Interim Condensed Consolidated Financial Statements
October 31, 2014
(Unaudited)

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

(thousands of Canadian dollars)	Note	**October 31, 2014**	January 31, 2014
Assets			
Current assets:			
Trade and other receivables		**$ 46,117**	$ 24,040
Income taxes receivable		**523**	3,931
Inventory		**28,707**	23,553
Prepaid expenses and other		**8,926**	8,162
		84,273	59,686
Property and equipment		**179,960**	187,852
Long term receivables		**1,553**	3,430
Goodwill		**37,861**	37,861
Intangible assets		**3,524**	6,389
Investments in associates		**4,880**	4,937
		$ 312,051	$ 300,155
Liabilities and Shareholders' equity			
Current liabilities:			
Operating line of credit	6	**$ 17,470**	$ 11,307
Trade and other payables		**23,841**	28,567
Current portion of loans and borrowings	5	**6,781**	7,669
		48,092	47,543
Loans and borrowings	5	**155,846**	153,612
Deferred income taxes		**20,208**	22,146
		176,054	175,758
Shareholders' equity:			
Share capital	7	**83,059**	68,469
Contributed surplus		**11,516**	11,353
Deficit		**(6,645)**	(2,946)
Accumulated other comprehensive loss		**(25)**	(22)
Total equity		**87,905**	76,854
		$ 312,051	$ 300,155

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Profit (Loss)

(Unaudited)		For the three months ended		For the nine months ended	
(thousands of Canadian dollars, except per share amounts)	Note	**October 31, 2014**	October 31, 2013	**October 31, 2014**	October 31, 2013
Revenue		**$ 58,560**	$ 64,985	**$ 156,456**	$ 180,888
Expenses		**44,610**	50,085	**133,638**	148,025
Depreciation of property, equipment and intangible assets		**5,486**	6,260	**16,352**	18,175
		8,464	8,640	**6,466**	14,688
Finance costs		**4,878**	4,231	**13,771**	12,455
Share of profit from associates (net of income tax)		**(417)**	(494)	**(1,415)**	(1,359)
Other (gains) and losses	9	**627**	790	**(11)**	(890)
		5,088	4,527	**12,345**	10,206
Profit (loss) before income taxes		**3,376**	4,113	**(5,879)**	4,482
Income tax provision (recovery):					
Current		**(24)**	(553)	**54**	(685)
Deferred		**474**	1,673	**(2,234)**	1,682
		450	1,120	**(2,180)**	997
Profit (loss)		**$ 2,926**	$ 2,993	**$ (3,699)**	$ 3,485
Profit (loss) attributable to:					
Non-controlling interest		**-**	(57)	**-**	-
Shareholders' of Discovery Air Inc.		**2,926**	3,050	**(3,699)**	3,485
		$ 2,926	$ 2,993	**$ (3,699)**	$ 3,485
Basic earnings (loss) per share	8	**$ 0.09**	$ 0.21	**$ (0.14)**	$ 0.23
Diluted earnings (loss) per share	8	**$ 0.09**	$ 0.19	**$ (0.14)**	$ 0.23

Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)	For the three months ended		For the nine months ended	
(thousands of Canadian dollars)	**October 31, 2014**	October 31, 2013	**October 31, 2014**	October 31, 2013
Profit (loss)	**$ 2,926**	$ 2,993	**$ (3,699)**	$ 3,485
Other comprehensive loss:				
Exchange differences on translation of foreign operation (net of tax)	**508**	107	**(3)**	(206)
Total comprehensive income (loss)	**$ 3,434**	$ 3,100	**$ (3,702)**	$ 3,279
Total comprehensive income (loss) attributable to:				
Non-controlling interest	**-**	(57)	**-**	-
Shareholders' of Discovery Air Inc.	**3,434**	3,157	**(3,702)**	3,279
	$ 3,434	$ 3,100	**$ (3,702)**	$ 3,279

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income (loss)	Non-controlling interest	Total equity
Balance at January 31, 2014		**$ 68,469**	**$ 11,353**	**$ (2,946)**	**$ (22)**	**$ -**	**$ 76,854**
Loss		**-**	**-**	**(3,699)**	**-**	**-**	**(3,699)**
Other comprehensive income (loss)		**-**	**-**	**-**	**(3)**	**-**	**(3)**
Share-based compensation		**-**	**163**	**-**	**-**	**-**	**163**
Common share issue (net of transaction costs)	7	**14,590**	**-**	**-**	**-**	**-**	**14,590**
Balance at October 31, 2014		**$ 83,059**	**$ 11,516**	**$ (6,645)**	**$ (25)**	**$ -**	**$ 87,905**
Balance at January 31, 2013		$ 68,469	$ 11,078	$ 15,009	$ 64	$ 8	$ 94,628
Profit		-	-	3,485	-	-	3,485
Acquisition of Minority Interest		-	-	8	-	(8)	-
Other comprehensive loss		-	-	-	(206)	-	(206)
Share-based compensation		-	219	-	-	-	219
Balance at October 31, 2013		$ 68,469	$ 11,297	$ 18,502	$ (142)	$ -	$ 98,126

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	Note	For the nine months ended **October 31, 2014**	October 31, 2013
Cash provided by (used in)			
Operating activities:			
Profit (loss)		**$ (3,699)**	$ 3,485
Adjustments for:			
Current tax provision (recovery)		**54**	(685)
Deferred tax provision (recovery)		**(2,234)**	1,682
Finance costs		**13,771**	12,455
Share-based compensation		**(326)**	228
Depreciation of property, equipment and intangible assets		**16,352**	18,175
Share of profit from associates		**(1,415)**	(1,359)
Other (gains) and losses	9	**(11)**	(890)
		22,492	33,091
Change in non-cash operating working capital	10	**(27,567)**	(23,986)
Interest paid		**(4,862)**	(4,116)
Net income taxes received		**3,334**	1,898
Net cash provided by (used in) operating activities		**(6,603)**	6,887
Investing activities:			
Dividends received		**1,485**	340
Acquisition of property and equipment		**(15,966)**	(14,411)
Long term receivable collections		**210**	159
Proceeds on disposal of property and equipment		**7,931**	156
Proceeds on sale of subsidiary and investment		**-**	1,216
Net cash used in investing activities		**(6,340)**	(12,540)
Financing activities:			
Proceeds from operating line of credit	6	**6,163**	7,976
Loans and borrowings transaction costs		**(228)**	(53)
Proceeds from loans and borrowings	5	**23,088**	-
Repayment of contingent consideration for business acquisition		**(750)**	(750)
Repayment of loans, borrowings and finance leases	5	**(29,920)**	(7,326)
Common share issue (net of transacation costs)	7	**14,590**	-
Net cash provided by (used in) financing activities		**12,943**	(153)
Decrease in cash		**-**	(5,806)
Cash, balance beginning of period		**-**	5,806
Cash, balance end of period		**$ -**	$ -

See accompanying notes to the interim condensed consolidated financial statements.

1. Reporting entity:

Discovery Air Inc. (the "**Corporation**") was incorporated on November 12, 2004 under the *Ontario Business Corporations Act* and on March 27, 2006 was continued under the *Canada Business Corporations Act*. The Corporation's Class A common voting shares (the "**Class A Shares**") are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "DA.A". The Corporation also has Class B common variable voting shares (the "**Class B Shares**"), which are not listed for trading on any exchange (the Class B Shares and the Class A Shares are collectively referred to as the "**Shares**"). The address of the registered office was changed on June 11, 2013 to 170 Attwell Drive, Suite 370, Etobicoke, Ontario. The Corporation operates through two business segments, "**Aviation**" and "**Corporate Support and Other**". Through direct and indirect subsidiaries, the Corporation operates over 160 aircraft with over 850 team members.

2. Basis of preparation:

Statement of compliance:

The Corporation prepares its interim condensed consolidated financial statements in accordance with International Accounting Standard ("**IAS**") 34, Interim Financial Reporting. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended January 31, 2014, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**").

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation's most recent annual audited consolidated financial statements for the year ended January 31, 2014.

In July 2014, the IASB issued IFRS 9, Financial Instruments ("**IFRS 9**"). IFRS 9 simplifies the measurement and classification of financial assets by reducing the number of measurement categories and removing complex rule-driven embedded derivative guidance in IAS 39, Financial Instruments: Recognition and Measurement. The new standard also provides for a fair value option in the designation of a non-derivative financial liability and its related classification and measurement, as well as for a new hedge accounting model more closely aligned with risk management activities undertaken by entities. IFRS 9 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers ("**IFRS 15**"). IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2017 with early adoption permitted. The Corporation is currently assessing the impact of the new standard on its financial statements.

4. Business combinations:

On December 17, 2013, the Corporation, through a subsidiary of Discovery Air Defence Services Inc. ("**Defence Services**"), acquired Advanced Training Systems International, Inc. by way of a merger of that entity with and into Advanced Training Systems International Corp. ("**ATSI**") for $7.2 million. ATSI is a U.S. airborne training services company based in Mesa, Arizona. It owns a fleet of ten Douglas A-4 Skyhawk aircraft and offers airborne training services, including, among other services, tactical "Red Air" services, fighter lead-in training, electronic warfare, radar theory and other combat tactics. ATSI was acquired in order to facilitate the expansion of Defence Services' airborne training services into the U.S. and other international markets. Prior to the time of acquisition, ATSI had minimal operations and revenues, however it previously provided airborne training services to the U.S. Navy, U.S. Air Force and the Canadian Armed Forces, and has also provided advanced operational test and evaluation services such as air-to-air refueling trials. The estimated fair values of the ATSI assets acquired approximate the purchase price. The measurements used in determining the fair values have been based on inputs that are not observable in the market due to the unique nature of the assets being acquired and therefore reflect a level 3 fair value measurement (see note 11). The Corporation considered similar aircraft in its current fleet as well as assessments from third party experts with military asset procurement backgrounds. The Corporation expects to finalize the preliminary purchase price allocation before the end of fiscal 2015. Foreign exchange gains and losses arising from translating ATSI's results and financial position into Canadian dollars are recorded in other comprehensive income (loss).

A summary of net assets acquired is as follows:

(thousands of Canadian dollars)

Net assets acquired	Preliminary
Cash	$ 14
Other current assets	2,030
Property and equipment	5,320
Current liabilities	(128)
	$ 7,236

5. **Loans and borrowings:**

(thousands of Canadian dollars)

	Note	**October 31, 2014**	January 31, 2014
10.00% secured convertible debentures, maturing March 22, 2017 ("**Secured Debentures**")		$ 91,065	$ 84,204
8.375% unsecured convertible debentures, maturing June 30, 2018 ("**Unsecured Debentures**")	15(a)	32,982	32,348
Long-term secured debt bearing interest at the BA rate plus 5.15%, maturing April 1, 2019	5(a)	17,515	-
Long-term secured debt bearing interest of lender's base rate plus 3.00%, maturing March 15, 2017		14,345	15,812
Long-term secured debt bearing interest at the BA rate plus 4.55%, maturing March 1, 2019	5(b)	1,449	-
Long-term unsecured debt bearing a fixed interest rate of 9.00%, maturing July 22, 2015	5(c)	980	1,701
Long-term secured debt incurred by subsidiary companies bearing fixed and floating interest rates at a weighted average of 3.45% (January 31, 2014 - 4.4%), maturing fiscal 2015 through fiscal 2017		639	780
Long-term secured debt bearing interest of lender's base rate plus 1.50%, maturing February 15, 2016	5(d)	-	12,730
Long-term secured debt bearing interest of BA rate plus 4.55%, maturing March 26, 2017	5(e)	-	9,631
Finance leases		3,652	4,075
Loans and borrowings		**$ 162,627**	$ 161,281
Less current portion of loans and borrowings		**$ 6,781**	$ 7,669
		$ 155,846	$ 153,612

(a) On March 31, 2014, the Corporation entered into a $21.5 million term loan agreement to refinance five existing loans (see notes 5(d)) and 5(e)). On June 13, 2014 the loan was amended for a $2.5 million loan repayment related to the sale of aircraft, to require monthly payments of $362,000 for the following twelve months and $210,000 per month thereafter, with the balance due at maturity on April 1, 2019. 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 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 (see note 5(f)).

(b) 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.

(c) On June 22, 2012, the Corporation entered into a $4.5 million term loan agreement to refinance a maturing debt. On June 12, 2014 the loan was amended to postpone the principal payments for three months, and adjust the maturity date to July 22, 2015. The loan bears a fixed interest rate of 9.00% and is payable monthly. The loan is secured by a subordinated general security agreement with the Corporation and certain of its subsidiaries. Transaction costs of $104,000 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 10.22% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage (see note 5(f)).

(d) On May 2, 2012, the Corporation entered into a $15.0 million secured term loan agreement and had drawn $13.8 million. The loan matures on February 15, 2016 and is repayable through an annual curtailment each February equal to 1/10th of the original amounts drawn and monthly payments of interest. The loan bears an interest rate equal to the greater of: (i) 4.50%, and (ii) the lender's floating base rate plus 1.50% per annum. On April 1, 2014, this loan was repaid with proceeds from a new loan (see note 5(a)).

(e) On March 26, 2012, the Corporation entered into four secured term loan agreements for an aggregate principal amount of $14.2 million. The loans mature on March 26, 2017 and are repayable in aggregate monthly instalments of $185,000, with the balance due at maturity. The loans bear interest at a rate equal to the one-month Canadian dollar BA rate plus 4.55% per annum. On April 1, 2014, these loans were repaid with proceeds from a new loan (see note 5(a)).

(f) The Corporation is required to maintain a minimum fixed charge coverage ratio and minimum debt service coverage ratio under several loan agreements. In September 2014 the Corporation obtained waivers or amendments to these covenants for the nine months ending October 31, 2014. As the waivers were received prior to October 31, 2014 there was no impact on the classification of loans and borrowings. The Corporation was in compliance with the amended covenants as of October 31, 2014.

The Corporation is also required to comply with several other 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 received irrevocable waivers from and/or amendments to the Debt Leverage Covenant and the PAR Covenant for the quarters ending October 31, 2014 through to October 31, 2015. There is no assurance that following the periods covered by the waivers that the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant.

In September 2014, the Secured Debentures were amended to increase the Debt Leverage Covenant to 7.80:1.00 for the period ending April 30, 2015 and to decrease the PAR Covenant to 1.41:1.00 and 1.37:1.00 for the periods ending April 30, 2015 and July 31, 2015, respectively. In connection with the amendment the Corporation agreed not to request the Secured Debenture holders to subordinate their security interest in the assets of the Corporation, and the Secured Debenture holders shall not be required to subordinate their security interest in the assets of the Corporation, prior to the later of December 31, 2016, and the date on which the Corporation is in compliance with the covenants (subject to certain exclusions) in the Secured Debentures for the eight quarters preceding the request. While this restriction is in effect the Secured Debenture holders are not permitted to convert any or all of the Secured Debentures into Shares, except in connection with the maturity of the Secured Debentures, or in connection with or following a Change of Control (as defined in the Secured Debentures). The Corporation also consented not to incur additional indebtedness without the prior consent of the Secured Debentures holders on yet-to-be acquired assets until August 1, 2015.

Further in December 2014, the Secured Debentures were amended to increase the Debt Leverage Covenant to 9.00:1.00 for the periods April 30, 2015 through to October 31, 2015; and to decrease the PAR Covenant to 1.40:1.00 for the period ending October 31, 2015. As part of this amendment, the Corporation also agreed to apply 50% of the proceeds of any equity financing conducted prior to July 29, 2016, up to a maximum of $5,000,000, to repay the Secured Debentures.

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

Repayments on or in respect of the outstanding loans and borrowings as at October 31, 2014 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)		
Within 1 year	$	6,781
Within 2 years		36,990
Within 3 years		103,632
Within 4 years		2,250
Within 5 years		10,955
Thereafter		2,019
Total	$	162,627

Interest expense on or in respect of loans and borrowings for the three and nine months ended October 31, 2014, was $4.1 million (October 31, 2013 - $3.9 million) and $12.3 million (October 31, 2013 - $11.6 million), respectively.

6. Operating line of credit:

On August 1, 2012, the Corporation entered into a committed operating line of credit ("**Operating Line**") that matures on April 9, 2015 and which bears interest at the lender's prime rate plus 2% with an option to use bankers' acceptance rates upon payment of a 3% stamping fee. The Operating Line has a maximum borrowing limit of $15.0 million, increasing up to $25.0 million during the Corporation's peak season. In October 2014 the operating line of credit was amended to extend the peak season borrowing limit of $25.0 million to December 15 from October 31. Aggregate borrowings are also limited to eligible accounts receivable and inventory, subject to an allowance for specific reserves. The Operating Line, which may be used by the Corporation for working capital and general corporate purposes, is secured by a first charge on the receivables and inventory of the Corporation and certain of its subsidiaries, general security agreements and other customary security agreements. The credit 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. In September 2014 the Corporation obtained a modification to the minimum debt service coverage ratio for the quarter ended October 31, 2014. In addition to financial covenants, during the non-peak season 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 and the Corporation was in compliance with all other applicable covenants.

In connection with the rights offering (the "**Offering**", see note 7), the Corporation's operating lender temporarily provided an immediate $10.0 million increase in the Operating Line (by way of an increase in the Corporation's borrowing base), and a commitment to increase the overall limit of the operating facility by $10.0 million. This commitment expired and was repaid on May

2, 2014 with the proceeds from Shares issued pursuant to the standby purchase agreement between Clairvest Group Inc. ("Clairvest") and the Corporation, dated February 24, 2014 ("**Standby Purchase Agreement**") in relation to the Offering.

As at October 31, 2014, the Corporation had available a borrowing capacity of $25.0 million, against which $1.0 million was applied to issue letters of credit and $17.5 million was drawn (January 31, 2014 - $11.3 million).

7. Share capital and share-based compensation:

(a) Issued and outstanding:

(thousands of Canadian dollars, except for shares)

	October 31, 2014		January 31, 2014	
	Shares	**Amount**	Shares	Amount
Class A Shares				
Outstanding, beginning of year	**14,510,855**	**$ 67,431**	14,510,855	$ 67,431
Issued from rights offering (net of transacation costs)	**16,999,293**	**14,209**	-	-
Outstanding, end of period	**31,510,148**	**$ 81,640**	14,510,855	$ 67,431
Class B Shares				
Outstanding, beginning of year	**44,760**	**$ 1,038**	44,760	$ 1,038
Issued from rights offering (net of transacation costs)	**442,567**	**381**	-	-
Outstanding, end of period	**487,327**	**$ 1,419**	44,760	$ 1,038
	31,997,475	**$ 83,059**	14,555,615	$ 68,469

In February 2014, the Corporation announced its intent to complete the Offering in order to raise up to $15.0 million of equity capital through the sale of Shares. 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 agreed, in accordance with the terms of 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.

The Offering was completed in April 2014. The Corporation raised approximately $1.7 million in gross proceeds from the issuance of 1,952,009 Class A Shares. In May 2014 the Corporation issued 15,047,284 Class A Shares and 442,567 Class B Shares, for gross proceeds of $13.3 million (at $0.86 per Share) to Clairvest and/or certain of its funds and co-investors pursuant to the Standby Purchase Agreement in relation to the Offering. In connection with the closing of this transaction, the holders of the Corporation's Secured Debentures have irrevocably agreed to waive 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. As a result of the Offering and the issuance of Shares pursuant to the Standby Purchase Agreement, the Unsecured Debentures conversion price changed to $6.53 per Share (formerly $7.30 per Share).

(b) Share-based compensation:

Employee Stock Options (equity settled)

As at October 31, 2014, the Corporation had stock options outstanding that were granted to the officers and employees of the Corporation under three different employee stock option plans. The employee stock option plan created in January 2006 (the "**2006 plan**") was terminated in June 2008, terminating any additional grants under this plan. All outstanding stock options granted under the January 2006 plan are fully vested.

In June 2010, a new employee stock plan (the "**2010 plan**") was approved by the shareholders. Stock options granted under the 2010 plan have an exercise price set at the closing market price of the Class A Shares on the day preceding the date of grant are exercisable for up to 10 years, and have vesting periods of three to five years, as determined by the Corporation`s board of directors.

On June 11, 2013, a new employee stock plan (the "**2013 plan**") was approved by the shareholders. Stock options granted under the 2013 plan have an exercise price set by the board provided that it may not be less than the weighted average market price of the common shares on the TSX on the five trading days prior to such date. The board will have authority to determine the expiry date for each option, provided that it may not be more than 10 years from the grant dated. The board will have authority to determine the vesting schedule for each grant. Any options granted after the effective date of the 2013 plan will be issued under, and will be governed by the terms of the 2013 plan.

At October 31, 2014, 3,199,748 Shares have been reserved for stock options as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.86 - \$2.54	2,369,728	10.00	\$ 0.86	473,946	\$ 0.86
\$2.55 - \$4.99	81,110	3.07	\$ 3.11	81,110	\$ 3.11
\$5.00 - \$10.00	557,000	8.05	\$ 6.00	117,000	\$ 5.98
\$10.01 - \$15.00	18,760	3.29	\$ 12.48	18,760	\$ 12.48
\$15.01 - \$17.50	146,685	2.51	\$ 15.89	146,685	\$ 15.89
\$17.51 - \$18.50	26,465	2.30	\$ 18.50	26,465	\$ 18.50
	3,199,748			863,966	

Stock option transactions for the periods ended October 31, 2014 and January 31, 2014 are as follows:

	October 31, 2014		January 31, 2014	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding, beginning of year	**1,089,350**	**\$ 7.75**	1,204,555	\$ 7.75
Granted	**2,369,728**	**0.86**	-	-
Expired/Forfeited	**(259,330)**	**6.32**	(115,205)	0.87
Outstanding, end of period	**3,199,748**	**\$ 3.23**	1,089,350	\$ 7.75

For the three and nine months ending October 31, 2014, the Corporation recognized a net compensation expense of \$0.1 million and \$0.2 million, respectively (October 31, 2013 - 0.1 million and \$0.2 million, respectively) relating to the estimated fair value of vesting employee stock options.

The fair value of the options granted is determined using an option valuation model with the following weighted average assumptions.

		October 2014
Options granted		2,369,728
Exercise price per share	$	0.86
Risk-free interest rate		1.52%
Dividend yield		0%
Expected volatility		71%
Expected option life		3 - 4 years
Expected forfeiture rate		13%
Fair value per option	$	0.06

Expected volatility is measured at the standard deviation of continuous compounded share returns and is based on statistical analysis of the Corporation's historical weekly share prices.

8. **Earnings per share:**

(thousands of Canadian dollars, except per share amounts)	For the three months ended				For the nine months ended			
		October 31, 2014		October 31, 2013		**October 31, 2014**		October 31, 2013
Basic earnings (loss) per share:								
Profit (loss) attributable to shareholders	**$**	**2,926**	$	3,050	**$**	**(3,699)**	$	3,485
Weighted average number of Shares outstanding		**31,997**		14,867		**26,374**		14,867
Basic profit (loss) per share	**$**	**0.09**	$	0.21	**$**	**(0.14)**	$	0.23
Diluted Earnings (loss) per share:								
Profit (loss) attributable to shareholders	**$**	**2,926**	$	3,050	**$**	**(3,699)**	$	3,485
Dilutive adjustments:								
- Interest savings from assumed conversion of convertible debt	**$**	**-**	$	2,319	**$**	**-**	$	-
Adjusted profit (loss) attributable to shareholders	**$**	**2,926**	$	5,369	**$**	**(3,699)**	$	3,485
Weighted average number of Shares outstanding		**31,997**		14,556		**26,374**		14,867
Dilutive adjustments:								
- Assumed conversion of convertible debt	**$**	**-**	$	14,059	**$**	**-**	$	-
Weighted average number of Shares outstanding assuming dilution		**31,997**		28,615		**26,374**		14,867
Diluted earnings (loss) per share	**$**	**0.09**	$	0.19	**$**	**(0.14)**	$	0.23

The weighted average number of shares has been retrospectively adjusted for the bonus element of the rights issued pursuant to the Offering (see note 7(a)). The Shares attributable to the bonus element was 310,983.

For the three and nine months ended October 31, 2014, 14,575,132 (three and nine months ended October 31, 2013, 14,059,361) potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive. Although the Corporation's Class A Share price as at October 31, 2014 and 2013 was 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.

9. Other (gains) and losses:

(thousands of Canadian dollars)	For the three months ended		For the nine months ended	
	October 31, 2014	October 31, 2013	**October 31, 2014**	October 31, 2013
Gain on disposal of property and equipment	**$ (343)**	$ (13)	**$ (981)**	$ (31)
Impairment of long term service contract	**$ 970**	$ -	**$ 970**	$ -
Gain on sale of subsidiary	**-**	-	**-**	(414)
Impairment loss	**-**	803		803
Gain on contingent consideration of business acquisition	**-**	-	**-**	(1,248)
	$ 627	$ 790	**$ (11)**	$ (890)

10. Change in non-cash operating working capital:

(thousands of Canadian dollars)	For the nine months ended	
	October 31, 2014	October 31, 2013
Restricted cash	**$ -**	$ 543
Trade and other receivables	**(20,447)**	(20,659)
Inventory	**(2,619)**	(3,294)
Prepaid expenses	**(1,064)**	(1,658)
Trade and other payables	**(3,437)**	1,082
	$ (27,567)	$ (23,986)

11. Fair value of financial assets and liabilities:

Fair value estimation:

The Corporation classifies its fair value measurements by reference to the following fair value measurement hierarchy:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Carrying values for assets and liabilities classified as loans and receivables and financial liabilities at amortized cost (excluding loans and borrowings) approximate their fair value due to their short-term nature.

The fair value of the Secured Debentures and Unsecured Debentures as at October 31, 2014 was $108.3 million (January 31, 2014 - $95.0 million) as compared to a carrying value of $124.0 million (January 31, 2014 - $116.6 million). At October 31, 2014 and January 31, 2014 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

The fair value of the Corporation's variable rate loans and borrowings approximates their carrying value, as the applicable interest rate is at a floating market rate.

12. Related party transactions:

Transactions with associates:

For the three and nine months ended October 31, 2014, the Corporation's revenues include $7.3 million and $18.9 million (October 31, 2013 - $5.4 million and $13.1 million), respectively and the Corporation's expenses include $0.7 million and $1.8 million (October 31, 2013 - $0.7 million and $1.6 million), respectively, from transactions with the Corporation's associates. As at October 31, 2014, $2.8 million (January 31, 2014 - $1.6 million) of the Corporation's accounts receivable were due from associates and $0.6 million (January 31, 2014 - $0.7 million) of the Corporation's accounts payable were due to associates.

13. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the three and nine months ended October 31, 2014, the Corporation incurred $4.2 million (October 31, 2013 - $5.7 million) and $11.4 million (October 31, 2013 - $13.3 million) in operating lease expenses, respectively. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)		
Within 1 year	$	8,007
Within 2 years		4,895
Within 3 years		3,199
Within 4 years		2,203
Within 5 years		2,058
Thereafter		9,849
	$	30,211

The lease terms range from a period of 1 to 50 years, the majority of which are renewable at the end of the lease term at market rates.

14. Segmented information:

The Corporation's reportable segments are "**Aviation**", which includes Great Slave Helicopters Ltd. ("**GSH**"), Defence Services, Air Tindi Ltd. ("**Air Tindi**"), and Discovery Air Fire Services Inc. ("**Fire Services**") and "**Corporate Support and Other**", which includes Discovery Air Technical Services Inc. ("**Technical Services**"), Discovery Mining Services Ltd. ("**Mining Services**"), and Corporate (reflecting direct corporate overhead costs). In assessing the reportable segments, the Corporation considered the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The Aviation segment aggregates operating units that have substantially the same basis of deriving revenues, infrastructure to conduct operations and regulatory environment. Corporate Support and Other contains operating units which do not meet the basis for aggregation under Aviation and individually represent less than 10% of the Corporation's total assets, annual revenues and annual earnings.

The revenues disclosed in the tables are from external customers. There are inter-segment revenues; however they are eliminated on consolidation. For the three and nine months ended October 31, 2014, Corporate Support and Other inter-segment revenue was $0.1 million (October 31, 2013 - $0.1 million), and $0.3 million (October 31, 2013 - $0.7 million), respectively.

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors such as weather conditions can affect the comparability of results from one period to another, particularly from quarter to quarter. Some of the seasonal factors that impact quarterly results are as follows: there is increased demand for the services provided by GSH, Fire Services, Air Tindi, and Mining Services normally commencing in the late spring and continuing through to the end of the summer; Defence Services revenue-generating opportunities are significantly higher in the February to June and September to November time periods; though Defence Services revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customers' priorities; weather conditions can have an impact on flight activity from one period to another, especially in the Corporation's fire suppression activities; the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential; and repair and maintenance on aircraft do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

(thousands of Canadian dollars)	**For the three months ended October 31, 2014**			For the three months ended October 31, 2013		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 51,825**	**$ 6,735**	**$ 58,560**	$ 58,710	$ 6,275	$ 64,985
Expenses	**36,333**	**8,277**	**44,610**	40,724	9,361	50,085
Depreciation of property, equipment and intangible assets	**5,012**	**474**	**5,486**	5,892	368	6,260
	10,480	**(2,016)**	**8,464**	12,094	(3,454)	8,640
Share of (profit) loss from associates (net of income tax)	**(424)**	**7**	**(417)**	(95)	(399)	(494)
	10,904	**(2,023)**	**8,881**	12,189	(3,055)	9,134
Finance costs			**4,878**			4,231
Other (gains) and losses			**627**			790
Profit before income taxes			**3,376**			4,113
Income tax provision (recovery):						
Current			**(24)**			(553)
Deferred			**474**			1,673
			450			1,120
Profit			**$ 2,926**			$ 2,993
Profit (Loss) attributable to:						
Non-controlling interest			**-**			(57)
Shareholders' of Discovery Air Inc.			**$ 2,926**			$ 3,050
Segment assets	**$ 289,423**	**$ 22,628**	**$ 312,051**	$ 289,053	$ 29,872	$ 318,925
Capital expenditures	**$ 5,220**	**$ 940**	**$ 6,160**	$ 4,932	$ 1,129	$ 6,061
Investments in associates	**$ 4,855**	**$ 25**	**$ 4,880**	$ 3,129	$ 1,360	$ 4,489

(thousands of Canadian dollars)	**For the nine months ended October 31, 2014**			For the nine months ended October 31, 2013		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 133,099**	**$ 23,357**	**$ 156,456**	$ 157,465	$ 23,423	$ 180,888
Expenses	**105,198**	**28,440**	**133,638**	115,834	32,191	148,025
Depreciation of property, equipment and intangible assets	**14,952**	**1,400**	**16,352**	17,011	1,164	18,175
	12,949	**(6,483)**	**6,466**	24,620	(9,932)	14,688
Share of profit from associates (net of income tax)	**(1,409)**	**(6)**	**(1,415)**	(286)	(1,073)	(1,359)
	14,358	**(6,477)**	**7,881**	24,906	(8,859)	16,047
Finance costs			**13,771**			12,455
Other gains			**(11)**			(890)
Profit (loss) before income taxes			**(5,879)**			4,482
Income tax provision (recovery):						
Current			**54**			(685)
Deferred			**(2,234)**			1,682
			(2,180)			997
Profit (loss)			**$ (3,699)**			$ 3,485
Profit (Loss) attributable to:						
Non-controlling interest			**-**			
Shareholders' of Discovery Air Inc.			**$ (3,699)**			$ 3,485
Segment assets	**$ 289,423**	**$ 22,628**	**$ 312,051**	$ 289,053	$ 29,872	$ 318,925
Capital expenditures	**$ 14,756**	**$ 1,210**	**$ 15,966**	$ 11,194	$ 3,217	$ 14,411
Investments in associates	**$ 4,855**	**$ 25**	**$ 4,880**	$ 3,129	$ 1,360	$ 4,489

15. Subsequent events:

(a) On November 27, 2014, the Corporation's unsecured 8.375% debenture holders voted in favor of two amendments to the debentures. As a result: a) the definition of "change of control" in the Debenture indenture will be changed to allow for the Company's largest shareholder, Clairvest, to increase its equity interest above 50% without requiring the Company to repurchase the debentures; and b) the maturity date of the Debentures will be extended from June 30, 2016 to June 30, 2018, which extension is subject to the Company completing, prior to June 29, 2016, an equity offering of the Company's Class A common shares and/or Class B variable voting shares for a minimum aggregate net proceeds of $5,000,000.

(b) Subsequent to quarter end, an aircraft owned and operated by Air Tindi was forced to make an emergency landing shortly after taking off. All five passengers on board, as well as the pilot, were safely and successfully rescued after the incident. The damage to the aircraft is covered by insurance.

(c) In November, 2014, the Corporation terminated a component asset management contract with a Canadian airline. Under the terms of the agreement, the Corporation sold the related inventory to the Canadian airline and in the current quarter recorded a loss of $1.0 million due to the write off of unrecoverable costs.