



ANNUAL INFORMATION FORM  
For the year ended January 31, 2015

April 30, 2015

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## EXPLANATORY NOTES

Unless otherwise noted, all information is given as at January 31, 2015. Financial information is based on the audited consolidated financial statements of Discovery Air Inc. (“**Discovery Air**”, the “**Corporation**”, “**us**” or “**we**”) for the fiscal year ended January 31, 2015, and information contained herein should be read in conjunction with these consolidated financial statements and their related notes. All monetary amounts are expressed in Canadian dollars and references to “\$” are to Canadian dollars unless otherwise noted.

The Corporation’s fiscal year end is January 31. All references in this document to fiscal year refer to the twelve months ended January 31 for the year referenced.

## NON-IFRS MEASURES

The Corporation’s management (“**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. EBITDA is not defined by International Financial Reporting Standards (“**IFRS**”).

“**EBITDA**” means net earnings before finance costs, income taxes, depreciation of property and equipment and intangible assets, gains and losses on disposal of assets and extinguishment of debt, gains on acquisition and disposals, impairment losses, and gains and losses resulting from the change in fair value of financial liabilities.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking information is based on assumptions, estimates, analysis and opinions of management made in light of management’s experience and perception of trends, current conditions and expected developments, as well as other facts that management believes to be relevant and reasonable at the date that such statements are made. 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. Although management believes that the assumptions underlying the forward-looking statements are reasonable, they could prove to be inaccurate and, therefore, there can be no assurance that expected results will be obtained. 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. Actual results may vary from predictions. 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 timing and outcome of any award of the CATS Contract (as defined below); the Corporation’s business development initiatives; the ability of Defence Services (as defined below) to secure additional capital sufficient to complete the Initial Purchase (as defined below); the receipt of the TPT Approval (as defined below) current and future requirements of the U.S. DoD (as defined below); for combat support services; the strength of the economy in general and the strength of local economies in which the Corporation’s subsidiaries operate; the effects of changes in interest rates; the effects of changes in foreign currency exchange rates; the effects of competition in the markets in which the Corporation’s subsidiaries operate; capital market fluctuations; resource and commodity price fluctuations; the effects of changing technology; the weather and weather patterns; and the impacts of changes in laws. Other risk factors can be found in this Annual

Information Form and in the Management's Discussion and Analysis of the Corporation for the fiscal year ended January 31, 2015, which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Also see "Risk Factors". Forward-looking information is provided for the purposes of meeting legal disclosure requirements, and also to assist the public in understanding our business. Because of the inherent risk of inaccuracy in forward-looking information, the reader is cautioned that it may not be appropriate for the stated (or other) purposes. When relying on forward-looking statements to make decisions, investors and others should carefully consider these factors and other uncertainties or potential events.

### NAME, ADDRESS AND INCORPORATION

Discovery Air was incorporated on November 12, 2004 pursuant to the Ontario *Business Corporations Act* and was continued under the *Canada Business Corporations Act* on March 27, 2006. The share structure of the Corporation was amended at the time of the continuance to restrict foreign voting control in order to meet the requirement in the *Canada Transportation Act* (the "CTA") that holders of licences to operate domestic Canadian air services be "Canadian". As a result, the Corporation has two classes of common shares: Class A common voting shares (the "**Class A Shares**") and Class B common variable voting shares (the "**Class B Shares**", and together with the Class A Shares, the "**Common Shares**"). See "*Description of Capital Structure*" for further details concerning the Corporation's share structure.

In April 2006, Discovery Air completed an initial public offering of Class A Shares and listed the Class A Shares on the TSX Venture Exchange. In June 2006, the Class A Shares were listed on the Toronto Stock Exchange (the "**TSX**") (symbol: DA.A). The Class B Shares are not listed on any exchange.

In May 2011, the Corporation issued \$34.5 million principal amount (inclusive of a \$4.5 million over-allotment option) of 8.375% convertible unsecured subordinated debentures (the "**Unsecured Debentures**"), which are listed on the TSX (symbol: DA.DB.A). The Unsecured Debentures were amended on November 27, 2014.

In September 2011, the Corporation issued \$70,000,005 of senior secured convertible debentures (the "**Secured Debentures**") pursuant to a private placement. The Secured Debentures are not listed on any exchange.

Also in September 2011, all of the issued and outstanding Common Shares were consolidated on the basis of one post-consolidation Common Share for every ten pre-consolidation Common Shares. The Class A Shares commenced trading on a post-consolidation basis on September 29, 2011. All references to Common Shares herein are references to such shares on a post-consolidation basis. In April 2014, the Corporation completed a rights offering (the "**2014 Rights Offering**") which was backstopped by a limited standby commitment (the "**Standby Commitment**")<sup>1</sup> from Clairvest Group Inc. ("**Clairvest**"),

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<sup>1</sup> In connection with the 2014 Rights Offering, the Corporation entered into a standby purchase agreement with Clairvest dated February 24, 2014 (the "**Standby Purchase Agreement**") pursuant to which Clairvest agreed to purchase, at the subscription price specified in the 2014 Rights Offering Prospectus, all of the Common Shares not otherwise purchased pursuant to the exercise of rights under the 2014 Rights Offering up to a maximum number of Common Shares equal to 49.0% of the Common Shares that would be issued and outstanding after giving effect to the purchase of Common Shares pursuant to the exercise of rights under the 2014 Rights Offering and the purchase of Common Shares by Clairvest *less* that number of Common Shares already held by Clairvest (including the Common Shares acquired upon the exercise of rights) prior to giving effect to the purchase of Common Shares by Clairvest pursuant to the Standby Commitment.

all as more fully described in the Corporation's short form prospectus dated March 21, 2014 (the "**2014 Rights Offering Prospectus**"). A copy of the 2014 Rights Offering Prospectus can be found on SEDAR at [www.sedar.com](http://www.sedar.com). On April 28, 2014, the Corporation issued 1,952,009 Class A Shares from treasury pursuant to the exercise of rights issued under the 2014 Rights Offering. On May 2, 2014, the Corporation issued 15,489,851 Common Shares from treasury pursuant to the Standby Commitment. Of the Common Shares that were issued pursuant to the 2014 Rights Offering and the Standby Commitment, 15,554,906 Common Shares were issued to Clairvest and/or certain of its funds and co-investors, which resulted in Clairvest and persons acting jointly and in concert with Clairvest owning, or exercising control or direction over, approximately 48.8% of the aggregate number of Common Shares issued and outstanding after such issuances.

In November, 2014, holders of the Unsecured Debentures voted in favor of two amendments to the Unsecured Debentures and as a result: (i) the definition of "change of control" in the Unsecured Debenture Indenture was changed to allow for Clairvest to increase its equity interest above 50% without requiring the Corporation to repurchase the Unsecured Debentures; and (ii) the maturity date of the Unsecured Debentures was extended from June 30, 2016 to June 30, 2018, which extension was subject to the Corporation completing, prior to June 29, 2016, an equity offering of Common Shares for minimum aggregate net proceeds of \$5 million. This condition was satisfied by the completion of the 2015 Rights Offering (as defined below).

In March, 2015, the Corporation completed a rights offering (the "**2015 Rights Offering**"), as more fully described in the Corporation's short form prospectus dated January 30, 2015 (the "**2015 Rights Offering Prospectus**"). A copy of the 2015 Rights Offering prospectus can be found on SEDAR at [www.sedar.com](http://www.sedar.com). On March 13, 2015, the Corporation issued 50,000,000 Class A Common Shares from treasury pursuant to the exercise of rights issued under the 2015 Rights Offering. Of the Common Shares that have been issued pursuant to the 2015 Rights Offering, 46,267,443 Common Shares were issued to Clairvest and/or certain of its funds and co-investors, as a result of which Clairvest and persons acting jointly and in concert with Clairvest currently own, or exercise control or direction over, approximately 75.5% of the aggregate number of Common Shares of the Corporation issued and outstanding.

The head and registered office address of the Corporation is 170 Attwell Drive, Suite 370, Toronto, Ontario, M9W 5Z5.

## INTERCORPORATE RELATIONSHIPS

Discovery Air is the parent company to six material subsidiaries that are engaged in the delivery of specialty aviation services including airborne training, airborne fire services, helicopter operations, fixed-wing air charter services, medevac equipped aircraft services, exploration and logistics support, and a range of maintenance, repair, overhaul ("**MRO**"), modification, engineering and certification services.

Five of the subsidiaries were acquired by the Corporation over the course of a four year period beginning in December 2004 and ending in January 2008, and the sixth subsidiary was incorporated in 2010.

The following chart sets out the material subsidiaries of the Corporation, all of which are wholly-owned by the Corporation, along with their dates of acquisition or incorporation, as applicable, and jurisdictions of incorporation.

NAME OF SUBSIDIARY	DATE OF ACQUISITION OR INCORPORATION BY DISCOVERY AIR	JURISDICTION OF INCORPORATION
Discovery Air Fire Services Inc. (formerly, Hicks & Lawrence Limited) (“ <b>Fire Services</b> ”)	2004 and 2005	Ontario
Great Slave Helicopters Ltd. (“ <b>GSH</b> ”)	June 2006	Canada
Air Tindi Ltd. (“ <b>Air Tindi</b> ”)	December 2006	Canada
Discovery Air Defence Services Inc. (formerly, Top Aces Inc.) (“ <b>Defence Services</b> ”)	August 2007	Canada
Discovery Mining Services Ltd. (“ <b>Discovery Mining</b> ”)	January 2008	Canada
Discovery Air Technical Services Inc. (“ <b>Technical Services</b> ”)	April 2010	Canada

### GENERAL DEVELOPMENT OF THE BUSINESS

Discovery Air is a specialty aviation services company which, through its subsidiaries, operates across Canada and in select locations internationally including the United States, Germany, Peru and Chile. The Corporation and its subsidiaries operate over 160 aircraft, employ more than 880 flight crew, maintenance personnel and support staff and deliver a variety of air transport, maintenance and logistics solutions to their government, airline and business customers. Over the last three years, there have been several developments in Discovery Air’s business, which are described below.

During fiscal 2015, Defence Services continued to make significant efforts to expand its business internationally based on management’s belief that there are significant growth opportunities for Defence Services in the international combat support<sup>2</sup> and military flight training<sup>3</sup> markets.

In December 2013, Defence Services acquired the business of Advanced Training Systems International, Inc. through the merger of that company with and into Advanced Training Systems International Corp. (“**ATSI**”), a wholly owned subsidiary of Defence Services that was established for the purpose of completing the acquisition. ATSI is an airborne services company based in Mesa, Arizona and owns a fleet of ten Douglas A-4 “Skyhawk” aircraft. Although ATSI currently has minimal operations and revenues, its predecessor previously provided airborne training services to the U.S. Navy, U.S. Air Force and the Canadian Armed Forces, and also provided advanced operational test and evaluation services to

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<sup>2</sup> The terms “combat support” and “airborne training” are used interchangeably in this document. Combat support or airborne training services refer to training provided to military personnel in which the service provider uses fighter jet aircraft to provide realistic, live-flying simulation of various combat scenarios.

<sup>3</sup> The term “military flight training” refers to pilot training for new or junior military pilots, including basic, advanced and fighter lead-in training. Jet and non-jet aircraft are used typically for these types of pilot training.

companies such as Boeing and Raytheon. The Corporation filed a Material Change Report in connection with this acquisition on December 17, 2013, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

On January 31, 2014, Defence Services entered into 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 utilizing seven of ATSI’s McDonnell Douglas A-4N aircraft. The services are based out of Wittmund, Germany. Revenue generating operations under the German Contract commenced in January 2015. The Corporation filed a Material Change Report in connection with this contract on February 4, 2014, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

In October 2013, a subsidiary of Defence Services entered into an agreement for the purchase of six General Dynamics F-16 “Fighting Falcon” aircraft and six McDonnell Douglas A-4N “Skyhawk” aircraft, together with an integrated logistics support package, spare engines, F-16 conversion training and options and rights of first refusal in respect of up to an additional 23 F-16 aircraft and eight A-4N aircraft (the “**Sale Agreement**”). Management believes that there are various opportunities in the international military flight training markets, including the U.S. market, and that a fleet of F-16 and A-4N aircraft would provide Defence Services with the ideal combination of supersonic and high subsonic aircraft for the needs of that market. In January 2015, Defence Services made certain amendments to the Sale Agreement to enable it to purchase the aircraft directly rather than through a subsidiary, to reflect additional costs to maintain the aircraft until delivery and to extend the period during which the aircraft may be purchased and certain options may be exercised.

Completion of the transactions contemplated by the Sale Agreement are conditional on a number of regulatory approvals, the most significant of which is the receipt of approval under the U.S. Arms Export Control Act for the third party transfer of the F-16 and A-4N aircraft from the seller to Defence Services (the “**TPT Approval**”). Assuming TPT Approval and all ancillary regulatory approvals are received, the Corporation will require additional capital in order to complete all of the transactions contemplated by the Sale Agreement. In order to complete the purchase of the six F-16 aircraft and six A-4N aircraft, the logistics support and the training (collectively, the “**Initial Purchase**”), the Corporation will require approximately US \$40 to \$50 million. The Corporation will require significant additional capital should it proceed to exercise all of its options and rights of first refusal under the Sale Agreement.

While no assurances can be given as to the timing of the TPT Approval and all ancillary regulatory approvals, the Corporation is currently exploring debt or additional equity options that would provide sufficient capital to the Corporation to complete the Initial Purchase (the “**Financing Options**”). Since the receipt of TPT Approval and all ancillary regulatory approvals is uncertain, as is the timing of any such receipt, the Financing Options remain purely exploratory at this stage, and there can be no assurance that such financing will be available to the Corporation on acceptable terms, or at all, once such approvals have been obtained. The management of Defence Services has reason to believe that TPT Approval will be successful and are in discussions with the U.S. State Department, though no assurances can be given as to if and when such approval will be granted.

Similar to Defence Services, GSH has also been expanding internationally over the last three years. In February 2012, GSH completed the acquisition of Helicopters.cl SpA (formerly, Servicios Aéreos Helicopteros Chile Ltda and amalgamated and renamed Discovery Air Innovations Chile Limitada) (“**Helicopters Chile**”), together with certain of its affiliates in Chile. Founded in 2002, Helicopters Chile provides helicopter services to domestic and multinational customers in the mining, power construction and forestry sectors of the Chilean economy. With two main operating bases in north central and southern Chile, Helicopters Chile operates a fleet of intermediate and medium helicopters.

GSH has also been active in exploring further expansion within Canada, and in May 2012, GSH announced the acquisition of the assets and business of Northern Air Support Ltd. by way of an amalgamation of that company with Northern Air Support (2012) Ltd. (“NAS”), a wholly-owned subsidiary of GSH incorporated for the purpose of completing the acquisition. NAS (and its predecessor company) is a helicopter charter business that has been serving its mining, forestry and oil and gas seismic clients in Western Canada for over 20 years. NAS (along with Superior Helicopters Canada Inc.) was amalgamated with GSH on February 15, 2014, with GSH continuing as the surviving corporation from the amalgamation. The amalgamation was completed to simplify GSH’s corporate structure and better position it to compete in its existing markets as well as other markets it may enter in the future.

In early fiscal 2015, GSH ceased operations in Peru because its Peruvian joint venture partner was experiencing financial difficulties that made it impractical to continue the arrangement. However, GSH has since re-executed an agreement with a different Peruvian operator and restarted operations in Peru in fiscal 2015. In addition, GSH is seeking its Air Operator Certificate to operate directly in Peru.

In January 2015, Air Tindi entered into the medevac equipped aircraft services contract for the Stanton Territorial Health Authority to provide air evacuation services in the Northwest Territories. The contract is for a term of eight years (plus two option years) and is a renewal of a contract that Air Tindi has serviced for seven years. In connection with this contract, Air Tindi purchased three King Air 250 aircraft from Beechcraft (the “**Stanton Acquisition**”) for US \$13.3 million.

In April, 2015, Fire Services entered into the long term contract for birddog and fire detection aircraft services from the Ontario Ministry of Natural Resources and Forestry. Pursuant to the contract, Fire Services will provide aerial fire surveillance (“**Detection**”) and airspace and aircraft management (“**Birddog**”) services in support of the Ontario Government’s forest fire management program. This contract award is a 7 year renewal of a contract that Fire Services has serviced for 28 years.

In addition to expansion, the Corporation has ceased operating certain businesses that were not considered by management to be accretive to the Corporation’s profitability going forward or that were otherwise not core to its specialty aviation mandate. In fiscal 2013, the Corporation ceased the operations of Aero Vision Technologies International, a company that Technical Services had previously invested in with a view to developing leading edge software solutions for the aviation market. In early fiscal 2014, the business development activities and associated personnel of Discovery Air Innovations Inc. (“**DAI**”) were transferred to Defence Services in view of the fact that a majority of business development activities carried on by DAI pertained to the business of Defence Services.

The Corporation has also undertaken efforts to improve the efficiency and profitability of its operations. In fiscal 2014, Air Tindi undertook aggressive cost cutting measures, which included the cessation of executive jet charter services, and the closure of its facility in Calgary, Alberta. During fiscal 2015, GSH reduced head count by 25% and DATS terminated a long-term component asset management contract.

Additionally, in fiscal 2015, the Corporation commenced an equipment rationalization project designed to optimize its fleet and ensure that the needs of its various operating subsidiaries continue to be met in a cost-effective and efficient manner. In connection with this project, certain underused aircraft were sold and certain other aircraft were upgraded.

Apart from operational developments, Discovery Air has completed several significant financing transactions in the last three years in order to, among other things, fund growth initiatives and provide working capital. In August 2012, the Corporation entered into a new, committed operating facility with the Canadian Imperial Bank of Commerce. In March 2014, the Corporation entered into a loan agreement

with one of its existing lenders in order to refinance certain of its existing term indebtedness and eliminate certain obligations it previously had to either restore the airworthiness of certain aircraft or repay approximately \$4 million of indebtedness. The Corporation filed a Material Change Report in connection with this transaction on April 3, 2014, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com). On April 28, 2014, the Corporation completed the 2014 Rights Offering pursuant to which it raised gross proceeds of approximately \$1.7 million. The Corporation filed a Material Change Report in connection with the 2014 Rights Offering on February 28, 2014, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com). On May 2, 2014, the Corporation raised gross proceeds of approximately \$13.3 million from the issuance of Common Shares pursuant to the Standby Commitment. The Corporation filed a Material Change Report in connection with the Standby Commitment on May 6, 2014, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com). On March 13, 2015, the Corporation completed the 2015 Rights Offering pursuant to which it raised gross proceeds of \$11.0 million. The Corporation filed a Material Change Report in connection with the 2015 Rights Offering on March 13, 2015, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com). Finally, on March 31, 2015, in connection with the Stanton Acquisition, Air Tindi received approximately \$15 million in equipment financing from Textron Financial Corporation (the “**Stanton Financing**”) with a term of eight years. The Stanton Financing is secured by the acquired aircraft and guaranteed by the Corporation.

In addition to the developments described above, there have also been a number of changes in the Corporation’s senior management team in the last three years. In October 2012, William (Bill) Martin was appointed as the Corporation’s Chief Financial Officer (“**CFO**”) and subsequently resigned effective March 31, 2014. Paul Bernards was appointed as the Corporation’s CFO on April 1, 2014. The Corporation filed Material Change Reports in respect of Mr. Martin’s resignation as CFO and Mr. Bernards’ appointment as CFO on February 21, 2014 and March 17, 2014, respectively.

In December 2012, Jacob (Koby) Shavit was appointed as the Corporation’s President and Chief Executive Officer, replacing Brian Semkowski who served as interim President and Chief Executive Officer between June 2012 and December 2012. Mr. Semkowski was appointed as the Chair of the Board concurrent with Mr. Shavit’s appointment as President and Chief Executive Officer.

On February 1, 2014, Al Martin was appointed President of Air Tindi, replacing Sean Loutitt who resigned on April 8, 2013.

On July 3, 2014, Mr. Kenneth Rotman was appointed as Chair of the Board, replacing Mr. Semkowski, who resigned June 2014.

In May 2015, David Kleiman was appointed Vice President, General Counsel and Corporate Secretary, replacing Dennis Lopes who resigned in May 2015.

In October, 2014, Adam Bembridge resigned as President of GSH. Currently Mark McGowan is serving as Mr. Bembridge’s replacement on an interim basis, until a permanent replacement is found.

Further information concerning each of Discovery Air’s subsidiaries and the products and services offered by such businesses can be found in “Description of the Business” below.

## **DESCRIPTION OF THE BUSINESS**

The Corporation has two reportable segments: “Aviation” and “Corporate Support and Other.”

The Aviation segment is comprised of Defence Services, GSH, Air Tindi and Fire Services.

The Corporate Support and Other segment includes Discovery Mining, Technical Services and Corporate (which comprises the central management, information technology and administrative activities of the Corporation).

During the fiscal years ended January 31, 2015 and January 31, 2014, the revenues by service type and segment type (and which accounted for 15% or more of total consolidated revenues) were as follows:

REVENUES (AS A PERCENTAGE (%) OF TOTAL REVENUES)		
SERVICE TYPE	FISCAL YEAR ENDED JANUARY 31, 2015	FISCAL YEAR ENDED JANUARY 31, 2014
Government	49	42
Mining Exploration & Production	17	20
Other*	23	23

\*Revenues received from MRO operations as well as the sale of aviation components comprise the majority of revenue from the "Other" segment.

REVENUES (AS A PERCENTAGE (%) OF TOTAL REVENUES)		
SEGMENT	FISCAL YEAR ENDED JANUARY 31, 2015	FISCAL YEAR ENDED JANUARY 31, 2014
Aviation	84	85
Corporate Support and Other	16	15

\*Revenues received from MRO operations comprise the majority of revenue from the "Corporate Support and Other" segment.

### **Aviation Segment**

#### **Defence Services**

##### *Canadian Defence Business*

Defence Services is the prime supplier of airborne training services to the Department of National Defence ("DND") and the Canadian Armed Forces (the "**Canadian Armed Forces**"). These training services are provided by Defence Services under a program known as Interim Contracted Airborne Training Services ("**ICATS**"). Defence Services' revenue-generating opportunities are typically highest in the periods from February to June and September to November.

Over the course of the fiscal year ended January 31, 2015, Defence Services operated 16 Alpha Jet aircraft and 2 Westwind special mission aircraft in support of the ICATS program. Defence Services' fleet provides adversary support, forward air controller training and electronic warfare mission support to Canada's air, land, naval and special forces. Defence Services supports Canadian military training at various locations in Canada and the United States. Defence Services has approximately 156 employees.

Defence Services has derived its revenue under the ICATS program from a series of standing offer agreements with the Government of Canada (the "**Standing Offers**"). In February 2005, the Government of Canada awarded three national Standing Offers to Defence Services to provide "fast jet" (known as Type 1) airborne training services to the Canadian Armed Forces. The Standing Offers were initially for a

period of three years, with two option years exercisable by the Government of Canada. In 2006, the Government of Canada awarded two additional national Standing Offers to Defence Services to provide “business jet” (known as Type 2) airborne training services to the Canadian Armed Forces. These Standing Offers were for a three year period, with two option years exercisable by the Government of Canada.

All option years were exercised by the Government of Canada and the Standing Offers have subsequently been extended on several occasions. The most recent extensions occurred in September 2012, when the Standing Offers were extended for a further three year period from June 2013 to June 2016.

In October 2010, Public Works Government Services Canada (“**PWGSC**”) issued a request for proposals (the “**2010 RFP**”) for a long-term contracted airborne training services contract that was intended to replace the Standing Offers (the “**CATS Contract**”). Defence Services submitted a proposal in response to the 2010 RFP, however, the 2010 RFP was cancelled in March 2011.

In August 2011, PWGSC reissued another request for proposals for the CATS Contract (the “**2011 RFP**”) with substantially the same requirements as the 2010 RFP. Defence Services submitted a proposal in November 2011; however, the 2011 RFP was cancelled on the date that bids were due for submission.

In early 2012 (early fiscal 2013), PWGSC initiated an industry consultation process in anticipation of the issuance of a further solicitation for the CATS Contract. Defence Services participated in that process. Defence Services expects the next request for proposals to be issued in the summer of 2015.

Defence Services’ competitive advantages are currently derived from the following primary sources:

- an efficient and safe fighter aircraft platform which possesses many of the sub-sonic performance capabilities desirable in an adversary aircraft;
- experienced ex-Canadian Armed Forces CF-18 pilots who have a deep understanding of the Canadian Armed Forces training environment;
- a business model and flying operation optimized to deliver cost effective combat support services to the Canadian Armed Forces;
- a track record of delivering combat support services to the Canadian Armed Forces at a very high reliability rate; and
- a strong safety record evidenced by over 50,000 flight hours since 2005 without a single flight accident.

#### *International Defence Business*

Management believes that there are significant growth opportunities for Defence Services in the international combat support and military flight training markets. The Corporation believes that the ICATS program has been a very successful outsourcing program for the Government of Canada as it has enabled the Canadian Armed Forces to maintain its army, navy and air force units at the highest possible operational readiness while significantly reducing costs relative to previous, in-sourced training solutions. As governments around the world face increasing budgetary pressures, the Corporation believes that those governments will seek out cost effective solutions for reducing their defence spending while maintaining high operational readiness. Management believes that Defence Services’ “turn-key” combat support solution and unparalleled record of providing over 50,000 hours of aviation accident-free service present significant growth opportunities for Defence Services in the international market.

As noted above (see “*General Development of the Business*”), Defence Services completed the ATSI acquisition in December 2013 and, through a subsidiary, entered into an agreement for the purchase of F-

16 and A-4N aircraft, as well as ancillary assets, training, options and rights of first refusal. On January 30, 2014, Defence Services also secured the German Contract for the provision of airborne training services for a term of five years to the German Armed Forces utilizing a fleet of seven A-4N aircraft sourced from ATSI. Revenue generating operations under the German Contract commenced in January 2015.

For additional, historical information on the business of Defence Services, refer to Form 51-102F4 – Business Acquisition Report of the Corporation dated November 5, 2007. For additional information concerning Defence Services’ growth initiatives, the terms of the Sale Agreement and associated risk factors, refer to the 2014 Rights Offering Prospectus and the 2015 Rights Offering Prospectus. The business acquisition report, the 2014 Rights Offering Prospectus and the 2015 Rights Offering Prospectus are each available on SEDAR at [www.sedar.com](http://www.sedar.com).

## GSH

GSH is one of the largest helicopter operators in Canada and conducts operations through most parts of Canada as well as internationally. While GSH’s main base is located in northern Canada, it provides various services (including but not limited to airborne geographical and environmental surveying, fire suppression and oil and gas exploration) to clients operating in different regions and sectors.

GSH’s main base of operations is in Yellowknife, Northwest Territories; however, it has sub-bases strategically placed throughout northern Canada to help support its aircrew and maintenance personnel in the challenging environments and locations where many customers require GSH’s services.

GSH also has a facility in Springbank, Alberta that complements and supports all activities of GSH south of the 60th parallel and internationally. The Springbank base provides operational and maintenance support for operations across Canada and at the same time is the location for component overhaul and heavy maintenance activities.

GSH derives revenue from the following core business sectors:

- exploration support, including oil, gas, seismic, base mineral, and diamond exploration;
- forest fire suppression services;
- provision of support to government agencies, including environmental, geological and scientific support; and
- other services, including environmental surveying, utilities/pipeline patrol, power line construction and telecommunications support.

In fiscal 2013, GSH expanded its operations through the acquisitions of Helicopters Chile and NAS. Helicopters Chile was acquired to diversify GSH’s revenues and reduce the seasonality effects of its business. The NAS acquisition expanded GSH’s presence in Western Canada by providing it with a presence in the growing British Columbia helicopter services market.<sup>4</sup>

GSH expanded into Peru in May 2010 by way of a joint venture with a Peruvian partner. GSH terminated the relationship with the joint venture partner in early fiscal 2015 because the partner was experiencing

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<sup>4</sup> As noted above (see “*General Development of the Business*”), NAS, Superior Helicopters Canada Inc. and GSH were amalgamated on February 15, 2014. GSH was the surviving corporation from the amalgamation.

financial difficulties that made it impractical to continue the arrangement. However, GSH has since re-executed an agreement with a different Peruvian operator and restarted operations in Peru in fiscal 2015. In addition, GSH is seeking its Air Operator Certificate to operate directly in Peru. In connection therewith, GSH established a Peruvian subsidiary, GSH Peru S.A.C., in early fiscal 2016.

GSH employs over 260 personnel and its fleet is comprised of seven different aircraft types including: the Bell 205, 206, 212, 407 and 412 series, the BK 117 and the Eurocopter AS350 series.

Services for the oil and gas exploration sector augment GSH's non-peak months from October to April, while services for the mineral and diamond exploration sector support normal peaks in May and continue until September. GSH is a service provider for several large mineral exploration companies that utilize helicopter services for their exploration programs. GSH's network of bases and diverse fleet provide timely back-up equipment for added safety and reliability. Several of GSH's mining and exploration customers have long-term contracts with GSH ranging from one to five years in length, while others have recurring seasonal contracts.

GSH has also formed a number of joint ventures with Aboriginal communities. These joint ventures secure GSH's role of primary supplier of helicopter support in and around these Aboriginal communities within various land claim settlement areas. Flight operations are completed by GSH crews.

In association with the forest fire management departments of provincial and territorial governments in central and western Canada, GSH also provides varying degrees of forest fire management, protection and suppression services. Fire suppression requires the use of intermediate and medium support helicopters for purposes of initial attack and deployment of fire crews to fire sites.

GSH faces competition from other large and medium-sized companies that operate in the same geographic and commercial markets; however, GSH has a competitive advantage in many of these markets as a function of its experienced workforce, fleet diversity, Aboriginal joint ventures, safety record and quality assurance programs. Further, in early 2012, GSH received its Instrument Flight Rules operating certificate from Transport Canada.

For additional historical information on the business of GSH, refer to Form 51-102F4 – Business Acquisition Report of the Corporation dated September 15, 2006. The business acquisition report is available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Air Tindi

Air Tindi is a commercial fixed wing charter company with the main base in Yellowknife, Northwest Territories and a sub-base in Cambridge Bay, Nunavut. The company operates a diversified fleet of fixed wing aircraft and provides scheduled and charter passenger and cargo services, as well as medevac equipped aircraft services primarily in northern Canada. Its customers include government agencies, multinational diamond and rare earth mining companies as well as various junior mining and exploration companies.

Air Tindi provides essential charter services to communities with limited or no land access. It has developed strong relationships with various Aboriginal groups culminating in joint ventures which provide benefits to the various stakeholder groups in these communities.

Air Tindi derives revenue from the following core business sectors:

- mining operations and construction projects;
- mineral exploration;

- scheduled services to local communities;
- medevac equipped aircraft services in the Northwest Territories and Kitikmeot region of Nunavut;
- government and public sector charters for environmental and wildlife surveys, forest fire control, environmental site clean-up, defence forces, law enforcement and other functions; and
- tourism (outfitters, lodges, eco-tourism, hunting and fishing).

In January 2015, Air Tindi entered into an eight-year contract (plus two option years) for the provision of medevac equipped aircraft services for the Stanton Territorial Health Authority in the Northwest Territories. The contract award is similar to the contracted services that Air Tindi has performed for the past seven years. The new contract calls for the provision of expanded services with significantly newer aircraft equipped with new medical equipment. In connection with this contract, Air Tindi purchased three King Air 250 aircraft from Beechcraft.

Air Tindi operates from two locations in Yellowknife. Facilities at the Yellowknife airport include three hangars (being (i) a 16,000 square foot hangar that houses the maintenance department; parts department, avionics shop, sheet metal department and maintenance administration departments; (ii) a dedicated medevac equipped aircraft hangar; and (iii) an 18,000 square foot Dash 7 heavy maintenance hangar), a cargo warehouse and a private scheduled and charter passenger terminal. Additionally, Air Tindi owns a smaller office/maintenance garage facility at the Yellowknife airport. A float base location (a three-story, 11,000 sq. foot building) is home to float aircraft in the summer and ski-equipped aircraft in the winter.

In fiscal 2014, Air Tindi evaluated its existing business and ceased operations that were not accretive to its profitability going forward. Specifically, Air Tindi undertook aggressive cost cutting measures, which included the cessation of executive jet charter services, a comprehensive review and right-sizing of staffing levels, aggressively negotiating with vendors, the consolidation of support staff to GSH's Springbank location, and the identification of certain underutilized aircraft for potential sale. In total, several aircraft were identified as being underutilized or no longer required and were either sold or transferred to other subsidiaries of the Corporation. In connection with such measures, Air Tindi dissolved Discovery Air International Inc., its wholly-owned subsidiary which had been established to provide primarily executive jet charter services.

Air Tindi operates a diversified fleet of fixed wing aircraft and employs approximately 195 people.

For additional, historical information on the business of Air Tindi, refer to Form 51-102F4 – Business Acquisition Report of the Corporation dated March 6, 2007. The business acquisition report is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Fire Services

Fire Services is an aviation company based in northern Ontario that has been providing Detection, Birddog and air transport services in support of the Ontario Government's forest fire management program for almost three decades. In addition, Fire Services' charter division, Walsten Air (whose wheel division assets were acquired by Fire Services in March 2007), provides court-related air transport services to a variety of provincial government agencies which operate in northwestern Ontario. Although Walsten Air operates year round, the majority of Fire Services' revenues are generated during the forest fire season, which in northern Ontario typically begins in late April and ends in late September.

Fire Services owns and operates a diverse fleet of aircraft, including aircraft dedicated to the provision of Detection and Birddog services to the Ontario Ministry of Natural Resources and Forestry (“**OMNR**”) in

support of the Ontario Government's forest fire management program. Detection services include, among other things, forest fire surveillance activities and the transmission of information about forest fires to fire management centers. Birddog services include, among other things, controlling and managing aircraft movements within the vicinity of a forest fire to ensure collision avoidance and to maximize the efficiency with which water and fire suppressants are delivered to the fire by water bomber aircraft.

Fire Service's charter division provides air transport services to various corporate and government agencies, including the OMNR. In addition, Fire Services is the preferred supplier of air transport services to court parties in northwestern Ontario. Fire Services, and previously Walsten Air, has been the preferred provider of this service for the last three decades.

Fire Services' primary flight operations base is located in Dryden, Ontario. Additionally, Fire Services operates satellite operations bases located in Geraldton, Chapleau, Sudbury and Kenora, Ontario. Fire Services has established heavy and line maintenance bases in Dryden, Kenora and Sudbury, Ontario. Over the course of the forest fire season, Fire Services also supports a satellite maintenance base in Chapleau, Ontario. Fire Services' primary maintenance base is co-located with its primary flight operations base in Dryden, Ontario. The Dryden facility is owned by Fire Services and is comprised of two aircraft hangars that provide over 21,000 square feet of workspace and aircraft/equipment storage space, as well as 2,400 square feet of administrative office space.

During its peak season from May to September each year, Fire Services employs over 100 people. Due to the seasonal nature of its business, Fire Services employs approximately 50 people during the remainder of the year.

In 2011, Fire Services opened a fixed-wing pilot flight training school that operates under the name Discovery Aviation Academy. Discovery Aviation Academy's main base is located at the Greater Sudbury Airport, which provides office and classroom space along with a 13,000 square foot hangar floor.

In fiscal 2014, Fire Services began exploring the development of a broader suite of environmental monitoring services leveraging its existing fleet of aircraft together with investment in specialized sensors and camera equipment which could be of interest to government agencies and private sector entities. In fiscal 2015, Fire Services continued to market such services to interested parties.

In April, 2015, Fire Services entered into the long term contract for birddog and fire detection aircraft services from the OMNR, following a competitive bidding process. Pursuant to the contract, Fire Services will provide Detection and Birddog services in support of the Ontario Government's forest fire management program. The majority of Fire Services' revenues are derived from this contract.

For more information on the business of Fire Services, refer to pages 5 through 11, inclusive, of the Corporation's prospectus dated March 30, 2006. The prospectus is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Corporate Support and Other Segment**

### **Discovery Mining**

Discovery Mining provides remote exploration camps and expediting, logistics and staking services to a broad spectrum of gold, base metal, uranium and diamond exploration companies operating in the Northwest Territories, Nunavut, Yukon, northern Saskatchewan and northern Ontario. Discovery Mining previously provided services to mining companies operating in Greenland.

Discovery Mining's customers typically operate in some of the most remote locations in Canada and, as a result, Discovery Mining is a high volume user of both fixed-wing and helicopter air transportation services.

Discovery Mining's competitive advantage is derived from its understanding of mineral, base and precious metal mining exploration operations, the experience of its employees, the company's ability to support a spectrum of services including freight forwarding, purchasing and expediting on behalf of customers and providing turn-key remote camp construction and management in harsh climates. During its peak season, from April to August each year, Discovery Mining employs over 45 people. Due to the seasonal nature of Discovery Mining's business, the average number of employees over the remainder of the year is approximately 8.

### **Technical Services**

Technical Services is an Approved Maintenance Organization (AMO 23-10), authorized by Transport Canada to perform airframe maintenance, repair and overhaul services. Technical Services specializes on servicing aircraft containing 100 and fewer seats. Technical Services is also authorized to perform maintenance and modifications on U.S. registered aircraft as listed in the Bilateral Aviation Safety Agreement and pursuant to part 145 of the European Aviation Safety Agency regulations to provide EASA certification.

Technical Services primarily provides MRO services to its customers and is authorized to work on aircraft typically found in the fleet of a regional air carrier, such as the Dash-8 Series (including the Q400 model), SAAB 340, ERJ-135/145 and EJET 170/190, CRJ 100/200/700/900 and ATR 42/72 series.

Technical Services has one main facility at the Jean Lesage Airport in Quebec City with the capacity to work on up to six regional airplanes concurrently, depending on the model mix.

Technical Services also operates an engineering office in Toronto, Ontario which is primarily focused on providing new revenue streams related to aircraft modifications, conversions and upgrades and is complementary to the MRO operations. The engineering team has experience to work on most fixed-wing and rotary-wing type aircraft, for the civilian and military markets.

Technical Services employs approximately 134 people.

### **Corporate Support**

Discovery Air provides management services to its operating subsidiaries, including legal, human resources, strategy, information technology, corporate finance and accounting services. Ordinary course of business operating decisions are made by management of the Corporation's operating subsidiaries.

## REGULATORY ENVIRONMENT

The aviation industry operates in a stringent and comprehensive regulatory environment.

Civil air transportation in Canada is regulated federally and is the responsibility of the Minister of Transport under the CTA. The Canadian Transportation Agency is responsible for the licensing of air carriers that provide domestic or international publicly available air transportation services, and for the enforcement of the CTA and its related regulations. Transport Canada administers the *Aeronautics Act* (Canada), and all related regulations, orders and advisory materials, which contain the requirements for the issuance and maintenance of air operator certificates. No person may operate an air transport service or aerial work service unless that person holds and complies with the provisions of an air operator certificate that authorizes the person to operate that service.

As part of the certification process, an applicant must demonstrate that it has developed an operational control system and organizational structure in accordance with Transport Canada regulations. Transport Canada approval is required for key managerial personnel, including the accountable executive. Transport Canada must also approve an applicant's operations manual, standard operating procedures, minimum equipment lists and other required documents.

An air operator certificate designates the operator to which the certificate is issued as adequately equipped and capable of conducting a safe operation. Air Tindi, GSH, Fire Services and Defence Services have been issued air operator certificates to conduct their respective flight operations. As long as they comply with the conditions and operations specifications outlined in the respective certificates, the certificates will remain valid.

All operators participating in the civil air transportation business must also adhere to the aviation safety requirements as set out in the *Canadian Aviation Regulations* (“**CARs**”). The CARs are administered by Transport Canada and prescribe requirements relating to aircraft identification and registration, personnel licensing, general operating and flight rules, commercial air services and air navigation services.

Many of the flight operations and maintenance procedures, policies and controls of Air Tindi, GSH, Fire Services and Defence Services are subject to approval by Transport Canada. Defence Services is also subject to certain rules and regulations imposed by the Canadian Armed Forces and under the Canadian Controlled Goods Program. In addition, both Defence Services and its U.S. subsidiaries are required to comply with the U.S. International Traffic in Arms Regulations (“**ITAR**”) and U.S. Export Administration Regulations with respect to the handling of certain defence articles and related technical data, and the provision of certain defence services.

See also “*Description of Capital Structure – Constraints*” regarding CTA-imposed restrictions on foreign ownership.

## RISK FACTORS

The discussion below addresses the principal risks that the Corporation currently views as having the potential to significantly impact its business, financial condition, liquidity or results of operations. Those principal risks are described below, followed by other risk factors that could also impact the Corporation but which have been assessed as having a lower probability of occurrence or a lesser impact on the Corporation, or both, than the principal risks.

The Corporation has significant risks to manage. 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.

### **Principal Risks**

#### **Risks to CATS Contract and ICATS Standing Offers**

Substantially all of Defence Services' revenues and earnings are derived from the Standing Offers. Once awarded by PWGSC, through a formal procurement process, a long-term CATS Contract will replace the Standing Offers. Therefore, if Defence Services is not awarded the CATS Contract or is only able to secure the CATS Contract on significantly reduced profit margins, the Corporation's revenues, EBITDA and cash flows would be materially adversely affected. This could result in the Corporation being unable to meet its obligations as they become due and/or breaching its debt covenants. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

PWGSC is in the process of auditing the profit earned by Defence Services under the ICATS Standing Offers for the period February 1, 2010 to January 31, 2013. Since the rates charged by Defence Services under the ICATS Standing Offers are based on fixed hourly rates (as opposed to a fixed margin), the implications of the audit (if any) are not determinable at this time.

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

#### **TPT Approval for the F-16 and A-4N Aircraft**

In order to complete the Initial Purchase and certain upgrades and transport of the aircraft, Defence Services or its U.S. subsidiaries must first obtain TPT Approval (among other regulatory approvals). A number of factors could adversely affect the ability of Defence Services 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. Although Defence Services is permitted to apply for TPT Approval under the Standing Offers, there is no assurance that TPT Approval would be granted for this use.

## **Financing for the Purchase of the F-16 and A-4N Aircraft**

In order to complete the Initial Purchase, the Corporation will require approximately US \$40 to \$50 million. The Corporation is in discussions with various funding sources but has not yet agreed to any terms for any such financing. Furthermore, there can be no assurances that any such financing will be available to the Corporation on acceptable terms, or at all, once the TPT Approval and all ancillary regulatory approvals have been obtained.

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

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

The Corporation believes that the F-16 and A-4N aircraft will, if ultimately acquired by Defence Services, provide Defence Services with the most advanced fleet of combat support aircraft in the world and, accordingly, provide Defence Services 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 F-16 and A-4N aircraft, Defence Services' prospects for competitive advantage in the U.S. and international combat support markets will be significantly reduced. Although Defence Services may continue to pursue revenue diversification in the U.S. and other international jurisdictions leveraging the strength of its track record as an experienced combat support services provider, the Corporation believes that the lack of an advanced offering, such as the F-16 aircraft, would limit Defence Services' 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 2016. 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.

## **Risks Relating to the Corporation's Financial Condition**

### **Compliance with Covenants**

The Corporation is required to maintain certain covenants under its various lending arrangements. In respect of the Corporation's secured term loans (other than the Secured Debentures) and operating line, the Corporation obtained amendments to its loan agreements that waived the debt service ratio covenant for the quarter ended July 31, 2014 and reduced the debt service ratio from 1.25 to 1.05 or 1.00 for the quarters ended October 31, 2014 through to January 31, 2016. The Corporation was in compliance with the amended covenants as of January 31, 2015.

With respect to the Secured Debentures, the Corporation is required to comply with several covenants including maintaining a total debt to EBITDA ratio of not more than 6.00:1.00 (the "**Debt Leverage Covenant**"), and maintaining a pledged asset ratio of 1.50:1.00 (the "**PAR Covenant**"). The PAR Covenant requires the Corporation to provide the holders of the Secured Debentures a first lien security interest over assets having an appraised value equal to a prescribed ratio of the aggregate principal

amount of the Secured Debentures. The Corporation has obtained amendments to the Secured Debentures: (i) waiving the Debt Leverage Covenant and PAR Covenant for the quarters ended April 30, 2014 through to January 31, 2015; (ii) to increase the Debt Leverage Covenant to 9.00:1.00 and increase EBITDA for the purposes of the Debt Leverage Covenant for the quarters ended April 30, 2015 through to January 31, 2016; and (iii) reduce the PAR Covenant for the quarters ended April 30, 2015 through to January 31, 2016.

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

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

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

#### **Deterioration of the Corporation's Financial Condition**

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

#### **Liquidity and Access to Capital**

The Corporation's cash flows are affected by the seasonality of its operations, in particular, the cash outflows required to support the ramp up in operations in the first quarter of each fiscal year (which, among other things, requires expenditures on aircraft maintenance and ferrying and additional working capital). The Corporation anticipates spending additional funds in fiscal 2016 to fund aircraft sourcing initiatives at Defence Services. 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 Defence Services of the CATS Contract, the maturity date of the Secured Debentures may be accelerated and it may be difficult for the Corporation to continue meeting certain financial covenants. Further, if the Corporation's share price fails to rise above the minimum price necessary for the Unsecured Debentures and the Secured Debentures to be converted into equity (whether because the key milestones set in the Secured Debentures are not met or otherwise), the Corporation will owe \$34.5 million on June 30, 2018 and approximately \$112 million on March 22, 2017.

If this were to occur, there is a risk that the Corporation might not be able to fully repay or refinance those debts as they come due.

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

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

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

### **Resources Required to Support an Expanded Defence Services Business**

Over the last ten years, Defence Services has derived substantially all of its revenues from the Standing Offers and, accordingly, has operated almost exclusively in North America on behalf of the Canadian Armed Forces. Defence Services recently acquired ATSI and, as of January 2015, began providing training services to the German Armed Forces. As a result of these developments, Defence Services now directly manages, or oversees the management of, operations in Canada, the U.S. and Germany.

If Defence Services is successful in obtaining TPT Approval and the necessary financing for the F-16 and A-4N aircraft, those aircraft will, together with the ten aircraft of ATSI, result in a significant increase in the fleet size actively employed (directly and indirectly) in the Defence Services business.

The expansion of the Defence Services business requires Defence Services and its subsidiaries to recruit, hire and train experienced pilots, maintenance engineers and management personnel in Canada, the U.S. and Germany. To the extent that the subsidiaries of Defence Services are required to hold security clearances from the Canadian, U.S. or German governments, those subsidiaries may be required to abide by certain measures designed to limit influence or control by foreign persons and, therefore, may need to operate at arm's length from Defence Services' management in Canada. Although the Corporation's management believes that the human resources required by Defence Services and its subsidiaries are readily available, there is a risk that Defence Services 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 F-16 and A-4N aircraft, Defence Services and its subsidiaries will also have elevated capital requirements associated with the on-going maintenance of a larger fleet of aircraft. The Corporation may need to fund future capital requirements of the Defence Services business from external sources of financing. There can be no assurance that the necessary equity or debt financing will be available to the Corporation when required or, if available, that it will be on terms acceptable to the Corporation. If the Corporation is not able to meet its capital requirements, this

could adversely affect the Corporation's ability to maintain its aircraft (and, therefore, the value of its aircraft) and service commitments to customers.

### **Mining, Oil and Gas Exposure**

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

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

### **Safety of Operations**

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

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

In fiscal 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. 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 Defence Services, the Corporation will require additional

financing in fiscal 2016. 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 Defence Services, which could impair the ability of Defence Services and its U.S. subsidiaries to secure a combat support contract with the U.S. 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 conducted an employee survey in February 2013 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 Industry Risks.

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

### **Business and Operational Risks**

#### **Political and Economic Risks in Foreign Jurisdictions**

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

#### **Importance of Aboriginal Relationships**

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

#### **Competitive Conditions**

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

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

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

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

With respect to Technical Services, the Corporation believes that its competitive advantages include Technical Services' ability to provide competitive pricing and the range of services it can offer to its customers. Technical Services' present service offering includes traditional MRO work, engineering and

certification services as well as component support and maintenance for customers such as Canadian North. Notwithstanding such advantages, the MRO industry remains highly competitive in Canada and abroad.

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

### **Financial Risks**

#### **Foreign Currency Fluctuations**

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

Furthermore, Defence Services 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 incurred in connection with that contract are expected to be incurred in Euros and U.S. Dollars.

As of January 31, 2015, the Corporation evaluated the currency risk on unhedged foreign currency liabilities by assessing the impact of a 5.0% rise or fall in the Canadian dollar against the foreign currencies, with all other variables unchanged. Such an exchange rate change would have a \$0.3 million impact on the Corporation's loss and equity for the year ended January 31, 2015. 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, 2015, a substantial portion of the Corporation's debt bears a fixed rate of interest, with \$32 million of loans and borrowings subject to variable rates. The Corporation may be exposed to future financial risk from fluctuations in interest rates and the resulting interest expense associated with its short-term and long-term debt. A 25 basis point increase or decrease in interest rates on such debt obligations would impact the Corporation's annual interest expense by approximately \$0.1 million.

### **Industry Risks**

#### **Industry Regulation**

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

Furthermore and with respect to aviation laws, the ability of GSH, Air Tindi, Defence Services, Technical Services and Fire Services to conduct business depends on their ability to comply with applicable regulatory requirements. Although the Corporation and its subsidiaries are committed to complying with

all applicable laws, there is no assurance that it will be in full compliance with all requirements at all times.

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

### **Environmental Conditions**

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

### **Risks to Shareholders of Holding Common Shares in the Corporation**

#### **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. 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, Clairvest currently owns, or exercises control or direction over, 61,433,779 Common Shares, representing approximately 75.5% 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, including the election of directors. Clairvest alone is 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 it is able to, on its own, meet the applicable 66 <sup>2</sup>/<sub>3</sub>% voting threshold for shareholder approval to effect such changes. The interests of Shareholders may not align with the interests of Clairvest. In addition, in exercising its voting rights with respect to the Common Shares controlled by it, 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, 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, Clairvest's 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 Clairvest's influence may impact the price that investors are willing to pay for Common Shares. If Clairvest sells a substantial number of Common Shares in the public market, the market price of the Common Shares could decrease significantly.

Additional risks may be found under the heading "Risk Factors" in Management's Discussion and Analysis for the fiscal year ended January 31, 2015, which is incorporated herein by reference and may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## DESCRIPTION OF CAPITAL STRUCTURE

### Share Structure

The Corporation is authorized to issue an unlimited number of Class A Shares and an unlimited number of Class B Shares.

Class A Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are Canadians, and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians. See "*Description of Capital Structure – Constraints*" below.

As of April 30, 2015 there were 81,510,148 Class A Shares and 487,327 Class B Shares issued and outstanding which reflects the number of Common Shares issued from treasury in connection with the 2014 Rights Offering, the Standby Commitment and the 2015 Rights Offering.

The holders of the Class A Shares are entitled to vote at all meetings of the shareholders of the Corporation (except meetings at which only holders of a specified class of shares are entitled to vote) and are entitled to one vote for each Class A Share held.

The holders of the Class B Shares are entitled to vote at all meetings of the shareholders of the Corporation (except meetings at which only holders of a specified class of shares are entitled to vote) and are entitled to one vote for each Class B Share held, provided that the Class B Shares as a class are entitled to exercise no greater than 25% of all votes attached to the Common Shares.

The holders of the Class A Shares and the holders of the Class B Shares are entitled to:

- (a) receive equally, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, any dividends declared by the Corporation, and
- (b) receive equally, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the remaining property of the Corporation upon the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary.

As a result of Common Shares issued in connection with the 2015 Rights Offering, Clairvest and persons acting jointly and in concert with Clairvest directly or indirectly own, or exercise direction or control over, approximately 75.5% of the aggregate number of Common Shares issued and outstanding after such issuance. Accordingly, Clairvest has the ability to determine any matter coming before a vote of the shareholders of the Corporation and Clairvest alone may cause or prevent approval of any matter requiring shareholder approval, including the election of directors.

Clairvest may also be able to effect certain fundamental changes to the Corporation in accordance with the *Canada Business Corporations Act* because it would be able to, on its own, meet the applicable 66  $\frac{2}{3}$ % voting threshold for shareholder approval to effect such changes. The interests of the Corporation's shareholders may not align with the interests of Clairvest. In addition, in exercising its voting rights with respect to the Common Shares controlled by it, Clairvest does not owe a fiduciary duty to other Shareholders or the Corporation. Additionally, votes in respect of the Common Shares may be significantly influenced by a small group of Shareholders, including in the context of "majority of the minority" approvals for certain related party transactions.

### **Unsecured Debentures**

The Corporation's Unsecured Debentures, which are listed on the TSX under symbol "DA.DB.A", are governed by the terms of a convertible debenture indenture dated May 12, 2011 (the "**Unsecured Debenture Indenture**").

The Unsecured Debentures accrue interest at the rate of 8.375% per annum payable on a semi-annual basis. The Unsecured Debentures are direct, unsecured obligations of the Corporation, subordinated to other indebtedness of the Corporation for borrowed money and rank equally with all other unsecured subordinated indebtedness. Holders of the Unsecured Debentures may elect, upon complying with certain procedures described in the Convertible Debenture Indenture concerning such Unsecured Debentures, to convert their respective holdings into Common Shares at any time prior to the maturity date at a prescribed conversion price (the "**Conversion Price**") for each Common Share, subject to adjustment in certain circumstances. As a result of the Common Shares issued pursuant to the 2015 Rights Offering: (i) the Conversion Price was adjusted from \$6.53 per Common Share to \$5.07 per Common Share and may be subject to further adjustment in the future in accordance with the terms of the Convertible Debenture Indenture governing the Unsecured Debentures; and (ii) the number of Common Shares issuable upon conversion of the Unsecured Debentures was adjusted to approximately 6,801 Common Shares for each \$1,000 principal amount of Unsecured Debentures (up from approximately 5,283 Common Shares). The Unsecured Debentures were not redeemable prior to June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option, 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 applicable conversion price. Further, if the Corporation undergoes a change of control (as defined in the Unsecured Debenture Indenture), the Corporation is required to offer to purchase all of the Unsecured Debentures.

Subject to certain conditions, the Corporation has the right to repay the outstanding principal amount of the Unsecured Debentures, on maturity or redemption, through the issuance of Common Shares. The Corporation also has the option to satisfy its obligation to pay interest through the issuance and sale of additional Common Shares. Additionally, the Corporation has the option, subject to prior agreement of the holders of the Unsecured Debentures, to settle its obligations on conversion by way of a cash payment of equal value.

On November 27, 2014, holders of the Unsecured Debentures voted in favor of two amendments to the Unsecured Debentures and as a result: (i) the definition of “change of control” in the Unsecured Debenture Indenture was changed to allow for Clairvest to increase its equity interest above 50% without requiring the Corporation to repurchase the Unsecured Debentures; and (ii) the maturity date of the Unsecured Debentures was extended from June 30, 2016 to June 30, 2018, which extension was subject to the Corporation completing, prior to June 29, 2016, an equity offering of Common Shares for minimum aggregate net proceeds of \$5 million. This condition was satisfied by the completion of the 2015 Rights Offering.

The Unsecured Debenture Indenture sets out details regarding conversion, redemption, interest payments, meetings of debenture holders and other matters.

A copy of the Convertible Debenture Indenture is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Secured Debentures**

The Corporation issued the Secured Debentures pursuant to a private placement on September 23, 2011 to Clairvest Equity Partners IV Limited Partnership, Clairvest Equity Partners IV Co-Investment Limited Partnership, Clairvest Equity Partners IV-A Limited Partnership, DA Holdings Limited Partnership and G. John Krediet (collectively, the “**Secured Debenture Holders**”). The terms of the Secured Debentures were subsequently amended on March 26, 2012, July 31, 2012, October 25, 2012, May 6, 2013, February 1, 2014, February 24, 2014, May 2, 2014, September 10, 2014, December 5, 2014, and March 2, 2015. The description below reflects those amendments.

The Secured Debentures have a maturity date of March 22, 2017, subject to adjustment by the Secured Debenture Holders in the event that certain milestones are not achieved by the Corporation. The Secured Debentures accrue interest at the rate of 10.00% per annum, which is compounded annually and added to the adjusted principal amount of the Secured Debentures. The Secured Debentures are also convertible, in certain circumstances, into 8,814,132 Common Shares (originally 9,333,334 Common Shares, reduced to 9,291,824 Common Shares due to a partial repayment in July 2014 and further reduced to 8,814,132 Common Shares following a \$5 million repayment with proceeds from the 2015 Rights Offering) for an effective issue price of \$7.50 per Common Share, subject to certain adjustment provisions. The effective conversion price of the Secured Debentures increases at 10.00% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest will continue to be convertible into 8,814,132 Common Shares (subject to customary anti-dilution adjustments). Upon maturity or redemption, the Secured Debenture Holders may elect to either receive a lump-sum payment equal to the par value of the Secured Debentures, plus any accrued and unpaid interest thereon, or convert their Secured Debentures into Common Shares at the applicable conversion price.

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 Corporation has the right to require the full subordination of the Secured Debenture Holders’ security interest in respect of new indebtedness upon being awarded the CATS Contract (or an equivalent contract) on certain terms. To date, such a CATS Contract has not been awarded. In the absence of such an award, the Corporation is entitled to require subordination of the Secured Debentures Holders’ security interest in assets or entities acquired by the Corporation or its subsidiaries after September 23, 2011 in an amount up to \$50 million and in certain other assets of the Corporation and its subsidiaries.

The Corporation may redeem the Secured Debentures on or after September 23, 2014, provided, among other things, that the Corporation has previously redeemed the Unsecured Debentures and the weighted

average trading price of the Class A Shares exceeds 116% of the then-applicable conversion price of the Secured Debentures over a specified trading period prior to the issuance of the redemption notice. The Corporation may redeem the Secured Debentures before September 23, 2014 if, upon the occurrence or failure to occur of certain milestone events and the giving of a prescribed amount of notice by the Corporation, the security agent of the Secured Debenture Holders fails to subordinate the Secured Debenture Holders' security interest in certain assets of the Corporation. 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.

The Secured Debentures were amended on March 26, 2012 to, among other things, facilitate the early repayment of certain indebtedness, change when and in what circumstances the Secured Debentures can adjust the maturity date, change when and in what circumstances the Corporation can early redeem the Secured Debentures, and require the consent of the Secured Debenture Holders before the Corporation can issue equity securities or securities convertible into equity securities at a price less than the applicable conversion price of the Secured Debentures.

The Secured Debentures were amended again on July 31, 2012 to facilitate the new committed operating facility that was secured on August 1, 2012. Among other things, this amendment confirms the Secured Debenture Holders' priority in relation to cash proceeds from their priority collateral and clarifies certain defined terms in the Secured Debentures. The Secured Debentures were amended once again on October 25, 2012 to, among other things, afford the Corporation greater flexibility with respect to the deployment of certain aircraft to international locations. The Secured Debentures were further amended on May 6, 2013 and February 1, 2014 to facilitate the sale, amalgamation and dissolution of certain non-material subsidiaries of the Corporation. Finally, the Secured Debentures were amended on February 24, 2014, May 2, 2014, September 10, 2014, December 5, 2014, and March 2, 2015 to waive or modify the ratios related to the PAR Covenant and Debt Leverage Covenant for the quarters ended April 30, 2014 through January 31, 2016 (the "**Covenant Amendments**")

In exchange for the Covenant Amendments, the Corporation agreed (i) to provide the holders of the Secured Debentures with a first charge against all of the real property owned by the Corporation and its subsidiaries in Canada, (ii) to refrain from granting or incurring liens (other than certain customary permitted liens) on any new assets that may be acquired by the Corporation or its subsidiaries prior to August 1, 2015 (unless during such period the Corporation is in compliance with the pledged asset ratio covenant without regard to the Covenant Amendments), and (iii) not to request or require the Secured Debenture Holders to subordinate their security in the Corporation's assets pursuant to the Secured Debentures prior to the later of December 31, 2016, and the date on which the Corporation is in compliance with the covenants (subject to certain exclusions) in the Secured Debentures for the eight quarters preceding the request. While the restriction described in (iii), above, is in effect the Secured Debenture holders are not permitted to convert any or all of the Secured Debentures into Common Shares, except in connection with the maturity of the Secured Debentures, or in connection with or following a change of control (as defined in the Secured Debentures). In addition, in connection with the amendment dated December 5, 2014, the Corporation agreed to apply 50% of the proceeds of an equity financing conducted prior to July 29, 2016, up to a maximum of \$5.0 million, to repay the Secured Debentures. For further details, refer to the Covenant Amendments which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

In connection with the Secured Debentures, the Corporation entered into certain agreements, including: (i) an investor liquidity agreement which provides the Secured Debenture Holders with certain "demand" and "piggy back" registration rights should they wish to sell their Common Shares by way of prospectus, and (ii) a shareholders' agreement (the "**Shareholders Agreement**") among the Secured Debenture

Holders and certain management shareholders of the Corporation (the “**Management Shareholders**”). Among other things, the Shareholders Agreement provides the holders of the Secured Debentures with the right to have up to three nominees appointed to the Board and the benefit of certain negative covenants for so long as the holders of the Secured Debentures hold Common Shares representing at least 10% of the outstanding Common Shares (calculated on a fully-diluted basis, and assuming the conversion of the Secured Debentures).

The parties to the Shareholders Agreement also have certain “rights of first offer” and “rights of first refusal” in the event that the other parties to the Shareholders Agreement propose to transfer any of their Common Shares. The Shareholders Agreement also provides “pre-emptive” rights and “liquidity rights” commencing after the fifth anniversary of the Shareholders Agreement.

Copies of the Secured Debentures and the Shareholders Agreement are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **Constraints**

The CTA requires holders of licences to operate a domestic air service to be “Canadian” within the meaning of the CTA. The Corporation’s Articles of Continuance contain foreign ownership restrictions designed to ensure that the Corporation maintains its “Canadian” status under the CTA.

Specifically, Class A Shares may be beneficially owned and controlled, directly or indirectly, only by persons who are Canadians, and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians.

For this purpose, “Canadian” has the meaning set forth in Subsection 55(1) of the CTA, which may be summarized as follows:

- (a) a Canadian citizen or a permanent resident within the meaning of the *Immigration and Refugee Protection Act* (Canada);
- (b) a government in Canada or an agent thereof; and
- (c) a corporation or other entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians (as defined in paragraph (a)) and of which at least 75% (or such lesser percentage as the Governor in Council may by regulation specify) of the voting interests are owned and controlled by Canadians (as defined in paragraph (a)).

Further, each issued and outstanding Class A Share will be converted into one Class B Share, automatically and without any further act of the Corporation or the holder, if such Class A Share is or becomes beneficially owned or controlled, directly or indirectly, by a person who is not a Canadian. Each issued and outstanding Class B Share will be converted into one Class A Share, automatically and without any further act on the part of the Corporation or of the holder, if such Class B Share is or becomes beneficially owned and controlled, directly or indirectly, by a Canadian.

In the event that an offer is made to purchase Class A Shares (the “**Offer**”), and the Offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Class A Shares are then listed, to be made to all or substantially all of the holders of Class A Shares in a province of Canada to which the requirement applies, each Class B Share will become convertible at the option of the holder into one Class A Share at any time while the Offer is in effect until one day after the time prescribed or permitted by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the Offer. Such conversion may only be exercised for the purpose

of depositing the resulting Class A Shares pursuant to the Offer and the voting rights attached thereto are deemed to remain subject to the restrictions applicable to the Class B Shares, notwithstanding their conversion. In the event that any Class B Shares converted into Class A Shares are not taken up and paid for pursuant to the Offer, the Class A Shares resulting from such conversion will be re-converted into Class B Shares. The above conversion rights apply, *mutatis mutandis*, if an offer is made to purchase Class B Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Class B Shares are then listed, to be made to substantially all of the holders of Class B Shares. Further details are contained in the Corporation's Articles of Continuance.

The Corporation's Articles of Continuance also grant to the Board all powers necessary to give effect to the ownership restrictions. The Corporation may adopt various procedures and policies with respect to the transfer of Common Shares of the Corporation to ensure that the 25% limitation on non-Canadian voting of Class B shares is complied with. In addition, the Corporation may adopt policies and procedures to monitor the number of Common Shares owned by Canadians to ensure that the provisions of the CTA are complied with.

In March 2009, the Government of Canada's Bill C-10, the *Budget Implementation Act, 2009*, received Royal Assent. Bill C-10 contains provisions that would amend the CTA to allow the Governor in Council to increase the foreign ownership limit contained in the CTA from the current 25% to a maximum of 49%. These provisions will come into force on a day to be fixed by order of the Governor in Council made on the recommendation of the Minister of Transport.

The Corporation's Articles of Continuance are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **DIVIDENDS AND DISTRIBUTIONS**

To date, the Corporation has not paid any cash dividends on its Class A Shares or its Class B Shares.

The Corporation is currently restricted by terms contained in the Secured Debentures and the Shareholders Agreement from paying dividends or making certain other distributions to shareholders. These restrictions will remain effective so long as the Secured Debenture Holders hold Common Shares representing at least 10% of the outstanding Common Shares (calculated on a fully-diluted basis and assuming the conversion of the Secured Debentures) or the aggregate principal amount of the Secured Debentures plus accrued and unpaid interest thereon is not less than \$35 million.

Apart from the foregoing, the future payment of dividends will be dependent upon the financial requirements of the Corporation to fund future growth, the financial condition of the Corporation and other factors which the Board may consider relevant in the circumstances. It is unlikely that dividends will be paid in the foreseeable future.

The Corporation has paid interest on the Unsecured Debentures and accrued interest on the Secured Debentures, each in accordance with the terms and conditions governing those debentures. See "*Description of Capital Structure – Unsecured Debentures*" and "*Description of Capital Structure – Secured Debentures*" above.

## MARKET FOR SECURITIES

### Trading Price and Volume

#### Class A Shares

The Class A Shares are listed and posted for trading on the TSX. The trading symbol is DA.A. The following table shows the range of high and low closing market prices and trading volume of the Class A Shares from February 1, 2014 to January 31, 2015.

CLASS A SHARES			
MONTH	HIGH (\$)	LOW (\$)	TOTAL MONTHLY TRADING VOLUME
February 2014	1.48	0.95	157,374
March 2014	1.20	1.00	48,816
April 2014	1.09	0.80	142,840
May 2014	0.89	0.78	114,210
June 2014	0.84	0.57	59,303
July 2014	0.69	0.65	22,786
August 2014	0.70	0.52	52,810
September 2014	0.55	0.28	85,011
October 2014	0.32	0.26	219,191
November 2014	0.35	0.15	119,424
December 2014	0.29	0.19	240,791
January 2015	0.49	0.25	107,949

#### Class B Shares

The Corporation's Class B Shares are not listed or posted for trading on any exchange or market. As of April 30, 2015, there were 487,327 Class B Shares outstanding. On April 30, 2014, 442,567 Class B Shares were issued to G. John Krediet, a director and co-investor of Clairvest, at a price of \$0.86 per Class B Share.

On August 24, 2007, 38,935 Class B Shares were issued in connection with the Corporation's acquisition of Defence Services (formerly, Top Aces Inc.). Each such Class B Share was then valued at \$1.587 by the Corporation. The remaining 5,825 Class B Shares resulted from a conversion of Class A Shares into Class B Shares when the Class A Shares were transferred from a Canadian to a non-Canadian. See "*Description of Capital Structure - Constraints*" above for an explanation of this conversion feature.

### **SECURITIES SUBJECT TO CONTRACTUAL RESTRICTIONS ON TRANSFER**

The following table sets forth the number of securities of the Corporation which, to the best of its knowledge, are subject to a contractual restriction on transfer and the percentage that number represents of the outstanding securities of that class, as at April 30, 2015.

DESIGNATION OF CLASS	NUMBER OF SECURITIES WITH TRANSFER RESTRICTIONS	PERCENTAGE OF CLASS
Class A Shares	8,349,446 <sup>(1)</sup>	10.24%

1. 8,349,446 Class A Shares are subject to restrictions contained in the Shareholders Agreement, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Specifically, Common Shares owned or controlled by certain current and former management shareholders of the Corporation are subject to rights of first offer and rights of first refusal. Also see “Description of Capital Structure – Secured Debentures” above.

## DIRECTORS AND OFFICERS

The following table sets forth the names, municipalities of residence, positions held with the Corporation and principal occupations of Discovery Air’s directors (the “**Board**”) as at the date of this Annual Information Form. The term of office of each director expires at the next annual meeting of shareholders. In accordance with the terms of the Shareholders Agreement referred to above under “Description of Capital Structure - Secured Debentures”, the holders of the Secured Debentures are entitled to nominate up to three persons for election as directors of the Corporation.

DIRECTORS		
NAME	OFFICE HELD, DATE BECAME A DIRECTOR AND COMMITTEE MEMBERSHIP	PRINCIPAL OCCUPATION LAST 5 YEARS
ALAIN S. BENEDETTI, FCPA, FCA Saint Anne des lacs, Quebec, Canada	Director since June 26, 2014  Chair of the Audit Committee	Corporate Director.  Alain Benedetti is the retired Vice-Chairman of Ernst & Young LLP, where he worked for 34 years, most recently as the Canadian area managing partner, overseeing all Canadian operations. Prior thereto, he was the managing partner for eastern Canada and the Montreal office.  Mr. Benedetti currently serves as a director of Russell Metals Inc., and Dorel Industries Inc. He currently chairs the audit committee of Dorel Industries.  Mr. Benedetti is past chair of the Canadian Institute of Chartered Accountants (2006-2008). He was awarded the Fellowship of Chartered Accountants (FCA) designation in Quebec in 1996 and in Ontario in 1998. He was also certified as a corporate director by the Institute of Corporate Directors (ICD.D) in 2005.
MICHAEL M. GRASTY Santiago, Chile	Director since July 8, 2013  Chair of the Human Resources Committee  Member of the Audit Committee	Senior partner at the law firm of Grasty Quintana Majlis & Cia.  Michael Grasty is a senior lawyer and businessman based in South America. He founded the law firm of Grasty Quintana Majlis & Cia. in 1987 and is currently its Senior Partner.  Mr. Grasty acts as director and general representative of numerous foreign companies doing business in Chile including the Oracle Corporation, Tyco International Ltd., Harsco Corporation, Bucyrus International, Inc., Telefonaktiebolaget LM Ericsson, Technolab Corp., Lowe International, and Nike, Inc., amongst others. He also participates as a director of local Chilean companies such as Inversiones Corso S.A., David del Curto S.A., Bantattersall S.A., Amcham Chile, and others.

DIRECTORS		
NAME	OFFICE HELD, DATE BECAME A DIRECTOR AND COMMITTEE MEMBERSHIP	PRINCIPAL OCCUPATION LAST 5 YEARS
G. JOHN KREDIET Manalapan, Florida, U.S.A.	Director since October 14, 2011  Member of the Human Resources Committee	Chairman of C.F. Capital Management LLC.  Since 1987, Mr. Krediet has been the Chairman of C.F. Capital  Mr. Krediet also serves as a director of Clairvest Group Inc. (since 2004), and the Chairman of Can-Eng Partners Ltd. and Can-Eng Furnaces International Ltd. (since 2007).  Mr. Krediet was previously the Chairman of DS Waters (2005 to 2012) and TB Wood's, Incorporated (2006 to 2007), the Chairman and CEO of Sparkling Spring Water Holdings Ltd. (1993 to 2003), the Chairman and CEO of independent Pepsi bottling companies named Maritime Beverages and EastCan Beverages (1986 to 1992). Prior to 1986, Mr. Krediet worked in roles in Europe and the U.S.A. at GE Credit Corp., Citibank and Amro Bank.
ADMIRAL MICHAEL G. MULLEN, USN (RET.) Annapolis, Maryland, U.S.A.	Director since May 9, 2014	President and CEO of MGM Consulting, LLC.  Admiral Mullen served as the 17th Chairman of the Joint Chiefs of Staff of the United States of America (2007-2011). He was the principal military advisor to President George W. Bush and President Barack Obama.  Admiral Mullen graduated from the U.S. Naval Academy in 1968. He commanded at every level in the Navy. His final four-star command was in Europe for NATO. His fleet experience culminated in his assignment as the Navy's highest ranking officer, the 28th Chief of Naval Operations (2005-2007).  Admiral Mullen earned a Masters of Science degree in Operations Research from the Naval Postgraduate School and completed the Advanced Management Program at the Harvard Business School.  Admiral Mullen currently serves as a director of General Motors and Sprint. He is a member of the Risk, Audit and Public Policy Committees at General Motors. He is a member of the Compensation Committee at Sprint.
ADRIAN PASRICHA Toronto, Ontario, Canada	Director since June 26, 2014	Principal at Clairvest Group Inc.  Mr. Pasricha joined Clairvest in 2010 and participates in all areas of the investment process. Prior to joining Clairvest, he worked in the energy group of Warburg Pincus LLC, a venture capital firm based in New York. Mr. Pasricha also previously worked at the Boston Consulting Group in New York and IB Partners, a boutique investment bank based in Santiago, Chile.  Mr. Pasricha also serves on the boards of County Waste of Virginia, LLC and Winters Bros. Waste Systems of CT, LLC.

DIRECTORS		
NAME	OFFICE HELD, DATE BECAME A DIRECTOR AND COMMITTEE MEMBERSHIP	PRINCIPAL OCCUPATION LAST 5 YEARS
ROD PHILLIPS Toronto, Ontario, Canada	Director since June 26, 2014  Lead Director since July 3, 2014  Member of the Audit Committee	Chair of the Board of Directors and a Director of Postmedia Canada Corp. and its subsidiary Postmedia Network.  Mr. Phillips is the Chair of the Board of Directors of Postmedia Canada Corp. and its subsidiary Postmedia Network. He is also a director and member of the Governance and Human Resources and Compensation Committees of DATA Group Ltd.  From 2011 to 2014 Mr. Phillips was President and Chief Executive Officer of the Ontario Lottery and Gaming Corporation (OLG).  Prior to leading OLG, Mr. Phillips was President and Chief Executive Officer for eight years of Shepell.fgi.  Before joining Shepell.fgi, Mr. Phillips was Chief of Staff to Mayor Mel Lastman during his first term as the leader of the newly amalgamated City of Toronto from 1997 to 2000.
KENNETH B. ROTMAN <sup>(1)</sup> Toronto, Ontario, Canada	Director since October 14, 2011  Member of the Human Resources Committee  Member of the Governance Committee	Mr. Rotman joined Clairvest Group Inc. in 1993 and has been the Co-CEO, Managing Director and a director of Clairvest since June 2000.  Mr. Rotman also serves as a director of Light Tower Rentals, MAG Decisive Solutions and Wellington Financial. He is one of the founders of Wellington Financial and has been its Chairman since 2000. He has also previously been a director of a number of public and private companies such as PEER 1 Network Enterprises, Hudson Valley Waste Holding, Van-Rob and Shepell.fgi.  Mr. Rotman is also a board member of the University Health Network since 2008 and Honest Reporting Canada since 2003, both of which are non-profit organizations.

Note:

- (1) Mr. Rotman served as a director of NRI Industries Inc. when, on September 6, 2006, it and two of its subsidiaries (collectively, “NRI”) filed for protection under *Companies’ Creditors Arrangement Act* (“CCAA”). On April 27, 2007, NRI filed assignments into bankruptcy. He also served as a director of Integral Orthopedics Inc. (“IOI”) until July 18, 2008 when a receiver was appointed under the *Bankruptcy and Insolvency Act* to sell the assets of IOI. Mr. Rotman served as a director of Nexient Learning Inc. (“Nexient”) until June 5, 2009; on June 29, 2009, Nexient applied for creditor protection under the CCAA. Finally, Mr. Rotman served as a director of Landauer Metropolitan Inc. and Landauer Healthcare Holdings, Inc. when on August 16, 2013 each of these companies filed for bankruptcy protection under Chapter 11 of the US Bankruptcy Code.

The following table sets out the names, municipalities of residence, positions and principal occupations over the last five years of the officers of Discovery Air, as at the date of this Annual Information Form.

OFFICERS		
NAME	OFFICE HELD & CURRENT PRINCIPAL OCCUPATION <sup>(2)</sup>	PRINCIPAL OCCUPATION LAST 5 YEARS
JACOB (KOBY) SHAVIT New York, U.S.A.	President and Chief Executive Officer	December 13, 2012 to Present: President and Chief Executive Officer of the Corporation.  August, 2008 to August, 2010: Chief Business Officer at AGT International.
PAUL BERNARDS <sup>(1)</sup> Toronto, Ontario, Canada	Chief Financial Officer	April 2014 to Present: Chief Financial Officer of the Corporation.  September 2011 to April 2014: Vice President Finance, Operations of JELD-WEN Inc.  January 2009 to June 2010: Senior Vice President and Chief Financial Officer of Premier Salons Ltd.
BRIAN MERKER Mississauga, Ontario, Canada	Vice President Finance	December 5, 2014 to Present: Vice President, Finance of the Corporation.  May 1, 2013 to Present: Chief Financial Officer of GSH.  January 1, 2008 to April 30, 2013: Vice President, Finance of Score Media Inc.
DAVID KLEIMAN Toronto, Ontario, Canada	Vice President, General Counsel and Corporate Secretary	May 30, 2014 to Present: Vice-President, General Counsel and Corporate Secretary of the Corporation.  Prior to this, Mr. Kleiman was Executive Vice President, General Counsel and Secretary at EXP Global Inc.
DIDIER TOUSSAINT Pointe-Claire, Quebec, Canada	Group President, Government Services	March 12, 2013 to Present: Group President, Government Services of the Corporation.  June 1, 2010 to March 12, 2013: Group President, Government Services of the Corporation and President and CEO of Top Aces Inc. (now Discovery Air Defence Services Inc.).  December 11, 2009 – June 1, 2010: Group President, Government Services of the Corporation.
SHEILA VENMAN Ottawa, Ontario, Canada	Vice President, Human Resources and Communications	April 2011 to Present: Vice President, Human Resources and Communications of the Corporation.  March 2005 to April 2011: Vice President, Human Resources and Administration at Top Aces Inc. (now Discovery Air Defence Services Inc.).

Notes:

- (1) Paul Bernards was previously the Chief Financial Officer of Trade Secrets, Inc. and certain of its subsidiaries (Trade Secrets Beauty, Inc., Trade Secrets Exclusive, Inc., Trade Secrets Luxury, Inc., Pure Beauty, Inc. and Beauty First,

- Inc.). Mr. Bernards ceased serving as the Chief Financial Officer of these entities in June 2010, and in August 2010, these entities were declared bankrupt.
- (2) The Corporation has a number of employees who hold the title of “Vice President” but are not appointed as officers of the Corporation by the Board. Those employees are not listed above as they are not recognized as executive officers of the Corporation.

As of April 30, 2015, there were 81,510,148 Class A Shares and 487,327 Class B Shares Class B Shares issued and outstanding. At that date, the directors and executive officers of the Corporation listed above, as a group, beneficially owned, or controlled or directed, directly or indirectly, 62,933,991 Class A Shares and 442,567 Class B Shares, representing approximately 77.3% of the total number of Common Shares issued and outstanding.

### CONFLICTS OF INTEREST

Kenneth B. Rotman is a director, the Co-CEO and Managing Director of Clairvest Group Inc. (“**Clairvest**”). Mr. Rotman, together with certain of his family members, controls approximately 50% of Clairvest’s voting shares. G. John Krediet is also a director of Clairvest. Adrian Pasricha is a Principal of Clairvest.

To the best of the Corporation’s knowledge, Clairvest currently owns, or exercises control or direction over, 61,433,779 Class A Shares and 442,567 Class B Shares, representing approximately 75.5% of the votes attaching to all of the Common Shares issued and outstanding.

Clairvest has the ability to determine any matter coming before a vote of the Corporation’s shareholders, and Clairvest alone may cause or prevent the approval of any matter requiring shareholder approval, including the election of directors. Clairvest may also be able to effect certain fundamental changes to the Corporation in accordance with the *Canada Business Corporations Act* because it would be able to, on its own, meet the applicable 66 <sup>2</sup>/<sub>3</sub>% voting threshold for shareholder approval to effect such changes. The interests of the Corporation’s shareholders may not align with the interests of Clairvest. In addition, in exercising its voting rights with respect to the Common Shares controlled by it, Clairvest does not owe a fiduciary duty to other shareholders or the Corporation. Votes in respect of the Common Shares may be significantly influenced by a small group of shareholders, including in the context of “majority of the minority” approvals for certain related party transactions.

In addition to the forgoing, Clairvest, Clairvest’s affiliates and investors in certain of Clairvest’s funds (the “**Clairvest Parties**”) own or exercise control or direction over the rights attaching to approximately \$68 million original principal amount of Secured Debentures, effectively giving Clairvest the ability to exercise control or direction over the rights attaching to all of the Secured Debentures.

Mr. Krediet also holds approximately \$2 million original principal amount of Secured Debentures and acquired 442,567 Class B Shares on April 30, 2014.

As a result, Mr. Rotman and Mr. Krediet are considered to have an interest in material contracts with the Corporation, namely, the Secured Debentures and the Shareholders Agreement.

Due to these interests, it is possible that, from time to time, Mr. Rotman, Mr. Krediet, or Mr. Pasricha, or any of them, may be considered to have a potential or actual conflict of interest in relation to one or more matters to be voted upon by the Board. In such circumstances, Mr. Rotman, Mr. Krediet, or Mr. Pasricha, or any of them, may choose or be required to abstain from participating in the Board’s decision.

## LEGAL PROCEEDINGS

On October 4, 2011, an Air Tindi aircraft crashed in Lutsel K'e, Northwest Territories with four people on board. Two people (the pilot and one passenger) died as a result of the accident, and two passengers survived. The Transportation Safety Board of Canada released its accident investigation report on March 20, 2013 (Report Number A11W0151).

The surviving passengers and the estate of the deceased passenger filed statements of claim against Air Tindi on or about September 27, 2013. Each plaintiff's statement of claim was filed in the Supreme Court of the Northwest Territories under Court File Nos. S-1-CV-2013-000155 and S-1-CV-2013-000156. Air Tindi has filed statements of defence in each of the actions and is disputing all claims. The parties are currently in the process conducting examinations for discovery. The amounts claimed by the surviving passengers are approximately \$11.5 million in the aggregate (before interest, costs and other amounts that may be awarded by the court). The claim by the estate of the deceased passenger does not state the amount claimed.

The Corporation believes it has adequate insurance to cover any amounts for which Air Tindi may be liable under these claims.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Each of Kenneth B. Rotman and G. John Krediet are directors of the Corporation and directors of Clairvest. Mr. Rotman, together with certain of his family members, controls approximately 50 % of Clairvest's voting shares.

The Secured Debentures may be converted into Common Shares at a price per Common Share that is approximately \$10.60 (as at April 30, 2015) under certain circumstances. The Common Shares issuable on the conversion of the Secured Debentures held by Clairvest, the Clairvest Parties and Mr. Krediet would, on an "as converted basis", represent, as at April 30, 2015, approximately 9.7 % of the issued and outstanding Common Shares.

In addition, the Corporation entered into a certain Letter Agreement dated September 23, 2011 with Clairvest whereby the Corporation has retained Clairvest for the purpose of providing certain advisory services (the "**Letter Agreement**"). The annual retainer payable to Clairvest for such services is equal to \$250,000. The Letter Agreement contemplates a term of up to 10 years, subject to earlier termination if (i) Clairvest and its affiliates, including investment funds managed by Clairvest and its affiliates, collectively hold less than 10% of the Common Shares (on a fully-diluted and converted basis), or (ii) after September 23, 2013, the Corporation elects to terminate the Letter Agreement upon meeting certain conditions.

See "*Conflicts of Interest*" for further details respecting the interests of Mr. Rotman, Mr. Krediet and Mr. Pasricha in Clairvest, and "*Description of Capital Structure – Secured Debentures*" for details regarding the terms and conditions of the Secured Debentures.

## AUDIT COMMITTEE INFORMATION

The Charter of the Audit Committee of the Corporation is attached to this Annual Information Form as Exhibit "A".

The members of the Audit Committee are: Alain S. Benedetti (Chair), Michael M. Grasty and Rod Philips. Each member of the Audit Committee is both independent and financially literate, as such terms are defined in *National Instrument 52-110 - Audit Committees*.

Mr. Benedetti is the Chair of the Audit Committee. He has over 34 years of experience in public accounting. Mr. Benedetti is the retired Vice-Chairman of Ernst & Young LLP, where he worked for 34 years, most recently as the Canadian area managing partner, overseeing all Canadian operations. Prior thereto, he was the managing partner for eastern Canada and the Montreal office. Mr. Benedetti is past chair of the Canadian Institute of Chartered Accountants (2006-2008). He was awarded the Fellowship of Chartered Accountants (FCA) designation in Quebec in 1996 and in Ontario in 1998. He is also certified as a corporate director by the Institute of Corporate Directors (2005).

Michael M. Grasty founded the law firm of Grasty Quintana Majlis & Cia., located in Santiago, Chile in 1987 and is currently its Senior Partner. He acts as a director and general representative of numerous foreign companies doing business in Chile including the Oracle Corporation, Tyco International Ltd., Harsco Corporation, Bucyrus International, Inc., Telefonaktiebolaget LM Ericsson, Technolab Corp., Lowe International, and Nike, Inc., amongst others. He also participates as a director of local Chilean companies such as David del Curto S.A., Bantattersall S.A., Oracle Chile S.A., and others.

Rod Phillips is the Chair of the Board of Directors and a Director of Postmedia Canada Corp. and its subsidiary Postmedia Network. From 2011 to 2014 Mr. Phillips was President and Chief Executive Officer of the Ontario Lottery and Gaming Corporation (OLG) and prior to that time, he was President and Chief Executive Officer for eight years of Shepell.fgi, one of North America's leading providers of workplace health and productivity solutions. Before joining Shepell.fgi, Mr. Phillips was Chief of Staff to Mayor Mel Lastman during his first term as the leader of the newly amalgamated City of Toronto from 1997 to 2000.

The Board has approved an Audit Services Policy which provides that the Audit Committee shall pre-approve, on a case-by-case basis, (i) non-audit services (and related fees) to be provided by the external auditor, and (ii) audit-related fees charged by the external auditor.

#### **Audit Fees**

Fees billed by KPMG LLP for audit services in the 12 month period ended January 31, 2015 were \$484,500 (2014 - \$354,000). These fees relate to audit services provided in connection with performing quarterly reviews, the Company's annual audits, and audit of the 2014 Rights Offering Prospectus and the 2015 Rights Offering Prospectus.

#### **Tax Fees**

Fees billed by KPMG LLP for tax services in the 12 month period ended January 31, 2015 were \$82,000 (2014 - \$113,027). These services included preparation of corporate tax returns and tax advisory services.

#### **All Other Fees**

Fees billed by KPMG for other services in the 12 month period ended January 31, 2015 were \$90,000 (2014 - \$10,500). These charges relate to services provided in connect with 2014 Rights Offering and the 2015 Rights Offering.

### **MATERIAL CONTRACTS**

The following are contracts, other than contracts entered into in the ordinary course of business, material to the Corporation and entered into within and since the end of the fiscal period ended January 31, 2015 or entered into prior to that period and still in effect. The wholly-owned subsidiaries of the Corporation are parties to additional material contracts which have been determined by the Corporation to have been entered into in the ordinary course of business and which are, therefore, not listed below:

1. the Convertible Debenture Indenture dated May 12, 2011 between Computershare Trust Company of Canada and the Corporation in respect of the Unsecured Debentures; see “*Description of Capital Structure – Unsecured Debentures*” for a description of the Unsecured Debentures; the Convertible Debenture Indenture is available on SEDAR at [www.sedar.com](http://www.sedar.com);
2. the Secured Debentures issued by the Corporation on September 23, 2011 to Clairvest Equity Partners IV Limited Partnership, Clairvest Equity Partners IV Co-Investment Limited Partnership, Clairvest Equity Partners IV-A Limited Partnership, DA Holdings Limited Partnership and G. John Krediet (including the amendments to such Secured Debentures dated March 26, 2012, July 31, 2012, October 25, 2012, May 6, 2013, February 1, 2014, February 24, 2014, May 2, 2014, September 10, 2014, December 5, 2014, and March 2, 2015); see “*Description of Capital Structure – Secured Debentures*”; the Secured Debentures and the amendments thereto are available on SEDAR at [www.sedar.com](http://www.sedar.com); and
3. the Shareholders Agreement entered into on September 23, 2011; see “*Description of Capital Structure – Secured Debentures*”; the Shareholders Agreement is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### TRANSFER AGENT

The Corporation’s registrar and transfer agent is Computershare Investor Services Inc., 100 University Avenue, Toronto, Ontario, M5J 2Y1.

### EXPERTS

#### *Name of Experts*

The Corporation’s auditors are KPMG LLP, Bay Adelaide Centre, 333 Bay Street, Suite 4600, Toronto, Ontario, M5H 2S5.

#### *Interests of Experts*

KPMG LLP have confirmed that they are independent with respect to the Corporation within the meaning of the relevant rules and related interpretations prescribed by the relevant professional bodies in Canada and any applicable legislation or regulations.

### ADDITIONAL INFORMATION

Additional information regarding the Corporation may be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional information, including directors’ and officers’ remuneration, principal holders of the Corporation’s securities and securities authorized for issuance under equity compensation plans are contained in the Corporation’s Management Proxy Circular, available on SEDAR at [www.sedar.com](http://www.sedar.com).

Additional financial information is provided in the Corporation’s financial statements and the related Management’s Discussion and Analysis for the fiscal year ended January 31, 2015 filed on SEDAR at [www.sedar.com](http://www.sedar.com).

All documents incorporated herein by reference (and available on SEDAR) are also available upon request and will be provided by the Corporation free of charge. All such requests should be submitted to the attention of the Corporation Secretary at 170 Attwell Drive, Suite 370, Toronto, Ontario, M9W 5Z5.

Exhibit "A"



**AUDIT COMMITTEE CHARTER  
DISCOVERY AIR INC.**

Board Approved:  
September 7, 2012

**1. PURPOSE**

The Board of Directors (the "Board") is responsible for the stewardship of Discovery Air Inc. (the "Corporation"). That stewardship consists primarily of the duty to supervise the management of the business and affairs of the Corporation. To discharge that duty, the Board must supervise all significant aspects of the management of the business and affairs of the Corporation and its subsidiaries.

**A. Corporate Obligations to Be Supervised.** The following obligations of the senior officers of the Corporation ("Management"), the Board and the Corporation (the "Financial Obligations") are, amongst others, significant aspects of the management of the business and affairs of the Corporation:

- (a) financial reporting and disclosure in compliance with applicable law;
- (b) the appointment by the shareholders of the Corporation of a firm of chartered accountants as the external auditor of the Corporation (the "External Auditor");
- (c) monitoring the work of the External Auditor;
- (d) maintenance by Management of effective controls over the Corporation's financial reporting and disclosure;
- (e) maintenance by Management of effective policies and guidelines related to the management of the risks (the "Financial Risks") associated with Management, the Board and the Corporation meeting the Financial Obligations; and
- (f) effective management of the Corporation's financial resources, assets and obligations.

**B. Authority.** The fundamental duty of the Board in supervising efforts to meet the Financial Obligations is to gain and maintain reasonable assurance that the Financial Obligations are being met. The Board believes its duty in this regard will be most effectively discharged if the Board is assisted by a committee of the Board which is empowered and required:

- (a) to take all actions (the “Diligent Actions”) which, in the opinion of the Board or the committee, are necessary or desirable for the committee to gain and maintain reasonable assurance that the Financial Obligations are being met, and
- (b) to report to the Board the conclusions reached by the committee as a result of taking the Diligent Actions.

## 2. ESTABLISHMENT/CONTINUATION OF AUDIT COMMITTEE

The Board has established and hereby continues the existence of a committee of the Board known as the Audit Committee (the “Committee”). The Committee is hereby empowered and required to take the Diligent Actions and to report to the Board the conclusions reached by the Committee as a result of taking the Diligent Actions.

## 3. COMPOSITION

- A. Composition.** The Committee shall consist of at least three directors of the Corporation (collectively, the “Members”), one of whom shall serve as the Chair of the Committee (the “Committee Chair”). All members shall be Independent (as that term is defined herein) and Financially Literate (as that term is defined herein).
- B. Appointment and Removal.** The Board shall appoint, and may remove, any of the Members and the Committee Chair at any time and from time to time.
- C. Definitions.** For the purpose of this Charter

- (a) a member is “Independent” if
  - i. the Member has no direct or indirect relationship with the Corporation which, in the view of the Board, could reasonably be expected to interfere with the exercise of the Member’s independent judgment; and
  - ii. the Member is not an individual who is considered to have a material relationship with the Corporation under section 1.4 or 1.5 of *National Instrument 52-110 - Audit Committees*, and
- (b) the term “Financially Literate” means having the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the financial statements of the Corporation.

## 4. RELIANCE ON EXPERTS

In contributing to the Committee’s discharge of its duties under this Charter, each Member shall be entitled to rely in good faith upon:

- (a) financial statements of the Corporation represented to the Member by an officer of the Corporation or in a written report of the auditor of the Corporation to fairly reflect the financial condition of the Corporation, or
- (b) a report of a person whose profession lends credibility to a statement made by that person.

## 5. STANDARD OF CARE

In contributing to the Committee's discharge of its duties under this Charter, each Member shall be obliged to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. Nothing in this Charter is intended, or may be construed, to impose on any Member a standard of care or diligence that is in any way more onerous or extensive than the standard to which all Board members are subject. The essence of a Member's duties is supervising and taking Diligent Actions to gain and maintain reasonable assurance that the Financial Obligations are being met by the Corporation and to enable the Committee to report thereon to the Board.

## 6. OPERATING PROCEDURES

- A. Frequency of Meetings.** The Committee shall meet four times annually or more frequently as circumstances dictate. Regular meetings of the Committee shall be held in accordance with a schedule prepared by the Corporate Secretary in consultation with the Chair of the Board of Directors of the Corporation (the "Board Chair") and the Committee Chair. Additional meetings of the Committee may be called at any time by the Board Chair, the Committee Chair, any Member or at the request of the External Auditor.
- B. Notice of Meetings.** Notice of the time and place of each meeting of the Committee shall be given to each Member not less than 48 hours before the time when the meeting is to be held. Notwithstanding the foregoing, in the event that the Board or the Committee fixes by resolution the time and place of one or more meetings of the Committee and a copy of such resolution is sent to each Member, no notice shall be required to be given to the Members for the meeting(s) whose times and places are so fixed.
- C. Meeting Agendas.** Committee meeting agendas shall be prepared by the Corporate Secretary in consultation with the Board Chair, the Committee Chair, the Corporation's President and Chief Executive Officer (the "CEO"), the Corporation's Chief Financial Officer (the "CFO") and the External Auditor, in all cases having regard to the matters required to be considered by the Committee under this Charter and/or pursuant to a request of the Board, the Committee or the External Auditor.
- D. Transaction of Business.** The powers of the Committee may be exercised at a meeting of the Committee at which a quorum is present or by resolution in writing signed by all of the Members who would have been entitled to vote on that resolution at a meeting of the Committee.
- E. Meetings by Telephone or Electronic Means.** If all of the Members present at or participating in a meeting consent, then any Member may participate in such meeting by means of telephone, electronic or other communication facilities that permit all persons participating in the meeting to communicate simultaneously and instantaneously.
- F. Quorum.** A majority of the Members shall constitute a quorum for the transaction of business at all meetings of the Committee.
- G. Votes to Govern.** At all meetings of the Committee, any question shall be decided by a majority of the votes cast on the question and in the case of an equality of votes, the chair of the meeting shall be entitled to a second or casting vote. Any question at a meeting of the Committee shall be decided by a show of hands unless a ballot is required or demanded.

- H. Attendance by Other Directors.** Any director of the Corporation (a “Director”), whether or not he or she is a Member, shall be entitled to be present at and to participate in all meetings of the Committee as a non-voting participant.
- I. Secretary of Meetings.** Unless the Committee otherwise specifies, the Corporate Secretary or Assistant Corporate Secretary shall act as secretary of all meetings of the Committee.
- J. Chair of Meetings.** The Committee Chair shall act as chair of all meetings of the Committee at which the Committee Chair is present. In the absence of the Committee Chair at any meeting of the Committee, the Members shall appoint a Member to serve as acting chair at the meeting.
- K. In Camera Sessions.** At each meeting of the Committee, the Committee shall meet in separate *in camera* sessions with each of the External Auditor, the CEO and the CFO. The Committee shall also be entitled to meet in private or, at the option of the Committee, with one or more other officers or employees of the Corporation or its subsidiaries.
- L. Circulation of Minutes.** A copy of the minutes of each meeting of the Committee shall be provided to the Members in a timely fashion and shall be provided to any Director upon request.
- M. Reports to the Board.** The chair of each meeting of the Committee shall report on the matters considered at that meeting to the next-following regularly-scheduled meeting of the Board.
- N. Retention of External Advisors.** To assist the Committee in discharging its responsibilities, the Committee is authorized to:
- (a) engage any advisors (including independent counsel) as it determines necessary to carry out its duties,
  - (b) set and pay, at the expense of the Corporation, the compensation for any advisors engaged by the Committee, and
  - (c) communicate directly and privately with the External Auditor and any other advisor engaged by the Committee.

## 7. DILIGENT ACTIONS

Without limiting the nature or scope of the Diligent Actions, the Committee shall, as part of the Diligent Actions:

- A. General.** for the purpose of gaining and maintaining reasonable assurance that Management, the Board and the Corporation meet the Financial Obligations,
- (a) require Management (with the assistance of the Corporation’s general legal counsel and the External Auditor) to provide to the Committee
    - (i) a written report listing the Financial Obligations,
    - (ii) prompt written updates to the report referred to in paragraph (i) above describing any proposed or actual change to the Obligations, and
    - (iii) at each meeting of the Committee, written assurance that Management and the Corporation have, since the last preceding meeting of the Committee, complied fully with the Financial Obligations;
  - (b) make regular assessments of the integrity, comprehensiveness and effectiveness of internal controls which support Management, the Board and the Corporation in meeting the Financial Obligations (“Internal Financial Controls”), including (1) the Corporation’s disclosure controls and procedures (“Disclosure Controls”), and (2) the Corporation’s

internal controls over financial reporting (“Reporting Controls”), as those terms are defined in *National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings* (“NI 52-109”); in making each such assessment, the Committee shall obtain from the CEO and the CFO a report setting out:

- (i) the overall approach taken by the CEO and the CFO to the process by which they provide certification as required by NI 52-109,
  - (ii) the issues that were raised by such overall approach,
  - (iii) the approach taken by the CEO and the CFO to the evaluation of the Disclosure Controls and the Reporting Controls,
  - (iv) the results of the evaluation of the Disclosure Controls and the Reporting Controls made by the CEO and the CFO, and
  - (v) the conclusions reached by the CEO and the CFO as to the effectiveness of the Disclosure Controls and the Reporting Controls;
- (c) annually assess the quality and sufficiency of the Corporation’s accounting and financial personnel;
  - (d) review the effectiveness of the Corporation’s policies that require significant new actual or potential liabilities, contingent or otherwise, to be reported to the Board in a timely fashion;
  - (e) review reports to Management by the External Auditor with respect to weaknesses or deficiencies in Internal Financial Controls, and review the adequacy and appropriateness of Management’s responses to recommendations relating to such weaknesses or deficiencies made by the External Auditor, including the implementation thereof;
  - (f) oversee and regularly assess the quality of the work of the External Auditor in preparing or issuing an audit or other report in respect of the Corporation’s financial statements and performing other audit, review or attest services for the Corporation;
  - (g) use its best efforts to resolve disagreements between Management and the External Auditor regarding financial reporting;
  - (h) receive at least annually reports from each of Management and the External Auditor with respect to the effectiveness of the records and procedures established by Management to initiate, record, process and report the Corporation’s transactions;
  - (i) review the plans of Management and the External Auditor to gain reasonable assurance that the combined evaluation and testing of Internal Financial Controls is comprehensive, coordinated and effective;
  - (j) receive timely reports from Management, the External Auditor and the Corporation’s legal department on any indication or detection of fraud and the corrective activity undertaken in respect thereto;
  - (k) before the Committee recommends a proposed External Auditor for nomination by the Board, be reasonably assured that any such proposed External Auditor of the Corporation possesses and will make available to the Corporation the personnel required to efficiently, cost-effectively and expertly prepare or issue an audit or other report in respect of the Corporation’s financial statements or perform other audit, review or attest services for the Corporation;
  - (l) in advance of the External Auditor’s commencement of each audit of the Corporation’s financial statements, review with the External Auditor the proposed scope of the audit, the proposed areas of special emphasis to be addressed in the audit and the materiality levels which the External Auditor proposes to employ;

- (m) satisfy itself that Management has placed no restrictions on the scope or extent of the External Auditor's audit examinations or reviews or the External Auditor's reporting of its findings to the Board or the Committee;
- (n) review and approve in advance any proposed appointment of a member of Management whose duties relate significantly to Financial Obligations;
- (o) review quarterly a progress report by the External Auditor on the status of its annual audit of the Corporation's annual financial statements, including the External Auditor's findings and the implications of those findings; and
- (p) discuss with the External Auditor (i) whether its reports to Management on errors detected by the External Auditor in the course of an audit or other audit findings suggest weaknesses or deficiencies in Internal Financial Controls, and (ii) whether, in the opinion of the External Auditor, Management has appropriately addressed any such errors or other audit findings;

**B. Audited Financial Statements.** for the purpose of gaining reasonable assurance as to whether each audited financial statement of the Corporation presents fairly, in all material respects, the financial position of the Corporation, the results of its operations and its cash flows in accordance with IFRS,

- (a) review with Management and the External Auditor the comparative financial statements of the Corporation relating separately to each financial year of the Corporation (the "Current Year") and the financial year of the Corporation next preceding the Current Year (the "Preceding Year");
- (b) assess the reasonableness, and the effect upon the Corporation's financial position and the results of the Corporation's operations, of
  - (i) each significant estimate, accrual, reserve and provision employed by Management in preparing the comparative financial statements of the Corporation for the Current Year (the "Current Annual Statement"), as well as all changes to each significant estimate, accrual, reserve and provision made since the end of the third quarter of the Current Year, and
  - (ii) the aggregate amount of all estimates, accruals, reserves and provisions employed by Management in preparing the Current Annual Statement, as well as the change (if any) in such aggregate amount made since the end of the third quarter of the Current Year;
- (c) review all unresolved items identified by the External Auditor in conducting its audit of the Current Annual Statement;
- (d) obtain the written opinion of the External Auditor as to whether:
  - (i) any of the accounting principles, policies, practices or methods employed by Management in preparing the Corporation's financial statements for the Preceding Year were significantly changed or augmented in preparing the Current Annual Statement,
  - (ii) the Current Annual Statement is materially different from that which the External Auditor would have expected from reviewing the Corporation's quarterly financial statements for the Current Year,
  - (iii) the accounting principles, policies and disclosure practices employed in preparing the Current Annual Statement are materially different from the accounting principles,

- policies and disclosure practices generally employed by others engaged in the industries or businesses in which the Corporation is engaged,
- (iv) any of the accounting policies, practices, estimates, judgments or disclosure practices employed in preparing the Current Annual Statement could be described as “aggressive”, “inadequate” or “not the most appropriate”,
  - (v) in the Current Annual Statement, any immaterial items are treated in a manner which would have to be changed if such items became material in future years, or
  - (vi) there is any accounting principle, policy, practice, estimate, judgment or disclosure practice employed in preparing the Current Annual Statement which is not in accordance with IFRS but the use of which is justified on the basis of immateriality;
- (e) obtain a written report from the External Auditor comparing (i) the extent of the External Auditor’s reliance on Internal Financial Controls in auditing the Current Annual Statement to (ii) the extent of the External Auditor’s reliance on Internal Financial Controls in auditing the Preceding Year’s financial statements;
  - (f) review at least annually with Management, the External Auditor and the Corporation’s legal counsel all legal claims or other contingencies affecting the Corporation to gain reasonable assurance that all such claims and contingencies which could have a material effect on the financial position or results of operations of the Corporation have been disclosed (if appropriate) in the Current Annual Statement;
  - (g) review with Management and the External Auditor the annual financial statements of the Corporation’s significant subsidiaries; and
  - (h) obtain from Management a representation letter addressed to the Committee relating to the Current Annual Statement comparable in content to the representation letter provided by Management to the External Auditor relating to the Current Annual Statement;

**C. Interim Financial Statements.** for the purpose for gaining reasonable assurance as to whether each interim financial statement of the Corporation presents fairly, in all material respects, the financial position of the Corporation, the results of its operations and its cash flows in accordance with IFRS,

- (a) review with Management and the External Auditor the comparative interim financial statement of the Corporation relating separately to each of the three-month, six-month and nine-month periods of the Current Year and the Preceding Year;
- (b) assess the reasonableness, and the effect upon the Corporation’s financial position and the results of the Corporation’s operations, of
  - (i) each significant estimate, accrual, reserve and provision employed by Management in preparing each comparative interim financial statement specified in subparagraph (a) above (the “Current Quarterly Statement”), as well as all changes to each significant estimate, accrual, reserve and provision made at or since the beginning of the period to which the Current Quarterly Statement relates (the “Current Quarter”), and
  - (ii) the aggregate amount of all estimates, accruals, reserves and provisions employed by Management in preparing the Current Quarterly Statement, as well as the change (if any) in such aggregate amount made at or since the beginning of the Current Quarter;
- (c) review all unresolved items identified by the External Auditor in preparing its report on the Current Quarterly Statement;
- (d) obtain a written report from the External Auditor as to whether it is aware of any material modification that needs to be made for the Current Quarterly Statement to be in accordance with IFRS; and

- (e) obtain a written report of the External Auditor as to whether the External Auditor, in the course of reviewing the Current Quarterly Statement, became aware that
  - (i) any of the accounting principles, policies, practices or methods employed by Management in preparing the Corporation's financial statements for the financial accounting period ended immediately prior to the beginning of the Current Quarter were significantly changed or augmented in preparing the Current Quarterly Statement,
  - (xxxv) the Current Quarterly Statement is materially different from that which the External Auditor would have expected from reviewing the Corporations' financial statements for the earlier financial quarters (if any) falling within the financial year of the Corporation encompassing the Current Quarter,
  - (iii) the accounting principles, policies, and disclosure practices employed in preparing the Current Quarterly Statement are materially different from the accounting principles, policies and disclosure practices generally employed by others engaged in the industries or businesses in which the Corporation is engaged,
  - iv) any of the accounting principles, policies, practices, estimates, judgments or disclosure practices employed in preparing the Current Quarterly Statement could be described as "aggressive", "inadequate" or "not the most appropriate",
  - v) in the Current Quarterly Statement, any immaterial items are treated in a manner which would have to be changed if such items became material in a future financial accounting period, or
  - vi) there is any accounting principle, policy, practice, estimate, judgment or disclosure practice employed in preparing the Current Quarterly Statement which is not in accordance with IFRS but the use of which is justified on the basis of immateriality;

**D. Financial Statements and MD&A.** for the purpose of gaining reasonable assurance that each Current Annual Statement and each Current Quarterly Statement (a "Current Financial Statement"), the related Management's Discussion & Analysis (as defined in *National Instrument 51-102 – Continuous Disclosure Obligations*) ("MD&A") and any related press releases have been made up and certified as required by the laws, regulations, rules, policies and other requirements relating to financial reporting and disclosure (collectively the "Financial Reporting Rules") promulgated by governments, securities commissions, stock exchanges and other agencies and instrumentalities having jurisdiction over the Corporation (collectively the "Regulators"),

- (a) require Management (with the assistance of the Corporation's general legal counsel and the External Auditor) to provide to the Committee (1) a written report setting out the applicable Financial Reporting Rules, and (2) prompt written updates to that report describing any proposed or actual change to the applicable Financial Reporting Rules;
- (b) before the Corporation publicly discloses such information, review each Current Financial Statement, the related MD&A and any related press releases with Management and the External Auditor in light of the written report (as updated from time to time) referred to in subsection (a) above;
- (c) review each MD&A to gain reasonable assurance that the statements and disclosures made therein are consistent with the Committee's knowledge of the Corporation's operations, financial condition and performance;

- (d) obtain from the External Auditor a report on (i) whether the financial information included in each MD&A is consistent with the related Current Financial Statement, and (ii) whether the selection or presentation of that financial information in such MD&A could reasonably be expected to cause a reader to misinterpret the Corporation's financial condition or performance;
  - (e) obtain from Management at least annually a list of the most important performance measures or indicators that Management uses to manage the Corporation's business and assess the Corporation's performance; and
  - (f) gain reasonable assurance that such performance measures and indicators are presented fairly in each MD&A;
- E. External Auditor's Report.** for the purpose of gaining reasonable assurance that each Current Annual Statement is accompanied by a report thereon prepared by the External Auditor in accordance with the Financial Reporting Rules (the "Required Report"),
- (a) require Management (with the assistance of the Corporation's general legal counsel and the External Auditor) to provide to the Committee (1) a written report specifying all of the contents and characteristics of a Required Report, and (2) prompt written updates to that report describing any proposed or actual changes to the content or characteristics of a Required Report; and
  - (b) review each Required Report with Management and the External Auditor in light of the written report (as updated from time to time) referred to in subsection (a) above;
- F. Independence of External Auditor.** for the purpose of gaining and maintaining reasonable assurance that an existing or proposed External Auditor (an "Auditor") is objective and independent,
- (a) obtain annually from the Auditor a written opinion of the Auditor that it is objective within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Ontario;
  - (b) obtain annually from the Auditor a written report of the Auditor listing in detail
    - (i) all fees paid by the Corporation or any affiliate of the Corporation to the Auditor or any affiliate of the Auditor in the last financial year of the Corporation ended prior to the date of such report, and
    - (ii) all relationships of any kind which existed between the Auditor or any affiliate of the Auditor and the Corporation or any affiliate of the Corporation at any time in the last financial year of the Corporation ended prior to the date of such report; and
  - (c) obtain annually from the External Auditor an acknowledgement in writing that the Board and the Committee, and not Management, are the External Auditor's clients;
- G. Filing and Sending Financial Statement and MD&A.** for the purpose of gaining reasonable assurance that each Current Financial Statement and the related MD&A are filed with all Regulators and sent to holders of the Corporation's securities (including each shareholder of the Corporation) in compliance with the Financial Reporting Rules, prior to the date specified by the Financial Reporting Rules by which the Current Financial Statement and the related MD&A must be so filed and sent, obtain from Management written assurance that the Current Financial Statement and the related MD&A have been so filed and sent;
- H. Dissemination of Financial and Material Information.** for the purpose of gaining reasonable assurance (1) that where a material change (as defined in the Financial Reporting Rules) occurs in

the affairs of the Corporation, the Corporation (A) forthwith issues a news release authorized by a member of Management disclosing the nature and substance of the material change (a “Material Change News Release”), and (B) files a report of such material change (a “Material Change Report”) as soon as practicable (and in any event within ten days of the date on which the material change occurs), all in compliance with the Financial Reporting Rules, and (2) that all material information concerning the Corporation which is disseminated to the public by or on behalf of the Corporation is accurate, complete and fairly presented,

- (a) prior to the date specified by the Financial Reporting Rules by which any such Material Change News Release and any such Material Change Report must be issued and filed, obtain from Management written assurance that such Material Change News Release and Material Change Report have been so issued and filed;
  - (b) review with Management and, if the Committee so desires, with the External Auditor, all news releases and reports proposed to be issued or filed by the Corporation which contain significant financial information concerning the Corporation, including all news releases and reports concerning a Current Financial Statement; in circumstances where events render it impractical for the Committee to review such news releases or reports with Management prior to issuing or filing such news releases or reports, authority to review and approve such news releases or reports may be exercised by the Committee Chair and the Board Chair, acting together;
  - (c) review with Management and, if the Committee so desires, with the External Auditor, all prospectuses, Material Change News Releases, Material Change Reports, MD&A, annual information forms and other core documents (as defined under applicable securities laws);
  - (d) periodically assess the adequacy of the Corporation’s procedures, resources, systems and tasks for the review of (i) the Corporation’s public disclosure of financial information extracted or derived from the Corporation’s financial statements, (ii) presentations or other documents used or intended for use with investors, analysts or other members of the investment community, and (iii) all other information that is generally disseminated by the Corporation and its subsidiaries, including non-material news releases and information published on the website(s) of the Corporation and its subsidiaries;
- I. Tax and Statutory Remittance Obligations.** for the purpose of gaining and maintaining reasonable assurance that the Corporation is in compliance with its obligations under tax, employment and similar laws and regulations relating to the collection and remittance of taxes and other statutory amounts, obtain quarterly reports from Management as to such compliance;
- J. Non-Audit Services.** pre-approve all non-audit services proposed to be provided to the Corporation or to any of its subsidiaries by the External Auditor; prior to the Committee pre-approving any non-audit services proposed to be provided to the Corporation or to any of its subsidiaries by the External Auditor, gain reasonable assurance that the provision of such services by the External Auditor could not reasonably be expected to impair the objectivity or independence of the External Auditor; for purposes of this Charter,
- (a) “audit services” means the professional services rendered by the External Auditor for the audit and review of the Corporation’s financial statements or services that are normally provided by the External Auditor in connection with statutory and regulatory filings or engagements, and
  - (b) “non-audit services” means services other than audit services;

**K. Hiring from External Auditor.** review and approve the Corporation's hiring policies regarding partners, employees, former partners and former employees of the present and former External Auditor;

**L. Complaint Processes.** establish procedures for

- (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, Internal Financial Controls, Disclosure Controls, Financial Reporting Rules or auditing matters,
- (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters, and
- (c) the reporting to the Committee of all such complaints and submissions;

**M. Recommendation of Auditor.** recommend to the Board

- (a) a proposed External Auditor to be nominated by the Board for appointment as the External Auditor by the holders of common shares of the Corporation, and
- (b) the compensation of the External Auditor ;

**N. Oversight of Financial Risks.** for the purpose of gaining and maintaining reasonable assurance that Management is directly and effectively assessing, monitoring and managing Financial Risks,

- (a) prior to the Board's approval of each MD&A, obtain from Management a report containing Management's assessment of the principal risks to the Corporation's business and identifying which of such risks are principal Financial Risks;
- (b) at least semi-annually, obtain from Management a report specifying the process by which Management is assessing, monitoring and managing Financial Risks;
- (c) review all reports of the External Auditor with respect to any weaknesses or deficiencies in Internal Controls relating to Financial Risks, and review the adequacy and appropriateness of Management's responses to recommendations relating to any such weaknesses or deficiencies made by the External Auditor, including Management's implementation of such recommendations;
- (d) gain reasonable assurance that the principal Financial Risks are fairly presented in each MD&A and in the Corporation's Annual Information Form; and
- (e) prepare and present annually to the Board a report of the Committee setting out the Committee's conclusions resulting from the Committee's oversight of Management's assessment, monitoring and management of Financial Risks;

**O. Financial Resources, Assets and Obligations.** for the purpose of gaining and maintaining reasonable assurance that Management is effectively managing the financial resources, assets and obligations of the Corporation,

- (a) at least annually review the Corporation's financing strategy, capital structure, annual cash flow targets and operating plans;
- (b) obtain quarterly from Management reports on the Corporation's cash flow and working capital management, compliance with debt covenants and other matters that could impact the financial condition of the Corporation, and gain reasonable assurance that such

matters are fairly and appropriately disclosed in the Current Financial Statements and/or the related MD&A; and

- (c) satisfy itself that the safeguarding of financial assets and the proper recording of financial assets and obligations are effectively addressed in the certification of Internal Financial Controls by the CEO and the CFO; and
- P. Other Diligent Actions.** perform such other Diligent Actions as the Board may reasonably specify from time to time.