MANAGEMENT'S DISCUSSION AND ANALYSIS
of
Second Quarter Report
July 31, 2012

This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the quarter ended July 31, 2012 should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the 6 months ended July 31, 2012 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2012, both of which are available on SEDAR at www.sedar.com.

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

Business Profile

Discovery Air, founded in 2004, is a specialty aviation services company which, through its subsidiaries, has approximately 850 team members and over 160 aircraft, providing airborne training to the Canadian military, helicopter services, fixed-wing air charter and scheduled services; maintenance, repair, overhaul, modification, engineering and certification services, airborne fire surveillance services, expediting and logistics support, and air ambulance services.

Effective February 1, 2012, the Corporation revised its reporting segments from "Northern Services" and "Government Services" to "Aviation" and "Corporate Support and Other". In arriving at the new reporting segments, the Corporation's management considered the nature and financial characteristics of the business activities in which the Corporation and its subsidiaries engage and the economic environments in which they operate.

The Aviation segment includes four subsidiaries. Great Slave Helicopters Ltd. ("**Great Slave**"), one of the largest helicopter operators in Canada, has bases throughout Canada and South America from which it provides flight services in support of mining, oil and gas seismic and exploration work, forest fire suppression, aerial construction and precision external load work and environmental impact surveys. Air Tindi Ltd. ("**Air Tindi**"), a commercial fixed-wing operator with bases in Cambridge Bay, Yellowknife, Edmonton and Calgary, utilizes a diversified fleet of fixed-wing aircraft to provide scheduled and charter passenger and cargo services, as well as air ambulance services in northern and western Canada. Top Aces Inc. ("**Top Aces**") provides primarily airborne training services to the Canadian Department of National Defence ("**DND**"). Discovery Air Fire Services Inc. ("**Fire Services**"), formerly Hicks & Lawrence Limited, provides primarily forest fire management and court-related air transport services to the Government of Ontario.

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

spectrum of resource exploration companies. Discovery Air Innovations Inc. (“**Innovations**”), the Corporation’s business development arm, is focused on developing new market opportunities for Discovery Air and its subsidiaries.

Under the previous reporting segment structure, the Northern Services segment consisted of Great Slave, Air Tindi and Discovery Mining, while the Government Services segment consisted of Top Aces, Technical Services and Fire Services. The Corporate Support segment was made up of Corporate and Innovations.

The change in reporting segments did not have any impact on the Corporation’s interim condensed consolidated statements of financial position, statements of profit and comprehensive income or statements of cash flows.

Selected Financial Information

(thousands of dollars, except per share amounts)	**Q2/13**	**Q2/12**	**YTD/13**	**YTD/12**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Results of operations				
Revenue	$ 74,225	$ 70,657	$ 127,158	$ 107,906
Expenses	$ 51,073	$ 41,206	$ 95,280	$ 73,673
Depreciation of property and equipment and intangible assets	$ 6,785	$ 6,184	$ 12,381	$ 10,688
	$ 16,367	$ 23,267	$ 19,497	$ 23,545
Financing costs	$ 4,605	$ 4,721	$ 8,927	$ 8,465
Profit attributable to shareholders of Discovery Air Inc.	$ 8,935	$ 17,979	$ 10,295	$ 15,393
Basic earnings per common share	$ 0.61	$ 1.24	$ 0.71	$ 1.10
Diluted earnings per common share	$ 0.38	$ 0.96	$ 0.50	$ 0.96
Financial position and liquidity				
Total assets	$ 331,346	$ 284,776	$ 331,346	$ 284,776
Total loans, borrowings and finance leases	$ 159,170	$ 124,455	$ 159,170	$ 124,455
Cash from (used in) operations	$ 4,452	$ 6,769	$ (1,043)	$ (3,628)
Working capital	$ 33,912	$ 28,725	$ 33,912	$ 28,725
Key non-IFRS performance measures*				
Adjusted Profit	$ 8,638	$ 13,731	$ 7,873	$ 11,145
Basic Adjusted profit per common share	$ 0.59	$ 0.95	$ 0.54	$ 0.75
Diluted Adjusted profit per common share	$ 0.37	$ 0.71	$ 0.42	$ 0.52
EBITDAR	$ 29,340	$ 34,093	$ 42,296	$ 41,108
EBITDA	$ 23,292	$ 29,696	$ 32,159	$ 34,707
EBITDA Margin	31%	42%	25%	32%

* See "Non-IFRS measures" below.

Consolidated Results

Revenue

Revenue was $74.2 million in Q2/13, compared to $70.7 million in Q2/12, representing a 5% increase over the same period in the prior year. The revenue increase was due primarily to:

- incremental revenues derived from newly-acquired operations, namely, Helicopers.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("**SAL**") and the business formerly carried on by Northern Air Support Ltd. ("**NAS**") and (see "Investing Activities");
- revenue growth from the Corporation's oil and gas customers in northern Canada and South America;
- increased forest fire surveillance activity;
- revenues from recently-awarded fixed wing charter contacts to service two producing mines; and
- the revenue contribution from increased medevac (also referred to as air ambulance) services.

While overall revenue in Q2/13 increased over the comparative period, a number of factors negatively impacted the Corporation's ability to fully achieve planned revenues during the quarter, including:

- lower than expected revenue from airborne training services provided to the DND, which the Corporation believes is due to short-term shifts in priorities in the DND's annual training cycle;
- an unexpected decline in mining exploration revenues in northern Canada, which the Corporation attributes to a drop in northern Canadian mining exploration activity during Q2/13;
- introduction-to-service delays for new aircraft types acquired in YTD/13, which included delays in obtaining necessary regulatory approvals to operate these new aircraft and longer than anticipated lead times to generate customer orders for the new service offerings; and
- lower than expected revenues from MRO services.

Revenues from government-based customers represented 49% of total revenues in Q2/13 compared to 50% in Q2/12. The Corporation's resource-based (mining and oil and gas) revenues represented 37% of total revenues in Q2/13 compared to 34% in Q2/12.

Operating Expenses

Operating expenses consist of fixed and variable expenses, with the largest expense items being crew, fleet and parts costs, as well as general and administrative expenses.

Operating expenses were $51.1 million (or 69% of revenues) in Q2/13, compared to $41.2 million (or 58% of revenues) in Q2/12. The higher costs in relation to revenues in Q2/13 compared to Q2/13 were primarily attributable to the following:

- incremental crew, training and other fleet costs incurred to support new aircraft types acquired in Q1/13 and Q2/13, as well as the launch of the commercial jet fleet in the same period. These costs were not fully matched to revenues in Q2/13 due to introduction-to-service delays, as noted above;
- operating costs not decreasing at the same rate as the decrease in airborne training revenues. A portion of the costs incurred to provide airborne training services are fixed in the short to medium term and cannot be reduced in response to periodic fluctuations in demand for services;
- the Corporation's South American operations incurring higher operating expenses relative to revenue during its non-peak season. Like the Corporation's northern operations, these operations maintain a set fixed cost component to support operations year round despite the seasonal fluctuations in revenues; and
- increased infrastructure support costs, such as transaction costs for acquisitions, business development costs for new initiatives, and staff and office transition costs.

Crew, fleet and parts costs are the Corporation's largest expense categories. Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, totaled $18.5 million in Q2/13 (or 25% of revenues) compared to $14.9 million in Q2/12 (or 21% of revenues). Fleet costs include aircraft lease, facility, parts, maintenance and fuel costs. Fleet costs, excluding fuel costs, were $17.1 million in Q2/13 (or 23% of revenues) compared to $13.1 million in Q2/12 (or 19% of revenues). Fuel costs are incurred solely in the Aviation segment. Substantially all of the Corporation's fuel costs are recovered from customers and recorded as revenue.

General and administrative expenses consist mainly of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. In Q2/13, these costs were $11.8 million (or 16%

of revenues) compared to $9.6 million in Q2/12 (or 14% of revenues). As noted above, the increase in general and administrative expenses is due largely to increased infrastructure support costs.

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

EBITDA was $23.3 million in Q2/13 compared to $29.7 million Q2/12, and EBITDA margin in Q2/13 was 31% compared to 42% in Q2/12. The decrease in EBITDA and EBITDA margin was largely attributable to decreased revenues from airborne training services and MRO services and increased expenses incurred in anticipation of new revenue streams which were not fully realized due to introduction-to-service delays.

EBITDAR was $29.3 million in Q2/13 compared to $34.1 million in Q2/12, a year-over-year decrease of 14%. EBITDAR decreased at a lower rate than EBITDA due to the Aviation segment’s increased utilization of leased aircraft. The Corporation generally utilizes leased aircraft to support short term, seasonal flight services, which in Q2/13 were higher than in the comparative period.

Earnings

In Q2/13, the Corporation recorded profit of $8.9 million compared to $18.0 million in Q2/12. The Corporation’s Q2/13 profit reflects a gain of $0.3 million on the acquisition of NAS, and the Corporation’s Q2/12 profit reflects a tax-effected gain of $4.2 million on the extinguishment of debt (see “Financing Activities” below). Excluding the impact of these gains results in an adjusted profit of $8.6 million compared to adjusted profit of $13.7 million in Q2/12 (see “Non-IFRS Measures” below).

Depreciation expense in Q2/13 was $6.8 million compared to $6.2 million in Q2/12. The increase in depreciation expenses was largely attributable to higher flight hours in the Aviation segment.

Finance costs were $4.6 million in Q2/13 compared to $4.7 million in Q2/12. Interest charges included a non-cash in-kind payment of $1.8 million (nil in Q2/12) on account of interest accrued on the principal amount of the Secured Debentures.

The Corporation’s income tax provision was $3.3 million in Q2/13, compared to an income tax provision of $7.1 million in Q2/12. The Corporation’s effective tax rate was 27% in Q2/13 compared to 28% in Q2/12, with the decrease resulting from the federal income tax rate reduction that took effect on January 1, 2012. These effective rates were comparable to the Corporation’s statutory income tax rates.

Seasonality and Quarterly Fluctuations

The Corporation’s businesses are, to varying degrees, seasonal in nature. Seasonality and other factors can affect the comparability of results from one period to another, particularly from quarter to quarter. The seasonality and quarterly fluctuations are substantially unchanged from the description found under the heading “Seasonality and Quarterly Fluctuations” in the Corporation’s MD&A for the fiscal year ended January 31, 2012, which is available on SEDAR at www.sedar.com.

Results of Operations in Q2/13 and Q2/12

(thousands of dollars)	Q2/13 (unaudited)			Q2/12 (unaudited)		
	Aviation Services	Corporate Support and Other	Total	Aviation Services	Corporate Support and Other	Total
Revenue	$ 67,997	$ 6,228	$ 74,225	$ 63,264	$ 7,393	$ 70,657
Expenses	42,237	8,836	51,073	32,750	8,456	41,206
Share of loss (profit) of equity accounted investees	(7)	(133)	(140)	(261)	16	(245)
EBITDA	**$ 25,767**	**$ (2,475)**	**$ 23,292**	**$ 30,775**	**$ (1,079)**	**$ 29,696**
Depreciation	6,483	302	6,785	5,989	195	6,184
Gain on disposal of property and equipment			(25)			(369)
Finance Costs			4,605			4,721
Change in fair value of financial liabilities at fair value			-			-
Gain on extinguishment of debt			-			(5,900)
Gain on business acquisition			(297)			-
Profit before income tax			12,224			25,060
Current Income tax provision			1,969			3,678
Deferred Income tax provision			1,348			3,403
			3,317			7,081
Profit and comprehensive income			**8,907**			**17,979**
Loss attributable to non-controlling interest			(28)			-
Profit attributable to shareholders of Discovery Air Inc.			**$ 8,935**			**$ 17,979**
Capital expenditures	**$ 25,045**	**$ 2,279**	**$ 27,324**	**$ 3,425**	**$ 450**	**$ 3,875**
	As at July 31, 2012			*As at July 31, 2011*		
Total assets	**$ 307,805**	**$ 23,541**	**$ 331,346**	**$ 267,805**	**$ 16,971**	**$ 284,776**
Goodwill	**$ 41,439**	**$ -**	**$ 41,439**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 11,917**	**$ 660**	**$ 12,577**	**$ 16,154**	**$ 785**	**$ 16,939**

Aviation Segment

The Aviation segment generated revenue of $68.0 million on 27,743 flight hours in Q2/13, compared to revenue of $63.3 million on 24,844 flight hours in Q2/12. The 7% increase in revenue and 12% increase in flight hours were attributable to increased services provided to the segment's resource-based customers, incremental revenue contributed by SAL and NAS, and the provision of increased forest fire and medevac services. Revenue from airborne training services provided to the DND was lower in comparison to the prior year. Revenue from airborne training services provided to the DND has historically been consistent on an annual basis but has varied from quarter to quarter within any given year.

The Aviation segment incurred operating expenses totaling $42.2 million in Q2/13 (or 62% of revenues) compared to $32.8 million in Q2/12 (or 52% of revenues). As noted in the consolidated results discussion, the increase in expenses as a percentage of revenues was attributable to, among other things, the inability to reduce costs at the same rate as the reduction in revenues from airborne training services and increased costs incurred to support operations that were delayed in their implementation.

Crew costs were $15.5 million in Q2/13 (or 23% of revenues) compared to $12.5 million in Q2/12 (or 20% of revenues). Crew costs rose at a higher rate than revenues due to increased crew travel costs incurred to re-position

crews in remote operating locations and higher crew training costs incurred to support the implementation of new aircraft types.

Fleet costs, excluding fuel costs, were $14.5 million in Q2/13 (or 21% of revenues), compared to $10.2 million in Q2/12 (or 16% of revenues). Aircraft maintenance costs were $3.1 million in Q2/13 compared to $2.0 million in Q2/12. Aircraft lease expenses were $6.0 million in Q2/13 compared to $4.4 million in Q2/12. The increases in aircraft maintenance and aircraft lease expenses were largely attributable to increased flight hours. As noted above, substantially all of the Corporation's fuel costs are recovered from customers and recorded as revenue.

Facility costs were $1.6 million compared to $1.1 million in Q2/12. The increase was largely attributable to the additional facilities in connection with the SAL and NAS acquisitions, and Air Tindi's recent establishment of facilities in Cambridge Bay, Nunavut and Calgary, Alberta.

General and administrative expenses were $8.5 million (or 13% of revenues) in Q2/13 compared to $6.5 million (or 10% of revenues) in Q2/12. This increase was attributable primarily to incremental overhead costs to support ongoing growth in operations and the addition of the SAL and NAS operations.

The segment recorded EBITDA of $25.8 million in Q2/13 compared to $30.8 million in Q2/12, yielding EBITDA margins of 38% and 49%, respectively. As noted above, the decrease in EBITDA and EBITDA margin was attributable largely to the inability to reduce costs in proportion to the reduction in airborne training services revenues and the inability to realize the revenues expected from the introduction of new aircraft types due to introduction-to-service delays. EBITDAR was $31.8 million Q2/13 compared to $35.2 million in Q2/12.

Depreciation expense in Q2/13 was $6.5 million (or 10% of revenues) compared to $6.0 million (or 9% of revenues) in Q2/12. This increase was due largely to the increase in flight hours.

Corporate Support and Other

Corporate Support and Other generated revenues of $6.2 million in Q2/13 compared to $7.4 million in Q2/12. The 16% decrease in revenues reflects lower exploration camp and logistics activity as well as lower revenue from the MRO operation.

The segment incurred operating expenses totaling $8.8 million in Q2/13, compared to $8.5 million in Q2/12, an increase of 4%. As noted in the consolidated results, the increase in operating expenses was due, in part, to increased infrastructure support costs, including acquisition, business development and transition costs. The MRO operation incurred tooling and training expenses in preparation for the introduction of services for new aircraft fleet types.

The segment recorded an EBITDA loss of $2.5 million in Q2/13, compared to an EBITDA loss of $1.1 million in Q2/12. The increased loss was attributable primarily to higher administrative costs at Corporate and higher MRO operating costs as a percentage of revenues due to delays in drawing revenues for projects anticipated to begin in Q2/13.

Results of Operations YTD/13 and YTD/12

(thousands of dollars)	YTD/13			YTD/12		
	(unaudited)			(unaudited)		
	Aviation Services	Corporate Support and Other	Total	Aviation Services	Corporate Support and Other	Total
Revenue	$ 115,679	$ 11,479	$ 127,158	$ 96,465	$ 11,441	$ 107,906
Expenses	78,634	16,646	95,280	59,200	14,473	73,673
Share of profit of equity accounted investees	(47)	(234)	(281)	(435)	(39)	(474)
EBITDA	**$ 37,092**	**$ (4,933)**	**$ 32,159**	**$ 37,700**	**$ (2,993)**	**$ 34,707**
Depreciation	11,836	545	12,381	10,369	319	10,688
Gain on disposal of property and equipment			(34)			(115)
Finance Costs			8,927			8,465
Change in fair value of financial liabilities at fair value			(201)			-
Gain on extinguishment of debt			(2,224)			(5,900)
Gain on business acquisition			(297)			-
Profit before income tax			13,607			21,569
Current income tax provision			3,981			4,241
Deferred Income tax expense (recovery)			(618)			1,935
			3,363			6,176
Profit and comprehensive income			**10,244**			**15,393**
Loss attributable to non-controlling interest			(51)			-
Profit attributable to shareholders of Discovery Air Inc.			**$ 10,295**			**$ 15,393**
Capital expenditures	**$ 36,512**	**$ 3,517**	**$ 40,029**	**$ 8,330**	**$ 683**	**$ 9,013**
	As at July 31, 2012			*As at July 31, 2011*		
Total assets	**$ 307,805**	**$ 23,541**	**$ 331,346**	**$ 267,805**	**$ 16,971**	**$ 284,776**
Goodwill	**$ 41,439**	**$ -**	**$ 41,439**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 11,917**	**$ 660**	**$ 12,577**	**$ 16,154**	**$ 785**	**$ 16,939**

Consolidated Results

Revenue

Revenue was $127.2 million in YTD/13 compared to $107.9 million for YTD/12, representing an 18% increase relative to the comparative period. Despite delays with respect to the introduction of new aircraft and a new charter operation in Q2/13 and lower demand for airborne training services, the Corporation generated modest year-over-year growth in Q2/13. This, coupled with strong revenue growth in Q1/13, has resulted in strong revenue growth on a year-to-date basis.

Revenue from government customers represented 48% of total revenues in YTD/13 compared to 51% of total revenues in YTD/12. Revenues from medevac and forest fire management services increased while revenue from airborne training services remained consistent with the comparative period. Revenue from resource-based customers represented 36% of total revenues in YTD/13 compared to 34% of total revenues in YTD/12. As noted in the quarterly results, the Corporation's increase in revenue from resource-based customers was attributable to the incremental contribution from SAL and NAS, newly awarded fixed wing charter contracts and increased revenue contribution from oil and gas-based activity.

Operating Expenses
Operating expenses were $95.3 million (or 75% of revenues) in YTD/13 compared to $73.7 million (or 68% of revenues) in YTD/12. As noted in the Q2/13 discussion of operating expenses, the Corporation incurred higher costs to support the addition of new aircraft types to its fleet and launch a commercial jet charter service. The Corporation's expenses also increased with the addition of newly-acquired operations, SAL and NAS. In YTD/13, expenses also increased on account of higher infrastructure support costs, as noted earlier.

Crew costs totaled $33.5 million in YTD/13 (or 26% of revenues) compared to $26.2 million for YTD/12 (or 24% of revenues). Parts and fleet costs include aircraft lease, facility, parts, maintenance and fuel costs. Fleet costs, excluding fuel costs, were $30.5 million in YTD/13 (or 24% of revenues) compared to $23.2 million in YTD/12 (or 22% of revenues). As noted earlier, substantially all fuel costs are recovered from customers and recorded as revenue.

General and administrative expenses were $23.4 million in YTD/13 (or 18% of revenues) compared to $18.4 million in YTD/12 (or 17% of revenues).

EBITDA and EBITDAR (see "Non-IFRS Measures" below)
EBITDA was $32.2 million in YTD/13 compared to $34.7 million YTD/12, and EBITDA margin in YTD/13 was 25% compared to 32% in YTD/12. The decrease in EBITDA and EBITDA margin in YTD/13 was largely attributable to higher operating costs incurred in YTD/13 to support future revenue streams, and incremental costs relating to infrastructure support costs. EBITDAR was $42.3 million in YTD/13, compared to $41.1 million in YTD/12, a year-over-year increase of 3%. EBITDAR rose, despite lower EBITDA, due to the increase use of leased aircraft in the Aviation segment. Specifically, lease expense increased by $3.7 million while EBITDA declined by $2.5 million.

Earnings
In YTD/13, the Corporation recorded a profit of $10.3 million compared to a profit of $15.4 million in YTD/12. The Corporation's YTD/13 profit reflects a tax-effected gain of $1.9 million on extinguishment of debt, a $0.2 million gain related to a change in the fair value of the Corporation's embedded derivative that existed up to March 26, 2012 and a $0.3 million gain on the acquisition of NAS (see "Financing Activities" below). The Corporation's YTD/12 profit reflects a tax-effected gain of $4.2 million. Excluding the impact of these gains results in adjusted profit of $7.9 million in YTD/13 compared to adjusted profit of $11.1 million in YTD/12 (see "Non-IFRS Measures" below).

Depreciation expense in YTD/13 was $12.4 million compared to $10.7 million in YTD/12. The increase in depreciation expense was largely attributable to higher flight hours in the Aviation segment.

Finance costs were $8.9 million in YTD/13 compared to $8.5 million in YTD/12. Interest charges included a non-cash in-kind payment of $3.5 million (nil in YTD/12) on account of interest accrued on the principal amount of the Secured Debentures.

The Corporation's income tax provision was $3.4 million in YTD/13, compared to an income tax provision of $6.2 million in YTD/12. The Corporation's effective income tax rate was 25% in YTD/13 and 29% in YTD/12, compared to the Corporation's approximate statutory income tax rates of 27% in YTD/13 and 28% in YTD/12. The decrease in the effective tax rate relative to the statutory tax rate in YTD/13 was due primarily to capital gains tax rate associated with the Q1/13 gain on extinguishment of the debt. The Corporation's YTD/12 effective tax rate was slightly higher than the Corporation's approximate statutory income tax rate due to the reversal of certain temporary income tax differences.

Aviation Segment
The Aviation segment generated revenue of $115.7 million on 42,188 flight hours in YTD/13, compared to revenue of $96.5 million on 34,950 flight hours in YTD/12. The 20% increase in revenue and 21% increase in flight hours were attributable to increased activities from the segment's resource-based customers, increased demand for medevac and forest fire suppression services, and incremental contributions from SAL and NAS.

The Aviation segment incurred operating expenses totaling $78.6 million (or 68% of revenues) in YTD/13 compared to $59.2 million (or 61% of revenues) in YTD/12. As noted in the quarterly results, costs were higher as a percentage of revenues due largely to increased costs that were incurred to support the introduction of new aircraft types and delays in the commencement of the associated revenue streams.

Crew costs were $28.1 million in YTD/13 (or 24% of revenues) compared to $21.9 million in YTD/12 (or 23% of revenues).

Fleet costs, excluding fuel costs, were $26.5 million in YTD/13 (or 23% of revenues) compared to $18.7 million in YTD/12 (or 19% of revenues). Aircraft maintenance costs were $6.6 million in YTD/13 compared to $4.7 million in YTD/12. Aircraft lease expenses were $10.1 million in YTD/13 compared to $6.4 million in YTD/12. The increase in aircraft lease expense was largely attributable to the increased use of leased aircraft to meet higher demand for services. Facility costs were $3.1 million compared to $2.3 million in YTD/12, due largely to additional facilities acquired during the year to support expanded operations. Substantially all fuel costs are recovered from customers and recorded as revenue.

General and administrative expenses were $16.3 million (or 14% of revenues) in YTD/13 compared to $12.6 million (or 13% of revenues) in YTD/12. As noted above, the increase in general and administrative expense reflects increased infrastructure support costs, such as transaction costs for acquisitions, business development costs for new initiatives, and staff and office transition costs.

The segment recorded EBITDA of $37.1 million in YTD/13 compared to $37.7 million in YTD/12, yielding EBITDA margins of 32% and 39%, respectively. EBITDAR in YTD/13 was $47.2 million compared to $44.1 million YTD/12.

Depreciation expense in YTD/13 was $11.8 million (or 10% of revenues) compared to $10.4 million (or 11% of revenues) in YTD/12.

Corporate Support and Other

Corporate Support and Other generated revenues of $11.5 million in YTD/13 compared to $11.4 million in YTD/12. The 1% increase in revenues was attributable to increased MRO activity, while exploration camps and logistics revenues in YTD/13 remained consistent with YTD/12.

The segment incurred operating expenses totaling $16.6 million in YTD/13 compared to $14.5 million in YTD/12, an increase of 14%. As noted in the discussion of the segment's quarterly results, the increase in operating expenses was largely attributable to increased infrastructure support cost, including staff and office transition costs, and ongoing business development initiatives. The MRO operations also incurred higher expenses to support a larger scale of operations compared to YTD/12.

The segment recorded an EBITDA loss of $4.9 million in YTD/13 compared to an EBITDA loss of $3.0 million in YTD/12 due to an increase in corporate support costs and the MRO operation operating in a deficit position.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components in YTD/13 and YTD/12:

(thousands of dollars)	YTD/13	YTD/12
Operating activities	$ (1,043)	$ (3,628)
Investing activities	(37,467)	(6,539)
Financing activities	26,099	4,912
Exchange loss on cash held in foreign currency	1	-
Net decrease in cash for the year	$ (12,410)	$ (5,255)

Operating Activities

Operating activities in YTD/13 consumed $2.6 million less cash than in YTD/12. While profit in YTD/13 was lower than in YTD/12, the favourable variance is largely attributable to a $3.1 million reduction in interest paid, a $1.3 million reduction in tax paid and a $0.9 million reduction in the investment in non-cash working capital compared to YTD/12. The reduction in interest paid is primarily attributable to the payment-in-kind interest arrangement related to the Secured Debentures.

Working Capital

At the end of Q2/13, the Corporation had a positive working capital position of $33.9 million and a current ratio of 1.7 compared to a working capital position of $28.7 million and a current ratio of 1.6 at the end of Q2/12, for a $5.2 million increase in working capital. The increase in working capital is due to:

- increased operating activity in YTD/13, which incorporates the incremental contribution from the recently acquired operations of NAS and SAL;
- a $3.8 million decrease in the operating line of credit; and
- a $3.2 million decrease in the current portion of long-term debt relating to the replacement of debt that required monthly principal payments with the Secured Debentures that do not require monthly principal payments.

The increase in working capital noted above was offset by a $2.2 million contingent liability related to the acquisition of SAL.

Prior to August 1, 2012, the Corporation had a demand operating line of credit that matured on October 31, 2012 and charged interest at a fixed rate of 13%. On August 1, 2012, the Corporation replaced this facility with a committed operating line of credit which matures on April 9, 2015 and which, in respect of most advances, bears interest at lender's prime rate (currently, 3.00%) plus 2.00%. The new facility maintains the same funding limit of $15 million, increasing to a maximum of $25 million during the Corporation's peak operating season from March to the end of October. The new facility, which may be used by the Corporation for working capital and general corporate purposes, is secured by a first charge on the receivables and inventory of the Corporation and certain of its subsidiaries, general security agreements and other customary security agreements (See "Subsequent Events" below).

Except as noted below under "Investing Activities", the Corporation has not committed to any expenditures that would significantly change its working capital requirements for the foreseeable future. Each significant, non-maintenance related capital expenditure is assessed to gain reasonable assurance that the capital expenditure will be matched by projected revenues or cost savings generated by the expenditure. The Corporation also continuously looks for ways to conduct its businesses more efficiently and reduce costs.

The Corporation is aware of the following balance sheet conditions, income items or cash flow items that could have a material adverse impact on the Corporation's liquidity in the foreseeable future:

- the Aviation segment ceases to provide airborne training services to the DND; airborne training services are provided to the DND under a series of standing offer arrangements that, absent an extension, will expire in June 2013; and
- capital expenditures related to aircraft purchases or fleet maintenance are higher than expected.

Although the Corporation believes that it will maintain sufficient liquidity to meet its current and future operating requirements based on its existing working capital position, expected cash from operations and available credit under its operating facility, this belief could change if either or both of the above circumstances materializes.

Investing Activities

The net cash outlay from investing activities in YTD/13 was $37.7 million compared to $6.5 million in YTD/12. In YTD/13, capital expenditures of $26.0 million were made, comprising of two helicopters and five fixed-wing aircraft totaling $17.4 million, facility additions for $1.0 million, with the remaining capital asset additions related to sustaining capital expenditures and aircraft overhaul costs.

In YTD/13, investments totaled $11.7 million and included the following business acquisitions:

On February 2, 2012, the Corporation, through a subsidiary of Great Slave, purchased 100% of SAL and its subsidiaries. SAL was acquired due to its good strategic fit with Great Slave's South American operations as a provider of helicopter services to domestic and multinational customers in Chile's mining, power construction and forestry sectors. SAL has two main operating bases in central and southern Chile and currently operates a fleet of up to 10 intermediate and medium-sized helicopters. The Chilean Peso is SAL's functional currency. The purchase price consisted of cash consideration of $2.3 million (net of cash acquired of $0.2 million) and contingent consideration of up to $4.5 million, payable in two installments on December 31, 2012 and on December 31, 2013.

The contingent payments are based on a multiple of expected profit before income tax and depreciation, adjusted for long-term debt assumed and working capital requirements. The Corporation estimated the total purchase price to be $7.0 million. The purchase price allocation has not been finalized as the Corporation continues to assess the fair value of the assets acquired. The Corporation expects to finalize the purchase price allocation before the end of Fiscal 2013.

On May 4, 2012, the Corporation, through a subsidiary of Great Slave, completed the purchase of the assets of NAS for $9.4 million. NAS is a helicopter charter company serving the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia and Rocky Mountain House, Alberta. The fair value of the assets acquired is $9.7 million, including aircraft valued at $8.5 million, buildings at $0.9 million, inventory at $0.2 million and vehicles, furniture and equipment at $0.1 million. The Corporation assumed a net working capital payable below $0.1 million. The intangible asset valuations are currently being finalized. Prior to these assessments, a gain of $0.3 million was recorded and is presented separately on the Corporation's Interim Condensed Consolidated Statements of Profit and Comprehensive Income. The transaction resulted in a gain as the Corporation was able to acquire the assets for less than their fair market value.

In YTD/12, capital expenditures were $9.0 million and included three fixed-wing aircraft purchases for $3.8 million, with the remaining capital expenditures relating to sustaining capital expenditures and capitalized aircraft overhaul costs. YTD/12 also included the sale of four aircraft for proceeds of $2.5 million.

Aside from regular aircraft overhauls related to the existing fleet, the Corporation had no capital asset expenditure commitments as at July 31, 2012. Subsequent to Q2/13, the Corporation acquired two fixed-wing aircraft plus parts for $2.0 million. The Corporation was leasing two of these aircraft prior to their purchase (see "Subsequent Events" below).

Financing Activities

The Corporation had an outstanding balance of $7.9 million on its operating line of credit as at Q2/13, compared to an outstanding balance of $11.6 million as at Q2/12. At the end of Q2/13, the Corporation had unrestricted cash of $0.7 million and available but unused borrowing capacity of $17.1 million to fund its operating requirements. Consistent with the seasonal nature of the Corporation's business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased non-cash working capital. These draws are typically repaid during the third quarter.

During YTD/13, the Corporation made debt repayments of $38.0 million, made up of $32.0 million to retire a $34 million term loan at a discount, $4.5 million to replace a bridge loan and $1.5 million of scheduled debt repayments. During YTD/12, the Corporation made scheduled debt payments of $39.0 million, consisting of a $2.9 million cash payment (and the issuance of 1,035,200 shares, post share consolidation) to retire a related party debt, $28.8 million to retire unsecured convertible debentures and $7.5 million of scheduled debt repayments.

On March 26, 2012, the Corporation repaid the $34 million term loan in full, 10 months prior to its February 1, 2013 maturity. To repay this loan and related transaction costs, the Corporation entered into two new credit facilities totaling $29.9 million, and a $4.5 million bridge loan from a related party. The repayment of the $34 million term loan was reduced by $2.2 million, comprising a $2.0 million discount and $0.2 million in accrued interest, in exchange for the early retirement of the debt.

On March 26, 2012, the Secured Debentures were amended to, among other things, facilitate the early repayment of the $34 million term loan. The amendments included, but were not limited to, revised language as to when and in what circumstances the existing maturity date (presently set at March 22, 2017) of the Secured Debentures can be changed; revised language as to when and, in what circumstances, the Corporation (as borrower) can early redeem the Secured Debentures; and new language requiring the consent of the holders of the Secured Debentures in the event that the Corporation issues equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures. As a result of these amendments, the conversion feature in the Secured Debentures is no longer classified as a liability that is recorded at fair value in each reporting period, and is now classified as equity and included in contributed surplus. The amendment of the terms was not considered a significant modification of the Secured Debentures. However, the fair value of the liability related to the conversion feature was considered extinguished upon the amendment of the Secured Debentures. Accordingly, a mark-to-market adjustment of $0.2 million was recorded in profit during Q1/13.

On July 31, 2012, the Secured Debentures were amended to facilitate the new, committed operating facility that was secured on August 1, 2012. The Secured Debentures were amended to, among other things, confirm the Secured Debenture holders' priority in relation to cash proceeds from their priority collateral and clarify certain defined terms in the Secured Debentures. See "Subsequent Events" for further details concerning the new operating facility.

On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement to refinance a portion of the $34 million term loan and to fund the purchase of additional aircraft. At July 31, 2012, $19.5 million was outstanding under this term facility. The loan matures on March 15, 2017 and is repayable in monthly installments of $167,000 plus interest, with the balance due at maturity. The loan bears interest at a rate equal to the lender's floating base rate plus 3.00% 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 $214,000 are netted against the carrying value of the loan and are accreted to the loan's face value based on its 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.

On July 31, 2012, the $20.0 million term loan was amended to facilitate the new operating facility that was secured on August 1, 2012. The $20.0 million term loan was amended to confirm the lender's priority over its priority collateral.

On March 26, 2012, the Corporation entered into four term loan agreements for an aggregate principal amount of $14.2 million to refinance a portion of the $34 million term loan and to fund the purchase of additional aircraft. At July 31, 2012, $13.9 million was outstanding under this term facility and an additional $2.2 million was available to be drawn under a separate loan agreement with this lender on or before September 30, 2012. The loans mature on March 26, 2017 and are repayable in aggregate monthly installments of $185,000 plus interest payments, with the balance due at maturity. The loans bear interest at a rate equal to the one-month Canadian dollar banker's acceptance rate plus 4.55% per annum. The loans are secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $163,000 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 5.97% per annum. The loan agreements require that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

On March 26, 2012, the Corporation entered into a $4.5 million bridge loan from a related party. The bridge lender is a related party as it is an affiliate of Clairvest Group Inc., whose affiliates and investors in certain of its funds hold approximately $58.3 million principal amount of the Secured Debentures and have certain director nomination rights. The bridge loan had a 91-day term, bore interest at 9.50% per annum with interest payable monthly and was secured by way of certain guarantees and real estate previously pledged as security for the $34 million term loan. No financing fees were payable in connection with the bridge loan, and the bridge loan was not convertible into securities of the Corporation. This loan was replaced on June 22, 2012 with a $4.5 million term loan from a third party lender. The replacement loan matures on April 22, 2015 and is repayable through monthly payments of interest and in quarterly installments of $500,000 during the first year, $375,000 during the second year and $250,000 during the last year. The loan bears a fixed interest rate of 9.00%. The loan is secured by a subordinated general security agreement over the assets of the Corporation and certain subsidiaries. Transaction costs of $95,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on its effective interest rate of 10.22% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage.

On May 2, 2012, the Corporation entered into a $15.0 million term loan agreement to fund the purchase of additional aircraft. At July 31, 2012, $13.8 million was drawn on this facility to fund the purchase of NAS' assets and two additional aircraft. The loan matures on February 15, 2016, and is repayable through an annual curtailment each December equal to 1/10th of the original amounts drawn and monthly payments of interest. The loan bears an interest rate equal to the greater of 4.50% and the lender's floating base rate plus 1.50% 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 $136,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on its effective interest rate of 5.00% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

At July 31, 2012, the Corporation was in compliance with all of its debt covenants.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 22 of the Corporation's annual audited consolidated financial statements for the year ended January 31, 2012.

Share Consolidation

On September 23, 2011, the Corporation received the approval of the Toronto Stock Exchange to effect a share consolidation on the basis of 10 pre-consolidation Shares for every one post-consolidation Share. The Class A Shares commenced trading on a post-consolidation basis on September 29, 2011. The consolidation reduced the number of Shares outstanding as at the date of the share consolidation from 145,556,159 to 14,555,615.

Shareholders' Equity

Shareholders' equity increased by the amount of the YTD/13 comprehensive income, the after-tax value of the Secured Debenture's conversion option and share-based compensation included in contributed surplus.

At July 31, 2012, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 413,815 stock options outstanding and no Share purchase warrants outstanding. During Q2/13, the Corporation issued no stock options under the employee stock option plan approved by the shareholders in June 2010. The Corporation maintains 269,315 outstanding stock options issued under an employee stock option plan created in January 2006. This plan was terminated in June 2008, eliminating any additional grants under this plan. During Q2/13, 2,680 stock options were expired.

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2012 and 2011, which can be found on SEDAR at www.sedar.com.

Related Party Transactions

On March 26, 2012, the Corporation received a $4.5 million bridge loan from a related party. The bridge loan was repaid on June 22, 2012 (see "Financing Activities" above).

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. These risks and uncertainties are substantially unchanged from the description found in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2012, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 30, 2012, both of which can be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporations financial condition and results. There have been no changes to the Corporations significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2012, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

For detailed discussion on recently issued standards please refer to Corporation's for the year ended January 31, 2012, which can be found on SEDAR at www.sedar.com. There were no additional recently issued standards relevant to the Corporation during Q2/13.

NON-IFRS MEASURES

Management believes "**EBITDA**" and "**EBITDAR**" to be important measures, as they exclude the effects of long-term investment decisions from the performance of the Corporation's day-to-day operations. Management believes these measurements are useful in assessing the Corporation's ability to service debt and to meet other payment obligations, and as a basis for valuation. Beginning in Q1/13, the Corporation changed the definition of EBITDA and EBITDAR to exclude gains and losses on disposal of property. EBITDA and EBITDAR for prior periods are restated to reflect this change in their composition. EBITDA margin is EBITDA as a percentage of revenue.

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

(thousands of dollars)	**Q2/13**	**Q2/12**	**YTD/13**	**YTD/12**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net profit attributable to shareholders of Discovery Air Inc.	$ 8,935	$ 17,979	$ 10,295	$ 15,393
Income tax provision	3,317	7,081	3,363	6,176
Gain on extinguishment of debt	-	(5,900)	(2,224)	(5,900)
Gain on business acquisition	(297)	-	(297)	-
Change in fair value financial liabilities reported at fair value	-	-	(201)	-
Interest and financing charges	4,605	4,721	8,927	8,465
Depreciation	6,785	6,184	12,381	10,688
Gain on disposal of property and equipment	(25)	(369)	(34)	(115)
Non-controlling interest	(28)	-	(51)	-
EBITDA	$ 23,292	$ 29,696	$ 32,159	$ 34,707
Aircraft lease expenses	6,048	4,397	10,137	6,401
EBITDAR	$ 29,340	$ 34,093	$ 42,296	$ 41,108

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

The following is a reconciliation of adjusted profit (loss):

(thousands of dollars)	**Q2/13**	**Q2/12**	**YTD/13**	**YTD/12**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net profit attributable to shareholders of Discovery Air Inc.	$ 8,935	$ 17,979	$ 10,295	$ 15,393
Gain on extinguishment of debt	-	(5,900)	(2,224)	(5,900)
Tax effect on gain on extinguishment of debt	-	1,652	300	1,652
Gain on business acquisition	(297)	-	(297)	-
Change in fair value of financial liabilities at fair value	-	-	(201)	-
Adjusted profit	$ 8,638	$ 13,731	$ 7,873	$ 11,145

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	Q2/13			Q2/12		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 67,997	$ 6,228	$ 74,225	$ 63,264	$ 7,393	$ 70,657
Expenses	42,237	8,836	51,073	32,750	8,456	41,206
Share of (profit) loss of equity accounted investees	(7)	(133)	(140)	(261)	16	(245)
EBITDA	**$ 25,767**	**$ (2,475)**	**$ 23,292**	**$ 30,775**	**$ (1,079)**	**$ 29,696**
Aircraft lease expenses	6,048	-	6,048	4,397	-	4,397
EBITDAR	**$ 31,815**	**$ (2,475)**	**$ 29,340**	**$ 35,172**	**$ (1,079)**	**$ 34,093**

(thousands of dollars)	YTD/13			YTD/12		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 115,679	$ 11,479	$ 127,158	$ 96,465	$ 11,441	$ 107,906
Expenses	78,634	16,646	95,280	59,200	14,473	73,673
Share of profit of equity accounted investees	(47)	(234)	(281)	(435)	(39)	(474)
EBITDA	**$ 37,092**	**$ (4,933)**	**$ 32,159**	**$ 37,700**	**$ (2,993)**	**$ 34,707**
Aircraft lease expenses	10,137	-	10,137	6,401	-	6,401
EBITDAR	**$ 47,229**	**$ (4,933)**	**$ 42,296**	**$ 44,101**	**$ (2,993)**	**$ 41,108**

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

	2013 (unaudited)		2012 (unaudited)				2011 (unaudited)	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Results of operations:								
Total Revenue	$ 74,225	$ 52,933	$ 28,699	$ 55,115	$ 70,657	$ 37,249	$ 23,747	$ 44,066
EBITDA	$ 23,292	$ 8,867	$ (6,169)	$ 15,812	$ 29,696	$ 5,014	$ (1,036)	$ 14,311
Cash from (used in) operations	$ 4,452	$ (5,495)	$ 9,635	$ 18,944	$ 6,769	$ (10,397)	$ 9,811	$ 18,415
Adjusted profit (loss)*	$ 8,638	$ (765)	$ (10,604)	$ 5,084	$ 13,731	$ (2,586)	$ (6,099)	$ 3,843
Profit (loss) attributable to shareholders of Discovery Air Inc.	$ 8,935	$ 1,360	$ (9,825)	$ 6,184	$ 17,979	$ (2,586)	$ (6,099)	$ 3,843
Basic earnings per share	$ 0.61	$ 0.09	$ (0.67)	$ 0.42	$ 1.24	$ (0.19)	$ (0.45)	$ 0.28
Basic adjusted profit (loss) per share*	$ 0.59	$ (0.05)	$ (0.73)	$ 0.35	$ 0.95	$ (0.19)	$ (0.45)	$ 0.28
Diluted earnings per share	$ 0.38	$ 0.09	$ (0.67)	$ 0.31	$ 0.96	$ (0.19)	$ (0.45)	$ 0.28
Diluted adjusted profit (loss) per share*	$ 0.37	$ (0.05)	$ (0.73)	$ 0.26	$ 0.71	$ (0.19)	$ (0.45)	$ 0.28

The business of the Corporation follows a seasonal pattern with the lowest revenue occurring from November to April. Therefore, the Corporation's results vary from quarter to quarter and results for an interim period are not necessarily indicative of results that may be expected for a full year.

SUBSEQUENT EVENTS

On August 1, 2012, the Corporation replaced its demand operating line of credit with a committed operating line of credit ("New Operating Line") that matures on April 9, 2015 and which, in respect of most advances, bears interest at the lender's prime rate plus 2%. The New Operating Line has a maximum borrowing limit of $15.0 million, increasing to $25.0 million during the Corporation's peak operating period of March 1 through October 31, which is restricted by a lending margin applied to eligible accounts receivable and inventory, subject to an allowance for specific reserves. The New Operating Line, which may be used by the Corporation for working capital and general corporate purposes, is secured by a first charge on the receivables and inventory of the Corporation and certain of its subsidiaries,

general security agreements and other customary security agreements. The estimated transaction costs are $0.4 million.

On September 5, 2012, the Corporation acquired two fixed wing aircraft and related parts, for $2.0 million. Prior to the purchase of these aircraft they were being leased by the Corporation.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There were no changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the six months ended July 31, 2012 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

DEFINITIONS

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

(a) "**2011 Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal 2012**" means the fiscal year of the Corporation ended January 31, 2012;
(e) "**Fiscal 2013**" means the fiscal year of the Corporation ended January 31, 2013;
(f) "**Q1/12**", "**Q2/12**", "**Q3/12**" and "**Q4/12**" mean the first, second, third and fourth quarters, respectively, of Fiscal 2012; "**Q1/13**", "**Q2/13**", "**Q3/13**" and "**Q4/13**" mean the first, second, third and fourth quarters, respectively, of Fiscal 2013;
(g) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of July 31, 2012, had an adjusted principal amount of $76,002,745 (inclusive of accrued interest); and
(h) "**Shares**" means the Class A Shares and the Class B Shares.

FORWARD-LOOKING STATEMENTS

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

All forward-looking information and statements presented in this document are based on reasonable assumptions, estimates and analysis that take into account management's experience and perception of trends and interpretation of external factors, such as economic conditions. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the Corporation's ability to secure operating contracts; the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Corporation conducts operations; the effects of changes in interest rates; the effects of competition in the markets in which the

Corporation operates; inflation; capital market fluctuations, including the availability of equity and/or debt capital to the Corporation; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings and decisions; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implied by the foregoing.

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

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

Dated: September 10, 2012