DISCOVERY AIR

# Interim Condensed Consolidated Financial Statements
## October 31, 2017
## (Unaudited)

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

| (thousands of Canadian dollars) | Note | **October 31, 2017** | January 31, 2017 |
|---|---|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash | | **$ 216** | $ 329 |
| Restricted cash | | **14** | 16 |
| Trade and other receivables | | **34,930** | 26,698 |
| Income taxes receivable | | **814** | 603 |
| Inventory | | **27,711** | 26,435 |
| Prepaid expenses and other | | **16,956** | 17,153 |
| Assets held for sale | | **705** | 2,271 |
| | | **81,346** | 73,505 |
| Property and equipment | | **177,355** | 178,119 |
| Long term receivables | | **509** | 797 |
| Goodwill | | **37,861** | 37,861 |
| Intangible assets | | **1,378** | 1,373 |
| Investments in associates | | **6,832** | 6,243 |
| | | **$ 305,281** | $ 297,898 |
| Liabilities and Shareholders' equity | | | |
| Current liabilities: | | | |
| Operating line of credit | 6 | **$ 55,487** | $ 34,084 |
| Trade and other payables | | **26,152** | 25,672 |
| Loans and borrowings scheduled repayments | 5 | **4,636** | 7,691 |
| Current portion of loans and borrowings | 5 | **177,166** | - |
| | | **263,441** | 67,447 |
| Loans and borrowings | 5 | **531** | 169,934 |
| Deferred income taxes | | **4,395** | 8,192 |
| | | **4,926** | 178,126 |
| Shareholders equity: | | | |
| Share capital | | **93,713** | 93,713 |
| Contributed surplus | | **12,521** | 12,400 |
| Deficit | | **(70,999)** | (55,886) |
| Accumulated other comprehensive income | | **1,679** | 2,098 |
| Total equity | | **36,914** | 52,325 |
| | | **$ 305,281** | $ 297,898 |

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Loss

(Unaudited)

| (thousands of Canadian dollars, except per share amounts) | Note | For the three months ended October 31, 2017 | For the three months ended October 31, 2016 | For the nine months ended October 31, 2017 | For the nine months ended October 31, 2016 |
|---|---|---|---|---|---|
| Revenue | | **$ 42,640** | $ 42,919 | **$ 120,153** | $ 139,416 |
| Expenses | | **37,728** | 36,794 | **108,044** | 114,712 |
| Depreciation and amortization | | **4,713** | 4,806 | **13,914** | 15,307 |
| Finance costs | | **5,477** | 5,087 | **16,306** | 14,791 |
| Share of profit from associates (net of income tax) | | **(208)** | (94) | **(591)** | (628) |
| Other (gains) and losses | | **827** | 722 | **1,291** | 875 |
| | | **48,537** | 47,315 | **138,964** | 145,057 |
| Loss before income taxes | | **(5,897)** | (4,396) | **(18,811)** | (5,641) |
| Income tax provision (recovery): | | | | | |
| Current | | **(16)** | (160) | **-** | 329 |
| Deferred | | **(1,532)** | (351) | **(3,698)** | (160) |
| | | **(1,548)** | (511) | **(3,698)** | 169 |
| Loss | | **$ (4,349)** | $ (3,885) | **$ (15,113)** | $ (5,810) |
| Basic and diluted loss per share | 7 | **$ (0.05)** | $ (0.05) | **$ (0.18)** | $ (0.07) |

## Interim Condensed Consolidated Statements of Comprehensive Loss

| (thousands of Canadian dollars) | For the three months ended October 31, 2017 | For the three months ended October 31, 2016 | For the nine months ended October 31, 2017 | For the nine months ended October 31, 2016 |
|---|---|---|---|---|
| Loss | **$ (4,349)** | $ (3,885) | **$ (15,113)** | $ (5,810) |
| Other comprehensive income (loss): | | | | |
| Exchange differences on translation of foreign operations | **1,384** | 1,107 | **(419)** | (671) |
| Total comprehensive loss | **$ (2,965)** | $ (2,778) | **$ (15,532)** | $ (6,481) |

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

(Unaudited)
(thousands of Canadian dollars)

| | Share capital | Contributed surplus | Retained earnings (deficit) | Accumulated other comprehensive income (loss) | Total equity |
|---|---|---|---|---|---|
| **Balance at January 31, 2017** | **$ 93,713** | **$ 12,400** | **$ (55,886)** | **$ 2,098** | **$ 52,325** |
| **Loss** | **-** | **-** | **(15,113)** | **-** | **(15,113)** |
| **Other comprehensive loss** | **-** | **-** | **-** | **(419)** | **(419)** |
| **Employee stock options** | **-** | **121** | **-** | **-** | **121** |
| **Balance at October 31, 2017** | **$ 93,713** | **$ 12,521** | **$ (70,999)** | **$ 1,679** | **$ 36,914** |
| | | | | | |
| Balance at January 31, 2016 | $ 93,713 | $ 12,120 | $ (37,838) | $ 4,058 | $ 72,053 |
| Loss | - | - | (5,810) | - | (5,810) |
| Other comprehensive loss | - | - | - | (671) | (671) |
| Employee stock options | - | 224 | - | - | 224 |
| Balance at October 31, 2016 | $ 93,713 | $ 12,344 | $ (43,648) | $ 3,387 | $ 65,796 |

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Cash Flows

(Unaudited)

| (thousands of Canadian dollars) | Note | For the nine months ended October 31, 2017 | October 31, 2016 |
|---|---|---|---|
| Cash provided by (used in) | | | |
| Operating activities: | | | |
| Loss | | **$ (15,113)** | (5,810) |
| Adjustments for: | | | |
| Current tax provision | | **-** | 329 |
| Deferred tax recovery | | **(3,698)** | (160) |
| Finance costs | | **16,306** | 14,790 |
| Total share-based compensation | | **121** | 189 |
| Depreciation and amortization | | **13,914** | 15,307 |
| Share of profit from associates (net of income tax) | | **(591)** | (628) |
| Other (gains) and losses | | **1,291** | 875 |
| | | **12,230** | 24,892 |
| Change in non-cash operating working capital | 8 | **(14,259)** | (12,939) |
| Interest paid | | **(4,606)** | (5,270) |
| Net income taxes paid | | **(276)** | (356) |
| Net cash provided by (used in) operating activities | | **(6,911)** | 6,327 |
| Investing activities: | | | |
| Acquisition of property and equipment | | **(13,061)** | (14,412) |
| Long term receivable collections | | **269** | 241 |
| Proceeds on disposal of property and equipment | 4 | **1,721** | 254 |
| Net cash used in investing activities | | **(11,071)** | (13,917) |
| Financing activities: | | | |
| Borrowings under operating line of credit | 6 | **21,403** | 11,223 |
| Repayment of loans, borrowings and finance leases | | **(4,059)** | (3,747) |
| Net cash provided by financing activities | | **17,344** | 7,476 |
| Decrease in cash | | **(638)** | (114) |
| Effect of exchange rate changes on cash and cash equivalents | | **525** | 304 |
| Cash, balance beginning of period | | **329** | 358 |
| Cash, balance end of period | | **$ 216** | $ 548 |

See accompanying notes to the interim condensed consolidated financial statements.

## 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*. Until May 29, 2017, the Corporation's Class A common voting shares (the "**Class A Shares**") were 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**".

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

## 2. Basis of preparation:

Statement of compliance:

The Corporation prepares its interim condensed consolidated financial statements in accordance with International Accounting Standard ("**IAS**") 34, Interim Financial Reporting. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended January 31, 2017, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

The financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments by the Corporation in the normal course of the business.

The Corporation reported operating losses for the three and nine months ended October 31, 2017, and has $119.7 million in secured loans and borrowings, $34.5 million of unsecured debentures and $55.5 million of operating lines coming due in the next twelve months, as well as $4.7 million in current loans and borrowings relating to scheduled repayment terms and $23.6 million of loans classified as current (refer to notes 5 and 6 below). The Corporation is working towards renewing, extending or refinancing its obligations. Although management expects to renew, extend or refinance the loans and borrowings and operating lines prior to their current maturity dates, there can be no assurance that the loans or operating lines will be renewed, extended or refinanced, or that future loans will be available in an amount sufficient to meet the Corporation's financing requirements at that time. In the event the Corporation is unable to renew, extend or refinance these credit agreements, based on management's current assessment, cash and forecasted cash flows from operations are not expected to be sufficient to meet obligations as they come due. The ability to obtain renewals or extensions from its lenders or replacement financing results in a material uncertainty that may cast significant doubt upon the Corporation's ability to realize its assets and discharge its liabilities in the normal course of business.

The financial statements do not include any adjustments that might result from the outcome of this going concern uncertainty and those adjustments may be material.

## 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) These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation's most recent annual audited consolidated financial statements for the year ended January 31, 2017.

(b) Recently issued standards:

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

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

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

## 4. Assets held for sale:

At January 31, 2017, the Corporation had committed to a plan to dispose of four aircraft. Accordingly, the aircraft were recorded at $2.3 million, which was the lower of cost and fair value less cost to sell. Two of these aircraft along with their spare parts were sold in April 2017 for proceeds of $1.3 million resulting in a pre-tax gain of $0.1 million.

During the quarter ended October 31, 2017, the Corporation reclassified an aircraft with a previously determined fair value of $0.6 million, to its spare parts value of $0.3 million.

## 5. Loans and borrowings:

| (thousands of Canadian dollars) | Note | October 31, 2017 | January 31, 2017 |
|---|---|---|---|
| 10.00% secured convertible debentures, maturing May 5, 2018 ("**Secured Debentures**") | 5(a) | $ 112,505 | $ 104,152 |
| 8.375% unsecured debentures, maturing June 30, 2018 ("**Unsecured Debentures**") | 5(b) | 34,220 | 33,927 |
| Long-term secured debt bearing interest at prime rate plus 3.05%, maturing April 1, 2023 | | 13,287 | 14,598 |
| Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019 | 5(c) | 12,627 | 13,783 |
| Long-term secured debt bearing interest of lender's base rate plus 4.00%, maturing April 15, 2018 | 5(d) | 5,619 | 6,955 |
| Short-term secured debt bearing a fixed interest rate of 8.00%, maturing November 15, 2017 | 5(e) | 2,300 | 2,300 |
| Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019 | 5(c) | 1,171 | 1,278 |
| Various long-term secured debt bearing fixed and floating interest rates | | 450 | 422 |
| Finance leases | | 154 | 210 |
| Loans and borrowings | | **$ 182,333** | $ 177,625 |
| Less loans and borrowings scheduled repayments | | **$ 4,636** | $ 7,691 |
| Less current portion of loans and borrowings | | **$ 177,166** | $ - |
| | | **$ 531** | $ 169,934 |

(a) On March 22, 2017, $4.7 million of accrued interest that was payable-in-kind was added to the adjusted principal amount of the Secured Debentures. On April 28, 2017 the maturity date of the Secured Debenture was extended to May 5, 2018. On June 5, 2017, the Corporation, Discovery Air Defence Services Inc. ("**DA Defence**") and Clairvest agreed to an option permitting Clairvest to exchange up to $18.4 million of the Secured Debentures for DA Defence shares having an aggregate value equal to $14.7 million. As at October 31, 2017, the loan balance included accrued interest of $6.5 million (January 31, 2017 - $3.3 million). The debenture holders have provided certain loan covenant amendments from October 31, 2017 through to maturity. In the event the Corporation requires additional amendments in the future, the Corporation expects to obtain amendments as needed, although there is no assurance that these amendments will be provided.

(b) On May 26, 2017, the Unsecured Debentures were no longer convertible into the Shares of the Corporation as a result of the closing of the definitive agreement (refer to note 1).

(c) On November 30, 2017, the Corporation amended the long-term secured debts to extend maturities to April 1, 2020, remove financial covenants until January 31, 2019, add non-financial covenants, release DA Defence as a guarantor of these loans, and repay $4.8 million of principal owing under these loans.

(d) The Corporation received a waiver for a financial covenant for the period ending October 31, 2017.

(e) On June 2, 2015, the Corporation entered into an unsecured short term loan with Clairvest Group Inc. for the purchase of two new aircraft. In December 2017, the maturity date was extended to January 31, 2018.

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 Pledged Asset Ratio Covenant increases over time. Lenders' consent is required to incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally. There can be no assurance that following the periods covered by the amendments, the Corporation will be able to remain in compliance with its financial covenants. The Corporation received waivers for certain financial covenants subsequent to October 31, 2017. This resulted in an additional $23.6 million being classified in current portion of loans and borrowings.

As of October 31, 2017, $154.2 million of debt matures within twelve months. The majority of the debt is held by the Corporation's majority shareholder. The Corporation is currently considering various refinancing options including renewing, extending, or otherwise satisfying these lender obligations. The success of the Corporation's refinancing plan is dependent on several factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the outcome of the Corporation's discussions with its majority shareholder, bondholders, and other relevant lenders. While the Corporation has been successful with this process in the past, there is no assurance that the Corporation's refinancing plan will be successful in the future.

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

| (thousands of Canadian dollars) | | |
|---|---|---|
| Within 1 year | $ | 181,802 |
| Within 2 years | | 81 |
| Within 3 years | | - |
| Within 4 years | | - |
| Within 5 years | | - |
| Thereafter | | 450 |
| Total | $ | 182,333 |

Interest expense on or in respect of loans and borrowings for the three and nine months ended October 31, 2017, was $4.3 million and $12.6 million (three and nine months ended October 31, 2016 - $4.4 million and $13.0 million), respectively.

## 6. Operating line of credit:

On May 26, 2015, the Corporation entered into an operating line of credit ("**Operating Line**") agreement. In November 2017, the Operating Line maturity was extended to January 31, 2018 and the Corporation obtained loan covenant amendments through to maturity. The Operating Line increases the borrowing limit to $30.0 million during the Corporation's peak season and is $20.0 million outside of the peak season. Aggregate borrowings are limited to a percentage of 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. The maturity of the additional credit facility was also extended to January 31, 2018.

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 at 12% and in October 2017, the maturity was extended to

February 1, 2018. 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.

On June 5, 2017, DA Defence entered into a $13.0 million convertible revolving loan agreement ("**New Credit Agreement**") with Clairvest. The loan bears interest at 12% and in October 2017, the maturity was extended to February 1, 2018. Prior to the maturity date, the Corporation expects the New Credit Agreement to be extended at similar terms and conditions, or that it will be converted it into DA Defence common shares, as per the terms of the agreement.

As at October 31, 2017, $1.2 million of the Operating Line was applied to letters of credit (January 31, 2017 - $1.0 million), resulting in a combined unused borrowing capacity of $16.5 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.

## 7. Earnings per share:

| (thousands of Canadian dollars, except per share amounts) | For the three months ended | | For the nine months ended | |
|---|---|---|---|---|
| | **October 31, 2017** | October 31, 2016 | **October 31, 2017** | October 31, 2016 |
| **Basic and Diluted loss per share:** | | | | |
| Loss attributable to shareholders | **$ (4,349)** | $ (3,885) | **$ (15,113)** | $ (5,810) |
| Weighted average number of Shares outstanding | **81,977** | 81,997 | **81,977** | 81,997 |
| Basic and Diluted loss per share | **$ (0.05)** | $ (0.05) | **$ (0.18)** | $ (0.07) |

For the three and nine months ended October 31, 2017 and 2016, 12,967,363 and 18,857,402, respectively, potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive.

## 8. Change in non-cash operating working capital:

| (thousands of Canadian dollars) | For the nine months ended | |
|---|---|---|
| | **October 31, 2017** | October 31, 2016 |
| Restricted cash | **$ 2** | $ 3 |
| Trade and other receivables | **(8,230)** | (3,191) |
| Inventory | **(1,675)** | (325) |
| Prepaid expenses and other | **(919)** | 1,879 |
| Trade and other payables | **(3,437)** | (11,305) |
| | **$ (14,259)** | $ (12,939) |

## 9. Fair value of financial assets and liabilities:

(a) Fair value estimation:

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

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

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 October 31, 2017 was $126.9 million (January 31, 2017 - $115.7 million) as compared to a carrying value of $146.7 million (January 31, 2017 - $138.1 million). At October 31, 2017 and January 31, 2017 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

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

## 10. Related party transactions:

(a) Loans and borrowings:

The Secured Debentures held by Clairvest would represent, on a post-conversion basis, approximately 9% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for three and nine months ended October 31, 2017 was $2.7 million and $7.9 million (three and nine months ended October 31, 2016 - $2.6 million and $7.5 million), respectively. The Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest Group Inc. on a monthly pro-rata basis.

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

During the year ended January 31, 2016, the Corporation borrowed on an unsecured commercial terms basis $2.3 million from Clairvest Group Inc. The loan bears interest at 8% with a maturity date of January 31, 2018 (refer to note 5(e)). On December 20, 2016, DA Defence entered into the $25.0 million Credit Agreement with Clairvest (refer to note 6) and on June 5, 2017, DA Defence entered into the $13.0 million New Credit Agreement with Clairvest (refer to note 6).

(b) Transactions with associates:

For the three and nine months ended October 31, 2017, the Corporation's revenues include $5.9 million and $12.9 million (three and nine months ended October 31, 2016 - $4.2 million and $11.8 million), respectively, and the Corporation's expenses include $0.6 million and $1.7 million (three and nine months ended October 31, 2016 - $1.0 million and $2.8 million), respectively, from transactions with the Corporation's associates. As at October 31, 2017, $4.4 million (January 31, 2017 - $2.5 million) of the Corporation's accounts receivable were due from associates, and $0.9 million (January 31, 2017 - $0.5 million) of the Corporation's accounts payable were due to associates. As at October 31, 2017, $0.6 million (January 31, 2017 - $0.8 million) of the Corporation's long term receivables were due from associates, and $0.4 million (January 31, 2017 - $0.4 million) of the Corporation's loans and borrowings were due to associates.

**11. Commitments and contingencies:**

The Corporation has annual lease obligations for aircraft and premises. During the three and nine months ended October 31, 2017, the Corporation incurred $2.6 million and $8.4 million (three and nine months ended October 31, 2016 - $3.7 million and $11.0 million), respectively, in operating lease expenses. Future minimum lease payments under non-cancellable leases are due as follows:

| (thousands of Canadian dollars) | | |
|---|---|---|
| Within 1 year | $ | 6,449 |
| Within 2 years | | 4,629 |
| Within 3 years | | 2,066 |
| Within 4 years | | 1,695 |
| Within 5 years | | 932 |
| Thereafter | | 146 |
| | $ | 15,917 |

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.

**12. Segmented information:**

The Corporation's reportable segments are "**Aviation**", which includes Great Slave Helicopters Ltd. ("**GSH**"), DA Defence, Air Tindi Ltd. ("**Air Tindi**"), and in the prior year, Discovery Air Fire Services Inc. ("**Fire Services**") and "**Corporate Support and Other**", which includes Discovery Mining Services Ltd. ("**Mining Services**"), and Corporate (reflecting direct corporate overhead costs). Fire Services was sold on January 31, 2017. 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 below are from external customers. There are inter-segment revenues; however they are eliminated on consolidation. For the three and nine months ended October 31, 2017 and 2016, there was nil and $0.1 million of inter-segment revenues, respectively.

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, Air Tindi, and Mining Services normally commencing in 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' tasking requirements and operational 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.

| (thousands of Canadian dollars) | **For the three months ended October 31, 2017** | | | For the three months ended October 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Aviation** | **Corporate Support and Other** | **Total** | Aviation | Corporate Support and Other | Total |
| Revenue | **$ 39,941** | **$ 2,699** | **$ 42,640** | $ 41,223 | $ 1,692 | $ 42,915 |
| Expenses | **32,929** | **4,799** | **37,728** | 33,870 | 2,949 | 36,819 |
| Depreciation and amortization | **4,544** | **169** | **4,713** | 4,607 | 199 | 4,806 |
| Share of profit from associates (net of income tax) | **(192)** | **(16)** | **(208)** | (72) | (22) | (94) |
| | **2,660** | **(2,253)** | **407** | 2,818 | (1,434) | 1,384 |
| Finance costs | | | **5,477** | | | 5,074 |
| Other (gains) and losses | | | **827** | | | 722 |
| Loss before income taxes | | | **(5,897)** | | | (4,412) |
| Income tax recovery: | | | | | | |
| Current | | | **(16)** | | | (160) |
| Deferred | | | **(1,532)** | | | (355) |
| | | | **(1,548)** | | | (515) |
| Loss | | | **$ (4,349)** | | | $ (3,897) |
| Segment assets | **$ 300,556** | **$ 4,725** | **$ 305,281** | $ 314,683 | $ 4,081 | $ 318,764 |
| Capital expenditures | **$ 5,368** | **$ 58** | **$ 5,426** | $ 4,696 | $ 74 | $ 4,770 |
| Investments in associates | **$ 6,468** | **$ 364** | **$ 6,832** | $ 5,979 | $ 332 | $ 6,311 |

| (thousands of Canadian dollars) | **For the nine months ended October 31, 2017** | | | For the nine months ended October 31, 2016 | | |
|---|---|---|---|---|---|---|
| | **Aviation** | **Corporate Support and Other** | **Total** | Aviation | Corporate Support and Other | Total |
| Revenue | **$ 113,936** | **$ 6,217** | **$ 120,153** | $ 135,376 | $ 3,722 | $ 139,098 |
| Expenses | **96,596** | **11,448** | **108,044** | 105,196 | 9,373 | 114,569 |
| Depreciation and amortization | **13,386** | **528** | **13,914** | 14,716 | 591 | 15,307 |
| Share of profit from associates (net of income tax) | **(560)** | **(31)** | **(591)** | (452) | (176) | (628) |
| | **4,514** | **(5,728)** | **(1,214)** | 15,916 | (6,066) | 9,850 |
| Finance costs | | | **16,306** | | | 14,691 |
| Other (gains) and losses | | | **1,291** | | | 875 |
| Loss before income taxes | | | **(18,811)** | | | (5,716) |
| Income tax provision (recovery): | | | | | | |
| Current | | | **-** | | | 329 |
| Deferred | | | **(3,698)** | | | (180) |
| | | | **(3,698)** | | | 149 |
| Loss | | | **$ (15,113)** | | | $ (5,865) |
| Segment assets | **$ 300,556** | **$ 4,725** | **$ 305,281** | $ 314,683 | $ 4,081 | $ 318,764 |
| Capital expenditures | **$ 12,898** | **$ 163** | **$ 13,061** | $ 14,224 | $ 188 | $ 14,412 |
| Investments in associates | **$ 6,468** | **$ 364** | **$ 6,832** | $ 5,979 | $ 332 | $ 6,311 |

**13. Subsequent Event:**

On November 30, 2017, subsidiaries of the Corporation entered into two loans totalling $16.0 million. Both loans are secured revolving subordinated credit facility with Clairvest and bear interest at 12% per annum, compounded and payable quarterly, with a maturity date of January 31, 2018.