

DISCOVERY AIR

**Interim Condensed Consolidated Financial Statements
April 30, 2017
(Unaudited)**

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position (Unaudited)

(thousands of Canadian dollars)	Note	April 30, 2017	January 31, 2017
Assets			
Current assets:			
Cash		\$ 210	\$ 329
Restricted cash		16	16
Trade and other receivables		32,803	26,698
Income taxes receivable		842	603
Inventory		26,057	26,435
Prepaid expenses and other		18,896	17,153
Assets held for sale	4	1,258	2,271
		80,082	73,505
Property and equipment		178,751	178,119
Long term receivables		696	797
Goodwill		37,861	37,861
Intangible assets		1,384	1,373
Investments in associates		6,315	6,243
		\$ 305,089	\$ 297,898
Liabilities and Shareholders' equity			
Current liabilities:			
Operating line of credit	6	\$ 47,790	\$ 34,084
Trade and other payables		25,996	25,672
Current portion of loans and borrowings	5	12,616	7,691
		86,402	67,447
Loans and borrowings	5	166,678	169,934
Deferred income taxes		5,936	8,192
		172,614	178,126
Shareholders equity:			
Share capital	13	93,713	93,713
Contributed surplus		12,454	12,400
Deficit		(64,210)	(55,886)
Accumulated other comprehensive income		4,116	2,098
Total equity		46,073	52,325
		\$ 305,089	\$ 297,898

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Loss

(Unaudited)

(thousands of Canadian dollars, except per share amounts)	Note	For the three months ended	
		April 30, 2017	April 30, 2016
Revenue		\$ 32,760	\$ 42,529
Expenses		33,972	37,984
		(1,212)	4,545
Depreciation and amortization		4,198	4,893
Finance costs		5,352	4,304
Share of profit from associates (net of income tax)		(72)	(35)
Other (gains) and losses		(435)	-
		9,043	9,162
Loss before income taxes		(10,255)	(4,617)
Income tax provision (recovery):			
Current		38	480
Deferred		(1,969)	(1,159)
		(1,931)	(679)
Loss		\$ (8,324)	\$ (3,938)
Basic and diluted loss per share	7	\$ (0.10)	\$ (0.05)

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(thousands of Canadian dollars)	April 30, 2017	April 30, 2016
Loss	\$ (8,324)	\$ (3,938)
Other comprehensive income (loss):		
Exchange differences on translation of foreign operations	2,018	(3,554)
Total comprehensive loss	\$ (6,306)	\$ (7,492)

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity

For the three months ended April 30, 2017 and 2016

(Unaudited)

(thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained (deficit)	Accumulated other comprehensive income (loss)	Total equity
Balance at January 31, 2017	\$ 93,713	\$ 12,400	\$ (55,886)	\$ 2,098	\$ 52,325
Loss	-	-	(8,324)	-	(8,324)
Other comprehensive loss	-	-	-	2,018	2,018
Employee stock options	-	54	-	-	54
Balance at April 30, 2017	\$ 93,713	\$ 12,454	\$ (64,210)	\$ 4,116	\$ 46,073
Balance at January 31, 2016	\$ 93,713	\$ 12,120	\$ (37,838)	\$ 4,058	\$ 72,053
Loss	-	-	(3,938)	-	(3,938)
Other comprehensive income	-	-	-	(3,554)	(3,554)
Employee stock options	-	104	-	-	104
Balance at April 30, 2016	\$ 93,713	\$ 12,224	\$ (41,776)	\$ 504	\$ 64,665

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

(thousands of Canadian dollars)

	Note	For the three months ended	
		April 30, 2017	April 30, 2016
Cash provided by (used in)			
Operating activities:			
Loss		\$ (8,324)	(3,938)
Adjustments for:			
Current tax provision		38	480
Deferred tax recovery		(1,969)	(1,159)
Finance costs		5,352	4,305
Total share-based compensation		54	80
Depreciation and amortization		4,198	4,893
Share of profit from associates (net of income tax)		(72)	(35)
Other (gains) and losses		(435)	-
		(1,158)	4,626
Change in non-cash operating working capital	8	(7,751)	(10,971)
Interest paid		(1,535)	(1,305)
Net income taxes paid		(264)	(51)
Net cash used in operating activities		(10,708)	(7,701)
Investing activities:			
Acquisition of property and equipment		(3,685)	(6,449)
Long term receivable collections		95	79
Proceeds on disposal of property and equipment	4	1,752	100
Net cash used in investing activities		(1,838)	(6,270)
Financing activities:			
Proceeds from operating line of credit	6	13,705	15,688
Repayment of loans, borrowings and finance leases		(1,140)	(2,046)
Net cash provided by financing activities		12,565	13,642
Increase (decrease) in cash		19	(329)
Effect of exchange rate changes on cash and cash equivalents		(138)	700
Cash, balance beginning of period		329	358
Cash, balance end of period		\$ 210	\$ 729

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements

For the three months ended April 30, 2017 and 2016

1. Reporting entity:

Discovery Air Inc. (the “**Corporation**”) was incorporated on November 12, 2004 under the *Ontario Business Corporations Act* and on March 27, 2006 was continued under the *Canada Business Corporations Act*. Until May 31, 2017, the Corporation’s Class A common voting shares (the “**Class A Shares**”) were traded on the Toronto Stock Exchange (“**TSX**”) under the symbol “DA.A” (refer to note 13). The Corporation also has Class B common variable voting shares (the “**Class B Shares**”), which are not listed for trading on any exchange (the Class B Shares and the Class A Shares are collectively referred to as the “**Shares**”). The registered address of the Corporation is 170 Attwell Drive, Suite 370, Toronto, Ontario. The Corporation operates through two business segments, “**Aviation**” and “**Corporate Support and Other**”.

2. Basis of preparation:

Statement of compliance:

The Corporation prepares its interim condensed consolidated financial statements in accordance with International Accounting Standard (“**IAS**”) 34, Interim Financial Reporting. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation’s audited annual consolidated financial statements for the year ended January 31, 2017, which were prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

3. Significant accounting policies:

The significant accounting principles used in the preparation of these consolidated financial statements, and applied consistently to all periods presented, are summarized below:

(a) These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation’s most recent annual audited consolidated financial statements for the year ended January 31, 2017.

(b) 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 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. 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. The Corporation expects to apply IFRS 15 retrospectively and it is effective for annual periods beginning on or after January 1, 2018. 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 17, Leases. IFRS 16 will require all leases, with the exception of those leases that meet the limited exception criteria, to be capitalized with a corresponding lease liability while the lease expense will be replaced by the amortization of the right to use the related assets and interest accretion expense from the liabilities recorded. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation anticipates that IFRS 16 will have a significant impact on the presentation and classification of leases in the Corporation’s financial statements when adopted.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the three months ended April 30, 2017 and 2016

4. Assets held for sale:

At January 31, 2017, the Corporation had committed to a plan to dispose of four aircraft. Accordingly, the aircraft were recorded at \$2.3 million, which was the lower of cost and fair value less cost to sell. Two of these aircraft along with their spare parts were sold in April 2017 for proceeds of \$1.3 million resulting in a pre-tax gain of \$0.1 million, representing the difference between the proceeds and the net carrying value of the aircraft and related parts, was recorded on the disposal of the aircraft.

5. Loans and borrowings:

(thousands of Canadian dollars)	Note	April 30, 2017	January 31, 2017
10.00% secured convertible debentures, maturing May 5, 2018 (" Secured Debentures ")	5(a)	\$ 106,844	\$ 104,152
8.375% unsecured convertible debentures, maturing June 30, 2018 (" Unsecured Debentures ")		34,022	33,927
Long-term secured debt bearing interest at prime rate plus 3.05%, maturing April 1, 2023		14,121	14,598
Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019	5(b)	13,547	13,783
Long-term secured debt bearing interest of lender's base rate plus 4.00%, maturing April 15, 2018	5(b)	6,598	6,955
Short-term secured debt bearing a fixed interest rate of 8.00%, maturing September 15, 2017	5(c)	2,300	2,300
Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019	5(b)	1,255	1,278
Various long-term secured debt bearing fixed and floating interest rates		417	422
Finance leases		190	210
Loans and borrowings		\$ 179,294	\$ 177,625
Less current portion of loans and borrowings		\$ 12,616	\$ 7,691
		\$ 166,678	\$ 169,934

- (a) On March 22, 2017, \$4.7 million of accrued interest that was payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at April 30, 2017, the loan balance included accrued interest of \$1.1 million (January 31, 2017 - \$3.3 million). During the quarter, the Secured Debentures maturity was extended to May 5, 2018. The debenture holders have provided loan covenant amendments from July 31, 2017 through to April 30, 2018 on terms acceptable to the Corporation. In the event the Corporation requires additional amendments in the future, the Corporation expects to obtain amendments as needed.
- (b) In June 2017, the lenders provided, or have committed to provide, loan covenant amendments from July 31, 2017 through to January 31, 2018, on terms acceptable to the Corporation.
- (c) On June 2, 2015, the Corporation entered into an unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. During the quarter, the maturity was extended to September 15, 2017, and the loan bears interest at 8% per annum.

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 value of the security pledged to its lenders in relation to its debt levels, and (iv) its continued ability to obtain waivers or amendments in the event of non-compliance with its covenants in the future. As interest on the Secured Debentures is paid in kind (i.e. accrues and is added to the principal amount of the Secured

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the three months ended April 30, 2017 and 2016

Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the Pledged Asset Ratio 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 can be no assurance that following the periods covered by the amendments, the Corporation will be able to remain in compliance with the covenants. The Corporation was in compliance with all financial and non-financial covenants as at April 30, 2017.

Repayments on or in respect of the outstanding loans and borrowings as at April 30, 2017 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)

Within 1 year	\$	12,616
Within 2 years		155,171
Within 3 years		1,652
Within 4 years		1,700
Within 5 years		1,800
Thereafter		6,355
Total	\$	179,294

Interest expense on or in respect of loans and borrowings for the three months ended April 30, 2017, was \$4.1 million (April 30, 2016 - \$4.2 million).

6. Operating line of credit:

On May 26, 2015, the Corporation entered into an operating line of credit ("**Operating Line**") agreement. The lender has committed to extend the Operating Line to November 30, 2017 and amend the loan covenants from July 31, 2017 through to maturity. The Operating Line increases the borrowing limit to \$30.0 million during the Corporation's peak season and \$20.0 million outside of the peak season. Aggregate borrowings are limited to eligible accounts receivable, inventory and aircraft parts, and an amount (no greater than \$5.0 million) guaranteed by Clairvest Group Inc., subject to an allowance for specific reserves. The Operating Line also includes an additional \$10.0 million credit facility that is available subject to the lender receiving a letter of credit or guarantee from Clairvest Group Inc., at 103% of the amount drawn. The lender has also committed to extend the additional credit facility to November 30, 2017. The Corporation is compliant with all applicable covenants as of April 30, 2017. Total transactions costs for this facility were \$0.4 million.

On December 20, 2016, Discovery Air Defence Services Inc. ("**DA Defence**") entered into a \$25.0 million convertible secured revolving loan agreement ("**Credit Agreement**") with certain Clairvest Group Inc. affiliates ("**Clairvest**"). The loan bears interest of 12% and the lender has committed to extend the maturity to December 15, 2017. 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 into DA Defence common shares, as per the terms of the agreement.

On June 5, 2017, DA Defence entered into a \$13.0 million convertible revolving loan agreement ("**New Credit Agreement**") with Clairvest. The loan bears interest of 12% and the lender has committed to extend the maturity date to December 15, 2017.

As at April 30, 2017, \$1.2 million of the Operating Line was applied to letters of credit (January 31, 2017 - \$1.0 million), resulting in a combined unused borrowing capacity of \$10.5 million under the Operating Line and the Credit Agreement. Although the Corporation believes it can renew or extend the Operating Line and the Credit Agreement prior to maturity, there can be no assurance that the Operating Line and Credit Agreement will be renewed or extended.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the three months ended April 30, 2017 and 2016

7. Earnings per share:

(thousands of Canadian dollars, except per share amounts)

	April 30, 2017	April 30, 2016
Basic and Diluted loss per share:		
Loss attributable to shareholders	\$ (8,324)	\$ (3,938)
Weighted average number of Shares outstanding	81,997	81,997
Basic and Diluted loss per share	\$ (0.10)	\$ (0.05)

For the three months ended April 30, 2017, 18,781,342 (April 30, 2016 – 17,756,662) potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive. Although the Corporation's Class A Share price as at April 30, 2017, and 2016 was below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33, *Earnings per share*, considers these debentures dilutive only if the interest savings per share (net of tax) is less than the basic earnings per share.

8. Change in non-cash operating working capital:

(thousands of Canadian dollars)

	For the three months ended	
	April 30, 2017	April 30, 2016
Restricted cash	\$ 1	\$ 1
Trade and other receivables	(6,099)	(8,723)
Inventory	154	2,092
Prepaid expenses and other	(1,906)	1,051
Trade and other payables	100	(5,392)
	\$ (7,750)	\$ (10,971)

9. Fair value of financial assets and liabilities:

(a) Fair value estimation:

The Corporation classifies its fair value measurements by reference to the following fair value measurement hierarchy:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Carrying values for assets and liabilities classified as loans and receivables and financial liabilities at amortized cost (excluding loans and borrowings) approximate their fair value due to their short-term nature.

The fair value of the Secured Debentures and Unsecured Debentures as at April 30, 2017 was \$125.7 million (January 31, 2017 - \$115.7 million) as compared to a carrying value of \$140.9 million (January 31, 2017 - \$138.1 million). At April 30, 2017 and January 31, 2017 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

The fair value of the Corporation's variable rate loans and borrowings approximates their carrying value, as the applicable interest rate is at a floating market rate.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the three months ended April 30, 2017 and 2016

10. Related party transactions:

(a) Loans and borrowings:

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 three months ended April 30, 2017 was \$2.6 million (April 30, 2016 - \$2.3 million). The Corporation also incurs a merchant bank fee of \$250,000 per annum, payable to Clairvest Group Inc. on a monthly pro-rata basis.

Clairvest holds 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 September 15, 2017 (see note 5(b)). On December 20, 2016, DA Defence entered into the \$25.0 million Credit Agreement with Clairvest (see note 6) and on June 5, 2017 DA Defence entered into the \$13.0 million New Credit Agreement with Clairvest (see note 6).

(b) Transactions with associates:

For the three months ended April 30, 2017, the Corporation's revenues include \$2.4 million (April 30, 2016 - \$3.8 million), and the Corporation's expenses include \$0.8 million (April 30, 2016 - \$0.8 million), from transactions with the Corporation's associates. As at April 30, 2017, \$2.0 million (January 31, 2017 - \$2.5 million) of the Corporation's accounts receivable were due from associates, and \$0.5 million (January 31, 2017 - \$0.5 million) of the Corporation's accounts payable were due to associates. As at April 30, 2017, \$0.7million (January 31, 2017 - \$0.8 million) of the Corporation's long term receivables were due from associates, and \$0.4 million (January 31, 2017 - \$0.4 million) of the Corporation's loans and borrowings were due to associates.

11. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the three months ended April 30, 2017, the Corporation incurred \$2.0 million (April 30, 2016 - \$2.6 million) in operating lease expenses. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)

Within 1 year	\$	7,068
Within 2 years		4,743
Within 3 years		2,915
Within 4 years		1,409
Within 5 years		1,036
Thereafter		360
	\$	17,531

The lease terms range from a period of 1 to 22 years, the majority of which are renewable at the end of the lease term at market rates.

12. Segmented information:

The Corporation's reportable segments are "**Aviation**", which includes Great Slave Helicopters Ltd. ("**GSH**"), DA Defence, Air Tindi Ltd. ("**Air Tindi**"), and in the prior year, Discovery Air Fire Services Inc. ("**Fire Services**") and "**Corporate Support and Other**", which includes Discovery Mining Services Ltd. ("**Mining Services**"), and Corporate (reflecting direct corporate overhead costs). Fire Services was sold on January 31, 2017. In assessing the reportable segments, the Corporation considered the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Aviation segment aggregates operating units that have substantially the same basis of deriving revenues, infrastructure to conduct operations and regulatory environment. Corporate Support and Other contains operating units which do not meet the basis for aggregation under Aviation and individually represent less than 10% of the Corporation's total assets, annual revenues and annual earnings.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the three months ended April 30, 2017 and 2016

The revenues disclosed in the tables below are from external customers. There are inter-segment revenues; however they are eliminated on consolidation. For the three months ended April 30, 2017 and 2016, there was no elimination of inter-segment revenues.

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors such as weather conditions can affect the comparability of results from one period to another, particularly from quarter to quarter. Some of the seasonal factors that impact quarterly results are as follows: there is increased demand for the services provided by GSH, Air Tindi, and Mining Services normally commencing in late spring and continuing through to the end of the summer; DA Defence revenue-generating opportunities are significantly higher in the February to June and September to November time periods; although DA Defence revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customers' priorities; weather conditions can have an impact on flight activity from one period to another, especially in the Corporation's fire suppression activities; the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential; and repair and maintenance on aircraft do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

(thousands of Canadian dollars)	For the three months ended April 30, 2017			For the three months ended April 30, 2016		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	\$ 31,280	\$ 1,480	\$ 32,760	\$ 41,623	\$ 906	\$ 42,529
Expenses	30,875	3,097	33,972	34,799	3,185	37,984
Depreciation and amortization	405	(1,617)	(1,212)	6,824	(2,279)	4,545
Share of profit from associates (net of income tax)	4,012	186	4,198	4,696	197	4,893
	(71)	(1)	(72)	(35)	-	(35)
	(3,536)	(1,802)	(5,338)	2,163	(2,476)	(313)
Finance costs			5,352			4,304
Other (gains) and losses			(435)			-
Loss before income taxes			(10,255)			(4,617)
Income tax provision (recovery):						
Current			38			480
Deferred			(1,969)			(1,159)
			(1,931)			(679)
Loss			\$ (8,324)			\$ (3,938)
Segment assets	\$ 300,907	\$ 4,182	\$ 305,089	\$ 320,456	\$ 3,714	\$ 324,170
Capital expenditures	\$ 3,636	\$ 49	\$ 3,685	\$ 6,418	\$ 31	\$ 6,449
Investments in associates	\$ 5,982	\$ 333	\$ 6,315	\$ 5,562	\$ 156	\$ 5,718

13. Subsequent events:

On May 26, 2017, the Corporation announced the closing of the definitive agreement announced on March 24, 2017, resulting 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 pursuant to the Canada Business Corporations Act. The Corporation's common shares were de-listed from the TSX on May 29, 2017.