

No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.

This short form prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. The securities offered hereby have not been, and will not be, registered under the United States Securities Act of 1933, as amended, and may not be offered or sold in the United States or to, or for the benefit of, U.S. persons.

Information has been incorporated by reference in this short form prospectus from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Discovery Air Inc. at 170 Attwell Drive, Suite 370, Toronto, Ontario, M9W 5Z5 (telephone (416) 246-2684, ext. 3182), and are also available electronically at www.sedar.com.

Rights Offering

March 21, 2014

SHORT FORM PROSPECTUS



DISCOVERY AIR INC.

OFFERING OF 14,555,611 RIGHTS TO SUBSCRIBE FOR UP TO 17,441,860 COMMON SHARES AT A PRICE OF \$0.86 PER COMMON SHARE

This short form prospectus (this “**Prospectus**”) qualifies the distribution of 14,555,611 rights (the “**Rights**”) to subscribe for and purchase from Discovery Air Inc. (“**Discovery Air**” or the “**Corporation**”) an aggregate of up to 14,555,611 Class A common voting shares of the Corporation (the “**Class A Shares**”) or up to 14,555,611 Class B common variable voting shares of the Corporation (the “**Class B Shares**”, and together with the Class A Shares, the “**Common Shares**”), as applicable, at a price (the “**Subscription Price**”) per Common Share equal to \$0.86, on the terms set forth herein (the “**Offering**”). This Prospectus also qualifies the Common Shares issuable upon exercise of the Rights and pursuant to the Standby Purchase Agreement (as defined below).

The Corporation will distribute the Rights to holders of its Common Shares (the “**Shareholders**”) of record as at the close of business on April 1, 2014 (the “**Record Date**”). Each Shareholder of record on the Record Date will receive one (1) Right for each Common Share held. No fractional Common Shares will be issued pursuant to the Offering. 0.83 Rights entitle the holder to acquire one (1) Common Share upon payment of the Subscription Price (the “**Basic Subscription Privilege**”). See “*Details of the Offering Basic Subscription Privilege*”. Based on the 14,555,611 Common Shares outstanding as at the date hereof, the Offering would entitle holders of Rights to subscribe for an aggregate of up to 17,441,860 Common Shares for gross proceeds of approximately \$15,000,000. Holders of Rights who exercise their Rights in full are entitled to subscribe pro rata for Additional Common Shares (as defined herein) pursuant to the Additional Subscription Privilege defined and described herein. See “*Details of the Offering Additional Subscription Privilege*”.

Rights Exercise Price:
\$0.86 per Common Share

	<u>Price to Shareholders</u>	<u>Proceeds to the Corporation</u>
Per Common Share	\$0.86	\$0.86
Total ^{1 2 3}	\$14,999,999.60	\$14,999,999.60

The Rights may be exercised commencing on April 7, 2014 (the “**Commencement Date**”) and the Rights will expire at 12:00 noon (Toronto time) (the “**Expiration Time**”) on April 28, 2014 (the “**Expiration Date**”). **Rights not exercised at or before the Expiration Time will be void and of no value. If a Shareholder elects not to exercise the Rights issued to that Shareholder, or elects to sell or transfer those Rights, the value of the Common Shares currently held by that Shareholder may be diluted as a result of the exercise of the Rights by others.**

The Rights are fully transferable by holders. A holder of a Right is not, by virtue of such Right, a Shareholder and does not have any of the rights of a Shareholder.

The proceeds of the Offering will be used to pay the expenses of the Offering (estimated to be \$410,000), repay the Operating Bridge (as defined below), and for general corporate purposes, including funding discretionary growth initiatives and working capital. See “*Use of Proceeds*”, “*Plan of Distribution*” and “*Risk Factors*”.

Under a standby purchase agreement dated February 24, 2014 (the “**Standby Purchase Agreement**”), Clairvest Group Inc. (“**Clairvest**” or the “**Standby Purchaser**”) has agreed, subject to certain terms, conditions and limitations, to purchase, at the Subscription Price, all of the Common Shares not otherwise purchased pursuant to the exercise of Rights under the Offering at the Expiration Time on the Expiration Date up to a maximum number of Common Shares equal to 49.0% of the Common Shares that will be issued and outstanding after giving effect to the purchase of Common Shares pursuant to the exercise of Rights under the Offering and the purchase of Common Shares by the Standby Purchaser *less* that number of Common Shares already held by the Standby Purchaser (including Common Shares acquired upon the exercise of Rights) prior to giving effect to the purchase of Common Shares by the Standby Purchaser pursuant to the Standby Purchase Agreement (the “**Standby Shares**”). The Standby Purchase Agreement may be terminated by the Standby Purchaser or Discovery Air prior to the Expiration Time on the Expiration Date in certain circumstances. See “*Standby Commitment*”.

The Standby Purchaser is not engaged as an underwriter in connection with the Offering and has not been involved in the preparation of, or performed any review of, the Prospectus in the capacity of an underwriter.

¹ Assuming the exercise of all Rights, after giving effect to the Standby Purchase Agreement (as defined below).

² Assumes 14,555,611 Rights are issued, being the maximum number possible. The maximum number of Rights to be issued assumes that none of the options that are outstanding on the date hereof are exercised prior to the Record Date.

³ Before deducting expenses of this rights offering which are estimated to be approximately \$410,000.

The Class A Shares are listed and posted for trading on the Toronto Stock Exchange (the “**TSX**”) under the symbol “DA.A”. The closing price of the Class A Shares on the TSX on March 20, 2014 was \$1.06. The Class B Shares are not listed for trading on any exchange.

This Prospectus qualifies the distribution of the Rights, the Common Shares issuable upon the exercise thereof and the Standby Shares. The Rights will be listed on the TSX under the symbol “DA.RT” and will be posted for trading on the TSX until 12:00 noon (Toronto time) on the Expiration Date at which time they will be halted from trading. The TSX has approved the listing of the Common Shares issuable on the exercise of the Rights as well as the Standby Shares.

Computershare Investor Services Inc. (the “**Subscription Agent**”) has been appointed as the subscription agent for the Offering pursuant to a rights agency and custodial agreement between the Corporation and the Subscription Agent. See “*Details of the Offering - Subscription Agent*”.

Certificates evidencing the Rights will be issued in (i) definitive form (a “**Definitive Rights Certificate**”) to each Shareholder who holds Common Shares in definitive certificate form as of the Record Date (a “**Registered Rightsholder**”), and (ii) book-entry form (a “**Global Rights Certificate**” and, with Definitive Rights Certificates, the “**Rights Certificates**”) to each Shareholder who holds Common Shares in book-entry form through a securities broker or dealer, bank or trust company or other participant (a “**CDS Participant**”) in the book-based system administered by CDS Clearing and Depository Services Inc. (“**CDS**”) as of the Record Date (a “**Beneficial Rightsholder**”). In the case of a Registered Rightsholder, such holder may subscribe for whole Common Shares by delivering to the Subscription Agent the Rights Certificates, duly completed and exercised, together with the Subscription Price for each whole Common Share subscribed for. In the case of a Beneficial Rightsholder, such holder may subscribe for whole Common Shares by instructing the CDS Participant holding its Rights to exercise all or a specified number of such Rights and forwarding the Subscription Price for each whole Common Share subscribed for to such CDS Participant. A Registered Rightsholder wishing to subscribe for additional whole Common Shares pursuant to the Additional Subscription Privilege (as defined below) must make such an election on the Rights Certificates that they provide to the Subscription Agent in connection with their Basic Subscription Privilege (as defined below) and forward such Rights Certificates, duly completed and exercised, together with the Subscription Price for each additional whole Common Share subscribed for. A Beneficial Rightsholder wishing to subscribe for additional whole Common Shares pursuant to the Additional Subscription Privilege must forward its request to the CDS Participant that holds such holder’s Rights sufficiently in advance of the Expiration Date, along with payment for the number of additional whole Common Shares requested. Any excess funds will be returned by mail or, in the case of a Beneficial Rightsholder, credited to the holder’s account with its CDS Participant, without interest or deduction. CDS Participants will have an earlier deadline for receipt of instructions and payment than the Expiration Date. Shareholders should contact their particular CDS Participant for complete details on how to exercise their Rights and the Additional Subscription Privilege. Subscriptions for Common Shares made in connection with the Offering will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted. See “*Details of the Offering*”.

The head and registered office of the Corporation is located at 170 Attwell Drive, Suite 370, Toronto, Ontario, M9W 5Z5.

This Prospectus qualifies the distribution of the Rights as well as the Common Shares issuable upon exercise of the Rights and pursuant to the Standby Purchase Agreement in each of the provinces and territories of Canada (the “**Eligible Jurisdictions**”). The Rights as well as the Common Shares issuable upon the exercise of the Rights are not being distributed or offered to holders in the United States or in any jurisdiction other than the Eligible Jurisdictions (an “**Ineligible Jurisdiction**”). Consequently, no Rights will be delivered to any registered or beneficial holder of Common Shares who has, or who appears to the Corporation or the Subscription Agent to have, an address not in Canada as of the Record Date (an “**Ineligible Holder**”). Such Rights will be delivered by the Corporation to the Subscription Agent for sale by the Subscription Agent on behalf of the Ineligible Holders. Such Rights will be sold by the Subscription Agent through a registered securities broker or dealer (the “**Selling Agent**”) retained for the purpose of effecting sales of the Rights on behalf of Ineligible Holders. Such Ineligible Holders will receive from the Subscription Agent or their particular CDS Participant, as applicable, their pro rata share of the cash proceeds from the sale of such Rights, less commissions, expenses and applicable withholding taxes. All such Rights will be pooled and sold ten days prior to the Expiration Date. In exercising the sale of any Rights, the Selling Agent will exercise its sole judgment as to the timing and manner of sale and will not be obligated to seek or obtain a minimum price. None of the Corporation, the Subscription Agent nor the Selling Agent will be liable for any loss arising out of any sale of such Rights relating to the manner or timing of such sales, the prices at which Rights are sold or otherwise. The sale price of Rights sold on behalf of such persons will fluctuate with the market price of the Rights and no assurance can be given that any particular price will be received upon any such sale. Any proceeds received by a Selling Agent with respect to the sale of Rights, net of brokerage fees and costs incurred and, if applicable, tax required to be withheld, will be delivered (in Canadian funds without interest) as soon as practicable to such Ineligible Holders whose Rights were sold, at their last recorded addresses. **There is a risk that the proceeds received from the sale of Rights will not exceed the brokerage fees and costs incurred by the Selling Agent in connection with the sale of such Rights and, if applicable, the tax required to be withheld. In such event, no proceeds will be forwarded. CDS Participants may not issue Rights to Ineligible Holders. Instead, CDS Participants for Ineligible Holders must advise such Ineligible Holders that their Rights will be held on their behalf by such CDS Participant, as agent for their benefit, who will, prior to the Expiration Time on the Expiration Date, attempt to sell such Rights as described above.**

This Prospectus is not, and under no circumstances is to be construed as, an offering of any Rights or Common Shares for sale in any Ineligible Jurisdiction or a solicitation therein of an offer to buy any securities. Rights will not be sent to holders with addresses of record in any Ineligible Jurisdiction. Instead, such Ineligible Holders will be sent a letter advising them that their Rights will be issued and held on their behalf by their CDS Participant. See “*Ineligible Holders*”.

There are certain risk factors associated with an investment in the Common Shares. See “*Risk Factors*” for a discussion of various risk factors that should be considered by prospective purchasers of the Common Shares.

Table of Contents

Note Regarding Forward-Looking Statements	7
Fiscal Year	8
Non-IFRS Measures.....	8
Documents Incorporated by Reference.....	9
Discovery Air Inc.....	10
Ownership or Control of Common Shares.....	10
Recent Developments	11
Financial Developments	11
Financial Results for the Fiscal Year ended January 31, 2014.....	14
Estimated Cash for the Fiscal Year ended January 31, 2015.....	15
Compliance with Debt Covenants	16
Defence Services Strategic Context.....	19
Use of Proceeds.....	26
Details of the Offering	27
Issue of Rights	27
Subscription Basis.....	27
Commencement Date and Expiration Time.....	27
Subscription Agent	27
Basic Subscription Privilege.....	27
Additional Subscription Privilege.....	28
Sale or Transfer of Rights.....	29
Intention of Insiders of the Corporation	30
Dilution to Existing Shareholders.....	30
Certificates	30
Reservation of Common Shares	31
Validity and Rejection of Subscriptions	31
Ineligible Holders.....	31
CDS Clearing and Depository Services Inc.....	32
Description of Common Shares	33
Share Structure.....	33
Constraints	33
Prior Sales	35
Price Range and Volume of Trading	35
Consolidated Capitalization	35

Consolidated Capitalization Table.....	35
Effect on Convertible Debentures.....	36
Plan of Distribution.....	37
Standby Commitment	37
Canadian Federal Income Tax Considerations	39
Holders Resident in Canada.....	40
Eligibility for Investment.....	42
Holders Not Resident in Canada.....	42
Risk Factors	43
Risks Relating to the Defence Services Business.....	43
Risks Relating to the Corporation’s Financial Condition.....	46
Risks Relating to the Offering	49
General Risks of the Business	51
Legal Matters	51
Auditors, Transfer Agent and Registrar.....	51
Statutory Rights	51
Certificate of the Issuer.....	52

NOTE REGARDING FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this Prospectus. 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 Prospectus contains forward-looking statements relating to: the Corporation's financial results for the fiscal years ended January 31, 2014 and January 31, 2015; its intent to use certain aircraft for the provision of combat support services to the German Armed Forces and associated expenditures; its expectations with respect to the request for proposals and the award of the CATS Contract (as defined below); its expectations with respect to the terms of the Q3/Q4 Waivers (as defined below); its expectations with respect to the U.S. DoD's (as defined below) requirements for combat support services; its expectations with respect to complying with the Debt Leverage Covenant (as defined below) through most of the 2015 fiscal year; its expectations regarding spending in the first quarter of the 2015 fiscal year to support growth projects at Defence Services and support the start-up of Defence Services' operations in Germany; its beliefs regarding compliance with financial covenants in its debt agreements in the fourth quarter of the 2014 fiscal year; the seasonality of its business; its business development initiatives; the impact of 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 its 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; and 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 and foreign exchange, including in particular changes to Canadian-U.S. dollar and Euro-Canadian dollar exchange 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 to the Corporation and fluctuations in interest rates and their associated impact on floating rate debt instruments; 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; unforeseen reduction in demand for services, particularly in the primary markets in which the Corporation operates (including, military airborne training, mining and oil and gas exploration, forest fire and natural resources monitoring, and maintenance, repair and overhaul); changes in commodity prices which negatively affect the underlying cost of the Corporation's services which cannot be immediately recovered from the Corporation's customers; the inability of the Corporation to adjust its fixed cost structure in the event of lower demand for its services; losses arising from uninsured events; higher insurance costs; cost over-runs on the initial start-up and the provision of combat support services to the German Armed Forces; unplanned costs to service the Corporation's aircraft and other assets; timing of collection of accounts receivable; unplanned increases in the Corporation's working capital and unexpected changes in business volume; costs to secure and initiate new business initiatives which are not planned for; unexpected severance or termination costs in the event of unplanned closures; other factors referenced herein under "Risk Factors"; 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.

FISCAL YEAR

The Corporation's fiscal year end is January 31. All references in this Prospectus to fiscal year refer to the twelve months ended January 31 for the year referenced.

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. Both EBITDA and EBITDAR are not defined by International Financial Reporting Standards ("IFRS").

"EBITDA" means net profit before finance costs, income taxes, depreciation of property and equipment and intangible assets, gains and losses on disposal of assets and extinguishment of debt, gains on acquisition and disposals, impairment losses, and gains and losses resulting from the change in fair value of financial liabilities.

"EBITDAR" means EBITDA excluding aircraft rental (or aircraft lease) expense.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Prospectus from documents filed with securities commissions or similar authorities in each of the jurisdictions in Canada in which the Corporation is a reporting issuer. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Corporate Secretary of Discovery Air, 170 Attwell Drive, Suite 370, Toronto, Ontario, M9W 5Z5 and are also available electronically at www.sedar.com.

The following documents filed by the Corporation with the various securities commissions or similar regulatory authorities in each of the Eligible Jurisdictions are specifically incorporated by reference in and form an integral part of this Prospectus:

- a) annual information form of the Corporation dated April 30, 2013 for the fiscal year ended January 31, 2013;
- b) audited consolidated financial statements of the Corporation for the fiscal years ended January 31, 2013 and January 31, 2012, together with the notes thereto and the auditors' report thereon;
- c) management's discussion and analysis of operating results and financial position of the Corporation for the fiscal year ended January 31, 2013;
- d) unaudited interim condensed consolidated financial statements of the Corporation as at October 31, 2013 and for the three and the nine month periods ended October 31, 2013 and October 31, 2012, together with the notes thereto;
- e) management's discussion and analysis of operating results and financial position of the Corporation dated December 15, 2013 for the three and the nine month periods ended October 31, 2013 and October 31, 2012;
- f) management information circular of the Corporation dated May 10, 2013 in connection with the annual and special meeting of shareholders of the Corporation held on June 11, 2013;
- g) material change report dated December 17, 2013 concerning the acquisition of Advanced Training Systems International, Inc. ("**ATSI Inc.**") by Discovery Air Defence Services Inc. ("**Defence Services**");
- h) material change report dated February 4, 2014 concerning the award to Defence Services of a contract for the provision of combat support services to the German Armed Forces;
- i) material change report dated February 21, 2014 concerning the resignation of the Corporation's Chief Financial Officer effective March 31, 2014;
- j) material change report dated February 28, 2014 concerning the Corporation's intention to complete the Offering; and
- k) material change report dated March 17, 2014 concerning the appointment of Paul Bernards as Chief Financial Officer of the Corporation effective April 1, 2014.

Any documents of the type referred to above (excluding confidential material change reports) filed by the Corporation with the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada subsequent to the date of this Prospectus and prior to the Expiration Time, shall be deemed to be incorporated by reference into this Prospectus. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded, for purposes of this Prospectus, to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or replaces such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed for any purposes an admission that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded will not be deemed, except as so modified or superseded, to constitute part of this Prospectus.

DISCOVERY AIR INC.

Discovery Air was incorporated on November 12, 2004 pursuant to the *Business Corporations Act* (Ontario) and was continued under the *Canada Business Corporations Act* on March 27, 2006. The share structure of the Corporation was amended at the time of the continuance to restrict foreign voting control in order to meet the requirement in the Canada Transportation Act that holders of licences to operate domestic Canadian air services be “Canadian”. As a result, the Corporation has two classes of Common Shares: Class A Shares and Class B Shares.

Discovery Air is the parent corporation to six material subsidiaries that are engaged in the delivery of specialty aviation services including military combat support, helicopter services, airborne fire services, fixed-wing services, exploration and logistics support, and a range of maintenance, repair, overhaul, modification, engineering and certification services.

For further details concerning the Corporation’s share structure and business, see the Corporation’s annual information form dated April 30, 2013, which is incorporated by reference into this Prospectus.

OWNERSHIP OR CONTROL OF COMMON SHARES

To the best of the knowledge of the Corporation, no person beneficially owns, controls or directs, directly or indirectly, more than 10% of the outstanding Common Shares of the Corporation, other than: (i) Adam Bembridge, Group President, Northern Services of the Corporation, who, to the best of the knowledge of the Corporation, owns, controls or directs, directly or indirectly, 2,345,058 Class A Shares (being approximately 16.1% of such class); and (ii) Ian Campbell, who, to the best of the knowledge of the Corporation, owns, controls or directs, directly or indirectly 2,345,142 Class A Shares (being approximately 16.1% of such class).

Pursuant to the terms of a shareholders agreement entered into on September 23, 2011 by and between the Corporation, the Secured Debenture Holders (as defined below) and certain

management shareholders (the “**Shareholders Agreement**”), each of the parties who is a party to the Shareholders Agreement is required to vote his, her or its Common Shares in a manner that is agreed to by all of the parties to the Shareholders Agreement (the “**Shareholders Agreement Parties**”). If the Shareholders Agreement Parties are not unanimous, then each of the shareholders (other than Clairvest) who is a party to the Shareholders Agreement is required to vote 50% of his, her or its Common Shares (collectively, the “**Management Shares**”) as directed by the Secured Debenture Holders. As a result, Clairvest, to the best of the knowledge of the Corporation, can direct the voting of, directly or indirectly, 3,694,779 Class A Shares (being approximately 25.4% of such class). In addition, at the date hereof, Clairvest owns, or exercises control or direction over, 59,520 Class A Shares.

RECENT DEVELOPMENTS

Financial Developments

Previously Disclosed Matters

On December 16, 2013, the Corporation released its interim financial report (including the unaudited interim condensed consolidated financial statements for the three and nine month periods ended October 31, 2013 and Management’s Discussion and Analysis thereon) and, in connection therewith, disclosed several matters relating to its financial performance, cash position and liquidity. These included:

- Weak financial performance by the Corporation due primarily to weakness in the mining exploration sector and lower than normal forest fire activity. EBITDA for the first three quarters of the 2014 fiscal year was \$34.2 million compared to \$48.1 million for the comparative period in the 2013 fiscal year. Furthermore, the Corporation’s profit was \$3.5 million as compared to \$11.5 million for the comparative nine month period. Finally, while revenues declined only 6%, the net cash provided by operating activities declined 69% to \$6.9 million;
- The Corporation’s inability to remain in compliance with the Debt Leverage Covenant (as defined below) throughout the first three quarters of the 2014 fiscal year, which was mitigated through the receipt of waivers from the Secured Debenture Holders (as defined below). In addition, the Corporation had received a waiver from the Secured Debenture Holders for the fourth quarter of the 2014 fiscal year that also permitted the Corporation to exclude certain expenses relating to Defence Services’ business development initiatives in determining EBITDA for purposes of the Debt Leverage Covenant;
- Anticipated future challenges with respect to the Corporation’s ability to remain in compliance with the PAR Covenant (as defined below) and the ability to either pledge unencumbered real estate assets as security to the Secured Debenture Holders (if they so consented) or use those assets to raise the funds necessary to prepay loan balances against other assets that would be acceptable as security for the Secured Debentures (as defined below);
- Investments in growth projects at Defence Services, including approximately USD \$6.6 million for the then pending acquisition of ATSI Inc. by way of a merger of ATSI Inc. with Advanced Training Systems International Corp. (“**ATSI Corp.**”), which

subsequently closed on December 17, 2013 (the “**ATSI Acquisition**”), and approximately \$7.8 million in connection with the expansion of Defence Services’ fighter jet fleet. With respect to the latter amount, approximately \$2.6 million (USD \$2.5 million) is attributable to deposits made in respect of the purchase of additional aircraft (see “*Defence Services - Strategic Context - Planned Aircraft Purchases*”), \$2.1 million is attributable to related capital investments and \$3.1 million is attributable to operating expenses;

- A negative cash position of \$8 million as at October 31, 2013 that was approximately \$16 million lower than in the comparative period, due primarily to lower EBITDA and cash requirements for the growth projects at Defence Services in the first nine months of the 2014 fiscal year;
- An indication that flight hour activity at Defence Services was trending lower in the fourth quarter of the 2014 fiscal year; and
- Plans to raise \$8 million of additional long-term debt financing (the “**ATSI Facility**”) to refinance the ATSI Acquisition and provide additional working capital for the Corporation. The ATSI Facility was intended to be supplemental to other cash generation efforts, which included the collection of accounts receivable (which were approximately \$4 million higher than in the comparative period), cost reduction initiatives, and sales of aircraft and other assets.

Subsequent Developments

Subsequent to the release of the Corporation’s financial results for the three and nine month periods ended October 31, 2013, the following events occurred:

- Defence Services completed the ATSI Acquisition on December 17, 2013. It remitted USD \$6.3 million at the time of closing (which included the merger consideration of USD \$6.6 million less deposits of USD \$500,000 plus adjustments of USD \$244,278). Since the ATSI Facility had not been established by December 17, 2013, the ATSI Acquisition was funded using the Corporation’s operating facility;
- Great Slave Helicopters Ltd. (“**GSH**”) ceased operations in Peru because its Peruvian joint venture partner was experiencing financial difficulties that made it impractical to continue the arrangement. GSH withdrew its helicopters from Peru and redeployed some of them to Chile for operation by its Chilean subsidiary, Helicopters.cl SpA (“**Helicopters Chile**”), and the remainder to Canada. GSH is currently exploring alternative means through which to re-enter the Peruvian market;
- Defence Services sold two aircraft in January 2014 for gross proceeds of approximately USD \$2 million;
- During the fourth quarter of fiscal year 2014, the Corporation incurred \$0.7 million in capital expenditures and \$0.8 million in operating expenditures for purposes of Defence Services growth initiatives;

- On January 30, 2014, the Corporation announced that Defence Services had secured a contract for the provision of combat support services to the German Armed Forces. Although Defence Services intends to use seven of ATSI Corp.'s aircraft for this contract, funding for further incremental capital expenditures of \$5 million and start-up costs of approximately \$1.8 million is expected to be required prior to the commencement of services under the contract on January 1, 2015;
- Following the completion of the ATSI Acquisition on December 17, 2013, the Corporation had limited borrowing capacity under its operating facility. While collection of higher accounts receivable and proceeds from the sale of aircraft generated some cash, these cash receipts were offset by weaker than expected financial performance in the fourth quarter of the 2014 fiscal year, seasonal cash requirements, funding for Defence Services' growth projects and scheduled debt and interest payments;
- The Corporation continued to work with one of its existing lenders to establish the ATSI Facility in order to free up capacity under its operating facility. These discussions were based on a non-binding term sheet that had been presented by the lender to the Corporation in early November 2013. While the Corporation's management originally anticipated that the ATSI Facility would become available in December 2013, the lender's due diligence investigations and credit approval process extended through to the start of February 2014. On or about February 3, 2014, the lender presented the Corporation with significant amendments to the proposed terms for the ATSI Facility, which included requirements for additional security and waivers from certain covenants under the Secured Debentures. The Corporation was unable to meet these requirements;
- By early February, the Corporation was in urgent need of additional liquidity. The Corporation's management met with representatives of Clairvest on or about February 4, 2014 to explore alternatives to the ATSI Facility. Those discussions culminated in the Corporation's decision to undertake the Offering, backed by a capped standby commitment from Clairvest (see "*Standby Commitment*") and a commitment by Clairvest to provide the Corporation with a subordinated, secured loan in the event that Clairvest is unable to backstop the entire Offering and the Corporation is unable to raise gross proceeds from the Offering in an amount of \$15,000,000;
- In order to address the Corporation's near-term liquidity requirements, the Corporation's operating lender agreed to provide (i) an immediate \$10 million increase in the credit available to the Corporation within the existing credit limit of its operating facility (by way of an increase in the Corporation's borrowing base), and (ii) a commitment to increase the overall limit of the operating facility by \$10 million, in each case until May 24, 2014 (collectively, the "**Operating Bridge**"). The increase in the overall limit of the operating facility was subject to the receipt of consents from certain of the Corporation's lenders which have since been obtained. As of the date of this Prospectus, the Corporation has drawn approximately \$4 million under the Operating Bridge and is expected to have \$7,000,000 to \$10,000,000 drawn under the Operating Bridge by the Expiration Date (see the cautionary statement under the heading "*Note Regarding Forward-Looking Statements*"). The Corporation has used, and intends to use, the Operating Bridge for working capital purposes.

- The Corporation's intention to complete the Offering, the receipt of the Operating Bridge and the receipt of certain waivers (as described more fully below under "*Compliance with Debt Covenants Secured Debenture Covenants*") were announced by the Corporation on February 24, 2014; and
- The Corporation has received a commitment letter (subject to customary conditions) from one of its existing lenders with respect to a loan refinancing transaction which would, if implemented, eliminate the Aircraft Undertakings (as defined below) and provide the Corporation with up to an additional \$1.2 million in cash (see "*Risks – Risks Relating to the Corporation's Financial Condition – March 31, 2014 obligations under certain aircraft loans*").

Financial Results for the Fiscal Year ended January 31, 2014

The Corporation has not yet finalized its consolidated financial statements for the fiscal year ended January 31, 2014, nor have the Corporation's external auditors completed their audit of those financial statements. As such, the Corporation's unaudited financial information for the fourth quarter of the fiscal year ended January 31, 2014 described below could be materially affected by matters identified in the course of finalizing the Corporation's financial statements and the audit thereof, including, without limitation, the risk factors identified in this Prospectus (see, in particular, "*Risk Factors - Risks Relating to the Corporation's Financial Condition*"). The information below constitutes forwarding looking information. Please see the cautionary statement under the heading "*Note Regarding Forward-Looking Statements*".

The Corporation's consolidated revenues for the fourth quarter of fiscal year 2014 are expected to be between \$31.0 million and \$33.0 million compared to \$37.3 million in the comparative period due primarily to reduced flight hours at Defence Services and lower maintenance, repair and overhaul activity at Discovery Air Technical Services Inc. The Corporation is expected to incur an EBITDA loss in the fourth quarter of the 2014 fiscal year of approximately \$9.0 million to \$11 million (\$8 million to \$10 million, excluding expenditures on Defence Services growth projects), which compares to an EBITDA loss of \$6.8 million in the comparative period. The increase in the EBITDA loss is due primarily to lower than expected financial results from Defence Services. On an annualized basis, Defence Services' flight hours were 10% lower than the comparative period, which the Corporation believes is due in part to the spending cuts announced by the Government of Canada. The Corporation does not expect the current shortfall to be offset by an increase in flight hours in the first quarter of the 2015 fiscal year, and while flight hours have historically been consistent from year to year, there is no assurance that this will be the case in the 2015 fiscal year. In addition, GSH incurred a loss of approximately \$0.5 million for costs associated with the termination of its Peruvian operations, of which \$0.4 million was attributable to losses on account of accounts receivable that could not be collected. As a result of the higher expenses incurred and weaker EBITDA in fiscal year 2014, the Corporation expects to incur a loss in fiscal year 2014 in excess of \$10 million compared to the profit of approximately \$0.5 million earned in fiscal year 2013.

As at January 31, 2014, the Corporation had indebtedness outstanding under its operating facility of \$11.3 million as compared to a net cash position of \$5.8 million as at January 31, 2013.

The Corporation's accounts receivable as at January 31, 2014 include approximately \$1.9 million in receivables past due by 90 days or more as compared to \$0.7 million as at January 31, 2013.

Although the Corporation is making diligent efforts to collect these and other accounts receivable, it has not completed its full evaluation of the need, if any, to take further provisions against potentially uncollectable accounts. As at October 31, 2013, the allowance for doubtful accounts was \$0.2 million.

The Corporation's working capital position as at January 31, 2014 is estimated to be \$10.0 million. This, together with the additional gross proceeds of \$15.0 million from the Offering, would generate, on a pro forma basis, aggregate working capital of approximately \$25.0 million as at January 31, 2014. The Corporation has also received a commitment letter (subject to customary conditions) from one of its existing lenders with respect to a loan refinancing transaction which would, if implemented, eliminate the Aircraft Undertakings (as defined below) and provide the Corporation with up to an additional \$1.2 million in cash as at the date of this Prospectus (see "*Risks – Risks Relating to the Corporation's Financial Condition – March 31, 2014 obligations under certain aircraft loans*"). This would further increase the Corporation's aggregate working capital, on a pro forma basis, to approximately \$26.2 million as at January 31, 2014. Such aggregate working capital is comparable to the closing working capital position as at January 31, 2013 of approximately \$30.0 million.

The Corporation's balance for goodwill and intangibles assets was approximately \$48 million as at October 31, 2013. These balances relate primarily to Defence Services and Helicopters Chile. Although the Corporation believes that no impairment in the Corporation's goodwill and intangible assets exists, there can be no assurance that an adjustment to these balances will not be required following the completion of the annual impairment assessment by the Corporation.

The Corporation's conclusions as to the design and effectiveness of its internal controls will be reported on in conjunction with the release of its audited consolidated financial statements for the fiscal year ended January 31, 2014, as required by applicable securities laws. In connection with its review of internal controls, the Corporation's management is reviewing its arrangements with certain of its foreign agents and the documentation of payments made by them on behalf of the Corporation and its subsidiaries.

Estimated Cash for the Fiscal Year ended January 31, 2015

The information below constitutes forwarding looking information. Please see the cautionary statement under the heading "*Note Regarding Forward-Looking Statements*".

Assuming that the Aircraft Undertakings (as defined below) are eliminated such that the Company is not required to make the \$4 million payment referred to in the section entitled "*Risks – Risks Relating to the Corporation's Financial Condition – March 31, 2014 obligations under certain aircraft loans*", the Corporation believes that the infusion of working capital from the Offering and the \$1.2 million of additional loan financing (which would be included with the resolution of the Aircraft Undertakings) will allow the Corporation to fund the operating and capital commitments of its base business (exclusive of discretionary growth initiatives) in the 2015 fiscal year. Additional assumptions underlying and risks associated with these expectations are more fully described under the heading "*Note Regarding Forward-Looking Statements*".

The Corporation expects to generate cash from operating activities of approximately \$31 million in the 2015 fiscal year, and to have a cash balance of approximately \$2.7 million as at January 31, 2015 (exclusive, in each case, of the impact of any expenditures that may be made in respect

of discretionary growth initiatives). This assumes, among other things, (i) a return to more typical levels of forest fire season activity, (ii) a moderate increase in the Corporation's flight hours in support of the resource sector, (iii) growth in maintenance, repair and overhaul activity at the Corporation's technical services division, and (iv) capital expenditures consistent with those incurred in the 2014 fiscal year. Additional assumptions underlying and risks associated with these expectations are more fully described under the heading "*Note Regarding Forward-Looking Statements*". The foregoing does not take into account (i) the additional \$8 million in financing which is required to fund discretionary growth initiatives and is further described in the section entitled "*Risks – Risks Relating to the Corporation's Financial Condition – Additional funding for pursuit of growth projects*", or (ii) the potential cash proceeds from the sale of underutilized aircraft and other non-core assets which are not required to fund the operating and capital commitments of the Corporation's base business and are further described in the section entitled "*Risks – Risks Relating to the Corporation's Financial Condition – Sale of underutilized aircraft and other assets*".

Compliance with Debt Covenants

Debt Covenants Generally

The Corporation is required to comply with several financial covenants in its debt agreements, including: the Debt Leverage Covenant and the PAR Covenant (discussed below); a trailing four quarter consolidated EBITDAR to fixed charge ratio; a debt service coverage ratio; a total liabilities to tangible net worth ratio; and a total funded debt to EBITDAR ratio. The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the adequacy of the security pledged to its lenders in relation to its debt levels.

As discussed in further detail below, the Corporation required and received prior to the quarter end a waiver of the Debt Leverage Covenant for the fourth quarter of the 2014 fiscal year. The Corporation believes that it is in compliance with all other financial covenants in its debt agreements in the fourth quarter of the 2014 fiscal year.

Secured Debenture Covenants

Background

On September 23, 2011, Discovery Air issued \$70,000,005 of senior secured convertible debentures (the "**Secured Debentures**") pursuant to a private placement to Clairvest Equity Partners IV Limited Partnership, Clairvest Equity Partners IV Co-Investment Limited Partnership, Clairvest Equity Partners IV-A Limited Partnership, DA Holdings Limited Partnership and G. John Krediet (collectively, the "**Secured Debenture Holders**"). The Secured Debentures mature on March 22, 2017, subject to adjustment by the Secured Debenture Holders to an earlier date in the event that certain milestones relating to the CATS Contract (as defined below) are not met by the Corporation. Interest on the Secured Debentures is paid in kind and added to the principal amount, and as of January 31, 2014, the total amount owing pursuant to the Secured Debentures was \$87,816,013.

The Secured Debentures have a first-lien security interest in all assets of the Corporation and its subsidiaries, except with respect to accounts receivable, certain inventory and certain equipment.

The Corporation has the right to require the full subordination of the Secured Debenture Holders' security interest in respect of new indebtedness upon being awarded the CATS Contract (or an equivalent contract) on certain terms. To date, such a CATS Contract has not been awarded. In the absence of such an award, the Corporation is entitled to (i) require subordination of the Secured Debentures Holders' security interest in assets or entities acquired by the Corporation or its subsidiaries after September 23, 2011 in an amount up to \$50 million and in certain other assets of the Corporation and its subsidiaries, and (ii) at any time prior to September 23, 2014, request a partial subordination of the Secured Debentures Holders' security which, if refused by the Secured Debenture Holders, allows the Corporation to redeem all (but not less than all) of the Secured Debentures (including all accrued and unpaid interest) by no later than September 23, 2014.

The Corporation is required to comply with a number of financial and non-financial covenants in the Secured Debentures. Financial covenants include (i) a debt leverage covenant, which requires the Corporation to maintain a total debt to EBITDA (as specifically defined in the Secured Debentures) ratio of not more than 6.00:1.00 (the "**Debt Leverage Covenant**"), and (ii) a pledged asset ratio covenant, which requires the Corporation to provide the holders of the Secured Debentures with a first-lien security interest over assets having an appraised value equal to a prescribed ratio⁴ of the adjusted principal amount of the Secured Debentures) (the "**PAR Covenant**"). Negative covenants include, among other things, restrictions on the Corporation's ability to (i) sell or dispose of all or substantially all of its business or assets, (ii) pay dividends or make other distributions to Shareholders, (iii) undertake a new line of business other than specialty aviation services and related businesses and services, (iv) other than expansion of operations using similar aircraft and in similar geographies, undertake any material new program which if it failed would result in the Corporation suffering an after-tax loss of greater than 25% of consolidated shareholder equity on an "as converted" basis, (v) amend the articles, by-laws or other constituting documents of the Corporation or its material subsidiaries if such amendment adversely affects the Secured Debenture holders, the collateral pledged as security to them or the security interests, (vi) enter into or agree to enter into any amalgamation, arrangement, merger, reorganization or other similar transaction involving the Corporation, or (vii) create, incur or assume or suffer to exist any lien on any assets of the Corporation or its subsidiaries other than liens for new debt permitted under the terms of the Secured Debentures, certain specifically permitted liens or pursuant to a subordination in the manner contemplated by the Secured Debentures.

Waivers for the 2014 fiscal year and the 2015 fiscal year

The Corporation was unable to comply with the Debt Leverage Covenant for the fiscal quarters ended April 30, 2013, July 31, 2013, October 31, 2013 and, in each case, requested and received from the Secured Debenture Holders waivers of the Debt Leverage Covenant in respect of those quarters prior to the quarter end. The Corporation also requested and received prior to the quarter end a waiver of the Debt Leverage Covenant for the fiscal quarter ended January 31, 2014 (the "**Q4 Debt Leverage Waiver**"). The Q4 Debt Leverage Waiver also permits the Corporation to exclude certain expenses relating to the business development initiatives being pursued by

⁴ The prescribed ratio is equal to: 1.35:1.00 for the fiscal quarter ending January 31, 2014; 1.42:1.00 for the fiscal quarter ending April 30, 2014; and 1.50:1.00 thereafter.

Defence Services in determining EBITDA for purposes of the Debt Leverage Covenant. The Corporation anticipates further challenges in complying with the Debt Leverage Covenant through most of the 2015 fiscal year due to lower-than-expected trailing twelve month EBITDA.

Although the Corporation has remained in compliance with the PAR Covenant to date, the Corporation will need to pledge additional assets as collateral security in favour of the Secured Debenture Holders in the next 12 months in order to remain in compliance with the PAR Covenant. Such pledge will be necessary because interest on the Secured Debentures is paid in kind and added to the principal amount, thereby increasing over time the value of assets that must be pledged as security in order to maintain the prescribed ratio between the value of the pledged assets and the adjusted principal amount.

The PAR Covenant would cease to apply if the Secured Debenture Holders agreed to subordinate their security prior to September 23, 2014 or Defence Services secured a satisfactory award of the CATS Contract. Upon the grant of the Q3/Q4 Waivers (described below), the Corporation will no longer be entitled to request an early subordination of the Secured Debentures prior to September 23, 2014, and the earliest the Corporation expects the CATS Contract to be awarded (and, therefore, be in a position to secure a satisfactory award of the CATS Contract) is mid-2015.

As announced on February 24, 2014, the Corporation received irrevocable waivers from the Debt Leverage Covenant and the PAR Covenant for the quarters ending April 30, 2014 and July 31, 2014 (the “**Q1/Q2 Waivers**”). In exchange for and until the end of the period covered by the Q1/Q2 Waivers, the Corporation has agreed (i) to provide the holders of the Secured Debentures with a first charge against all of the real property owned by the Corporation and its subsidiaries in Canada, (ii) to refrain from granting or incurring liens (other than certain customary permitted liens) on any new assets that may be acquired by the Corporation or its subsidiaries (unless during such period the Corporation is in compliance with the pledged asset ratio covenant without regard to the Q1/Q2 Waivers), and (iii) not to request or require the Secured Debenture Holders to subordinate their security in the Corporation’s assets pursuant to the Secured Debentures.

The Corporation’s agreement not to request or require a subordination of the Secured Debenture Holders’ security extends through the six month period following the expiry of the Q1/Q2 Waivers, during which time the Corporation may only request or require a subordination in accordance with the terms of the Secured Debentures if the Corporation is in compliance with its covenants in the Secured Debentures for the two fiscal quarters ending immediately prior to the date of such request (which may include the second fiscal quarter covered by the Q1/Q2 Waiver), such determination to be made without regard to the Q1/Q2 Waivers or the value of the real property pledged by the Corporation as security to the Secured Debenture Holders.

Following the end of the period covered by the Q1/Q2 Waivers, the Secured Debenture Holders will not be required to accept the real property as security but may require the real property to remain pledged as security if the Corporation is unable, following the release of the real property, to remain in compliance with the PAR Covenant.

The security agent for and on behalf of the Secured Debenture Holders has agreed to grant further waivers for the same covenants for the third and fourth fiscal quarters ending October 31, 2014 and January 31, 2015 (the “**Q3/Q4 Waivers**”) conditional on the closing of the Offering.

The Q3/Q4 Waivers will be on substantially the same terms as the Q1/Q2 Waivers (including with respect to the real property security, restrictions on liens and treatment of subordination privileges), provided, however, that if a person or entity holding less than 10% of the Common Shares as at February 24, 2014 (other than Clairvest and the Secured Debenture Holders) holds more than 20% of the Common Shares after the closing of the Offering, the Corporation's right to request or require the subordination of the Secured Debenture Holders' security may be further constrained (or removed) to the satisfaction of the Secured Debenture Holders provided that such constraint (or removal) does not constitute a material amendment to the Secured Debentures.

There is no assurance that following the periods covered by the Q3/Q4 Waivers, the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant.

Defence Services Strategic Context

Canadian Defence Business

Defence Services is a material subsidiary of the Corporation and, in the 2014 fiscal year, contributed over 20% of the Corporation's revenues and provided a significant portion of its profits.

Defence Services is the prime supplier of combat support services⁵ to the Department of National Defence and the Canadian Armed Forces (the "**Canadian Armed Forces**"). Defence Services has been providing these services to the Canadian Armed Forces since 2005 under a series of standing offers (the "**Standing Offers**") issued pursuant to a program known as Interim Contracted Airborne Training Services ("**ICATS**"). Currently, Defence Services provides these services using a fleet of 16 Dornier Alpha Jets and two Westwind special mission aircraft and a cadre of approximately 25 experienced, current and former Canadian Armed Forces CF-18 Hornet pilots.

The Government of Canada initially awarded three Standing Offers for "fast jet" combat support services (provided using the Dornier Alpha Jet aircraft) to Defence Services in February 2005. Those Standing Offers were for a period of three years, with two option years exercisable by the Government of Canada. In 2006, the Government of Canada awarded two additional Standing Offers to Defence Services for "business jet" combat support services (provided using the Westwind aircraft). Those Standing Offers were for a three year period, with two option years exercisable by the Government of Canada. All option years were exercised by the Government of Canada and the Standing Offers have subsequently been extended on several occasions. The most recent extensions occurred in September 2012, when the Standing Offers were extended for a further three year period from June 2013 to June 2016. The Standing Offers do not contain any minimum revenue, exclusivity or other commitments on the part of the Government of Canada.

In October 2010, Public Works Government Services Canada ("**PWGSC**") issued a request for proposals (the "**2010 RFP**") for a long-term combat support services contract that was intended

⁵ "**Combat support services**" refers to training provided to military personnel in which the service provider uses fighter jet aircraft to provide a realistic, live-flying simulation of various combat scenarios, including "aggressor training" and "JTAC" training.

to replace the Standing Offers (the “**CATS Contract**”). Defence Services submitted a proposal in response to the 2010 RFP; however, the 2010 RFP was cancelled in March 2011.

In August 2011, PWGSC reissued another request for proposals for the CATS Contract (the “**2011 RFP**”) with substantially the same requirements as the 2010 RFP. Defence Services submitted a proposal in November 2011; however, the 2011 RFP was cancelled on the date that bids were due for submission.

In early 2012, PWGSC initiated an industry consultation process in anticipation of the issuance of a further solicitation for the CATS Contract. Defence Services participated in that process. On August 30, 2013, PWGSC released a draft of the next request for proposals for the CATS Contract and indicated its intention to issue the final request for proposals in 2014 (the “**2014 RFP**”).

Defence Services’ competitive advantages are currently derived from the following primary sources:

- an efficient and safe fighter aircraft platform which possesses many of the sub-sonic performance capabilities of the Canadian Armed Forces CF-18 Hornet fighter platform;
- experienced ex-Canadian Armed Forces CF-18 pilots who have a deep understanding of the Canadian Armed Forces training environment;
- a business model and flying operation optimized to deliver cost effective combat support services to the Canadian Armed Forces;
- a track record of delivering combat support services to the Canadian Armed Forces at a very high reliability rate; and
- a strong safety record under the ICATS program evidenced by over 42,000 flight hours since 2005 without a single flight accident.

The Corporation believes that Defence Services is well positioned to be the successful bidder for the CATS Contract under the 2014 RFP. However, it is possible that Defence Services could lose the CATS Contract to a competitor or that Defence Services may only be able to secure the CATS Contract at reduced rates relative those earned under the existing Standing Offers. Several factors could cause Defence Services to lose the CATS Contract or compel Defence Services to accept a reduction in pricing, including: the 2014 RFP may expand the types of aircraft that can be used to fulfill the Government of Canada’s requirements under the CATS Contract; the cancellations of the 2010 RFP and the 2011 RFP have delayed the award of the CATS Contract, thereby enabling the emergence of potential new competitors who could be in a position to submit compliant and competitively priced bids in response to the 2014 RFP; and PWGSC has learned relevant pricing information from its audit of the profit earned by Defence Services under the ICATS Standing Offers, as further described below.

(See “*Risk Factors - Risks Relating to the Defence Services Business*”.)

International Growth Opportunities

Overview

There are significant growth opportunities for Defence Services in the international combat support and military flight training⁶ markets. The Corporation believes that the ICATS program has been a very successful outsourcing program for the Government of Canada as it has enabled the Canadian Armed Forces to maintain its army, navy and air force units at the highest possible operational readiness while significantly reducing costs relative to previous, in-sourced training solutions. As governments around the world face increasing budgetary pressures, the Corporation believes that those governments will seek out cost effective solutions for reducing their defence spending while maintaining high operational readiness. The Corporation believes that Defence Services' "turn-key" combat support solution and unparalleled record of providing over 42,000 hours of aviation accident-free service present significant growth opportunities for Defence Services in the international market.

The Corporation is already beginning to see evidence of the international growth opportunities for Defence Services. On January 30, 2014, the Corporation announced that Defence Services secured a five year contract to provide combat support services to the German Armed Forces (the "**German Contract**"). The Corporation attributes strategic importance to this contract since it establishes Defence Services in Europe and provides a foundation for future expansion in that market.

The U.S. Market

Of all of the international markets, the Corporation believes that the U.S. combat support services market presents the most significant growth opportunity for Defence Services. The U.S. has the largest fighter jet fleet in the world and, therefore, the largest potential requirement for combat support.

Management of the Corporation believes that the U.S. Department of Defense (the "**U.S. DoD**") requires a significant number of combat support (specifically, adversary live-flying threat simulation) hours annually. The Corporation believes that approximately three-quarters of those hours are currently fulfilled using internal aircraft resources. The U.S. DoD generates these hours using frontline aircraft flown in the adversary role, as well as through several dedicated U.S. DoD squadrons such as the U.S. Air Force 64th and 65th Aggressor Squadrons and U.S. Navy aggressor units affiliated with the Top Gun school at the U.S. Naval Air Warfare and Strike Command aggressor squadrons, both located in Nevada. The principal aircraft types used by the U.S. DoD for aggressor training⁷ are the General Dynamics F-16 "Fighting Falcon" aircraft, the F-5N "Freedom Fighter", F-15C "Eagle", the F/A-18A "Hornet" and the Northrop T-38 "Talon." Currently, approximately 6,000 hours of combat support services are provided annually to the U.S. DoD by a small number of U.S.-based, civilian combat support services providers, using older generation commercially-available training aircraft.

⁶ "**Military flight training**" refers to pilot training for new or junior military pilots, including *ab initio*, basic, advanced and fighter lead-in training. Jet and non-jet aircraft are used typically for these types of pilot training.

⁷ "**Aggressor training**" refers to combat support exercises in which the trainer (using fighter jet aircraft) acts as an opposing force in order to replicate the airborne adversary threat posed by a representative threat aircraft.

Management of the Corporation expects the U.S. DoD's requirements for combat support services to grow significantly in the next five years due primarily to the introduction of advanced fifth generation fighter aircraft (such as the Lockheed Martin F-35 "Lightning II"), which will require a large number of high performance aircraft to train against, as well as increased training requirements for U.S. ground forces, including training for joint terminal attack controllers ("JTAC").

As the U.S. DoD's requirements for combat support services grow, the Corporation's management believes that the U.S. DoD's ability to fulfill those requirements internally will be constrained by several factors, including:

- the anticipated retirement of U.S. DoD legacy fleet types that are currently used by the U.S. DoD for aggressor and JTAC training;
- the high cost of providing aggressor training using fifth generation fighter jet aircraft; and
- reductions in funding for aggressor squadrons and other internal combat support programs due to general budgetary constraints.

The Corporation believes that providing a combat support solution to the U.S. DoD that delivers capabilities similar to those provided by U.S. DoD aggressor squadrons but at a lower overall cost would be of significant interest to the U.S. DoD as a viable option for meeting its combat support requirements well into the future.

In order to enter the U.S. combat support services market and acquire the A-4 Skyhawk aircraft required for the German Contract, Defence Services completed the ATSI Acquisition on December 17, 2013. ATSI Corp. is a U.S. combat support services corporation based in Mesa, Arizona and owns a fleet of 10 Douglas A-4 Skyhawk aircraft. It offers combat support services, including, among other services, tactical "Red Air" services, fighter lead-in training, electronic warfare, and other combat support training.

U.S. Opportunities

At present, the single largest outsourced combat support services program in the U.S. is the Contracted Air Services ("CAS") program of the U.S. Navy Naval Air Systems Command ("Navair"). On July 25, 2013, Navair issued a solicitation⁸ calling for bids on the contract under the CAS program (the "Navair RFP"). The Navair RFP contemplates a maximum of 3,500 subsonic hours and 1,400 supersonic hours annually, and contemplates the award of a contract for a term of one year, plus four, one year renewal options in favour of Navair. Top Aces USA Inc. ("Top Aces USA"), a wholly-owned subsidiary of Defence Services, submitted a bid in response to the Navair RFP based upon the A-4N "Skyhawk" aircraft currently owned by ATSI Corp., a wholly-owned subsidiary of Corporation, and the F-16 aircraft and additional A-4N aircraft (as defined below) proposed to be acquired by Top Aces USA as more fully described below (see "*Defence Services - Strategic Context - Planned Aircraft Purchases*").

⁸ Naval Air Systems Command Solicitation N00019-12-R-1001.

The Navair RFP currently contemplates a contract award occurring in the near future. In order to be eligible for a contract award, bidders are required to provide certificates of airworthiness from the U.S. Federal Aviation Administration (the “FAA”) for all aircraft proposed by them for use in the resulting contract. Since its release, the Navair RFP has undergone amendments to certain of its substantive requirements and associated timelines. However, if the requirement for bidders to provide FAA airworthiness certificates prior to contract award and the timelines currently contemplated in the Navair RFP remain unchanged, it is unlikely that Top Aces USA will be awarded a contract under the Navair RFP.

There are currently other active, outsourced combat support services programs in the U.S. To the Corporation’s knowledge, the Air Force Special Operations Command currently outsources subsonic services for JTAC training, and the United States Marine Corps outsources subsonic services for “tactical aircraft support”⁹ pursuant to recurring, short-term contracts.

The Corporation believes that with a fleet of supersonic and subsonic aircraft that can provide realistic threat replication for U.S. DoD customers, Defence Services and its U.S. subsidiaries would be very well positioned to secure the existing combat support opportunities referenced above and to capture a significant share of what the Corporation believes will soon be a rapidly growing U.S. combat support services market. To this end, Defence Services has received informal expressions of interest from potential U.S. DoD customers for its proposed combat support services solution based upon a fleet of F-16 and A-4N aircraft (see “*Defence Services Strategic Context Planned Aircraft Purchases*” below). Whether potential U.S. DoD users will ultimately award any such contracts to Defence Services or its U.S. subsidiaries and the timing and terms of any such contracts is uncertain. However, the Corporation’s management believes that the anticipated supply and demand forces described above, along with the expressions of interest received to date, confirm the existence of a growing demand for combat support services by the U.S. DoD.

Planned Aircraft Purchases

The Corporation believes that the ideal aircraft for its combat support services offering to the U.S. DoD (and potentially other international customers) consists of a combination of supersonic F-16 aircraft and high subsonic A-4N aircraft.

F-16 Aircraft

The General Dynamics F-16 “Fighting Falcon” (the “**F-16 aircraft**”) is a “fourth generation” jet aircraft designed to serve as a multi-role fighter. It is a single-engine aircraft capable of supersonic flight, has “fly-by-wire” flight controls, is radar-equipped and possesses digital instrumentation. F-16s have been produced since 1978, and the Corporation’s management believes that approximately 3,500 are in service today, either as active-duty aircraft or for use in training within the armed forces of various nations, including the U.S. To the Corporation’s

⁹ “**Tactical aircraft support**” refers to operational training missions involving direct support to the employment of air power, often in coordination with ground or naval forces, in order to: gain and maintain air superiority; prevent movement of enemy forces into and within a defined area or to seek out and destroy these forces and their supporting installations.

knowledge, no other civilian provider of combat support services currently owns and operates F-16 aircraft.

The Corporation's management believes that the ability to accurately replicate current operational threats, cost per hour and reliability are the most important considerations among current and potential users of combat support services.

F-16 aircraft possess performance characteristics that are superior to those of other supersonic aircraft known by the Corporation to be owned by civilian combat support operators, such as the Mikoyan-Gurevich MiG-21 ("**MiG-21**") or the Israeli Aircraft Industries Kfir ("**Kfir**"). Specifically, the F-16 aircraft is superior to both the MiG-21 and the Kfir in "dog fight"¹⁰ scenarios, which makes the F-16 aircraft more effective for real-world threat replication in combat support exercises. Also, the F-16 is able to replicate short and medium range air-to-air missile scenarios much more effectively than the MiG-21 and the Kfir.

Despite the high performance capabilities of the F-16 aircraft, the Corporation's management believes that, due to the simplicity of the aircraft's design, it can be operated at a cost that will enable those aircraft to be offered to prospective users at a moderate premium to Defence Services' current hourly rates for its Dornier Alpha Jets.

The reliability of the F-16 aircraft, particularly relative to comparable Soviet-built fighter aircraft, is also a significant discriminator that makes the F-16 aircraft ideally suited to provide contracted aggressor services to the U.S. DoD. High mission availability rates and ease of maintenance are important factors that determine the viability of a commercial combat support fleet.

A-4N Aircraft

The Douglas A-4N "Skyhawk" aircraft (the "**A-4N aircraft**") is a carrier-capable, subsonic attack aircraft. A-4N Skyhawks were produced between 1954 and 1979.

The Corporation intends to acquire additional A-4N aircraft to supplement the A-4N and TA-4J aircraft currently owned by ATSI Corp. (see "*Purchase and Sale Agreement*" below). The Corporation believes that the A-4N aircraft are a highly desirable complement to the F-16 aircraft because they possess a high thrust to weight ratio, are very maneuverable, have a modernized cockpit and are ideally suited to provide JTAC training and possess air-to-air refuelling capabilities.

Purchase and Sale Agreement

As stated in Management's Discussion and Analysis relating to the Corporation's interim financial report for the fiscal period ended October 31, 2013, the Corporation has paid deposits toward the purchase of additional fighter jets to supplement Defence Services' existing fleet of aircraft. Deposits in the amount of approximately USD \$2.5 million have been made pursuant to

¹⁰ "**Dog fight**" refers to visual air-to-air engagement, typically involving between two and four aircraft engaged in advanced maneuvering and the use of close range missiles and gun fire.

a purchase and sale agreement (the “**Sale Agreement**”) between Top Aces USA and an arm’s length party (the “**Seller**”).

The Sale Agreement concerns the sale by the Seller to Top Aces USA of the following assets and services:

- six F-16 aircraft and six A-4N aircraft (the “**Initial Aircraft**”);
- an integrated logistics support package and spare engines for the F-16 aircraft and the A-4N aircraft (the “**ILS Package**”);
- F-16 aircraft conversion training for Top Aces USA’s air and ground crews (the “**Training**”);
- options to purchase up to an additional 19 F-16 aircraft and up to an additional eight A-4N aircraft on terms and conditions (including price) that are substantially similar to those applicable to the Initial Aircraft and which expire through the period ending December 31, 2015 (the “**Aircraft Options**”); and
- rights of first refusal in respect of the sale by the Seller of F-16 and A-4N aircraft following the expiry of the Aircraft Options (the “**ROFRs**”).

Completion of the transactions contemplated by the Sale Agreement is conditional on a number of regulatory approvals, the most significant and uncertain of which is the receipt of approval under the U.S. Arms Export Control Act for the third party transfer of the F-16 and A-4N aircraft from the Seller to Top Aces USA (“**TPT Approval**”). Based on the policies and published guidelines of the U.S. Department of State (the “**State Department**”), the Corporation believes that TPT Approval is unlikely to be granted unless Top Aces USA secures a U.S. or a friendly/allied government contract for which such aircraft would be required. The Corporation is exploring contracting opportunities for those aircraft, including the possibility of utilizing the F-16 aircraft under the existing ICATS Standing Offers.

Assuming TPT Approval and all ancillary regulatory approvals are received, the Corporation will require additional capital (beyond that to be derived from the proceeds of the Offering) in order to complete all of the transactions contemplated by the Sale Agreement. In order to complete the purchase of the six F-16 and six A-4N aircraft, the ILS Package and the Training (collectively, the “**Initial Purchase**”), the Corporation will require approximately USD \$40 to \$50 million (including costs to bring the aircraft into service). The Corporation will require significant additional capital should it proceed to exercise all of the Aircraft Options. In December 2013, the Corporation received a financing proposal from Clairvest that would provide sufficient capital to complete the Initial Purchase (excluding costs to bring the aircraft into service) (the “**Clairvest Financing Proposal**”); however, since the receipt of TPT Approval and the timing of such receipt is uncertain, the Clairvest Financing Proposal was held in abeyance. Clairvest is not obligated to provide the Clairvest Financing Proposal. There is no assurance that such financing or any other financing proposal will be available to the Corporation from Clairvest in the future. The Clairvest Financing Proposal would be, under applicable securities laws, a related party transaction, and would therefore be subject to, among other requirements, the approval of a majority of the disinterested shareholders of the Corporation.

The Sale Agreement provides that prior to Top Aces USA accepting delivery of all of the deliverables relating to the Initial Purchase, under no circumstances will Top Aces USA have any liability to the Seller in excess of USD \$2,015,000. Accordingly, should Top Aces USA fail to complete the transactions contemplated by the Sale Agreement prior to accepting delivery of the deliverables thereunder, its liability to the Seller is limited to USD \$2,015,000.

In the event that TPT Approval and certain other governmental approvals required to consummate the Initial Purchase are not received by October 6, 2014, either party may terminate the Sale Agreement or the term of the Sale Agreement may be extended for a further 180 days on mutual consent. If the Sale Agreement is terminated by either party due to the inability to secure the aforementioned approvals, all amounts paid by Top Aces USA to the Seller pursuant to the Sale Agreement in relation to undelivered items will be returned to Top Aces USA.

If Top Aces USA (or Defence Services) were to ultimately succeed in securing TPT Approval, completing the Initial Purchase and securing the Aircraft Options and ROFRS for up to an additional 19 F-16 aircraft and eight A-4N aircraft, the Corporation believes that Defence Services' ability to secure the CATS Contract and to diversify its business through the acquisition of new, combat support services contracts in the U.S. would both be significantly enhanced. Defence Services would (to the best of the Corporation's knowledge) be the first ever civilian combat support services provider to offer F-16 aircraft. Management of the Corporation believes that Defence Services' combat support capabilities (which would encompass the F-16 aircraft for supersonic requirements and the A-4N aircraft for high subsonic requirements) would represent the best overall value relative to any other combat support solution offered by a civilian operator today. Furthermore, the Aircraft Options and ROFRS for additional F-16 aircraft and A-4N aircraft would allow Defence Services to meet potential growth in demand for its services using these aircraft.

There is no assurance that either the necessary TPT Approval will be obtained or the required capital will be raised. Further, if TPT Approval is obtained and capital is raised, there is no assurance as to the timing of such approval or the timing and terms of such financing, or that Defence Services would succeed in securing contracts of a sufficient size, number or on the terms necessary to ensure the profitable operation of the F-16 and A-4N aircraft.

USE OF PROCEEDS

After giving effect to the Maximum Standby Commitment (as defined below), the gross proceeds from the subscription for Common Shares pursuant to the Offering are estimated to be \$14,999,999.60. These proceeds will be used as follows and in the following order: first, to pay the expenses of the Offering, estimated at approximately \$410,000; second, to repay all amounts outstanding under the Operating Bridge, estimated to be between \$7,000,000 and \$10,000,000; and third, comprising the remainder of the net proceeds which are estimated to be between \$4,590,000 and \$7,590,000, for general corporate purposes, including funding discretionary growth initiatives and working capital. See "*Recent Developments – Financial Developments – Subsequent Developments*" for further information regarding the amounts outstanding under the Operating Bridge.

DETAILS OF THE OFFERING

Issue of Rights

Shareholders of record at the close of business on the Record Date will receive Rights on the basis of one Right for each Common Share held on such date. The Rights permit the holders thereof to subscribe for and purchase from the Corporation an aggregate of up to 17,441,860 Common Shares. The Rights are fully transferable by the holders thereof. See “*Sale or Transfer of Rights*” below.

Subscription Basis

Every 0.83 Rights entitle the holder to subscribe for one (1) Common Share at a Subscription Price per Common Share of \$0.86, all as described below under “*Basic Subscription Privilege*”. Fractional Common Shares will not be issued upon the exercise of Rights. Where the exercise of Rights would appear to entitle a holder of Rights to receive fractional Common Shares, the holder’s entitlement will be reduced to the next lowest whole number of Common Shares. CDS Participants that hold Rights for more than one beneficial holder may, upon providing evidence satisfactory to the Corporation, exercise Rights on behalf of its accounts on the same basis as if the beneficial owners of Common Shares were holders of record on the Record Date.

Commencement Date and Expiration Time

The Rights will be eligible for exercise on and following the Commencement Date and will expire at 12:00 noon (Toronto time) on the Expiration Date. Holders who exercise their Rights pursuant to the terms and conditions contained herein will not become a Shareholder of record until the Expiration Date. **RIGHTS NOT EXERCISED BY THE EXPIRATION TIME WILL BE VOID AND OF NO VALUE.**

Subscription Agent

The Subscription Agent has been appointed by the Corporation: (i) to receive subscriptions and payments from subscribers for the Common Shares and Additional Common Shares (as hereinafter defined) subscribed for under the Basic Subscription Privilege and under the Additional Subscription Privilege, respectively; and (ii) to perform services relating to the exercise of the Rights. The Corporation will pay for all such services of the Subscription Agent.

Basic Subscription Privilege

To determine the maximum whole number of Common Shares for which a subscription may be made under the Offering, the number of Rights to which the subscriber is entitled shall be divided by 0.83 and rounded down to the nearest whole number (the “**Basic Subscription Privilege**”).

Registered Rightsholders may subscribe for the resulting whole number of Common Shares (ignoring fractions) or any lesser whole number of Common Shares by completing and executing Form 1 on the Definitive Rights Certificate and delivering the Definitive Rights Certificate, together with payment in full of the subscription price for those whole Common Shares subscribed for, to the Subscription Agent at or before the Expiration Time on the Expiration

Date. The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of “Computershare Trust Company of Canada”.

Beneficial Rightsholders may subscribe for the resulting whole number of Common Shares (ignoring fractions) or any lesser whole number of Common Shares by instructing the CDS Participant holding the subscriber’s Rights to exercise all or a specified number of such Rights and forwarding the Subscription Price for each Common Share subscribed for to the CDS Participant which holds the subscriber’s Rights. Beneficial Rightsholders should contact their particular CDS Participant for complete details on how to exercise the Basic Subscription Privilege.

The Subscription Price is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of the CDS Participant, by direct debit from the subscriber’s brokerage account or by electronic funds transfer or other similar payment mechanism. All payments must be forwarded to the offices of a CDS Participant. The entire Subscription Price for Common Shares subscribed for must be paid at the time of subscription and must be received by the Subscription Agent prior to the Expiration Time. Accordingly, a subscriber subscribing through a CDS Participant must deliver its payment and instructions sufficiently in advance of the Expiration Date to allow the CDS Participant to properly exercise the Rights on its behalf.

Payment of the Subscription Price will constitute a representation to the Corporation and, if applicable, to the CDS Participant, by the subscriber (including its agents) that: (a) either the subscriber is not a citizen or resident of an Ineligible Jurisdiction; and (b) the subscriber is not purchasing the Common Shares for resale to any person who is a citizen or resident of an Ineligible Jurisdiction.

If mail is used for delivery of subscription funds, for the protection of the subscriber certified mail, return receipt requested, should be used and sufficient time should be allowed to avoid the risk of late delivery.

Subscriptions for Common Shares made in connection with the Offering will be irrevocable and subscribers will be unable to withdraw their subscriptions for Common Shares once submitted.

Additional Subscription Privilege

Each holder of Rights who has initially subscribed for all of the Common Shares to which he or she is entitled pursuant to the Basic Subscription Privilege may apply to purchase additional Common Shares, if available, at the price equal to the Subscription Price for each additional Common Share (collectively, the “**Additional Common Shares**”).

The number of Additional Common Shares available for all additional subscriptions will be the difference, if any, between the total number of Common Shares issuable upon the exercise of all of the Rights and the total number of Common Shares subscribed and paid for pursuant to the Basic Subscription Privilege at the Expiration Date (the “**Additional Subscription Privilege**”). Applications for Additional Common Shares will be received subject to allotment only and the number of Additional Common Shares, if any, which may be allotted to each applicant will be equal to the lesser of: (a) the number of Additional Common Shares which that applicant has subscribed for under the Additional Subscription Privilege; and (b) the product (disregarding

fractions) obtained by multiplying the number of Additional Common Shares which that applicant has subscribed for under the Additional Subscription Privilege by a fraction, the numerator of which is the number of Rights exercised by that applicant under the Basic Subscription Privilege and the denominator of which is the aggregate number of Rights exercised under the Basic Subscription Privilege by holders of Rights that have subscribed for Additional Common Shares pursuant to the Additional Subscription Privilege. If any holder of Rights has subscribed for fewer Additional Common Shares than such holder's pro rata allotment of Additional Common Shares, the excess Additional Common Shares will be allotted in a similar manner among the holders who were allotted fewer Additional Common Shares than they subscribed for.

To apply for Additional Common Shares under the Additional Subscription Privilege, a Registered Rightsholder must complete and execute Form 2 as well as Form 1 on the Definitive Rights Certificate and deliver to the Subscription Agent, at or before the Expiration Time on the Expiration Date, the Rights Certificate, together with payment in full of the subscription price for each whole Common Share (including any Additional Common Shares) subscribed for. The subscription price for Additional Common Shares is payable in Canadian funds by certified cheque, bank draft or money order drawn to the order of "Computershare Trust Company of Canada". Any excess funds will be returned by mail without interest or deduction.

To apply for Additional Common Shares under the Additional Subscription Privilege, a Beneficial Rightsholder must forward their request to a CDS Participant prior to the Expiration Time. Payment for Additional Common Shares, in the same manner as for the Basic Subscription Privilege, must accompany the request when it is delivered to the CDS Participant. Beneficial Rightsholders should contact their particular CDS Participant for complete details on how to exercise the Additional Subscription Privilege. Any excess funds will be returned by mail, or credited to a subscriber's account with its CDS Participant, without interest or deduction. Payment of such price must be received by the CDS Participant prior to the Expiration Time, failing which the subscriber's entitlement to such Additional Common Shares shall terminate.

Sale or Transfer of Rights

A holder of Rights, in lieu of exercising Rights to subscribe for whole Common Shares, may sell or transfer the Rights personally or through the usual investment channels (such as stockbrokers or investment dealers) by, in the case of a Registered Rightsholder, completing Form 3 of the Definitive Rights Certificate and delivering the Definitive Rights Certificate to the purchaser (transferee) or, in the case of a Beneficial Rightsholder, through the particular CDS Participant. The transferee may exercise all of the Rights of the transferring holder without obtaining a new Rights Certificate. If a Definitive Rights Certificate is transferred in blank, the Corporation and the Subscription Agent may thereafter treat the bearer as the absolute owner of the Definitive Rights Certificate for all purposes and neither the Corporation nor the Subscription Agent will be affected by any notice to the contrary.

The signature of the transferring Definitive Rightsholder on Form 3 must be guaranteed by an "Eligible Institution" or otherwise to the satisfaction of the Subscription Agent. "Eligible Institution" means a Canadian Schedule I chartered bank, a major trust company in Canada, a member of the Securities Transfer Association Medallion Program (STAMP), a member of the Stock Exchanges Medallion Program (SEMP) or a member of the New York Stock Exchange, Inc. Medallion Signature Program (MSP). Members of these programs are usually members of

recognized stock exchanges in Canada and the United States, members of the Investment Industry Regulatory Organization of Canada, members of the Financial Industry Regulatory Authority or banks and trust companies in the United States. If Form 3 is signed by a trustee, executor, administrator, curator, tutor, guardian, attorney, officer of a corporation or any person acting in a fiduciary or representative capacity, it should be accompanied by satisfactory evidence of authority to act. The signature of the transferee on any one or more of the forms on the Definitive Rights Certificate must correspond exactly with the name of that transferee shown on Form 3.

Intention of Insiders of the Corporation

The Chair of the Board and four of nine individuals who are currently Shareholders and serve as officers of the Corporation or its subsidiaries (holding, in aggregate, approximately 370,364 Common Shares) have indicated their intention to exercise some or all of their Rights under the Basic Subscription Privilege and may also subscribe for additional Common Shares under the Additional Subscription Privilege. With the exception of Clairvest (as noted below), no other insiders of the Corporation intend to exercise their Rights. This reflects the intention of such insiders as of the date of this Prospectus; however, such insiders may choose not to exercise their Rights if their circumstances change before the Expiration Date.

Clairvest currently owns, or exercises control or direction over, 59,520 Class A Shares and has indicated that it intends to exercise all of its Rights under the Basic Subscription Privilege and may subscribe for additional Common Shares under the Additional Subscription Privilege.

Dilution to Existing Shareholders

If a Shareholder wishes to retain that holder's current percentage ownership in the Corporation and assuming that all Rights are exercised, the Shareholder should fully exercise the Rights issued to that Shareholder under the Offering to subscribe for and purchase Common Shares. If a Shareholder does not exercise the Rights issued to that Shareholder, or elects to sell or transfer those Rights, that holder's current percentage ownership in the Corporation will be diluted by the issue of Common Shares under the Offering (upon the exercise of Rights by Rightsholders or by the purchase of Common Shares by the Standby Purchaser pursuant to the Standby Purchase Agreement). Holders should be aware that the Standby Purchaser intends to exercise all of its Rights and may exercise its Additional Subscription Privilege, subject to certain limitations. See "*Standby Commitment*".

Certificates

A Definitive Rights Certificate will be issued to each Registered Rightsholder who holds Common Shares in definitive certificate form as of the Record Date. Beneficial Rightsholders will be issued rights in book-entry form through their CDS Participant.

The Corporation expects that each Beneficial Rightsholder will receive a confirmation of the number of Rights owned from its respective CDS Participant in accordance with the practices and procedures of that CDS Participant. CDS Participants include securities brokers and dealers, banks and trust companies. CDS will be responsible for establishing and maintaining book-entry accounts for its participants holding Rights.

The Corporation will not have any liability for (i) the records maintained by CDS or CDS Participants relating to the Rights or the book-entry accounts maintained by CDS, (ii) maintaining, supervising or reviewing any records relating to such Rights, or (iii) any advice or representation made or given by CDS or CDS Participants and made or given herein with respect to the rules and regulations of CDS or any action to be taken by CDS or at the direction of CDS Participants.

The Rights will be issued in fully registered form to Beneficial Rightsholders or their nominees other than CDS or its nominee if (i) the Corporation determines that CDS is no longer willing or able to discharge properly its responsibilities as depository and the Corporation is unable to locate a qualified successor, (ii) the Corporation at its option elects to do so, or is required by law to do so, (iii) the Corporation elects to terminate the book-based system through CDS, or (iv) CDS's book-based system ceases to exist.

The ability of a person having an interest in Rights held through a CDS Participant to pledge such interest or otherwise take action with respect to such interest (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

Shareholders whose Common Shares are held through a CDS Participant must arrange purchases or transfers of Rights and the exercise of Rights to purchase Common Shares through such CDS Participant.

The Corporation anticipates that each such purchaser of a Right or Common Share will receive a customer confirmation of purchase from the CDS Participant from whom such Right or Common Share is purchased in accordance with the practices and procedures of such CDS Participant.

Reservation of Common Shares

The Corporation will, at all times, reserve a sufficient number of its unissued Common Shares to permit the exercise of all of the Rights.

Validity and Rejection of Subscriptions

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription by a holder of Rights will be determined by the Corporation in its sole discretion, which determination will be final and binding. All subscriptions are irrevocable. The Corporation reserves the absolute right to reject any subscription if such subscription is not in proper form or if the acceptance thereof or the issue of Common Shares upon the exercise of the Rights could be deemed unlawful. The Corporation also reserves the right to waive any defect with regard to any particular subscription. Neither the Corporation nor the Subscription Agent will be under any duty to give any notification of any defect or irregularity in such subscriptions, nor will either of them incur any liability for failure to give such notification.

INELIGIBLE HOLDERS

The Offering is made only in the Eligible Jurisdictions. The Offering is not being made in the United States. Consequently, the Rights and the Common Shares have not been and will not be registered under the United States Securities Act of 1933 or any state securities laws. Accordingly, the Rights and the Common Shares are not being offered to persons in or whose

addresses of record are in the United States or any other jurisdiction outside of the Eligible Jurisdictions. Subject to the exception described below, neither a subscription for Common Shares pursuant to the Basic Subscription Privilege nor an application for Additional Common Shares pursuant to the Additional Subscription Privilege will be accepted from any person, or his agent, who appears to be, or who the Corporation has reason to believe, is an Ineligible Holder.

No Rights will be delivered to any Ineligible Holder. Such Rights will be delivered by the Corporation to the Subscription Agent for sale by the Subscription Agent on behalf of the Ineligible Holders. Such Rights will be sold by the Subscription Agent through a registered securities broker or dealer (the “**Selling Agent**”) retained for the purpose of effecting sales of the Rights on behalf of Ineligible Holders. Such Ineligible Holders will receive from the Subscription Agent or their particular CDS Participant, as applicable, their pro rata share of the cash proceeds from the sale of such Rights, less commissions, expenses and applicable withholding taxes. All such Rights will be pooled and sold ten days prior to the Expiration Date. In exercising the sale of any Rights, the Selling Agent will exercise its sole judgment as to the timing and manner of sale and will not be obligated to seek or obtain a minimum price. None of the Corporation, the Subscription Agent nor the Selling Agent will be liable for any loss arising out of any sale of such Rights relating to the manner or timing of such sales, the prices at which Rights are sold or otherwise. The sale price of Rights sold on behalf of such persons will fluctuate with the market price of the Rights and no assurance can be given that any particular price will be received upon any such sale. Any proceeds received by a Selling Agent with respect to the sale of Rights, net of brokerage fees and costs incurred and, if applicable, tax required to be withheld, will be delivered (in Canadian funds without interest) as soon as practicable to such Ineligible Holders whose Rights were sold, at their last recorded addresses. **There is a risk that the proceeds received from the sale of Rights will not exceed the brokerage fees and costs incurred by the Selling Agent in connection with the sale of such Rights and, if applicable, the tax required to be withheld. In such event, no proceeds will be forwarded.**

CDS Participants may not issue Rights to Ineligible Holders. Instead, CDS Participants for Ineligible Holders must advise such Ineligible Holders that their Rights will be held on their behalf by such CDS Participant, as agent for their benefit, who will, prior to the Expiration Time on the Expiration Date, attempt to sell such Rights as described above.

By exercising Rights under either the Basic Subscription Privilege or the Additional Subscription Privilege, the Rightsholder will be deemed to represent to the Corporation that the holder is not an Ineligible Holder, that such holder is not the agent of any such person and is not purchasing the Common Shares for resale to any such person. Neither a subscription under the Basic Subscription Privilege nor under the Additional Subscription Privilege will be accepted from any person, or his or her agent, who appears to be, or who the Corporation has reason to believe is, an Ineligible Holder.

CDS CLEARING AND DEPOSITORY SERVICES INC.

The Corporation has elected to issue the Rights, in book based form through CDS. CDS is a limited purpose corporation organized as a “clearing corporation” under the applicable provincial securities regulatory authorities. CDS is owned or controlled by the CDS Participants and was created to hold securities for CDS Participants and to facilitate the clearance and settlement of securities transactions between CDS Participants through electronic book-entries, thereby eliminating the need for physical movement of certificates. CDS Participants include securities

brokers and dealers, banks, trust companies, and clearing corporations. Indirect access to the CDS system also is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a CDS Participant, either directly or indirectly.

DESCRIPTION OF COMMON SHARES

Share Structure

The Corporation is authorized to issue an unlimited number of Class A Shares and an unlimited number of Class B Shares. As of January 31, 2014, there were 14,510,851 Class A Shares and 44,760 Class B Shares issued and outstanding.

Class A Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are Canadians, and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians. See “*Description of Common Shares Constraints*” below.

The holders of the Class A Shares are entitled to vote at all meetings of the shareholders of the Corporation (except meetings at which only holders of a specified class of shares are entitled to vote) and are entitled to one vote for each Class A Share held.

The holders of the Class B Shares are entitled to vote at all meetings of the shareholders of the Corporation (except meetings at which only holders of a specified class of shares are entitled to vote) and are entitled to one vote for each Class B Share held, provided that the Class B Shares as a class are entitled to exercise no greater than 25% of all votes attached to the Common Shares.

The holders of the Class A Shares and the holders of the Class B Shares are entitled to

- a) receive equally, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, any dividends declared by the Corporation, and
- b) receive equally, subject to the rights, privileges, restrictions and conditions attached to any other class of shares of the Corporation, the remaining property of the Corporation upon the liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary.

Constraints

The *Canada Transportation Act* (the “CTA”) requires holders of licences to operate a domestic air service to be “Canadian” within the meaning of the CTA. The Corporation’s Articles of Continuance contain foreign ownership restrictions designed to ensure that the Corporation maintains its “Canadian” status under the CTA.

Specifically, Class A Shares may be beneficially owned and controlled, directly or indirectly, only by persons who are Canadians, and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians.

For this purpose, “Canadian” has the meaning set forth in Subsection 55(1) of the CTA, which may be summarized as follows:

- a) a Canadian citizen or a permanent resident within the meaning of the *Immigration and Refugee Protection Act* (Canada);
- b) a government in Canada or an agent thereof; and
- c) a corporation or other entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians (as defined in paragraph (a)) and of which at least 75% (or such lesser percentage as the Governor in Council may by regulation specify) of the voting interests are owned and controlled by Canadians (as defined in paragraph (a)).

Further, each issued and outstanding Class A Share will be converted into one Class B Share, automatically and without any further act of the Corporation or the holder, if such Class A Share is or becomes beneficially owned or controlled, directly or indirectly, by a person who is not a Canadian. Each issued and outstanding Class B Share will be converted into one Class A Share, automatically and without any further act on the part of the Corporation or of the holder, if such Class B Share is or becomes beneficially owned and controlled, directly or indirectly, by a Canadian.

In the event that an offer is made to purchase Class A Shares (the “**Offer**”), and the Offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Class A Shares are then listed, to be made to all or substantially all of the holders of Class A Shares in a province of Canada to which the requirement applies, each Class B Share will become convertible at the option of the holder into one Class A Share at any time while the Offer is in effect until one day after the time prescribed or permitted by applicable securities legislation for the offeror to take up and pay for such shares as are to be acquired pursuant to the Offer. Such conversion may only be exercised for the purpose of depositing the resulting Class A Shares pursuant to the Offer and the voting rights attached thereto are deemed to remain subject to the restrictions applicable to the Class B Shares, notwithstanding their conversion. In the event that any Class B Shares converted into Class A Shares are not taken up and paid for pursuant to the Offer, the Class A Shares resulting from such conversion will be re-converted into Class B Shares. The above conversion rights apply, *mutatis mutandis*, if an offer is made to purchase Class B Shares and the offer is one which is required, pursuant to applicable securities legislation or the rules of a stock exchange on which the Class B Shares are then listed, to be made to substantially all of the holders of Class B Shares. Further details are contained in the Corporation’s Articles of Continuance.

The Corporation’s Articles of Continuance also grant to the Board all powers necessary to give effect to the ownership restrictions. The Corporation may adopt various procedures and policies with respect to the transfer of Common Shares of the Corporation to ensure that the 25% limitation on non-Canadian voting of Class B shares is complied with. In addition, the Corporation may adopt policies and procedures to monitor the number of Common Shares owned by Canadians to ensure that the provisions of the CTA are complied with.

In March 2009, the Government of Canada’s Bill C-10, the Budget Implementation Act, 2009, received Royal Assent. Bill C-10 contains provisions that would amend the CTA to allow the

Governor in Council to increase the foreign ownership limit contained in the CTA from the current 25% to a maximum of 49%. These provisions will come into force on a day to be fixed by order of the Governor in Council made on the recommendation of the Minister of Transport.

The Corporation's Articles of Continuance are available on SEDAR at www.sedar.com.

PRIOR SALES

The Corporation has not issued Common Shares or securities convertible into Common Shares in the 12 months preceding the date of this Prospectus.

PRICE RANGE AND VOLUME OF TRADING

The Class A Shares are traded on the TSX under the symbol "DA.A". The following table shows the range of high and low closing prices per Class A Share and the total volume of Class A Shares on the TSX from March 21, 2013 to March 20, 2014.

	<u>Price Range (\$)</u>		<u>Trading Volume (#)</u>
	<u>High</u>	<u>Low</u>	
<u>2014</u>			
March 1 to 20	1.18	1.01	25,715
February	1.55	1.03	122,774
January	1.55	1.10	65,393
<u>2013</u>			
December	1.61	1.08	172,878
November	1.64	1.05	58,181
October	1.81	1.56	42,904
September	1.90	1.55	116,580
August	1.80	1.25	67,408
July	1.50	1.35	166,925
June	1.98	1.34	49,266
May	2.23	1.80	64,600
April	2.35	1.84	172,440
March 21 to 31	2.35	2.33	6,299

CONSOLIDATED CAPITALIZATION

Consolidated Capitalization Table

The following table sets forth the Corporation's capitalization as at October 31, 2013. Other than (i) an increase in the Corporation's operating facility (see "*Recent Developments – Financial Developments*"), (ii) additional accrued and unpaid interest on the Secured Debentures (see "*Recent Developments – Compliance with Debt Covenants – Secured Debentures*"), (iii) a reduction to shareholders' equity resulting from the anticipated loss in the fiscal year ended January 31, 2014 (see "*Recent Developments – Financial Results for the Fiscal Year ended January 31, 2014*") and potential losses in the subsequent period, and (iv) as described below,

there have been no material changes in the share or loan capitalization of the Corporation since October 31, 2013.

The Corporation's capitalization is presented (i) on an actual basis as at October 31, 2013, and (ii) as adjusted to give effect to the transactions contemplated by the Offering, including the repayment of the Operating Bridge and assuming that all of the Common Shares available to be issued under the Offering are issued (upon the exercise of the Rights or the purchase of the Standby Shares). The capitalization table should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements as at and for the three and nine-month periods ended October 31, 2013, which are incorporated by reference into this Prospectus.

(thousands of Canadian dollars)

	As at October 31, 2013	
	(unaudited)	
	Actual	As Adjusted
Indebtedness¹		
10.00% secured convertible debentures ²	\$ 81,931	\$ 81,931
8.375% unsecured convertible debentures ²	32,147	32,147
Operating line of credit	7,976	— ³
Term loans and capital leases	46,842	46,842
Total indebtedness	168,896	160,920
Equity		
Shareholder's equity ⁴	98,126	113,126 ⁵
Total Capitalization	\$ 267,022	\$ 274,046
Issued and outstanding Common Shares	14,555,611	31,997,471

¹ The balances reflect the carrying value (face value) of the debt netted against the unamortized transaction costs (and an equity component for the convertible debentures). These transaction costs (and the equity component for the convertible debentures) are accreted to the face value of the debt based on an effective interest rate.

² The Secured Debentures and Unsecured Debentures as defined herein.

³ The Operating Bridge will be repaid from the proceeds of the Offering (see "Use of Proceeds").

⁴ Excludes Common Shares into which the Secured Debentures and Unsecured Debentures are convertible.

⁵ Excludes the estimated expenses of the Offering.

Effect on Convertible Debentures

Unsecured Debentures

The Corporation's 8.375% convertible unsecured subordinated debentures, which are listed on the TSX under symbol DA.DB.A (the "**Unsecured Debentures**"), are governed by the terms a convertible debenture indenture dated May 12, 2011 (the "**Debenture Indenture**").

Holders of Unsecured Debentures will not receive Rights under the Offering. Assuming that all of the Common Shares available to be issued under the Offering are issued (upon the exercise of the Rights or the purchase of the Standby Shares), pursuant to the terms of the Debenture Indenture, the Conversion Price of the Unsecured Debentures will be adjusted to \$6.38 per Common Share (down from \$7.30) and the number of Common Shares issuable upon conversion

of the Unsecured Debentures will be adjusted to 156.740 Common Shares for each \$1,000 principal amount of Unsecured Debentures (up from 136.986).

In the event that the Corporation undergoes a Change in Control (as such term is defined in the Debenture Indenture), the Corporation is obligated to offer to purchase all of the Unsecured Debentures then outstanding.

A copy of the Debenture Indenture may be found on SEDAR at www.sedar.com.

Secured Debentures

The Secured Debenture Holders will not receive Rights under the Offering, and the conversion price of the Secured Debentures will not be adjusted as a consequence of the Offering.

In the event that the Corporation undergoes a Change in Control (as such term is defined in the Secured Debentures), the Corporation is obligated to offer to purchase all of the Secured Debentures then outstanding.

A copy of the Secured Debentures (including all amendments thereto) may be found on SEDAR at www.sedar.com.

PLAN OF DISTRIBUTION

The Corporation and the Standby Purchaser have agreed that the Subscription Price per Common Share will be equal to the lesser of (i) the volume-weighted average price (“**VWAP**”) of the Common Shares on the TSX for each of the trading days on which there was a closing price during the five (5) trading days immediately preceding the date of filing of the short form final prospectus (the “**Final Prospectus**”), less a discount of 20.01%; and (ii) \$1.257.

The Class A Shares are traded on the TSX under the symbol “DA.A” and the Rights will be listed on the TSX under the symbol “DA.RT” and will be posted for trading on the TSX until 12:00 noon (Toronto time) on the Expiration Date at which time they will be halted from trading. On March 20, 2014, the closing price of the Class A Shares on the TSX was \$1.06. The TSX has approved the listing of the Common Shares issuable on exercise of the Rights as well as the Standby Shares.

The Rights and Common Shares issuable upon the exercise of the Rights have not been qualified under the securities laws of any jurisdiction other than in each of the Eligible Jurisdictions. Except as described in this Prospectus, Rights may not be exercised by or on behalf of an Ineligible Holder. This Prospectus is not, and under no circumstances is to be construed as, an offering of any of the Rights or Common Shares for sale in any Ineligible Jurisdiction or a solicitation of an offer to buy any securities. Rights will not be sent to any Shareholder with an address of record in an Ineligible Jurisdiction. Instead, such Ineligible Holders will be sent a letter advising them that their Rights will be held by their CDS Participant, who will hold such Rights as agent for the benefit of such Ineligible Holders. See “*Ineligible Holders*”.

STANDBY COMMITMENT

Under the Standby Purchase Agreement, the Corporation has agreed to sell and the Standby Purchaser has agreed, subject to certain terms, conditions and limitations, to purchase such

number of Common Shares that are available to be purchased, but not otherwise subscribed for under the Offering, up to a predetermined maximum number. The maximum standby commitment is equal to that number of Common Shares equal to 49.0% of the Common Shares that will be issued and outstanding after giving effect to the purchase of Common Shares pursuant to the exercise of Rights under the Offering and the purchase of Common Shares by the Standby Purchaser *less* that number of Common Shares held by the Standby Purchaser and any person acting jointly or in concert (within the meaning of Multilateral Instrument 62-104 but excluding the Management Shares) with Clairvest (including Common Shares acquired upon the exercise of Rights) prior to giving effect to the purchase of Common Shares by the Standby Purchaser pursuant to the Standby Purchase Agreement (the “**Maximum Standby Commitment**”).

Clairvest currently owns, or exercises control or direction over, 59,520 Class A Shares. As indicated above (see “*Ownership or Control of Common Shares*”), Clairvest can, directly or indirectly, direct the voting of the Management Shares (comprising an additional 3,694,779 Class A Shares and 50% of any Common Shares acquired by holders of Management Shares upon the exercise of Rights) in certain circumstances prescribed in the Shareholders Agreement. Upon the completion of the Offering, Clairvest has agreed to deliver to the Corporation a waiver pursuant to which the Secured Debenture Holders will waive their right in section 2.1.5 of the Shareholders’ Agreement to direct the manner in which the Management Shares are voted, but only to the extent necessary so as to ensure that the number of votes attaching to all of the Common Shares under the control or direction of Clairvest and any person acting jointly or in concert with Clairvest does not at any time exceed 49.0% of the total number of votes attaching to all of the issued and outstanding Common Shares after the completion of the Offering and the acquisition of the Standby Shares by the Standby Purchaser.

The obligations of the Standby Purchaser under the Standby Purchase Agreement may be terminated at the discretion of the Standby Purchaser in certain circumstances, including (but not limited to) if: (a) any claims, litigation, investigations or proceedings are in progress, pending or threatened, whether or not by a governmental entity, in relation to the Rights, the Common Shares, the Standby Shares or the Offering, any of which suspends or ceases trading in the Rights, the Common Shares or the Standby Shares or operates to prevent or restrict the lawful distribution of the Rights, the Common Shares or the Standby Shares; (b) any order is issued by a governmental entity, or if there is any change of Law (as defined in the Standby Purchase Agreement), either of which suspends or ceases trading in any of the Rights, the Common Shares or the Standby Shares or operates to prevent or restrict the lawful distribution of any of the Rights or Standby Shares; (c) the Corporation fails to obtain any requisite listing approval from the TSX; (d) if the Offering is otherwise terminated or cancelled or the closing of the acquisition of the Standby Shares has not occurred by May 25, 2014; (e) the Corporation or any of its subsidiaries has defaulted under any indebtedness to any person or entity in excess of \$2,500,000, if the effect of such default is to cause, or to permit the holder of such debt to then declare such debt to become due prior to its stated maturity date; (f) the Corporation or any of its subsidiaries is the subject of an assignment or application under bankruptcy or insolvency laws, has had a receiver, manager, receiver-manager, liquidator or trustee appointed in respect of its property, assets or undertaking, or passed a resolution or had a judgment or order issued by a court for its winding up or other liquidation or dissolution; or (g) the Corporation has failed to perform or comply with all of the terms, conditions and covenants in the Standby Purchase

Agreement to be complied with by the Corporation, or any of the Corporation's representations and warranties in the Standby Purchase Agreement are not true and correct.

There is no assurance that the above conditions will be met or waived by the Standby Purchaser and therefore, in such event, the Standby Purchaser may not purchase any Standby Shares under the Standby Purchase Agreement. See "*Risk Factors Risks Relating to the Offering*".

The Standby Purchaser currently owns, or exercises control or direction over, 59,520 Class A Shares, representing approximately 0.4% of the outstanding Common Shares. The Standby Purchaser is entitled to subscribe for all, or any portion of, the Common Shares to which it is entitled pursuant to its Basic Subscription Privilege and may exercise its Additional Subscription Privilege to subscribe for Additional Common Shares. However, the Standby Purchaser has agreed to purchase from the Corporation such number of Common Shares that are available to be purchased, but not otherwise subscribed for under the Offering, up to the Maximum Standby Commitment only to the extent that such Common Shares are not otherwise subscribed for by holders of Rights pursuant to their Basic Subscription Privilege and their Additional Subscription Privilege. Following the closing of the acquisition of the Standby Shares, the Standby Purchaser could own, directly or indirectly, up to 15,678,760 Common Shares, representing up to approximately 49.0% of the issued and outstanding Common Shares, thereby materially affecting control of the Corporation. See "*Risk Factors Risks Relating to the Offering*".

The Standby Purchaser is not engaged as an underwriter in connection with the Offering and has not been involved in the preparation of, or performed any review of, this Prospectus in the capacity of an underwriter.

A copy of the Standby Purchase Agreement is available on SEDAR at www.sedar.com.

CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

The following is a general summary of the principal Canadian federal income tax considerations arising in respect of the receipt of Rights under the Offering. This summary is applicable only to a holder of Rights who acquires such Rights pursuant to the Offering in its capacity as a shareholder of the Company and who, at all relevant times, for purposes of the *Income Tax Act* (Canada) and the *Income Tax Regulations* (collectively, the "**Tax Act**"), (1) deals at arm's length with the Company; (2) is not affiliated with the Company; (3) holds its Common Shares, and will hold its Rights and Common Shares, as capital property, and (4) has not entered into, with respect to its Common Shares, and will not enter into, with respect to its Rights or Common Shares, a "derivative forward agreement" as that term is defined in proposed amendments contained in a Notice of Ways and Means Motion that accompanied the federal budget tabled by the Minister of Finance (Canada) on March 21, 2013 (a "**Holder**").

This summary is based on the current provisions of the Tax Act and an understanding of the current administrative policies and assessing practices and policies of the Canada Revenue Agency published in writing prior to the date hereof. This summary takes into account all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (the "**Proposed Amendments**") and assumes that all Proposed Amendments will be enacted in the form proposed. However, no assurances can be given that the Proposed Amendments will be enacted as proposed, or at all. This summary does not otherwise take into account or anticipate any changes in law or administrative policy or

assessing practice whether by legislative, administrative or judicial action nor does it take into account tax legislation or considerations of any province, territory or foreign jurisdiction, which may differ from those discussed herein.

This summary does not apply to a holder of Rights that is a “financial institution” for purposes of section 142.2 of the Tax Act, a “specified financial institution” as defined for purposes of the Tax Act, a holder to which the “functional currency” reporting rules in the Tax Act apply or a holder, an interest in which is a tax shelter investment for the purposes of the Tax Act. Such holders should consult their own tax advisors.

This summary is of a general nature only and is not, and is not intended to be, legal or tax advice to any particular shareholder. This summary is not exhaustive of all Canadian federal income tax considerations. Accordingly, prospective purchasers of Shares should consult their own tax advisors having regard to their own particular circumstances.

Holders Resident in Canada

This portion of the summary is generally applicable to a Holder who, at all relevant times, for purposes of the Tax Act, is, or is deemed to be resident in Canada (a “**Resident Holder**”). Certain Resident Holders whose Common Shares might not otherwise qualify as capital property may be entitled to make or may have already made the irrevocable election permitted by subsection 39(4) of the Tax Act, the effect of which may be to deem to be capital property any Common Shares (and all other “Canadian securities”, as defined in the Tax Act, which would not include the Rights) owned by such Resident Holder in the taxation year in which the election is made and in all subsequent taxation years. Resident Holders whose Common Shares might not otherwise be considered to be capital property should consult their own tax advisors concerning this election.

Receipt of Rights

Generally, no amount will be required to be included in computing the income of a Resident Holder as a consequence of acquiring Rights under the Offering. The cost to a Resident Holder of Rights received under the Offering will be nil. The cost of each Right held by a Resident Holder will be averaged with the adjusted cost base of each other identical Right held by the Resident Holder as capital property (including any identical Rights acquired otherwise than pursuant to the Offering) for the purpose of determining the adjusted cost base to that Resident Holder of each Right so held.

Exercise of Rights

The exercise of Rights will not constitute a disposition of property for purposes of the Tax Act and, consequently, no gain or loss will be realized by a Resident Holder upon the exercise of Rights. Common Shares acquired by a Resident Holder upon the exercise of Rights will have an aggregate cost to the Resident Holder equal to the aggregate of the aggregate Subscription Price paid plus the adjusted cost base to the Resident Holder of the Rights exercised (if any).

The cost of each Common Share held by a Resident Holder will be averaged with the adjusted cost base of each other identical Common Share held by the Resident Holder as capital property

for the purpose of determining the adjusted cost base to that Resident Holder of each Common Share.

Disposition of Rights or Common Shares

Generally, on a disposition or deemed disposition of a Right or Common Share (in the case of Rights, other than pursuant to the exercise or expiry thereof), a Resident Holder will realize a capital gain (or capital loss) equal to the amount, if any, by which the proceeds of disposition, net of any reasonable costs of disposition, exceed (or are less than) the adjusted cost base to the Resident Holder of the Right or Common Share immediately before the disposition or deemed disposition.

Upon the expiry of an unexercised Right, a Resident Holder will realize a capital loss equal to the adjusted cost base (if any) of the Right to the Resident Holder.

Taxation of Capital Gains or Capital Losses

Generally, a Resident Holder is required to include in computing its income for a taxation year one-half of the amount of any capital gain (a “**taxable capital gain**”) realized in the year. Subject to and in accordance with the provisions of the Tax Act, a Resident Holder is required to deduct one-half of the amount of any capital loss (an “**allowable capital loss**”) realized in a taxation year from taxable capital gains realized by the Resident Holder in the year and allowable capital losses in excess of taxable capital gains for the year may be carried back and deducted in any of the three preceding taxation years or carried forward and deducted in any subsequent taxation year against net taxable capital gains realized in such years.

The amount of any capital loss realized by a Resident Holder that is a corporation on the disposition of a Common Share may be reduced by the amount of any dividends received (or deemed to be received) by the Resident Holder on such Common Share to the extent and under the circumstances prescribed by the Tax Act. Similar rules may apply where a Common Share is owned by a partnership or trust of which a corporation, trust or partnership is a member or beneficiary. Such Resident Holders should consult their own advisors.

Dividends on Common Shares

A Resident Holder will be required to include in computing its income for a taxation year any dividends received (or deemed to be received) on the Common Shares. In the case of a Resident Holder that is an individual (other than certain trusts), such dividends will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit applicable to any dividends designated by the Company as an eligible dividend in accordance with the provisions of the Tax Act. A dividend received (or deemed to be received) by a Resident Holder that is a corporation will generally be deductible in computing the corporation’s taxable income.

A Resident Holder that is “private corporation”, as defined in the Tax Act, or any other corporation controlled, whether because of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), will generally be liable to pay a refundable tax of 33 1/3 % under Part IV of the Tax Act on dividends received (or deemed to be received) on the Common Shares

to the extent such dividends are deductible in computing the Resident Holder's taxable income for the taxation year.

Eligibility for Investment

The Rights and Common Shares, if issued on the date hereof, would be at that time, qualified investments under the Tax Act for a trust governed by a registered retirement savings plan ("RRSP"), a registered retirement income fund ("RRIF"), a deferred profit sharing plan, a registered education savings plan, a registered disability savings plan or a tax-free savings account ("TFSA") (collectively, the "Exempt Plans") provided that either (a) the Rights and the Common Shares are listed on a "designated stock exchange" (which currently includes the TSX) or (b) both (i) the Common Shares are listed on a "designated stock exchange" and (ii) the Company is not a "connected person" under the Exempt Plan. For this purpose, a "connected person" under an Exempt Plan is defined as a person who is an annuitant, a beneficiary, an employer or a subscriber under, or a holder of, the Exempt Plan as well as any other person who does not deal at arm's length with that person.

Neither the Rights nor the Common Shares will be a "prohibited investment" for an RRSP, an RRIF or a TFSA, provided the annuitant of the RRSP or RRIF or the holder of the TFSA, as the case may be, deals at arm's length with the Company and does not have a "significant interest" (within the meaning of the Tax Act) in the Company.

Holders Not Resident in Canada

This portion of the summary is generally applicable to a Holder who, at all relevant times, (a) is an Ineligible Holder and (b) for purposes of the Tax Act, is not, and is not deemed to be, resident in Canada and does not use or hold its Rights or Common Shares in connection with a business carried on or deemed to be carried on in Canada (a "Non-Resident Holder"). Special rules, which are not discussed in this summary, may apply to a non-Canadian holder that is an insurer that carries on an insurance business in Canada and elsewhere.

Receipt of Rights

The issuance of Rights to a Non-Resident Holder will not be subject to Canadian withholding tax and no other tax will be payable under the Tax Act by a Non-Resident Holder in respect of the issuance of Rights. The cost of Rights received under the offering will be nil.

Disposition of Rights

Upon the disposition of the Rights pursuant to a sale by a CDS Participant on behalf of a Non-Resident Holder, the Non-Resident Holder will not be subject to tax under the Tax Act in respect of any capital gain realized unless the Rights disposed of constitute "taxable Canadian property" of the Non-Resident Holder and the Non-Resident Holder is not entitled to relief under an applicable tax treaty or convention. Rights will generally not constitute "taxable Canadian property" of such Non-Resident Holder so long as the Common Shares are listed on a "designated stock exchange" (which currently includes the TSX), unless, at any time during the sixty-month period immediately preceding their disposition, (a) the Non-Resident Holder, persons with whom the Non-Resident Holder does not deal at arm's length, or the Non-Resident Holder together with all such persons, owned not less than 25% of the issued shares of any class

or series of shares of the capital stock of the Company and (b) more than 50% of the fair market value of the Common Shares was derived directly or indirectly from one or any combination of (i) real or immovable property situated in Canada, (ii) “Canadian resource properties” (as defined in the Tax Act), (iii) “timber resource properties” (as defined in the Tax Act), and (iv) options in respect of, or interests in, or for civil law rights in, property described in any of (i) to (iii).

Notwithstanding the foregoing, in certain circumstances, the Rights could be taxable Canadian property by virtue of deeming rules in the Tax Act. Non-Resident Holders whose Rights or Common Shares constitute “taxable Canadian property” should consult their own tax advisors for advice having regard to their particular circumstances.

RISK FACTORS

An investment in the Rights and the Common Shares is subject to a number of risks. Prospective investors should carefully consider all of the information disclosed in this Prospectus, including all documents incorporated by reference, prior to exercising Rights to subscribe for Common Shares. These risks include but are not limited to the following:

Risks Relating to the Defence Services Business

TPT Approval for the F-16 and A-4N aircraft

In order to complete the Initial Purchase, Defence Services or its U.S. subsidiaries must first obtain TPT Approval (among other regulatory approvals). There can be no assurance that Defence Services or its U.S. subsidiaries will be able to secure a contract with the U.S. Government, which likely constitutes a prerequisite to obtaining TPT Approval and securing ownership of the F-16 and additional A-4N aircraft. Risk factors that could adversely affect the ability of Defence Services or its U.S. subsidiaries to secure a combat support services contract with the U.S. Government include the possibility that: (i) the U.S. DoD may, in connection with future requests for proposal, require that bidders provide evidence of aircraft ownership or U.S. registration in order to be eligible for a contract award; (ii) U.S. DoD procurement processes could result in long lead times for the issuance of contract solicitations and/or the award of contracts; (iii) budgetary constraints could impair the U.S. DoD’s ability to award a services contract; (iv) other combat support services providers may attempt to offer their services at significantly lower prices than the prices offered by Top Aces USA or may attempt to acquire aircraft that are the same as or comparable to the F-16 and A-4N aircraft; (v) changes in U.S. law or procurement policy may provide favourable treatment to U.S. owned or controlled businesses; and (vi) changes in U.S. aviation regulations could restrict foreign owned or controlled companies from operating ex-military aircraft possessing experimental airworthiness certificates for compensation.

Although Defence Services may be permitted to utilize F-16 aircraft under the existing ICATS Standing Offers, there can be no assurance that TPT Approval would be granted for this use.

Financing for the purchase of the F-16 and A-4N aircraft

In order to complete the Initial Purchase (see “Defence Services - Strategic Context - Planned Aircraft Purchases - Purchase and Sale Agreement”), the Corporation will require approximately USD \$40 to \$50 million (including costs to bring the aircraft into service). The

Corporation will require significant additional capital should it proceed to exercise all of the Aircraft Options. Although the Clairvest Financing Proposal could provide sufficient capital to complete the Initial Purchase (excluding costs to bring the aircraft into service), the Corporation has yet to identify the sources and terms for the financing required to exercise the Aircraft Options. Furthermore, there is no assurance that the Clairvest Financing Proposal or any other proposal in the future will be available or that the Board would determine that any Clairvest financing proposal is in the best interest of the Corporation. Even if such determination were made, approval by a majority of the Corporation's disinterested Shareholders may be required under applicable securities laws to implement any such Clairvest financing proposal.

Resources required to support an expanded Defence Services business

Over the last eight years, Defence Services has derived substantially all of its revenues from the Standing Offers and, accordingly, has operated almost exclusively in North America on behalf of the Canadian Armed Forces. Defence Services recently established ATSI Corp. (through the merger of ATSI Inc. with and into ATSI Corp.) and announced that it has been awarded a contract for combat support services with the German Armed Forces commencing in January 2015. As a result of these developments, Defence Services now directly manages, or oversees the management of, operations in Canada, the U.S. and Germany.

If Defence Services is successful in obtaining TPT Approval for the F-16 and A-4N aircraft, those aircraft will, together with the 10 aircraft of ATSI Corp. which were recently acquired, result in a significant increase in the fleet size actively employed (directly and indirectly) in the Defence Services business from 18 aircraft prior to the acquisition of the aircraft of ATSI Corp. to 40 aircraft after the acquisition of the six F-16 and six A-4N aircraft.

The expansion of the Defence Services business requires Defence Services and its subsidiaries to recruit, hire and train experienced pilots, maintenance engineers and management personnel in Germany and the U.S. To the extent that the subsidiaries of Defence Services are required to hold security clearances from the U.S. or German governments, those subsidiaries may be required to abide by certain measures designed to limit influence or control by foreign persons and, therefore, may need to operate at arm's length from Defence Services' management in Canada. Although the Corporation's management believes that the human resources required by Defence Services and its subsidiaries are readily available, there is a risk that Defence Services or its subsidiaries may be unable to recruit, hire and train all of the required personnel on a timely basis.

In addition to the capital required to purchase the F-16 and A-4N aircraft, Defence Services and its subsidiaries will also have elevated capital requirements associated with the on-going maintenance of a larger fleet of aircraft. The Corporation may need to fund future capital requirements of the Defence Services business from external sources of financing. There can be no assurance that the necessary equity or debt financing will be available to the Corporation when required or, if available, that it will be on terms acceptable to the Corporation. If the Corporation is not able to meet its capital requirements, this could adversely affect the Corporation's ability to maintain the airworthiness (and, therefore, value) of its aircraft and service commitments to customers.

Risks to CATS Contract and ICATS Standing Offers

Substantially all of Defence Services' revenues and earnings are derived from the Standing Offers. Once awarded, the CATS Contract will replace the Standing Offers. Therefore, if Defence Services is not awarded the CATS Contract or is only able to secure the CATS Contract on significantly reduced profit margins, the Corporation's revenues, EBITDA and cash flows would be materially, adversely affected. This could result in the Corporation being unable to meet its obligations as they become due and/or to go offside of its debt covenants.

Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

PWGSC is in the process of auditing the profit earned by Defence Services under the ICATS Standing Offers for the period February 1, 2010 to January 31, 2013. Since the rates charged by Defence Services under the ICATS Standing Offers are based on fixed hourly rates (as opposed to a fixed margin), the implications of the audit (if any) are not determinable at this time.

Challenges to growing the Corporation's business if Sale Agreement is not completed

The Corporation believes that the F-16 and A-4N aircraft will, if ultimately acquired by Defence Services or its U.S. subsidiaries, provide Defence Services with the most advanced fleet of combat support aircraft in the world and, accordingly, provide Defence Services with a highly competitive offering with which to grow in the U.S. combat support market. If the Corporation is unable to obtain TPT Approval and complete the purchase of the F-16 and A-4N aircraft, Defence Services' prospects for competitive advantage in the U.S. combat support market will be significantly reduced. Although Defence Services may continue to pursue revenue diversification in the U.S. and other international jurisdictions leveraging the strength of its track record as an experience combat support services provider, the Corporation believes that the lack of an advanced supersonic offering, such as the F-16 aircraft, will limit Defence Services' growth prospects. Absent the identification and execution of significant, offsetting growth opportunities in the Corporation's other subsidiaries, the Corporation's long-term growth prospects may be limited.

In the event that the Corporation fails to grow revenues, it may not be able to generate sufficient EBITDA and cash flows to remain in compliance with its debt covenants beyond the 2015 fiscal year. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events could have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Risks Relating to the Corporation's Financial Condition

Compliance with the Debt Leverage Covenant and the PAR Covenant

The Secured Debenture Holders have granted the Corporation waivers of the Debt Leverage Covenant and the PAR Covenant for the first and second quarters of the 2015 fiscal year and have agreed, conditional upon the closing of the Offering, to grant further waivers of those covenants on substantially the same terms for the third and fourth quarters of the 2015 fiscal year (see "*Recent Developments - Compliance with Debt Covenants - Secured Debenture Covenants*"). However, there is no assurance that the Corporation will be in compliance with the Debt Leverage Covenant or the PAR Covenant in periods subsequent to the Q1/Q2 Waivers or, assuming the Offering closes, the Q3/Q4 Waivers. Factors that could increase the risk of non-compliance with the Debt Leverage Covenant include that (i) EBITDA is calculated by reference to trailing 12 month EBITDA, which may be negatively affected by expenditures on discretionary growth initiatives during the 2015 fiscal year and other general business conditions that could negatively affect the Corporation's EBITDA, and (ii) the Corporation will need to incur additional debt in order to fund the continued pursuit of growth projects at Defence Services, which will increase total indebtedness under the Debt Leverage Covenant. Factors that could increase the risk of non-compliance with the PAR Covenant include that (i) the Corporation may be unable to acquire assets of a sufficient value and type that would be acceptable as security to the Secured Debenture Holders, and (ii) the Corporation may be unable to refinance its real property assets so as to generate sufficient funds to pay down indebtedness against other assets that might otherwise be acceptable as security to the Secured Debenture Holders.

There is no assurance that the Secured Debenture Holders will agree to grant further waivers of the Debt Leverage Covenant or the PAR Covenant if required in the period subsequent to the periods of the Q1/Q2 Waivers or, assuming the Offering closes, the Q3/Q4 Waivers. Absent waivers or other concessions from the Secured Debenture Holders or any other lenders whose loans are then in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Liquidity constraints particularly during seasonal ramp up period

The Corporation's cash flows are affected by the seasonality of its operations, in particular, the cash outflows required to support the ramp up in operations in the first quarter of each fiscal year (which, among other things, requires expenditures on aircraft maintenance and ferrying and additional working capital). The Corporation anticipates spending additional funds in the first quarter of the 2015 fiscal year to support growth projects at Defence Services and support the start-up of Defence Services' operations in Germany. In the event that the Corporation's liquidity is constrained during the ramp up period, the Corporation will need to curtail expenditures on growth projects which could adversely affect the future profitability of its business.

March 31, 2014 obligations under certain aircraft loans

Under the terms of certain aircraft loan agreements, the Corporation provided undertakings to restore the airworthiness of two aircraft pledged as security to a lender (the “**Aircraft Undertakings**”). The lender has indicated that it is not willing to extend the deadline for the completion of the Aircraft Undertakings beyond March 31, 2014. The Corporation has received a commitment letter (subject to customary conditions) from such lender with respect to a proposed loan refinancing (the “**Loan Refinancing**”) that would, if implemented, result in the cancellation of the Aircraft Undertakings and provide the Corporation with up to an additional \$1.2 million in cash. However, there can be no assurance that the Corporation will complete the Loan Refinancing by March 31, 2014 (or any extension of such deadline agreed to by the lender). If the Corporation is unable to complete the Loan Refinancing by March 31, 2014 (or any extension of such deadline agreed to by the lender), the Corporation could be required to repay an outstanding loan balance of approximately \$4.0 million.

If the Corporation is unable to complete the Loan Refinancing by March 31, 2014 (or any extension of such deadline agreed to by the lender), the Corporation may be unable to repay the loan balance. Absent waivers or other concessions from any other lenders whose loans are then cross defaulted, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation.

If enforcement action were taken by the lender under the aircraft loan agreements or any of the Corporation’s other lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation’s business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Potential liability relating to certain life insurance policies

Previous owners of a subsidiary of the Corporation (who are currently insiders of the Corporation) have asserted that they are entitled to receive certain personal life insurance benefits at the Corporation’s expense for an indefinite term. The aggregate annual premiums under these policies are estimated to be \$180,000 in the 2015 fiscal year. The Corporation has not yet ascertained whether or not it is subject to this obligation. To the extent that such obligation is confirmed or this matter is otherwise resolved in favour of these individuals, the Corporation may be required to book a material liability for the future payment obligations under the policies and/or adjust its tax and other obligations relating to prior periods.

Additional funding for pursuit of growth projects

In order to continue to fund growth projects at Defence Services, the Corporation will likely require an additional \$8 million of financing in the 2015 fiscal year, over and above the proceeds contemplated by the Offering. This excludes any additional capital that would be required to purchase the aircraft described in this Prospectus (see “*Defence Services - Strategic Context - Planned Aircraft Purchases*”). There can be no assurance that the Corporation will be able to secure this additional financing on terms acceptable to the Corporation. If the Corporation is unable to secure such financing on terms acceptable to it, the Corporation may need to curtail further expenditures on growth projects at Defence Services, which could impair the ability of Defence Services and its U.S. subsidiaries to secure a combat support contract with the U.S.

Government that would likely be necessary to obtain TPT Approval for the F-16 and additional A-4N aircraft.

If, in addition to being unable to secure such additional financing, the Corporation's financial condition deteriorates further, the Corporation may be unable to maintain adequate liquidity solely by curtailing expenditures on growth projects. In such case, the Corporation may be unable to pay its debts as they become due. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Sale of underutilized aircraft and other non-core assets

The Corporation has identified underutilized aircraft (with an aggregate net book value of approximately \$12 million) primarily within the fixed wing fleet at Air Tindi Ltd. ("**Air Tindi**"). These assets include aircraft previously used to provide executive jet charter services. At the end of fiscal year 2014, Air Tindi decided to discontinue this service. The Corporation has estimated a preliminary impairment loss of approximately \$2.2 million relating to the assets employed in that service and intends to divest these assets in fiscal year 2015. In addition to the aircraft, the Corporation has identified other assets which, although material to the Corporation, are not core to its specialty aviation business and could be sold.

There can be no assurance as to if and when any of these assets will be sold and, if so, whether the sale prices will be at or above their net book value (after adjusting for the proposed impairment loss). Proceeds from the sale of aircraft and other assets will be used to pay down outstanding loan balances, or provide additional working capital for the Corporation. Should the value realized on the sale of assets be lower than their associated loan balances, the Corporation may be required to use additional cash from operations to repay the deficiency. The timing of these sales will be dependent on the demand from purchasers, which is currently not determinable.

Risks to existing long-term contracts

In the normal course of business, the Corporation's subsidiaries are required to compete with other suppliers in respect of various contracts for specialty aviation services. While many of the contracts are less than three years in duration, certain of the Corporation's subsidiaries currently have several multi-year contracts that are approaching renewal periods. These include (i) Defence Services' Standing Offers under the ICATS program which are expected to be superseded by a CATS Contract following the completion of an upcoming competitive bid process (see "*Risk Factors - Risks Relating to the Defence Services Business*"), (ii) the forest fire services management contract held by Discovery Air Fire Services Inc. with the Ontario Ministry of Natural Resources which expires on December 31, 2014 and will be retendered prior to the end of 2014, and (iii) Air Tindi's contract for medevac services with the Stanton Territorial Health Authority which is currently subject to a competitive bid process and is expected to result in a contract award in April 2014, with a start date for the new contract in October 2014. While the Corporation's management believes the Corporation's subsidiaries are well positioned to be the prevailing bidders under these competitive bid processes, there can be no assurance that all or any of them will ultimately be successful. The loss of one or more of these contracts could have a significant adverse effect on the Corporation's consolidated revenues, EBITDA and cash flows. Furthermore, due to the specialized nature of the aircraft and other assets employed in support of

these contracts, the Corporation could, if no alternative uses were found for these assets, incur a significant loss on their disposal.

Air Tindi's cost reduction measures

Air Tindi is undertaking an aggressive cost cutting program which commenced in the 2014 fiscal year and includes the sale of surplus aircraft, the cessation of its executive jet charter service and the closure of its facility in Calgary, Alberta. Although Air Tindi is realizing some benefits from the lower cost structure, there can be no assurance that these steps will result in a successful turnaround of the business. Air Tindi has remaining lease payment obligations for the Calgary facility of approximately \$4.4 million in the aggregate over the next six years. Air Tindi intends to sublease the facility, however, this has not been finalized. Accordingly, Air Tindi may have an obligation for future lease payments that it will be unable to offset by generating sublease income.

Risks Relating to the Offering

Impact of the Offering on the Corporation's financial condition

The Rights Offering is expected to improve the Corporation's liquidity. However, should the Corporation experience a further deterioration in its financial condition due, among other factors, to a deterioration in its consolidated revenues and relationships with suppliers and/or the ability to manage costs, the Corporation may be materially adversely affected and may not be able to pay its debts as they become due. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares may decline or become worthless.

Relationship between Subscription Price and the Corporation's value

The Subscription Price is not necessarily an indication of the value of the Corporation or the value of the Common Shares. The Subscription Price represents the lesser of (A) the volume-weighted average price ("**VWAP**") of the Common Shares on the TSX for each of the trading days on which there was a closing price during the five (5) trading days immediately preceding the date of filing of the short form final prospectus (the "**Final Prospectus**"), less a discount of 20.01%; and (B) \$1.257. The Subscription Price was determined through negotiation with the Standby Purchaser and approved by the Corporation's board of directors (the "**Board**"). Such price does not necessarily bear any relationship to the book value of the Corporation's assets, past operations, cash flows, losses, financial condition or any other established criteria for value. After the date of this Prospectus, the Common Shares will trade at prices above, below or equal to the Subscription Price.

Price of the Common Shares may decline below the Subscription Price; Exercise of Rights is not revocable

The trading price of the Common Shares in the future may decline below the Subscription Price. Future prices of the Common Shares will fluctuate depending on various factors, including those described above. The exercise of Rights may not be revoked even if there is a decline in the price of the Common Shares prior to the Expiration Time on the Expiration Date.

Responsibilities of Holders of Rights

Holders of Rights who wish to purchase Common Shares in the Offering must act promptly to ensure that all required forms and payments are actually received by the CDS Participant holding the subscriber's Rights prior to the Expiration Time on the Expiration Date. If a holder of Rights fails to complete and sign the required subscription forms, sends an incorrect payment amount or otherwise fails to follow the subscription procedures that apply to the transaction in question, the CDS Participant may, depending on the circumstances, reject a subscription or accept it to the extent of the payment received. Neither the Corporation nor the CDS Participant undertakes to contact a holder of Rights concerning, or attempt to correct, an incomplete or incorrect payment or subscription form. The Corporation has the sole discretion to determine whether a subscription properly follows subscription procedures.

Dilution of existing Shareholders

If a Shareholder does not exercise all of its Rights pursuant to the Basic Subscription Privilege, such Shareholder's current percentage ownership in the Corporation will be diluted by the issuance of Common Shares upon the exercise of Rights by other Shareholders, and by the purchase of Standby Shares by the Standby Purchaser.

Clairvest may become a significant Shareholder

Clairvest's share ownership position could be substantially higher in the event it is required to purchase Common Shares offered by this Prospectus pursuant to the Standby Purchase Agreement. Assuming none of the Rights, other than those held by Clairvest, are exercised and Clairvest is required to purchase such number of Common Shares that are available to be purchased, but not otherwise subscribed for under the Offering, up to the Maximum Standby Commitment, Clairvest will own, directly or indirectly, 15,678,760 Common Shares, representing approximately 49.0% of the outstanding Common Shares. Even if Clairvest is required to purchase fewer Common Shares than the Maximum Standby Commitment, when combined with the right that Clairvest will continue to have following the Offering to direct the voting of certain of the Management Shares in certain circumstances, Clairvest could, following the Offering, have the right to, directly or indirectly, direct the voting of up to 49.0% of the outstanding Common Shares. Accordingly, following the Offering, Clairvest may have significant influence in any matter coming before a vote of Shareholders and Clairvest alone may be in a position to cause or prevent approval of certain matters requiring Shareholder approval, including the election of directors. The interests of purchasers of Common Shares pursuant to the Offering may not align with the interests of Clairvest. Clairvest exercises control or direction over the Secured Debentures. In exercising its voting rights with respect to the Common Shares controlled by it, Clairvest does not owe a fiduciary duty to other Shareholders or the Corporation.

Fulfillment of the Standby Commitment

Clairvest's obligation in the Standby Purchase Agreement to purchase Common Shares not otherwise purchased pursuant to the exercise of Rights under the Offering is subject to certain conditions precedent to closing. Clairvest may also terminate the Standby Purchase Agreement in certain circumstances. Although the Corporation believes that the Standby Purchase Agreement will not be terminated and that the conditions precedent to closing will be satisfied,

the Corporation may not be able to continue as a going concern if the Standby Commitment is not fulfilled on the terms contemplated in this Prospectus and the Corporation is otherwise unable to generate sufficient proceeds from the Offering. If this were to occur, the Corporation may need to seek protection from its creditors, which would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Common Shares could decline or become worthless. A copy of the Standby Purchase Agreement is available on SEDAR at www.sedar.com.

General Risks of the Business

Irrespective of the Offering or the Corporation's ability to successfully execute its growth initiatives, the Corporation will continue to face many of the risks that it currently faces with respect to its business and affairs. A description of the risk factors applicable to the Corporation is contained under the heading "Risk Factors" in the Corporation's annual information form dated April 30, 2013, which is incorporated by reference into this Prospectus and is available on SEDAR at www.sedar.com.

LEGAL MATTERS

Certain legal matters in connection with the issuance and delivery of the Rights and Common Shares qualified by this Prospectus will be passed upon on behalf of the Corporation by Osler, Hoskin & Harcourt LLP. As at the date hereof, partners and associates of Osler, Hoskin & Harcourt LLP as a group beneficially own less than 1% of the outstanding Common Shares.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditor of the Corporation is KPMG LLP. The Transfer Agent and registrar for the Common Shares is Computershare Investor Services Inc. at its principal office in Toronto.

STATUTORY RIGHTS

Securities legislation in certain of the provinces and territories of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces or territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal adviser.

CERTIFICATE OF THE ISSUER

Dated: March 21, 2014

This short form prospectus, together with the documents incorporated by reference, constitutes full, true and plain disclosure of all material facts relating to the securities offered by this short form prospectus as required by the securities legislation of each of the provinces and territories of Canada.

By: (signed) "Jacob Shavit"
Jacob Shavit
Chief Executive Officer

By: (signed) "William Martin"
William Martin
Chief Financial Officer

On behalf of the Board of Directors

By: (signed) "Brian Semkowski"
Brian Semkowski
Director

By: (signed) "James Goodfellow"
James Goodfellow
Director