DISCOVERY AIR

SECOND QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month and Six-Month Period ended July 31, 2017

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the three and six months ended July 31, 2017 should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related notes for the three and six months ended July 31, 2017, and the audited consolidated financial statements and related notes for the year ended January 31, 2017 and the annual MD&A for the year ended January 31, 2017, all of which are available on SEDAR at www.sedar.com.*

*This MD&A includes statements which are forward-looking in nature; please refer to "Forward Looking Statements" below for an explanation of the assumptions, uncertainties and risks associated with these statements. This MD&A also includes a number of defined terms and abbreviations as well as several financial terms, such as "EBITDA" and "EBITDAR", that are not defined by International Financial Reporting Standards ("**IFRS**") but which are considered by the Corporation's management to be important in understanding the Corporation's financial results. Please refer to "Non-IFRS Measures" for explanations of the financial terms that are not defined by IFRS and the section titled "Definitions" for the meaning of all other defined terms and abbreviations.*

Business Profile

Discovery Air, founded in 2004, is a Canadian specialty aviation company. Its subsidiaries provide airborne training to the Canadian and German military, helicopter services, medevac equipped aircraft services, airborne fire services, fixed-wing air charter services, and expediting and logistics support. The Corporation has two reportable segments: Aviation, and Corporate Support and Other.

The Aviation segment includes four subsidiaries. Great Slave Helicopters Ltd. ("**GSH**"), one of the largest helicopter operators in Canada, has bases throughout Canada and South America from which it provides flight services to support mining, oil and gas seismic and exploration work, forest fire suppression, aerial construction and precision external load work, and environmental impact surveys. Air Tindi Ltd. ("**Air Tindi**"), a commercial fixed-wing operator with bases in Yellowknife and Cambridge Bay, utilizes a diversified fleet of fixed-wing aircraft to provide scheduled and charter passenger and cargo services, as well as medevac equipped aircraft services in northern and western Canada. Discovery Air Fire Services Inc. ("**Fire Services**") provided forest fire management and court-related air transport services to the Government of Ontario up to January 31, 2017, when the subsidiary was sold. Discovery Air Defence Services Inc. ("**DA Defence**"), primarily provides airborne training services to the Department of National Defence and the Canadian Forces ("**DND**") and to the German Armed Forces.

The Corporate Support and Other segment consists of certain support functions at Discovery Air (collectively, "**Corporate**") as well as one operating subsidiary, Discovery Mining Services Ltd. ("**Mining Services**"). Corporate support functions include shared services provided by personnel or professional advisors retained by the Corporation, such as finance, treasury, information technology, management, legal and human resources support. Mining Services provides remote exploration camp and expediting, logistics and staking services to a broad spectrum of resource exploration companies.

The Corporation's Unsecured Debentures (as defined below) trade on the Toronto Stock Exchange ("**TSX**") under the symbol "DA.DB.A".

Selected Financial Information

(Unaudited)	Three months ended July 31 (unaudited)			Six months ended July 31 (unaudited)		
(thousands of Canadian dollars, except per share amounts)	2017	2016	% change	2017	2016	% change
Results of operations						
Revenue	**$ 44,753**	$ 53,968	*-17%*	**$ 77,513**	$ 96,497	*-20%*
Expenses	**$ 36,344**	$ 39,935	*-9%*	**$ 70,316**	$ 77,917	*-10%*
Depreciation and amortization	**$ 5,003**	$ 5,608	*-11%*	**$ 9,201**	$ 10,501	*-12%*
Finance costs	**$ 5,477**	$ 5,398	*1%*	**$ 10,829**	$ 9,704	*12%*
Income (loss)	**$ (2,440)**	$ 2,015		**$ (10,764)**	$ (1,923)	
Basic and diluted income (loss) per share	**$ (0.03)**	$ 0.02		**$ (0.13)**	$ (0.02)	
Financial position and liquidity						
Total assets				**$ 313,776**	$ 332,840	*-6%*
Total debt				**$ 180,740**	$ 183,719	*-2%*
Cash provided by (used in) operations	**$ (6,431)**	$ 3,840		**$ (17,139)**	$ (3,861)	
Working Capital*				**$ 63,248**	$ 58,830	*8%*
Key non-IFRS performance measures* (unaudited)						
EBITDAR	**$ 10,111**	$ 16,756	*-40%*	**$ 10,389**	$ 23,433	*-56%*
EBITDA	**$ 8,720**	$ 14,532	*-40%*	**$ 7,580**	$ 19,114	
EBITDA Margin	**19%**	27%		**10%**	20%	

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

Recent Developments

- On August 29, 2017, Alan D. Torrie was appointed the new President and Chief Executive Officer of the Corporation, succeeding Jacob (Koby) Shavit. Mr. Shavit will remain as an advisor to the Corporation, with a focus on Discovery Air Defence growth initiatives.

- During the months of August and September 2017, Air Tindi provided a DHC-7 aircraft to evacuate and return home residents affected by forest fires in Northern Manitoba.

- During the quarter, GSH contributed to the efforts to subdue the wildfires in British Columbia, including the provision of fire suppression services and emergency personnel transportation.

- In July 2017, GSH was awarded a two year contract in Chile with a large telecommunications company to conduct external load and passenger transport work.

- During the quarter, GSH was recognized in Bolivia for exemplary service in assisting with fire suppression activities.

- Air Tindi's DHC-7 fleet achieved a record 505 flight hours in July transporting bulk fuel and freight to remote northern locations.

- On June 5, 2017, DA Defence entered into a $13.0 million convertible revolving credit agreement ("**New Credit Agreement**") with certain Clairvest Group Inc. affiliates ("**Clairvest**"). The loan bears interest at 12% and matures on December 15, 2017.

- On May 26, 2017, the Corporation announced the closing of the definitive agreement, resulting in Clairvest, along with certain management shareholders of the Corporation, holding all of the issued and outstanding shares in the capital of the Corporation by way of a plan of arrangement pursuant to the *Canada Business Corporations Act*. The Corporation's common shares were de-listed from the TSX on May 29, 2017.

Consolidated Results
Three months ended July 31, 2017

Revenue

Quarterly revenues were $44.8 million, a 17% decrease when compared to the three months ended July 31, 2016 (the "**comparative period**"). The Aviation segment had decreased revenue of $9.8 million or 19% from the comparative period with the majority of the decrease related to the sale of Fire Services and reduced airborne training services. Cyclical airborne training flight hours from one period to another typically balance out during the course of the fiscal year. Excluding revenues from Fire Services in the comparative period quarterly revenues decreased 6%.

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 50% of total revenues compared to 67% in the comparative period. The Corporation's revenues from resource-based customers represented 32% of total revenues compared to 19% in the comparative period. The decrease in the government sector is primarily attributable to the sale of Fire Services and a decrease in airborne training during the period.

Expenses

The largest expense items for the Corporation are crew, fleet and parts costs, as well as general and administrative expenses. While there are variable components to these costs, as typical in the aviation industry, a significant portion of these costs are fixed in nature within a given year.

Quarterly expenses were $36.3 million, a 9% decrease from the comparative period. The decrease in quarterly expenses are primarily attributable to reduced flight hours.

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

Quarterly EBITDA was $8.7 million compared to EBITDA of $14.5 million in the comparative period, with the EBITDA decrease largely attributable to decreased revenue and the sale of Fire Services.

EBITDAR in the quarter was $10.1 million compared to $16.8 million in the comparative period. The decreased EBITDAR is a result of decreased EBITDA and decreased aircraft leasing costs.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $5.0 million, an 11% decrease from the comparative period, the decrease is a result of the sale of Fire Services combined with reduced flight hours.

Finance costs were $5.5 million in the quarter, a 1% increase from the comparative period. Non-cash finance charges and interest accretion on loans and borrowings were $3.9 million, compared to $3.1 million in the comparative period. The increase in non-cash finance charges is primarily due to increased interest payable-in-kind (i.e., accrues and is added to the principal amount) related to the DA Defence $25.0 million convertible secured revolving loan agreement ("**Credit Agreement**") with Clairvest and the New Credit Agreement..

The Corporation's quarterly income tax recovery was $0.2 million, compared to a recovery of $1.4 million in the comparative period. The effective tax rate for the quarter was 8% compared with the Corporation's statutory income tax rate of 27% with the variance due to taxable permanent differences and other deferred tax assets for non-capital losses for which the benefit has not been recognized. In the comparative period, the effective income tax rate of 40% was different from the Corporation's statutory income tax rate of 27% for the same reasons.

Earnings

The Corporation recorded a quarterly loss of $2.4 million ($0.03 basic and diluted loss per share) compared to income of $2.0 million ($0.02 basic and diluted earnings per share) in the comparative period.

Six months ended July 31, 2017

Revenue

Year-to-date revenues were $77.5 million, a 20% decrease when compared to the six months ended July 31, 2016 (the “**Year-to-date comparative period**”). The Aviation segment had decreased revenue of $20.2 million or 21% from the Year-to-date comparative period. The majority of the decrease in revenue was related to the sale of Fire Services, cyclical period to period seasonality, which can vary year over year, in airborne training in Canada, and an early conclusion to the fire suppression season in Chile.

The Corporation’s two largest customer sectors are government and natural resource based. Revenues from the government sector represented 55% of total revenues compared to 68% in the Year-to-date comparative period. The Corporation’s revenues from resource-based customers represented 28% of total revenues compared to 19% in the Year-to-date comparative period. The decrease in the government sector is primarily attributable to the sale of Fire Services and a seasonal decrease in airborne training.

Expenses

The largest expense items for the Corporation are crew, fleet and parts costs, as well as general and administrative expenses. While there are variable components to these costs, as typical in the aviation industry, a significant portion of these costs are fixed in nature within a given year.

Year-to-date expenses were $70.3 million, a 10% decrease from the Year-to-date comparative period. The decrease in expenses are primarily attributable to reduced flight hours.

EBITDA and EBITDAR (see “Non-IFRS Measures” below)

Year-to-date EBITDA was $7.6 million compared to EBITDA of $19.1 million in the Year-to-date comparative period, with the EBITDA decrease largely attributable to decreased revenue and the sale of Fire Services.

Year-to-date EBITDAR was $10.4 million compared to $23.4 million in the Year-to-date comparative period. The decreased EBITDAR is a result of decreased EBITDA and decreased aircraft leasing costs.

Depreciation, finance and other expenses

Year-to-date depreciation expense was $9.2 million, a 12% decrease from the Year-to-date comparative period, due to reduced flight hours (as mentioned above).

Year-to-date finance costs were $10.8 million, a 12% increase from the Year-to-date comparative period. Non-cash finance charges and interest accretion on loans and borrowings were $7.5 million, compared to $5.9 million in the comparative period. The increase in non-cash finance charges is primarily due to increased interest payable-in-kind (i.e., accrues and is added to the principal amount) related to the Credit Agreement entered into with Clairvest and the $13.0 million New Credit Agreement.

The Corporation’s quarterly income tax recovery was $2.2 million, compared to a provision of $0.7 million in the Year-to-date comparative period. The effective tax rate for the quarter was 17% compared with the Corporation’s statutory income tax rate of 27% with the variance due to taxable permanent differences and other deferred tax assets for non-capital losses for which the benefit has not been recognized. In the comparative period, the effective income tax rate of 18% was different from the Corporation’s statutory income tax rate of 27% for the same reasons.

Earnings

The Corporation recorded a year-to-date loss of $10.8 million ($0.13 basic and diluted loss per share) compared to a loss of $1.9 million ($0.02 basic and diluted loss per share) in the Year-to-date comparative period.

Aviation Segment

(thousands of Canadian dollars)	Three months ended July 31 (unaudited)			For the six months ended July 31 (unaudited)		
	2017	2016	*% Change*	**2017**	2016	*% Change*
Revenue	**$ 42,715**	$ 52,529	*-19%*	**$ 73,995**	$ 94,153	*-21%*
Expenses	**32,792**	36,526	*-10%*	**63,667**	71,324	*-11%*
Share of profit from associates	**(297)**	(345)	*-14%*	**(368)**	(380)	*-3%*
EBITDA	**$ 10,220**	$ 16,348	*-37%*	**$ 10,696**	$ 23,209	*-54%*
Aircraft lease expense	**1,391**	2,224	*-37%*	**2,809**	4,319	*-35%*
EBITDAR	**$ 11,611**	$ 18,572	*-37%*	**$ 13,505**	$ 27,528	*-51%*
Capital expenditures	**$ 3,893**	$ 3,110	*25%*	**$ 7,529**	$ 9,528	*-21%*

	As at July 31 (unaudited)		
	2017	2016	*% Change*
Total assets	**$ 308,653**	$ 327,632	*-6%*
Goodwill	**$ 37,861**	$ 37,861	*0%*
Intangible assets	**$ 1,348**	$ 1,369	*-2%*

Three months ended July 31, 2017

The Aviation segment's quarterly revenues were $42.7 million on 14,200 flight hours, compared to revenue of $52.5 million on 17,000 flight hours in the comparative period. The decrease in revenue is mainly attributable to the sale of Fire Services and decrease in airborne training services. Excluding revenues from Fire Services in the comparative period, current quarter revenues decreased 7% when compared to the comparative period.

In April 2017, DA Defence was advised of a decision by Transport Canada to suspend its Special Certificates of Airworthiness. The decision was in connection with Transport Canada's implementation of a new airworthiness policy for the oversight of ex-military aircraft; and resulted in a short-term grounding of DA Defence's aircraft. Transport Canada shortly thereafter authorized DA Defence to resume flight operations under flight permits as DA Defence transitions back to certificates of airworthiness under the new policy. It has recently been recognized that the planned transition period will take longer than originally anticipated and therefore will require that new Flight Permits be issued in order to allow DA Defence and some of its repair and overhaul network to transition to the new airworthiness policy. DA Defence chose to temporarily suspend operations to facilitate the issuance of new Flight Permits. The Corporation anticipates the resumption of aircraft flight operations in the near future. Some customer taskings have been deferred or delayed during the period in which aircraft have not been flying and, while there can be no assurances, the Corporation expects to make up the majority of the impacted flight hours over the balance of the current fiscal year.

Aviation segment quarterly expenses were $32.8 million in the current quarter compared to $36.5 million in the comparative period. The 10% decrease in expenses is mainly attributable to the sale of Fire Services, reduced flight hours and cost containment initiatives.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $15.8 million, compared to $17.1 million in the comparative period.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $9.2 million, compared to $10.2 million in the comparative period. The Corporation's fuel costs are typically recovered from customers and recorded as revenue with the exception of non-contracted ferrying costs or training-related costs.

General and administrative expenses primarily consist of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. General and administrative expenses were $4.7 million in the quarter, compared to $6.0 million in the comparative period. The reduction in general and administrative costs was driven by cost efficiency measures.

The share of profit from associates were comparable to the comparative period at $0.3 million.

The segment's EBITDA was $10.2 million compared to EBITDA of $16.3 million in the comparative period, with the decrease in EBITDA attributable to decreased flight hours and the sale of Fire Services partially offset by reduced expenses as outlined above. EBITDAR was $11.6 million compared to an EBITDAR of $18.6 million in the comparative period. The decrease in EBITDAR is primarily due to reduced EBITDA coupled with decreased aircraft leasing expenses as outlined above.

Depreciation expense in the current quarter was $4.8 million (or 11% of revenues) compared to $5.4 million (or 10% of revenues) in the comparative period.

Six months ended July 31, 2017

The Aviation segment's year-to-date revenues were $74.0 million on 23,400 flight hours, compared to revenue of $94.2 million on 28,100 flight hours in the Year-to-date comparative period. The decrease in revenue is mainly attributable the sale of Fire Services, decreased flight hours in airborne training in Canada, and reduced fire suppression activity in South America in the earlier part of the year.

Aviation segment year-to-date expenses were $63.7 million compared to $71.3 million in the Year-to-date comparative period. The 11% decrease in expenses is mainly attributable to the sale of Fire Services, reduced flight hours and cost containment initiatives.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, were $31.7 million year-to-date, compared to $32.5 million in the Year-to-date comparative period.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, were $17.6 million year-to-date, compared to $20.4 million in the Year-to-date comparative period. The Corporation's fuel costs are typically recovered from customers and recorded as revenue with the exception of non-contracted ferrying costs or training-related costs.

General and administrative expenses primarily consist of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. General and administrative expenses were $9.1 million year-to-date, compared to $12.5 million in the Year-to-date comparative period. The reduction in general and administrative costs was driven by the sale of Fire Services and cost efficiency measures.

The share of profit from associates were comparable to the Year-to-date comparative period at $0.3 million.

The segment's EBITDA was $10.7 million compared to EBITDA of $23.2 million in the Year-to-date comparative period, with the decrease in EBITDA attributable to decreased flight hours and the sale of Fire Services partially offset by reduced expenses as outlined above. EBITDAR was $13.5 million compared to an EBITDAR of $27.5 million in the Year-to-date comparative period. The decrease in EBITDAR is primarily due to reduced EBITDA coupled with decreased aircraft leasing expenses as outlined above.

Depreciation expense in the current quarter was $8.8 million (or 12% of revenues) compared to $10.1 million (or 11% of revenues) in the comparative period.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended July 31 (unaudited)			Six months ended July 31 (unaudited)		
	2017	2016	*% Change*	**2017**	2016	*% Change*
Revenue	**$ 2,038**	$ 1,439	*42%*	**$ 3,518**	**$ 2,344**	*50%*
Expenses	**3,552**	3,409	*4%*	**6,649**	**6,593**	*1%*
Share of profit from associates	**(14)**	(154)		**(15)**	**(154)**	
EBITDA	**$ (1,500)**	$ (1,816)	*17%*	**$ (3,116)**	**$ (4,095)**	*24%*
Capital expenditures	**$ 57**	$ 83	*-31%*	**$ 106**	**$ 114**	*-7%*

	As at July 31 (unaudited)		
	2017	2016	*% Change*
Total assets	**$ 5,123**	$ 5,208	*-2%*

Three months ended July 31, 2017

Corporate Support and Other revenues were $2.0 million in the quarter compared to $1.4 million in the comparative period. The 42% increase in revenue reflects increased revenue from Mining Services.

The segment incurred expenses totaling $3.6 million compared to $3.4 million in the comparative period, an increase of 4%. The increase is primarily attributable to increased expenses to service new customers at Mining Services partially offset by cost containment initiatives in corporate support functions.

The segment reported an EBITDA loss of $1.5 million in the quarter, compared to an EBITDA loss of $1.8 million in the comparative period. The reduction in EBITDA loss was due to increased revenue from Mining Services, as well as cost reductions in corporate support functions.

Six months ended July 31, 2017

Corporate Support and Other revenues were $3.5 million compared to $2.3 million in the Year-to-date comparative period. The 50% increase in revenue reflects increased revenue from Mining Services.

The segment incurred expenses totaling $6.6 million, an increase of 1% from the Year-to-date comparative period. The increase is primarily attributable to increased expenses to service new customers at Mining Services partially offset by cost containment initiatives in corporate support functions.

The segment reported an EBITDA loss of $3.1 million year-to-date, compared to an EBITDA loss of $4.1 million in the Year-to-date comparative period. The reduction in EBITDA loss was due to increased revenue from Mining Services, as well as cost reductions in corporate support functions.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	Six months ended July 31 (unaudited)	
(thousands of Canadian dollars)	**2017**	2016
Operating activities	**$ (17,139)**	$ (3,861)
Investing activities	**(5,822)**	(9,340)
Financing activities	**22,607**	12,921
Exchange gain on cash held in foreign currency	**232**	388
Net increase (decrease) in cash for the period	**$ (122)**	$ 108

Operating Activities

Cash used by operating activities for the six months ended July 31, 2017 was $17.1 million, a $13.3 million increase over the comparative period. The variance was largely attributable to an $11.5 million decrease in EBITDA and a $2.4 million increase in the use of working capital, partially offset by a $0.5 million decrease in interest paid.

Working Capital

As at July 31, 2017 the Corporation had Working Capital (defined below) of $63.2 million, compared to $47.8 million at January 31, 2017. The current ratio of Working Capital was 3.3 as at July 31, 2017, 2.9 as at January 31, 2017 and 3.0 as at July 31, 2016.

The increase in Working Capital from January 31, 2017 is attributable to increased trade and other receivables and increased prepaid expenses which is typical for the Corporation in its peak season.

There are no significant commitments for any expenditure that would significantly change the Corporation's working capital requirements for existing operations. Each significant, non-maintenance related capital expenditure for these operations is assessed to obtain reasonable assurance that the capital expenditure will at least be matched by projected revenues or cost savings generated by the expenditure.

Investing Activities

Net cash outlays for investing activities was $5.8 million compared to $9.3 million in the comparative period. Capital expenditures of $7.6 million (net of financing) were mainly comprised of net cash outlays of $2.6 million for DA Defence growth initiatives, and $5.0 million for sustaining capital expenditures and aircraft overhaul costs. The comparative period's capital expenditures of $9.6 million were comprised of $4.6 million in growth initiatives, and $5.0 million for sustaining capital expenditures and aircraft overhaul costs.

Total asset divestitures of $1.6 million was primarily due to the disposal two aircraft and an aircraft exchange at GSH. The comparative period asset divestitures included the disposal of aircraft parts for proceeds of $0.1 million.

Financing Activities

As at July 31, 2017, the Corporation had unused borrowing capacity of $14.0 million to fund its operating requirements. Consistent with the seasonal nature of its business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased working capital. These draws are typically reduced during the second half of the fiscal year.

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

On December 20, 2016, DA Defence entered into the $25.0 million Credit Agreement with Clairvest. The loan bears interest at 12% and the lender agreed to extend the maturity date to December 15, 2017. Prior to the maturity date, the Corporation expects the Credit Agreement to be extended at similar terms and conditions, or that it will be converted it into DA Defence common shares, as per the terms of the agreement.

On June 5, 2017, DA Defence entered into the $13.0 million New Credit Agreement with Clairvest. The loan bears interest of 12% and matures on December 15, 2017. Prior to the maturity date, the Corporation expects the New Credit Agreement to be extended at similar terms and conditions, or that it will be converted it into DA Defence common shares, as per the terms of the agreement.

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

During the six months ended July 31, 2017, the Corporation made scheduled term debt repayments of $2.7 million. In the comparative period, the Corporation made debt repayments of $2.9 million.

On March 22, 2017, $4.7 million of the Secured Debenture accrued interest that was payable-in-kind was added to the adjusted principal amount. As at July 31, 2017, the loan balance included accrued interest of $3.8 million (January 31, 2017 - $3.3 million). The maturity date of the Secured Debentures was extended to May 5, 2018. The Secured Debenture holders have provided loan covenant amendments from July 31, 2017 through to July 31, 2018 on terms acceptable to the Corporation. In the event the Corporation requires additional amendments in the future, the Corporation expects to obtain amendments as needed.

On June 2, 2015, the Corporation entered into a $2.3 million unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. In September 2017, the maturity was extended to October 15, 2017, and the loan bears interest at 8% per annum.

The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, (iii) the value of the security pledged to its lenders in relation to its debt levels, and (iv) its continued ability to obtain waivers or amendments in the event of non-compliance with its covenants in the future. As interest on the Secured Debentures is payable-in-kind (i.e. accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the Pledged Asset Ratio Covenant increases over time. Lenders' consent is required to incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem its capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally. There can be no assurance that following the periods covered by the amendments, the Corporation will be able to remain in compliance with its financial covenants.

As of July 31, 2017, $148.6 million of debt matures within twelve months. The majority of the debt is held by the Corporation's majority shareholder. The Corporation is currently considering various refinancing options including renewing, extending, or otherwise satisfying these lender obligations. The success of the Corporation's refinancing plan is dependent on several factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the outcome of the Corporation's discussions with its majority shareholder and other relevant lenders. While the Corporation has been successful with this process in the past, there is no assurance that the Corporation's refinancing plan will be successful in the future.

The Corporation was in compliance with all financial and non-financial covenants as at July 31, 2017. In June 2017, certain lenders have provided loan covenant amendments from July 31, 2017 through to January 31, 2018. In the event the Corporation requires additional amendments in the future, the Corporation expects to obtain amendments as needed. However, no assurances can be provided that additional amendments can be obtained.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 11 of the Corporation's interim condensed consolidated financial statements for the three and six months ended July 31, 2017 and 2016.

Shareholders' Equity

At July 31, 2017, there were 79,286,721 Class A Shares and 2,710,754 Class B Shares outstanding. At the same date, there were 7,761,108 stock options outstanding. During the three and six months ended July 31, 2017, 105,935 stock options expired or were otherwise terminated in accordance with their terms.

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2017, which can be found on SEDAR at www.sedar.com.

Related Party Transactions

The Secured Debentures held by Clairvest would represent, on a post-conversion basis, approximately 9% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the three and six months ended July 31, 2017 was $2.6 million and $5.2 million (three and six months ended July 31, 2016 - $2.6 million and $4.9 million), respectively. In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest Group Inc. on a monthly pro-rata basis.

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

During the year ended January 31, 2016, the Corporation borrowed on an unsecured commercial terms basis $2.3 million from Clairvest Group Inc. The loan bears interest at 8% with a maturity date of September 15, 2017.

On December 20, 2016, DA Defence entered into the $25.0 million Credit Agreement and on June 5, 2017, DA Defence entered into the $13.0 million New Credit Agreement, with Clairvest. Both loans bear interest at 12% and mature on December 15, 2017.

For the three and six months ended July 31, 2017, the Corporation's revenues include $5.9 million and $8.4 million (three and six months ended July 31, 2016 - $3.4 million and $7.2 million), respectively, and the Corporation's expenses include $0.6 million and $1.4 million (three and six months ended July 31, 2016 - $1.1 million and $1.9 million), respectively, from transactions with the Corporation's associates. As at July 31, 2017, $4.2 million (January 31, 2017 - $2.5 million) of the Corporation's accounts receivable were due from associates, and $0.9 million (January 31, 2017 - $0.5 million) of the Corporation's accounts payable were due to associates. As at July 31, 2017, $0.6 million (January 31, 2017 - $0.8 million) of the Corporation's long term receivables were due from associates, and $0.4 million (January 31, 2017 - $0.4 million) of the Corporation's loans and borrowings were due to associates.

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Some of those risks and uncertainties are described in this MD&A and are supplemented by risks and uncertainties described in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2017, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 13, 2017, both of which can be found on SEDAR at www.sedar.com.

The Corporation reported operating losses for the three and six months ended July 31, 2017, and has $148.6 million of loans and borrowings and $59.4 million of operating lines coming due in the next twelve months. The Corporation is working towards renewing, extending or refinancing its obligations. Although management expects to renew the loans and borrowings and operating lines on similar terms and conditions prior to their current due dates, there can be no assurance that the loans or operating lines will be extended or renewed or that future loans will be available in an amount sufficient to meet the Corporation's financing requirements at that time. The ability to obtain renewals from its lenders or replacement financing results in a material uncertainty that may cast significant doubt upon the Corporation's ability to realize its assets and discharge its liabilities in the normal course of business.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the unaudited interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporation's financial condition and results. There have been no changes to the Corporation's significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2017, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

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

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"). IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. The Corporation expects to apply IFRS 15 retrospectively and it is effective for annual periods beginning on or after January 1, 2018. The Corporation does not anticipate that IFRS 15 will have a significant impact on the recognition and measurement of revenue from contracts with customers. The Corporation continues to assess the impact of adopting this standard.

In January 2016, the IASB issued IFRS 16, Leases ("**IFRS 16**"). IFRS 16 replaces IAS 17, Leases. IFRS 16 will require all leases, with the exception of those leases that meet the limited exception criteria, to be capitalized with a corresponding lease liability while the lease expense will be replaced by the amortization of the right to use the related assets and interest accretion expense from the liabilities recorded. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted. The Corporation anticipates that IFRS 16 will have a significant impact on the presentation and classification of leases in the Corporation's financial statements when adopted. The Corporation continues to assess the impact of adopting this standard.

NON-IFRS MEASURES

Management believes "**EBITDA**" to be an important metric in measuring the performance of the Corporation's day-to-day operations. This measurement is useful in assessing the Corporation's ability to service debt and to meet other payment obligations, and as a basis for valuation. "**EBITDAR**" is a measure commonly used in the aviation industry to evaluate results by excluding differences in the method by which companies finance and lease aircraft.

The following is a reconciliation of EBITDA and EBITDAR to net profit (loss):

	Three months ended July 31		**Six months ended July 31**	
	(unaudited)		**(unaudited)**	
(thousands of Canadian dollars)	**2017**	2016	**2017**	2016
Income (loss)	**$ (2,440)**	$ 2,015	**$ (10,764)**	$ (1,923)
Income tax provision (recovery)	**(219)**	1,358	**(2,150)**	679
Finance costs	**5,477**	5,398	**10,829**	9,704
Depreciation and amortization	**5,003**	5,608	**9,201**	10,501
Other (gains) and losses	**899**	153	**464**	153
EBITDA	**$ 8,720**	$ 14,532	**$ 7,580**	$ 19,114
Aircraft lease expenses	**1,391**	2,224	**2,809**	4,319
EBITDAR	**$ 10,111**	$ 16,756	**$ 10,389**	$ 23,433

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	**Three months ended July 31, 2017**			Three months ended July 31, 2016		
	(unaudited)			(unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 42,715**	**$ 2,038**	**$ 44,753**	$ 52,529	$ 1,439	$ 53,968
Expenses	**32,792**	**3,552**	**36,344**	36,526	3,409	39,935
Share of profit from associates	**(297)**	**(14)**	**(311)**	(345)	(154)	(499)
EBITDA	**$ 10,220**	**$ (1,500)**	**$ 8,720**	$ 16,348	$ (1,816)	$ 14,532
Aircraft lease expenses	**1,391**	**-**	**1,391**	2,224	-	2,224
EBITDAR	**$ 11,611**	**$ (1,500)**	**$ 10,111**	$ 18,572	$ (1,816)	$ 16,756

(thousands of Canadian dollars)	**Six months ended July 31, 2017**			Six months ended July 31, 2016		
	(unaudited)			(unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 73,995**	**$ 3,518**	**$ 77,513**	$ 94,153	$ 2,344	$ 96,497
Expenses	**63,667**	**6,649**	**70,316**	71,324	6,593	77,917
Share of profit from associates	**(368)**	**(15)**	**(383)**	(380)	(154)	(534)
EBITDA	**$ 10,696**	**$ (3,116)**	**$ 7,580**	$ 23,209	$ (4,095)	$ 19,114
Aircraft lease expenses	**2,809**	**-**	**2,809**	4,319	-	4,319
EBITDAR	**$ 13,505**	**$ (3,116)**	**$ 10,389**	$ 27,528	$ (4,095)	$ 23,433

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)								
	(unaudited)							
	Jul-17	Apr-17	Jan-17	Oct-16	Jul-16	Apr-16	Jan-16	Oct-15
Results of operations:								
Total Revenue	**$ 44,753**	$ 32,760	$ 31,957	$ 42,919	$ 53,968	$ 42,529	$ 35,636	$ 59,989
EBITDA*	**$ 8,720**	$ (1,140)	$ (3,399)	$ 6,219	$ 14,532	$ 4,580	$ (5,884)	$ 13,716
Cash from (used in) operations	**$ (6,431)**	$ (10,708)	$ (3,770)	$ 10,188	$ 3,840	$ (7,701)	$ 12,738	$ 6,469
Income (loss) attributable to shareholders of Discovery Air	**$ (2,440)**	$ (8,324)	$ (12,238)	$ (3,885)	$ 2,015	$ (3,938)	$ (12,865)	$ 1,893
Basic earnings (loss) per share	**$ (0.03)**	$ (0.10)	$ (0.15)	$ (0.05)	$ 0.02	$ (0.05)	$ (0.16)	$ 0.02
Diluted earnings (loss) per share	**$ (0.03)**	$ (0.10)	$ (0.15)	$ (0.05)	$ 0.02	$ (0.05)	$ (0.16)	$ 0.02

Seasonality and Quarterly Fluctuations

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors can affect the comparability of results from one period to another, particularly from quarter to quarter.

- In Canada, demand for the services provided by the Aviation segment is higher commencing in the spring and continuing through the end of the summer.
- DA Defence revenue-generation opportunities are usually significantly higher in the February to June and September to November time periods. Although DA Defence revenues are relatively predictable over a 12 month period, they can vary substantially from month to month depending on the customers' tasking requirements and operational priorities and, on occasion, weather conditions.
- The Corporation attempts to perform most major repairs and refurbishments during the slower periods of revenue-generating activity. Since repairs and maintenance on aircraft are not required evenly throughout the year, the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on flight activity from one period to another, particularly as it relates to forest fire suppression operations.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There were no material changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the three and six months ended July 31, 2017 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

DEFINITIONS

In this MD&A, the following terms have the meanings ascribed to them below:

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";

(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which traded on the Toronto Stock Exchange under the symbol "DA.A" until May 29, 2017;
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of July 31, 2017, had an adjusted principal amount of $110,135,095 (inclusive of accrued interest);
(e) "**Shares**" means the Class A Shares and the Class B Shares.
(f) "**Working Capital**" means current assets less current liabilities excluding current portion of loans and borrowings and operating lines of credit.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "likely", "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this MD&A contains forward-looking statements relating to: the seasonality of the Corporation's business; its business development; the impact of current economic conditions on the results of its operations and/or financial condition; management's outlook for the future; management's ability to reduce costs and/or contain them at their existing levels; management's ability to continue to manage working capital effectively; management's intent and ability to refinance maturing debt; the impact of weather conditions on the results of the Corporation's operations and/or financial condition; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet its debt covenants and other terms and conditions of its credit agreements; and plans and/or requirements to make new capital investments.

All forward-looking information and statements presented in this document are based on reasonable assumptions, estimates and analysis that take into account management's experience and perception of trends and interpretation of external factors, such as economic conditions. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the Corporation's ability to secure operating contracts; the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Corporation conducts operations; the effects of changes in interest rates; the effects of competition in the markets in which the Corporation operates; inflation; capital market fluctuations, including the availability of equity and/or debt capital to the Corporation; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings and decisions; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implied by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking information and statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

Additional information relating to the Corporation, including the Corporation's Annual Information Form dated April 13, 2017, which contains a further discussion of risk factors, can be found on SEDAR at www.sedar.com.

Dated: September 14, 2017