THIRD QUARTER MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Three-Month and Nine-Month Periods ended October 31, 2013

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the three and the nine month periods ended October 31, 2013 should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes as at October 31, 2013, the annual audited consolidated financial statements and related notes for the year ended January 31, 2013, and the annual MD&A for the year ended January 31, 2013, all of which are available on SEDAR at www.sedar.com.*

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

Business Profile

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

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

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

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

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

Selected Financial Information

(thousands of Canadian dollars, except per share amounts)	Three months ended October 31 (unaudited) 2013	2012	% change	Nine months ended October 31 (unaudited) 2013	2012	% change
Results of operations						
Revenue	**$ 64,985**	$ 64,874	*0%*	**$ 180,888**	$ 192,032	*-6%*
Expenses	**$ 50,085**	$ 49,050	*2%*	**$ 148,025**	$ 144,330	*3%*
Depreciation of property, equipment and intangible assets	**$ 6,260**	$ 6,187	*1%*	**$ 18,175**	$ 18,568	*-2%*
	$ 8,640	$ 9,637	*-10%*	**$ 14,688**	$ 29,134	*-50%*
Finance costs	**$ 4,231**	$ 4,275	*-1%*	**$ 12,455**	$ 13,202	*-6%*
Profit attributable to shareholders of Discovery Air Inc.	**$ 3,050**	$ 1,230	*148%*	**$ 3,485**	$ 11,525	*-70%*
Basic earnings per share	**$ 0.21**	$ 0.08	*163%*	**$ 0.24**	$ 0.79	*-70%*
Diluted earnings per share	**$ 0.19**	$ 0.08	*138%*	**$ 0.24**	$ 0.63	*-62%*
Financial position and liquidity						
Total assets	**$ 318,925**	$ 319,345	*0%*	**$ 318,925**	$ 319,345	*0%*
Total loans, borrowings and finance leases	**$ 160,920**	$ 160,121	*0%*	**$ 160,920**	$ 160,121	*0%*
Cash from operations	**$ 14,995**	$ 23,133	*-35%*	**$ 6,887**	$ 22,090	*-69%*
Working capital	**$ 34,710**	$ 39,987	*-13%*	**$ 34,710**	$ 39,987	*-13%*
Key non-IFRS performance measures*						
Adjusted profit	**$ 3,624**	$ 4,059	*-11%*	**$ 2,392**	$ 11,898	*-80%*
Basic Adjusted profit per share	**$ 0.25**	$ 0.28	*-11%*	**$ 0.16**	$ 0.82	*-80%*
Diluted Adjusted profit per share	**$ 0.21**	$ 0.22	*-5%*	**$ 0.16**	$ 0.64	*-75%*
EBITDAR	**$ 20,802**	$ 20,326	*2%*	**$ 46,813**	$ 62,622	*-25%*
EBITDA	**$ 15,394**	$ 15,963	*-4%*	**$ 34,222**	$ 48,122	*-29%*
EBITDA Margin	**24%**	25%		**19%**	25%	

* See "Non-IFRS measures" below

Recent Developments

Defence Services has undertaken several initiatives, in the areas of business development and aircraft sourcing, to position it to capture airborne training opportunities in select international markets. On December 5, 2013, the Corporation announced the pending acquisition of Advanced Training Systems International, Inc. ("ATSI") by Defence Services. ATSI, which is located in Mesa, Arizona, owns a fleet of ten (10) Douglas A-4 Skyhawk aircraft and offers airborne training services similar to Defence Services, including tactical "Red Air" services, fighter lead-in training, airborne electronic warfare training, air support training to ground forces and other air combat tactics. Although ATSI currently has minimal operations and revenues, it has previously provided airborne training services to the U.S. Navy, U.S. Air Force and the Canadian Forces, and has also provided advanced operational test and evaluation services such as air-to-air refueling trials. Their fleet of efficient, high-subsonic A-4 aircraft will be an excellent complement to Defense Services' existing fleet. The total consideration to be paid for the acquisition of ATSI is approximately US$6.6 million (subject to certain adjustments), the majority of which will be applied toward the purchase of certain outstanding indebtedness of ATSI. The acquisition is expected to close within 30 days of the announcement.

Defence Services is currently in an advanced stage of contractual negotiations with a prospective customer to provide airborne training services using A-4 Skyhawk aircraft. There can be no assurances that these negotiations will ultimately result in a contract.

The Corporation has also sourced additional fighter jets to supplement Defence Services' existing airborne training fleet. To date, it has made deposits of $2.9 million for these aircraft, $2.2 million in capital investments and incurred $3.1 million in operating expenses ($1.5 million for the quarter). The acquisition of additional fighter jets is subject to a number of regulatory approvals. There can be no assurances that Defence Services will be successful in obtaining these approvals or that the timing of receipt of these approvals will allow Defence Services to achieve its growth objectives (See also comments under "*Liquidity and Financial Resources*").

Consolidated Results

Three months ended October 31, 2013

Revenue

Quarterly revenue of $65.0 million remained consistent with the comparative period. Despite ongoing challenges in the mining sector in northern Canada and lower forest fire activity, the Aviation segment recorded higher revenue (up $1.5 million or 3% over the comparative period) largely due to increased flight hour activity from GSH's oil and gas customer base. The helicopter operation redeployed aircraft in the quarter to western Canada capturing the increased demand for oil and gas related service in the region. The Corporate Support and Other segment reported lower revenues (down $1.4 million or 19% over the comparative period) due to decreased activity at Discovery Mining and lower MRO activity at Technical Services.

The Corporation's two largest customer sectors are government and resource-based. Revenues from the government sector represented 35% of total revenues (compared to 45% in the comparative period), with the decline attributable to lower forest fire activity in the quarter. The Corporation's resource-based revenues represented 45% of total revenues (compared to 36% in the comparative period). The year-over-year increase in the resource-based contribution was attributable to increased oil and gas based activity. Activity from the junior mining sector continued to be below levels experienced in Fiscal 2013.

Expenses

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

Quarterly expenses of $50.1 million (or 77% of revenues) were slightly higher than comparative period expenses of $49.1 million (or 76% of revenues). Expenses in the quarter include $1.5 million attributable to business development and the acquisition of ATSI. Excluding business development and acquisition costs, quarterly results reflect a 1% decline in expenses over the comparative period (or 75% of revenues).

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

Quarterly EBITDA was $15.4 million compared to $16.0 million in the comparative period, with the lower EBITDA attributable to increased business development and acquisition expenses. Excluding these costs reflect an adjusted EBITDA of $16.9 million.

EBITDAR in the third quarter was $20.8 million compared to $20.3 million in the comparative period. Aircraft leasing expense increased by 24% over the comparative period to $5.4 million to support the increase in flight hour demand noted in the quarter from GSH. The Corporation generally utilizes leased aircraft to support a component of its flight services.

Depreciation, finance and other expenses

Depreciation expense in the quarter of $6.3 million was consistent with the comparative period despite increased flight hours due to higher utilization of leased aircraft.

Finance costs of $4.2 million in the quarter were consistent with the comparative period. Non-cash finance charges accreting on the loans and borrowings were $2.6 million ($2.5 million in the third quarter of Fiscal 2013).

During the third quarter, the Corporation recognized an impairment charge primarily related to two fixed wing aircraft based on a determination that these aircraft had an estimated recoverable amount that was less than their carrying value. The recoverable amount was determined by reference to their fair value less costs of disposal. The fair value was determined by assessing a recent non-binding offer to purchase these aircraft. This analysis resulted in the Corporation recognizing an impairment loss of $0.8 million on the aircraft in its Aviation segment.

The Corporation's quarterly income tax provision was $1.1 million, compared to $0.5 million in the comparative period. The effective tax rate for the quarter of 27% was consistent with the Corporation's statutory income tax rate of 27%. In the comparative period, the effective income tax rate was comparable the Corporation's statutory income tax rate of 27%.

Earnings

The Corporation recorded a quarterly profit of $3.1 million ($0.21 basic earnings per share and $0.19 diluted earnings per share) compared to $1.2 million ($0.08 basic and diluted earnings per share) in the third quarter of Fiscal 2013. The quarterly earnings reflect a tax-effected impairment loss of $0.6 million primarily on two fixed wing aircraft, while the comparative period profit reflects a tax-effected impairment loss of $2.7 million on four fixed wing aircraft and other non-aircraft assets. Excluding these items, Adjusted profit was $3.6 million ($0.25 basic Adjusted profit per share and $0.21 diluted Adjusted profit per share) compared to an Adjusted profit of $4.1 million ($0.28 basic Adjusted profit per share and $0.22 diluted Adjusted profit per share) in the comparative period (see "Non-IFRS Measures – Adjusted profit" below).

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

Nine months ended October 31, 2013

Revenue

Year-to-date revenue decreased 6% from the comparative period to $180.9 million. While the current quarter results remained consistent to the comparative period, the year-to-date results reflect the impact of lower forest fire management activity and lower contribution from the Corporation's resourced-based activities noted in the previous two quarters of Fiscal 2014.

Year-to-date revenues from government customers represented 43% of total revenues compared to 47% in the comparative period with the lower revenue contribution attributable to lower forest fire management and airborne training activity. Year-to-date revenue from resource-based customers represented 34% of total revenues, compared to 36% in the comparative period, due to lower revenue contribution from the junior mining customer base. The reduced contribution from this sector was offset by increased revenues from MRO and parts sales activity at Technical Services.

Expenses

Year-to-date expenses were $148.0 million (or 82% of revenues) compared to $144.3 million (or 75% of revenues) in the comparative period. Expenses were higher due to $3.1 million of business development and acquisition costs noted in the "Recent Developments" comments above, and increased MRO expenses to support increased activity from Technical Services.

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

Year-to-date EBITDA was $34.2 million compared to $48.1 million in the comparative period, and EBITDA margin was 19% and 25%, respectively. The current year decrease includes the first quarter shortfall in EBITDA of approximately $11.1 million as compared to more consistent EBITDA levels in the second and third quarters. Again, the Corporation has experienced a negative impact from lower mining sector activity particularly in northern Canada. This has resulted in lower utilization of fixed wing aircraft, which has had a direct impact on profitability. Year-to-date EBTIDAR was $46.8 million, compared to $62.6 million in the comparative period, reflecting the trend in EBITDA.

Depreciation, finance and other expenses

Depreciation expense year-to-date was $18.2 million compared to $18.6 million in the comparative period.

Finance costs year-to-date were $12.5 million compared to $13.2 million in the comparative period with the decrease attributable to lower rates on facilities that were refinanced during Fiscal 2013. Non-cash finance charges accreting on the loans and borrowings were $7.5 million ($7.2 million in the comparative period).

The Corporation's year-to-date income tax provision was $1.0 million, compared to $3.8 million in the comparative period. The effective tax rate of 22% was lower than the statutory income tax rate of 27% due to the impact of permanent differences including the $1.2 million non-taxable gain on the revaluation of the contingent consideration recorded in the second quarter of the current year. In the comparative period, a permanent tax difference arose primarily due to a gain on an extinguishment of debt.

Earnings

The Corporation's year-to-date profit was $3.5 million ($0.24 earnings per share – basic and diluted) compared to a profit of $11.5 million ($0.79 basic earnings per share and $0.63 diluted earnings per share) in the comparative period. The Corporation's year-to-date profit includes a tax-effected impairment loss of $0.6 million, a tax-effected gain of $0.4 million from the sale of Hudson Bay Helicopters Ltd. ("**HBH**"), and a non-taxable gain of $1.2 million related to the second quarter revaluation of the second installment of the contingent consideration for the purchase of Helicopters.cl SpA ("**Helicopters Chile**"). The comparative year-to-date profit reflects a tax-effected gain of $1.9 million on extinguishment of debt, a $0.2 million non-taxable gain related to a change in the fair value of the Corporation's embedded derivative that existed up to March 26, 2012, a $0.3 million non-taxable gain on the acquisition of the business of Northern Air Support Ltd. ("**NAS**"), and a tax-effected impairment loss of $2.7 million. Excluding the impact of these transactions, the year-to-date Adjusted profit was $2.4 million ($0.16 earnings per share – basic and diluted) compared to $11.9 million ($0.82 basic earnings per share and $0.64 diluted earnings per share) in the comparative period (See "Non-IFRS Measures" and "Adjusted profit" below).

Aviation Segment

	(unaudited)			(unaudited)		
	2013	2012	*% Change*	**2013**	2012	*% Change*
Revenue	**$ 58,710**	$ 57,165	*3%*	**$ 157,465**	$ 172,844	*-9%*
Expenses	**40,724**	39,468	*3%*	**115,834**	118,102	*-2%*
Share of profit of equity accounted investees	**(95)**	(31)	*206%*	**(286)**	(78)	*267%*
EBITDA	**$ 18,081**	$ 17,728	*2%*	**$ 41,917**	$ 54,820	*-24%*
Aircraft lease expense	**5,408**	4,363	*24%*	**12,591**	14,500	*-13%*
EBITDAR	**$ 23,489**	$ 22,091	*6%*	**$ 54,508**	$ 69,320	*-21%*
Capital expenditures	**$ 4,932**	$ 5,019	*-2%*	**$ 11,194**	$ 41,531	*-73%*
	As at October 31			*As at October 31*		
	2013	2012	*% Change*	**2013**	2012	*% Change*
Total assets	**$ 289,053**	$ 294,628	*-2%*	**$ 289,053**	$ 294,628	*-2%*
Goodwill	**$ 39,670**	$ 41,434	*-4%*	**$ 39,670**	$ 41,434	*-4%*
Intangible assets	**$ 7,500**	$ 10,855	*-31%*	**$ 7,500**	$ 10,855	*-31%*

Three months ended October 31, 2013

The Aviation segment's quarterly revenues were $58.7 million on 21,565 flight hours, compared to revenue of $57.2 million on 20,305 flight hours in the comparative period. The increase in revenues and flight hours were attributable to increased helicopter service to support increased oil and gas activity in western Canada. The continuing softness in the mining-based sectors in both northern Canada and lower forest fire management activity in northern Ontario and western Canada, noted in previous quarterly results, continued to affect the Corporation's results.

Aviation segment quarterly expenses were $40.7 million in the current quarter compared to $39.5 million in the comparative period. The 3% increase for the quarter was consistent with the 3% increase in revenue. Cost curtailment initiatives have assisted in reducing fixed costs thereby offsetting lower revenue demand particularly for the fixed wing business associated with the mining-based sector.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for the quarter were $14.6 million (or 25% of revenues) compared to $14.2 million (or 25% of revenues) in the comparative period. The year-over-year increase in crew costs is consistent with higher flight hour activity in the quarter.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, for the quarter were $12.9 million (or 22% of revenues), compared to $13.3 million (or 23% of revenues) in the comparative period. With the exception of GSH which recorded increased flight hour activity in the quarter, the net year-over-year decrease in fleet costs reflect decreased flight activity from the fixed wing fleet. 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 $7.7 million (or 13% of revenues) in the quarter compared to $7.9 million (or 14% of revenues) in the comparative quarter. Savings were realized from cost optimization programs initiated earlier in the year. These savings partially offset the $1.1 million in business development expenses and acquisition expenses associated with the acquisition of ATSI.

The segment's quarterly EBITDA was $18.1 million compared to $17.7 million in the comparative period. The increase in EBITDA reflects the increase in revenue and curtailment of expenses as noted above. Quarterly EBITDAR was $23.5 million compared to $22.1 million in the comparative period. Aircraft lease expense increased on strong flight hour activity at GSH. GSH reported its strongest third quarter in its history with significant improvements in revenues and EBITDA contribution. This was offset by lower EBITDA contribution from Air Tindi and Fire Services as well as higher business development and acquisition related expenses at Defence Services.

Depreciation expense in the current quarter of $5.9 million (or 10% of revenues) was consistent with the comparative period.

Nine months ended October 31, 2013

Aviation segment year-to-date revenues were $157.5 million on 56,206 flight hours, compared to revenue of $172.8 million on 63,468 flight hours in the comparative period. As noted in the quarterly results, the 9% decrease in revenue and 11% decrease in flight hours reflect continuing softness in the mining-based sector in northern Canada and lower forest fire management activity due to cool and wet weather conditions in northern Ontario and western Canada. The segment was also negatively impacted by poor weather conditions in the first quarter.

The Aviation segment's year-to-date expenses were $115.8 million (or 74% of revenues) compared to $118.1 million (or 68% of revenues) in the comparative period, with the decline attributable to decreased flight hour activity. The higher cost as a percentage of revenue reflects a high fixed cost structure for the Corporation's aviation businesses.

Crew costs were $42.6 million, year-to-date, (or 27% of revenues) compared to $43.9 million (or 25% of revenues) in the comparative period due to lower flight hour activity.

Fleet costs year-to-date, excluding fuel costs, were $37.1 million (or 24% of revenues), compared to $39.8 million (or 23% of revenues) in the comparative period.

General and administrative expenses were, on a year-to-date basis, $22.9 million (or 15% of revenues) compared to $22.5 million (or 13% of revenues) in the comparative period, with the increase primarily due to business development and acquisition costs of $2.0 million. Excluding these costs, general and administrative costs decreased 7%.

Year-to-date EBITDA for the segment was $41.9 million compared to $54.8 million in the comparative period primarily due to lower revenues, yielding EBITDA margins of 27% in the current period and 32% in the comparative period. Year-to-date EBITDAR was $54.5 million compared to $69.3 million in the comparative period, reflecting the impact of lower EBITDA and decreased utilization of leased aircraft in the first and second quarters.

Depreciation expense was $17.0 million (11% of revenues) compared to $17.7 million (10% of revenues) in the comparative period, due to lower flight hours.

Corporate Support and Other

(thousands of Canadian dollars)	Three months ended October 31 (unaudited) 2013	2012	% Change	Nine months ended October 31 (unaudited) 2013	2012	% Change
Revenue	$ 6,275	$ 7,709	-19%	$ 23,423	$ 19,188	22%
Expenses	9,361	9,582	-2%	32,191	26,228	23%
Share of profit of equity accounted investees	(399)	(108)	269%	(1,073)	(342)	214%
EBITDA	$ (2,687)	$ (1,765)	-52%	$ (7,695)	$ (6,698)	-15%
Capital expenditures	$ 1,129	$ 1,238	-9%	$ 3,217	$ 4,755	-32%

	As at October 31 2013	2012	% Change	As at October 31 2013	2012	% Change
Total assets	$ 29,872	$ 24,717	21%	$ 29,872	$ 24,717	21%
Intangible assets	$ 385	$ 616	-38%	$ 385	$ 616	-38%

Three months ended October 31, 2013

Corporate Support and Other revenues were $6.3 million in the quarter compared to $7.7 million in comparative period. The 19% decrease in revenue reflects decreased MRO activities at Technical Services as well as lower revenue from Discovery Mining due to lower mining-based activity in northern Canada.

The segment incurred expenses totaling $9.4 million compared to $9.6 million in comparative period, a decrease of 2%. The decrease in the segment expenses was largely attributable to decreased activity at Discovery Mining and Technical Services, offset by increased infrastructure and administrative support and business development related costs.

The segment reported an EBITDA loss of $2.7 million in the third quarter, compared to $1.8 million in the comparative period, due to lower revenue contribution and $0.4 million of business development costs and related financing at Corporate.

Nine months ended October 31, 2013

Year-to-date revenues in the Corporate Support and Other segment were $23.4 million compared to $19.2 million in the comparative period, with the 22% increase attributable to higher MRO activities from Technical Services in the first half of the year.

The segment's year-to-date expenses were $32.2 million compared to $26.2 million in the comparative period, a 23% increase on higher MRO activity and incremental business development costs of $1.1 million.

Year-to-date EBITDA loss was $7.7 million compared to an EBITDA loss of $6.7 million in the comparative period. The increased contribution from the lower margin MRO activity was offset by increased business development costs and decreased contribution from Discovery Mining.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

(thousands of Canadian dollars)	Nine months ended October 31 (unaudited) 2013	2012
Operating activities	$ 6,887	$ 22,090
Investing activities	(12,540)	(43,412)
Financing activities	(153)	15,945
Net decrease in cash for the period	$ (5,806)	$ (5,377)

Operating Activities

Cash provided by operating activities for the nine month period ended October 31, 2013 was $6.9 million, representing a $15.2 million decrease over the comparative period. The unfavourable variance was largely attributable to a $13.9 million reduction in EBITDA and a $6.9 million increase in non-cash working capital, offset by a $5.4 million reduction in taxes paid over the comparative period. Non-cash working capital was higher due to increased business volume at the end of the quarter, particularly for GSH. As has been the case in prior years, the Corporation expects non-cash working capital to decrease in the fourth quarter due to lower seasonal demand for its services.

Working Capital

As at October 31, 2013, the Corporation had positive working capital of $34.7 million (current ratio of 1.8), compared to a working capital position of $30.4 million at January 31, 2013 (current ratio of 2.0) and $40.0 million (current ratio of 2.1) as at October 31, 2012. The third quarter is traditionally the second strongest in terms of revenues and overall business activity and therefore requires more working capital than at the end of the fiscal year. The lower overall working capital, as compared to the previous year reflects lower business activity in fiscal 2014.

Investing Activities

Year-to-date cash outlays for investing activities was $12.5 million compared to $43.4 million in the comparative period. The year-to-date capital expenditures of $14.4 million included $1.2 million for the purchase of one helicopter, $2.4 million for facility enhancements and aircraft deposits, and $10.8 million related to sustaining capital expenditures and aircraft overhaul costs.

The comparative period cash outlay from investing activities included $32.2 million of capital expenditures and $11.7 million for business acquisitions. The capital expenditures consisted of two helicopters and nine fixed wing aircraft totaling $19.5 million, facility additions for $1.0 million, and $11.7 million related to sustaining capital expenditures and aircraft overhaul costs. The business acquisition payments consisted of $2.4 million for the purchase of Helicopters Chile and $9.3 million for the purchase of the assets of NAS.

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

Several initiatives are underway to optimize fleet utilization. These include the redeployment of helicopters to the U.S. and South America during seasonal low periods in northern Canada and exploration of alternative uses for the Corporation's fixed wing aircraft. Where the Corporation believes there will be more than a temporary slowdown in business volume, its intention is to divest of surplus aircraft. At the end of the third quarter, the Corporation received a non-binding offer for the purchase of two King Air 300 aircraft for aggregate proceeds of US$2.1 million, with the closing expected to occur in December 2013.

As noted under "*Recent Developments*" above, the pending acquisition of ATSI for $6.6 million by Defence Services is expected to close within 30 days of the announcement.

Defence Services is also exploring various growth opportunities in the international airborne training market, which, if realized, could result in additional requirements to fund capital expenditures for additional aircraft and working capital for new projects. The Corporation is exploring financing options to fund these growth initiatives. While discussions are underway, there can be no assurance that these initiatives will succeed.

Financing Activities
As at October 31, 2013, the Corporation had unused borrowing capacity available of $15.6 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. Under the operating facility, the borrowing capacity reduces by $10 million from November 1st to March 31st. Additionally, 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 last satisfied in December 2012.

Year-to-date, the Corporation made scheduled term debt repayments of $7.3 million and an instalment of $0.8 million on account of contingent consideration payable for the purchase of Helicopters Chile. In the comparative period, the Corporation made debt payments of $40.0 million, consisting of $32.0 million to retire a $34 million term loan at a discount, $4.5 million to replace a bridge loan, $0.5 million to retire a debt, and $3.0 million of scheduled debt repayments.

The Corporation's credit facilities contain various covenants including interest coverage, funded debt to EBITDA (as defined by the lending agreement), liabilities to equity, fair market value of assets pledged to loan balance, as well as other customary covenants, representations and warranties, funding conditions and events of default.

In addition, the Secured Debentures contain covenants that, among other things, limit the Corporation's ability to incur additional indebtedness beyond a predetermined amount, pay dividends or make other distributions, repurchase or redeem the Corporation`s capital stock, prepay, redeem or repurchase certain debt, sell secured assets, or deploy certain aircraft internationally. They also require that the Corporation remain in compliance with certain financial and non-financial covenants. On September 15, 2013, the holders of the Secured Debentures waived the covenant requiring the Corporation to maintain a total debt leverage ratio of not greater than 6.00:1.00 for the quarter ended October 31, 2013. With this waiver, the Corporation was in compliance with all of its debt covenants for the quarter ended October 31, 2013.

The decrease in the Corporation's trailing twelve month EBITDA (primarily from lower than expected first quarter results) continues to exert pressure on the total debt leverage ratio covenant. To avoid any possibility of non-compliance with this covenant, the Corporation requested and received an additional waiver for the total debt leverage covenant for the fourth quarter ending January 31, 2014. This waiver includes an agreement that permits the Corporation to add back certain expenses relating to Defence Services' business development initiatives in determining EBITDA for purposes of the total debt leverage ratio covenant. This waiver (including the agreement concerning the treatment of business development expenses) may be revoked in certain circumstances relating to Clairvest Group Inc.'s (or its affiliates') participation in the financing of certain of Defence Services' potential growth opportunities (see *"Investing Activities"* above).

The Secured Debentures also contain a Pledged Asset Ratio ("PAR") covenant, which requires the Corporation to pledge assets as collateral security in favour of the Secured Debenture holders having an aggregate value equal to no less than a prescribed multiple of the adjusted principal amount of the Secured Debentures (i.e., the original amount plus accrued interest). 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 has been in compliance with the PAR covenant to date, with the value of assets pledged currently standing at approximately $124.7 million. In order to remain in compliance with the PAR covenant, the Corporation expects the minimum value of assets required to be pledged by the Corporation to increase to approximately $141.5 million over the next 12 months. The Corporation currently has unencumbered real estate assets that it believes have an aggregate value of approximately $28.6 million and could be pledged as security to the Secured Debenture holders (if they so consent) or be used to raise the funds required to prepay loan balances against other assets that would be acceptable to the Secured Debenture holders. The Corporation expects that these measures will allow the Corporation to remain in compliance with the PAR for another 12 months. Beyond this period, the Corporation may need to take other measures to remain in compliance with, or seek a waiver of or an amendment to, the PAR covenant (none of which is assured), unless the Secured Debentures are subordinated as a result of a satisfactory award of a CATS contract to Defence Services or otherwise in accordance with their terms (Refer to the Secured Debentures which are available on SEDAR at www.sedar.com).

The Corporation believes that it has sufficient liquidity to meet its operating requirements based on its existing working capital position, expected cash from operations and available credit under its operating facility. This assessment could change if the Corporation experiences, in the near term time horizon, unplanned capital expenditures, or a sustained decline in resource based activities. A significant reduction in airborne training services to the DND could also have a material adverse impact to liquidity, however, historically, this service has remained largely consistent on an annual basis (based on the government's March 31st year end) and the standing offers for the Interim Contracted Airborne Training Services have been extended to June 2016.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 13 of the Corporation's interim condensed consolidated financial statements for the nine months ended October 31, 2013.

Shareholders' Equity

At October 31, 2013, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 1,100,690 stock options outstanding. During the current quarter, the Corporation issued no stock options to employees. During the current quarter, 49,175 stock options expired or were otherwise terminated in accordance with their terms.

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

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

OUTLOOK

Based on the preliminary results for the fourth quarter, the Corporation is experiencing higher than expected flight hours at GSH and lower than expected flight hours at Defence Services. While management believes the lower Defence Services flight hours are timing related, there can be no assurance that any shortfall will be offset by an increase in flight hours in the subsequent quarter.

Defence Services is making significant investments in time and resources to secure new airborne training services contracts. Its pending acquisition of ATSI and its efforts to source additional aircraft should position it well to pursue growth opportunities in the international airborne training services market. To fund this growth, the Corporation will require additional sources of capital. Negotiations are underway with several of the Corporation's lenders to finance these growth initiatives. This includes an $8.0 million facility to finance the acquisition of ATSI (the "**ATSI facility**") and to provide additional working capital for the Corporation. There can be no assurances that the Corporation will be successful in securing additional capital.

The Corporation is entering the seasonally slowest quarter of the year with approximately $15 million lower cash position than as at October 31, 2012. Several initiatives are underway to reduce this variance including collection of accounts receivable (which were approximately $4 million higher than as at October 31, 2012), cost reduction initiatives, aircraft and other asset sales and additional financing, including the ATSI facility. To the extent that the Corporation is unable to secure the required cash inflows from these initiatives, it may be necessary to curtail spending on growth opportunities.

RISK FACTORS

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

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

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

RECENTLY ISSUED STANDARDS

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

A new standard, IFRS 9, *Financial instruments*, is not yet effective for the quarter ended October 31, 2013, and has not been applied in preparing these interim condensed consolidated financial statements. Management believes that the application of the new standard will have no material impact on the financial statements of the Corporation.

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

NON-IFRS MEASURES

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

	Three months ended October 31 (unaudited)		**Nine months ended October 31 (unaudited)**	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Net profit attributable to shareholders' of Discovery Air Inc.	**$ 3,050**	$ 1,230	**$ 3,485**	$ 11,525
Income tax provision	**1,120**	466	**997**	3,829
Impairment loss	**803**	3,723	**803**	3,723
Gain on contingent consideration for business acquisition	**-**	-	**(1,248)**	-
Gain on extinguishment of debt	**-**	-	**-**	(2,224)
Gain on business acquisition	**-**	-	**-**	(297)
Gain on disposal of subsidiary	**-**	-	**(414)**	-
Change in fair value financial liabilities reported at fair value	**-**	-	**-**	(201)
Finance costs	**4,231**	4,275	**12,455**	13,202
Depreciation of property, equipment and intangible assets	**6,260**	6,187	**18,175**	18,568
(Gain) Loss on disposal of property and equipment	**(13)**	101	**(31)**	67
Non-controlling interest	**(57)**	(19)	**-**	(70)
EBITDA	**$ 15,394**	$ 15,963	**$ 34,222**	$ 48,122
Aircraft lease expenses	**5,408**	4,363	**12,591**	14,500
EBITDAR	**$ 20,802**	$ 20,326	**$ 46,813**	$ 62,622

“**Adjusted profit**” refers to net profit 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 better reflects the Corporation’s operational performance. Adjusted profit 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:

	Three months ended October 31		**Nine months ended October 31**	
	(unaudited)		**(unaudited)**	
(thousands of Canadian dollars)	**2013**	2012	**2013**	2012
Net profit attributable to shareholders of Discovery Air Inc.	**$ 3,050**	$ 1,230	**$ 3,485**	$ 11,525
Gain on disposal of property and equipment	**(13)**	101	**(31)**	67
Impairment loss	**803**	3,723	**803**	3,723
Tax effect on impairment loss	**(216)**	(995)	**(216)**	(995)
Gain on sale of subsidiary	**-**	-	**(414)**	-
Tax effect on gain on sale of subsidiary	**-**	-	**13**	-
Gain on contingent consideration for business acquisition	**-**	-	**(1,248)**	-
Gain on extinguishment of debt	**-**	-	**-**	(2,224)
Tax effect on gain on extinguishment of debt	**-**	-	**-**	300
Gain on business acquisition	**-**	-	**-**	(297)
Change in fair value of financial liabilities at fair value	**-**	-	**-**	(201)
Adjusted profit	**$ 3,624**	$ 4,059	**$ 2,392**	$ 11,898

Segmented breakdown of EBITDA and EBITDAR

(thousands of Canadian dollars)	Three months ended October 31, 2013 (unaudited)			Three months ended October 31, 2012 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 58,710**	**$ 6,275**	**$ 64,985**	$ 57,165	$ 7,709	$ 64,874
Expenses	**40,724**	**9,361**	**50,085**	39,468	9,582	49,050
Share of profit of equity accounted investees	**(95)**	**(399)**	**(494)**	(31)	(108)	(139)
EBITDA	**$ 18,081**	**$ (2,687)**	**$ 15,394**	$ 17,728	$ (1,765)	$ 15,963
Aircraft lease expenses	**5,408**	**-**	**5,408**	4,363	-	4,363
EBITDAR	**$ 23,489**	**$ (2,687)**	**$ 20,802**	$ 22,091	$ (1,765)	$ 20,326

(thousands of Canadian dollars)	Nine months ended October 31, 2013 (unaudited)			Nine months ended October 31, 2012 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 157,465**	**$ 23,423**	**$ 180,888**	$ 172,844	$ 19,188	$ 192,032
Expenses	**115,834**	**32,191**	**148,025**	118,102	26,228	144,330
Share of profit of equity accounted investees	**(286)**	**(1,073)**	**(1,359)**	(78)	(342)	(420)
EBITDA	**$ 41,917**	**$ (7,695)**	**$ 34,222**	$ 54,820	$ (6,698)	$ 48,122
Aircraft lease expenses	**12,591**	**-**	**12,591**	14,500	-	14,500
EBITDAR	**$ 54,508**	**$ (7,695)**	**$ 46,813**	$ 69,320	$ (6,698)	$ 62,622

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

(unaudited)	**Oct-13**	Jul-13	Apr-13	Jan-13	Oct-12	Jul-12	Apr-12	Jan-12
Results of operations:								
Total Revenue	**$ 64,985**	$ 72,308	$ 43,594	$ 37,321	$ 64,874	$ 74,225	$ 52,933	$ 28,699
EBITDA	**$ 15,394**	$ 21,017	$ (2,190)	$ (6,761)	$ 15,963	$ 23,292	$ 8,867	$ (6,158)
Cash from (used in) operations	**$ 14,995**	$ 5,360	$ (13,468)	$ 5,521	$ 23,133	$ 4,458	$ (5,500)	$ 9,635
Adjusted profit (loss)*	**$ 3,624**	$ 7,572	$ (8,804)	$ (11,547)	$ 4,059	$ 8,613	$ (773)	$ (11,583)
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ 3,050**	$ 9,239	$ (8,804)	$ (10,929)	$ 1,230	$ 8,935	$ 1,360	$ (9,825)
Basic earnings (loss) per share	**$ 0.21**	$ 0.63	$ (0.60)	$ (0.75)	$ 0.08	$ 0.61	$ 0.09	$ (0.67)
Basic adjusted profit (loss) per share*	**$ 0.25**	$ 0.52	$ (0.60)	$ (0.79)	$ 0.28	$ 0.59	$ (0.05)	$ (0.80)
Diluted earnings (loss) per share	**$ 0.19**	$ 0.40	$ (0.60)	$ (0.75)	$ 0.08	$ 0.38	$ 0.09	$ (0.67)
Diluted adjusted profit (loss) per share*	**$ 0.21**	$ 0.35	$ (0.60)	$ (0.79)	$ 0.22	$ 0.37	$ (0.05)	$ (0.80)

*See "Non-IFRS Measures"

Seasonality and Quarterly Fluctuations

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors can affect the comparability of results from one period to another, particularly from quarter to quarter. The seasonality and quarterly fluctuations are substantially unchanged from the description found under the heading "Seasonality and Quarterly Fluctuations" in the Corporation's MD&A for the fiscal year ended January 31, 2013, which is available on SEDAR at www.sedar.com

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

DEFINITIONS

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

(a) "**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% convertible unsecured subordinated debentures issued by the Corporation pursuant to a short form prospectus dated May 5, 2011, which trade on the Toronto Stock Exchange under the symbol "DA.DB.A";
(b) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(c) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(d) "**Fiscal 2013**" means the fiscal year of the Corporation ended January 31, 2013;
(e) "**Fiscal 2014**" means the fiscal year of the Corporation ended January 31, 2014;
(f) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of October 31, 2013, had an adjusted principal amount of $85,778,416 (inclusive of accrued interest); and
(g) "**Shares**" means the Class A Shares and the Class B Shares.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this MD&A contains forward-looking statements relating to: the seasonality of the Corporation's business; its business development; the impact of the current economic conditions on the results of its operations and/or financial condition; management's outlook for the future; management's ability to reduce costs and/or contain them at their existing levels; management's ability to continue to manage working capital effectively; the impact of weather conditions on the results of the Corporation's operations and/or financial condition; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet its debt covenants and other terms and conditions of its credit agreements; plans and/or requirements to make new capital investments.

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

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

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

Dated: December 15, 2013