiency measures.

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

Year-to-date EBITDA was $21.8 million compared to EBITDA of $26.7 million in the comparative year ($4.9 million or 18% decrease), with the decreased EBITDA largely attributable to decreased flight hour activity.

Year-to-date EBITDAR was $30.8 million compared to $37.6 million in the comparative year. The decrease of $6.8 million was attributable to the decrease in EBITDA noted above and a reduction in aircraft leasing expense of $1.9 million, or 17% to $9.1 million as compared to $11.0 million in the comparative year. 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 current demand with further optimization of other leased and owned aircraft.

Depreciation, finance and other expenses

Depreciation expense year-to-date was $19.7 million, a 7% decrease from the comparative year. The decrease is attributable to reduced flight hours from decreased forest fire suppression activity in North and South America, and mining activity in the North.

Finance costs year-to-date were $20.4 million, a 7% increase from the comparative year. Non-cash finance charges and interest accretion on the loans and borrowings was $11.5 million compared to $11.0 million in the comparative year. The increase in finance costs is primarily attributable to interest on the Secured Debentures and the $12.0 million secured revolving credit agreement with Clairvest Group Inc. entered into on March 30, 2016. The increase in interest was partially offset by increased foreign exchange gain.

The Corporation's year-to-date income tax recovery was $3.0 million, compared to $2.8 million in the comparative year. The effective tax rate was 17% compared to the Corporation's statutory income tax rate of 27%, with the variance due to differences in foreign jurisdiction rates and other deferred tax assets for which the benefit has not been recognized. In the comparative year, the effective income tax rate of 16% was lower due the same reasons.

Earnings

The Corporation recorded an annual loss of $18.1 million ($0.22 basic and diluted loss per share) compared to a loss of $14.8 million ($0.19 basic and diluted loss per share) in the comparative year.

Although the Corporation's Class A Share price at January 31, 2017 and 2016 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		
	2017	2016	*% Change*	**2017**	2016	*% Change*
Revenue	**$ 31,714**	$ 29,494	*8%*	**$ 167,090**	$ 178,332	*-6%*
Expenses	**32,988**	33,517	*-2%*	**138,184**	144,299	*-4%*
Share of profit from associates	**(169)**	(281)	*40%*	**(621)**	(1,403)	*-56%*
EBITDA	**$ (1,105)**	$ (3,742)	*70%*	**$ 29,527**	$ 35,436	*-17%*
Aircraft lease expense	**2,373**	1,335	*78%*	**9,068**	10,988	*-17%*
EBITDAR	**$ 1,268**	$ (2,407)	*153%*	**$ 38,595**	$ 46,424	*-17%*
Capital expenditures	**$ 1,223**	$ 5,193	*-76%*	**$ 15,447**	$ 28,052	*-45%*

	As at January 31		
	2017	2016	*% Change*
Total assets	**$ 294,550**	$ 314,890	*-6%*
Goodwill	**$ 37,861**	$ 37,861	*0%*
Intangible assets	**$ 1,373**	$ 1,363	*1%*

Three months ended January 31, 2017

The Aviation segment's quarterly revenues were $31.7 million on 9,030 flight hours, compared to revenue of $29.5 million on 8,060 flight hours in the comparative period. The increase in revenue is mainly attributable to increased fire suppression activity in South America.

Aviation segment quarterly expenses were $33.0 million in the current quarter compared to $33.5 million in the comparative period. The 2% decrease in expenses is mainly attributable to continued cost containment efforts.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $14.1 million (or 45% of revenues) compared to $14.4 million (or 49% of revenues) in the comparative period. The 2% decrease in crew expenses is mainly attributable to resource optimization.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $10.5 million (or 33% of revenues), compared to $9.2 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 $5.9 million (or 19% of revenues) in the quarter compared to $7.4 million (or 26% of revenues) in the comparative period. The reduction in general and administrative costs was driven by cost efficiency measures.

The profit from associates was $0.2 million compared to $0.3 million in the comparative period.

The segment's EBITDA loss was $1.1 million compared to an EBITDA loss of $3.7 million in the comparative period, with the increase in EBITDA attributable to decreased expenses as outlined above. EBITDAR was $1.3 million compared to an EBITDAR loss of $2.4 million in the comparative period. The increase in EBITDAR is primarily due to the increase in EBITDA coupled with increased aircraft leasing expenses as outlined above.

Depreciation expense in the current quarter was $4.2 million (or 13% of revenues) compared to $4.4 million (or 15% of revenues) in the comparative period.

For the year ended January 31, 2017

The Aviation segment's year-to-date revenues were $167.1 million on 50,040 flight hours, compared to revenue of $178.3 million on 54,900 flight hours in the comparative year. The decrease in revenues and flight hours were primarily attributable to decreased fire suppression operations in North & South America and reduced mining activity in the North.

Aviation segment year-to-date expenses were $138.2 million (or 83% of revenues) compared to $144.3 million (or 81% of revenues) in the comparative year. The 4% decrease in expenses is mainly attributable to decreased flight hours.

Crew costs, for the year ended January 31, 2017, were $60.5 million (or 36% of revenues) compared to $60.8 million (or 34% of revenues) in the comparative year.

Fleet costs, excluding fuel costs, year-to-date were $40.8 million (or 24% of revenues) for the year ended January 31, 2017, compared to $42.8 million (or 24% of revenues) in the comparative year. 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, 2017, were $25.6 million (or 15% of revenues) compared to $28.4 million (or 16% of revenues) in the comparative year. The decrease was primarily due to cost containment efforts.

The profit from associates was $0.6 million compared to $1.4 million in the comparative year with the variance due to decreased activity in the Corporation's associates.

The segment's quarterly EBITDA was $29.5 million compared to an EBITDA of $35.4 million in the comparative year, with the decrease in EBITDA attributable to decreased revenue. EBITDAR was $38.6 million compared to an EBITDAR of $46.4 million in the comparative year. The decrease in EBITDAR is primarily due to the decrease in EBITDA and reduced aircraft lease expenses.

Depreciation expense in the current year was $19.0 million (or 11% of revenues) compared to $20.3 million (or 11% of revenues) in the comparative year. The decrease in depreciation is primarily attributable to decreased flight hours.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended January 31 (unaudited)			For the years ended January 31		
	2017	2016	*% Change*	**2017**	2016	*% Change*
Revenue	**$ 243**	$ 410	*-41%*	**$ 3,965**	**$ 3,849**	*3%*
Expenses	**2,528**	3,068	*-18%*	**11,901**	**12,783**	*-7%*
Share of profit (loss) from associates	**(1)**	(6)		**(177)**	**(150)**	
EBITDA	**$ (2,284)**	$ (2,652)	*14%*	**$ (7,759)**	**$ (8,784)**	*12%*
Capital expenditures	**$ 59**	$ 33	*79%*	**$ 247**	**$ 567**	*-56%*

	As at January 31		
	2017	2016	*% Change*
Total assets	**$ 3,154**	$ 4,931	*-36%*

Three months ended January 31, 2017

Corporate Support and Other revenues were $0.2 million in the quarter compared to $0.4 million in the comparative period. The 41% decrease in revenue reflects a decrease in Mining Services.

The segment incurred expenses totaling $2.5 million compared to $3.1 million in the comparative period, a decrease of 18%. The reduction is primarily attributable to cost mitigation efforts in corporate support functions.

The segment reported an EBITDA loss of $2.3 million in the quarter, compared to an EBITDA loss of $2.7 million in the comparative period. The reduction in EBITDA loss was due to cost reductions in corporate support functions.

For the year ended January 31, 2017

Corporate Support and Other year-to-date revenues were $4.0 million compared to $3.8 million in the comparative year. The 3% increase in revenue reflects a moderate increase at Mining Services relating to activity performed in the North.

The segment incurred expenses totaling $11.9 million compared to $12.8 million in the comparative year, a decrease of 7% primarily attributable to cost mitigation efforts in corporate support functions.

The segment reported a year-to-date EBITDA loss of $7.8 million, compared to $8.8 million in the comparative year. The reduction in EBITDA loss was due to cost reductions in corporate support 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. During the year ended January 31, 2016 the Corporation recognized a pre-tax impairment loss of $2.3 million on the assets included in the transaction.

For the year ended January 31, 2017 the year-to-date revenues were $0.3 million compared to $18.4 million in the comparative year.

The discontinued operations incurred expenses totaling $0.2 million compared to $17.9 million in the comparative year.

For the year ended January 31, 2017, discontinued operations of Technical Services reported year-to-date EBITDA of $0.2 million compared to $0.5 million in the comparative year.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	For the years ended January 31	
(thousands of Canadian dollars)	**2017**	2016
Operating activities	**$ 2,394**	$ 13,993
Investing activities	**237**	(19,979)
Financing activities	**(2,990)**	6,041
Exchange gain on cash held in foreign currency	**330**	(358)
Net decrease in cash for the period	**$ (29)**	$ (303)

Operating Activities

Cash provided by operating activities for the year ended January 31, 2017 was $2.4 million, an $11.6 million decrease over the comparative period. The unfavourable variance was largely attributable to a $6.0 million increased use in working capital and a $4.9 million decrease in EBITDA.

Working Capital

As at January 31, 2017 the Corporation had Working Capital (defined below) of $47.8 million, compared to $41.7 million at January 31, 2016. The current ratio of Working Capital was 2.9 as at January 31, 2017 and 2.3 as at January 31, 2016.

The increase in working capital from January 31, 2016 is attributable to decreased Trade and other payables, increased prepaid expenses and assets held for sale, partially offset by decreases in trade and other receivables and inventory.

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 proceeds for investing activities was $0.2 million compared to net outlays of $20.0 million in the comparative year. Capital expenditures of $15.7 million were mainly comprised of net cash outlays (net of financing) of $1.2 million for aircraft upgrades, $5.3 million of DA Defence growth initiatives, and $8.6 million for sustaining capital expenditures and aircraft overhaul costs. The comparative period's capital expenditures of $28.6 million were comprised of $8.8 million of DA Defence growth initiatives, $7.7 million for the purchase of seven aircraft and related upgrades, and $11.6 million for sustaining capital expenditures and aircraft overhaul costs.

Total asset divestures of $15.1 million was primarily due to the disposal of Fire Services. The comparative period asset divestures 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.

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 ("**Sale Agreement**") the fleet of F-16 and A-4N aircraft (the "**Additional Fighter Jets**") for further expansion of the DA Defence business.

Financing Activities

As at January 31, 2017, the Corporation had unused borrowing capacity of $19.9 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.

On May 26, 2015, the Corporation entered into an Operating Line agreement. The Operating Line matures on June 30, 2017 has a borrowing limit of $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 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, 2017. Total transactions costs for this facility were $0.4 million.

On March 30, 2016, the Corporation entered into a $12.0 million unsecured revolving loan agreement with Clairvest. The Revolving Credit Facility carried interest of 12% per annum and was payable on a monthly basis and had a maturity of December 31, 2016. The balance was repaid on December 20, 2016.

On December 20, 2016, DA Defence entered into a $25.0 million convertible secured revolving loan agreement ("**Credit Agreement**") with Clairvest. The loan bears interest of 12% and is payable on February 15, 2017, May 15, 2017 and at maturity on June 30, 2017. Interest payable on February 15, 2017 was paid in full. Prior to the maturity date, the Corporation expects the Credit Agreement to be extended at similar terms and conditions, or that it will be converted it into DA Defence common shares, as per the terms of the agreement.

Although the Corporation believes it can renew or extend the Operating Line and Credit Agreement prior to maturity, there can be no assurance that the Operating Line and Credit Agreement will be renewed or extended.

During the year ended January 31, 2017, the Corporation made debt payments of $14.5 million. Debt payments consisted of $3.8 million of scheduled term debt repayments, $5.5 million in capitalized interest on the Secured Debentures, and $5.2 million of unscheduled debt repayments. In the comparative year, the Corporation made debt payments of $12.1 million.

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 March 31, 2018, 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. The initial conversion price of the Secured Debentures of $7.50 per Share increases at 10% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest would be convertible into 8,375,570 Shares (previously 8,814,148 Shares with the reduction related to the interest repayment on January 31, 2017, mentioned below). 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 (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 waive or amend the Debt Leverage Covenant and the PAR covenant for the quarters ended January 31, 2017 through to October 31, 2017. In the event the Corporation requires additional amendments in the future, the Corporation expects to obtain amendments as needed. However, no assurances can be provided that additional amendments can be obtained.

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 January 31, 2017, the loan balance included accrued interest of $3.3 million (January 31, 2016 - $8.0 million).

On January 31, 2017, the Corporation repaid $5.5 million of accrued interest.

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 6,804,734 Class A Shares at any time prior to the maturity date at a conversion price of $5.07 per Share, 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, 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.

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 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. Transaction costs of $0.3 million are netted against the carrying value of the loan and are being accreted to the loan's face value based on an effective interest rate of 6.27% per annum. The loans are secured by a first charge on the aircraft purchased. The agreement requires that the Corporation observe a variety of non-financial covenants.

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, 2016 to March 31, 2017, 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 $0.2 million 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, and not exceed a specified level of total liabilities to tangible net worth.

On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement. The loan matures on April 15, 2018 and is currently repayable in monthly instalments of $0.1 million plus interest for the period April 15, 2016 through to March 15, 2017, and $0.2 million thereafter with the balance due at maturity. The loan bears an interest rate equal to the lender's floating base rate plus 4.00% 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 $0.2 million 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.

On June 2, 2015, the Corporation entered into an unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. The maturity was extended to June 15, 2017 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 currently repayable in monthly instalments of $11,000 through to March 1, 2017, 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 $0.1 million 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, and not exceed a specified level of leverage.

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, (iii) the adequacy of the security pledged to its lenders in relation to its debt levels, (iv) its continued ability to obtain waivers or amendments in the event of non-compliance with its covenants in the future. 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, 2017.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Corporation's contractual principal obligations as at January 31, 2017:

(thousands of Canadian dollars)

January 31, 2017	**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	$ 25,672	$ -	$ -	$ -	$ -	$ -	**$ 25,672**
Loans and borrowings	7,730	160,613	12,699	1,711	1,813	6,873	**191,439**
	$ 33,402	$ 160,613	$ 12,699	$ 1,711	$ 1,813	$ 6,873	**$ 217,111**

As reflected in the Corporation's audited consolidated financial statements, the Corporation's loans and borrowings, and finance lease obligations as at January 31, 2017 were $177.6 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 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 25 of the Corporation's audited consolidated financial statements for the years ended January 31, 2017 and 2016.

Shareholders' Equity

At January 31, 2017, there were 79,286,721 Class A Shares and 2,710,754 Class B Shares outstanding. At the same date, there were 7,867,043 stock options outstanding. During the year ended January 31, 2017, 156,355 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, 2017, 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 9% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the year ended January 31, 2017 was $10.0 million (January 31, 2016 - $9.2 million). 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 a rights offering completed March 13, 2015, 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 $2.3 million from Clairvest Group Inc. The loan bears interest at 8% with a maturity date of June 15, 2017.

On December 20, 2016, DA Defence entered into a $25.0 million Credit Agreement with Clairvest. The loan bears interest of 12% and is payable on February 15, 2017, May 15, 2017 and at maturity on June 30, 2017.

For the year ended January 31, 2017, the Corporation's revenues include $15.4 million (January 31, 2016 - $19.9 million), and the Corporation's expenses include $3.7 million (January 31, 2016 - $3.9 million), from transactions with the Corporation's associates. As at January 31, 2017, $2.5 million (January 31, 2016 - $3.9 million) of the Corporation's accounts receivable were due from associates, and $0.5 million (January 31, 2016 - $3.0 million) of the Corporation's accounts payable were due to associates. As at January 31, 2017 $0.8 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'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 dated April 13, 2017 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.

Risks to Contracted Airborne Training Services ("CATS") Contract and Interim Contracted Airborne Training Services ("ICATS") Standing Offers

A significant portion of DA Defence's revenues and earnings are derived from the ICATS program from a series of standing offer agreements with the Government of Canada (the "**Standing Offers**"). Once awarded by Public Works and Government Services Canada ("**PWGSC**"), the CATS contract will replace the Standing Offers. Therefore, 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.

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 acquired Advanced Training Systems International Inc., which was subsequently renamed Top Aces Corp. **("TAC**"), secured a contract with the German government (the "**German Contract**") pursuant to which it provides fast jet airborne training services to the German Armed Forces for a term of five years; secured a contract with Air Affairs Australia Pty Ltd. with the Commonwealth of Australia to provide "Red Air" (adversary aircraft) and fighter support to the Australian Defence Force ("**Australian 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, DA Defence has further agreed to partner with Inzpire with the intention to provide services in respect of any contract awarded in respect of the ASDOT program.

Acquisition of the F-16 and A-4N Aircraft

To prepare for the further growth of DA Defence, in October, 2013, it entered into the Sale Agreement, as amended. Additionally, in order to complete the acquisition of the Additional Fighter Jets and certain upgrades and transport of the aircraft, DA Defence or its U.S. subsidiaries must first obtain third party transfer approval from the U.S. State Department ("**TPT Approval**") (among other regulatory approvals). The TPT Approval will require, among other things, the award to DA Defence of a government contract for combat training services that requires the use of the Additional Fighter Jets. 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. Furthermore, 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. 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. Furthermore, a number of factors could adversely affect the likelihood of an award to DA Defence of a qualifying government contract or the ability of DA Defence to perform under any such contract, including competition from existing competitors, entry into the contracted airborne training market by new competitors; changes in government policy, laws or political factors with respect to government and/or military procurement and/or operation of ex-military aircraft; or the inability of DA Defence to secure financing pursuant to the Financing Options.

Financing for DA Defence

In order to grow its business, including completing the acquisition of the Additional Fighter Jets, completing certain required upgrades, and making the required capital expenditures that are expected to be required to perform under new government contracts for airborne training services, DA Defence 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 on acceptable terms, or at all, when it is required.

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

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

Management 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's 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 management of the Corporation believes that the lack of an advanced offering, such as the Additional Fighter Jets, may limit DA Defence's 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 2018. 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.

Regulatory Environment

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 additional regulatory approvals under the airworthiness rules of the Canadian Armed Forces and foreign armed forces, and to additional government regulations including the Controlled Goods Regulations (Canada), the International Traffic in Arms Regulations and similar foreign regulations.

Furthermore and with respect to aviation laws, the ability of GSH, Air Tindi, and DA Defence 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 and other international aviation regulators 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.

Compliance with Covenants

The Corporation is required to maintain certain covenants under its financing covenants. The Corporation was in compliance with the amended covenants as of 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;
- increases in debt service payments due to increased borrowing costs or changes to loan amortization; and
- the ability of the Corporation to continue to acquire waivers, or amendments, on certain covenants from its majority shareholder.

If a loan is in default, that lender 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 2018 to fund capital expenditures including aircraft sourcing and upgrading 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 approximately $117.2 million on March 31, 2018 and $34.5 million on June 30, 2018. 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 2005, DA Defence has operated in North America on behalf of the Canadian Armed Forces. In December 2013, DA Defence acquired TAC, 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. In Fiscal Year 2018, DA Defence will begin operations in Australia pursuant to the Australian Contract providing training services to the Australian Defence Force.

If DA Defence is successful in obtaining TPT Approval and the necessary financing for the acquisition of 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.

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, and internationally. To the extent that the subsidiaries of DA Defence are required to hold security clearances from the Canadian, or international 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 and compliance with obligations under newly awarded government contracts. 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 and 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 and 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, and have ceased operations in certain markets where management determined continued operation would not be accretive to the Corporation's profitability going forward.

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.

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 2018 and beyond. 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. Discovery Air used 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 Risks Relating to the Potential Equity Privatization*.*

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.

Business and Operational Risks

Political and Economic Risks in Foreign Jurisdictions

The Corporation conducts operations in a number of foreign countries. 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 Indigenous Relationships

The Indigenous 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, management of 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 management of 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.

Finally, management of the Corporation believes that Air Tindi's competitive advantages include its strategic network of loyal clients, strong Indigenous 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, 2017, 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 $0.4 million impact on the Corporation's loss and equity for the year ended January 31, 2017. 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, 2017, a substantial portion of the Corporation's debt bears a fixed rate of interest, with $36.6 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 for the next twelve months by approximately $0.1 million.

Environmental Conditions

Air operations are affected across all subsidiaries by weather. Unusually harsh conditions may affect the ability to complete operations.

Dividend history or policy

No dividends on the Common Shares have been paid by the Corporation to date. The Corporation anticipates that for the foreseeable future it will retain future earnings and other cash resources for the operation and development of its business as well as to reduce debt. Payment of any future dividends will be at the discretion of the Corporation's board of directors, after taking into account many factors, including the Corporation's operating results, financial condition and current and anticipated cash needs.

Risks of Holding Shares in a Controlled Company

To the best of the Corporation's knowledge, the Clairvest currently own, or exercise control or direction over, 70,601,728 Common Shares, representing approximately 86.1% of the votes attaching to all of the Common Shares issued and outstanding. Accordingly, Clairvest has significant influence on the Corporation's strategic direction and significant corporate transactions, and may determine any matter coming before a vote of shareholders of the Corporation, including the election of directors. Clairvest alone are in a position to cause or prevent approval of certain matters requiring shareholder approval and Clairvest may also be able to effect certain fundamental changes to the Corporation in accordance with the *Canada Business Corporations Act* because they are able to, on their own, meet the applicable 66 $^{2}/_{3}$% voting threshold for shareholder approval to effect such changes. The interests of shareholders of the Corporation may not align with the interests of Clairvest. In addition, in exercising their voting rights with respect to the Common Shares controlled by them, Clairvest does not owe a fiduciary duty to other shareholders or the Corporation. As a result, Clairvest could cause the Corporation to take actions that other shareholders do not support. Shareholders should also be aware that votes in respect of the Common Shares may be significantly influenced by a small group of shareholders of the Corporation, including in the context of "majority of the minority" approvals for certain related party transactions.

This concentration of voting power may cause the market price of the Common Shares to decline, delay or prevent any acquisition or delay or discourage take-over attempts that shareholders may consider to be favourable, or make it more difficult or impossible for a third party to acquire control of the Corporation or effect a change in the Corporation's Board of Directors and management. Any delay or prevention of a change of control transaction could deter potential acquirers or prevent the completion of a transaction in which the Corporation's shareholders could receive a substantial premium over the then current market price for their Common Shares. In addition, Clairvests' interests may not in all cases be aligned with the interests of the other shareholders of the Corporation. Clairvest may have an interest in pursuing acquisitions, divestitures and other transactions that, in the judgment of its management, could enhance its investment in the Corporation, even though such transactions might involve risks to the shareholders of the Corporation and may ultimately affect the market price of the Common Shares.

Further, the significant ownership of Common Shares by Clairvest may affect the market price, trading volume and liquidity of the Common Shares. The effect of Clairvests' influence may impact the price that investors are willing to pay for Common Shares. If Clairvest sell a substantial number of Common Shares in the public market, the market price of the Common Shares could decrease significantly.

Risks Associated with the New Clairvest Loan

On December 20, 2016, the Corporation, through its subsidiary, DA Defence, entered into the Credit Agreement providing for a revolving credit facility in the aggregate principal amount of $25 million. The borrowings under the Credit Agreement, as secured, bear interest at a rate of 12% per annum and mature on June 30, 2017. The Credit Agreement also contains an optional conversion feature (the "**Conversion Feature**"), which provides Clairvest an option, subject to certain conditions, to convert the outstanding balance under the Credit Agreement into common shares of DA Defence, a wholly-owned subsidiary of the Corporation, at a conversion price to be determined on the basis of the value of the DA Defence business, after the application of certain agreed upon adjustments, as determined by an independent and qualified valuator. The Corporation filed a Material Change Report and certain Material Contracts in connection with the Credit Agreement on December 23, 2016, a copy of which is available on SEDAR at www.sedar.com. To the best of the Corporation's knowledge, Clairvest currently own, or exercise control or direction over, 70,601,768 Common Shares, representing approximately 86.1% of the votes attaching to all of the Common Shares issued and outstanding. Accordingly, Clairvest have significant influence on the Corporation's strategic direction and significant corporate transactions and may be in a position to determine any matter coming before a vote of shareholders. The interests of shareholders of the Corporation may not align with the interests of Clairvest, and

Clairvest does not owe a fiduciary duty to other shareholders or the Corporation. As a result, Clairvest could take certain actions that other shareholders of the Corporation do not support, including exercising the Conversion Feature. Though the Conversion Feature is subject to certain conditions (the "**Conversion Conditions**"), including any required shareholder or other regulatory approval necessary under applicable securities law and TSX rules, Clairvest exercising the Conversion Feature and successfully satisfying the Conversion Conditions could result in the Corporation owning significantly less of DA Defence, which is one of the Corporation's key subsidiaries. In addition, the exact terms of the Conversion Feature are subject to the valuation and adjustments described above and, as such, cannot be known at this time. Successful exercise of the Conversion Feature could impact the assets and future growth prospects of the Corporation, resulting in a potential diminishment in value of the Corporation and its securities in a way that disproportionately impacts the non-Clairvest Party security holders.

Risks Relating to the Potential Equity Privatization

Conditions Precedent to the completion of the Arrangement

The completion of the Arrangement is subject to a number of conditions precedent, some of which are outside the control of Corporation, including, without limitation, receipt of shareholder and court approval. There can be no certainty, nor can the Corporation provide any assurance, that these conditions will be satisfied or, if satisfied, when they will be satisfied. Though shareholders that together hold 90.5% of the outstanding Common Shares have indicated they will vote in favour of the Arrangement, there can be no assurance that the Arrangement will be completed. If the Arrangement is not completed, the market price of the Corporation's securities may be adversely affected.

Cash Consideration is Dependent Upon the Completion of the Arrangement

The cash consideration to be paid to Corporation shareholders pursuant to the Arrangement is dependent upon the successful completion of the Arrangement, which, for reasons discussed above, is not assured. If the Arrangement is not completed, the Corporation shareholders will not receive the cash consideration, the assets and future growth prospects of the Corporation may be adversely affected, and the market price of the Corporation's securities may be adversely affected.

Matters Affecting Trading Prices for the Unsecured Debentures

Whether or not the Unsecured Debentures will trade at lower prices depends on many factors, including the liquidity of the Unsecured Debentures, prevailing interest rates and the markets for similar securities, the conversion value of the Unsecured Debentures, general economic conditions and the Corporation's financial condition, historic financial performance and future prospects.

In the case of certain transactions, each Unsecured Debenture will become convertible into the securities, cash or property receivable by a holder of Common Shares in the kind and amount of securities, cash or property into which the Unsecured Debenture was convertible immediately prior to the transaction. This change could substantially lessen or eliminate the value, or perceived value, of the conversion privilege associated with the Unsecured Debenture in the future. For example, if the Corporation were acquired in a cash merger, each Unsecured Debenture would become convertible solely into cash and would no longer be convertible into securities whose value would vary depending on the Corporation's future prospects and other factors.

The market price of the Unsecured Debentures may be adversely affected by a variety of factors relating to the Corporation's business, including fluctuations in the Corporation's operating and financial results, the results of any public announcements made by the Corporation and the Corporation's failure to meet expectations. In addition, from time to time, the market experiences significant price and volume volatility that may affect the market price of the Unsecured Debentures for reasons unrelated to the Corporation's performance. There can be no assurance that the market price of the Unsecured Debentures will not experience significant fluctuations in the future.

Credit Risk and Prior Ranking Indebtedness; Absence of Covenant Protection

There is no guarantee that the Corporation will have sufficient cash available to make interest and principal payments on the Unsecured Debentures on a timely basis or at all. In addition, the Unsecured Debentures are unsecured obligations of the Corporation and are subordinate in right of payment to all the Corporation's existing and future indebtedness obligations. Therefore, if the Corporation becomes bankrupt, liquidates its assets, reorganizes or enters into certain other transactions, the Corporation's assets will be available to pay its obligations with respect to the Unsecured Debentures only after it has paid all of its senior and secured indebtedness in full. There may be insufficient assets remaining following such payments to pay amounts due on any or all of the Unsecured Debentures then outstanding. The Unsecured Debentures are also effectively subordinate to claims of creditors (including trade creditors) of the Corporation's subsidiaries except to the extent the Corporation is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors. The Unsecured Debenture Indenture does not prohibit or limit the ability of the Corporation or its subsidiaries to incur additional debt or liabilities (including indebtedness obligations) or to make distributions, except in certain limited circumstances.

Structural Subordination of the Unsecured Debentures and Credit Risk

Liabilities of a parent entity with assets held by various subsidiaries may result in the structural subordination of the lenders of the parent entity. The Corporation is entitled only to the residual equity of its subsidiaries after all debt obligations of its subsidiaries are discharged. In the event of a bankruptcy, liquidation or reorganization of the Corporation, holders of indebtedness of the Corporation (including Unsecured Debentures holders) may become subordinate to lenders to the subsidiaries of the Corporation.

Additional risks may be found under the heading "*Risk Factors*" in Management's Discussion and Analysis for the fiscal year ended January 31, 2017, which is incorporated herein by reference and may be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Fiscal Year 2017 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, intangible assets 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 2017 and Fiscal Year 2016. 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 non-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 16 of the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2017 and 2016. 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, 2017.

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 does not expect that IFRS 15 will have a significant impact on the recognition and measurement of revenue from contracts with customers.

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 expects that IFRS 16 will have a significant impact on the presentation and classification of leases in the Corporations financial statements when adopted.

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 and lease 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)	**2017**	2016	**2017**	2016
Net loss from continuing operations	**$ (12,210)**	$ (13,854)	**$ (18,075)**	$ (14,827)
Income tax provision (recovery)	**(3,167)**	(2,863)	**(3,018)**	(2,820)
Finance costs	**5,740**	5,495	**20,431**	19,676
Depreciation and amortization	**4,441**	4,673	**19,748**	21,273
Other (gains) and losses	**1,807**	155	**2,682**	3,350
EBITDA	**$ (3,389)**	$ (6,394)	**$ 21,768**	$ 26,652
Aircraft lease expenses	**2,373**	1,335	**9,068**	10,988
EBITDAR	**$ (1,016)**	$ (5,059)	**$ 30,836**	$ 37,640

Segmented breakdown of Continuing Operations EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended January 31, 2017 (unaudited)			Three months ended January 31, 2016 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 31,714**	**$ 243**	**$ 31,957**	$ 29,494	$ 410	$ 29,904
Expenses	**32,988**	**2,528**	**35,516**	33,517	3,068	36,585
Share of (profit) loss from associates	**(169)**	**(1)**	**(170)**	(281)	(6)	(287)
EBITDA	**$ (1,105)**	**$ (2,284)**	**$ (3,389)**	$ (3,742)	$ (2,652)	$ (6,394)
Aircraft lease expenses	**2,373**	**-**	**2,373**	1,335	-	1,335
EBITDAR	**$ 1,268**	**$ (2,284)**	**$ (1,016)**	$ (2,407)	$ (2,652)	$ (5,059)

(thousands of Canadian dollars)	For the years ended January 31, 2017 (unaudited)			For the years ended January 31, 2016 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 167,090**	**$ 3,965**	**$ 171,055**	$ 178,332	$ 3,849	$ 182,181
Expenses	**138,184**	**11,901**	**150,085**	144,299	12,783	157,082
Share of profit from associates	**(621)**	**(177)**	**(798)**	(1,403)	(150)	(1,553)
EBITDA	**$ 29,527**	**$ (7,759)**	**$ 21,768**	$ 35,436	$ (8,784)	$ 26,652
Aircraft lease expenses	**9,068**		**9,068**	10,988		10,988
EBITDAR	**$ 38,595**	**$ (7,759)**	**$ 30,836**	$ 46,424	$ (8,784)	$ 37,640

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

	(unaudited)							
	Jan-17	Oct-16	Jul-16	Apr-16	Jan-16	Oct-15	Jul-15	Apr-15
Results of operations:								
Total Revenue	**$ 31,957**	$ 42,919	$ 53,968	$ 42,529	$ 35,636	$ 59,989	$ 62,531	$ 42,415
EBITDA*	**$ (3,399)**	$ 6,219	$ 14,532	$ 4,580	$ (5,884)	$ 13,716	$ 16,851	$ 2,421
Cash from (used in) operations	**$ (3,770)**	$ 10,188	$ 3,840	$ (7,701)	$ 12,738	$ 6,469	$ 4,584	$ (9,793)
Income (loss) attributable to shareholders of Discovery Air	**$ (12,238)**	$ (3,885)	$ 2,015	$ (3,938)	$ (12,865)	$ 1,893	$ (587)	$ (4,454)
Basic earnings (loss) per share	**$ (0.15)**	$ (0.05)	$ 0.02	$ (0.05)	$ (0.16)	$ 0.02	$ (0.01)	$ (0.07)
Diluted earnings (loss) per share	**$ (0.15)**	$ (0.05)	$ 0.02	$ (0.05)	$ (0.16)	$ 0.02	$ (0.01)	$ (0.07)

*See "Non-IFRS Measures"

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. Although 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, 2017, 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, Internal Control over Financial Reporting ("**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 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, 2017, 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, 2017 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 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) "**Fiscal Year 2018**" means the fiscal year of the Corporation ended January 31, 2018;
(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, 2017, had an adjusted principal amount of $104,905,209 (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 13, 2017, which contains a further discussion of risk factors, can be found on SEDAR at www.sedar.com.

Dated: April 13, 2017