

DISCOVERY AIR

THIRD QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS For the Three-Month and Nine-month Period ended October 31, 2015

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 nine months ended October 31, 2015 should be read in conjunction with the Corporation's interim condensed consolidated financial statements and related notes for the three and nine months ended October 31, 2015, the annual audited consolidated financial statements and related notes for the year ended January 31, 2015, and the annual MD&A for the year ended January 31, 2015, 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", "EBITDAR" and "Adjusted profit", 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, expediting and logistics support, and a range of maintenance, repair and overhaul, services. 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**") primarily provides forest fire management and court-related air transport services to the Government of Ontario. Discovery Air Defence Services Inc. ("**Defence Services**"), primarily provides airborne training services to the Department of National Defence and the Canadian Forces ("**DND**") and to the German Armed Forces.

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

The Corporation's Class A Shares and Unsecured Debentures (as defined below) trade on the Toronto Stock Exchange (symbols DA.A and DA.DB.A, respectively).

Selected Financial Information

(thousands of Canadian dollars, except per share amounts)	Three months ended October 31			Nine months ended October 31		
	(unaudited)			(unaudited)		
	2015	2014	% change	2015	2014	% change
Results of operations						
Revenue	\$ 59,989	\$ 58,560	2%	\$ 164,935	\$ 156,456	5%
Expenses	\$ 46,579	\$ 44,610	4%	\$ 133,212	\$ 133,638	0%
Depreciation and amortization	\$ 5,966	\$ 5,486	9%	\$ 16,956	\$ 16,352	4%
	\$ 7,444	\$ 8,464	-12%	\$ 14,767	\$ 6,466	
Finance costs	\$ 4,637	\$ 4,878	-5%	\$ 14,052	\$ 13,771	2%
Income (loss) attributable to shareholders of Discovery Air	\$ 1,893	\$ 2,926	-35%	\$ (3,148)	\$ (3,699)	15%
Basic and diluted income (loss) per share	\$ 0.02	\$ 0.08	-75%	\$ (0.04)	\$ (0.13)	69%
Financial position and liquidity						
Total assets	\$ 339,236	\$ 312,051	9%	\$ 339,236	\$ 312,051	9%
Total debt	\$ 181,602	\$ 162,627	12%	\$ 181,602	\$ 162,627	12%
Cash provided by (used in) operations	\$ 6,469	\$ 6,005	8%	\$ 1,260	\$ (6,603)	119%
Working Capital*	\$ 64,071	\$ 60,432	6%	\$ 64,071	\$ 60,432	6%
Key non-IFRS performance measures* (unaudited)						
Adjusted profit (loss)	\$ 1,789	\$ 3,384	-47%	\$ 683	\$ (3,707)	118%
Basic and diluted Adjusted profit (loss) per share	\$ 0.02	\$ 0.10	-80%	\$ 0.01	\$ (0.13)	108%
EBITDAR	\$ 16,227	\$ 18,245	-11%	\$ 42,641	\$ 34,673	23%
EBITDA	\$ 13,716	\$ 14,367	-5%	\$ 32,988	\$ 24,233	36%
EBITDA Margin	23%	25%		20%	15%	

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

Recent Developments

- On June 22, 2015, the Corporation announced that they had signed a non-binding letter of intent (“LOI”) to sell substantially all the assets of Technical Services. The Corporation is working towards a signed purchase agreement and completion of the transaction in the fourth quarter of Fiscal Year 2016, however the transaction is contingent on the completion of due diligence by the buyer and the satisfaction of certain conditions that are beyond the control of the Corporation. The Corporation recognized an impairment loss of \$2.1 million on the assets contemplated to be sold in the LOI during the nine months ended October 31, 2015.
- The Corporation continues to adapt to volatile operations in the North, by optimizing and rationalizing the Corporation’s fleet and pursuing rigorous cost saving initiatives in an effort to improve cash flow and profitability.
- Additional aircraft have been identified as available for divestiture. In the nine months ending October 31, 2015, the Corporation disposed of five aircraft and related parts, for proceeds of \$5.5 million and recorded a gain of \$0.8 million.

Consolidated Results

Three months ended October 31, 2015

Revenue

Quarterly revenues were \$60.0 million, a 2% increase when compared to the three months ended October 31, 2014 (the “comparative period”). The Aviation segment had increased activity (\$1.2 million or 2% increase from the

comparative period) with the majority of the increase related to increased activity in the North and increased airborne training in Germany. The Corporate Support and Other segment also reported a marginal increase in revenues (a \$0.2 million or 3% increase from the comparative period).

The Corporation's two largest customer sectors are government and natural resource based. Revenues from the government sector represented 51% of total revenues compared to 50% in the comparative period. The Corporation's revenues from resource-based customers represented 26% of total revenues compared to 25% in the comparative period reflecting a slight improvement in the resource sector. The increase in the government sector is primarily attributable to the increase in airborne training services to the German Armed Forces (the "**German Contract**").

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 \$46.6 million, a 4% increase from the comparative period. The increase in quarterly expenses are primarily attributable to increased variable based costs related to increased flying hours under the German Contract and other growth based initiatives.

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

Quarterly EBITDA was \$13.7 million compared to EBITDA of \$14.4 million in the comparative period, with the reduced EBITDA largely attributable to decreased flight hour activity outside of airborne training.

EBITDAR in the quarter was \$16.2 million compared to \$18.2 million in the comparative period. The decreased EBITDAR is a result of decreased EBITDA and decreased aircraft leasing expenses by \$1.4 million, or 35% to \$2.5 million as compared to \$3.9 million in the comparative period. The Corporation utilizes leased aircraft to support a component of its flight services. As part of the cost savings initiatives implemented in the latter part of Fiscal Year 2015 the Corporation returned underutilized leased aircraft and is managing flight hours with improved optimization of other leased and owned aircraft.

Depreciation, finance and other expenses

Depreciation expense in the quarter was \$6.0 million, a 9% increase from the comparative period and consistent with increased flight hours on owned aircraft.

Finance costs were \$4.6 million in the quarter, a 5% decrease from the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings were \$2.5 million compared to \$2.8 million in the comparative period. The decrease in finance costs is primarily attributable to decreased amortization on issues costs and discounts related to the extension of the maturity date on the Secured Debentures and a decrease in finance fees. These were offset by increased interest expense from the term loan entered into on April 1, 2015 for the purchase of three King Air 250s to support the renewed contract with the Stanton Health Authority in the Northwest Territories; and borrowing costs on the increased Operating Line balance.

The Corporation's quarterly income tax provision was \$1.3 million, compared to \$0.5 million in the comparative period. The effective tax rate for the quarter was 40% compared with the Corporation's statutory income tax rate of 27% with the variance due to differences in foreign jurisdiction rates and other deferred tax assets for which the benefit has not been recognized. In the comparative period, the effective income tax rate of 13% was different from the Corporation's statutory income tax rate of 27% due to taxable permanent differences.

Earnings

Excluding the net of tax gains and losses in connection with the disposal and impairment of assets, Adjusted profit (see "Adjusted profit (loss)" below), was \$1.8 million (\$0.02 basic and diluted Adjusted profit per share) compared to \$3.4 million (\$0.10 basic and diluted Adjusted profit per share) in the comparative period. The Corporation recorded a quarterly income of \$1.9 million (\$0.02 basic and diluted loss per share on weighted average outstanding shares of 81,997,475) compared to income of \$2.9 million (\$0.08 basic and diluted earnings per share on weighted average outstanding shares 34,556,760) in the comparative period.

The weighted average number of Shares (defined below) has been retrospectively adjusted for the bonus element of the rights issued pursuant to the recent rights offering completed on March 13, 2015 (“**Recent Offering**”), which permitted shareholders of record on February 10, 2015 to purchase up to an additional 50.0 million Shares at a price of \$0.22 per Share. The Shares attributable to the bonus element of the rights issued was 2.5 million shares with a 1.08 factor applied retrospectively (see “Shareholders Equity” below).

Although the Corporation’s Class A Share price at October 31, 2015 and 2014 was below the conversion price of the Unsecured Debentures and Secured Debentures (as defined below), IAS 33, *Earnings per share*, (“**IAS 33**”) considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

Nine months ended October 31, 2015

Revenue

Year-to-date revenues were \$164.9 million, a 5% increase when compared to the nine months ended October 31, 2014 (the “**comparative period**”). The Aviation segment experienced increased activity (a \$16.0 million or 12% increase from the comparative period) in forest fire suppression operations in North & South America and airborne training in Canada and Germany, partially offset by the continued decline in resource based industries. The Corporate Support and Other segment reported a decline in revenues (a \$7.5 million or 32% decrease from the comparative period).

The Corporation’s two largest customer sectors are government and natural resource based. Revenues from the government sector represented 61% of total revenues compared to 50% in the comparative period. The Corporation’s revenues from resource-based customers represented 20% of total revenues compared to 24% in the comparative period. There was an increase in government sector revenues which was primarily attributable to an increase in airborne training services to DND, the commencement of airborne training services under the German Contract, and an increase in forest fire suppression operations in South & North America.

Expenses

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

Year-to-date expenses were \$133.2 million which are comparable to the comparative period. Rigorous cost saving initiatives implemented in the second half of Fiscal Year 2015 were partially offset by increased variable based costs related to increased flying hours.

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

Year-to-date EBITDA was \$33.0 million compared to EBITDA of \$24.2 million in the comparative period (a \$8.8 million or 36% increase), with the improved EBITDA largely attributable to increased flight hour activity coupled with continuous emphasis on operational efficiencies.

Year-to-date EBITDAR was \$42.6 million compared to \$34.7 million in the comparative period. The increase of \$8.0 million was attributable to the increase in EBITDA noted above and a reduction in aircraft leasing expense of \$0.8 million, or 8% to \$9.7 million as compared to \$10.4 million in the comparative period. The Corporation utilizes leased aircraft to support a component of its flight services. As part of the cost savings initiatives implemented in the latter part of Fiscal Year 2015, the Corporation returned underutilized leased aircraft and is managing the increased flight hours with improved optimization of other leased and owned aircraft.

Depreciation, finance and other expenses

Depreciation expense year-to-date was \$17.0 million, a 4% increase from the comparative period. The increase is attributable to additional flight hours from increased utilization on owned aircraft and a reduction in leased aircraft utilized on projects.

Finance costs year-to-date were \$14.1 million, a 2% increase from the comparative period. Non-cash finance charges and interest accreting on the loans and borrowings was \$8.2 million compared to \$8.3 million in the comparative period. The increase in finance costs is primarily attributable to the increased loans for the purchase of three new aircraft (noted above), and incremental borrowing costs on the increased Operating Line balance and

increased bad debt expense, which were offset by decreased amortization on issue costs and discount related to the extension of the maturity date on the Secured Debentures, gain on foreign exchange and reduced finance fees.

The Corporation's year-to-date income tax recovery was \$0.2 million, compared to \$2.2 million in the comparative period. The effective tax rate was 6% compared to the Corporation's statutory income tax rate of 27%, with the variance differences in foreign jurisdiction rates and other deferred tax assets for which the benefit has not been recognized. In the comparative period, the effective income tax rate of 37% was higher than the statutory rate primarily due to non-taxable income from associates.

Earnings

Excluding the \$3.8 million (net of tax) losses (nine months ended October 31, 2014 - nil) in connection with the disposal and impairment of assets, Adjusted profit (see "Adjusted profit (loss)" below) was \$0.7 million (\$0.01 basic and diluted Adjusted profit per share) compared to Adjusted loss of \$3.7 million (\$0.13 basic and diluted Adjusted loss per share) in the comparative period. The Corporation recorded a year-to-date loss of \$3.1 million (\$0.04 basic and diluted loss per share on weighted average outstanding shares of 74,872,756 compared to a loss of \$3.7 million (\$0.13 basic and diluted loss per share on weighted average outstanding shares 28,483,920) in the comparative period.

The weighted average number of Shares has been retrospectively adjusted for the bonus element of the rights issued pursuant to the Recent Offering. The Shares attributable to the bonus element of the rights issued was 2.5 million shares with a 1.08 factor applied retrospectively.

Although the Corporation's Class A Share price at October 31, 2015 and 2014 was below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33 considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

Aviation Segment

(thousands of Canadian dollars)	Three months ended October 31			Nine months ended October 31		
	(unaudited)			(unaudited)		
	2015	2014	% Change	2015	2014	% Change
Revenue	\$ 53,071	\$ 51,825	2%	\$ 149,070	\$ 133,099	12%
Expenses	38,437	36,333	6%	110,786	105,198	5%
Share of profit from associates	(184)	(424)	-57%	(1,121)	(1,409)	-20%
EBITDA	\$ 14,818	\$ 15,916	-7%	\$ 39,405	\$ 29,310	34%
Aircraft lease expense	2,511	3,878	-35%	9,653	10,440	-8%
EBITDAR	\$ 17,329	\$ 19,794	-12%	\$ 49,058	\$ 39,750	23%
Capital expenditures	\$ 5,543	\$ 5,220	6%	\$ 22,859	\$ 14,756	55%
	As at October 31					
	(unaudited)					
	2015	2014	% Change			
Total assets	\$ 326,404	\$ 289,423	13%			
Goodwill	\$ 37,861	\$ 37,861	0%			
Intangible assets	\$ 1,342	\$ 3,317	-60%			

Three months ended October 31, 2015

The Aviation segment's quarterly revenues were \$53.1 million on 16,100 flight hours, compared to revenue of \$51.8 million on 16,900 flight hours in the comparative period. The increase in revenue is mainly attributable to the commencement of services under the German Contract in January 2015 and increases in flight hours for certain customers in the North. The increased revenues that were recorded on a decreased flight hour base reflects increased basing fees and other fixed fee revenues not dependent on flight hours, as well as improved flight hour rates associated with certain aircraft types that were utilized more in the current period as compared to the prior year.

Aviation segment quarterly expenses were \$38.4 million (or 72% of revenues) in the current quarter compared to \$36.3 million (or 70% of revenues) in the comparative period. The 6% increase in expenses is mainly attributable to increased revenue and other growth based cost initiatives.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were \$15.9 million (or 30% of revenues) compared to \$13.9 million (or 27% of revenues) in the comparative period. The 14% increase in crew expenses is mainly attributable to increased revenues.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were \$11.5 million (or 22% of revenues), compared to \$11.5 million (or 22% of revenues) in the comparative period. The Corporation's fuel costs are typically recovered from customers and recorded as revenue with the exception of non-contracted ferrying costs or training-related costs.

General and administrative expenses primarily consist of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. General and administrative expenses were \$7.7 million (or 15% of revenues) in the quarter compared to \$7.1 million (or 14% of revenues) in the comparative period, with the increase primarily due to the startup of airborne training operations in Germany and increased travel and marketing costs related to other aviation growth initiatives.

The profit from associates was \$0.2 million compared to \$0.4 million in the comparative period, with the variance primarily due to decreased activity in Global Aviation Tools and Equipment (GATE) Inc. ("**GATE**").

The segment's quarterly EBITDA was \$14.8 million compared to an EBITDA of \$15.9 million in the comparative period, with the decrease in EBITDA attributable to increased expenses as outlined above. EBITDAR was \$17.3 million compared to an EBITDAR of \$19.8 million in the comparative period. The decrease in EBITDAR is primarily due to the decrease in EBITDA and reduced aircraft leasing expenses as outlined above.

Depreciation expense in the current quarter was \$5.6 million (or 11% of revenues) compared to \$5.0 million (or 10% of revenues) in the comparative period, with the increase driven by additional flight hours on certain aircraft types that carry increased hourly amortization charges as compared to the comparative period.

Nine months ended October 31, 2015

The Aviation segment's year-to-date revenues were \$149.1 million on 46,800 flight hours, compared to revenue of \$133.1 million on 45,600 flight hours in the comparative period. The increase in revenues and flight hours were primarily attributable to increased airborne training services in Canada, the commencement of the German Contract in January 2015, and increased activity in forest fire suppression operations in North & South America.

Aviation segment year-to-date expenses were \$110.8 million (or 74% of revenues) compared to \$105.2 million (or 79% of revenues) in the comparative period. The 5% increase in expenses is mainly attributable to increased flight hours, partially offset by cost savings measures implemented during the second half of Fiscal Year 2015.

Crew costs, for the nine months ended October 31, 2015, were \$44.3 million (or 30% of revenues) compared to \$40.1 million (or 30% of revenues) in the comparative period. The increase of \$4.2 million was due to increased flight services provided in the current period.

Fleet costs, excluding fuel costs, year-to-date were \$33.1 million (or 22% of revenues) for the nine months ended October 31, 2015, compared to \$31.9 million (or 24% of revenues) in the comparative period. The Corporation's fuel costs are typically recovered from customers and recorded as revenue with the exception of non-contracted ferrying costs or training-related costs.

General and administrative expenses, for the nine months ended October 31, 2015, were \$23.5 million (or 16% of revenues) compared to \$22.1 million (or 17% of revenues) in the comparative period. The increase was primarily due to the startup of airborne training operations in Germany and increased travel and marketing costs related to other aviation growth initiatives.

The profit from associates was \$1.1 million compared to \$1.4 million in the comparative period, with the decrease related to reduced activity in GATE.

The segment's quarterly EBITDA was \$39.4 million compared to an EBITDA of \$29.3 million in the comparative period, with the increase in EBITDA attributable to increased revenues and cost saving measures implemented during the second half of Fiscal Year 2015. EBITDAR was \$49.1 million compared to an EBITDAR of \$39.8 million in the comparative period. The increase in EBITDAR is primarily due to the increase in EBITDA and reduced aircraft lease expenses.

Depreciation expense in the current quarter was \$15.9 million (or 11% of revenues) compared to \$15.0 million (or 11% of revenues) in the comparative period, with the increase driven by additional flight hours.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended October 31			Nine months ended October 31		
	2015	(unaudited)		2015	(unaudited)	
		2014	% Change		2014	% Change
Revenue	\$ 6,918	\$ 6,735	3%	\$ 15,865	\$ 23,357	-32%
Expenses	8,142	8,277	-2%	22,426	28,440	-21%
Share of profit (loss) from associates	(122)	7	-	(144)	(6)	-
EBITDA	\$ (1,102)	\$ (1,549)	29%	\$ (6,417)	\$ (5,077)	-26%
Capital expenditures	\$ 190	\$ 940	-80%	\$ 524	\$ 1,210	-57%

	As at October 31		
	2015	2014	% Change
Total assets	\$ 12,832	\$ 22,628	-43%
Intangible assets	\$ 29	\$ 207	-86%

Three months ended October 31, 2015

Corporate Support and Other revenues were \$6.9 million in the quarter compared to \$6.7 million in the comparative period. The 3% increase in revenue reflects an increase in Mining Services offset by decreased MRO activities.

The segment incurred expenses totaling \$8.1 million compared to \$8.3 million in the comparative period, a decrease of 2%. The reduction is primarily attributable to decreased revenue in MRO activities and cost savings in corporate support functions.

The segment reported an EBITDA loss of \$1.1 million in the quarter, compared to an EBITDA loss of \$1.5 million in the comparative period. The decrease in EBITDA loss was due to increased revenues, and reduced variable based costs in the MRO and Mining Services businesses, along with cost reductions at corporate support functions.

Nine months ended October 31, 2015

Corporate Support and Other year-to-date revenues were \$15.9 million compared to \$23.4 million in the comparative period. The 32% decrease in revenue reflects decreased MRO activities and softness in the mining industry.

The segment incurred expenses totaling \$22.4 million compared to \$28.4 million in the comparative period, a decrease of 21%.

The segment reported a year-to-date EBITDA loss of \$6.4 million, compared to \$5.1 million in the comparative period. The increase in EBITDA loss was due to decreased revenues in MRO activity, partially offset by reduced variable based costs in the MRO and Mining Services businesses as well as cost reduction in Corporate Support and other functions.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

(thousands of Canadian dollars)	Nine months ended October 31	
	(unaudited)	
	2015	2014
Operating activities	\$ 1,260	\$ (6,603)
Investing activities	(18,702)	(6,340)
Financing activities	16,943	12,943
Exchange gain on cash held in foreign currency	182	-
Net decrease in cash for the period	\$ (317)	\$ -

Operating Activities

Cash provided by operating activities for the nine months ended October 31, 2015 was \$1.3 million, a \$7.9 million increase over the comparative period. The favourable variance was largely attributable to an \$8.8 million increase in EBITDA and a decreased investment in non-cash operating working capital of \$1.7 million, partially offset by a decrease in income taxes received of \$3.4 million.

Working Capital

As at October 31, 2015, the Corporation had Working Capital (defined below) of \$64.1 million, compared to \$39.0 million at January 31, 2015 and \$60.4 million as at October 31, 2014. The current ratio of Working Capital was 3.3 as at October 31, 2015, 2.3 at January 31, 2015 and 3.5 as at October 31, 2014.

The increase in working capital from January 31, 2015 is largely attributable to the increase in trade and other receivables. For the nine months ended October 31, 2015 trade and other receivables increased by \$21.3 million compared to an increase of \$22.1 million in the nine months ended October 31, 2014. The year over year decrease is attributable to increased collections efforts offset by increased revenue of \$8.5 million for the nine months ended October 31, 2015. The increase in accounts receivable from the beginning of the year is due to the seasonality of the Corporation's businesses with peak flying hours occurring in the second and third quarters of the year.

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 \$18.7 million compared to \$6.3 million in the comparative period. Capital expenditures of \$23.4 million were comprised of net cash outlays (net of financing) of \$7.5 million for the purchase of five fixed wing aircraft and two helicopters along with modifications on these and other recently acquired aircraft, \$6.1 million of Defence Services growth initiatives, \$9.8 million for sustaining capital expenditures and aircraft overhaul costs. The comparative period's capital expenditures of \$16.0 million were comprised of \$4.5 million of Defence Services growth initiatives, \$0.7 million for the purchase of one aircraft, and \$10.8 million for sustaining capital expenditures and aircraft overhaul costs.

Total asset divestures of \$3.9 million (net of accounts receivable of \$2.7 million) included the sale of five aircraft for proceeds of \$5.5 million, and other items of property and equipment for \$0.8 million.

The Corporation has invested in the combat support contract for the German Armed Forces which commenced in January 2015. While the Corporation is not otherwise committed to fund other material growth-related projects, the Corporation intends, subject to obtaining certain government approvals and securing financing, to acquire the Additional Fighter Jets (see definition below) for further expansion of the Defence Services business.

Financing Activities

As at October 31, 2015, the Corporation had unused borrowing capacity of \$1.9 million to fund its operating requirements. Consistent with the seasonal nature of its business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business

volumes, as well as to fund increased working capital. These draws are typically reduced during the second half of the fiscal year.

On May 26, 2015, the Corporation entered into a new Operating Line agreement. The new Operating Line matures on June 30, 2017, and increases the borrowing limit to \$30.0 million during the Corporation's peak season and \$20.0 million outside of the peak season. Aggregate borrowings are 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 Corporation is required to have no advances outstanding under the line of credit for thirty consecutive days during its non-peak season; this requirement was waived for the fiscal year ended January 31, 2016. The Operating Line also includes an additional \$10.0 million credit facility that is available subject to the lender receiving a letter of credit, or guarantee from Clairvest Group Inc., for 103% of the amount drawn. This additional credit facility matures on May 26, 2016 with an option for the lender to extend it for an additional year. Total transactions costs for this facility were \$0.4 million.

During the nine months ended October 31, 2015, the Corporation made debt payments of \$10.3 million. Debt payments consisted of \$4.3 million of scheduled term debt repayments, \$5.0 million in capitalized interest on the Secured Debentures, and a \$1.0 million repayment of a short term loan. In the comparative period, the Corporation made debt payments of \$10.3 million, \$2.9 million related to asset divestitures, \$0.8 million installment related to a Fiscal Year 2013 (defined below) business acquisition, and \$6.6 million of scheduled debt payments.

On March 16, 2015, \$5.0 million was repaid upon completing the Recent Offering. As a result of the repayment the Secured Debentures are convertible into 8,814,148 Shares (formerly, 9,291,824 Shares).

On March 22, 2015, \$3.5 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at October 31, 2015, the loan balance included accrued interest of \$5.6 million (January 31, 2015 - \$7.3 million).

On May 26, 2015, the Secured Debenture holders, certain Clairvest Group Inc. affiliates ("**Clairvest**"), agreed to extend the maturity date to September 30, 2017 and amend certain covenants (noted below).

As a result of the Recent Offering the Unsecured Debentures conversion price changed to \$5.07 per Share (formerly \$6.53 per Share) for a potential debt conversion to Class A Shares of 6,804,734 (formerly 5,283,308), and the maturity date was extended from June 30, 2016 to June 30, 2018.

On April 1, 2015, the Corporation entered into three loan agreements, each for \$5.8 million, to purchase three new aircraft and related modifications. The lender has retained \$0.5 million until the modifications are complete. The loans are expected to mature on April 1, 2023. From the commencement of the loan to August 1, 2015 the Corporation made interest only payments. The loans bear interest at the Canadian prime rate plus 3.05% per annum. Two of the loans are repayable commencing August 1, 2015 with estimated blended monthly instalments of \$75,000 for twenty four months, and estimated payments of \$62,000 per month thereafter, with the balance due at maturity. The third loan is repayable commencing August 1, 2015 with estimated blended monthly instalments of \$80,000 for five months, followed by four months of interest only payments while modifications to the aircraft are completed, then returning to estimated blended payments of \$80,000 commencing May 1, 2016 for fifteen months, and estimated payments of \$64,000 per month thereafter, with the balance due at maturity. In addition, commencing on August 1, 2015 the Corporation will make monthly payments of \$13,000 per aircraft to the lender for engine reserves. Transaction costs of \$265,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on an effective interest rate of 6.27% per annum. The loans are secured by first charge on the aircraft purchased. The agreement requires that the Corporation observe a variety of non-financial covenants.

On March 4, 2015, the \$21.5 million term loan was amended, subject to certain conditions, to reduce the scheduled principal repayments to \$0.1 million for the period April 1, 2015 to June 30, 2015, defer scheduled principal payments for the period of July 1, 2015 to September 30, 2015, require monthly payments of \$0.2 million thereafter, and reduce the minimum fixed charge coverage ratio until and including the period ended January 31, 2016.

On March 3, 2015, the \$20.0 million term loan was amended to defer scheduled principal payments for six months, extend the maturity to October 15, 2017, and to reduce the minimum fixed charge coverage until and including the period ended January 31, 2016.

On June 2, 2015, the Corporation entered into a \$2.3 million unsecured short term loan with Clairvest Group Inc. to purchase two new aircraft. The loan maturity was extended to January 15, 2016 and bears interest at 8% per annum.

On March 4, 2015, the \$1.6 million term loan was amended to defer scheduled principal payments for six months, require monthly payments of \$20,000 thereafter, and reduced the minimum fixed charge coverage ratio until and including the period ended January 31, 2016.

On June 22, 2012, the Corporation entered into a \$4.5 million term loan agreement to refinance a maturing debt. The loan was fully repaid on July 22, 2015.

The Corporation is required to maintain a minimum fixed charge coverage ratio and minimum debt service coverage ratio under several loan agreements. The Corporation is also required to comply with several other financial covenants in its debt agreements, including: a debt leverage covenant, which requires the Corporation to maintain a total debt to EBITDA (as specifically defined in the Secured Debentures) ratio of not more than 6.00:1.00 (the "**Debt Leverage Covenant**"), and a pledged asset ratio covenant, which requires the Corporation to provide the holders of the Secured Debentures with a first-lien security interest over assets having an appraised value equal to a prescribed ratio of the adjusted principal amount of the Secured Debentures (the "**PAR Covenant**"); a trailing four quarter consolidated EBITDAR to fixed charge ratio; a debt service coverage ratio; a total liabilities to tangible net worth ratio; and a total funded debt to EBITDAR ratio. 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 adequacy of the security pledged to its lenders in relation to its debt levels. Since interest on the Secured Debentures is paid in kind (i.e., accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time.

During the nine months ended October 31, 2015 the Secured Debentures were amended to increase the Debt Leverage Covenant to 9.00:1.00 for the periods April 30, 2015 until and including July 31, 2016; increase EBITDA for the purpose of the covenant calculation for the periods April 30, 2015 until and including the period ended January 31, 2016; decrease the PAR Covenant to 1.37:1.00 for the period ending January 31, 2016, and to 1.30:1.00 for the period ending July 31, 2016. Further in December 2015, the PAR covenant was amended to 1.25:1.00 and the Debt Leverage Covenant to 9.00:1.00 for the period ending October 31, 2016. In addition, the PAR covenant was amended to 1.30:1.00 for the periods ending January 31, 2017 and April 30, 2017.

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 October 31, 2015.

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 12 of the Corporation's interim condensed consolidated financial statements for the three and nine months ended October 31, 2015

Shareholders' Equity

At October 31, 2015, there were 81,510,148 Class A Shares and 487,327 Class B Shares outstanding. At the same date, there were 8,136,733 stock options outstanding. During the nine months ended October 31, 2015 the Corporation issued 50,000,000 Class A shares upon completion of the Recent Offering. During the nine months ended October 31, 2015, the Corporation issued 5,744,475 stock options to employees and 104,355 stock options expired or were otherwise terminated in accordance with their terms.

As result of the Recent Offering, the Corporation's Unsecured Debentures provide for potential debt conversion to Class A Shares of 6,804,734 (adjusted from 5,283,308).

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2015, which can be found on SEDAR at www.sedar.com.

Related Party

The Secured Debentures held by Clairvest would represent, on a post-conversion basis, more than 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the three and nine months ended October 31, 2015 was \$2.3 million and \$6.9 million (October 31, 2014 - \$2.2 million and \$6.1 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.

As a result of the Recent Offering, Clairvest acquired the majority of the issued and outstanding Shares of the Corporation.

During the nine months ended October 31, 2015, the Corporation borrowed on an unsecured commercial terms basis \$8.1 million from Clairvest Group Inc. and repaid \$5.8 million. The remaining loan of \$2.3 million bears interest at 8% with a maturity date of January 15, 2016.

For the three and nine months ended October 31, 2015, the Corporation's revenues include \$7.0 million and \$15.3 million (three and nine months ended October 31, 2014 - \$7.3 million and \$18.9 million), respectively, and the Corporation's expenses include \$0.8 million and \$2.7 million (three and nine months ended October 31, 2014 - \$0.7 million and \$1.8 million), respectively, from transactions with the Corporation's associates. As at October 31, 2015, \$5.0 million (January 31, 2015 - \$3.0 million) of the Corporation's accounts receivable were due from associates and \$0.7 million (January 31, 2015 - \$0.9 million) of the Corporation's accounts payable 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, 2015, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 30, 2015, both of which can be found on SEDAR at www.sedar.com.

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, 2015, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

Unless otherwise noted, the following revised standards and amendments are effective for the Corporation on or after February 1, 2015.

The Corporation adopted various annual amendments including the disclosure on the aggregation of operating segments in IFRS 8, Operating Segments, and the definition of related party in IAS 24, Related Party Disclosures. The adoption of these amendments did not have a material impact on the Corporation's consolidated financial statements.

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

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"). IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, with

early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

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 aircraft.

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

(thousands of Canadian dollars)	Three months ended October 31		Nine months ended October 31	
	(unaudited)		(unaudited)	
	2015	2014	2015	2014
Net income (loss) attributable to shareholders' of Discovery Air	\$ 1,893	\$ 2,926	\$ (3,148)	\$ (3,699)
Income tax provision (recovery)	1,284	450	(188)	(2,180)
Finance costs	4,637	4,878	14,052	13,771
Depreciation and amortization	5,966	5,486	16,956	16,352
Losses (gains) on equipment	(64)	(343)	5,316	(981)
Impairment of long term service contract	-	970	-	970
EBITDA	\$ 13,716	\$ 14,367	\$ 32,988	\$ 24,233
Aircraft lease expenses	2,511	3,878	9,653	10,440
EBITDAR	\$ 16,227	\$ 18,245	\$ 42,641	\$ 34,673

“**Adjusted profit (loss)**” refers to net profit (loss) attributable to shareholders of Discovery Air excluding a non-recurring gain on extinguishment of debt, gains and losses on disposal of property and equipment, gains on acquisitions and disposals, gains and losses resulting from the change in fair value of financial liabilities, and impairment loss, net of related taxes. Management believes Adjusted profit (loss) better reflects the Corporation’s operational performance. Adjusted profit (loss) per common share is equal to profit (loss) attributable to shareholders of Discovery Air per share excluding the above noted items.

The following is a reconciliation of Adjusted profit (loss) to net profit (loss):

(thousands of Canadian dollars)	Three months ended October 31		Nine months ended October 31	
	(unaudited)		(unaudited)	
	2015	2014	2015	2014
Net Income (loss) attributable to shareholders of Discovery Air	\$ 1,893	\$ 2,926	\$ (3,148)	\$ (3,699)
Losses (gains) on equipment (net of tax)	(104)	(250)	3,831	(716)
Impairment of long term service contract (net of tax)	-	708	-	708
Adjusted profit (loss)	\$ 1,789	\$ 3,384	\$ 683	\$ (3,707)

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended October 31, 2015			Three months ended October 31, 2014		
	(unaudited) Corporate Support and			(unaudited) Corporate Support and		
	Aviation	Other	Total	Aviation	Other	Total
Revenue	\$ 53,071	\$ 6,918	\$ 59,989	\$ 51,825	\$ 6,735	\$ 58,560
Expenses	38,437	8,142	46,579	36,333	8,277	44,610
Share of (profit) loss from associates	(184)	(122)	(306)	(424)	7	(417)
EBITDA	\$ 14,818	\$ (1,102)	\$ 13,716	\$ 15,916	\$ (1,549)	\$ 14,367
Aircraft lease expenses	2,511	-	2,511	3,878	-	3,878
EBITDAR	\$ 17,329	\$ (1,102)	\$ 16,227	\$ 19,794	\$ (1,549)	\$ 18,245

(thousands of Canadian dollars)	Nine months ended October 31, 2015			Nine months ended October 31, 2014		
	(unaudited) Corporate Support and			(unaudited) Corporate Support and		
	Aviation	Other	Total	Aviation	Other	Total
Revenue	\$ 149,070	\$ 15,865	\$ 164,935	\$ 133,099	\$ 23,357	\$ 156,456
Expenses	110,786	22,426	133,212	105,198	28,440	133,638
Share of profit from associates	(1,121)	(144)	(1,265)	(1,409)	(6)	(1,415)
EBITDA	\$ 39,405	\$ (6,417)	\$ 32,988	\$ 29,310	\$ (5,077)	\$ 24,233
Aircraft lease expenses	9,653	-	9,653	10,440	-	10,440
EBITDAR	\$ 49,058	\$ (6,417)	\$ 42,641	\$ 39,750	\$ (5,077)	\$ 34,673

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

	(unaudited)							
	Oct-15	Jul-15	Apr-15	Jan-15	Oct-14	Jul-14	Apr-14	Jan-14
Results of operations:								
Total Revenue	\$ 59,989	\$ 62,531	\$ 42,415	\$ 34,323	\$ 58,560	\$ 56,813	\$ 41,083	\$ 32,638
EBITDA	\$ 13,716	\$ 16,851	\$ 2,421	\$ (8,186)	\$ 14,367	\$ 10,825	\$ (959)	\$ (9,464)
Cash from (used in) operations	\$ 6,469	\$ 4,584	\$ (9,793)	\$ 11,753	\$ 6,005	\$ (2,506)	\$ (10,102)	\$ 10,992
Adjusted profit (loss)*	\$ 1,789	\$ 4,008	\$ (5,354)	\$ (14,943)	\$ 3,384	\$ 570	\$ (7,748)	\$ (14,795)
Profit (loss) attributable to shareholders of Discovery Air	\$ 1,893	\$ (587)	\$ (4,454)	\$ (15,182)	\$ 2,926	\$ 1,111	\$ (7,736)	\$ (21,440)
Basic earnings (loss) per share	\$ 0.02	\$ (0.01)	\$ (0.07)	\$ (0.44)	\$ 0.08	\$ 0.03	\$ (0.48)	\$ (1.34)
Basic adjusted profit (loss) per share*	\$ 0.02	\$ 0.05	\$ (0.09)	\$ (0.43)	\$ 0.10	\$ 0.02	\$ (0.48)	\$ (0.92)
Diluted earnings (loss) per share	\$ 0.02	\$ (0.01)	\$ (0.07)	\$ (0.44)	\$ 0.08	\$ 0.03	\$ (0.48)	\$ (1.34)
Diluted adjusted profit (loss) per share*	\$ 0.02	\$ 0.05	\$ (0.09)	\$ (0.43)	\$ 0.10	\$ 0.02	\$ (0.48)	\$ (0.92)

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. The seasonality and quarterly fluctuations are substantially unchanged from the description found under the heading "Seasonality and Quarterly Fluctuations" in the Corporation's MD&A for the fiscal year ended January 31, 2015, which is available on SEDAR at www.sedar.com

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 months ended October 31, 2015 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 trade on the Toronto Stock Exchange under the symbol "DA.A";
- (c) **"Class B Shares"** means the Corporation's Class B common variable voting shares;
- (d) **"Fiscal Year 2013"** means the fiscal year of the Corporation ended January 31, 2013;
- (e) **"Fiscal Year 2014"** means the fiscal year of the Corporation ended January 31, 2014;
- (f) **"Fiscal Year 2015"** means the fiscal year of the Corporation ended January 31, 2015;
- (g) **"Fiscal Year 2016"** means the fiscal year of the Corporation ended January 31, 2016;
- (h) **"Secured Debentures"** means the \$70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of October 31, 2015, had an adjusted principal amount of \$98,052,725 (inclusive of accrued interest);
- (i) **"Shares"** means the Class A Shares and the Class B Shares.
- (j) **"Working Capital"** means current assets less current liabilities excluding current portion of loans and borrowings and operating line of credit.

FORWARD-LOOKING STATEMENTS

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

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

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

Additional information relating to the Corporation, including the Corporation's Annual Information Form dated April 30, 2015, which contains a further discussion of risk factors, can be found on SEDAR at www.sedar.com.

Dated: December 15, 2015