FIRST QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month Period ended April 30, 2014

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the three month period ended April 30, 2014 should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes as at April 30, 2014, the annual audited consolidated financial statements and related notes for the year ended January 31, 2014, and the annual MD&A for the year ended January 31, 2014, all of which are available on SEDAR at www.sedar.com.*

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

Business Profile

Discovery Air, founded in 2004, is a Canadian specialty aviation company, operating over 160 aircraft with over 850 team members. Its subsidiaries provide airborne training to the Canadian military, helicopter services, air ambulance services, airborne fire services, fixed-wing air charter services, expediting and logistics support, and a range of maintenance, repair, overhaul, modification, engineering and certification services. The Corporation has two reportable segments: Aviation, and Corporate Support and Other.

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

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

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

Selected Financial Information

(thousands of Canadian dollars, except per share amounts)	Three months ended April 30 (unaudited) 2014	2013	% change
Results of operations			
Revenue	**$ 41,083**	$ 43,594	*-6%*
Expenses	**$ 42,492**	$ 46,153	*-8%*
Depreciation of property, equipment and intangible assets	**$ 5,273**	$ 5,605	*-6%*
	$ (6,682)	$ (8,164)	*18%*
Finance costs	**$ 4,669**	$ 4,093	*14%*
Loss attributable to shareholders of Discovery Air Inc.	**$ (7,736)**	$ (8,804)	*12%*
Basic and diluted loss per share	**$ (0.52)**	$ (0.59)	*12%*
Financial position and liquidity			
Total assets	**$ 309,238**	$ 314,432	*-2%*
Total debt	**$ 188,128**	$ 176,034	*7%*
Cash used in operations	**$ (10,102)**	$ (13,468)	*25%*
Adjusted Working Capital*	**$ 39,774**	$ 43,065	*-8%*
Key non-IFRS performance measures*			
Adjusted profit (loss)	**$ (7,748)**	$ (8,804)	*12%*
Basic and diluted Adjusted profit (loss) per share	**$ (0.52)**	$ (0.59)	*12%*
EBITDAR	**$ 1,130**	$ (387)	*392%*
EBITDA	**$ (959)**	$ (2,190)	*56%*
EBITDA Margin	**-2%**	-5%	

* See "Non-IFRS measures" and "Definitions" below

Recent Developments

On February 24, 2014, the Corporation announced its intention to complete a rights offering (the "**Offering**") in order to raise up to $15.0 million of equity capital through the sale of Shares (as defined below). Under the Offering, the Corporation distributed a total of 14,555,661 rights to its shareholders of record on April 1, 2014 entitling them to subscribe for up to an aggregate of 17,441,860 Shares at a price of $0.86 per Share. Clairvest Group Inc. ("**Clairvest**") agreed, in accordance with the terms of a standby purchase agreement with the Corporation dated February 24, 2014 (the "**Standby Purchase Agreement**"), to purchase from the Corporation such number of Shares that were available to be purchased, but not otherwise subscribed for under the Offering, up to a predetermined cap. Clairvest also agreed to provide the Corporation with a subordinated, secured loan in the event that Clairvest was unable (due to the cap) to backstop the entire Offering and the Corporation was unable to raise gross proceeds from the Offering in an amount of $15.0 million. With the Standby Purchase Agreement in place, the Corporation was able to use the anticipated proceeds from the Offering (including the standby commitment and the secured, subordinated loan from Clairvest) to obtain from its operating lender an immediate $10.0 million increase in the operating line of credit 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 $10.0 million, in each case until May 24, 2014 or the completion of the Offering (whichever was earlier). The short form prospectus for the Offering and the Standby Purchase Agreement can be found on SEDAR at www.sedar.com.

The Offering concluded on April 28, 2014. The Corporation raised approximately $1.7 million in gross proceeds from the issuance of 1,952,009 Shares. On May 2, 2014, the Corporation issued 15,047,284 Class A common voting shares and 442,567 Class B common variable voting shares, for gross proceeds of $13.3 million to Clairvest and/or certain of its funds and co-investors pursuant to the Standby Purchase Agreement. In connection with the closing of this transaction, the holders of the Corporation's Secured Debentures (as defined below) irrevocably waived their right to direct (in certain circumstances) the manner in which 50% of the Common Shares held by certain current and former management shareholders are voted. Transaction costs were approximately $0.4 million.

On March 31, 2014, the Corporation entered into a loan agreement with Element Financial Corporation in the principal amount of $21.5 million. The proceeds from the loan were used to refinance approximately $20.5 million in existing term indebtedness of the Corporation and provided the Corporation with approximately $0.9 million in cash (net of loan arrangement fees but before transaction costs). In connection with this refinancing, the Corporation's obligation to restore the airworthiness of two aircraft or pay down $4.0 million in indebtedness was eliminated. The Corporation filed a Material Change Report in connection with this transaction on April 3, 2014, a copy of which is available on SEDAR at www.sedar.com.

The Corporation undertook a number of initiatives in Fiscal 2014 (as discussed below) to streamline core businesses and shift aircraft composition which resulted in a number of operational and asset divestitures. In late January 2014, the Corporation ceased its executive jet service program based in Calgary. In April 2014, the Corporation accepted an offer to sell five 601 Challenger jets for approximately US $2.5 million. The transaction is expected to close during the second quarter of Fiscal 2015.

On October 10, 2012, Airbus Military and Discovery Air announced that they would be collaborating to provide a joint solution in response to the anticipated request for proposals for Canada's Fixed Wing Search and Rescue Program. The parties have recently agreed to terminate their teaming agreement.

Consolidated Results

Three months ended April 30, 2014

Revenue

Quarterly revenues were $41.1 million, a 6% decline when compared to the three months ended April 30, 2013 (the "comparative period"). The decrease in revenues stemmed from lower contribution from the Aviation segment which experienced lower activity in the resource-based sector in northern and western Canada. The Corporate Support and Other segment reported higher revenues (an 8% increase over the comparative period) from increased MRO activity at Technical Services.

The Corporation's two largest customer sectors are government and resource-based. Revenues from the government sector represented 50% of total revenues (compared to 41% in the comparative period), with the increase attributable to increased forest fire activity in Chile and increased airborne training services provided to the DND in the quarter. The Corporation's revenues from resource-based customers represented 17% of total revenues (compared to 29% in the comparative period). The year-over-year decrease in the contribution from resource-based customers was attributable to decreased oil and gas based activity in western Canada and decreased mining-based activity in northern Canada.

Expenses

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

Quarterly expenses decreased by 8% to $42.5 million over the comparative period. The first quarter for the Corporation's operations, primarily in northern Canada, continues to represent a seasonal ramp up period for the upcoming peak season in the second and third quarters. Notwithstanding the seasonal ramp up, the Corporation was able to streamline costs in relation to the decline in revenues, most notably from the Corporation's fixed wing operations which ceased its executive jet services at the end of Fiscal 2014. The current quarter expenses reflect $0.7 million in business development costs to support airborne training opportunities in the US.

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

Quarterly EBITDA loss was $1.0 million compared to EBITDA loss of $2.2 million in the comparative period, with the lower EBITDA loss largely attributable to improved fixed cost management.

EBITDAR in the quarter was $1.1 million compared to EBITDAR loss of $0.4 million in the comparative period. Aircraft leasing expense increased by 16% over the comparative period to $2.1 million, largely attributable to short term helicopter leases. The Corporation generally utilizes leased aircraft to support a component of its flight services.

Depreciation, finance and other expenses

Depreciation expense in the quarter was $5.3 million, a 6% decrease over the comparative period and consistent with lower flight hours.

Finance costs of $4.7 million in the quarter compared to $4.1 million in the comparative period with the increase largely attributable to refinancing transactions. Non-cash finance charges accreting on the loans and borrowings were $0.7 million compared to $0.5 million in the comparative period.

The Corporation's quarterly income tax recovery was $3.2 million, compared to $3.1 million in the comparative period. The effective tax rate for the quarter was 29% compared to the Corporation's statutory income tax rate of 27% with the variance due to permanent tax differences. In the comparative period, the effective income tax rate of 26% was consistent with the Corporation's statutory income tax rate of 27%.

Earnings

The Corporation recorded a quarterly loss and Adjusted loss of $7.7 million ($0.52 basic and diluted loss per share) compared to a loss and Adjusted loss of $8.8 million ($0.59 basic and diluted loss per share) in the first quarter of Fiscal 2014.

Despite the Corporation's Class A Share price at April 30, 2014 and 2013 being below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33, *Earnings per share,* considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

Aviation Segment

(thousands of Canadian dollars)	Three months ended April 30 (unaudited)		
	2014	2013	*% Change*
Revenue	**$ 31,965**	$ 35,144	*-9%*
Expenses	**32,127**	34,877	*-8%*
Share of loss (profit) from associates	**14**	(2)	*-800%*
EBITDA	**$ (176)**	$ 269	*-165%*
Aircraft lease expense	**2,089**	1,803	*16%*
EBITDAR	**$ 1,913**	$ 2,072	*-8%*
Capital expenditures	**$ 3,994**	$ 4,107	*-3%*

	As at April 30 (unaudited)		
	2014	2013	*% Change*
Total assets	**$ 280,728**	$ 283,666	*-1%*
Goodwill	**$ 37,861**	$ 39,809	*-5%*
Intangible assets	**$ 4,988**	$ 9,732	*-49%*

Three months ended April 30, 2014

The Aviation segment's quarterly revenues were $32.0 million on 10,107 flight hours, compared to revenue of $35.1 million on 11,049 flight hours in the comparative period. The decrease in revenues and flight hours were attributable to decreased activity in the oil and gas based sector in western Canada and decreased activity in the mining-based sector in northern Canada and Peru.

Aviation segment quarterly expenses were $32.1 million in the current quarter compared to $34.9 million in the comparative period. The 8% decrease reflects ongoing streamlining of operations, in particular in the fixed wing operations. As a result of exiting the executive jet service in Calgary, the Aviation segment was able to eliminate the costs of supporting this service and, thereby, reduce overall infrastructure costs.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $12.3 million (or 38% of revenues) compared to $13.1 million (or 37% of revenues) in the comparative period.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $9.3 million (or 29% of revenues), compared to $10.1 million (or 29% of revenues) in the comparative period. Generally, the Corporation's fuel costs are recovered from customers and recorded as revenue with the exception of non-contracted ferrying costs or training-related costs.

General and administrative expenses consist mainly of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. General and administrative expenses were $7.4 million (or 23% of revenues) in the quarter compared to $7.8 million (or 22% of revenues) in the comparative quarter.

The segment's quarterly EBITDA loss was $0.2 million compared to EBITDA of $0.3 million in the comparative period, with the decrease in EBITDA attributable to lower revenues. The current quarter EBITDA loss includes $0.7 million in business development costs. Excluding these expenses an EBITDA of $0.5 million would have been generated. EBITDAR was $1.9 million compared to EBITDAR of $2.1 million in the comparative period.

Depreciation expense in the current quarter of $4.8 million (or 15% of revenues) compared to $5.1 million (or 15% of revenues) in the comparative period, which is consistent with the lower flight hours.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended April 30		
	(unaudited)		
	2014	2013	*% Change*
Revenue	**$ 9,118**	$ 8,450	*8%*
Expenses	**10,365**	11,276	*-8%*
Share of profit from associates	**(464)**	(367)	*26%*
EBITDA	**$ (783)**	$ (2,459)	*68%*
Capital expenditures	**$ 140**	$ 1,083	*-87%*
	As at April 30		
	(unaudited)		
	2014	2013	*% Change*
Total assets	**$ 28,510**	$ 30,766	*-7%*
Intangible assets	**$ 295**	$ 474	*-38%*

Three months ended April 30, 2014

Corporate Support and Other revenues were $9.1 million in the quarter compared to $8.5 million in the comparative period. The 8% increase in revenue reflects increased MRO activities at Technical Services.

The segment incurred expenses totaling $10.4 million compared to $11.3 million in the comparative period, a decrease of 8%. The decrease in the segment expenses was largely attributable to improved cost management at Technical Services and Discovery Mining.

The segment reported an EBITDA loss of $0.8 million in the quarter, compared to an EBITDA loss of $2.5 million in the comparative period, due to higher revenues and improved cost management.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	Three months ended April 30 (unaudited)	
(thousands of Canadian dollars)	**2014**	2013
Operating activities	**$ (10,102)**	$ (13,468)
Investing activities	**(3,991)**	(5,026)
Financing activities	**14,093**	12,688
Net decrease in cash for the period	**$ -**	$ (5,806)

Operating Activities

Cash used by operating activities for the three month period ended April 30, 2014 was $10.1 million, a $3.4 million decrease over the comparative period. The favourable variance was largely attributable to a $1.2 million reduction in EBITDA loss and a $2.2 million smaller investment in non-cash working capital.

Adjusted Working Capital

As at April 30, 2014, the Corporation had positive Adjusted Working Capital of $39.8 million, compared to an Adjusted Working Capital position of $31.1 million at January 31, 2014 and $43.1 million as at April 30, 2013. The current ratio of Adjusted Working Capital was 2.2 as at April 30, 2014, 2.1 as at January 31, 2014, and 2.6 as at April 30, 2013.

With respect to the Corporation's existing operations, there are no significant commitments to any expenditures that would significantly change its working capital requirements for these operations. Each significant, non-maintenance related capital expenditure for these operations is assessed to gain reasonable assurance that the capital expenditure will at least be matched by projected revenues or cost savings generated by the expenditure. In addition to the recent acquisition of Advanced Training Systems International, Inc. in Fiscal 2014, the Corporation has been pursuing an opportunity to acquire six F-16, six A-4N aircraft, and related support packages (the "**Additional Fighter Jets**") for the expansion of the Defence Services' airborne training services business. The cost of acquiring these assets and bringing them into service is estimated to be US $40.0 to $50.0 million. In Fiscal 2014, the Corporation placed a US $2.5 million deposit for the acquisition of the Additional Fighter Jets which is refundable should the Corporation not receive the required approval from the U.S. Department of State ("**U.S. Government Approval**"). In addition, the Corporation would only complete the acquisition of these assets upon securing the necessary financing for these assets.

Investing Activities

Quarterly net cash outlays for investing activities was $4.0 million compared to $5.0 million in the comparative period. Capital expenditures of $4.1 million was comprised of $1.3 million for Defence Services growth initiatives, and $2.8 million for sustaining capital expenditures and aircraft overhaul costs.

As noted under "*Recent Developments*" above, in April 2014, the Corporation accepted an offer to sell five 601 Challenger jets for approximately US $2.5 million. The transaction is expected to close during the second quarter of Fiscal 2015.

The Corporation is expending funds to prepare for the commencement (in January 2015) of service under the combat support contract for the German Armed Forces (the "**German Contract**"). While the Corporation is not otherwise committed to fund other material growth-related projects, the Corporation intends, subject to obtaining certain government approvals and securing financing, to acquire the Additional Fighter Jets for further expansion of Defence Services' business.

Financing Activities

With the Standby Purchase Agreement in place, the Corporation was able to obtain from its operating lender an immediate $10.0 million increase in the operating line of credit within the existing credit limit of its operating facility (by way of an increase in the Corporation's borrowing base). This additional borrowing was repaid on May 2, 2014 with the proceeds from Shares issued pursuant to the Standby Purchase Agreement. With the $15.0 million of gross proceeds derived from the Share issuances pursuant to the Offering and the Standby Purchase Agreement, the Corporation believes that it has sufficient liquidity to meet its normal operating requirements based on its existing working capital position, expected cash from operations and available credit under its operating facility. The Corporation believes that these cash resources are also sufficient to fund expenditures that will be required to fund the German Contract. This assessment could change if the Corporation experiences, in the near-term time horizon, higher than expected capital expenditures for aircraft purchases or fleet maintenance, the absence of a recovery in resource-based activities, lower than normal levels of forest fire activity, or the absence of earnings growth at Technical Services. In addition, the Corporation will likely need additional financing to fund Defence Services' growth projects or curtail expenditures related to these projects.

As at April 30, 2014, the Corporation had unused borrowing capacity of $3.6 million to fund its operating requirements. Consistent with the seasonal nature of its business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased working capital. These draws are typically repaid during the latter half of the fiscal year. Every November through February, the Corporation is required to have no advances outstanding under the line of credit for 30 consecutive days. This requirement was waived for Fiscal 2014.

The Corporation made debt payments of $23.7 million, consisting of $20.4 million to refinance five loans (which closed on March 31, 2014) and $3.3 million of scheduled term debt repayments. The loan refinancing transaction also eliminated an undertaking to restore the airworthiness of two aircraft (or, in the alternative, repay $4.0 million in debt secured by those aircraft) and provided the Corporation with approximately $0.9 million in cash. In the comparative period, the Corporation made scheduled debt payments of $2.6 million.

On March 31, 2014, the Corporation entered into a $21.5 million term loan agreement to refinance five existing loans. The loan matures on April 1, 2019 and is repayable in monthly instalments of $262,000, with the balance due at maturity. The loan bears interest at a rate equal to the three-month Canadian dollar banker's acceptance rate ("**BA rate**") plus 5.15% per annum. The loan is secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $154,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 6.59% per annum. The loan agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum debt service coverage ratio and not exceed a specified level of total liabilities to tangible net worth.

On January 31, 2014, the Corporation entered into a $1.6 million term loan agreement to finance a previously acquired aircraft. Proceeds were advanced in full on February 18, 2014. The loan matures on March 1, 2019 and is repayable in monthly instalments of $19,000, with the balance due at maturity. The loan bears interest at a rate equal to the three-month Canadian dollar BA rate plus 4.55% per annum. The loan is secured by charge on the aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $75,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 7.06% per annum. The agreement requires that the Corporation observe a variety of nonfinancial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

The Corporation is required to comply with several financial covenants in its debt agreements, including: 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 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 ratio of the adjusted principal amount of the Secured Debentures (the "**PAR Covenant**"); 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. Since interest on the Secured Debentures is paid in kind (i.e., accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time.

The Corporation required and received, prior to the end of the quarter ended April 30, 2014, a waiver of the Debt Leverage Covenant for that quarter and the PAR Covenant. The Corporation was in compliance with the PAR Covenant and all other financial covenants in its debt agreements for the quarter ended April 30, 2014. The Corporation also received irrevocable waivers from the Debt Leverage Covenant and the PAR Covenant for the quarters ending July 31, 2014, October 31, 2014 and January 31, 2015. There is no assurance that following the periods covered by these waivers, the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant. In connection with these waivers, the Corporation also agreed to pledge certain real estate assets as security for the Secured Debentures, refrain from incurring liens on newly acquired assets and refrain from exercising certain subordination rights in the Secured Debentures. For more information, please refer to the Corporation's Material Change Reports dated February 28, 2014 and May 6, 2014, which are available on SEDAR at www.sedar.com.

In addition, consent from certain of the Corporation's lenders is required to, among other things, incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem the Corporation's capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 13 of the Corporation's interim condensed consolidated financial statements for the three months ended April 30, 2014.

Shareholders' Equity

At April 30, 2014, there were 16,462,864 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 1,088,345 stock options outstanding. During the quarter, the Corporation issued 1,952,009 Class A Shares upon the completion of the Offering (see "Recent Developments" for further details). During the current quarter, the Corporation issued no stock options to employees and 10,050 stock options expired or were otherwise terminated in accordance with their terms.

The Corporation's Unsecured Debentures provide for potential debt conversion to Class A Shares of 5,283,308 (adjusted from 4,726,027 due to the Offering) and the Secured Debentures provide for a potential debt conversion to Class A Shares of 9,333,334.

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2014, which can be found on SEDAR at www.sedar.com.

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Some of those risks and uncertainties are described in this MD&A and are supplemented by risks and uncertainties described in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2014, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated May 1, 2014, both of which can be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporation's financial condition and results. There have been no changes to the Corporation's significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2014, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

For detailed discussion on recently issued standards please refer to Corporation's annual audited consolidated financial statements and related notes for the year ended January 31, 2014, which can be found on SEDAR at www.sedar.com. There were no additional recently issued standards relevant to the Corporation during quarter ended April 30, 2014.

NON-IFRS MEASURES

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

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

(thousands of Canadian dollars)	Three months ended April 30 (unaudited) 2014	2013
Net loss attributable to shareholders' of Discovery Air Inc.	**$ (7,736)**	$ (8,804)
Income tax recovery	**(3,153)**	(3,143)
Finance costs	**4,669**	4,093
Depreciation of property, equipment and intangible assets	**5,273**	5,605
(Gain) on disposal of property and equipment	**(12)**	-
Non-controlling interest	**-**	59
EBITDA	**$ (959)**	$ (2,190)
Aircraft lease expenses	**2,089**	1,803
EBITDAR	**$ 1,130**	$ (387)

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

The following is a reconciliation of Adjusted profit (loss) to net loss:

(thousands of Canadian dollars)	Three months ended April 30 (unaudited) 2014	2013
Net loss attributable to shareholders of Discovery Air Inc.	**$ (7,736)**	$ (8,804)
(Gain) on disposal of property and equipment	**(12)**	-
Adjusted profit (loss)	**$ (7,748)**	$ (8,804)

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended April 30, 2014 (unaudited) Aviation	Corporate Support and Other	Total	Three months ended April 30, 2013 (unaudited) Aviation	Corporate Support and Other	Total
Revenue	**$ 31,965**	**$ 9,118**	**$ 41,083**	$ 35,144	$ 8,450	$ 43,594
Expenses	**32,127**	**10,365**	**42,492**	34,877	11,276	46,153
Share of (profit) loss from associates	**14**	**(464)**	**(450)**	(2)	(367)	(369)
EBITDA	**$ (176)**	**$ (783)**	**$ (959)**	$ 269	$ (2,459)	$ (2,190)
Aircraft lease expenses	**2,089**	**-**	**2,089**	1,803	-	1,803
EBITDAR	**$ 1,913**	**$ (783)**	**$ 1,130**	$ 2,072	$ (2,459)	$ (387)

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)								
		(unaudited)						
	Apr-14	Jan-14	Oct-13	Jul-13	Apr-13	Jan-13	Oct-12	Jul-12
Results of operations:								
Total Revenue	**$ 41,083**	$ 32,638	$ 64,985	$ 72,308	$ 43,594	$ 37,321	$ 64,874	$ 74,225
EBITDA	**$ (959)**	$ (9,464)	$ 15,394	$ 21,017	$ (2,190)	$ (6,761)	$ 15,963	$ 23,292
Cash from (used in) operations	**$ (10,102)**	$ 10,992	$ 14,995	$ 5,360	$ (13,468)	$ 5,521	$ 23,133	$ 4,458
Adjusted profit (loss)*	**$ (7,748)**	$ (14,795)	$ 3,624	$ 7,572	$ (8,804)	$ (11,547)	$ 4,059	$ 8,613
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ (7,736)**	$ (21,440)	$ 3,050	$ 9,239	$ (8,804)	$ (10,929)	$ 1,230	$ 8,935
Basic earnings (loss) per share	**$ (0.52)**	$ (1.44)	$ 0.21	$ 0.62	$ (0.59)	$ (0.74)	$ 0.08	$ 0.60
Basic adjusted profit (loss) per share*	**$ (0.52)**	$ (1.00)	$ 0.24	$ 0.51	$ (0.59)	$ (0.80)	$ 0.27	$ 0.58
Diluted earnings (loss) per share	**$ (0.52)**	$ (1.44)	$ 0.19	$ 0.40	$ (0.59)	$ (0.74)	$ 0.08	$ 0.38
Diluted adjusted profit (loss) per share*	**$ (0.52)**	$ (1.00)	$ 0.21	$ 0.34	$ (0.59)	$ (0.80)	$ 0.22	$ 0.37

*See "Non-IFRS Measures"

Seasonality and Quarterly Fluctuations

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors can affect the comparability of results from one period to another, particularly from quarter to quarter. The seasonality and quarterly fluctuations are substantially unchanged from the description found under the heading "Seasonality and Quarterly Fluctuations" in the Corporation's MD&A for the fiscal year ended January 31, 2014, which is available on SEDAR at www.sedar.com

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There were no material changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the three months ended April 30, 2014 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

DEFINITIONS

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

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal 2014**" means the fiscal year of the Corporation ended January 31, 2014;
(e) "**Fiscal 2015**" means the fiscal year of the Corporation ended January 31, 2015;
(f) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of April 30, 2014, had an adjusted principal amount of $89,873,544 (inclusive of accrued interest); and
(g) "**Shares**" means the Class A Shares and the Class B Shares.
(h) "**Adjusted Working Capital**" means current assets less current liabilities excluding current portion of loans and borrowings and operating line of credit.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry.

Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as “may”, “could”, “should”, “would”, “expect”, “believe”, “plan”, “estimate”, “outlook”, “forecast”, “anticipate”, “foresee”, “continue” or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this MD&A contains forward-looking statements relating to: the seasonality of the Corporation’s business; its business development; the impact of current economic conditions on the results of its operations and/or financial condition; management’s outlook for the future; management’s ability to reduce costs and/or contain them at their existing levels; management’s ability to continue to manage working capital effectively; the impact of weather conditions on the results of the Corporation’s operations and/or financial condition; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet its debt covenants and other terms and conditions of its credit agreements; 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; the effects of competition in the markets in which the Corporation operates; inflation; capital market fluctuations, including the availability of equity and/or debt capital to the Corporation; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings and decisions; weather conditions in the geographical regions in which the Corporation operates; and the Corporation’s anticipation of and success in managing the risks implied by the foregoing.

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

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

Dated: June 11, 2014