SECOND QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month and Six-Month Periods ended July 31, 2013

*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 three and the six month periods ended July 31, 2013 should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes as at July 31, 2013, the annual audited consolidated financial statements and related notes for the year ended January 31, 2013, and the annual MD&A for the year ended January 31, 2013, all of which are available on SEDAR at www.sedar.com.*

*This MD&A includes statements which are forward-looking in nature; please refer to "Forward Looking Statements" below for an explanation of the assumptions, uncertainties and risks associated with these statements. This MD&A also includes a number of defined terms and abbreviations as well as several financial terms, such as "EBITDA", "EBITDAR" and "adjusted profit", that are not defined by 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 over 850 team members. Its subsidiaries provide airborne training to the Canadian military, helicopter services, air ambulance services, airborne fire services, fixed-wing air charter services, expediting and logistics support, and a range of maintenance, repair, overhaul, modification, engineering and certification services. The Corporation has two reportable segments: Aviation, and Corporate Support and Other.

The Aviation segment includes four subsidiaries. Great Slave Helicopters Ltd. ("**GSH**"), one of the largest helicopter operators in Canada, has bases throughout Canada and South America from which it provides flight services to support 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. Discovery Air Fire Services Inc. ("**Fire Services**") provides primarily forest fire management and court-related air transport services to the Government of Ontario. Discovery Air Defence Services Inc. ("**Defence Services**"), formerly Top Aces Inc., provides primarily airborne training services to the Department of National Defence and the Canadian Forces ("**DND**").

The Corporate Support and Other segment consists of certain support functions at Discovery Air (collectively, "**Corporate**") as well as two operating subsidiaries: Discovery Air Technical Services Inc. ("**Technical Services**") and Discovery Mining Services Ltd. ("**Discovery Mining**"). 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. Technical Services provides a range of maintenance, repair and overhaul ("**MRO**"), modification, engineering and certification services. Discovery Mining provides remote exploration camp and expediting, logistics and staking services to a broad spectrum of resource exploration companies.

Effective February 1, 2013, the activities and personnel of Discovery Air Innovations Inc. ("**Innovations**"), the Corporation's business development arm, were assumed by Defence Services in order to focus those resources on supporting Defence Services growth initiatives. This shift in business development costs to the Aviation segment was offset by re-alignment of various telecommunication, information technology and other costs from the Aviation segment to the Corporate Support and Other segment as these infrastructure costs are managed on a consolidated basis at Corporate. The net impact of the changes is not material to the presentation of the segmented results.

The Corporation's Class A Shares and Unsecured Debentures trade on the Toronto Stock Exchange (symbols DA.A and DA.DB.A, respectively).

Selected Financial Information

(thousands of Canadian dollars, except per share amounts)	Three months ended July 31 (unaudited) 2013	2012	% change	Six months ended July 31 (unaudited) 2013	2012	% change
Results of operations						
Revenue	**$ 72,308**	$ 74,225	*-3%*	**$ 115,902**	$ 127,158	*-9%*
Expenses	**$ 51,787**	$ 51,073	*1%*	**$ 97,940**	$ 95,280	*3%*
Depreciation of property, equipment and intangible assets	**$ 6,310**	$ 6,785	*-7%*	**$ 11,915**	$ 12,381	*-4%*
	$ 14,211	$ 16,367	*-13%*	**$ 6,047**	$ 19,497	*-69%*
Finance costs	**$ 4,131**	$ 4,605	*-10%*	**$ 8,224**	$ 8,927	*-8%*
Profit attributable to shareholders of Discovery Air Inc.	**$ 9,239**	$ 8,935	*3%*	**$ 435**	$ 10,295	*-96%*
Basic earnings per share	**$ 0.63**	$ 0.61	*3%*	**$ 0.03**	$ 0.71	*-96%*
Diluted earnings per share	**$ 0.40**	$ 0.38	*5%*	**$ 0.03**	$ 0.50	*-94%*
Financial position and liquidity						
Total assets	**$ 321,625**	$ 331,346	*-3%*	**$ 321,625**	$ 331,346	*-3%*
Total loans, borrowings and finance leases	**$ 160,932**	$ 159,170	*1%*	**$ 160,932**	$ 159,170	*1%*
Cash from (used in) operations	**$ 5,360**	$ 4,458	*20%*	**$ (8,108)**	$ (1,042)	*-678%*
Working capital	**$ 32,855**	$ 33,912	*-3%*	**$ 32,855**	$ 33,912	*-3%*
Key non-IFRS performance measures*						
Adjusted profit (loss)	**$ 7,572**	$ 8,613	*-12%*	**$ (1,232)**	$ 7,839	*-116%*
Basic Adjusted profit (loss) per share	**$ 0.52**	$ 0.59	*-12%*	**$ (0.08)**	$ 0.54	*-115%*
Diluted Adjusted profit (loss) per share	**$ 0.35**	$ 0.37	*-5%*	**$ (0.08)**	$ 0.42	*-119%*
EBITDAR	**$ 26,397**	$ 29,340	*-10%*	**$ 26,010**	$ 42,296	*-39%*
EBITDA	**$ 21,017**	$ 23,292	*-10%*	**$ 18,827**	$ 32,159	*-41%*
EBITDA Margin	**29%**	31%		**16%**	25%	

* See "Non-IFRS measures" below

Consolidated Results

Three months ended July 31, 2013

Revenue

Quarterly revenue decreased 3% from the comparative period to $72.3 million. The revenue decrease was primarily attributable to a $4.4 million or 6% decrease in revenue from the Corporation's Aviation segment, which recorded lower flight hour activity from the resource-based sectors (i.e., mining, and oil and gas) as well as lower forest fire management activity. The Corporate Support and Other segment reported higher revenues (up $2.5 million or 40% over the comparative period) on increased MRO activity at Technical Services.

The Corporation's two largest customer sectors are government and resource-based. Revenues from the government sector represented 50% of total revenues (compared to 49% in the comparative period). The Corporation's resource-based revenues represented 28% of total revenues (compared to 36% in the comparative period). The year-over-year decline in mining, and oil and gas based revenues reflect the continuing decrease in junior mining and seismic work activity noted in the first quarter of Fiscal 2014. MRO services and parts sales continue to offset a portion of the decline experienced in the resource-based sector.

Expenses
The largest expense items for the Corporation are crew, fleet and parts costs, as well as general and administrative expenses. While there are variable components to these costs, a significant portion of these costs are fixed in nature within a given year.

Quarterly expenses of $51.8 million were largely consistent with comparative period expenses of $51.1 million. Lower operating expenses from the Aviation segment on lower flight hour activity was offset by higher Corporate Support and Other expenses from increased MRO activity and business development costs.

EBITDA and EBITDAR (see "Non-IFRS Measures" below)
Quarterly EBITDA was $21.0 million compared to $23.3 million in the comparative period, with the lower EBITDA attributable to lower flight hour activity and increased Corporate Support and Other business development expenses.

EBITDAR in the second quarter was $26.4 million compared to $29.3 million in the comparative period. While lower flight hours negatively impacted EBITDA in the quarter, it also reduced aircraft leasing expense by 11% over the comparative period to $5.4 million. The Corporation generally utilizes leased aircraft to support short term, seasonal flight services.

Depreciation, finance and other expenses
Depreciation expense in the quarter was $6.3 million compared to $6.8 million in the comparative period with the decrease attributable to lower overall flight hours.

Finance costs were $4.1 million in the quarter compared to $4.6 million in the comparative period. The year-over-year decline in finance costs was attributable to the lower interest rates on the operating line of credit and various term debt facilities that were refinanced in Fiscal 2013. Interest and finance charges accreting on the loans and borrowings were $2.6 million ($2.3 million in the second quarter of Fiscal 2013).

The Corporation's quarterly income tax provision was $3.0 million, compared to $3.3 million in the comparative period. The effective tax rate for the quarter of 25% was lower than the Corporation's statutory income tax rate of 27% due to a permanent difference related to the $1.2 million non-taxable gain on the revaluation of the contingent consideration noted below. In the comparative period, the effective income tax rate matched the Corporation's statutory income tax rate of 27%.

Earnings
The Corporation recorded a quarterly profit of $9.2 million ($0.63 basic earnings per share and $0.40 diluted earnings per share) compared to $8.9 million ($0.61 basic earnings per share and $0.38 diluted earnings per share) in the second quarter of Fiscal 2013. The current quarter's profit reflects a tax-effected gain of $0.4 million from the sale of a subsidiary of GSH, Hudson Bay Helicopters Ltd. ("**HBH**") and a non-taxable gain of $1.2 million related to the revaluation of the second installment of the contingent consideration for the purchase of Helicopters.cl SpA ("**Helicopters Chile**"). The comparative period profit reflects a non-taxable gain of $0.3 million on the acquisition of Northern Air Support ("**NAS**"). Excluding these items, adjusted profit was $7.6 million ($0.52 basic adjusted profit per share and $0.35 diluted adjusted profit per share) compared to an adjusted profit of $8.6 million ($0.59 basic adjusted profit per share and $0.37 diluted adjusted profit per share) in the comparative period (see "Non-IFRS Measures – Adjusted profit (loss)" below).

Despite the Corporation's Class A Share price at July 31, 2013 and 2012 being below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33, *Earnings per share,* considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

Six months ended July 31, 2013

Revenue

Year-to-date revenue decreased 9% from the comparative period to $115.9 million. The lower airborne training services revenues noted in the first quarter were largely recovered in the second quarter, and MRO revenues increased over the comparative period. However, as noted in the quarterly results, lower forest fire management activity and the continuing lower contribution from the Corporation's resourced-based activities have resulted in lower year-to-date revenues.

Year-to-date revenues from government customers represented 47% of total revenues consistent with the comparative period. Year-to-date revenue from resource-based customers represented 29% of total revenues, compared to 36% in the comparative period. The reduced contribution for this customer base was offset by increased revenue contribution from MRO and parts sales activity.

Expenses

Year-to-date expenses were $97.9 million (or 85% of revenues) compared to $95.3 million (or 75% of revenues) in the comparative period. Despite lower expenses from the Aviation segment on lower revenues, consolidated expenses were higher due to increased expenses from the Corporate Support and Other segment which reflect increased MRO activity and higher business development costs.

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

Year-to-date EBITDA was $18.8 million compared to $32.2 million in the comparative period, and EBITDA margin was 16% and 25%, respectively. The year-to-date decrease in EBITDA and EBITDA margin was largely attributable to higher operating costs and lower than expected revenue contribution from increased aircraft in service, as well as higher costs related to increased MRO activity and increased business development costs. Year-to-date EBTIDAR was $26.0 million, compared to $42.3 million in the comparative period.

Depreciation, finance and other expenses

Depreciation expense year-to-date was $11.9 million compared to $12.4 million in the comparative period.

Finance costs year-to-date were $8.2 million compared to $8.9 million in the comparative period with the decrease attributable to lower rates on facilities that were refinanced during Fiscal 2013. Interest and finance charges accreting on the loans and borrowings were $5.0 million ($4.7 million in the comparative period).

The Corporation's year-to-date income tax recovery was $0.1 million, compared to an income tax provision of $3.4 million in the comparative period. The Corporation's statutory income tax rate is 27% (consistent with prior year). The Corporation had a $0.1 million tax recovery (instead of tax expense based on the statutory tax rate) due to permanent tax differences, including the $1.2 million non-taxable gain related to the revaluation of the contingent consideration in the current quarter, on a lower income tax base. In the comparative period a permanent tax difference arose primarily due to a gain on an extinguishment of debt.

Earnings

The Corporation's year-to-date profit was $0.4 million ($0.03 earnings per share – basic and diluted) compared to a profit of $10.3 million ($0.71 basic earnings per share and $0.50 diluted earnings per share) in the comparative period. The Corporation's year-to-date profit includes a tax-effected gain of $0.4 million from the sale of HBH, and a non-taxable gain of $1.2 million related to the second quarter revaluation of the second installment of the contingent consideration for the purchase of Helicopters Chile. The comparative year-to-date profit reflects a tax-effected gain of $1.9 million on extinguishment of debt, a $0.2 million non-taxable gain related to a change in the fair value of the Corporation's embedded derivative that existed up to March 26, 2012 and a $0.3 million non-taxable gain on the acquisition of NAS. After excluding the impact of these transactions, the year-to-date adjusted loss was $1.2 million ($0.08 loss per share – basic and diluted) compared to an adjusted profit of $7.8 million ($0.54 basic earnings per share and $0.42 diluted earnings per share) in the comparative period (See "Non-IFRS Measures" and "Other gains and losses" below).

Aviation Segment

(thousands of Canadian dollars)	Three months ended July 31 (unaudited)					Six months ended July 31 (unaudited)				
		2013		2012	*% Change*		**2013**		2012	*% Change*
Revenue	**$**	**63,610**	$	67,997	*-6%*	**$**	**98,754**	$	115,679	*-15%*
Expenses		**40,233**		42,237	*-5%*		**75,110**		78,634	*-4%*
Share of profit of equity accounted investees		**(189)**		(7)	*2600%*		**(191)**		(47)	*306%*
EBITDA	**$**	**23,566**	$	25,767	*-9%*	**$**	**23,835**	$	37,092	*-36%*
Aircraft lease expense		**5,380**		6,048	*-11%*		**7,183**		10,137	*-29%*
EBITDAR	**$**	**28,946**	$	31,815	*-9%*	**$**	**31,018**	$	47,229	*-34%*
Capital expenditures	**$**	**2,155**	$	25,045	*-91%*	**$**	**6,262**	$	36,512	*-83%*
	As at July 31, 2013					*As at July 31, 2012*				
Total assets	**$**	**290,537**	$	307,805	*-6%*	**$**	**290,537**	$	307,805	*-6%*
Goodwill	**$**	**39,612**	$	41,439	*-4%*	**$**	**39,612**	$	41,439	*-4%*
Intangible assets	**$**	**8,578**	$	11,917	*-28%*	**$**	**8,578**	$	11,917	*-28%*

Three months ended July 31, 2013

The Aviation segment's quarterly revenues were $63.6 million on 22,994 flight hours, compared to revenue of $68.0 million on 27,743 flight hours in the comparative period, with the decrease in revenues reflecting lower activity from the resource-based sectors in both northern Canada and South America, as well as lower forest fire management activity in northern Ontario and western Canada. Despite the 17% decrease in flight hours, revenue only decreased by 6%, primarily due to a favourable shift in flight hour composition and ongoing basing fees revenues which are independent of flight hours.

The Aviation segment quarterly expenses were $40.2 million in the current quarter compared to $42.2 million in the comparative period. While the decline in expenses was attributable to lower flight hours in the quarter, the higher expense in relation to revenues reflect a fixed cost level to support higher flight hour capacity than realized in the quarter.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $15.4 million (or 24% of revenues) compared to $16.4 million (or 24% of revenues) in the comparative period. The year-over-year decrease in crew costs is consistent with lower flight hour activity.

Fleet costs include aircraft lease, facility, parts, maintenance and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $14.2 million (or 22% of revenues), compared to $14.5 million (or 21% of revenues) in the comparative period. The net year-over-year decrease in fleet costs reflect lower aircraft lease expense on lower flight hours offset by higher unscheduled maintenance costs. Other fleets costs remained consistent with the comparative period. As historically has 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 costs, travel costs, insurance costs and other overhead expenses. General and administrative expenses were $6.8 million (or 11% of revenues) in the quarter compared to $7.6 million (or 11% of revenues) in the comparative quarter, with the decrease attributable to various cost optimization program initiated in the current year.

The segment's quarterly EBITDA was $23.6 million compared to $25.8 million in the comparative period. The decrease in EBITDA was largely attributable to lower than expected revenues relative to the fixed costs incurred to accommodate a higher level of flight hours. Quarterly EBITDAR was $28.9 million compared to $31.8 million in the comparative period, reflecting lower EBITDA as well as lower aircraft lease expense from decreased flight hour activity in the current quarter.

Depreciation expense in the current quarter was $6.0 million (or 9% of revenues) compared to $6.5 million (or 10% of revenues) in the comparative period, with the decrease attributable to lower flight hour activity in the current quarter.

Six months ended July 31, 2013

Aviation segment year-to-date revenue was $98.8 million on 33,600 flight hours, compared to revenue of $115.7 million on 42,188 flight hours in the comparative period. As noted in the quarterly results, the 15% decrease in revenue and 20% decrease in flight hours reflect continuing softness in the resource-based sector in northern Canada and South America, and in the quarter, lower forest fire management activity due to cool and wet weather conditions in northern Ontario and western Canada. The segment was also negatively impacted by poor weather conditions in the first quarter.

The Aviation segment's year-to-date expenses were $75.1 million (or 76% of revenues) compared to $78.6 million (or 68% of revenues) in the comparative period, with the decline attributable to decreased flight hour activity. The higher cost as a percentage of revenue reflect a fixed cost level during the first half of the year to support higher flight hour capacity than realized to date.

Crew costs were $28.0 million, year-to-date, (or 28% of revenues) compared to $29.8 million (or 26% of revenues) in the comparative period due to lower flight hour activity.

Fleet costs year-to-date, excluding fuel costs, were $24.2 million (or 25% of revenues), compared to $26.5 million (or 23% of revenues) in the comparative period. As noted in the quarterly results, fleet costs reflect lower aircraft lease expense on lower flight hours offset by higher maintenance costs.

General and administrative expenses were, on a year-to-date basis, $15.2 million (or 15% of revenues) compared to $14.6 million (or 13% of revenues) in the comparative period. The increase was primarily due to ongoing business development initiatives.

Year-to-date EBITDA for the segment was $23.8 million compared to $37.1 million in the comparative period, yielding EBITDA margins of 24% in the current period and 32% in the comparative period. Year-to-date EBITDAR was $31.0 million compared to $47.2 million in the comparative period, reflecting the impact of lower EBITDA and decreased utilization of leased aircraft.

Depreciation expense year-to-date was $11.1 million (or 11% of revenues) compared to $11.8 million (or 10% of revenues) in the comparative period, due to lower flight hours.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended July 31 (unaudited)			Six months ended July 31 (unaudited)		
	2013	2012	*% Change*	**2013**	2012	*% Change*
Revenue	**$ 8,698**	$ 6,228	*40%*	**$ 17,148**	$ 11,479	*49%*
Expenses	**11,554**	8,836	*31%*	**22,830**	16,646	*37%*
Share of profit of equity accounted investees	**(307)**	(133)	*131%*	**(674)**	(234)	*188%*
EBITDA	**$ (2,549)**	$ (2,475)	*-3%*	**$ (5,008)**	$ (4,933)	*-2%*
Capital expenditures	**$ 1,005**	$ 2,279	*-56%*	**$ 2,088**	$ 3,517	*-41%*
	As at July 31, 2013			*As at July 31, 2012*		
Total assets	**$ 31,088**	$ 23,541	*32%*	**$ 31,088**	$ 23,541	*32%*
Intangible assets	**$ 429**	$ 660	*-35%*	**$ 429**	$ 660	*-35%*

Three months ended July 31, 2013

Corporate Support and Other revenues were $8.7 million in the quarter compared to $6.2 million in comparative period. The 40% increase in revenue was primarily attributable to increased MRO and engineering modification services at Technical Services as well as incremental contribution from aircraft parts management services. This was offset by lower revenue at Discovery Mining due to lower mining-based activity in northern Canada.

The segment incurred expenses totaling $11.6 million compared to $8.8 million in comparative period, an increase of 31%. As noted in the consolidated results, the increase in the segment expenses was largely attributable to increased MRO activity from Technical Services as well as increased infrastructure and administrative support cost and ongoing business development initiatives.

The segment reported an EBITDA loss of $2.5 million in the second quarter, which was consistent with the comparative period. The MRO operations is a lower margin business for the Corporation and as a result increased revenues from this operation did not generate sufficient EBITDA to offset increased business development costs and related financing at Corporate in the quarter and the effect of lower contribution from Discovery Mining.

Six months ended July 31, 2013

Year-to-date revenues in the Corporate Support and Other segment were $17.1 million compared to $11.5 million in the comparative period, with the 49% increase in revenues attributable to higher MRO activities from Technical Services which saw increased activity during the first half of the year.

The segment's year-to-date expenses were $22.8 million compared to $16.6 million in the comparative period, a 37% increase on higher MRO activity and increased business development costs.

Year-to-date EBITDA loss was $5.0 million compared to an EBITDA loss of $4.9 million in the comparative period. The increased contribution from the lower margin MRO activity was offset by increased business development costs and decreased contribution from Discovery Mining.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	Six months ended July 31 (unaudited)	
(thousands of Canadian dollars)	**2013**	2012
Operating activities	**$ (8,108)**	$ (1,042)
Investing activities	**(6,868)**	(37,467)
Financing activities	**9,170**	26,099
Net decrease in cash for the period	**$ (5,806)**	$ (12,410)

Operating Activities

Cash used in operating activities for the six month period ended July 31, 2013 was $8.1 million, representing a $7.1 million increase over the prior period. The unfavourable variance was largely attributable to a $13.3 million reduction in EBITDA offset by a $4.4 million smaller investment in non-cash working capital and a $2.4 million reduction in taxes and interest paid over the comparative period.

Working Capital

As at July 31, 2013, the Corporation had positive working capital of $32.9 million and a current ratio of 1.7, compared to a working capital position of $33.9 million and a current ratio of 1.7 as at July 31, 2012. The $2.4 million increase from the January 31, 2013 working capital position of $30.4 million (current ratio of 2.0) reflects the seasonal ramp up of operations.

As at July 31, 2013, the Corporation has not committed to any significant capital expenditures that would significantly change its working capital requirements from its existing operations. 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.

Investing Activities

The year-to-date net cash outlay from investing activities was $6.9 million compared to $37.5 million in the comparative period. The year-to-date capital expenditures of $8.4 million included $1.4 million for facility enhancements and aircraft deposits, and $7.0 million related to sustaining capital expenditures and aircraft overhaul costs.

The comparative period net cash outlay from investing activities included $26.0 million of capital expenditures and $11.7 million for business acquisitions. The capital expenditures consisted of two helicopters and five fixed wing aircraft totaling $17.4 million, facility additions for $1.0 million, and $7.6 million related to sustaining capital expenditures and aircraft overhaul costs. The business acquisition payments consisted of $2.4 million for the purchase of Helicopters Chile and $9.3 million for the assets of NAS.

On May 6, 2013, GSH sold one of its wholly-owned subsidiaries, HBH. HBH is a helicopter company based in Churchill, Manitoba, with a primary business related to tourism based activities. The Corporation received cash proceeds of $1.2 million on the sale of HBH and recorded a gain of $0.4 million. Included in the sale was a nominal amount of working capital, aircraft of $1.0 million, and deferred income tax liabilities of $0.3 million. HBH's profit from operations was close to break-even at the date of disposal, including revenues of $0.1 million and expenses and depreciation of property and equipment of $0.1 million.

Financing Activities

As at July 31, 2013, the Corporation had available but unused borrowing capacity of $8.1 million to fund its operating requirements. Consistent with the seasonal nature of the Corporation's business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased working capital. These draws are typically repaid during the third quarter.

Year-to-date, the Corporation made scheduled debt repayments of $4.8 million and $0.8 million as the first of two installment payments as part of the contingent consideration related to the purchase of Helicopters Chile. In the comparative period, the Corporation made debt payments of $38.0 million, consisting of $32.0 million to retire a $34 million term loan at a discount, $4.5 million to replace a bridge loan, and $1.5 million of scheduled debt repayments.

The credit facilities contain various restrictive covenants including interest coverage, funded debt to EBITDA (as defined by the lending agreement), 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 the Corporation`s capital stock, prepay, redeem or repurchase certain debt, sell secured assets, or move aircraft internationally.

The Secured Debentures require that the Corporation be in compliance with certain financial and non-financial covenants. On April 22, 2013 the holders of the Secured Debentures waived the covenant requiring the Corporation to maintain total debt leverage ratio of not greater than 6.00:1.00 for the quarter ended July 31, 2013. With this waiver, the Corporation was in compliance with all its debt covenants for the quarter ended July 31, 2013.

The decrease in the Corporation's trailing twelve month EBITDA (primarily from lower than expected first quarter results) continues to exert pressure on the total debt leverage ratio covenant. To avoid any possibility of non-compliance with this covenant, the Corporation requested and received an additional waiver for the third quarter ending October 31, 2013.

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. 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. An unexpected cessation of, or drastic reduction in, airborne training services to the DND could also have a material adverse impact to liquidity, however, there is no indication of this occurring given that historically this service has remained largely consistent on an annual basis and the standing offers for the Interim Contracted Airborne Training Services have been extended to June 2016.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 12 of the Corporation's interim condensed consolidated financial statements for the six months ended July 31, 2013.

Shareholders' Equity

At July 31, 2013, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 1,149,865 stock options outstanding. During the current quarter, the Corporation issued no stock options to employees. During the current quarter, 21,340 stock options expired or were otherwise terminated in accordance with their terms.

The Corporation's Unsecured Debentures provide for potential debt conversion to Class A Shares of 4,726,027 and the Secured Debentures provide for a potential debt conversion to Class A Shares of 9,333,334.

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

OUTLOOK

In the second quarter, the Corporation reported improved contribution from Defense Services, which partially offset lower activity at other business units. Mining exploration and associated activity continues to be under pressure in northern Canada and South America and has resulted in lower demand for aviation services. The Corporation has taken several measures to address this weakness including a streamlining of fixed wing operations and re-deployment of rotary wing aircraft into other industries including oil & gas and pipeline sectors.

As the Corporation enters the second half of the year, operating costs will be closely monitored for seasonal variations of the businesses and anticipated lower flight hour activity, particularly the northern operations in the fourth quarter. Defence Services is expected to experience near term strength in flight hours; however, the timing of overall flight hour activity over the remaining six months of the fiscal year remains difficult to predict.

The Defence Services group recently surpassed 40,000 accident-free flying hours in support of the Canadian Forces. The Corporation believes there are significant opportunities to grow this business internationally and is working diligently to explore additional new opportunities for airborne training services.

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Some of those risks and uncertainties are described in this MD&A and are supplemented by risks and uncertainties described in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2013, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 30, 2013, both of which can be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporations financial condition and results. There have been no changes to the Corporation's significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2013, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

Effective February 1, 2013, the Corporation adopted IFRS 10, *Consolidated Financial Statements*, amended IAS 28, *Investment in Associates and Joint Ventures*, IFRS 11, *Joint Arrangements,* IFRS 12, *Disclosure of Interests in Other Entities*, and IFRS 13, *Fair Value Measurement*. The adoption of these standards had no material impact on the financial statements of the Corporation.

A new standard, IFRS 9, *Financial instruments*, is not yet effective for the quarter ended July 31, 2013, and has not been applied in preparing these interim condensed consolidated financial statements. Management is currently reviewing the standard to determine the impact on the Corporation's financial statements.

For detailed discussion on recently issued standards please refer to Corporation's annual audited consolidated financial statements and related notes for the year ended January 31, 2013, which can be found on SEDAR at www.sedar.com. There were no additional recently issued standards relevant to the Corporation during quarter ended July 31, 2013.

NON-IFRS MEASURES

Management believes "**EBITDA**" to be an important metric in measuring the performance of the Corporation's day-to-day operations. This measurement is useful in assessing the Corporation's ability to service debt and to meet other payment obligations, and as a basis for valuation. "**EBITDAR**" is a measure commonly used in the aviation industry to evaluate results by excluding differences in the method by which companies finance aircraft.

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

	Three months ended July 31 (unaudited)		Six months ended July 31 (unaudited)	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Net profit attributable to shareholders' of Discovery Air Inc.	**$ 9,239**	$ 8,935	**$ 435**	$ 10,295
Income tax provision (recovery)	**3,019**	3,317	**(124)**	3,363
Gain on contingent consideration for business acquisition	**(1,248)**	-	**(1,248)**	-
Gain on extinguishment of debt	**-**	-	**-**	(2,224)
Gain on business acquisition	**-**	(297)	**-**	(297)
Gain on disposal of subsidiary	**(414)**	-	**(414)**	-
Change in fair value financial liabilities reported at fair value	**-**	-	**-**	(201)
Finance costs	**4,131**	4,605	**8,224**	8,927
Depreciation of property, equipment and intangible assets	**6,310**	6,785	**11,915**	12,381
Gain on disposal of property and equipment	**(18)**	(25)	**(18)**	(34)
Non-controlling interest	**(2)**	(28)	**57**	(51)
EBITDA	**$ 21,017**	$ 23,292	**$ 18,827**	$ 32,159
Aircraft lease expenses	**5,380**	6,048	**7,183**	10,137
EBITDAR	**$ 26,397**	$ 29,340	**$ 26,010**	$ 42,296

“**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 and disposals, and 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 July 31 (unaudited)		Six months ended July 31 (unaudited)	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Net profit attributable to shareholders of Discovery Air Inc.	**$ 9,239**	$ 8,935	**$ 435**	$ 10,295
Gain on sale of subsidiary	**(414)**	-	**(414)**	-
Tax effect on gain on sale of subsidiary	**13**	-	**13**	-
Gain on contingent consideration for business acquisition	**(1,248)**	-	**(1,248)**	-
Gain on extinguishment of debt	**-**	-	**-**	(2,224)
Tax effect on gain on extinguishment of debt	**-**	-	**-**	300
Gain on business acquisition	**-**	(297)	**-**	(297)
Change in fair value of financial liabilities at fair value	**-**	-	**-**	(201)
Gain on disposal of property and equipment	**(18)**	(25)	**(18)**	(34)
Adjusted profit (loss)	**$ 7,572**	$ 8,613	**$ (1,232)**	$ 7,839

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended July 31, 2013			Three months ended July 31, 2012		
	(unaudited)			(unaudited)		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 63,610	$ 8,698	$ 72,308	$ 67,997	$ 6,228	$ 74,225
Expenses	40,233	11,554	51,787	42,237	8,836	51,073
Share of profit of equity accounted investees	(189)	(307)	(496)	(7)	(133)	(140)
EBITDA	$ 23,566	$ (2,549)	$ 21,017	$ 25,767	$ (2,475)	$ 23,292
Aircraft lease expenses	5,380	-	5,380	6,048	-	6,048
EBITDAR	$ 28,946	$ (2,549)	$ 26,397	$ 31,815	$ (2,475)	$ 29,340

(thousands of Canadian dollars)	Six months ended July 31, 2013			Six months ended July 31, 2012		
	(unaudited)			(unaudited)		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 98,754	$ 17,148	$ 115,902	$ 115,679	$ 11,479	$ 127,158
Expenses	75,110	22,830	97,940	78,634	16,646	95,280
Share of profit of equity accounted investees	(191)	(674)	(865)	(47)	(234)	(281)
EBITDA	$ 23,835	$ (5,008)	$ 18,827	$ 37,092	$ (4,933)	$ 32,159
Aircraft lease expenses	7,183	-	7,183	10,137	-	10,137
EBITDAR	$ 31,018	$ (5,008)	$ 26,010	$ 47,229	$ (4,933)	$ 42,296

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)								
	(unaudited)							
	Jul-13	Apr-13	Jan-13	Oct-12	Jul-12	Apr-12	Jan-12	Oct-11
Results of operations:								
Total Revenue	**$ 72,308**	$ 43,594	$ 37,321	$ 64,874	$ 74,225	$ 52,933	$ 28,699	$ 55,115
EBITDA	**$ 21,017**	$ (2,190)	$ (6,761)	$ 15,963	$ 23,292	$ 8,867	$ (6,158)	$ 15,806
Cash from (used in) operations	**$ 5,360**	$ (13,468)	$ 5,521	$ 23,132	$ 4,458	$ (5,500)	$ 9,635	$ 18,944
Adjusted profit (loss)*	**$ 7,572**	$ (8,804)	$ (11,547)	$ 4,045	$ 8,613	$ (773)	$ (11,583)	$ 4,386
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ 9,239**	$ (8,804)	$ (10,929)	$ 1,230	$ 8,935	$ 1,360	$ (9,825)	$ 6,184
Basic earnings (loss) per share	**$ 0.63**	$ (0.60)	$ (0.75)	$ 0.08	$ 0.61	$ 0.09	$ (0.67)	$ 0.42
Basic adjusted profit (loss) per share*	**$ 0.52**	$ (0.60)	$ (0.79)	$ 0.28	$ 0.59	$ (0.05)	$ (0.80)	$ 0.30
Diluted earnings (loss) per share	**$ 0.40**	$ (0.60)	$ (0.75)	$ 0.08	$ 0.38	$ 0.09	$ (0.67)	$ 0.31
Diluted adjusted profit (loss) per share*	**$ 0.35**	$ (0.60)	$ (0.79)	$ 0.22	$ 0.37	$ (0.05)	$ (0.80)	$ 0.23

*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. The seasonality and quarterly fluctuations are substantially unchanged from the description found under the heading "Seasonality and Quarterly Fluctuations" in the Corporation's MD&A for the fiscal year ended January 31, 2013, which is available on SEDAR at www.sedar.com

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There were no material changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the six months ended July 31, 2013 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

DEFINITIONS

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

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal 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 July 31, 2013, had an adjusted principal amount of $83,740,819 (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 their existing levels; management's ability to continue to manage working capital effectively; the impact of weather conditions on the results of the Corporation's operations and/or financial condition; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet its debt covenants and other terms and conditions of its credit agreements; plans and/or requirements to make new capital investments.

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

technological changes; unexpected judicial or regulatory proceedings and decisions; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implied by the foregoing.

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

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

Dated: September 15, 2013