

DISCOVERY AIR

**Consolidated Financial Statements
Years Ended January 31, 2017 and 2016**



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Discovery Air Inc.

We have audited the accompanying consolidated financial statements of Discovery Air Inc., which comprise the consolidated statements of financial position as at January 31, 2017 and January 31, 2016, the consolidated statements of loss, comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Discovery Air Inc. as at January 31, 2017 and January 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
April 13, 2017

DISCOVERY AIR INC.

Consolidated Statements of Financial Position

As at January 31, 2017 and 2016

(thousands of Canadian dollars)	Note	January 31, 2017	January 31, 2016
Assets			
Current assets:			
Cash		\$ 329	\$ 358
Restricted cash		16	20
Trade and other receivables	23	26,698	28,883
Income taxes receivable	15	603	329
Inventory	5	26,435	29,232
Prepaid expenses and other		17,153	15,074
Assets held for sale	6	2,271	-
		73,505	73,896
Property and equipment	8	178,119	199,869
Long term receivables	11(v)	797	1,149
Goodwill	9	37,861	37,861
Intangible assets	10	1,373	1,363
Investments in associates	11	6,243	5,683
		\$ 297,898	\$ 319,821
Liabilities and Shareholders' equity			
Current liabilities:			
Operating line of credit	13	\$ 34,084	\$ 22,610
Trade and other payables		25,672	32,207
Current portion of loans and borrowings	12	7,691	8,181
		67,447	62,998
Loans and borrowings	12	169,934	172,431
Deferred income taxes	15	8,192	12,339
		178,126	184,770
Shareholders equity:			
Share capital		93,713	93,713
Contributed surplus		12,400	12,120
Deficit		(55,886)	(37,838)
Accumulated other comprehensive income		2,098	4,058
Total equity		52,325	72,053
		\$ 297,898	\$ 319,821

See accompanying notes to the consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Loss Years ended January 31, 2017 and 2016

(thousands of Canadian dollars, except per share amounts)	Note	January 31, 2017	January 31, 2016
Revenue		\$ 171,055	\$ 182,181
Expenses	17	150,085	157,082
		20,970	25,099
Depreciation and amortization	8,10	19,748	21,273
Finance costs	18	20,431	19,676
Share of profit from associates (net of income tax)	11	(798)	(1,553)
Other (gains) and losses	20	2,682	3,350
		42,063	42,746
Loss before income taxes		(21,093)	(17,647)
Income tax provision (recovery):			
Current	15	(83)	407
Deferred	15	(2,935)	(3,227)
		(3,018)	(2,820)
Loss from continuing operations		(18,075)	\$ (14,827)
Income (loss) from discontinued operations, net of tax	7	27	(1,184)
Loss		\$ (18,048)	\$ (16,011)
Basic and diluted income (loss) per share:			
Continuing operations	19	\$ (0.22)	\$ (0.19)
Discontinued operations	19	\$ -	\$ (0.02)
Total Basic and diluted loss per share		\$ (0.22)	\$ (0.21)

Consolidated Statements of Comprehensive Income (Loss)

(thousands of Canadian dollars)	January 31, 2017	January 31, 2016
Loss	\$ (18,048)	\$ (16,011)
Other comprehensive income (loss):		
Exchange differences on translation of foreign operations	(1,960)	1,832
Total comprehensive loss	\$ (20,008)	\$ (14,179)

See accompanying notes to the consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity

Years ended January 31, 2017 and 2016

(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained (deficit)	Accumulated other comprehensive income (loss)	Total equity
Balance at January 31, 2016		\$ 93,713	\$ 12,120	\$ (37,838)	\$ 4,058	\$ 72,053
Loss		-	-	(18,048)	-	(18,048)
Other comprehensive loss		-	-	-	(1,960)	(1,960)
Employee stock options	16(c)	-	280	-	-	280
Balance at January 31, 2017		\$ 93,713	\$ 12,400	\$ (55,886)	\$ 2,098	\$ 52,325
Balance at January 31, 2015		\$ 83,041	\$ 11,586	\$ (21,827)	\$ 2,226	\$ 75,026
Loss		-	-	(16,011)	-	(16,011)
Other comprehensive income		-	-	-	1,832	1,832
Employee stock options	16(c)	-	534	-	-	534
Initial Rights Offering (net of transaction costs)	16(b)	10,672	-	-	-	10,672
Balance at January 31, 2016		\$ 93,713	\$ 12,120	\$ (37,838)	\$ 4,058	\$ 72,053

See accompanying notes to the consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows

Years ended January 31, 2017 and 2016

(thousands of Canadian dollars)	Note	January 31, 2017	January 31, 2016
Cash provided by (used in)			
Operating activities:			
Loss		\$ (18,048)	(16,011)
Adjustments for:			
Current tax provision	15	(83)	407
Deferred tax recovery	15	(2,896)	(3,874)
Finance costs	18	20,530	19,265
Total share-based compensation		245	523
Depreciation and amortization	8,10	19,748	21,698
Share of profit from associates (net of income tax)	11	(798)	(1,553)
Other (gains) and losses	20	2,682	5,623
		21,380	26,078
Change in non-cash operating working capital	21	(10,404)	(4,447)
Interest paid		(8,167)	(7,555)
Net income taxes paid	15	(415)	(83)
Net cash provided by operating activities		2,394	13,993
Investing activities:			
Dividends received	11	-	585
Proceeds on disposal of subsidiary	4	15,084	-
Acquisition of property and equipment	8	(15,694)	(28,619)
Long term receivable collections	11(v)	325	305
Proceeds on disposal of property and equipment	8	522	7,750
Net cash provided by (used in) investing activities		237	(19,979)
Financing activities:			
Proceeds from operating line of credit	13	11,475	6,455
Loans and borrowings transaction costs		-	(271)
Proceeds from loans and borrowings	12	-	1,000
Repayment of loans, borrowings and finance leases	12	(14,465)	(12,143)
Proceeds from Rights Offering	16	-	11,000
Net cash provided by (used in) financing activities		(2,990)	6,041
Increase (decrease) in cash		(359)	55
Effect of exchange rate changes on cash and cash equivalents		330	(358)
Cash, balance beginning of period		358	661
Cash, balance end of period		\$ 329	\$ 358

See accompanying notes to the consolidated financial statements.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements

Years ended January 31, 2017 and 2016

1. Reporting entity:

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

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”) as issued by the International Accounting Standards Board (“**IASB**”), and were authorized for issue by the Corporation’s board of directors on April 13, 2017.

(b) Basis of presentation:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

These consolidated financial statements have been prepared on the historical cost basis, except for liabilities for cash-settled share-based payment arrangements, which are measured at fair value through profit or loss.

(c) Foreign operations:

The functional and presentation currency of the Corporation is the Canadian dollar. Each of the Company’s subsidiaries determines its functional currency and items included in the financial statements of each subsidiary are measured using that functional currency. The Corporation has a Chilean subsidiary whose functional currency is the Chilean Peso, a US subsidiary whose functional currency is the U.S. dollar, and a German branch whose functional currency is the Euro. The consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of the Corporation’s operations in Chilean pesos and U.S. dollars to Canadian dollars. The assets and liabilities of the Corporation’s foreign subsidiaries are translated to Canadian dollars at exchange rates applicable at each reporting date. Income and expenses are translated to Canadian dollars at exchange rates applicable at the dates of the transactions. Foreign currency translation differences relating to the impact of changes in exchange rates on the net assets of the foreign subsidiaries are recognized in other comprehensive income (“**OCI**”). The Corporation’s other subsidiaries have a Canadian dollar functional currency.

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are translated to the functional currency at the exchange rates at that date. The resulting foreign exchange gains and losses are recognized in profit or loss in the Consolidated Statements of Loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rates.

If a foreign operation is disposed of, the relevant amount in accumulated OCI is transferred to the Consolidated Statement of Loss as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal, when control is lost, of a foreign operation, the relevant proportion is reclassified to the Consolidated Statement of Loss.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

(d) Use of estimates and judgments:

i) Property and equipment:

Depreciation methods require management's judgment in selecting the most appropriate method that reflects the pattern in which its future economic benefit is expected to be consumed over the useful life of the asset. These judgments are based on industry standards and the Corporation's specific history and experience.

Depreciation also requires management's judgment on the componentization of the Corporation's assets, as each part of an item in property and equipment should be depreciated separately. Judgment is required in determining which components constitute a significant cost in relation to the total cost of the asset.

Management must estimate the economic useful life, and the residual value in determining the periodic depreciation charge.

The impairment of property and equipment requires management's judgment in determining if an indicator for impairment exists, which is based on management's assessment of internal and external sources of information. If an indicator does exist and it is not possible to estimate the recoverable amount of the individual asset, then the Corporation should determine the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. Determining the CGUs requires management's judgment in identifying the smallest group of assets that includes the asset in question and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In determining the classification of a lease as either finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred.

ii) Intangible assets and goodwill:

In determining if an intangible asset should be recognized, management must use judgment to assess the probability that future economic benefits will flow to the Corporation, if the costs are measurable, and whether the life of the intangible asset is finite or indefinite.

If the intangible asset is determined to have an indefinite useful life it should be reviewed annually to determine, if in management's judgment, events or circumstances continue to support an indefinite useful life assessment.

The determination of the fair value of the intangible assets purchased in a business combination requires management to use judgment and estimates when no market exists for the intangible assets. Judgment is required in selecting valuation techniques, and in applying the techniques judgments and estimates are required when determining various inputs, such as future cash flows, attrition rates for customer relationships, royalty rates for trade names, discount rates in calculating present values, and growth rates expected by the Corporation.

Amortization methods for intangible assets require management's judgment and estimates, as described in property and equipment.

The impairment of goodwill and intangible assets requires management's judgment in determining if an indicator for impairment exists, which is based on management's assessment of internal and external sources of information. Irrespective of indicators, goodwill and indefinite life intangible assets are also tested for impairment annually. In determining if impairment exists, the carrying amount of the asset is compared to the recoverable amount. The recoverable amount is defined as the higher of the assets or CGU's fair value less costs to sell and its value in use. In calculating the value in use, judgment is required in determining future operating plans, discount rates and future growth rates. If it is not possible to estimate the recoverable amount of the individual intangible asset, then the Corporation determines the recoverable amount of the CGU to which the asset belongs. Determining the assets of the CGU requires management's judgment in identifying the smallest group of assets that includes the asset in question and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In conducting impairment tests, estimates are required by management to determine fair values, selling costs, future cash flows, discount and interest rates.

iii) Business combinations:

The Corporation's acquisitions are accounted for using the acquisition method. In identifying and measuring the assets acquired, management is required to make judgments, in particular in the identification and measurement of intangible

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

assets and goodwill. See above for judgments and estimates required in the recognition and measurement of intangible assets and goodwill.

iv) Fair value of share based payments:

In determining the fair value of share-based payments, the Corporation uses judgement in selecting an appropriate option valuation model. Within the valuation model various judgments and estimates are required, including, estimates about volatility, interest rates, and expected life of the share-based payment awarded.

v) Income tax:

In determining deferred tax assets and liabilities, management is required to make judgments and estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities.

3. Significant accounting policies:

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

(a) Consolidation:

i) Subsidiaries:

Subsidiaries are entities over which the Corporation has control. Control is determined to exist when the Corporation has power over the investee, exposure to variable returns and has the ability to use its power to affect the investee's returns. All significant intercompany balances, transactions, and unrealized gains and losses on transactions have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Corporation.

ii) Associates:

Associates are those entities in which the Corporation has significant influence, which is defined as the power to participate in financial and operating policy decisions but does not have control or joint control of those policies.

Associates are accounted for using the equity method and are recognized initially at cost, including transaction costs incurred. The consolidated financial statements include the Corporation's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence commences until the date that significant influence ceases. When the Corporation's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation to fund the associate's operations or has made payments on behalf of the associate.

Unrealized gains on transactions between the Corporation and its associates are eliminated to the extent of the Corporation's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising on investments in associates are recognized in profit or loss.

(b) Inventory:

Inventory, consisting of aircraft parts and supplies, is stated at the lower of cost and net realizable value (where replacement cost may be used as an indicator). Cost is determined on a first-in, first-out basis and a specific item basis depending on the nature of the inventory. The cost of all inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing the inventories to their existing location and condition. Net realizable value is the estimated selling price of the parts or supplies in the ordinary course of business, less estimated costs to make the sale.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

(c) Property and equipment:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. In particular, aircraft airframes, engines and components are inspected, repaired and overhauled at pre-specified intervals. These subsequent costs are capitalized, as incurred, when the above criteria are met and amortized over their useful life based on hours flown. The carrying amount of a major inspection is derecognized if a new major inspection is completed.

When major parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of that property and equipment.

The cost of day-to-day servicing of property and equipment is recognized in profit and loss when incurred.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

Depreciation is calculated using the "depreciable amount", which is the cost of an asset, or other amount substituted for cost, less its residual value, on either a straight line basis, or flight hours. If the useful lives of significant components of individual assets have a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment.

The method and rates used in calculating depreciation are as follows:

Asset	Basis	Rate
Buildings	Straight-line	20-25 years
Aircraft frames	Straight-line	20 years
Major aircraft components, overhauls and major inspections	Straight-line	Hours flown
Vehicles	Straight-line	3 years
Furniture and equipment	Straight-line	3-10 years
Leasehold improvements	Straight-line	Lesser of: the lease term or 5 years

The assets' residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

(d) Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. These leased assets are not recognized on the Corporation's Consolidated Statement of Financial Position. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line or hours flown basis over the period of the lease.

(e) Goodwill and business combinations:

Goodwill represents the excess of the fair value of the consideration transferred by the Corporation, including the recognized amount of any non-controlling interest in the acquiree, over the Corporation's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

(f) Intangible assets:

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of trade names and customer relationships. Customer relationships are amortized on a straight-line basis over eight years. Trade names held by Discovery Air Defence Services Inc. ("**DA Defence**") and Helicopters.cl SpA ("**Helicopters Chile**") have an indefinite life and, therefore, are not amortized.

The assessment of a trade name as having an indefinite useful life is based on the prospects for long-term profitability and the overall positioning of the trade name in the market in terms of notoriety and volume.

(g) Impairment:

(i) Financial Assets:

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, or indications that a debtor or issuer will enter bankruptcy.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through an allowance account and the amount of the loss is recognized in finance costs in the Consolidated Statement of Loss.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in finance costs in the Consolidated Statement of Loss.

(ii) Non-financial assets:

Goodwill and intangible assets with indefinite useful life (trade names) are not subject to amortization and are tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Property and equipment and intangible assets with definite useful life (customer relationships) are subject to depreciation and amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped into CGUs.

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized in profit or loss for the amount by which the asset's or CGU's carrying amount exceeds its recoverable amount.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Previously impaired non-financial assets other than goodwill are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Revenue recognition:

Revenue is recognized at the fair value of the consideration received or receivable, net of trade discounts and rebates. Revenue from providing aviation and aviation-related services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown or services provided at contract rates or fixed monthly charges or a combination of both.

Revenue is recognized when recovery of the consideration is probable, the associated costs and costs to complete can be estimated reliably, and the amount of revenue can be measured reliably.

(i) Income taxes:

Income tax expense for the year comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized in OCI or directly in equity.

Current income tax is the expected tax payable calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Corporation intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Stock-based compensation:

Equity-settled transactions:

The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. An option valuation model is used to fair value the stock options on the grant date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Cash-settled transactions:

The Corporation has a deferred share unit (“**DSU**”) plan for directors (see note 16(d)). These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at the end of each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

(k) Finance costs:

Finance costs comprise interest expense on loans and borrowings, net foreign exchange gains and losses, impairment loss (recovery) on trade receivables, and the amortization of the deferred transaction costs and financing costs related to loans and borrowings. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(l) Earnings per share:

The Corporation presents basic and diluted earnings per share (“**EPS**”) data for its Shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of Shares outstanding during the period, adjusted for Shares held but not cancelled. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Shares outstanding, adjusted for Shares held but not cancelled, and for the effects of all dilutive potential Shares. Convertible debentures and Share options granted to employees are included in the determination of dilutive potential Shares.

(m) Cash:

Cash includes cash on hand, balances with financial institutions and short-term investments with an initial term to maturity of three months or less.

(n) Financial instruments:

i) Classification, recognition and measurement:

At initial recognition, the Corporation's financial assets and liabilities are classified into the following categories:

Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Operating line of credit	Financial liabilities at amortized cost
Trade and other payables	Financial liabilities at amortized cost
Loans and borrowings	Financial liabilities at amortized cost
Contingent consideration for business acquisition	Fair value through profit and loss

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less a provision for impairment, if any.

Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs and financing costs related to credit facilities, and subsequently measured at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if payment is due within 12 months or less; otherwise, they are presented as non-current liabilities. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

The Corporation has reviewed its contractual arrangements and, where appropriate, has designated purchase contracts entered into for the purpose of receiving non-financial items for its normal usage requirements as executory contracts.

Financial assets and liabilities are offset (and the net amount is reported in the Consolidated Statement of Financial Position) only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

ii) Compound financial instruments:

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to Shares at the option of the holder, and the number of Shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

(iii) Share capital:

Shares are classified as equity. Incremental costs directly attributable to the issuance of Shares and Share options are recognized as a deduction from equity, net of any tax effects.

(o) Segment reporting:

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segment results for which discrete financial information is available are reviewed regularly by the Corporation's Chief Executive Officer ("**CEO**") to make decisions about resources to be allocated to the segment and to assess its performance.

Operating segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill. Unallocated items are primarily comprised of corporate assets, head office expenses, finance costs and income tax assets and liabilities.

(p) Provisions:

Provisions are recognized when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at management's best estimate of the expenditures expected to be required to settle the obligation at the balance sheet date. Where material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in a provision due to passage of time is recognized as finance cost in the Statement of Loss

(q) Employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

(r) Recently issued standards:

Unless otherwise noted, the following revised standards and amendments are effective for the Corporation on or after February 1, 2017.

In July 2014, the IASB issued IFRS 9, Financial Instruments ("**IFRS 9**"). IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. IFRS 9 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, 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 does not expect that IFRS 15 will have a significant impact on the recognition and measurement of revenue from contracts with customers.

In January 2016, the IASB issued IFRS 16, Leases ("**IFRS 16**"). IFRS 16 replaces IAS 7, Leases. IFRS 16 will require all leases, with the exception of those leases that meet the limited exception criteria, to be presented on the balance sheet. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The Corporation expects that IFRS 16 will have a significant impact on the presentation and classification of leases in the Corporation's financial statements when adopted.

4. Disposal of Subsidiary:

On September 8, 2016 the Corporation entered into an agreement to sell Discovery Air Fire Services Inc. ("Fire Services"). The transaction was completed on January 31, 2017, for proceeds of \$16.0 million. The Corporation incurred \$0.9 million in transaction costs and recorded a pre-tax gain of \$0.3 million, in Other (gains) and losses in the Consolidated Statements of Loss.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

The transaction included the following assets and liabilities:

(thousands of Canadian dollars)	January 31, 2017
Assets	
Current assets	\$ 1,508
Property and equipment	14,902
Total Assets	\$ 16,410
Liabilities	
Trade and other payables	373
Loans and borrowings	15
Deferred income taxes	1,251
Total Liabilities	\$ 1,639

5. Inventory:

The Corporation's inventory is substantially comprised of consumable spare aircraft parts and supplies. Inventory expensed in continuing operations in the Consolidated Statement of Loss for the year ended January 31, 2017 was \$11.7 million (January 31, 2016 - \$10.0 million). During the year ended January 31, 2017 there were \$0.3 million of inventory write-downs (January 31, 2016 - \$0.5 million) to net realizable value and no reversals of previously recorded write-downs.

The Corporation has provided a first charge over certain assets (including inventory), under a general security agreement, as security for the Corporation's operating line of credit (see note 13). That first charge does not extend to inventory of DA Defence, which has been pledged to the holders of the Secured Debentures (see note 12(a)).

6. Assets held for sale:

The Corporation has committed to a plan to dispose of four aircraft. Accordingly, at January 31, 2017, the aircraft were valued at a cost of \$2.3 million, which was the lower of cost and fair value less cost to sell. Two of these aircraft were sold in April 2017.

7. Discontinued operations:

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

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Results of Technical Services discontinued operations are as follows:

(thousands of Canadian dollars)	January 31, 2017	January 31, 2016
Revenue	\$ 318	\$ 18,391
Expenses	153	17,936
	165	455
Depreciation of property and equipment	-	425
Finance costs	99	(410)
Other (gains) and losses	-	2,272
	99	2,287
Income (loss) before income taxes	66	(1,832)
Income tax expense (recovery):		
Current	-	-
Deferred	39	(648)
	39	(648)
Income (loss)	\$ 27	\$ (1,184)

Cash flows from Technical Services discontinued operations are as follows:

(thousands of Canadian dollars)	January 31, 2017	January 31, 2016
Net cash provided by (used in) operating activities	\$ (414)	\$ 1,179
Net cash provided by investing activities	-	919
Net cash used in financing activities	-	(107)
Net cash flow for the year	\$ (414)	\$ 1,991

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

8. Property and Equipment:

(thousands of Canadian dollars)

Cost	Furniture, Equipment, Aircraft and Vehicles					Total
	Land and Buildings	Leaseholds	Components			
Balance January 31, 2016	\$ 24,078	\$ 27,393	\$ 278,346	\$ 2,345	\$ 332,162	
Additions	76	2,990	12,287	62	15,415	
Disposals	(237)	(159)	(4,635)	-	(5,031)	
Disposal of subsidiary	(2,927)	(632)	(20,657)	(153)	(24,369)	
Transfers from inventory	-	-	3,080	-	3,080	
Foreign exchange	10	246	(1,810)	186	(1,368)	
Assets held for sale	-	-	(2,271)	-	(2,271)	
Balance January 31, 2017	\$ 21,000	\$ 29,838	\$ 264,340	\$ 2,440	\$ 317,618	

Depreciation and Impairment

Balance January 31, 2016	\$ (9,106)	\$ (17,575)	\$ (103,728)	\$ (1,884)	\$ (132,293)
Depreciation	(1,118)	(2,522)	(15,942)	(166)	(19,748)
Disposals	56	159	4,232	-	4,447
Disposal of subsidiary	1,471	597	7,285	113	9,466
Foreign exchange	(22)	(155)	390	(176)	37
Impairment	-	-	(1,408)	-	(1,408)
Balance, January 31, 2017	(8,719)	(19,496)	(109,171)	(2,113)	(139,499)
Net book value - January 31, 2017	12,281	10,342	155,169	327	178,119

Cost	Furniture, Equipment, Aircraft and Vehicles					Total
	Land and Buildings	Leaseholds	Components			
Balance January 31, 2015	\$ 27,750	\$ 27,371	\$ 235,750	\$ 2,505	\$ 293,376	
Additions	378	1,977	46,940	484	49,779	
Disposals	(4,015)	(2,093)	(9,188)	(641)	(15,937)	
Foreign exchange	(35)	138	1,882	(3)	1,982	
Reclassification	-	-	2,962	-	2,962	
Balance January 31, 2016	\$ 24,078	\$ 27,393	\$ 278,346	\$ 2,345	\$ 332,162	

Depreciation and Impairment

Balance January 31, 2015	\$ (8,289)	\$ (16,408)	\$ (86,082)	\$ (2,209)	(112,988)
Depreciation	(1,200)	(2,591)	(16,265)	(186)	(20,242)
Disposals	376	1,440	3,390	499	5,705
Foreign exchange	7	(16)	(120)	12	(117)
Impairment	-	-	(4,959)	-	(4,959)
Reclassification	-	-	308	-	308
Balance, January 31, 2016	(9,106)	(17,575)	(103,728)	(1,884)	(132,293)
Net book value - January 31, 2016	14,972	9,818	174,618	461	199,869

Included in property and equipment are assets capitalized under finance lease arrangements. During the year ended January 31, 2017, there were no additions acquired under these arrangements (January 31, 2016 - \$0.3 million). At January 31, 2017, the net book values of aircraft and components under finance lease arrangements were nil (January 31, 2016 - \$1.1 million), and \$0.1 million (January 31, 2016 - \$0.3 million) of vehicles. Total net book value of property and equipment under finance lease, for the year ended January 31, 2017, was \$0.1 million (January 31, 2016 - \$1.4 million).

The Corporation has assigned \$145.6 million of aircraft and components and land and buildings as security in debt arrangements, and has floating charges over the Corporation's other classes of assets through general security agreements in favour of the debts identified in notes 12 and 13.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

9. Goodwill:

For the purposes of testing the impairment of goodwill, the aggregate amount of goodwill arising on acquisition has been assigned to the CGU of DA Defence. The recoverable amount of the DA Defence CGU is based on value in use using a discounted cash flow model based on management's assessment of future cash flows from continued use of the CGU. Management assessments are based on industry trends in which the CGUs operate, and other external and internal sources, including historical trend data. For the years ended January 31, 2017 and 2016 the analysis reflected recoverable amounts in excess of carrying values in the DA Defence CGU and the Corporation believes that reasonable changes in key assumptions used in the analysis would not cause the recoverable amount of goodwill to fall below its carrying value.

10. Intangible assets:

(thousands of Canadian dollars)

Cost	Customer Relationships	Trade Names	Other	Total
Balance, January 31, 2016	\$ 35,385	\$ 1,363	\$ -	\$ 36,748
Foreign exchange	-	10	-	10
Balance, January 31, 2017	\$ 35,385	\$ 1,373	\$ -	\$ 36,758

Amortization and Impairment

Balance, January 31, 2016	\$ (35,385)	\$ -	\$ -	\$ (35,385)
Amortization	-	-	-	-
Balance, January 31, 2017	\$ (35,385)	\$ -	\$ -	\$ (35,385)
Net book value, January 31, 2017	\$ -	\$ 1,373	\$ -	\$ 1,373

Cost	Customer Relationships	Trade Names	Other	Total
Balance, January 31, 2015	\$ 35,385	\$ 1,371	\$ -	\$ 36,756
Foreign exchange	-	(8)	-	8
Balance, January 31, 2016	\$ 35,385	\$ 1,363	\$ -	\$ 36,748

Amortization and Impairment

Balance, January 31, 2015	\$ (33,938)	\$ -	\$ -	\$ (33,938)
Amortization	(1,447)	-	-	(1,447)
Balance, January 31, 2016	\$ (35,385)	\$ -	\$ -	\$ (35,385)
Net book value, January 31, 2016	\$ -	\$ 1,363	\$ -	\$ 1,363

The Corporation evaluated indefinite life intangible assets for impairment related to the DA Defence CGU and Great Slave Helicopters Ltd. ("GSH") Chilean CGU as at January 31, 2017. No impairment loss was required to be recorded.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

11. Investments in Associates:

(thousands of Canadian dollars)

Investment balance, January 31, 2015	\$	4,715
Distributions		(585)
Share of profit		1,553
Investment balance, January 31, 2016	\$	5,683
Reclassification		(238)
Share of profit		798
Investment balance, January 31, 2017	\$	6,243

The Corporation has the following investments in Associates:

- i) 49% interest in Gwich'in Helicopters Limited ("**Gwich'in**"), a corporate venture incorporated in Canada; Gwich'in contracts helicopter aviation services to the government and corporate sectors within the Gwich'in settlement area of the Northwest Territories;
- ii) 49% interest in Denendeh Helicopters Ltd. ("**Denendeh**"), a corporate venture incorporated in Canada; Denendeh provides helicopter charter services to the government and corporate sectors within the South Mackenzie District of the Northwest Territories;
- iii) 49% interest in 3542564 Canada Inc., operating as Sahtu Helicopters ("**Sahtu**"), a corporate venture incorporated in Canada; Sahtu provides helicopter charter services to the government and corporate sectors within the Tulita district within the Sahtu settlement area of the Northwest Territories;
- iv) 35% interest in K'ahsho Got'ine Helicopters Ltd. ("**K'ahsho Got'ine**"), a corporate venture incorporated in Canada; K'ahsho Got'ine provides helicopter charter services to the government and corporate sectors within the Kitikmeot region of Nunavut;
- v) 48% interest in Tli Cho Air Inc. ("**Tli Cho**"), a corporate venture incorporated in Canada; Tli Cho provides fixed wing charter services to the mining, corporate and government sectors within the Tli Cho region of the Northwest Territories. In January 2012, the Corporation sold an aircraft to Tli Cho for \$5.3 million, of which \$2.5 million will be repaid over 8 years. The long term portion of this receivable is reflected in long term notes receivable. For the year ended January 31, 2017 the long term note receivable balance was \$0.8 million (January 31, 2016 - \$1.1 million). The note bears interest at a rate of 7%. The Corporation has entered into a leaseback arrangement for this aircraft;
- vi) 49% interest in Aqsaqniq Airways Ltd. ("**Aqsaqniq**"), a corporate venture incorporated in Canada; Aqsaqniq provides fixed wing charter services to the mining, corporate and government sectors within the Kitikmeot region of Nunavut; and
- vii) 49% interest in Global Aviation Tools and Equipment (GATE) Inc. ("**GATE**"), a corporate venture incorporated in Canada; GATE provides supplies and repairs aircraft parts.
- viii) 49% interest in Nunavut Expediting Services Ltd. ("**NES**"), a corporate venture incorporated in Canada; NES provides expediting services in Nunavut.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

12. Loans and borrowings:

(thousands of Canadian dollars)	Note	January 31, 2017	January 31, 2016
10.00% secured convertible debentures, maturing March 31, 2018 (" Secured Debentures ")	12(a)	\$ 104,152	\$ 98,895
8.375% unsecured convertible debentures, maturing June 30, 2018 (" Unsecured Debentures ")	12(b)	33,927	33,573
Long-term secured debt bearing interest at prime rate plus 3.05%, maturing April 1, 2023	12(c)	14,598	16,043
Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019	12(d)	13,783	15,302
Long-term secured debt bearing interest of lender's base rate plus 4.00%, maturing April 15, 2018	12(e)	6,955	11,716
Short-term secured debt bearing a fixed interest rate of 8.00%, maturing June 15, 2017	12(f)	2,300	2,300
Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019	12(g)	1,278	1,343
Various long-term secured debt bearing fixed and floating interest rates		422	457
Finance leases		210	983
Loans and borrowings		\$ 177,625	\$ 180,612
Less current portion of loans and borrowings		\$ 7,691	\$ 8,181
		\$ 169,934	\$ 172,431

- (a) On September 23, 2011, the Corporation closed the private placement of \$70.0 million principal amount of Secured Debentures. Transaction costs of \$2.0 million and the \$3.3 million fair value of the conversion feature at inception are netted against the carrying value of the Secured Debentures and are being accreted to their face value based on the effective interest rate of 11.61% per annum. The Secured Debentures mature on March 31, 2018, subject to adjustment by the holders of the Secured Debentures. The Corporation may redeem the Secured Debentures, provided the weighted average trading price of Class A Shares exceeds 116% of the then-applicable conversion price of the Secured Debentures over a specified trading period prior to issuance of the redemption notice. Further, if the Corporation undergoes a change of control (as defined in the Secured Debentures), the Corporation is required to offer to purchase all of the Secured Debentures. Interest on the Secured Debentures accrues at a rate of 10% per annum and is added to the adjusted principal amount of Secured Debentures on March 22 of each year. The initial conversion price of the Secured Debentures of \$7.50 per Share increases at 10% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest would be convertible into 8,375,570 Shares (previously 8,814,148 Shares with the reduction related to the interest repayment on January 31, 2017 mentioned below). The Secured Debentures have a first-lien security interest in all assets of the Corporation and its subsidiaries, except with respect to accounts receivable, certain inventory, and certain equipment.

The Secured Debentures require the Corporation to comply with several financial covenants, including: a debt leverage covenant, which requires the Corporation to maintain a total debt to EBITDA, as specifically defined in the Secured Debentures (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**").

The Corporation has obtained amendments to the Secured Debentures to waive or amend the Debt Leverage Covenant and the PAR covenant for the quarters ended January 31, 2017 through to October 31, 2017. 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.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

On March 22, 2016, \$9.2 million of accrued interest that was payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at January 31, 2017, the loan balance included accrued interest of \$3.3 million (January 31, 2016 - \$8.0 million).

On January 31, 2017, the Corporation repaid \$5.5 million of accrued interest.

- (b) In May, 2011, the Corporation raised \$34.5 million through the issuance of 8.375% convertible unsecured subordinated debentures at a price of \$1,000 per debenture. The Unsecured Debentures accrue interest at the rate of 8.375% per annum payable semi-annually and the principal balance is due at maturity on June 30, 2018. At the holders' option, the Unsecured Debentures may be converted into 6,804,734 Class A Shares at any time prior to the maturity date at a conversion price of \$5.07 per Share, subject to standard anti-dilution and adjustment provisions. The Corporation may, at its option and subject to notice period requirements, redeem the Unsecured Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares on the TSX during a specified period prior to redemption is not less than 125% of the conversion price. Further, if the Corporation undergoes a change of control, the Corporation is required to offer to purchase all of the Unsecured Debentures. Transaction costs of \$0.8 million and the \$1.4 million fair value of the conversion feature at inception are netted against the carrying value of the Unsecured Debentures and are being accreted to their face value based on an effective interest rate of 11.86% per annum.
- (c) 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 loans 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 \$0.3 million 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 a first charge on the aircraft purchased. The agreement requires that the Corporation observe a variety of non-financial covenants.
- (d) On March 31, 2014, the Corporation entered into a \$21.5 million term loan agreement. The loan matures on April 1, 2019 with current payment terms of \$0.1 million per month for the period April 1, 2016 to March 31, 2017, then monthly payments of \$0.2 million thereafter. The loan bears interest at a rate equal to the three-month Canadian dollar bankers' acceptance rate ("**BA rate**") plus 5.15% per annum. The loan is secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of \$0.2 million are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 6.59% per annum. The agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum fixed charge coverage ratio, and not exceed a specified level of total liabilities to tangible net worth (see note 12(h)).
- (e) On March 26, 2012, the Corporation entered into a \$20.0 million term loan agreement. The loan matures on April 15, 2018 and is currently repayable in monthly instalments of \$0.1 million plus interest for the period April 15, 2016 through to March 15, 2017, and \$0.2 million thereafter with the balance due at maturity. The loan bears an interest rate equal to the lender's floating base rate plus 4.00% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of \$0.2 million 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 4.99% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage ratio.
- (f) On June 2, 2015, the Corporation entered into an unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. The maturity was extended to June 15, 2017 and bears interest at 8% per annum.
- (g) On January 31, 2014, the Corporation entered into a \$1.6 million term loan. The loan matures on March 1, 2019 and is currently repayable in monthly instalments of \$11,000 through to March 1, 2017, and monthly installments of \$20,000 thereafter with the balance due at maturity. The loan bears interest at a rate equal to the three-month Canadian dollar BA rate plus 4.55% per annum. The loan is secured by charge on the aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of \$0.1 million are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 7.06% per annum. The agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum fixed charge coverage ratio, and not exceed a specified level of leverage.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

- (h) The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, (iii) the value of the security pledged to its lenders in relation to its debt levels, and (iv) its continued ability to obtain waivers or amendments in the event of non-compliance with its covenants in the future. As interest on the Secured Debentures is paid in kind (i.e. accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time.

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

The Corporation was in compliance with all financial and non-financial covenants as at January 31, 2017.

Repayments on or in respect of the outstanding loans and borrowings as at January 31, 2017 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)

Within 1 year	\$	7,691
Within 2 years		146,941
Within 3 years		12,721
Within 4 years		1,675
Within 5 years		1,775
Thereafter		6,822
Total	\$	177,625

Interest expense on or in respect of loans and borrowings for the years ended January 31, 2017, was \$16.9 million (January 31, 2016 - \$16.8 million).

13. Operating line of credit:

On May 26, 2015, the Corporation entered into an operating line of credit ("**Operating Line**") agreement. The 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 limited to eligible accounts receivable, inventory and aircraft parts, and an amount (no greater than \$5.0 million) guaranteed by Clairvest Group Inc., subject to an allowance for specific reserves. The Operating Line also includes an additional \$10.0 million credit facility that is available subject to the lender receiving a letter of credit or guarantee from Clairvest Group Inc., at 103% of the amount drawn. This additional credit facility matures on May 26, 2017. The Corporation is compliant with all applicable covenants as of January 31, 2017. Total transactions costs for this facility were \$0.4 million.

On March 30, 2016, the Corporation entered into a \$12.0 million unsecured revolving loan agreement (the "**Revolver**") with certain Clairvest Group Inc. affiliates ("**Clairvest**") maturing December 31, 2016. The loan bore interest of 12% and was payable monthly. The balance was repaid on December 20, 2016.

On December 20, 2016, DA Defence entered into a \$25.0 million convertible secured revolving loan agreement ("**Credit Agreement**") with Clairvest. The loan bears interest of 12% and is payable on February 15, 2017, May 15, 2017 and at maturity on June 30, 2017. Interest payable on February 15, 2017 was paid in full. Prior to the maturity date, the Corporation expects the Credit Agreement to be extended at similar terms and conditions, or that it will be converted into DA Defence common shares, as per the terms of the agreement.

As at January 31, 2017, \$1.0 million of the Operating Line was applied to letters of credit (January 31, 2016 - \$1.4 million), resulting in a combined unused borrowing capacity of \$19.9 million under the Operating Line and the Credit Agreement. Although the Corporation believes it can renew or extend the Operating Line and the Credit Agreement prior to maturity, there can be no assurance that the Operating Line and Credit Agreement will be renewed or extended.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

14. Finance leases:

The Corporation has leases of various facilities, equipment and vehicles, which are classified as finance leases. The interest rates on these leases range from 2% to 10% per annum and remaining lease terms range from 1 to 3 years. The obligations under these leases are secured by the related assets associated with the leases.

(thousands of Canadian dollars)

Minimum lease payment due	Within one year	One to five years	After five years	Total
January 31, 2017:				
Future minimum lease payments	\$ 84	\$ 138	\$ -	\$ 222
Interest	(8)	(4)	-	(12)
Present value of minimum payments	\$ 76	\$ 134	\$ -	\$ 210

The present value of finance lease obligations, in total, for the year ended January 31, 2016 was \$1.0 million.

15. Income taxes:

Income tax expense (recovery) is comprised of:

(thousands of Canadian dollars)

	January 31, 2017	January 31, 2016
Current income tax expense (recovery) from continuing operations:		
Current period	\$ (332)	\$ 423
Change in prior period estimates	249	(16)
	\$ (83)	\$ 407
Deferred Income tax expense (recovery) from continuing operations:		
Origination and reversal of temporary differences	(2,945)	(3,262)
Change in prior period estimates	10	35
	(2,935)	(3,227)
Total income tax recovery	\$ (3,018)	\$ (2,820)

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Reconciliation of effective tax rate:

Income tax recovery differs from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 27% (January 31, 2016 – 27%) to loss before income tax. The reasons for the differences are as follows:

(thousands of Canadian dollars)	January 31, 2017	January 31, 2016
Loss before income taxes	\$ (21,093)	\$ (17,647)
Federal and provincial statutory income tax rate	27%	27%
Expected tax recovery	\$ (5,695)	\$ (4,765)
Increase (decrease) resulting from:		
Losses and other deferred tax assets for which the benefit has not been recognized	3,238	1,979
Unrecognized loss on sale of subsidiary, net of non-taxable portion of gain	312	-
Differences in tax rates in foreign jurisdictions	(941)	(572)
Differences in expected effective tax rates	90	110
Other permanent differences	(22)	428
	\$ (3,018)	\$ (2,820)

The significant components of deferred income tax assets/liabilities are as follows:

(thousands of Canadian dollars)

	January 31, 2017	January 31, 2016
Deferred tax liabilities:		
Property and equipment	\$ 26,697	\$ 27,837
Intangible assets	(112)	(201)
Conversion feature on Unsecured Debentures	69	111
Deferred tax assets:		
Non-capital loss carryforwards	(17,319)	(14,124)
Other	(1,143)	(1,284)
	\$ 8,192	\$ 12,339

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

As at January 31, 2017, the Corporation has accumulated approximately \$83.5 million (January 31, 2016 - \$63.1 million) in non-capital losses that are available to reduce taxable income in future years. These losses have the following dates of expiry:

(thousands of Canadian dollars)

Year of expiry	Canada	USA	Taxable losses
2030	\$ 455	\$ -	\$ 455
2031	344	-	344
2032	2,485	-	2,485
2033	10,095	-	10,095
2034	5,973	125	6,098
2035	6,448	4,120	10,568
2036	17,683	6,850	24,533
2037	22,132	6,809	28,941
	<u>\$ 65,615</u>	<u>\$ 17,904</u>	<u>\$ 83,519</u>

Deferred tax assets are recognized for these non-capital loss carry forwards to the extent that the realization benefit through future taxable profits is probable. The ability of the Corporation to realize the tax benefits of the loss carry forwards is contingent on many factors including the ability to generate future taxable profits in the jurisdictions in which the tax losses arose.

The non-capital losses include \$17.9 million of losses which are not recognized as a deferred tax asset. These losses expire in 2034 to 2037.

16. Share capital and share-based compensation:

(a) Authorized:

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

The Canada Transportation Act (the "CTA") requires that holders of licences to operate a domestic air service be "Canadian" within the meaning of the CTA. In order to comply with certain requirements of the CTA, Class A Shares may be beneficially owned and controlled, directly or indirectly, only by persons who are Canadians, and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians. The CTA defines a "Canadian", among other criteria, as a corporation or other entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians citizens or a permanent resident and of which at least 75% (or such lesser percentage as the Governor in Council may by regulation specify) of the voting interests are owned and controlled by Canadians.

The holders of both Class A Shares and Class B Shares are entitled to receive dividends, as declared from time-to-time, and are entitled to one vote per share at meetings of the shareholders of the Corporation provided that the Class B Shares as a class are entitled to exercise no greater than 25% (or such higher percentage as the Governor in Council may by regulation specify) of all votes attached to the Shares. All Shares rank equally with regard to the Corporation's residual assets.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

(b) Issued and outstanding:

(thousands of Canadian dollars, except for shares)

	January 31, 2017		January 31, 2016	
	Shares	Amount	Shares	Amount
Class A Shares				
Outstanding, beginning of year	79,286,721	\$ 92,294	31,510,148	\$ 81,622
Issued from Rights Offering (net of transaction costs)	-	-	50,000,000	10,672
Transfer to Class B	-	-	(2,223,427)	-
Outstanding, end of period	79,286,721	\$ 92,294	79,286,721	\$ 92,294
Class B Shares				
Outstanding, beginning of year	2,710,754	\$ 1,419	487,327	\$ 1,419
Transfer from Class A	-	-	2,223,427	-
Outstanding, end of period	2,710,754	\$ 1,419	2,710,754	\$ 1,419
	81,997,475	\$ 93,713	81,997,475	\$ 93,713

A rights offering announced on January 19, 2015 (“**Rights Offering**”), was completed on March 13, 2015. The Corporation raised \$10.7 million in net proceeds from the issuance of 50.0 million Shares. As a result of the Rights Offering Clairvest became the Corporation’s majority shareholder (see note 24(a)).

(c) Share-based compensation:

Employee Stock Options (equity settled)

As at January 31, 2017, the Corporation had stock options outstanding that were granted to the officers and employees of the Corporation under three different employee stock option plans. The employee stock option plan created in January 2006 (the “**2006 plan**”) was terminated in June 2008, terminating any additional grants under this plan. All outstanding stock options granted under the January 2006 plan are fully vested.

In June 2010, a new employee stock plan (the “**2010 plan**”) was approved by the shareholders. Stock options granted under the 2010 plan have an exercise price set at the closing market price of the Class A Shares on the day preceding the date of grant, are exercisable for up to 10 years, and have vesting periods of three to five years, as determined by the Corporation’s board of directors. All outstanding stock options granted under the January 2010 plan are fully vested.

On June 11, 2013, a new employee stock plan (the “**2013 plan**”) was approved by shareholders. Stock options granted under the 2013 plan have an exercise price set by the board of directors provided that it may not be less than the weighted average market price of the common shares on the TSX on the five trading days prior to such date. The board of directors will have authority to determine the expiry date for each option, provided that it may not be more than 10 years from the grant date as well as the authority to determine the vesting schedule for each grant. Any options granted after the effective date of the 2013 plan will be issued under, and will be governed by the terms of the 2013 plan.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

At January 31, 2017, 7,867,043 Shares have been reserved for stock options as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number outstanding	Weighted average remaining life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.01 - \$0.50	5,669,475	8.27	\$ 0.30	2,267,790	\$ 0.30
\$0.51 - \$2.49	2,113,063	7.75	\$ 0.86	1,267,838	\$ 0.86
\$2.50 - \$4.99	30,000	0.62	\$ 2.56	30,000	\$ 2.56
\$5.00 - \$10.00	-	0.00	\$ -	-	\$ -
\$10.10 - \$15.00	15,075	1.06	\$ 12.37	15,075	\$ 12.37
\$15.01 - \$17.50	23,350	0.59	\$ 15.52	23,350	\$ 15.52
\$17.51 - \$18.50	16,080	0.05	\$ 18.50	16,080	\$ 18.50
	7,867,043			3,620,133	

Stock option transactions for the periods ended January 31, 2017 and January 31, 2016 were as follows:

	January 31, 2017		January 31, 2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	8,023,398	\$ 1.45	2,496,613	\$ 1.45
Granted	-	0.30	5,744,475	0.30
Expired/Forfeited	(156,355)	1.91	(217,690)	1.23
Outstanding, end of period	7,867,043	\$ 0.61	8,023,398	\$ 1.45

For the year ended January 31, 2017, the Corporation recognized a net share based compensation expense of \$0.3 million (January 31, 2016 – \$0.5 million), relating to the estimated fair value of vesting employee stock options.

(d) Deferred share units (cash settled):

At January 31, 2017, there were 604,463 (January 31, 2015 – 534,763) DSUs held by the directors of the Corporation. Each DSU entitles a director, upon ceasing to be a director or (in the case of U.S. resident directors) upon a separation from service, to a cash distribution equal to the market value of the Class A Shares. During the year ended January 31, 2017, the Corporation granted 69,696 (January 31, 2016 – 273,144) DSUs, and had no cancellations (January 31, 2016 – 101,753). For the years ended January 31, 2017 and 2016 the Corporation recognized a nominal amount of net compensation expense related to DSUs.

The carrying amount of the liability at January 31, 2017 in respect of the DSUs was \$0.1 million (January 31, 2016 - \$0.1 million).

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

17. Expenses:

(thousands of Canadian dollars)

	January 31, 2017	January 31, 2016
Wages and related benefits	\$ 75,045	\$ 78,636
Crew related expenses including travel	12,586	13,131
Repairs and maintenance	14,216	14,934
Fuel	11,280	12,309
Aircraft lease expense	9,068	10,988
Facility and related support costs	14,358	13,985
Other expenses	13,532	13,099
	\$ 150,085	\$ 157,082

18. Finance costs:

(thousands of Canadian dollars)

	Note	January 31, 2017	January 31, 2016
Interest and fees payable in cash		\$ 8,227	\$ 7,425
Interest payable in kind	12(a)	10,017	9,196
Accretion of discounts on loans and borrowings		1,525	1,772
Net foreign exchange gain (loss)		(422)	947
Impairment loss on trade receivables	23(b)	1,084	336
		\$ 20,431	\$ 19,676

19. Earnings per share:

(thousands of Canadian dollars, except per share amounts)

	January 31, 2017	January 31, 2016
Basic and Diluted loss per share:		
Income (loss) attributable to shareholders		
Continuing operations	\$ (18,075)	\$ (14,827)
Discontinued operations	27	(1,184)
Weighted average number of Shares outstanding	81,997	76,669
Basic and Diluted loss per share from continuing operations	\$ (0.22)	\$ (0.19)
Basic and Diluted loss per share from discontinued operations	0.00	(0.02)

For the year ended January 31, 2017, 18,800,437 (January 31, 2016 – 17,756,662) potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive. Although the Corporation's Class A Share price as at January 31 2017, and 2016 was below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33,

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Earnings per share, considers these debentures dilutive only if the interest savings per share (net of tax) is less than the basic earnings per share.

20. Other (gains) and losses:

(thousands of Canadian dollars)

	For the year ended	
	January 31, 2017	January 31, 2016
(Gain) Loss on disposal of property and equipment	\$ 85	\$ (1,734)
Impairment loss	1,788	5,084
Gain on disposal of subsidiary	(303)	-
Restructuring provision	1,112	-
	\$ 2,682	\$ 3,350

21. Change in non-cash operating working capital:

(thousands of Canadian dollars)

	For the year ended	
	January 31, 2017	January 31, 2016
Restricted cash	\$ 4	\$ 935
Trade and other receivables	1,061	1,375
Inventory	(1,825)	(7,730)
Prepaid expenses and other	(3,824)	(1,202)
Trade and other payables	(5,820)	2,175
	\$ (10,404)	\$ (4,447)

22. Capital disclosures:

The Corporation's capital structure consists of long-term debt (see note 12) and shareholders' equity (see note 16). Management's primary objective of capital structure oversight is to maintain a strong financial profile for investor, creditor, and customer confidence, and to support the growth of the Corporation's businesses. Management seeks to maintain a capital structure that will allow the Corporation to cover its funding requirements through the capital markets and asset-backed lending markets at reasonable conditions, and in so doing, ensure an adequate level of financial flexibility.

Capital is managed in accordance with policies and financial plans that are approved and regularly reviewed by senior management and the Corporation's board of directors and take into account forecasted capital needs, actual performance and market conditions. The reviews take into consideration many factors including:

- 1) the growth of the Corporation;
- 2) current and anticipated capital market conditions;
- 3) a general desire to reduce complexity;
- 4) reduction of costs of capital; and
- 5) return of capital targets across all asset groups.

The Corporation's board of directors also reviews and approves any material transactions outside the ordinary course of business.

Certain of the Corporation's debt agreements include affirmative and negative covenants which restrict the Corporation's ability to deal with its assets and operations in the normal course of business including, but not limited to, issuing equity securities, borrowing money or issuing guarantees, incurring liens to secure indebtedness, undertaking investments or disposing of assets, paying dividends, redeeming capital stock, or making other restricted payments, and merging with another company or selling substantially all of its assets. Certain of the Corporation's debt agreements also require that the Corporation maintain specified financial ratios and satisfy specified financial tests. The Corporation monitors these covenants regularly (see note 12 and 13). Other than covenants in its credit facilities or shareholders' agreement (which was entered into in connection with the Secured Debentures) and

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

CTA restrictions related to Canadian ownership (see note 16), the Corporation is not subject to any other externally-imposed capital restrictions.

23. Fair value of financial assets and liabilities:

(a) Fair value estimation:

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

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

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

The fair value of the Secured Debentures and Unsecured Debentures as at January 31, 2017 was \$115.7 million (January 31, 2016 - \$112.3 million) as compared to a carrying value of \$138.1 million (January 31, 2016 - \$132.5 million). At January 31, 2017 and January 31, 2016 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

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

(b) Financial risk management:

The Corporation is exposed to a number of different financial risks arising from normal business operations as well as through the Corporation's financial instruments comprised of cash, trade and other receivables, trade and other payables, accrued liabilities, Operating Line and loans and borrowings. These risk factors include market, credit and liquidity risks. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk which includes financial risk, among others. The Corporation's management and the board of directors review the principal business risks of the Corporation discussed in the Corporation's Annual Information Form dated April 13, 2017 and accompanying Management's Discussion and Analysis. The Corporation's board of directors expects management to develop a formal, disciplined and integrated enterprise risk management process that enables management to identify, assess, monitor, and manage the Corporation's strategic, operational, reporting and compliance risks. Such a process is intended to provide reasonable assurance that the Corporation's principal risks are managed having regard to the Corporation's business objectives and risk tolerance. Certain risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The Corporation's primary financial risk management objective is to achieve an optimal balance between maximizing return for its shareholders and minimizing the volatility of its cash flows.

The risks associated with the Corporation's financial instruments and the way in which such risk exposures are managed are as follows:

i) Market risk:

Market risk is the risk of loss that could result from changes in market factors such as foreign currency exchange rates and interest rates. The level of market risk to which the Corporation is exposed at any point in time varies depending on market conditions, market rate movements and the composition of the Corporation's financial assets and liabilities held. The Corporation's management is responsible for determining the acceptable level of risk and may utilize hedging instruments to the extent it believes it is prudent to manage existing or anticipated risks, commitments or obligations based on its past experiences and expectations for the future.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

ii) Currency Risk:

The Corporation's revenues and expenses are primarily in Canadian dollars; however, the Corporation's foreign operations (whose expenses and revenues are primarily incurred in U.S. dollars, Euros and Chilean Pesos, therefore creating a natural hedge on changes in the U.S. dollar and Chilean Peso) increase its exposure to foreign currency risk. Changes in exchange rates will result in fluctuations in the Corporation's operating results; the impact on the Corporation's continuing operations for the year ended January 31, 2017 was a loss of \$0.4 million (January 31, 2016 a gain of \$0.9 million).

As at January 31, 2017, the Corporation evaluated the currency risk on unhedged foreign currency liabilities by assessing the impact of a 5.00% rise or fall in the Canadian dollar against the foreign currencies, with all other variables unchanged. Such an exchange rate change would have a \$0.4 million impact on the Corporation's profit or loss and equity for the year ended January 31, 2017 (January 31, 2016 - \$0.3 million). This impact would be offset by the change in foreign currency accounts receivables, netting to an immaterial impact in current and prior year's profit or loss and equity.

iii) Interest rate risk:

The Corporation's cash flow and net earnings are exposed to interest rate fluctuations due to the Corporation's variable interest rate long term instruments.

As at January 31, 2017, the Corporation had \$36.6 million in loans and borrowings subject to variable interest rates and as a result may be exposed to future financial risk from fluctuations in interest rates and the resulting interest expense associated with its short-term and long-term debt. A 25 basis point increase or decrease in interest rates on such obligations will increase or decrease the Corporation's annual interest expense for the next twelve months by \$0.1 million.

iv) Credit risk:

Some of the Aviation segment's revenues are derived from services provided to mining and oil & gas exploration companies. These customers are exposed to changes in the related commodities market. The customers' ability to pay for the services provided could deteriorate if commodity prices decline. In addition, in some cases the Aviation segment provides services through an intermediary, therefore the Corporation may be delayed in receiving payment if the ultimate customer delays paying the Corporation's customer.

Payment terms are generally net 30 days. As at January 31, 2017, and 2016 the gross aging of trade and other receivables was as follows:

(thousands of Canadian dollars)

	January 31, January 31,	
	2017	2016
Current	\$ 19,209	\$ 20,935
31-60 days	2,999	2,904
61-90 days	1,537	1,214
> 90 days	3,160	4,078
	\$ 26,905	\$ 29,131

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

Changes in the Corporation's provision for impairment of trade and other receivables are as follows:

(thousands of Canadian dollars)	
Balance, January 31, 2015	\$ (285)
Provision for receivables impairment	(336)
Receivables written off as uncollectible	373
Balance, January 31, 2016	\$ (248)
Provision for receivables impairment	(1,091)
Receivables written off as uncollectible	1,132
Balance, January 31, 2017	\$ (207)

The carrying amount of the Corporation's trade and other receivables are denominated in the following currencies:

(thousands of Canadian dollars)	January 31, 2017	January 31, 2016
Canadian dollars	\$ 15,553	\$ 22,339
United States dollars	387	2,924
Chilean Pesos	10,965	3,868
	\$ 26,905	\$ 29,131

The maximum exposure to credit risk at each reporting date is the carrying amount of trade and other receivables.

v) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to satisfactorily meet its financial obligations as they fall due or will not be in a position to refinance maturing obligations at a reasonable price or credit structure. The Corporation's management is responsible for ensuring that there is sufficient capital in order to meet the short-term and medium-term business requirements, after taking into account cash flows from operations and the Corporation's cash position. The Corporation's liquidity is monitored through a daily assessment of both a detailed four-week forward cash forecast of cash balances and non-cash working capital, and the use of annual budgets with updated projections during the fiscal year. Such projections identify cash funding requirements for operating and capital investment purposes and also provide advance visibility of potential covenant violations.

The Corporation has financial covenants that are required by its lenders to meet on a quarterly and annual basis. These covenants require that the Corporation maintain specified financial ratios and satisfy specified financial tests. As well, there are other non-financial covenants that could affect the Corporation's ability to grow organically and by acquisition or to make distributions. The Corporation was in compliance with all other financial covenants in its debt agreements for the year ended January 31, 2017 (see note 12).

The Corporation requires working capital to fund its operations generally and, in particular, to meet increased cash flow requirements associated with seasonal operations. The Corporation has a committed Operating Line of Credit (see note 13) to finance its working capital requirements with a borrowing limit of up to \$20.0 million and increased availability of up to \$30.0 million during the Corporation's peak operating period. The Operating Line also includes an additional \$10.0 million credit facility that is available subject to the lender receiving a letter of credit or guarantee from Clairvest Group Inc., at 103% of the amount drawn. The Corporation expects that its cash from operations, the existing Operating Line and Credit Agreement, will be sufficient to meet its anticipated working capital requirements.

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

The Secured Debentures mature on March 31, 2018. Upon the maturity of the Secured Debentures, the Corporation is required to repay the principal amount of such Secured Debentures together with all accrued and unpaid interest and any other amounts owing pursuant to the terms of the Secured Debentures.

The expected contractual principal repayments of trade and other payables and loans and borrowings are below. The contractual principal repayment amount for loans and borrowings assumes the Corporation makes scheduled repayments to maturity and in the case of the Secured Debentures includes the future accrued payment in kind interest that would be added to the principal balance throughout the term of this facility. The payments for the Unsecured Debentures and Secured Debentures assume there is no early redemption or conversion to equity.

(thousands of Canadian dollars)

January 31, 2017	Due	Due	Due	Due	Due	Due	Total
	within 1 year	between 1 & 2 years	between 2 & 3 years	between 3 & 4 years	between 4 & 5 years	after 5 years	
Trade and other payables	\$ 25,672						\$ 25,672
Loans and borrowings	7,730	160,613	12,699	1,711	1,813	6,873	191,439
	\$ 33,402	\$ 160,613	\$ 12,699	\$ 1,711	\$ 1,813	\$ 6,873	\$ 217,111

24. Related party transactions:

(a) Loans and borrowings:

The Secured Debentures held by Clairvest would represent, on a post-conversion basis, approximately 9% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for year ended January 31, 2017 was \$10.0 million (January 31, 2016 - \$9.2 million). The Corporation also incurs a merchant bank fee of \$250,000 per annum, payable to Clairvest Group Inc. on a monthly pro-rata basis.

As a result of the shares acquired in the Rights Offering completed March 13, 2015 (see note 16), Clairvest acquired 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 June 15, 2017 (see note 12(f)). On December 20, 2016, DA Defence entered into a \$25.0 million Credit Agreement with Clairvest (see note 13).

(b) Key management compensation:

Key management includes members of the executive management team. The compensation paid or payable to key management for employee services is shown below:

(thousands of Canadian dollars)	For the year ended	
	January 31, 2017	January 31, 2016
Salaries and other short-term employee benefits	\$ 2,574	\$ 2,780
Retirement allowance	72	69
Share based compensation	219	411
	\$ 2,865	\$ 3,260

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

(c) Transactions with associates:

For the year ended January 31, 2017, the Corporation's revenues include \$15.4 million (January 31, 2016 - \$19.9 million), and the Corporation's expenses include \$3.7 million (January 31, 2016 - \$3.9 million), from transactions with the Corporation's associates. As at January 31, 2017, \$2.5 million (January 31, 2016 - \$3.9 million) of the Corporation's accounts receivable were due from associates, and \$0.5 million (January 31, 2016 - \$3.0 million) of the Corporation's accounts payable were due to associates. As at January 31, 2017, \$0.8 million (January 31, 2016 - \$1.1 million) of the Corporation's long term receivables were due from associates, and \$0.4 million (January 31, 2016 - \$0.4 million) of the Corporation's loans and borrowings were due to associates.

25. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the year ended January 31, 2017, the Corporation incurred \$10.8 million (January 31, 2016 - \$13.2 million) in operating lease expenses. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)

Within 1 year	\$	6,368
Within 2 years		4,199
Within 3 years		3,122
Within 4 years		1,510
Within 5 years		1,426
Thereafter		556
	\$	17,181

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

26. Segmented information:

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

The revenues disclosed in the tables are from external customers. There are inter-segment revenues; however they are eliminated on consolidation. For the year ended January 31, 2017, there was \$0.2 million of inter-segment revenues that was eliminated (January 31, 2016 - nil).

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

DISCOVERY AIR INC.

Notes to the Consolidated Financial Statements (continued)

Years ended January 31, 2017 and 2016

(thousands of Canadian dollars)	For the year ended January 31, 2017			For the year ended January 31, 2016		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	\$ 167,090	\$ 3,965	\$ 171,055	\$ 178,332	\$ 3,849	\$ 182,181
Expenses	138,184	11,901	150,085	144,299	12,783	157,082
	28,906	(7,936)	20,970	34,033	(8,934)	25,099
Depreciation and amortization	18,972	776	19,748	20,336	937	21,273
Share of profit from associates (net of income tax)	(621)	(177)	(798)	(1,403)	(150)	(1,553)
	10,555	(8,535)	2,020	15,100	(9,721)	5,379
Finance costs			20,431			19,676
Other (gains) and losses			2,682			3,350
Loss before income taxes			(21,093)			(17,647)
Income tax provision (recovery):						
Current			(83)			407
Deferred			(2,935)			(3,227)
			(3,018)			(2,820)
Loss from continuing operations			(18,075)			(14,827)
Income (loss) from discontinued operations			27			(1,184)
Loss			\$ (18,048)			\$ (16,011)
Segment assets	\$ 294,550	\$ 3,154	\$ 297,704	\$ 314,890	\$ 4,931	\$ 319,821
Capital expenditures	\$ 15,447	\$ 247	\$ 15,694	\$ 28,052	\$ 567	\$ 28,619
Investments in associates	\$ 5,910	\$ 333	\$ 6,243	\$ 5,527	\$ 156	\$ 5,683

27. Subsequent events:

On March 24, 2017 the Corporation announced that certain funds managed by Clairvest Group Inc. have entered into a definitive agreement which will result 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. This transaction would not constitute a change of control, as it relates to the Unsecured Debentures.