

DISCOVERY AIR

**Interim Condensed Consolidated Financial Statements
April 30, 2016
(Unaudited)**

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

| (thousands of Canadian dollars) | Note | April 30, 2016 | January 31, 2016 |
|---|------|-------------------|---------------------|
| Assets | | | |
| Current assets: | | | |
| Cash | | \$ 729 | \$ 358 |
| Restricted cash | | 19 | 20 |
| Trade and other receivables | | 37,579 | 28,883 |
| Income taxes receivable | | - | 329 |
| Inventory | | 27,140 | 29,232 |
| Prepaid expenses and other | | 13,772 | 15,074 |
| | | 79,239 | 73,896 |
| Property and equipment | | 198,948 | 199,869 |
| Long term receivables | | 1,060 | 1,149 |
| Goodwill | | 37,861 | 37,861 |
| Intangible assets | | 1,344 | 1,363 |
| Investments in associates | | 5,718 | 5,683 |
| | | \$ 324,170 | \$ 319,821 |
| Liabilities and Shareholders' equity | | | |
| Current liabilities: | | | |
| Operating line of credit | 6 | \$ 38,297 | \$ 22,610 |
| Trade and other payables | | 28,076 | 32,207 |
| Income taxes payable | | 95 | - |
| Current portion of loans and borrowings | 5 | 5,834 | 8,181 |
| | | 72,302 | 62,998 |
| Loans and borrowings | 5 | 175,677 | 172,431 |
| Deferred income taxes | | 11,526 | 12,339 |
| | | 187,203 | 184,770 |
| Shareholders equity: | | | |
| Share capital | | 93,713 | 93,713 |
| Contributed surplus | | 12,224 | 12,120 |
| Deficit | | (41,776) | (37,838) |
| Accumulated other comprehensive income | | 504 | 4,058 |
| Total equity | | 64,665 | 72,053 |
| | | \$ 324,170 | \$ 319,821 |

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Loss (Unaudited)

| (thousands of Canadian dollars, except per share amounts) | Note | For the three months ended | |
|---|------|----------------------------|-------------------|
| | | April 30, 2016 | April 30, 2015 |
| Revenue | | \$ 42,245 | \$ 38,789 |
| Expenses | | 37,806 | 36,808 |
| | | 4,439 | 1,981 |
| Depreciation and amortization | | 4,893 | 4,971 |
| Finance costs | | 4,240 | 3,939 |
| Share of profit from associates (net of income tax) | | (35) | (626) |
| Other (gains) and losses | | - | (1,090) |
| | | 9,098 | 7,194 |
| Loss before income taxes | | (4,659) | (5,213) |
| Income tax provision (recovery): | | | |
| Current | | 480 | 122 |
| Deferred | | (1,170) | (1,459) |
| | | (690) | (1,337) |
| Loss from continuing operations | | \$ (3,969) | \$ (3,876) |
| Profit (loss) from discontinued operations, net of tax | 4 | 31 | (578) |
| Loss | | \$ (3,938) | \$ (4,454) |
| Basic and diluted loss per share | | | \$ (0.07) |
| Continuing operations | 7 | \$ (0.05) | \$ (0.06) |
| Discontinued operations | 7 | \$ 0.00 | \$ (0.01) |
| Total Basic and diluted loss per share | 7 | \$ (0.05) | \$ (0.07) |

Interim Condensed Consolidated Statements of Comprehensive Loss

| (thousands of Canadian dollars) | | April 30, 2016 | April 30, 2015 |
|---|--|-------------------|-------------------|
| Loss | | \$ (3,938) | \$ (4,454) |
| Other comprehensive loss: | | | |
| Exchange differences on translation of foreign operations | | (3,554) | (1,425) |
| Total comprehensive Loss | | \$ (7,492) | \$ (5,879) |

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity

(Unaudited)

(thousands of Canadian dollars)

| | Share capital | Contributed surplus | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total equity |
|--|---------------|---------------------|-----------------------------|---|--------------|
| Balance at January 31, 2016 | \$ 93,713 | \$ 12,120 | \$ (37,838) | \$ 4,058 | \$ 72,053 |
| Loss | - | - | (3,938) | - | (3,938) |
| Other comprehensive loss | - | - | - | (3,554) | (3,554) |
| Employee stock options | - | 104 | - | - | 104 |
| Balance at April 30, 2016 | \$ 93,713 | \$ 12,224 | \$ (41,776) | \$ 504 | \$ 64,665 |
| Balance at January 31, 2015 | \$ 83,041 | \$ 11,586 | \$ (21,827) | \$ 2,226 | \$ 75,026 |
| Loss | - | - | (4,454) | - | (4,454) |
| Other comprehensive income (loss) | - | - | 161 | (1,425) | (1,264) |
| Employee stock options | - | 13 | - | - | 13 |
| Initial Rights Offering (net of transaction costs) | 10,672 | - | - | - | 10,672 |
| Balance at April 30, 2015 | \$ 93,713 | \$ 11,599 | \$ (26,120) | \$ 801 | \$ 79,993 |

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

| (thousands of Canadian dollars) | Note | For the three months ended | |
|--|------|----------------------------|----------------|
| | | April 30, 2016 | April 30, 2015 |
| Cash provided by (used in) | | | |
| Operating activities: | | | |
| Loss | | \$ (3,938) | \$ (4,454) |
| Adjustments for: | | | |
| Current tax provision | | 480 | 123 |
| Deferred tax recovery | | (1,159) | (1,754) |
| Finance costs | | 4,305 | 4,511 |
| Total share-based compensation | | 80 | (8) |
| Depreciation and amortization | | 4,893 | 5,090 |
| Share of profit from associates (net of income tax) | | (35) | (626) |
| Other (gains) and losses | | - | (1,095) |
| | | 4,626 | 1,787 |
| Change in non-cash operating working capital | 8 | (10,971) | (10,689) |
| Interest paid | | (1,305) | (891) |
| Net income taxes paid | | (51) | - |
| Net cash used in operating activities | | (7,701) | (9,793) |
| Investing activities: | | | |
| Dividends received | | - | 257 |
| Acquisition of property and equipment | | (6,449) | (7,016) |
| Long term receivable collections | | 79 | 75 |
| Proceeds on disposal of property and equipment | | 100 | 1,111 |
| Net cash used in investing activities | | (6,270) | (5,573) |
| Financing activities: | | | |
| Proceeds from operating line of credit | | 15,688 | 10,643 |
| Loans and borrowings transaction costs | | - | (255) |
| Repayment of loans, borrowings and finance leases | | (2,046) | (6,524) |
| Proceeds from Rights Offering | | - | 11,000 |
| Net cash provided by financing activities | | 13,642 | 14,864 |
| Decrease in cash | | (329) | (502) |
| Effect of exchange rate changes on cash and cash equivalents | | 700 | 225 |
| Cash, balance beginning of period | | 358 | 661 |
| Cash, balance end of period | | \$ 729 | \$ 384 |

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements
(Unaudited)

For the three months ended April 30, 2016 and 2015

1. Reporting entity:

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

2. Basis of preparation:

Statement of compliance:

The Corporation prepares its interim condensed consolidated financial statements in accordance with International Accounting Standard (“**IAS**”) 34, Interim Financial Reporting. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation’s audited annual consolidated financial statements for the year ended January 31, 2016, which were prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”).

3. Significant accounting policies:

(a) These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation’s most recent annual audited consolidated financial statements for the year ended January 31, 2016.

(b) Recently issued standards:

In July 2014, the IASB issued IFRS 9, Financial Instruments (“**IFRS 9**”). IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. IFRS 9 is to be applied retrospectively and is effective for the Corporation for the annual period beginning February 1, 2018, with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers (“**IFRS 15**”). IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively and is effective for the Corporation for the annual period beginning on February 1, 2018, with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

In January 2016, the IASB issued IFRS 16, Leases (“**IFRS 16**”). IFRS 16 replaces IAS 7, Leases. IFRS 16 will require all leases, with the exception of those leases that meet the limited exception criteria, to be presented on the balance sheet. IFRS 16 is effective for the Corporation for the annual period beginning on February 1, 2019 with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

4. Discontinued operations:

During the year ended January 31, 2016, the Corporation sold substantially all the non-financial assets of Discovery Air Technical Services Inc. (“**Technical Services**”), resulting in discontinued operations.

The comparative Interim Condensed Consolidated Statements of Comprehensive Loss has been re-presented to show discontinued operations separately from continuing operations.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
(Unaudited)

For the three months ended April 30, 2016 and 2015

Results of Technical Services discontinued operations are as follows:

| (thousands of Canadian dollars) | April 30, 2016 | April 30, 2015 |
|--|-----------------------|----------------|
| Revenue | \$ 284 | \$ 3,626 |
| Expenses | 178 | 3,812 |
| | 106 | (186) |
| Depreciation | - | 119 |
| Finance costs | 64 | 572 |
| Other (gains) and losses | - | (5) |
| | 64 | 686 |
| Loss before income taxes | 42 | (872) |
| Deferred Income tax expense (recovery) | 11 | (294) |
| | 11 | (294) |
| Profit (loss) | \$ 31 | \$ (578) |

Cash flows from Technical Services discontinued operations are as follows:

| (thousands of Canadian dollars) | April 30, 2016 | April 30, 2015 |
|---|-----------------------|----------------|
| Net cash provided by (used in) operating activities | \$ (585) | \$ 208 |
| Net cash used in investing activities | - | (66) |
| Net cash used in financing activities | - | (29) |
| Net cash flow for the year | \$ (585) | \$ 113 |

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
(Unaudited)

For the three months ended April 30, 2016 and 2015

5. Loans and borrowings:

(thousands of Canadian dollars)

| | Note | April 30, 2016 | January 31, 2016 |
|---|------|-------------------|---------------------|
| 10.00% secured convertible debentures, maturing September 30, 2017 (" Secured Debentures ") | 5(a) | \$ 101,546 | \$ 98,895 |
| 8.375% unsecured convertible debentures, maturing June 30, 2018 (" Unsecured Debentures ") | | 33,658 | 33,573 |
| Long-term secured debt bearing interest at prime rate plus 3.05%, maturing April 1, 2023 | | 15,939 | 16,043 |
| Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019 | 5(b) | 14,135 | 15,302 |
| Long-term secured debt bearing interest of lender's base rate plus 4.00%, maturing October 15, 2017 | 5(c) | 11,334 | 11,716 |
| Short-term unsecured debt bearing a fixed interest rate of 8.00%, maturing September 15, 2016 | 5(d) | 2,300 | 2,300 |
| Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019 | 5(e) | 1,314 | 1,343 |
| Various long-term secured debt bearing fixed and floating interest rates at a weighted average of 0.6% (January 31, 2016 - 1.12%) | | 432 | 457 |
| Finance leases | | 853 | 983 |
| Loans and borrowings | | \$ 181,511 | \$ 180,612 |
| Less current portion of loans and borrowings | | \$ 5,834 | \$ 8,181 |
| | | \$ 175,677 | \$ 172,431 |

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

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

- (b) On March 29, 2016, the \$21.5 million term loan was amended to reduce the scheduled payments to \$0.1 million for the period April 1, 2016 to March 31, 2017, and reduce the minimum fixed charge coverage ratio to 1.00:1.00 through to the quarter ended January 31, 2017.
- (c) On March 29, 2016 the \$20.0 million term loan was amended to reduce payments to \$58,000 plus interest for April 15, 2016 through to March 15, 2017, to increase the interest rate to lender's floating base rate plus 4.00% per annum, and reduce the minimum fixed charge coverage ratio to 1.00:1.00 through to the quarter ended January 31, 2017.
- (d) On June 2, 2015, the Corporation entered into an unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. The loan was to mature on May 15, 2016 and was subsequently extended to September 15, 2016.
- (e) On March 29, 2016, the \$1.6 million term loan was amended to reduce payments to \$11,000 plus interest for April 1, 2016 through to March 1, 2017, and reduce the minimum fixed charge coverage ratio to 1.00:1.00 through to the quarter ended January 31, 2017.

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
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For the three months ended April 30, 2016 and 2015

- (f) The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the value of the security pledged to its lenders in relation to its debt levels. As interest on the Secured Debentures is paid in kind, the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time.

Lenders' consent is required to incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem its capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally. There is no assurance that following the periods covered by the waivers that the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant.

The Corporation was in compliance with all financial and non-financial covenants as at April 30, 2016.

Repayments on or in respect of the outstanding loans and borrowings as at April 30, 2016 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)

| | | |
|----------------|----|---------|
| Within 1 year | \$ | 5,834 |
| Within 2 years | | 115,830 |
| Within 3 years | | 48,288 |
| Within 4 years | | 1,749 |
| Within 5 years | | 1,717 |
| Thereafter | | 8,093 |
| Total | \$ | 181,511 |

Interest expense on or in respect of loans and borrowings for the three months ended April 30, 2016, was \$4.2 million (April 30, 2015 - \$4.1 million).

6. Operating line of credit:

The Operating line of credit ("**Operating Line**") includes an additional \$10.0 million credit facility that is available subject to the lender receiving a letter of credit, or guarantee from Clairvest Group Inc., for 103% of the amount drawn. This additional credit facility matures on May 26, 2016 with an option for the lender to extend it for an additional year. The maturity of the additional credit facility was extended subsequent to April 30, 2016 to June 30, 2017.

As at April 30, 2016, \$1.4 million of the Operating Line was applied to issue letters of credit (January 31, 2016 - \$1.4 million).

On March 30, 2016, the Corporation entered into a \$12.0 million unsecured revolving loan agreement (the "**Revolver**") with certain Clairvest Group Inc. affiliates ("**Clairvest**") maturing December 31, 2016. The loan bears interest of 12% and is payable monthly. Total transaction costs for this facility were \$0.1 million.

As at April 30, 2016, under the Operating Line and the Revolver the Corporation had a combined unused borrowing capacity of \$12.3 million (January 31, 2016 - \$11.0 million).

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
(Unaudited)

For the three months ended April 30, 2016 and 2015

7. Earnings per share:

| (thousands of Canadian dollars, except per share amounts) | For the three months ended | |
|---|----------------------------|-------------------|
| | April 30, 2016 | April 30, 2015 |
| Basic and Diluted loss per share: | | |
| Profit (loss) attributable to shareholders | | |
| Continuing operations | \$ (3,969) | \$ (3,876) |
| Discontinued operations | 31 | (578) |
| Weighted average number of Shares outstanding | 81,997 | 60,143 |
| Basic and Diluted continuing operations loss per share | \$ (0.05) | \$ (0.06) |
| Basic and Diluted discontinued operations loss per share | 0.00 | (0.01) |

For the three months ended April 30, 2016, 15,618,882 (April 30, 2015 – 15,618,882) potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive. Although the Corporation's Class A Share price as at April 30, 2016 and 2015 was below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33, *Earnings per share*, considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

8. Change in non-cash operating working capital:

| (thousands of Canadian dollars) | For the three months ended | |
|---------------------------------|----------------------------|----------------|
| | April 30, 2016 | April 30, 2015 |
| Restricted cash | \$ 1 | \$ (726) |
| Trade and other receivables | (8,723) | (10,036) |
| Inventory | 2,092 | (1,243) |
| Prepaid expenses and other | 1,051 | 696 |
| Trade and other payables | (5,392) | 620 |
| | \$ (10,971) | \$ (10,689) |

9. Fair value of financial assets and liabilities:

(a) Fair value estimation:

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

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

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Notes to the Interim Condensed Consolidated Financial Statements (continued)
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For the three months ended April 30, 2016 and 2015

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

The fair value of the Secured Debentures and Unsecured Debentures as at April 30, 2016 was \$114.2 million (January 31, 2016 - \$112.3 million) as compared to a carrying value of \$135.2 million (January 31, 2016 - \$132.5 million). At April 30, 2016 and January 31, 2016 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

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

10. Related party transactions:

(a) Loans and borrowings:

The Secured Debentures held by Clairvest would represent, on a post-conversion basis, approximately 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the three months ended April 30, 2016 was \$2.3 million (April 30, 2015 - \$2.2 million). The Corporation also incurs a merchant bank fee of \$250,000 per annum, payable to Clairvest Group Inc. on a monthly pro-rata basis.

Clairvest holds the majority of the issued and outstanding Shares of the Corporation.

During the year ended January 31, 2016, the Corporation borrowed on an unsecured commercial terms basis \$2.3 million from Clairvest Group Inc. The loan bears interest at 8% and had a maturity date of May 15, 2016, which was subsequently extended to September 15, 2016.

(b) Transactions with associates:

For the three months ended April 30, 2016, the Corporation's revenues include \$3.8 million (April 30, 2015 - \$3.1 million), and the Corporation's expenses include \$0.8 million (April 30, 2015 - \$0.9 million), from transactions with the Corporation's associates. As at April 30, 2016, \$2.9 million (January 31, 2016 - \$3.9 million) of the Corporation's accounts receivable were due from associates, and \$2.7 million (January 31, 2016 - \$3.0 million) of the Corporation's accounts payable were due to associates. As at April 30, 2016 \$1.0 million (January 31, 2016 - \$1.1 million) of the Corporation's long term receivables were due from associates, and \$0.4 million (January 31, 2016 - \$0.4 million) of the Corporation's loans and borrowings were due to associates.

11. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the three months ended April 30, 2016, the Corporation incurred \$2.6 million (April 30, 2015 - \$4.6 million) in operating lease expenses. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)

| | | |
|----------------|----|--------|
| Within 1 year | \$ | 9,107 |
| Within 2 years | | 3,465 |
| Within 3 years | | 2,817 |
| Within 4 years | | 1,898 |
| Within 5 years | | 1,001 |
| Thereafter | | 1,274 |
| | \$ | 19,562 |

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

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
(Unaudited)

For the three months ended April 30, 2016 and 2015

12. Segmented information:

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

The revenues disclosed in the tables are from external customers. There are inter-segment revenues; however they are eliminated on consolidation. For the three months ended April 30, 2016, there was no elimination of inter-segment revenues (April 30, 2015 Corporate Support and Other inter-segment revenue was \$0.1 million).

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

DISCOVERY AIR INC.

Notes to the Interim Condensed Consolidated Financial Statements (continued)
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For the three months ended April 30, 2016 and 2015

| (thousands of Canadian dollars) | For the three months ended April 30, 2016 | | | For the three months ended April 30, 2015 | | |
|--|--|-----------------------------------|------------|--|-----------------------------------|------------|
| | Aviation | Corporate Support and Other | Total | Aviation | Corporate Support and Other | Total |
| Revenue | \$ 41,623 | \$ 622 | \$ 42,245 | \$ 37,985 | \$ 804 | \$ 38,789 |
| Expenses | 34,799 | 3,007 | 37,806 | 33,800 | 3,008 | 36,808 |
| | 6,824 | (2,385) | 4,439 | 4,185 | (2,204) | 1,981 |
| Depreciation and amortization | 4,696 | 197 | 4,893 | 4,741 | 230 | 4,971 |
| Share of profit from associates (net of income tax) | (35) | - | (35) | (615) | (11) | (626) |
| | 2,163 | (2,582) | (419) | 59 | (2,423) | (2,364) |
| Finance costs | | | 4,240 | | | 3,939 |
| Losses (gains) on equipment | | | - | | | (1,090) |
| Loss before income taxes | | | (4,659) | | | (5,213) |
| Income tax provision (recovery): | | | | | | |
| Current | | | 480 | | | 122 |
| Deferred | | | (1,170) | | | (1,459) |
| | | | (690) | | | (1,337) |
| Loss from continuing operations | | | (3,969) | | | (3,876) |
| Loss from discontinued operations | | | 31 | | | (578) |
| Loss | | | \$ (3,938) | | | \$ (4,454) |
| Segment assets | \$ 320,456 | \$ 3,714 | \$ 324,170 | \$ 313,419 | \$ 15,723 | \$ 329,142 |
| Capital expenditures | \$ 6,418 | \$ 31 | \$ 6,449 | \$ 6,782 | \$ 234 | \$ 7,016 |
| Investments in associates | \$ 5,562 | \$ 156 | \$ 5,718 | \$ 5,067 | \$ 11 | \$ 5,078 |