MANAGEMENT'S DISCUSSION AND ANALYSIS

*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 year ended January 31, 2013 should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2013 and 2012, 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 International Financial Reporting Standards ("**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 Canadian specialty aviation company, operating over 160 aircraft with approximately 850 employees. Its subsidiaries provide airborne training to the Canadian military, air ambulance services, airborne fire services, helicopter operations, fixed-wing air charter services, expediting and logistics support, and a range of maintenance, repair, overhaul, modification, engineering and certification services.

The Aviation segment includes four subsidiaries. Great Slave Helicopters Ltd. ("**GSH**"), one of the largest helicopter operators in Canada, has bases throughout Canada and in 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 Yellowknife, Calgary, Cambridge Bay, and Edmonton, 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 Department of National Defence and the Canadian Armed Forces ("**DND**"). Further, in February 2013, Top Aces Inc. changed its name to Discovery Air Defence Services Inc. ("**Defence Services**"). 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 Support 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, information technology, 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. Effective February 1, 2013, all the business development activities previously carried on by Innovations and its personnel were transferred to Defence Services.

The Corporation's Class A common voting shares and unsecured convertible debentures trade on the Toronto Stock Exchange (symbols DA.A and DA.DB.A, respectively).

Selected Financial Information

(thousands of dollars, except per share amounts)	For the year ended January 31 2013	2012	% change
Results of operations			
Revenue	**$ 229,353**	$ 191,720	*20%*
Operating expenses	**$ 188,657**	$ 147,758	*28%*
Depreciation of property and equipment and intangible assets	**$ 22,860**	$ 21,092	*8%*
	$ 17,836	$ 22,870	*-22%*
Financing costs	**$ 17,378**	$ 17,415	*0%*
Other gains and (losses)	**$ (78)**	$ 9,845	*-101%*
Profit attributable to shareholders of Discovery Air Inc.	**$ 596**	$ 11,752	*-95%*
Basic earnings per common share	**$ 0.04**	$ 0.82	*-95%*
Diluted earnings per common share	**$ 0.04**	$ 0.72	*-94%*
Financial position and liquidity			
Total assets	**$ 306,224**	$ 274,635	*12%*
Total loans, borrowings and finance leases	**$ 163,615**	$ 135,616	*21%*
Cash from operations	**$ 27,611**	$ 24,951	*11%*
Working capital	**$ 30,423**	$ 36,492	*-17%*
Key non-IFRS performance measures*			
Adjusted profit	**$ 342**	$ 3,849	*-91%*
Basic and diluted Adjusted profit per common share	**$ 0.02**	$ 0.27	*-93%*
EBITDAR	**$ 57,650**	$ 57,475	*0%*
EBITDA	**$ 41,361**	$ 44,356	*-7%*
EBITDA Margin	**18%**	23%	

* See "Non-IFRS measures" below

Financial Highlights of Fiscal 2013

- Fiscal 2013 consolidated revenues increased 20%, with the Aviation segment and Corporate Support and Other segment reflecting increases of 17% and 39% respectively over Fiscal 2012. The revenue increase from the Aviation segment was driven by the incremental flight hour contribution from the acquisition of two helicopter operations and the introduction of higher rate aircraft into the fleet as noted below. The increase in contribution from the Corporate Support and Other segment was attributable to increased contribution from Technical Services' MRO and related activity.

- The Corporation, through GSH, acquired two helicopter operations in Fiscal 2013:

  - On February 2, 2012, the Corporation acquired 100% of Helicopers.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("**Helicopters Chile**") and its subsidiaries based in Chile for an estimated fair value purchase price of $6.1 million. Helicopters Chile operates a fleet of approximately 10 intermediate and medium sized helicopters from two operating bases servicing domestic and multinational customers in Chile's mining, power construction and forestry sectors.

  - On May 4, 2012, the Corporation completed the purchase of the assets of Northern Air Support Ltd. ("NAS") for $9.3 million which included a fleet of six intermediate helicopters. NAS is a helicopter charter company providing service in the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia and Rocky Mountain House, Alberta.

Since the dates of acquisition, the combined revenues of Helicopters Chile and NAS were $16.1 million with an after tax profit of $1.3 million and EBITDA of $3.3 million. Further details on the acquisition of Helicopters Chile and NAS can be found in note 4 – *Business combinations* of the Corporation's audited consolidated financial statements for the year ended January 31, 2013.

- The Corporation introduced 15 additional aircraft into operation in Fiscal 2013, comprised of 3 helicopters (Bell 205, Bell 412 and Bell 407), and 12 fixed wing aircraft (two Dash 7's, Caravan 208B, King Air B200, three Cessna 172M's, three Learjet 35A's, and two Challenger 601's).

- In September 2012, the Corporation announced the extension of Top Aces' Interim Contracted Airborne Training Services ("ICATS") standing offer arrangements from June 2013 to June 2016.

- Fiscal 2013 EBITDA decreased 7%, resulting in an EBITDA margin of 18% compared to 23% in Fiscal 2012. The lower EBITDA and EBITDA margin was largely attributable to higher operating costs to support the fixed wing aircraft introduced into the fleet in the Aviation segment and increased infrastructure costs to support higher MRO activity in the Corporate and Other segment. In both cases the anticipated volume of revenue contribution did not meet the level of support cost carried on during the year. The Corporation also incurred higher administrative costs related to transitioning staff and establishing new facilities as well as acquisition and business development costs. Within the fixed wing business, several initiatives are underway to broaden service offerings to customers, streamline internal business processes, promote efficiency and eliminate redundancies. Enhanced cost monitoring and other key performance indicators are in place to track progress. While considerable progress has been made in a number of areas within the fixed wing business, there can be no assurances that it will result in significant improvement in performance and profitability.

- Despite the lower earnings in Fiscal 2013, the Corporation was able to generate increased cash flow from operations, up $2.7 million or 11% over Fiscal 2012, due to lower interest paid and a reduction in working capital. The lower interest paid reflects the impact of lower interest rates on the recent financing transactions and a full year benefit of the non-cash interest expense from the Secured Debentures.

- Fiscal 2013 earnings were $0.6 million ($0.04 per Share) compared to $11.8 million ($0.82 per Share) in Fiscal 2012. The difference is comprised of lower EBITDA ($3.0 million), higher depreciation ($1.8 million), and lower non-cash net gains ($9.9 million) offset by lower income tax expense ($3.4 million). Other gains and losses related to, among other things, the extinguishment of debt, changes in fair value of liabilities, gains and losses on disposal of assets, and in Fiscal 2013, impairment on assets. Adjusted profit, which normalizes for these items, was $0.3 million or $0.02 per Share in Fiscal 2013 and $3.8 million or $0.27 per Share in Fiscal 2012 (see "Adjusted profit (loss)" under "Non-IFRS measures" below).

- During the year, the Corporation modified its lending arrangements to extend its debt maturities and provide additional working capital by:

    - the repayment of a $34 million term loan in full in March 2012, 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 (with a combined average interest rate of 5.2% at closing), and a $4.5 million bridge loan from a related party; and

    - the replacement of the Corporation's demand operating line of credit with an interest rate of 13% in August 2012 with a committed operating line of credit that matures on April 9, 2015 that bears interest at the lender's prime rate plus 2% with an option to use bankers' acceptance rates upon payment of a 3% stamping fee. The new operating line of credit maintains the same maximum borrowing limit of up to $15.0 million, increasing up to $25.0 million during the Corporation's peak operating period of March 1 through October 31.

Results of Operations for the year ended January 31, 2013

(thousands of dollars)	Fiscal 2013			Fiscal 2012		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	**$ 200,229**	**$ 29,124**	**$ 229,353**	**$ 170,686**	**$ 21,034**	**$ 191,720**
Expenses	150,540	38,117	188,657	119,074	28,684	147,758
Share of (profits) of equity accounted investees	(78)	(587)	(665)	(372)	(22)	(394)
EBITDA	**$ 49,767**	**$ (8,406)**	**$ 41,361**	**$ 51,984**	**$ (7,628)**	**$ 44,356**
Depreciation	21,516	1,344	22,860	20,354	738	21,092
Finance Costs			17,378			17,415
Other (gains) and losses			78			(9,845)
Earnings before income tax			1,045			15,694
Current Income tax provision (recovery)			(1,025)			4,104
Deferred Income tax provsion (recovery)			1,572			(129)
			547			3,975
Earnings and comprehensive income			**498**			**11,719**
Loss attributable to non-controlling interest			(98)			(33)
Profit attributable to shareholders of Discovery Air Inc.			**$ 596**			**$ 11,752**
Capital expenditures	**$ 49,907**	**$ 5,896**	**$ 55,803**	**$ 25,307**	**$ 7,559**	**$ 32,866**
	As at January 31, 2013			***As at January 31, 2012***		
Total assets	**$ 273,226**	**$ 32,998**	**$ 306,224**	**$ 250,650**	**$ 23,985**	**$ 274,635**
Goodwill	**$ 40,722**	**$ -**	**$ 40,722**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 9,794**	**$ 519**	**$ 10,313**	**$ 14,040**	**$ 749**	**$ 14,789**

Consolidated Results

Revenue

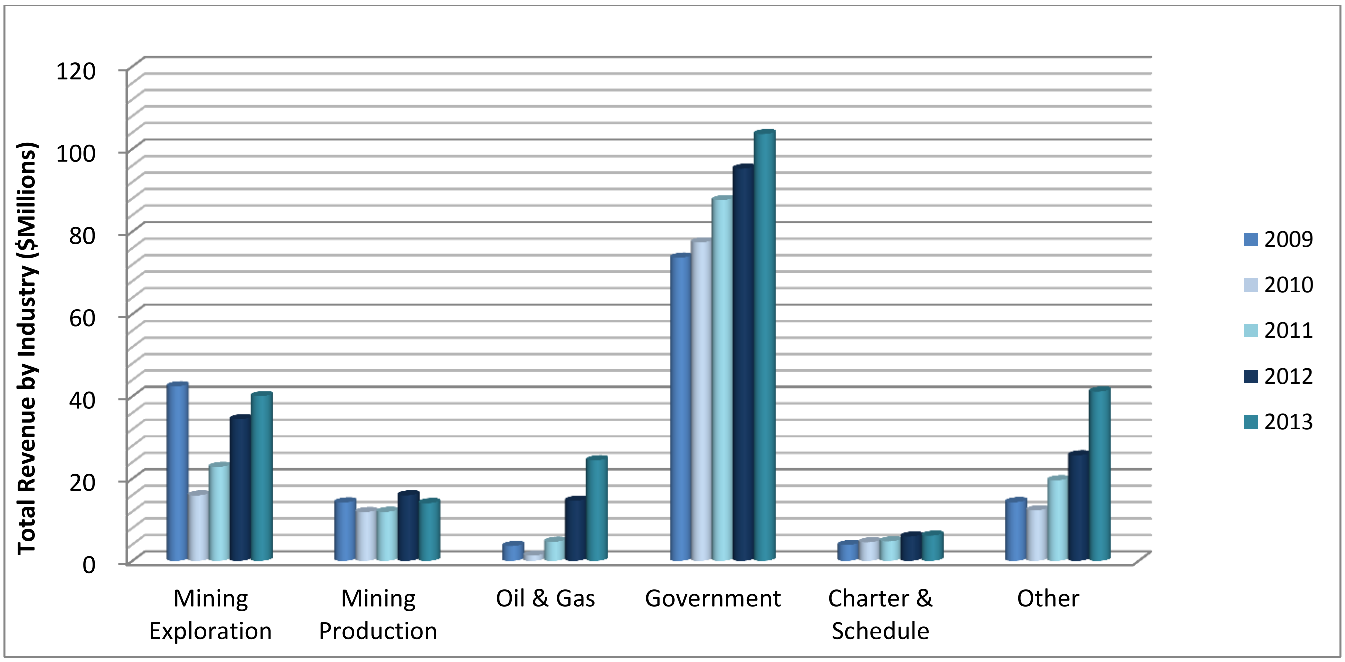
Fiscal 2013 revenues increased 20% to $229.4 million. The Aviation segment represented 79% ($29.5 million) of the revenue increase over the comparative period due primarily to increased flight hours and a favourable shift in revenue per flight hour due to the introduction of larger aircraft into the fleet. Approximately $16.1 million in incremental revenue (7% of total revenue) was generated from Helicopters Chile and NAS. The Corporate Support and Other segment's 21% contribution of the incremental revenues were largely attributable to higher MRO activity at Technical Services.

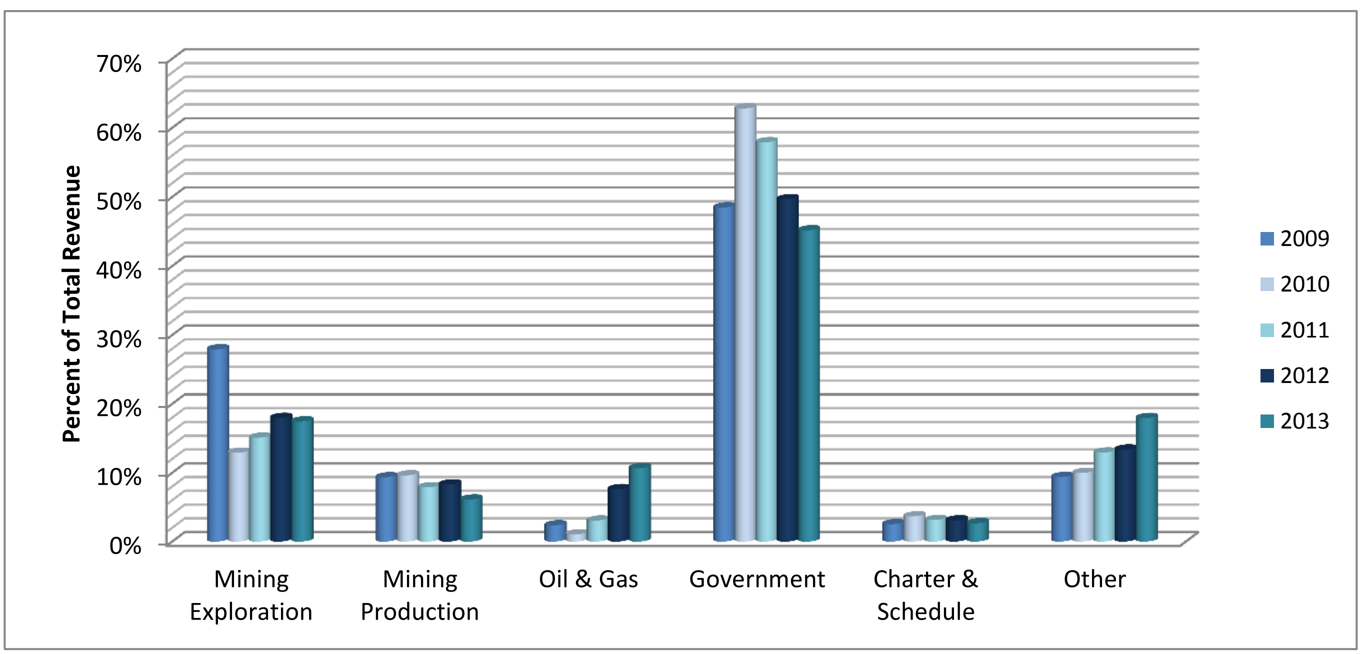
The Corporation's two largest customer sectors are government services and resource-based (mining and oil & gas) industries.

As reflected in the Consolidated Revenue by Industry Sector table below, the Corporation's revenues from government customers increased by 9% and represented 45% of total revenues in Fiscal 2013 compared to 50% in Fiscal 2012. Revenues from forest fire management services recorded the largest increase in the government sector (41% over the comparative period) due to strong forest fire activity in western Canada and incremental contribution from Chile. Revenues from airborne training services and medevac services reflected modest increases over the comparative period.

Revenue from resource-based customers increased by 21% and represented 34% of total revenues, consistent with the comparative period. The Corporation's increase in revenue from resource-based customers reflects the incremental contribution from the newly acquired operations as well as increased revenue contribution from oil and gas-based activity, which offset the decline in contribution from mining-based activity in northern Canada (13% lower than the comparative period). The increase in the Corporation's Other customer base revenues reflect the impact of increased MRO activity and parts sales from Technical Services.

Consolidated Revenue by Industry Sector





Expenses

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.

Fiscal 2013 expenses were $188.7 million (or 82% of revenues) compared to $147.8 million (or 77% of revenues) in Fiscal 2012. The 28% increase in operating expenses was attributable to higher infrastructure costs to support additional aircraft brought into service during the year in the Aviation segment. The inclusion of the Helicopters Chile and NAS operations alone accounted for 31% or $12.8 million of the increase in expense over the comparative period. The Corporate and Other segment also increased expenses to support larger MRO capacity. In addition to these growth driven costs, the Corporation's northern operations, in particular the fixed wing operation, incurred higher operational costs associated with higher crew and crew movement costs in the north. The impact of supporting a larger scale of operation and higher operating costs in the north resulted in a 23% increase in crew related costs while maintenance and facility related costs increased by 37%. The Corporation's general and administrative costs increased 23% as a result of higher support cost for increased operations and $1.2 million of staff and facility transition costs.

EBITDA and EBITDAR (see "Non-IFRS Measures" below)

Fiscal 2013 EBITDA was $41.4 million compared to $44.4 in Fiscal 2012; and EBITDA margin was 18% and 23% respectively. The decrease in EBITDA and EBITDA margin was largely attributable to higher operating costs to support a higher level of flight and MRO activity that did not materialize due to delays in introducing aircraft into service and later than expected customer commitments for MRO services. EBITDAR was $57.7 million, compared to $57.5 million in the comparative period, for an increase less than 1% over the comparative period. The increase in aircraft lease expense reflects increased utilization of short-term aircraft lease arrangements to meet increased flight hour demand.

Depreciation, finance and other expenses

Depreciation expense was $22.9 million compared to $21.1 million in the comparative period. The increase in depreciation expense was largely attributable to higher flight hours and incremental assets related to Helicopters Chile and NAS in the Aviation segment.

Finance costs of $17.4 million remained consistent with the comparative period. Accretion charges on the loans and borrowings were $2.3 million compared to $1.7 million in Fiscal 2012. Interest charges include a non-cash in-kind payment of $7.3 million ($2.5 million in the comparative year) on account of interest accrued on the Secured Debentures.

In Fiscal 2013, the Corporation recognized a gain of $1.3 million due to realizing a lower payment on the contingent consideration liability related to the Corporation's acquisition of Helicopters Chile. Offsetting this gain and other non-cash gains related to disposals and fair value adjustments to the Secured Debentures was the recognition of an impairment charge of $3.8 million of which $3.0 million pertained to four fixed wing aircraft in the Aviation segment and $0.8 million pertained to non-aircraft assets in the Corporate Support and Other segment. The combined after tax impact related to these adjustments and other non-recurring gains and losses was a net gain of $0.3 million. For Fiscal 2012, the after tax gains related to the fair value adjustment on the Secured Debentures, a gain on debt extinguishment and other non-recurring gains was $7.9 million (see "Adjusted profit (loss)" below).

The Corporation's income tax provision was $0.5 million compared to an income tax provision of $4.0 million in the comparative period. The Fiscal 2013 effective income tax rate of 52% was higher than the statutory income tax rate of 27% primarily due to permanent tax differences related to extinguishment of debt, contingent liabilities and difference in tax rates in foreign tax jurisdictions. In Fiscal 2012 the effective income tax rate of 25% was lower than the statutory tax rate of 28% due to the non-taxable change in fair value of financial liabilities at fair value. Cash tax payments in Fiscal 2013 were $4.3 million (Fiscal 2012 - $2.0 million), reflecting payment of Fiscal 2012 taxes and Fiscal 2013 tax installments. The Corporation expects to recover approximately $2.3 million of taxes upon its filing of the Fiscal 2013 tax returns.

Earnings

The Corporation's profit of $0.6 million ($0.04 per Share – basic) compared to a profit of $11.8 million ($0.82 per Share – basic) in the comparative period. The difference comprised of lower EBITDA ($3.0 million), increased depreciation expense ($1.8 million), and lower non-cash net gains ($9.9 million) offset by lower income tax expense ($3.4 million). Adjusted profit, which excludes the impact of the non-recurring gains and losses, were $0.3 million ($0.02 per Share – basic) compared to an Adjusted profit of $3.8 million ($0.27 per Share – basic) in the comparative period (see "Adjusted profit (loss)" below).

The conversion features of the two convertible debentures were dilutive in relation to the earnings in Fiscal 2012. Despite the Corporation's Class A Share price as at January 31, 2012 being below the conversion price of the convertible debentures, IAS 33 considers these debentures dilutive when the interest (net of tax) per share is less than the basic earnings per share.

Aviation Segment

Fiscal 2013 revenues were $200.2 million on 69,913 flight hours, compared to revenues of $170.7 million on 63,017 flight hours in Fiscal 2012. The 17% increase in revenue and 11% increase in flight hours reflect a favourable flight hour composition over the comparative period. The Segment's revenues also reflect the increased use of aircraft that generate higher revenue per flight hour compared to the same period last year. In addition to the helicopters acquired through the acquisition of Helicopters Chile and NAS, the Corporation introduced 15 other aircraft into operation during Fiscal 2013.

The Aviation Segment's expenses were $150.5 million (or 75% of revenues) compared to $119.1 million (or 70% of revenues) in the comparative year. Expenses were higher as a percentage of revenues due to increased infrastructure costs to support the aircraft introduced into operations which were not fully offset by increased revenue. The segment incurred delays in bringing a number of fixed wing aircraft into service curtailing the revenue captured from the new aircraft. The operations of NAS and Helicopters Chile represented 41% of the year-over-year increase in the segment's expenses.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for Fiscal 2013 were $52.9 million (or 26% of revenues) compared to $43.1 million (or 25% of revenues) in Fiscal 2012, with higher costs associated with a larger fleet of aircraft and higher costs associated with crew movement and retention due to scarcity of skilled pilots and maintenance staff, in particular from the fixed wing operation.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, were $50.1 million (or 25% of revenues) compared to $38.4 million (or 23% of revenues) in Fiscal 2012 largely due to additional aircraft and facilities brought into service. In addition to the facilities acquired through Helicopters Chile and NAS, the Corporation has also set up facilities in Cambridge Bay, Nunavut and Calgary, Alberta. As has historically been the case, 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, travel, and insurance costs as well as other overhead expenses. General and administrative expenses were $32.7 million (or 16% of revenues) compared to $25.7 million (or 15% of revenues) in the prior period. As noted above, the increase in general and administrative expense reflects increased infrastructure support costs, such as transaction costs for acquisitions, and business development costs for new initiatives.

EBITDA for the segment was $49.8 million compared to $52.0 million in the comparative period, yielding EBITDA margins of 25% and 30%, respectively. EBITDAR of $66.1 million was consistent with EBITDAR of $65.1 million in the comparative period, reflecting increased utilization of leased aircraft.

Depreciation expense was $21.5 million (or 11% of revenues) for Fiscal 2013 compared to $20.4 million (or 12% of revenues) in Fiscal 2012, due to the year-over-year increase in capital assets deployed.

Corporate Support and Other

The Corporate Support and Other segment's revenues were $29.1 million compared to $21.0 million in the comparative period. The 39% increase in revenues was largely attributable to higher MRO activities from Technical Services. In July 2012, Technical Services entered into a five year contract with Canadian North to provide aircraft part management services for the airline's Boeing 737 fleet.

The segment's expenses were $38.1 million compared to $28.7 million in the comparative period, a 33% increase. The increase in expenses was largely attributable to higher MRO expenses as well as increased infrastructure and administrative support cost, including staff and office transition costs, and ongoing business development initiatives.

EBITDA loss was $8.4 million compared to an EBITDA loss of $7.6 million in Fiscal 2012.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	For the year ended January 31	
(thousands of dollars)	**2013**	2012
Operating activities	**$ 27,611**	$ 24,951
Investing activities	**(49,422)**	(22,757)
Financing activities	**14,521**	3,503
Net increase (decrease) in cash for the period	**$ (7,290)**	$ 5,697

Operating Activities

Cash from operating activities for Fiscal 2013 was $27.6 million, a $2.7 million increase over Fiscal 2012. The favourable variance is largely attributable to investing $3.4 million less in non-cash working capital and a $4.7 million reduction in interest paid compared to Fiscal 2012. The reduction in interest paid is primarily attributable to the payment-in-kind interest arrangement related to the Secured Debentures that replaced loans bearing interest payable in cash. The favourable variances from the items noted above were offset by a $2.2 million increase in income tax payments and lower EBITDA in Fiscal 2013.

Working Capital

As at year end, the Corporation had positive working capital of $30.4 million and a current ratio of 2.0 compared to a working capital position of $36.5 million and a current ratio of 2.7 as at January 31, 2012. The decrease in working capital was largely attributable to a $7.4 million increase in the current portion of long-term debt, leases, and contingent consideration related to the acquisition of Helicopters Chile.

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 bears interest at the lender’s prime rate plus 2% with an option to use bankers’ acceptance rates upon payment of a 3% stamping fee. The New Operating Line has a maximum borrowing limit of $15.0 million, increasing 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 the 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 January 31, 2013, the Corporation had available the maximum $15.0 million borrowing capacity of which $0.7 million was applied to issue letters of credit. No other balances were drawn on the New Operating Line and the Corporation was in compliance with all applicable covenants.

The Corporation has not committed to any expenditures that would significantly change its working capital requirements. 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 believes that it has sufficient liquidity to meet its operating requirements based on its existing working capital position, expected cash from operations and available credit under its operating facility. It also has unpledged real estate assets totaling approximately $20 million available as additional collateral required to secure financing. This assessment could change if the Corporation experiences, in the near term time horizon, higher than expected capital expenditures related to aircraft purchases or fleet maintenance, or a dramatic sustained decline in resource based activities. Cessation of airborne training services to the DND would adversely impact liquidity, however, there is no indication of this occurring given that historically this service has remained largely consistent and the existing ICATS has been extended to June 2016.

Investing Activities

Fiscal 2013 net cash outlay for investing activities was $49.4 million compared to $22.8 million in Fiscal 2012. Capital expenditures of $38.5 million comprised purchases of three helicopters and ten fixed-wing aircraft totaling $20.6 million, facility additions of $1.0 million and equipment purchases related to a new Technical Services contract of $2.1 million. The remaining capital asset additions related to sustaining capital expenditures and aircraft overhaul costs. During the year, two aircraft were sold for proceeds of $0.2 million.

Fiscal 2013 business acquisitions of $11.7 million included the following:

(a) On February 2, 2012, the Corporation purchased 100% of Helicopters Chile and its subsidiaries. The purchase price consisted of cash consideration of $2.4 million (net of cash acquired of $0.1 million) and contingent consideration of up to $4.5 million, payable in two installments based on financial performance for the calendar years 2012 and 2013. (Contingent consideration is based on a multiple of expected profit before income tax). As the 2012 financial targets were not achieved, the fair value of the contingent consideration estimated at the acquisition date was reduced subsequently resulting in a gain of $1.3 million.

(b) On May 4, 2012, the Corporation completed the purchase of the assets of NAS for $9.3 million. The fair value of the NAS assets acquired exceeded the purchase price and accordingly, the Corporation recorded a gain of $0.4 million.

Capital expenditures in Fiscal 2012 were $32.8 million and included (i) nine fixed-wing and three rotary wing aircraft purchases for $15.8 million, (ii) costs incurred for constructing and equipping three new facilities, (iii) sustaining capital expenditures and (iv) capitalized aircraft overhaul costs. The comparative period also included the disposal of twelve aircraft for proceeds of $10.0 million.

Aside from regular aircraft overhauls related to the existing fleet, the Corporation had no capital asset expenditure commitments as at January 31, 2013.

Financing Activities

As at January 31, 2013, the Corporation had unrestricted cash of $5.8 million and available but unused borrowing capacity of $14.3 million to fund its operating requirements. Given the seasonal nature of the 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 working capital. These draws are typically repaid during the third quarter.

During Fiscal 2013, the Corporation made debt repayments of $41.4 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, a $0.5 million debt retirement related to a hangar and $4.4 million of scheduled debt repayments. In Fiscal 2012, the Corporation made debt payments of $96.8 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, $85.3 million to retire debt with proceeds from new debt, $3.4 million to repay debt upon the sale of aircraft that formed part of the debt's security pool, and $5.2 million of scheduled debt repayments.

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, 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, as a result of early repayment of the instrument.

On March 26, 2012 and July 31, 2012, the Secured Debentures were amended to, among other things, facilitate the early repayment of the $34 million term loan and facilitate the New Operating Line, respectively. 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 fair value of the liability related to the conversion feature was considered extinguished and a final mark-to-market adjustment of $0.2 million was recorded in profit.

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. 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.

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. The loans mature on March 26, 2017 and are repayable in aggregate monthly installments of $185,000, 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.

On March 26, 2012, the Corporation entered into a $4.5 million bridge loan agreement with a related party to refinance a portion of the $34 million term loan. The bridge lender is a related party as it is an affiliate of Clairvest Group Inc. ("**Clairvest**") (see "Related Party Transactions"). The bridge loan had a 91-day term and bore interest at 9.5% per annum 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 it 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 scheduled installments made during September, December, March and June. Four scheduled payments of $500,000 are due during the first year of the loan, four scheduled payments of $375,000 are due in the second year of loan, and three scheduled payments of $250,000 during the final year of the loan, with a final payment of $250,000 due at maturity. 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.

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's assets and two additional aircraft. The loan matures on February 15, 2016, and is repayable through an annual curtailment each February 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.

The credit facilities contain various restrictive covenants including interest coverage, funded debt to EBITDA, liabilities to equity, fair market value of assets pledged to loan balance, as well as other customary covenants, representations and warranties, funding conditions and events of default.

In addition, lenders' consent is required, among other things, to incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem its capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally. As at January 31, 2013, the Corporation was in compliance with all of its debt covenants.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Corporation's contractual principal obligations as at January 31, 2013:

(thousands of Canadian dollars)

January 31, 2013	**Due within 1 year**	**Due between 1 & 2 years**	**Due between 2 & 3 years**	**Due between 3 & 4 years**	**Due between 4 & 5 years**	**Due after 5 years**	**Total**
Trade and other payables	$ 23,283	$ -	$ -	$ -	$ -	$ -	**$ 23,283**
Contingent liability	750	2,068	-	-	-	-	**2,818**
Finance leases	540	587	536	330	300	2,278	**4,571**
Loans and borrowings	6,662	6,563	5,798	48,312	135,460	113	**202,908**
Operating leases	5,671	2,879	2,435	2,342	2,014	11,094	**26,435**
	$ 36,906	$ 12,097	$ 8,769	$ 50,984	$ 137,774	$ 13,485	**$ 260,015**

As reflected in the Corporation's audited consolidated financial statements, the Corporation's loans and borrowings obligation as at January 31, 2013 was $156.4 million. The contractual principal repayment amount in loans and borrowings in the table above assumes the Corporation makes scheduled repayments to maturity and in the case of the Secured Debentures includes the future accrued payment in kind interest that would be added to the principal balance throughout the term of this facility. Both the unsecured convertible debentures and Secured Debentures contain early redemption and conversion rights which are not factored in the above table.

The Corporation's operating leases relate to aircraft and premises obligations. The Corporation enters into short-term (less than one year) aircraft operating lease arrangements in the first quarter of each year. The arrangements allow the Corporation to manage its fleet in a more cash-efficient manner.

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 comprehensive income, the after-tax value of the Secured Debenture's conversion option and share-based compensation included in contributed surplus.

At January 31, 2013, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 1,204,555 stock options outstanding and no Share purchase warrants outstanding. During the current quarter, the Corporation issued 796,100 stock options under the employee stock option plan approved by the shareholders in June 2010. The Corporation maintains 263,955 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 the year, 8,710 stock options expired or were otherwise terminated in accordance with their terms

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2013 and 2012, which can be found on SEDAR at www.sedar.com.

Related Party Transactions

Clairvest has the ability to exercise control or direction over the rights attaching to the Secured Debentures and has certain director nomination rights in relation to the Corporation. The Secured Debentures 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 year ended January 31, 2013 was $7.3 million, (January 31, 2012 - $2.5 million). In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest on a monthly basis.

The Corporation also received $4.5 million bridge loan from an affiliate of Clairvest in March 2012 (the "Bridge Loan"). The Bridge Loan had a 91-day term, 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 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. The Bridge Loan was repaid in full on June 22, 2012.

The Corporation purchased information technology hardware support services from a supplier that is considered to be a "related party" because one of the Corporation's board members is also an investor and board member of the supplier. The value of the services was $0.1 million in Fiscal 2013 (nil in Fiscal 2012), and the Corporation's board member was not involved in negotiating the contract.

On May 2, 2011, the Corporation completed a transaction to repay $13.2 million in related party debts owing to a senior officer of the Corporation and a senior officer of GSH. The debt was settled through a cash payment of $2.9 million and the issuance of 1,035,200 (post consolidation) Class A Shares. Based on the $4.30 (post-consolidation) market value of the Class A Shares at the date of the transaction, the Corporation recorded a pre-tax gain on the transaction of approximately $5.9 million. Interest expense on this debt for the year ended January 31, 2012 was $0.1 million.

Results of Operations for the three months ended January 31, 2013

(thousands of dollars)	Three months ended January 31, 2013			Three months ended January 31, 2012		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
		(unaudited)			(unaudited)	
Revenue	**$ 27,385**	**$ 9,936**	**$ 37,321**	**$ 24,104**	**$ 4,595**	**$ 28,699**
Expenses	32,438	11,889	44,327	27,126	7,756	34,882
Share of (profits) of equity accounted investees	-	(245)	(245)	(48)	23	(25)
EBITDA	**$ (5,053)**	**$ (1,708)**	**$ (6,761)**	**$ (2,974)**	**$ (3,184)**	**$ (6,158)**
Depreciation	3,855	437	4,292	5,026	220	5,246
Finance Costs			4,176			4,343
Other (gains) and losses			(990)			(1,918)
Earnings before income tax			(14,239)			(13,829)
Current Income tax (recovery)			(6,132)			(1,553)
Deferred Income tax provision (recovery)			2,850			(2,418)
			(3,282)			(3,971)
Loss			**(10,957)**			**(9,858)**
Loss attributable to non-controlling interest			(28)			(33)
Loss attributable to shareholders of Discovery Air Inc.			**$ (10,929)**			**$ (9,825)**
Capital expenditures	**$ 8,376**	**$ 1,141**	**$ 9,517**	**$ 8,795**	**$ 1,919**	**$ 10,714**

Consolidated Results

Given the seasonal nature of the Corporation's business, the fourth quarter is traditionally the slowest in terms of flight hours and accordingly the Corporation has historically realized losses in this period. In addition, results for the period were negatively impacted by poor weather conditions which affected demand for aviation services, in the north as well as services provided by Top Aces.

Revenue

Quarterly revenue increased 30% to $37.3 million. The revenue increase over the comparative period was primarily due to expanded flight hours from the introduction of new aircraft into service during the year. Approximately $2.2 million or 25% of the incremental revenues were from the newly acquired operations of Helicopters Chile and NAS. The Corporate Support and Other segment also reported higher revenues (up $5.3 million) largely due to increased MRO activity at Technical Services.

Revenues from government services represented 38% of total revenues compared to 49% in the fourth quarter of Fiscal 2012, with the decline due to lower revenue contribution from Top Aces, which had flight hours curtailed due to poor weather conditions. The Corporation's resource-based revenues increased by 36% on incremental revenue contribution from Helicopters Chile and NAS and represented 23% of total revenues in the quarter which was consistent with the comparative period. The remaining customer base is comprised of MRO, parts sales and scheduled services.

Expenses

Quarterly expenses increased 27% to $44.3 million. As noted in the annual results, the higher operating expenses were primarily attributable larger operating infrastructure in the Aviation segment related to the newly acquired businesses and the additional aircraft acquired and brought into service during the year. The Corporate Support and Other segment incurred higher expenses associated with a higher volume of MRO and related activity. These incremental costs resulted in crew costs increasing by 19% and maintenance and facility related costs increasing by 56% over the comparative period. General and administrative expenses were 11% higher to support the expanded operations in both segments.

EBITDA and EBITDAR (see "Non-IFRS Measures" below)

EBITDA loss in the fourth quarter of Fiscal 2013 was $6.8 million, compared to EBITDA loss of $6.2 million in the fourth quarter of Fiscal 2012. Despite the increase in revenues over the comparative period, the expected volume of flight hours did not materialize in the fourth quarter to match the support cost for the expanded capacity established throughout the year.

Quarterly EBITDAR loss was $5.0 million compared to $4.3 million EBITDAR loss in the comparative period reflecting consistent year-over-year aircraft lease expense. The Corporation generally utilizes leased aircraft to support short term, seasonal flight services.

Depreciation, finance and other expenses

Depreciation expense in the fourth quarter was $4.3 million compared to $5.2 million in the comparative period. The decrease in depreciation expense was attributable to revisions to the amortization rates of certain aircraft components to better reflect their estimated useful lives.

Finance costs were $4.2 million in the fourth quarter of Fiscal 2013 compared to $4.3 million in the fourth quarter of Fiscal 2012. Finance costs also include accretion of transaction costs on loans and borrowings of $0.5 million compared to $0.4 million in the comparative period.

During the fourth quarter of Fiscal 2013 the Corporation reported a gain of $1.3 million related to reversal of a portion of the contingent consideration liability arising on the business acquisition of Helicopters Chile. The gain was a result of the purchase price earn out for calendar 2012 being lower than the estimated fair value at the acquisition date. Offsetting this gain was a $0.3 million loss on disposal of equipment. In the comparative period, the Corporation reported a gain related to an adjustment to fair value on the Secured Debentures for $0.8 million and a gain on disposal of equipment for $1.1 million.

The Corporation had an income tax recovery of $3.3 million, compared to an income tax recovery of $4.0 million in the comparative period. The Corporation's effective tax rate of 23% differs from the Corporation's statutory income tax rate of 27% due to differences in tax rates in foreign jurisdictions. In the comparative period, the effective income tax rate of 29% was lower than the statutory income tax rate of 28% primarily due to the non-taxable change in fair value of financial liabilities at fair value.

Earnings

The Corporation recorded a loss of $10.9 million ($0.75 loss per Share - basic) in the fourth quarter of Fiscal 2013 compared to a loss of $9.8 million ($0.67 loss per Share – basic) in the fourth quarter of Fiscal 2012. Excluding the tax effected non-cash gains and losses noted above, the Corporation had an adjusted loss of $11.5 million in current quarter ($0.79 loss per Share – basic) compared to an adjusted loss of $11.6 million ($0.80 loss per Share – basic) in the comparative period (see "Adjusted profit (loss)" below).

Aviation Segment

The Aviation segment's quarterly revenues were $27.4 million on 7,862 flight hours, compared to revenue of $24.1 million on 7,671 flight hours in the comparative period. The 14% increase in revenue and 2% increase in flight hours reflect improved revenue per flight hour on increased utilization of higher rate aircraft in the current quarter over the comparative period as well as ancillary revenues related to sale of aircraft parts. As noted in the consolidated results, revenues were higher than the comparative period despite poor flying conditions. While the value of lost revenue is difficult to quantify, the impact to revenues was significant based on anticipate flight hours scheduled prior to poor weather conditions. The segment's expenses were $32.4 million, a 20% increase over the comparative period. The increase in expenses as a percentage of revenues was attributable to, among other things, increased operational cost to onboard new fixed-wing aircraft and to support the increase in aircraft fleet, higher costs on higher rate aircraft and change in aircraft utilization on change in customer mix.

Crew costs for the quarter were $11.5 million (or 42% of revenues) compared to $9.5 million (or 39% of revenues) in the comparative period. As noted in yearly results, crew costs were higher due to increased fleet size, higher crew movement and retention costs.

Fleet costs, excluding fuel costs, for the quarter were $10.2 million (or 37% of revenues), compared to $8.5 million (or 35% of revenues) in the comparative period. The increases in these costs were largely attributable to increased aircraft in service and related facility costs.

General and administrative expenses were $7.8 million (or 28% of revenues) in the quarter compared to $6.6 million (or 27% of revenues) in the comparative quarter. This increase was attributable primarily to incremental overhead costs to support ongoing growth in operations and the addition of the Helicopters Chile and NAS operations.

The segment's quarterly EBITDA loss was $5.1 million compared to a $3.0 million EBITDA loss in the comparative period. As noted above, the decrease in EBITDA and decrease in EBITDA margin was attributable largely to additional costs of a larger fixed-wing fleet. The quarterly EBITDAR loss was $3.3 million, compared to $1.1 million EBITDAR loss in the fourth quarter of Fiscal 2012.

Depreciation expense in the quarter was $3.9 million (or 14% of revenues) compared to $5.0 million (or 21% of revenues) in the comparative period. The decrease in depreciation expense was attributable to revisions to the amortization rates of certain aircraft components to better reflect their estimated useful lives.

Corporate Support and Other

Corporate Support and Other generated revenues of $9.9 million in the quarter compared to $4.6 million in comparative period. The 116% increase in revenue was primarily attributable to Technical Services' increased MRO and engineering modification services as well as incremental contribution from aircraft parts management services provided to Canadian North.

The segment incurred expenses totaling $11.9 million compared to $7.8 million in comparative period, an increase of 53%. As noted in the consolidated results, the increase in expenses was due, in large part, to increased MRO activity from Technical Services as well as increased infrastructure and administrative support costs, including business development activities.

The segment recorded an EBITDA loss of $1.7 million in the quarter, compared to an EBITDA loss of $3.2 million in comparative period. The reduction in EBITDA loss was largely attributable to increased volume of MRO and related services from Technical Services.

OUTLOOK

The Corporation made a number of improvements in its business in Fiscal 2013 which resulted in solid performance for 4 of its 6 business units. MRO operations continued to improve with sustained growth in demand for its services and modest but sustained profitability in each of the last five months of Fiscal 2013. With the introduction of 12 aircraft to its fleet, the fixed wing business increased flight hours and revenue but experienced a negative impact on margin and profitability. Several initiatives are underway to broaden service offerings to customers, streamline internal business processes, promote efficiency and eliminate redundancies.

Cost management will be a continued focus of management in Fiscal 2014 and a number of initiatives are underway to find efficiencies in the operations without compromising safety and quality of service.

Management continues to monitor economic conditions within its target markets. The Corporation derives approximately one third of its revenues from resource based industries. Exploration and associated activity in the Corporation's target markets continues to be volatile and management continues to closely monitor the situation and has mitigated some of the Canadian market exposure through expansion into foreign markets. It is difficult to assess the ultimate outcome of this slowdown on the Corporation's future performance.

Based on preliminary activity for the first quarter of Fiscal 2014, the Corporation is experiencing lower than expected flight hours, particularly in relation to its airborne training business. Based on historical experience, it is not unusual for airborne training hours to experience volatility from quarter to quarter. While it is believed that the lower hours observed to date in the first quarter are timing related, there can be no assurance that any shortfall will be offset by increases in flight hours in subsequent quarters.

Business development activity continues across all business sectors. During the year the Corporation signed a three year extension on the ICATS standing offers with the DND and announced a Memorandum of Understanding with Airbus Military for the Canadian Fixed Wing Search and Rescue Program. The Corporation is also exploring additional opportunities in international markets.

RISK FACTORS

The Corporation's operations involve a variety of risks and uncertainties and the Corporation analyzes and, where appropriate, actively manages such risks. Certain risks are mitigated through the use of common management techniques such as business and cash forecasting, variance analysis, the development and use of standard policies and operating procedures, and the use of internal reviews to monitor compliance. Other risks are mitigated by arranging with third parties to bear them on the Corporation's behalf, as is achieved through the Corporation's commercial insurance arrangements. Other risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The discussion below summarizes some of the more important and relevant risks that the Corporation currently views as having the potential to significantly impact its business, financial condition, liquidity or results of operations. These risks may become more or less important with the passage of time, and additional risks may exist that the Corporation has not identified, or that it currently deems to be immaterial. The Corporation's Annual Information Form available on SEDAR at www.sedar.com discusses additional risks not otherwise identified below along with risk mitigation strategies associated with the principal risks identified therein.

Leverage and Access to Capital

If the Corporation is unable to achieve certain key milestones set out in the Secured Debentures relating to the award to or loss by Top Aces of the CATS contract, the maturity date of the Secured Debentures may be accelerated to a date as early as April 23, 2015 and it may be difficult for the Corporation to continue meeting certain financial covenants. Further, if the Corporation's share price fails to rise above the minimum price necessary for the unsecured convertible debentures and the Secured Debentures to be converted into equity (whether because the key milestones set in the Secured Debentures are not met or otherwise), the Corporation will owe $34.5 million on June 30, 2016 and approximately $118 million on March 22, 2017. If this were to occur, there is a risk that the Corporation might not be able to fully repay or refinance those debts as they come due.

The Corporation's other debt agreements also contain affirmative and negative covenants that could limit the Corporation's ability to respond to changes in business and economic conditions or to undertake profitable growth initiatives. Failure to observe those covenants could result in a default under one or more of the Corporation's debt agreements, and upon such default and any related cross defaults, the Corporation's lenders could elect to declare all principal and interest owing under such debt agreements to be immediately due and payable.

The Corporation currently carries a significant amount of debt relative to its peers. Adverse changes in credit conditions, including significant increases in interest rates or the adoption of more restrictive lending practices, could have an adverse effect on the Corporation's ability to fund future growth or refinance existing debt as it matures.

Business and Operational Risks

Dependence on Contracted Airborne Training Services
A significant portion of the Corporation's revenue and earnings is derived from Defence Services' Standing Offers for ICATS. These Standing Offers expire in June 2016 and do not contain any minimum revenue commitments. Furthermore, there is a risk that Defence Services may not be the successful bidder in any future request for proposals for a long-term CATS contract. If Defence Services competes for and fails to win the long-term CATS contract or the Standing Offers for ICATS are terminated or drastically reduced in scope, the loss of this business would result in a significant loss of revenues and earnings for the Corporation.

New Business
In Fiscal 2013, the Corporation (through its subsidiaries) began operating in Chile and British Columbia through business and asset acquisitions, and launched operations in Calgary to provide fixed wing medevac and charter services. New businesses such as these require an upfront investment in capital assets and an ongoing investment to develop the business. Under these circumstances, the new business could initially have a negative impact on earnings and cash flow until the business reaches its peak operating performance. While management does closely monitor each operation's progress, there is a risk that some or all of the new businesses may not reach their peak operating performance.

Attraction and Retention of Required Human Resources
Qualified pilots, aircraft mechanics and other highly trained personnel are in high demand and are likely to remain a scarce resource for the foreseeable future. This is made even more challenging by the Corporation's need to place personnel in remote geographic locations and by the need to meet high minimum levels of experience stipulated by some of Discovery Air's largest customers. If the Corporation is unable to successfully attract and retain personnel possessing the skills and experience required for its business at a sustainable cost, it may be unable to profitably retain its most profitable customers and/or grow the business.

INDUSTRY AND COMPETITIVE CONDITIONS

Exposure to Resource Exploration Sector
A significant portion of the Corporation's revenues and earnings are derived from customers in the resource exploration sector. Reductions in resource exploration activities, whether due to reduced demand for resources, a reduction in the number of exploration permits or otherwise, could reasonably be expected to result in a reduction in demand for helicopter and fixed wing services of the type provided by the Corporation. In addition to potentially reducing the Corporation's revenues and earnings, the increased competitive environment could also be expected to reduce the Corporation's profit margins on new and existing business.

Environmental Conditions
The demand for certain services which the Corporation's subsidiaries offer are subject to environmental conditions, which in turn affect the number of flight hours booked in a given reporting period. For example, a significant portion of Fire Services' revenues is dependent on the level of forest fire activity in Ontario, and weather conditions which decrease the likelihood of such activity during the forest fire peak season (May through to September) would decrease the revenues Fire Services may be able to earn in a fiscal year. Similarly, air operations are affected across all subsidiaries by weather. Further, a significant portion of the Corporation's businesses are exposed to seasonal operations in northern Canada, where operations may be exposed to unfavourable weather conditions.

High Fixed Cost Structure
The aviation industry in general is characterized by significant investment in specialized fixed assets, a high fixed cost structure, cyclically volatile profit margins and limited barriers to entry. As a result, a relatively small change in revenues, traffic mix, or direct or indirect costs may have a significant impact on the Corporation's profitability. In the short term, fixed costs will not fluctuate in any meaningful way with revenues. Should the Corporation be required to reduce capacity or the number of aircraft it operates, margins may be compressed and/or potentially significant restructuring or termination costs may be incurred.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Fiscal 2013 consolidated financial statements have been prepared in accordance with IFRS. Management is often required to make judgments, assumptions and estimates that affect the carrying amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. The Corporation's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about accounting policies and the carrying value of assets and liabilities. Significant items subject to such estimates, assumptions and judgments include the carrying amount of land, buildings and equipment, intangibles and goodwill, valuation allowances for receivables, inventories, deferred income taxes, stock-based compensation and contingent liabilities related to lawsuits. Actual results could differ from these estimates.

The significant accounting policies used in the preparation of the consolidated financial statements are summarized in Note 3 to the consolidated financial statements in Fiscal 2013 and Fiscal 2012. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the consolidated financial statements.

Property and equipment

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

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

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

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

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

Depreciation is calculated using the "depreciable amount", which is the cost of an asset, or other amount substituted for cost, less its residual value, on either a straight line basis, or flight hours. If the useful lives of significant components of individual assets have a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

Goodwill

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

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

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

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Impairment

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

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

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

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

Non-financial assets
Assets that have an indefinite useful life, for example goodwill and trade names, are not subject to amortization and are tested for impairment annually in the Corporation's fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating units or "CGUs").

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

An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount, and the loss is recognised as an expense immediately.

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

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

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

Income tax
Income tax expense for the period is comprised of current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized in other comprehensive income or directly in equity.

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

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

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

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

Stock-based compensation

Equity-settled transactions

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

Cash-settled transactions

The Corporation has a deferred share unit ("DSU") plan for directors as described in note 14 of the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2013 and 2012. These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at the end of each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

Litigation

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

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

RECENTLY ISSUED STANDARDS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013. The Corporation does not expect these standards to have a significant impact on the Corporation's consolidated financial statements with the exception of IFRS 10, discussed below.

IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation-Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements. The Corporation's has determined that the Corporation's relationship with the equity account investees meets the requirement to consolidate these entities beginning February 1, 2013. The impact of consolidating the current equity accounted investees will not have any significant impact to the Corporation's net earnings but it will impact the presentation of the Consolidated Statement of Financial Position, Profit and Cash Flows.

IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards.

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 February 1, 2012, the Corporation changed the definition of EBITDA and EBITDAR to exclude gains and losses on disposal of property and equipment. 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):

	Three months ended January 31 (unaudited)		For the year ended January 31	
(thousands of dollars)	**2013**	2012	**2013**	2012
Profit (loss) attributable to shareholders' of Discovery Air Inc.	**$ (10,929)**	$ (9,825)	**$ 596**	$ 11,752
Income tax provision	**(3,282)**	(3,971)	**547**	3,975
Impairment loss	**46**	-	**3,769**	-
Gain on extinguishment of debt	**-**	-	**(2,224)**	(5,900)
Gain on extinguishment of contingent liability	**(1,297)**	-	**(1,297)**	-
Gain on business acquisition	**(58)**	-	**(355)**	-
Change in fair value financial liabilities reported at fair value	**-**	(779)	**(201)**	(1,879)
Interest and financing charges	**4,176**	4,343	**17,378**	17,415
Depreciation	**4,292**	5,246	**22,860**	21,092
Gain on disposal of property and equipment	**319**	(1,139)	**386**	(2,066)
Non-controlling interest	**(28)**	(33)	**(98)**	(33)
EBITDA	**$ (6,761)**	$ (6,158)	**$ 41,361**	$ 44,356
Aircraft lease expenses	**1,789**	1,839	**16,289**	13,119
EBITDAR	**$ (4,972)**	$ (4,319)	**$ 57,650**	$ 57,475

"**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, gains and losses on disposal of property and equipment, gains on acquisitions, gains and losses resulting from the change in fair value of financial liabilities, and impairment loss, 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):

	Three months ended January 31 (unaudited)		For the year ended January 31	
(thousands of dollars)	**2013**	2012	**2013**	2012
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ (10,929)**	$ (9,825)	**$ 596**	$ 11,752
Summary of other (gains) and losses:				
Gain on extinguishment of debt	**-**	-	**(2,224)**	(5,900)
Gain on extinguishment of contingent liability	**(1,297)**	-	**(1,297)**	-
Gain on business acquisition	**(58)**	-	**(355)**	-
Change in fair value of financial liabilities at fair value	**-**	(779)	**(201)**	(1,879)
Impairment loss	**46**	-	**3,769**	-
Loss (gain) on disposal of property & equipment	**319**	(1,139)	**386**	(2,066)
Total other (gains) and losses	**$ (990)**	$ (1,918)	**$ 78**	$ (9,845)
Tax effect on other (gains) and losses	**372**	160	**(332)**	1,942
Adjusted profit (loss)	**$ (11,547)**	$ (11,583)	**$ 342**	$ 3,849

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	Three months ended January 31, 2013			Three months ended January 31, 2012		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
		(unaudited)			(unaudited)	
Revenue	**$ 27,385**	**$ 9,936**	**$ 37,321**	$ 24,104	$ 4,595	$ 28,699
Expenses	**32,438**	**11,889**	**44,327**	27,126	7,756	34,882
Share of (profit) loss of equity accounted investees	**-**	**(245)**	**(245)**	(48)	23	(25)
EBITDA	**$ (5,053)**	**$ (1,708)**	**$ (6,761)**	$ (2,974)	$ (3,184)	$ (6,158)
Aircraft lease expenses	**1,789**	**-**	**1,789**	1,839	-	1,839
EBITDAR	**$ (3,264)**	**$ (1,708)**	**$ (4,972)**	$ (1,135)	$ (3,184)	$ (4,319)

(thousands of dollars)	For the year ended January 31, 2013			For the year ended January 31, 2012		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 200,229**	**$ 29,124**	**$ 229,353**	$ 170,686	$ 21,034	$ 191,720
Expenses	**150,540**	**38,117**	**188,657**	119,074	28,684	147,758
Share of (profit) of equity accounted investees	**(78)**	**(587)**	**(665)**	(372)	(22)	(394)
EBITDA	**$ 49,767**	**$ (8,406)**	**$ 41,361**	$ 51,984	$ (7,628)	$ 44,356
Aircraft lease expenses	**16,289**	**-**	**16,289**	13,119	-	13,119
EBITDAR	**$ 66,056**	**$ (8,406)**	**$ 57,650**	$ 65,103	$ (7,628)	$ 57,475

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. Under the previous reporting segment structure, the Northern Services segment consisted of GSH, 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 consolidated statements of financial position, statements of profit, statements of comprehensive income or statements of cash flows.

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share amounts)

					(unaudited)			
	Jan-13	Oct-12	Jul-12	Apr-12	Jan-12	Oct-11	Jul-11	Apr-11
Results of operations:								
Total Revenue	**$ 37,321**	$ 64,874	$ 74,225	$ 52,933	$ 28,699	$ 55,115	$ 70,657	$ 37,249
EBITDA	**$ (6,761)**	$ 15,963	$ 23,292	$ 8,867	$ (6,158)	$ 15,806	$ 29,695	$ 5,013
Cash from (used in) operations	**$ 5,521**	$ 23,133	$ 4,452	$ (5,495)	$ 9,635	$ 18,944	$ 6,769	$ (10,397)
Adjusted profit (loss)*	**$ (11,547)**	$ 4,045	$ 8,616	$ (773)	$ (11,583)	$ 4,386	$ 13,413	$ (2,367)
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ (10,929)**	$ 1,230	$ 8,935	$ 1,360	$ (9,825)	$ 6,184	$ 17,979	$ (2,586)
Basic earnings (loss) per share	**$ (0.75)**	$ 0.08	$ 0.61	$ 0.09	$ (0.67)	$ 0.42	$ 1.24	$ (0.19)
Basic adjusted profit (loss) per share*	**$ (0.79)**	$ 0.28	$ 0.59	$ (0.05)	$ (0.80)	$ 0.30	$ 0.92	$ (0.18)
Diluted earnings (loss) per share	**$ (0.75)**	$ 0.08	$ 0.38	$ 0.09	$ (0.67)	$ 0.31	$ 0.96	$ (0.19)
Diluted adjusted profit (loss) per share*	**$ (0.79)**	$ 0.22	$ 0.37	$ (0.05)	$ (0.80)	$ 0.23	$ 0.72	$ (0.18)

*See "Non-IFRS Measures"

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.

- In Canada, demand for the services provided by the Aviation segment is higher commencing in the spring and continuing through the end of the summer.
- Top Aces' revenue-generation opportunities are usually significantly higher in the February to June and September to November time periods. Though Top Aces' revenues are relatively predictable over a 12 month period, they can vary substantially from month to month depending on the customers' training priorities and, on occasion, weather conditions.
- The Corporation attempts to perform most major repairs and refurbishments during the slower periods of revenue-generating activity. Since repairs and maintenance on aircraft are not required evenly throughout the year, the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on flight activity from one period to another, especially in the forest fire suppression businesses.

DISCLOSURE CONTROLS

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Corporation is identified and communicated to the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, in order to allow timely decisions regarding required disclosure.

The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at January 31, 2013, that the Corporation's disclosure controls and procedures are effective and provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, required to be disclosed in reports that the Corporation files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for and has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer evaluated the design and effectiveness of the Corporation's ICFR based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

As at January 31, 2013, management assessed the effectiveness of the Corporation's ICFR and concluded that the Corporation's ICFR were effective. There have been no changes to the Corporation's ICFR during the interim quarter ended January 31, 2013 that have materially affected, or are reasonably likely to materially affect, its ICFR.

Due to its inherent limitations, ICFR can provide only a reasonable level of assurance and they may not prevent all errors and fraud or detect misstatements. Furthermore, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

The Corporation has yet to complete the internal control assessment for the recently acquired operations of Helicopters Chile and NAS. The Corporation intends to complete this assessment in the upcoming quarter. These operations are not considered to be material to the Corporation.

DEFINITIONS

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

(a) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(b) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(c) "**Fiscal 2012**" means the fiscal year of the Corporation ended January 31, 2012;
(d) "**Fiscal 2013**" means the fiscal year of the Corporation ended January 31, 2013;
(e) "**Fiscal 2014**" means the fiscal year of the Corporation ended January 31, 2014;
(f) "**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 January 31, 2013, had an adjusted principal amount of $79,832,740 (inclusive of accrued interest); and
(g) "**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: April 23, 2013