Interim Condensed Consolidated Financial Statements
October 31, 2012
(Unaudited)

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

(thousands of Canadian dollars)	Note	October 31, 2012	January 31, 2012
Assets			
Current assets:			
Cash		**$ 7,719**	$ 13,096
Restricted cash	12	**643**	638
Trade and other receivables		**41,377**	23,629
Inventory		**22,350**	17,861
Prepaid expenses and other		**4,722**	3,369
		76,811	58,593
Property and equipment		**184,184**	157,994
Long term notes receivable		**2,232**	2,490
Goodwill	4	**41,434**	37,862
Intangible assets		**11,471**	14,789
Investments in equity accounted investees		**3,213**	2,907
		$ 319,345	$ 274,635
Liabilities and Shareholders' equity			
Current liabilities:			
Trade and other payables		**22,738**	18,349
Income taxes payable		**4,904**	3,307
Current portion of finance leases		**527**	333
Current portion of contingent consideration for business acquisition	4	**2,285**	-
Current portion of loans and borrowings	6	**6,370**	112
		36,824	22,101
Finance leases		**4,176**	2,873
Contingent consideration for business acquisition	4	**1,904**	-
Loans and borrowings	6	**149,048**	132,298
Financial liabilities at fair value	6(a)	**-**	1,419
Deferred income taxes		**21,968**	23,246
		177,096	159,836
Shareholders' equity:			
Share capital		**68,469**	68,469
Contributed surplus		**10,996**	9,727
Retained earnings		**25,938**	14,413
Accumulated other comprehensive Income	4	**3**	-
Equity attributable to shareholders of Discovery Air Inc.		**105,406**	92,609
Equity attributable to non-controlling interest		**19**	89
Total equity		**105,425**	92,698
		$ 319,345	$ 274,635

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Profit

(Unaudited)

(thousands of Canadian dollars, except per share amounts)	Note	For the three months ended October 31, 2012	For the three months ended October 31, 2011	For the nine months ended October 31, 2012	For the nine months ended October 31, 2011
Revenue		**$ 64,874**	$ 55,115	**$ 192,032**	$ 163,021
Expenses		**49,050**	39,203	**144,330**	112,876
Depreciation of property and equipment and intangible assets		**6,187**	5,158	**18,568**	15,846
		9,637	10,754	**29,134**	34,299
Finance costs		**4,275**	4,607	**13,202**	13,072
Impairment loss	5	**3,723**	-	**3,723**	-
Share of loss (profit) of equity accounted investees (net of income tax)		**(139)**	105	**(420)**	(369)
Other (gains) losses	9	**101**	(1,912)	**(2,655)**	(7,927)
		7,960	2,800	**13,850**	4,776
Profit before income taxes		**1,677**	7,954	**15,284**	29,523
Income tax provision (recovery):					
Current		**1,126**	1,416	**5,107**	5,657
Deferred		**(660)**	354	**(1,278)**	2,289
		466	1,770	**3,829**	7,946
Profit		**$ 1,211**	$ 6,184	**$ 11,455**	$ 21,577
Profit (loss) attributable to:					
Non-controlling interest		**(19)**	-	**(70)**	-
Shareholders' of Discovery Air Inc.		**1,230**	6,184	**11,525**	21,577
		$ 1,211	$ 6,184	**$ 11,455**	$ 21,577
Earnings per share:					
Basic earnings per share	8	**$ 0.08**	$ 0.42	**$ 0.79**	$ 1.52
Diluted earnings per share	8	**$ 0.08**	$ 0.31	**$ 0.63**	$ 1.23

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(thousands of Canadian dollars)	Note	For the three months ended October 31, 2012	For the three months ended October 31, 2011	For the nine months ended October 31, 2012	For the nine months ended October 31, 2011
Profit		**$ 1,211**	$ 6,184	**$ 11,455**	$ 21,577
Other comprehensive income (loss):					
Exchange differences on translation of foreign operation	4	**(12)**	-	**3**	-
Total comprehensive income		**$ 1,199**	**$ 6,184**	**$ 11,458**	**$ 21,577**
Total comprehensive income attributable to:					
Non-controlling interest		**(19)**	-	**(70)**	-
Shareholders' of Discovery Air Inc.		**1,218**	6,184	**11,528**	21,577
		$ 1,199	$ 6,184	**$ 11,458**	$ 21,577

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity

(Unaudited)

(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive Income	Non-controlling interest	Total equity
Balance at January 31, 2012		**$ 68,469**	**$ 9,727**	**$ 14,413**	**$ -**	**$ 89**	**$ 92,698**
Profit (loss)		**-**	**-**	**11,525**	**-**	**(70)**	**11,455**
Other comprehensive income	4	**-**	**-**	**-**	**3**	**-**	**3**
Share-based compensation		**-**	**52**	**-**	**-**	**-**	**52**
Amendment of convertible debentures	6(a)	**-**	**1,217**	**-**	**-**	**-**	**1,217**
Balance at October 31, 2012		**$ 68,469**	**$ 10,996**	**$ 25,938**	**$ 3**	**$ 19**	**$ 105,425**
Balance at January 31, 2011		$ 65,134	$ 7,170	$ 2,661	$ -	$ -	$ 74,965
Profit		-	-	21,577	-	-	21,577
Shares issued on debt extinguishment		4,451	-	-	-	-	4,451
Fair value of conversion feature on convertible debenture		-	1,843	-	-	-	1,843
Share-based compensation		-	55	-	-	-	55
Reclassification due to debt repayment		(1,116)	1,116	-	-	-	-
Balance at October 31, 2011		$ 68,469	$ 10,184	$ 24,238	$ -	$ -	$ 102,891

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, 2012	October 31, 2011
Cash Provided by (used in)			
Operating activities			
Profit		**$ 11,455**	$ 21,577
Adjustments for:			
Current tax expense		**5,107**	5,657
Deferred tax expense (recovery)		**(1,278)**	2,289
Finance costs excluding realized foreign exchange (gains) losses		**13,014**	12,931
Share-based compensation		**52**	55
Deferred share unit compensation		**141**	147
Depreciation of property, equipment and intangible assets		**18,568**	15,846
Share of profit of equity accounted investees		**(420)**	(369)
Impairment loss	5	**3,723**	-
Other (gains) losses	9	**(2,655)**	(7,927)
		47,707	50,206
Change in non-cash operating working capital	11	**(16,912)**	(23,790)
Interest paid		**(5,164)**	(9,127)
Net income taxes paid		**(3,541)**	(1,973)
Net cash provided by operating activities		**22,090**	15,316
Investing activities:			
Acquisition of property and equipment		**(32,225)**	(22,152)
Acquisition of subsidiaries, net of cash acquired	4	**(11,687)**	-
Long term notes receivable collections		**183**	-
Proceeds on disposal of property and equipment		**317**	5,257
Net cash used in investing activities		**(43,412)**	(16,895)
Financing Activities:			
Loans and borrowings transaction costs		**(1,246)**	(4,326)
Proceeds from loans and borrowings	6	**57,148**	104,681
Repayment of loans, borrowings and finance leases	6	**(39,957)**	(96,739)
Net cash provided by financing activities		**15,945**	3,616
Increase (decrease) in cash		**(5,377)**	2,037
Cash, balance beginning of period		**13,096**	7,399
Cash, balance end of period		**$ 7,719**	$ 9,436

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*. The address of the registered office is 200, 4915 – 48th Street, YK Centre East, Yellowknife, Northwest Territories, X1A 2N6. Its business consists of providing aviation and aviation-related services carried on by its wholly-owned subsidiaries Great Slave Helicopters Ltd. ("Great Slave"), Air Tindi Ltd. ("Air Tindi"), Top Aces Inc. ("Top Aces"), Discovery Air Fire Services Inc. ("Fire Services") (formerly Hicks & Lawrence Limited), Discovery Mining Services Ltd. ("Discovery Mining"), Discovery Air Technical Services Inc. ("Technical Services"), and Discovery Air Innovations Inc. ("Innovations"). Certain of these wholly-owned subsidiaries also conduct a portion of their business activities through their own wholly-owned subsidiaries and through jointly controlled entities or investments in associates. Through its direct and indirect subsidiaries, the Corporation operates over 150 aircraft with approximately 850 employees. The Corporation's Class A common voting shares (the "Class A Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "DA.A". The Corporation also has Class B common variable voting shares (the "Class B Shares"), which are not listed for trading on any exchange (the Class B Shares and the Class A Shares are collectively referred to as the "Shares").

2. Basis of preparation:

(a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared 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 consolidated financial statements for the year ended January 31, 2012, which were prepared in accordance with International Financial Reporting Standards. Effective February 1, 2012, the Corporation revised its reportable operating segments (see note 14).

(b) Basis of measurement:

These interim condensed consolidated financial statements have been prepared on the historical cost basis, except for liabilities for cash-settled share-based payment arrangements and embedded derivatives in the Corporation's 10.00% secured convertible debentures (the "Secured Debentures") (see note 6(a)), which were measured at fair value.

(c) Functional and presentation currency:

These interim condensed consolidated financial statements are presented in Canadian dollars. The Corporation has a Chilean subsidiary which has a functional currency of the Chilean Peso (see note 4). The consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of the Corporation's operations in Chile to Canadian dollars. The assets and liabilities of the Corporation's Chilean subsidiary are translated to Canadian dollars at exchange rates applicable at each reporting date. Income and expenses are translated to Canadian dollars at exchange rates applicable at the dates of the transactions. Foreign currency translation differences relating to the impact of changes in exchange rates on the net assets of the Chilean subsidiary are recognized in other comprehensive income. The Corporation's operations in Peru and its remaining subsidiaries have a functional currency of the Canadian dollar.

3. Significant accounting policies:

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, 2012.

A number of new standards, and amendments and interpretations of standards, are not yet effective for the quarter ended October 31, 2012, and have not been applied in preparing these interim condensed consolidated financial statements. Management is currently reviewing such standards to determine the impact on the Corporation's financial statements.

4. Business combinations:

(a) On February 2, 2012, the Corporation, through a subsidiary of Great Slave, acquired 100% of Helicopers.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("SAL") and its subsidiaries. SAL was acquired due to its good strategic fit with Great Slave`s South American operations, providing 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 approximately 10 intermediate and medium sized helicopters. The Chilean Peso is SAL's functional currency. Foreign exchange gains and losses arising from translating SAL's results and financial position into Canadian dollars are recorded in "Other comprehensive income".

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 as of December 31, 2012 and December 31, 2013. The contingent consideration is based on a multiple of expected profit before income tax, depreciation and amortization, adjusted for, among other items, long term debt assumed and working capital requirements. The Corporation estimated the total purchase price to be $7.0 million. The fair value of the assets acquired is $2.9 million, comprising of aircraft valued at $3.8 million, $1.2 million of other fixed assets and net working capital, and assumed long term-debt of $2.1 million. The provision for contingent consideration is recorded at its present value and will accrete to the face value of the liability at the scheduled payment dates. The purchase price allocation and the amount of the contingent consideration have not been finalized as the Corporation continues to assess the fair values of the assets acquired and the performance of the business. The Corporation intends to finalize the purchase price allocation by February 1, 2013.

(b) On May 4, 2012, the Corporation, through a subsidiary of Great Slave, completed the purchase of the assets of Northern Air Support Ltd. ("NAS") for $9.4 million. NAS is a helicopter charter company that serves the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia and Rocky Mountain House, Alberta. The acquisition of NAS supports the Corporation's growth into the British Columbia market and is a good strategic fit with Great Slave's operations. The fair value of the assets acquired is $9.7 million, comprised of aircraft and spare parts valued at $8.6 million, buildings at $0.9 million, vehicles and furniture and equipment at $0.1 million, and net working capital of $0.1 million. The intangible valuations are currently being finalized. Prior to these assessments, a gain of $0.3 million has been recorded and is presented separately on the Interim Condensed Consolidated Statements of Profit. The transaction resulted in a gain as the Corporation was able to acquire the assets at a value less than the fair market value. The gain may be adjusted upon finalizing the purchase price and the valuation of assets acquired.

5. Property and equipment:

At quarter end, the Corporation identified four fixed wing aircraft and other non-aircraft assets which had not gnereated revenue in the third quarter. Accordingly, the Corporation assessed these assets for potential impairment and determined that they had an estimated recoverable amount that was less than their carrying value. The recoverable amount was determined by reference to their fair market value less costs of disposal. The fair value was determined by reference to appraised values of the assets based upon quoted prices of similar assets. This analysis resulted in the Corporation recognizing an impairment loss of $3.0 million on the aircraft in its Aviation segment and $0.7 million on non-aircraft assets in the Corporate Support and Other segment.

6. Loans and borrowings:

(thousands of Canadian dollars)

	Note		**October 31, 2012**		January 31, 2012
10.00% secured convertible debentures, maturing March 22, 2017	6(a)	**$**	**73,300**	$	67,293
8.375% unsecured convertible debentures, maturing June 30, 2016	6(b)		**31,399**		30,890
Long-term secured debt bearing interest of lenders base rate plus 3.00%, maturing March 15, 2017	6(c)		**18,799**		-
Long-term secured debt bearing interest of lenders base rate plus 1.50%, maturing February 15, 2016	6(d)		**13,725**		-
Long-term secured debt bearing interest of BA rate plus 4.55%, maturing March 26, 2017	6(e)		**13,351**		-
Long-term unsecured debt bearing a fixed interest rate of 9.00%, maturing April 22, 2015	6(f)		**3,908**		-
Long-term secured debt incurred by subsidiary companies bearing fixed and floating interest rates at a weighted average of 5.43% (January 31, 2012 - 7.48%, Oct 31, 2011 - 7.49%), maturing fiscal 2013 through fiscal 2016			**936**		540
Long-term secured debt bearing a fixed interest rate of 10.00%, maturing February 1, 2013	6(h)		**-**		33,687
Loans and borrowings		**$**	**155,418**	$	132,410
Less current portion of loans and borrowings			**6,370**		112
		$	**149,048**	$	132,298

(a) On March 22, 2012, $3.5 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at October 31, 2012, the loan balance included accrued interest of $4.5 million (January 31, 2012 - $2.5 million).

On March 26, 2012, the Secured Debentures were amended to, among other things, facilitate the early repayment of the $34 Million Term Loan (see note 6(h)). The amendments included, but were not limited to, revised language as to when and in what circumstances the existing maturity date (currently 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 each reporting period, instead is 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, prior to extinguishment, a final mark-to-market adjustment of $0.2 million was recorded in profit.

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 Debentures holders' priority in relation to cash proceeds from their collateral and clarify certain defined terms. (See Operating line of credit (note 7) for further details concerning the new operating facility).

(b) On May 12, 2011, the Corporation closed a $30.0 million issuance of 8.375% convertible unsecured subordinated debentures at a price of $1,000 per debenture (the "Unsecured Debentures"). On May 27, 2011, the Corporation closed the issuance of an overallotment option on the original issue of these debentures for an additional $4.5 million, bringing the total principal amount of the debentures to $34.5 million. These Unsecured Debentures accrue interest at the rate of 8.375% per annum payable semi-annually and the principal balance is due at maturity on June 30, 2016. At the holders' option, the Unsecured Debentures may be converted into Shares at any time prior to the maturity date at a conversion price of $7.30 per Share, subject to standard anti-dilution and adjustment provisions. The Unsecured Debentures are not redeemable before June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option and subject to notice period requirements, redeem the Unsecured Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares on the TSX during a specified period prior to redemption is not less than 125% of the conversion price. At inception, the fair value of the future payments of principal and interest under the Unsecured Debentures was $32.7 million and the fair value of the holders' conversion option (the "Equity Component") was determined to be $1.4 million ($1.8 million pre-tax) and recorded in contributed surplus. The Equity Component and transaction costs of $2.2 million are netted against the carrying value of the Unsecured Debentures and are being accreted to its face value based on an effective interest rate of 11.61% per annum.

On June 16, 2011, the Corporation used the net proceeds of issuance of the Unsecured Debentures to fully repay the $28.8 million unsecured debentures. The Corporation used the remaining funds to fund working capital and for general corporate purposes.

(c) 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 (see note 6(h)). The loan matures on March 15, 2017 and is repayable in monthly instalments of $167,000 plus interest, with the balance due at maturity. The loan bears an interest 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 $222,000 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 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 committed 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. (See "Operating line of credit" (note 7) for further details concerning the new committed operating facility).

(d) On May 2, 2012, the Corporation entered into a $15.0 million term loan agreement to fund the purchase of additional aircraft. $13.8 million was drawn on May 4, 2012 to purchase 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: (i) 4.50%, and (ii) 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 $139,000 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 5.00% 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.

(e) 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 (see note 6(h)) and to fund the purchase of additional aircraft. The loans mature on March 26, 2017 and are repayable in aggregate monthly instalments 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 ("BA 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 loans' face value based on the loans' effective interest rate of 5.97% per annum. The 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.

(f) On June 22, 2012, the Corporation entered into a $4.5 million term loan agreement to refinance the Bridge Loan (see note 6(g)). The loan matures on April 22, 2015 and is repayable in twelve quarterly payments of $500,000 per quarter in the first year, $375,000 per quarter in the second year and $250,000 per quarter in the final year. The loan bears a fixed interest rate of 9.00%. The loan is secured by a subordinated general security agreement with the Corporation and certain of its subsidiaries. Transaction costs of $104,000 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 10.22% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage.

(g) On March 26, 2012, the Corporation entered into a $4.5 million bridge loan agreement (the "Bridge Loan") with a related party. The bridge lender was a related party as it is an affiliate of Clairvest Group Inc. ("Clairvest") (see note 10). The Bridge Loan had a 91-day term and bore interest at 9.5% per annum with interest payable monthly and was secured by way of certain guarantees and real estate previously pledged as security for the $34.0 million term loan (the "$34 Million Term Loan"). No financing fees were payable in connection with the Bridge Loan, and it was not convertible into securities of the Corporation. The Bridge Loan was repaid in full on June 22, 2012.

(h) On March 26, 2012, the Corporation repaid the "$34 Million Term Loan in full, ten 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 (see notes 6(c) and (e)), and the Bridge Loan (see note 6(g)). The repayment of the $34 Million Term Loan was reduced by $2.2 million, in return for the Corporation retiring it prior to maturity.

As at October 31, 2012, the Corporation was in compliance with all covenants related to debt.

Repayments on or in respect of the above-listed outstanding loans and borrowings as at October 31, 2012 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)		
Within 1 year	$	6,370
Within 2 years		6,476
Within 3 years		5,788
Within 4 years		13,880
Within 5 years		49,604
Thereafter		73,300
Total	$	155,418

Interest on or in respect of loans and borrowings for the three and nine month period ended October 31, 2012, was $3.6 million (October 31, 2011 - $3.6 million) and $10.5 million (October 31, 2011 - $9.9 million), respectively.

7. Operating line of credit:

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 up to $25.0 million during the Corporation's peak operating period of March 1 through October 31. Aggregate borrowings are also limited 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. In addition to financial covenants, the Corporation is required to have a nil loan balance for thirty consecutive days during each non-peak operating period. The transaction costs for this facility were $0.5 million.

As at October 31, 2012, the Corporation had available the maximum $25.0 million borrowing capacity, and was in compliance with all applicable covenants.

8. Earnings per share:

(thousands of Canadian dollars, except per share amounts)	For the three months ended		For the nine months ended	
	October 31, 2012	October 31, 2011	**October 31, 2012**	October 31, 2011
Basic earnings per share:				
Profit attributable to holders of Common Shares	**$ 1,230**	$ 6,184	**$ 11,525**	$ 21,577
Weighted average number of Common Shares outstanding (post - consolidation)	**14,556**	14,556	**14,556**	14,218
Basic earnings per share	**$ 0.08**	$ 0.42	**$ 0.79**	$ 1.52
Diluted Earnings per Share:				
Profit attributable to holders of the Common Shares	**$ 1,230**	$ 6,184	**$ 11,525**	$ 21,577
Dilutive adjustments:				
- Interest savings from assumed conversion of convertible debt	**$ -**	$ 1,063	**$ 6,446**	$ 1,508
Adjusted profit attributable to holders of common shares	**$ 1,230**	$ 7,247	**$ 17,971**	$ 23,085
Weighted average number of Common Shares outstanding	**14,556**	14,556	**14,556**	14,218
Dilutive adjustments:				
- Assumed conversion of convertible debt	**-**	8,683	**14,059**	4,519
- Share options	**-**	-	**5**	-
Weighted average number of Common Shares outstanding assuming dilution	**14,556**	23,239	**28,620**	18,737
Diluted earnings per share	**$ 0.08**	$ 0.31	**$ 0.63**	$ 1.23

Despite the Corporation's Class A Share price as at October 31, 2012 and 2011 being below the conversion price of the Unsecured Denbentures and Secured Debentures, IAS 33 considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

9. Other (gains) losses:

(thousands of Canadian dollars)	Note	For the three months ended October 31, 2012	For the three months ended October 31, 2011	For the nine months ended October 31, 2012	For the nine months ended October 31, 2011
Loss (gain) on disposal of property and equipment		**$ 101**	$ (812)	**$ 67**	$ (927)
Change in fair value of financial liabilities at fair value	6(a)	**-**	(1,100)	**(201)**	(1,100)
Gain on extinguishment of debt	6(h)	**-**	-	**(2,224)**	(5,900)
Gain on business acquisition	4	**-**	-	**(297)**	-
		$ 101	$ (1,912)	**$ (2,655)**	$ (7,927)

10. Related party transactions:

Clairvest whose affiliates and investors in certain of its funds have a beneficial interest in, or exercise direction or control over, $68 million of the original $70 million principal amount of the Secured Debentures and have certain director nomination rights. The Secured Debentures held by these parties would represent, on a post-conversion basis, more than 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the three and nine months ended October 31, 2012 was $2.0 million and $5.5 million, respectively (for the three and nine months ended October 31, 2011 - $0.7 million). In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest on a monthly basis

11. Change in non-cash operating working capital:

(thousands of Canadian dollars)	For the nine months ended October 31, 2012	For the nine months ended October 31, 2011
Restricted cash	**$ (5)**	$ 200
Trade and other receivables	**(15,710)**	(24,650)
Inventory	**(2,405)**	(3,831)
Prepaid expenses	**(871)**	(3,195)
Trade and other payables	**2,079**	7,686
	$ (16,912)	$ (23,790)

12. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. For the three and nine month periods ended October 31, 2012, the Corporation incurred $4.4 million (October 31, 2011- $4.9 million) and $14.7 million (October 31, 2011 - $11.4 million) in operating lease expense, respectively. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)		
Within 1 year	$	6,345
Within 2 years		2,999
Within 3 years		2,378
Within 4 years		2,207
Within 5 years		1,939
Thereafter		11,080
	$	26,948

The lease terms range from a period of 1 to 50 years, the majority of which are renewable at the end of the lease term at market rates.

As at October 31, 2012, the Corporation had $0.6 million of restricted cash (January 31, 2012 - $0.6 million), which is required to collateralize contingent exposures and letters of credit as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

13. Comparative figures:

Certain comparative figures have been reclassified to conform to the current period's financial statement presentation.

14. Segmented information:

Effective February 1, 2012, the Corporation revised its reportable segments from "Northern Services", which included Great Slave, Air Tindi and Discovery Mining; and "Government Services", which included Top Aces, Fire Services and Technical Services to "Aviation", which includes Great Slave, Top Aces, Air Tindi and Fire Services and "Corporate Support and Other", which includes Technical Services, Discovery Mining, Innovations and Corporate. 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 revised reportable segments reflect the changing environment noted in the operating units and management's focus on allocating resources and measuring performance. The Aviation segment aggregates operating units by operations 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. Corporate reflects direct corporate overhead costs.

The change in segment reporting had no impact on the Corporation's interim condensed consolidated statements of financial position, statement of profit, statement of comprehensive income or statement of cash flows for any periods.

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 Great Slave, Fire Services, Air Tindi and Discovery Mining normally commencing in the late spring and continuing through to the end of the summer; Top Aces' revenue-generating opportunities are significantly higher in the February to June and September to November time periods; though Top Aces' revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customers' priorities; weather conditions can have an impact on flight activity from one period to another, especially in the Corporation's fire suppression activities; the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential; and repair and maintenance on aircraft do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

(thousands of Canadian dollars)	For the three months ended October 31, 2012			For the three months ended October 31, 2011		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 57,165	$ 7,709	$ 64,874	$ 50,117	$ 4,998	$ 55,115
Expenses	39,468	9,582	49,050	32,748	6,455	39,203
Depreciation of property and equipment and intangible assets	5,824	363	6,187	4,958	200	5,158
	11,873	(2,236)	9,637	12,411	(1,657)	10,754
Finance costs			4,275			4,607
Impairment loss			3,723			-
Share of (profit) loss of equity accounted investees (net of income tax)			(139)			105
Other (gains) and losses			101			(1,912)
Profit before income tax			1,677			7,954
Income tax provision (recovery)						
Current			1,126			1,416
Deferred			(660)			354
Profit			$ 1,211			$ 6,184
Loss attributable to non-controlling interest			(19)			-
Profit attributable to shareholders of Discovery Air Inc.			$ 1,230			$ 6,184
Segment assets	$ 294,628	$ 24,717	$ 319,345	$ 261,968	$ 27,705	$ 289,673
Capital expenditures	$ 5,019	$ 1,238	$ 6,257	$ 8,182	$ 4,957	$ 13,139

(thousands of Canadian dollars)	For the nine months ended October 31, 2012			For the nine months ended October 31, 2011		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 172,844	$ 19,188	$ 192,032	$ 146,582	$ 16,439	$ 163,021
Expenses	118,102	26,228	144,330	91,948	20,928	112,876
Depreciation of property and equipment and intangible assets	17,660	908	18,568	15,327	519	15,846
	37,082	(7,948)	29,134	39,307	(5,008)	34,299
Finance costs			13,202			13,072
Impairment loss			3,723			-
Share of profit of equity accounted investees (net of income tax)			(420)			(369)
Other (gains) and losses			(2,655)			(7,927)
Profit before income tax			15,284			29,523
Income tax provision (recovery)						
Current			5,107			5,657
Deferred			(1,278)			2,289
Profit			$ 11,455			$ 21,577
Loss attributable to non-controlling interest			(70)			-
Profit attributable to shareholders of Discovery Air Inc.			11,525			21,577
Segment assets	$ 294,628	$ 24,717	$ 319,345	$ 261,968	$ 27,705	$ 289,673
Capital expenditures	$ 41,531	$ 4,755	$ 46,286	$ 16,512	$ 5,640	$ 22,152