



DURIG CAPITAL, INC.
11600 SW 69th Ave., Tigard, OR 97223

December 19, 2017

Kenneth Rotman
Discovery Air, Inc.
170 Attwell Drive, Suite 370
Etobicoke, Ontario, Canada
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To the Board of Directors of Discovery Air Inc:

We at Durig Capital Inc. and the Distressed Debt 1LP Hedge Fund are writing to inform you that Discovery Air Inc. has technically defaulted on its unsecured debentures, and we are demanding an immediate remedy or payment in full for the debt and its accrued interest.

We have previously warned Paul Bernards, being the Chief Financial Officer of Discovery Air and someone that we understood is a representative of the Board of Directors of Discovery Air, that selling a major portion of the company or a wholly owned major subsidiary - such as Discovery Air Defense Services - without first receiving bondholder approval would cause a breach in the legal covenants contained in the prospectus of the debenture, and would constitute an ethical and legal breach of the Board of Directors fiduciary duty to the company's stakeholders.

We stated to Mr. Bernards on several occasions that according to the covenants contained in the prospectus, the Board would need to receive approval from bondholders prior to any sale or conversion of equity resulting in Discovery Air's loss of control in Discovery Air Defense Services.

Mr. Bernards called us on Oct. 31st, the day that Discovery Air Defense Services announced that it was awarded the Contracted Airborne Training Services (CATS) contract by the government of Canada, which other news sources were projecting would be up to a [1.5 billion Canadian dollar](#) deal over at least 10 years, with a possible even large US deal in the works. [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]. In my 30 years of investing, this was the most blatant premeditated failure by a company's Board of Directors fiduciary duty that I can ever recall.

After recognizing this as a failure at the Board of Directors level, being represented by Mr. Bernards, we took a closer look at the construct of the BOD and discovered what appears to be a number of ethical and legal securities violations. On the surface and at first glance, it is made to look like only three members of the board are representing the interests of the Clairvest Group, while four of its members appear to be outside. However, upon further investigation, two of those four members (that do not disclose any prior dealings with Clairvest) were each a principle executive in other companies previously acquired by Clairvest Group. Therefore, it is evident that Clairvest is inherently responsible for a very significant portion of their wealth and wellbeing. Consequently, over 70% of the Board of Directors would have had a direct financial conflict of interests in representing Discovery Air bondholders in the process of negotiating the sale or transfer of its prime asset to other affiliates of Clairvest Group. Furthermore, the expertise of the two remaining members on the BOD appears to be essential and inextricably woven into the specific and growing needs of Discovery Air Defense Services more than what might reasonably thought to be necessary for the other remaining (and struggling) subsidiaries of Discovery Air.

In hindsight, perhaps the prolonged years of focused efforts and expense that it took to bring Discovery Air Defense Services to the forefront of Discovery Air's operations and future success is a direct reflection of the foremost interest of all seven of its board members. Judging by the reaction to the recently announced conversion of DADS equity and Discovery Air's loss of control over DADS to other affiliates of Clairvest Group, evidently the market's decline in pricing for the debentures is a reflection of what many other bondholders see as a significant loss from what had been a similar high priority and valuation for the fully owned DADS subsidiary, from well before being awarded the prized and highly valuable CATS contract. Even with such shockingly large representation of Clairvest on the board, we are still amazed that they would not abide by the clearly stated terms of the indenture.

As a major bondholder, we believe that Durig Capital is in a position to represent a significant percentage of the outstanding unsecured debentures. We are writing this letter to inform you that we not only believe that Discovery Air has breached

(To Discovery Air Board of Directors, page 3 of 3, December 19, 2017...)

its debt covenants, but we see that the Clairvest led Board of Directors for Discovery Air have failed in their fiduciary duties, both in systemic design of the board, and in the execution of a breach of the company's debt covenants in a very blatant manor. [REDACTED]

Sincerely,



Randy Durig
CEO, Durig Capital, Inc.

CC: Kenneth Rotman
Admiral Michael G. Mullen
G. John Krediet
Rod Phillips
Michael Grasty
Adrian Pasricha
Thomas Hickey
Paul Bernards