MANAGEMENT'S DISCUSSION AND ANALYSIS

The following 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 year ended January 31, 2012 should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2012 and 2011, which are available on SEDAR at www.sedar.com.

On February 1, 2011, the Corporation adopted International Financial Reporting Standards ("**IFRS**") for financial reporting purposes, using a transition date of February 1, 2010. The annual audited consolidated financial statements of the Corporation for the year ended January 31, 2012, including required comparative information, have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards. Previously, the Corporation prepared its annual consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles ("**CGAAP**"). Unless otherwise noted, Fiscal 2011 comparative information has been prepared in accordance with IFRS.

Definitions

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

(a) "**2006 Unsecured Debentures**" means the $28,750,000 aggregate principal amount of 8.75% unsecured convertible debentures which were redeemed by the Corporation on or about June 16, 2011;
(b) "**2011 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";
(c) "**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
(d) "**Class B Shares**" means the Corporation's Class B common variable voting shares;
(e) "**EBITDA**"* means net earnings (loss) before finance costs, income taxes, depreciation of property and equipment and intangible assets and non-cash gain on extinguishment of debt and gains and losses resulting from the change in fair value of financial liabilities;
(f) "**EBITDAR**"* means EBITDA before aircraft lease costs;
(g) "**Fiscal 2011**" means the fiscal year of the Corporation ended January 31, 2011;
(h) "**Fiscal 2012**" means the fiscal year of the Corporation ended January 31, 2012;
(i) "**Fiscal 2013**" means the fiscal year of the Corporation ending January 31, 2013;
(j) "**Q1/11**", "**Q2/11**", "**Q3/11**" and "**Q4/11**" mean the first, second, third and fourth quarters, respectively, of Fiscal 2011;"**Q1/12**", "**Q2/12**", "**Q3/12**" and "**Q4/12**" mean the first, second, third and fourth quarters, respectively, of Fiscal 2012;
(k) "**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; and
(l) "**Shares**" means the Class A Shares and the Class B Shares.

*See "Non-IFRS measures" below.

Business Profile

Discovery Air, founded in 2004, is a specialty aviation services company which, through its subsidiaries, operates across Canada and in select locations internationally. The Corporation and its subsidiaries have over 150 aircraft, employ more than 850 flight crew, maintenance personnel and support staff working to deliver a variety of air transport, maintenance and logistics solutions to a their government and business customers. The Corporation classifies its operating subsidiaries in two reportable segments: Government Services and Northern Services.

The Government Services segment includes three subsidiaries. Top Aces Inc. ("**Top Aces**") provides primarily airborne training services to the Canadian Department of National Defence. Discovery Air Fire Services Inc. ("**Fire Services**"), formerly Hicks & Lawrence Limited, provides primarily forest fire management and court-related air transport services to the Government of Ontario. Discovery Air Technical Services Inc. ("**Technical Services**") provides a range of maintenance, repair and overhaul ("**MRO**"), modification, engineering and certification services.

The Northern Services segment includes three subsidiaries. Great Slave Helicopters Ltd. ("**Great Slave**"), one of the largest helicopter operators in Canada, has bases throughout Canada from which it operates support flights for mining and oil and gas seismic and exploration work, forest fire suppression, aerial construction and precision external load applications and environmental impact surveys. Air Tindi Ltd. ("**Air Tindi**") is a commercial fixed-wing charter company based in Yellowknife, Northwest Territories, which 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 Canada. Discovery Mining Services Ltd. ("**Discovery Mining**") provides remote exploration camp and expediting, logistics and staking services to a broad spectrum of resource exploration companies.

All activities that are not allocated to these two business segments are reported under Corporate Support, including Discovery Air Innovations Inc. ("**Innovations**"), the Corporation's business development arm, which is focused on identifying, pursuing and capitalizing on new market opportunities for Discovery Air and its subsidiaries.

Selected Financial Information

(thousands of dollars, except per share amounts)		Fiscal 2012		Fiscal 2011
Results of operations				
Revenue	$	191,720	$	151,285
Expenses	$	147,758	$	109,613
Depreciation of property and equipment and intangible assets	$	21,092	$	19,791
	$	22,870	$	21,881
Financing costs	$	17,415	$	15,303
Earnings and comprehensive earnings	$	11,752	$	5,141
Basic earnings per common share	$	0.82	$	0.38
Diluted earnings per common share	$	0.72	$	0.38
Financial position and liquidity				
Total assets	$	274,635	$	250,794
Total loans, borrowings and finance leases	$	133,104	$	139,280
Cash from (used) in operations	$	24,951	$	20,953
Working capital	$	33,980	$	(10,726)
Key non-IFRS performance measures*				
Adjusted Earnings	$	5,625	$	5,141
Basic adjusted earnings per common share	$	0.39	$	0.38
Diluted adjusted earnings per common share	$	0.39	$	0.38
EBITDAR	$	59,541	$	52,049
EBITDA	$	46,422	$	42,727
EBITDA Margin		24%		28%
After-tax operating cash flow	$	25,431	$	25,430
After-tax operating cash flow per common share	$	1.78	$	1.88

* See "Non-IFRS measures" below.

Financial Highlights of Fiscal 2012

- Fiscal 2012 consolidated revenues increased 27%, with the Northern Services and Government Services segments experiencing a year–over-year revenue increases of 25% and 29%, respectively. Revenue growth was attributable primarily to demand for services provided by the Northern Services segment's by its resource-based customers, a full year's revenue contribution from Technical Services, and increased demand for Fire Services forest fire management services in Ontario.

- Fiscal 2012 EBITDA increased 9%, resulting in an EBITDA margin of 24%. EBITDA margin was impacted by higher operating costs incurred to support increased business activity, business development expenses incurred to pursue near and long-term growth opportunities for the Corporation, and transaction and start-up costs incurred in connection with the establishment and acquisition of new businesses. The Corporation expects to generate increased revenues from its new businesses in Fiscal 2013.

- In Fiscal 2012, the Corporation increased earnings to $11.8 million ($0.82 per Share), compared to $5.1 million ($0.38 per Share), in the Fiscal 2011. A significant part of the increase in earnings was attributable to a $4.2 million after tax gain on debt extinguishment realized in Q2/12 and a $1.9 million gain resulting from a mark to market adjustment in Q3/12 relating to the Secured Debentures. Adjusting for these non-cash gains, adjusted earnings (see "Non-IFRS Measures" below) in Fiscal 2012 were $5.6 million ($0.39 per Share). Adjusted earnings increased only slightly over the prior year's adjusted earnings due to the higher costs noted above, higher amortization expense resulting from increased flight hours and higher finance costs due to a series refinancing transactions throughout the year. Finance costs included a $1.1 million non-cash write off of deferred financing costs on debts that were extinguished during the year.

- The Corporation continued to pursue organic growth in Fiscal 2012 by expanding into new markets and securing significant customer contracts, notable examples include:

    - the establishment of Discovery Air International Inc., to provide executive charter and medevac services originating from Western Canada with its fleet of Challenger 601 and Lear 35 jet aircraft;
    - the acquisition of a majority stake in Aero Vision Technologies Inc., a provider of software solutions for the aviation market;
    - the Corporation's various joint venture partners were awarded a five year $15 million contract to provide charter service for Diavik Mines Inc. and a five year $30 million contract to provide medevac services to the Government of Nunavut; and
    - Top Aces' standing offer arrangements for Interim Contracted Airborne Training Services (ICATS) were extended to June 2013.

- The Corporation restructured its balance sheet to extend its debt maturities and provide additional working capital by:

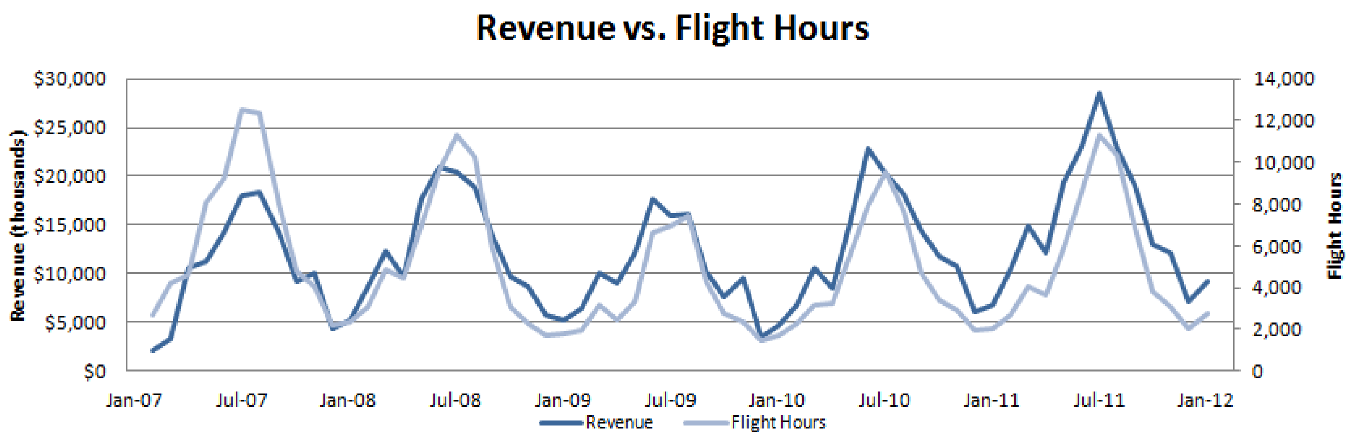
    - replacing the $28.8 million principal amount of 2006 Unsecured Debentures maturing on December 31, 2011 with the 34.5 million principal amount of 2011 Unsecured Debentures maturing on June 30, 2016, and using the residual proceeds to fund working capital;
    - replacing debts requiring monthly cash payments of principal and interest with the $70 million principal amount of Secured Debentures that do not require cash payments of interest until maturity; and
    - extinguishing a $13.2 million related party debt through a cash payment of $2.9 million and the issuance of Class A Shares, generating a $5.9 million gain on retirement.

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.

- In Canada, demand for the services provided by the Northern Services segment and by Fire Services is higher commencing in the spring and continuing through to the end of the summer.
- Top Aces' revenue-generating opportunities are usually significantly higher in the February to June and September to November time periods. Though Top Aces' revenues are relatively predictable over a 12 month period, they can vary substantially from month to month depending on the customers' training priorities and, on occasion, weather conditions.
- The Corporation attempts to perform most major repairs and refurbishments during the slower periods of revenue-generating activity. Since repairs and maintenance on aircraft are not required evenly throughout the year, the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on flight activity from one period to another, especially in the forest fire suppression businesses.

Seasonality of Monthly Revenue and Flight Hours



Results of Operations in Fiscal 2012 and Fiscal 2011

(thousands of dollars)	Fiscal 2012				Fiscal 2011			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	**$ 111,789**	**$ 79,931**	**$ -**	**$ 191,720**	**$ 89,251**	**$ 62,028**	**$ 6**	**$ 151,285**
Expenses	90,126	48,644	8,988	147,758	68,460	34,481	6,672	109,613
Loss (gain) on disposal of property and equipment	(2,070)	4	-	(2,066)	(892)	-	-	(892)
Share of (earnings) of equity accounted investees	(372)	(22)	-	(394)	(163)	-	-	(163)
EBITDA	**$ 24,105**	**$ 31,305**	**$ (8,988)**	**$ 46,422**	**$ 21,846**	**$ 27,547**	**$ (6,666)**	**$ 42,727**
Amortization	12,324	8,681	87	21,092	11,715	8,017	59	19,791
Finance Costs				17,415				15,303
Change in fair value of financial liabilities at fair value				(1,879)				-
Gain on extinguishment of related party debt				(5,900)				-
Earnings before income tax				15,694				7,633
Current Income tax provision				4104				2933
Deferred Income tax recovery				(129)				(441)
				3,975				2,492
Earnings and comprehensive income				**11,719**				**5,141**
Loss attributable to non-controlling				(33)				-
Earnings attributable to shareholders of Discovery Air Inc.				**$ 11,752**				**$ 5,141**
Capital expenditures	**$ 18,953**	**$ 7,749**	**$ 6,164**	**$ 32,866**	**$ 9,726**	**$ 8,013**	**$ 53**	**$ 17,792**
	As at January 31, 2012				*As at January 31, 2011*			
Total assets	**$ 136,641**	**$ 125,274**	**$ 12,720**	**$ 274,635**	**$ 127,701**	**$ 116,729**	**$ 6,364**	**$ 250,794**
Goodwill	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 5,781**	**$ 9,008**	**$ -**	**$ 14,789**	**$ 7,929**	**$ 11,230**	**$ -**	**$ 19,159**

Consolidated Results

Revenue and Hours Flown

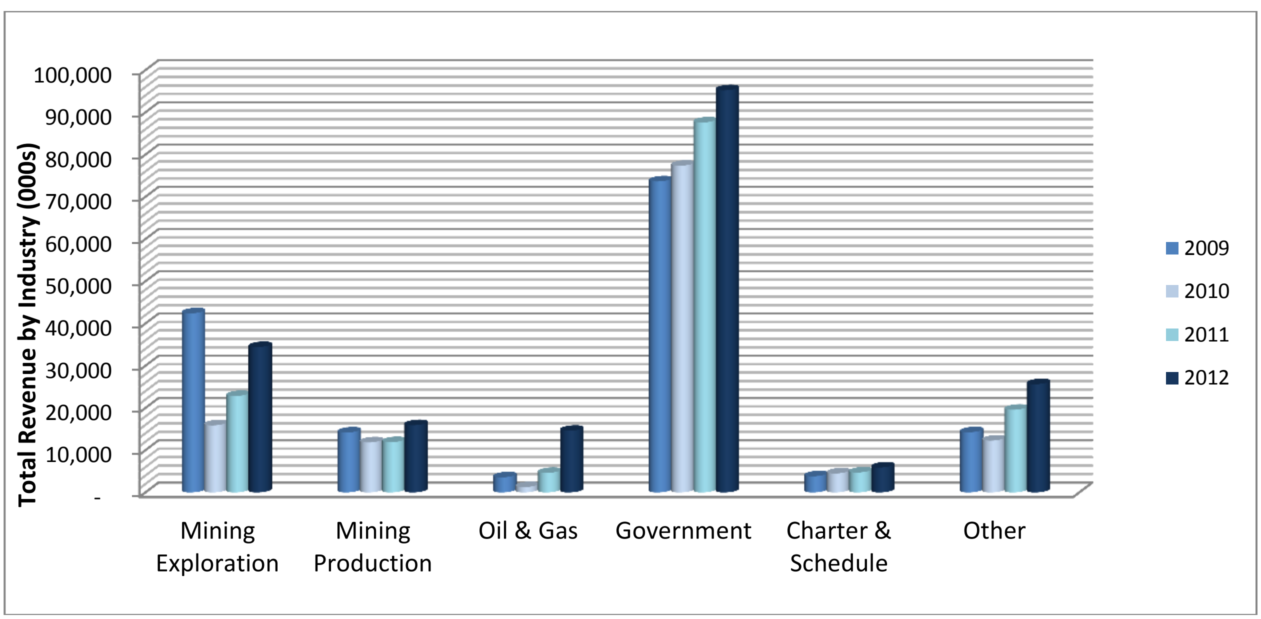
Revenue was $191.7 million in Fiscal 2012, compared to $151.3 million in Fiscal 2011, representing a 27% year-over-year increase. The Corporation's revenue is largely determined by flight hours generated primarily from aviation transportation services performed by its subsidiaries. Sources of non-flight hour revenue include revenues of Discovery Mining, Technical Services, scheduled passenger services to remote communities provided by Air Tindi and the basing, standby and minimum fees that are typical of government contracts, such as those held by Top Aces, Fire Services, and, to a lesser extent, Great Slave. Revenue generated from flight hours in Fiscal 2012 was $144.0 million (75% of total revenue), compared to $123.8 million (82% of total revenue) in the prior year. The increase in non-flight hour revenue is largely attributable to the increased revenue contribution from Technical Services. Hours flown in Fiscal 2012 were 63,017 compared to 52,578 for the prior year, representing a 20% increase. The increase in revenue generated from flights was less than the increase in flight hours due to a proportionally larger increase in lower rate flight hours. The increase in lower rate flight hours was primarily attributable to the Corporation's forest fire operations, which generate a significant portion of their revenues from contracts featuring guaranteed basing, standby and minimum fees in exchange for lower flight hour rates.

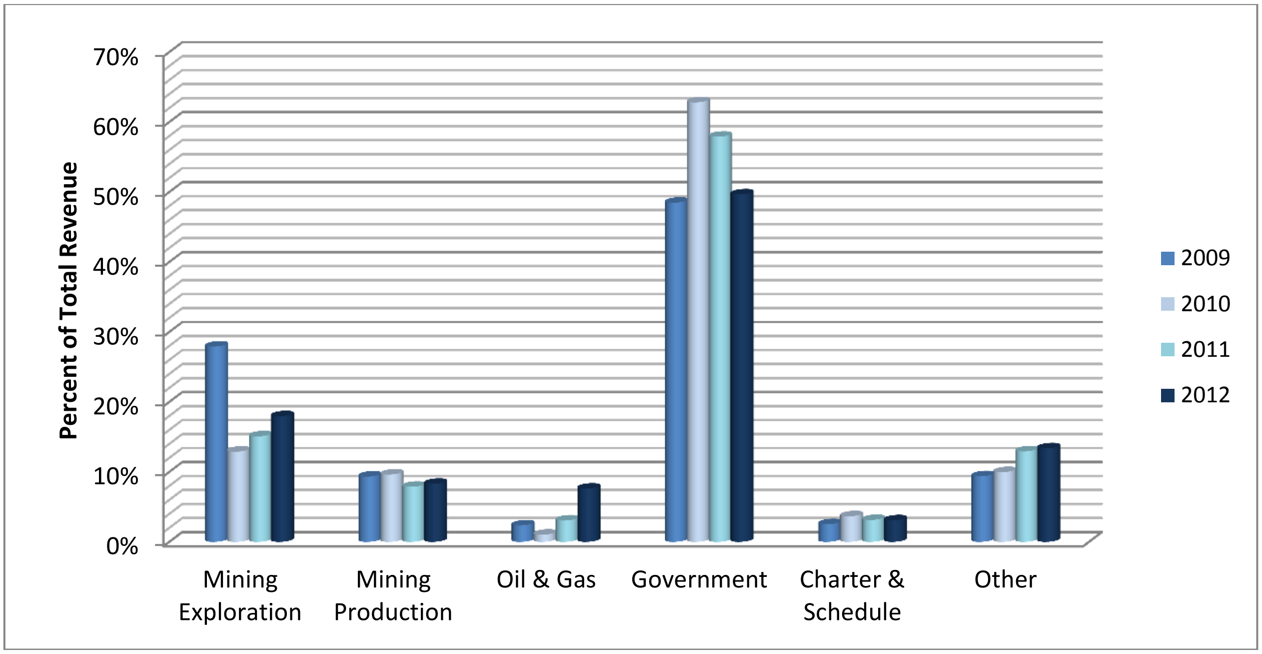
As shown in the Consolidated Revenue by Industry Sector tables below, the Corporation's revenue continued to reflect a positive year-over-year contribution from all major industry sectors served. The government-related sector continued to be the Corporation's largest source of revenue representing approximately 50% of total revenue. The revenue increase was attributable to increased demand for flight services to support forest fire management activity, medevac services in northern Canada, and training and special missions for the Canadian military.

The mining exploration and oil and gas sectors, which combined represented 26% of total revenues in Fiscal 2012 compared to 18% in Fiscal 2011, continued to grow as percentage of the Corporation's total revenue. The revenue increase was attributable primarily to strong mining activity, increased revenues from Great Slave's Peruvian operations and new business in western and northern Canada.

The Corporation's revenue base was further diversified with revenue derived from Technical Services, which completed its first full year of operations.

Consolidated Revenue by Industry Sector





Operating Expenses

Operating expenses were $147.8 million in Fiscal 2012, compared to $109.6 million in Fiscal 2011, a 35% year-over-year increase. Operating expenses consist of fixed and variable expenses and include crew and fleet costs as well as general and administrative expenses. While a significant portion of the increase in operating expenses was attributable to the provision of additional services, a significant portion of the increase in operating costs was attributable to the following factors:

- a full year of operating expenses for Technical Services, which accounted for approximately one third of the year-over-year increase in operating expenses. Those expenses were, however, coupled with an increase in revenues from that business;
- increased utilization of leased aircraft, facility costs and wage-related costs to support increased activity in the Northern Services segment's operations. These costs were also affected, to a lesser extent, by increased market demand for certain leased aircraft and skilled labour;
- increased facility costs in the Northern Services due to a change in the leasing arrangement with Great Slave's Peruvian operator. The arrangement changed from a net revenue arrangement to a gross revenue and expense arrangement. Although the net earnings derived from the arrangement were largely unaffected by the change, both revenues and expenses increased as a result of the change; and
- costs incurred to establish and a number of start-up and acquisition-related costs that were incurred primarily in Q4/12 (see "Subsequent Events" below). Air Tindi incurred start-up costs to acquire the capabilities necessary to provide medevac services to Aqsaqniq Airways in Nunavut, and Great Slave incurred start-up costs to acquire the ability to provide instrument flight rule ("**IFR**") services. Acquisition costs were incurred in connection with Great Slave's recent acquisition of Servicios Aèreos Helicopters.cl Ltda ("**SAL**") in Chile and the pending acquisition of the business of Northern Air Support Ltd. ("**NAS**"). No revenues were derived from these investments in Fiscal 2012, however, the Corporation expects to begin generating incremental revenues from these investments in Fiscal 2013. The Corporation considers Innovations' business development mandate critical to the Corporation's long term growth.

Crew and fleet costs are the Corporation's largest expense categories. Crew costs include wages, benefits, travel and training for pilots and maintenance engineers, and totaled $52.1 million in Fiscal 2012, compared to $38.9 million for the prior year, representing a 34% year-over-over increase. The increased wage expenses were largely attributable to increased flight hours and crew movement costs and to a lesser extent to the impact of higher market demand for skilled labour, particularly in the Northern Services segment. While staffing levels in the Northern Services segment are typically reduced during the winter season, increased flight activity required the maintenance of higher staffing levels during Q4/12.

Fleet costs, which include aircraft lease, facility, maintenance and fuel costs, were $57.6 million in Fiscal 2012 compared to $40.6 million in Fiscal 2011, representing a 42% year-over-year increase. Parts and maintenance expenses increased by 48% from Fiscal 2011; however, a significant portion of this increase was attributable to a full year of Technical Services' operations. Ignoring the incremental costs from Technical Services, parts and maintenance expense increased 15% from Fiscal 2011. Aircraft lease expense was 41% higher than Fiscal 2011 due primarily to increased demand for helicopter flight hours. Facility costs increased compared to Fiscal 2011 largely due to the Peruvian operation and a new facility in Nunavut to support Air Tindi's new medevac program. Fuel costs were 40% higher than Fiscal 2011 however the Corporation recovered substantially all of these and other recoverable costs from its customers and recorded these recoveries as revenue.

General and administrative expenses consist mainly of wages and benefits for administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. In Fiscal 2012, these costs were $38.0 million compared to $30.3 million in Fiscal 2011. The 25% year-over-over increase was largely attributable to a number of investments made by the Corporation such as establishing (Innovations) and increases in infrastructure costs, both in terms of key staff hiring and expanding facilities throughout the organization to support the Corporation's growth strategy. As noted above, the Corporation incurred a number of development and acquisition-related costs in late Fiscal 2012. The Corporation expects to begin realizing revenue from those acquisitions and start-up operations in early Fiscal 2013.

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

EBITDA was $46.4 million in Fiscal 2012, compared to $42.7 million in Fiscal 2011, while EBITDA margin in Fiscal 2012 was 24% compared to 28% in Fiscal 2011. The year-over-year change in EBITDA margin in Fiscal 2012 was largely due to an increase in flight hours at lower hourly rates and the increased in costs noted above. EBITDAR was $59.5 million in Fiscal 2012, compared to $52.0 million in the prior year, a year-over-year increase of 14%. Aircraft lease costs were $13.1 million in Fiscal 2012, compared to $9.3 million in the prior year with the Corporation utilizing more short-term aircraft lease arrangements to meet increased demand.

Earnings

In Fiscal 2012, the Corporation recorded earnings of $11.8 million compared to $5.1 million in Fiscal 2011. Adjusted earnings (see "Non-IFRS Measures" below) increased to $5.6 million in Fiscal 2012 from $5.1 million in Fiscal 2011. Adjusted earnings exclude the tax-effected gain of $4.2 million on extinguishment of a $13.2 million related party debt in Q2/12 (see "Related Party Transactions" below) and the $1.9 million gain on the change in the fair value of the Corporation's embedded derivative (see "Embedded Derivatives" below).

Amortization expense in Fiscal 2012 was $21.1 million compared to $19.8 million in Fiscal 2011. The increase in amortization expenses was attributable to higher flight hours since a significant percentage of aircraft components are depreciated on flight hours.

Finance costs were $17.4 million in Fiscal 2012 compared to $15.3 million in Fiscal 2011. The increase in finance costs is attributable to a $1.1 million non-cash write off of unamortized deferred finance costs on debt instruments that were extinguished in Q3/12 as well as the write off of unamortized discount and issue costs of the 2006 Unsecured Debentures that were paid out in Q2/12. The Corporation incurred higher interest charges of $1.2 million largely attributable to the interest on the Secured Debentures (see "Debt Financing" below). It should be noted that the interest charge of $2.5 million on account of the Secured Debentures is a non-cash item, therefore, total interest expense payable in cash was $1.3 million lower in Fiscal 2012 than in Fiscal 2011.

The Corporation's income tax provision was $4.0 million in Fiscal 2012, compared to $2.5 million in Fiscal 2011. The Corporation's statutory income tax rate in Fiscal 2012 was approximately 28% compared to 30% in Fiscal 2011. The difference between the Corporation's income tax provision rate and the statutory rate arises from changes in the timing of the reversal of temporary tax differences and permanent tax differences.

Northern Services

The Northern Services segment generated revenue of $111.8 million on 50,164 flight hours in Fiscal 2012, compared to revenue of $89.3 million on 42,281 flight hours in Fiscal 2011. The 25% increase in revenue and 19% increase in flight hours are largely attributable to the segment's resource-based customers. Revenue from the mining exploration and oil and gas sectors increased 78% year-over-year. The Northern Services segment benefited, in particular, from higher demand from its mining based customers. Much of the segment's work increased was derived from its operations in Peru and from expanding operations new markets in British Columbia and Alberta.

Great Slave also recently announced its intention to acquire the business of Northern Air Support Ltd. ("**NAS**"), an acquisition that will further support the segment's expansion in the western provinces. The segment also benefited from higher forest fire and medevac services revenues.

The segment incurred operating expenses totaling $90.1 million in Fiscal 2012, compared to $68.5 million in Fiscal 2011, a 32% increase year-over-year. A portion of the increase relates to the 19% increase in flight hours, with incremental costs related to increased demand for skilled labour in a tight labour market, increased utilization of leased aircraft to meet increased flight hour demands and recording Peruvian operating costs on a gross basis due to a revised cost model.

The segment recorded EBITDA of $24.1 million in Fiscal 2012, compared to $21.8 million in Fiscal 2011. EBITDAR in Fiscal 2012 was $36.6 million, compared to $30.0 million in Fiscal 2011. The segment incurred higher aircraft lease expense in Fiscal 2012 due to increased utilization of leased aircraft relative to owned aircraft to meet the peak season demands in Q2/12 and Q3/12.

Government Services

The Government Services segment generated revenue of $79.9 million on 12,853 flight hours in Fiscal 2012, compared to revenue of $62.0 million on 10,299 flight hours in Fiscal 2011. This represents a 29% increase in revenue and a 25% increase in total flight hours. The segment benefited from increased demand for forest fire suppression work in Ontario and for airborne training and special mission services by the Canadian military. The segment's revenue increase also reflects the revenue contribution from Technical Services which began operations in late Fiscal 2011.

The segment incurred operating expenses totaling $48.6 million in Fiscal 2012, compared to $34.5 million in Fiscal 2011, a year-over-year increase of 41%. The increase in operating expenses was largely attributable to Technical Services having its first full year of operations.

The segment generated EBITDA of $31.3 million in Fiscal 2012, compared to EBITDA of $27.5 million in Fiscal 2011. The improvement resulted from an increase in forest fire management operations and, to a lesser degree, increased utilization of the segment's higher-rate aircraft. The segment's EBITDA was negatively impacted by lower margins in Technical Services as that unit continues to ramp up to full operating capacity. EBITDAR in Fiscal 2012 was $32.0 million, compared to EBITDAR of $28.7 million in Fiscal 2011.

Corporate Support

Corporate Support's operating expenses were $9.0 million in Fiscal 2012, compared to $6.7 million in Fiscal 2011. A significant part of the increase was attributable to business development activity throughout the Corporation.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components in Fiscal 2012 and Fiscal 2011:

(thousands of dollars)	Fiscal 2012	Fiscal 2011
Operating activities	$ 24,951	$ 20,953
Investing activities	(22,757)	(13,488)
Financing activities	3,503	(7,421)
Net increase in cash for the year	$ 5,697	$ 44

Operating activities

Fiscal 2012 operating activities generated a net cash inflow of $25.0 million, compared to a net cash inflow of $21.0 million in Fiscal 2011, for a $4.0 million year-over-year increase. Fiscal 2012's net income increased by $6.6 million from Fiscal 2011; however this increase included two non-recurring non-cash items. These two items are excluded from adjusted earnings (see "Non-IFRS Measures" below), which provides a more consistent basis for comparison against Fiscal 2011.

The $4.0 million increase in cash flow from operations was negatively affected by:

- a $1.2 million increase in gains on sale; and
- a $0.2 million decrease from taxes payable due to a $0.5 million reduction in current taxes (normalized for adjusted earnings) less a $0.3 million reduction in taxes paid during the year.

The increase in cash flow from operations was positively affected by:

- a $0.5 million increase in adjusted earnings;
- a $1.3 million increase in depreciation (a non-cash reduction of net income);
- a $0.3 million decrease in deferred income taxes recovery (a non-cash increase to net earnings);
- a $1.1 million increase in amortization of discount on long term debt (a non-cash reduction of net income) that is presented as part of finance costs; and
- a $2.4 million increase in interest payable, primarily due to the accrual of interest that will be paid in kind on the Secured Debentures during Fiscal 2013 (see “Financing Activities” below).

After-tax operating cash flow (see “Non-IFRS Measures” below) was $25.4 million in Fiscal 2012 year or $1.78 per share compared to $25.4 million or $1.88 per share in Fiscal 2011.

Working capital

At the end of Fiscal 2012, the Corporation had a positive working capital position of $34.0 million and a current ratio of 2.4 compared to a negative working capital position of $10.7 million and a current ratio of 0.8 at the end of Fiscal 2011, for a year-over year increase in working capital of $44.7 million. Since the 2006 Unsecured Debentures were scheduled to mature on December 31, 2011, Fiscal 2011’s current liabilities included the principal amount outstanding on those debentures. The debt was refinanced during Fiscal 2012. Had the 2006 Unsecured Debentures not been included in Fiscal 2011’s current liabilities, the Corporation would have had a Fiscal 2011 working capital position of $17.3 million and current ratio of 1.7, for a normalized year-over year increase in working capital of $16.7 million. This $16.7 million increase in working capital is due to:

- a $6.7 million increase in accounts receivable due to the year-over-year increase in Q4 revenues, particularly revenues earned in late Q4;
- a $3.4 million increase in inventory due in part to the growth of Technical Services;
- a $1.2 million increase in prepaid expenses due to the start-up of Innovations and the growth of Technical Services; and
- a $10.3 million decrease in the current portions of long term debt and finance leases; this decrease is due to the Corporation replacing debt that required monthly principal payments with the Secured Debentures that do not require monthly payments.

The $16.7 million increase in working capital was offset by:

- a $2.1 million increase in taxes payable due to the $1.2 million increase in tax expense and $0.3 decrease in taxes paid during the year; and
- an $8.5 million increase in accounts payable and accrued liabilities; $2.5 million of the increase relates to the accrual of interest on the Secured Debentures that will be paid in kind, rather than cash, during Fiscal 2013; the $6.0 million balance of the increase is due to the start-up of Innovations, the growth of Technical Services and the remaining units incurring more expenses during Q4/12 compared to Q4/11.

The Corporation is aware of the following balance sheet conditions, income items or cash flow items that could materially impact liquidity in the foreseeable future:

- the Corporation not being able to repay the $4.5 million bridge loan maturing on June 25, 2012;
- the Government Services segment no longer providing service to DND; the segment operates under a standing offer arrangement, which is expected to be tendered as a long term contract in Fiscal 2014; and
- capital expenditures related to aircraft purchases or fleet maintenance that are higher than expected.

While the Corporation believes it will have sufficient liquidity to meet its current and future operating requirements based on its existing working capital position, expected cash generated from operations and the operating credit facilities it maintains, this belief could change if any or all of the above factors materialize.
The Corporation renewed its operating line of credit on October 31, 2011 for a one year term. The operating line of credit is a demand facility that is used to fund any short-term financing requirements which arise as a result of the seasonality of the Corporation's revenue and cash flow patterns. Except as noted above in "Investing Activities", the Corporation has not committed to any expenditure that would significantly change its working capital requirements for the foreseeable future. Each significant, non-maintenance related capital expenditure is assessed to gain reasonable assurance that the capital expenditure will be matched by projected revenues or cost savings generated by the expenditure. The Corporation also continues to look for ways to conduct its businesses more efficiently and reduce costs.

Investing activities
The net cash outlay from investing activities in Fiscal 2012 was $22.8 million compared to $13.5 million in Fiscal 2011. Capital expenditures in Fiscal 2012 included:

- $15.8 million for twelve aircraft;
- $2.4 million for new buildings; and
- $14.6 million for sustaining capital expenditures and capitalized aircraft overhaul costs.

The Corporation also entered into financing leases during Fiscal 2012 valued at $3.0 million. Offsetting capital expenditures in Fiscal 2012 were proceeds of $10.0 million from the disposal of twelve aircraft. Fiscal 2011 capital expenditures of $17.8 million reflected three aircraft purchased for $5.9 million and sustaining capital expenditures and capitalized aircraft overhaul costs of $11.9 million. Proceeds of disposal of $4.5 million were from the sale of three aircraft for $3.5 million and the balance from other equipment.

The Corporation has made the following business acquisition and capital asset expenditure commitments in respect of Fiscal 2013:

- the purchase of three fixed-wing aircraft for $3.5 million which closed during Q1/13; and will be partially funded with new debt;
- the purchase of SAL for $2.5 million in February 2012;
- the purchase of NAS for $9.4 million (less a $0.5 million deposit previously paid), which is expected to close in Q2/13 and will be partially funded with new debt;
- the purchase of two rotary wing aircraft and two fixed wing aircraft plus additional parts for $11.3 million which is expected to close in Q2/13; and
- regular aircraft overhauls related to the existing fleet.

The Corporation actively pursues capital expenditure opportunities that support sustained long-term growth.

Financing activities
The Corporation did not have a balance outstanding on its operating line of credit as at the end of Fiscal 2012, which is consistent with the prior year. As at the end of Fiscal 2012, the Corporation had unrestricted cash of $13.1 million and available but unused borrowing capacity of $15.0 million to fund its operating requirements. Consistent with the seasonal nature of the Corporation's business, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased non-cash working capital. These draws are typically repaid during the third quarter.

The Corporation obtained new financing of $104.7 million, comprised mainly of the Secured Debentures issued during Q3/12 and the 2011 Unsecured Debentures issued during Q2/12. The new financing was primarily used to repay $85.3 million of existing indebtedness as well as fund working capital requirements and for general corporate purposes.

During Fiscal 2012, the Corporation made debt repayments of $96.8 million made up of:

- $85.3 million that was retired with proceeds from new debt as noted above;
- $2.9 million to repay a related party indebtedness during Q2/12 (plus the issuance of Shares);

- $5.2 million of scheduled debt repayments; and
- four additional repayments totaling $3.4 million related to the sale of aircraft and the removal of an aircraft out of a debt security pool.

The Corporation also entered into financing lease arrangements valued at $3.0 million. In Fiscal 2011, the Corporation obtained new financing of $2.8 million, mainly comprised of $1.8 million for the purchase of an aircraft in Q3/11 and $0.9 million related to leasehold costs for Technical Services' hangar facility. The principal repayments during Fiscal 2011 totaled $9.7 million and included $1.4 million during Q2/11 related to the sale of an aircraft, and scheduled loan repayments.

The 2011 Unsecured Debentures

The Corporation issued the 2011 Unsecured Debentures pursuant to a short form prospectus dated May 5, 2011. The 2011 Unsecured Debentures have a maturity date of June 30, 2016 and accrue interest at the rate of 8.375% per annum payable on a semi-annual basis. The 2011 Unsecured Debentures are direct, unsecured obligations of the Corporation, subordinated to other indebtedness of the Corporation for borrowed money and rank equally with all other unsecured subordinated indebtedness. Holders of the 2011 Unsecured Debentures may elect, upon complying with certain procedures described in the indenture concerning such 2011 Unsecured Debentures, to convert their respective holdings into Shares at any time prior to the maturity date at a conversion price of $7.30 for each Share, subject to adjustment in certain circumstances.

The 2011 Unsecured Debentures are not redeemable before June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option, redeem the 2011 Unsecured Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares on the TSX during a specified period prior to redemption is not less than 125% of the applicable conversion price.

Subject to certain conditions, the Corporation has the right to repay the outstanding principal amount of the Unsecured Debentures, on maturity or redemption, through the issuance of Shares. The Corporation also has the option to satisfy its obligation to pay interest through the issuance and sale of additional Shares. Additionally, the Corporation has the option, subject to prior agreement of the holders of the 2011 Unsecured Debentures, to settle its obligations on conversion by way of a cash payment of equal value.

The Secured Debentures

The Corporation issued the Secured Debentures pursuant to a private placement on September 23, 2011 to Clairvest Equity Partners IV Limited Partnership, Clairvest Equity Partners IV Co-Investment Limited Partnership, Clairvest Equity Partners IV-A Limited Partnership, DA Holdings Limited Partnership and G. John Krediet. The terms of the Secured Debentures were subsequently amended on March 26, 2012. The description below reflects those amendments.

The Secured Debentures have a maturity date of March 22, 2017, subject to adjustment by the holders of the Secured Debentures in the event that certain milestones are not achieved by the Corporation. The Secured Debentures accrue interest at the rate of 10.00% per annum, which is compounded annually and added to the adjusted principal amount of the Secured Debentures. The Secured Debentures are also convertible into 9,333,334 Shares for an effective issue price of $7.50 per Share, subject to certain adjustment provisions. The effective conversion price of the Secured Debentures increases at 10.00% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest will continue to be convertible into 9,333,334 Shares (subject to customary anti-dilution adjustments). Upon maturity or redemption, the holders of the Secured Debentures may elect to either receive a lump-sum payment equal to the par value of the Secured Debentures, plus any accrued and unpaid interest thereon, or convert their Secured Debentures into Shares at the applicable conversion price.

The Secured Debentures have a first-lien security interest in all assets of the Corporation and its subsidiaries, except with respect to accounts receivable, certain inventory and certain equipment. The Corporation has the right to require full subordination of the Secured Debentures' security interest in respect of new indebtedness upon the achievement of certain milestone events by the Corporation. Prior to any of the milestone events being achieved, the Corporation can require subordination of the Secured Debentures' security interest in assets or entities acquired by the Corporation or its subsidiaries after September 23, 2011 in an amount up to $50 million and in certain assets of the Corporation and certain of its subsidiaries that had been held as security for indebtedness owed to the Northwest Territories Opportunities Fund ("**NWTOF**") prior to March 26, 2012.

The Corporation may redeem the Secured Debentures on or after September 23, 2014, provided, among other things, that the Corporation has previously redeemed the 2011 Unsecured Debentures and the weighted average trading price of the Class A Shares exceeds 116% of the then-applicable conversion price of the Secured Debentures over a specified trading period prior to the issuance of the redemption notice. The Corporation may redeem the Secured Debentures before September 23, 2014 if, upon the occurrence or failure to occur of certain milestone events and the giving of a prescribed amount of notice by the Corporation, the security agent of the holders for the Secured Debentures fails to subordinate the Secured Debentures holders' security interest in the assets of the Corporation.

In connection with the Secured Debentures, the Corporation entered into certain agreements, including: (i) an investor liquidity agreement which provides the holders of the Secured Debentures with certain "demand" and "piggy back" registration rights should they wish to sell their Shares by way of prospectus, and (ii) a shareholders agreement (the "**Shareholders Agreement**") among the holders of the Secured Debentures and certain management shareholders of the Corporation. Among other things, the Shareholders Agreement provides the holders of the Secured Debentures with the right to have up to three nominees appointed to the Corporation's Board of Directors and the benefit of certain negative covenants for so long as the holders of the Secured Debentures hold Shares representing at least 10% of the outstanding Shares (calculated on a fully-diluted basis, and assuming the conversion of the Secured Debentures). In addition, the parties to the Shareholders Agreement have certain "rights of first offer" and "rights of first refusal" in the event that the other parties to the Shareholders Agreement propose to transfer any of their Shares. The Shareholders Agreement also provides "pre-emptive" rights and "liquidity rights" commencing after the fifth anniversary of the Shareholders Agreement.

The Corporation had a $34 million term loan from NWTOF maturing on February 1, 2013. Subsequent to Fiscal 2012, the Corporation entered into three new debt agreements and used the new debts' proceeds to retire this term loan prior to its maturity date (see "Subsequent Events" below).

The Corporation was in compliance with all of its debt covenants as at January 31, 2012.

Embedded Derivatives

The fair value of the embedded derivative arising from the conversion feature in the Secured Debentures was estimated using appropriate price modeling commonly used by market participants with inputs of observable market data including the Corporation's stock price, implied volatility and risk free interest rates. The measurement of the embedded derivative, as required by IFRS, will subject the Corporation's reported earnings to potential fluctuation resulting from the measurement updates. The accounting treatment of the embedded derivative has no impact on the Corporation's operations or how management evaluates the Corporation's performance.

As at January 31, 2012, the fair value of the embedded derivative was $1.4 million. The change in fair value of the embedded derivative from the date of issue to January 31, 2012 resulted in a non-cash increase to earnings of $1.9 million. As a result of the amendments made to the Secured Debentures on March 26, 2012 (see "Subsequent Events" below), the embedded derivative will be reclassified as contributed surplus instead of a liability and no longer adjusted for mark-to-market changes in its fair value.

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Corporation's contractual obligations as at January 31, 2012:

(thousands of dollars)	**within 1 year**	**between 1 & 2 years**	**between 2 & 3 years**	**between 3 & 4 years**	**between 4 & 5 years**	**after 5 years**	**Total**
Accounts payable and accrued liabilities	$ 20,861	$ -	$ -	$ -	$ -	$ -	**$ 20,861**
Finance leases	333	232	214	217	128	2,082	**3,206**
Long-term debt	112	33,800	173	106	30,926	64,781	**129,898**
Operating leases	4,455	1,724	682	419	387	8,129	**15,796**
Commitments	9,524	85	-	-	-	-	**9,609**
	$ 35,285	$ 35,841	$ 1,069	$ 742	$ 31,441	$ 74,992	**$ 179,370**

Long-term debt due within one year includes scheduled repayments. The Corporation's operating leases relate to aircraft and premises obligations.

The Corporation enters into short-term (less than one year) aircraft operating lease arrangements in the first quarter of each year. The arrangements allow the Corporation to manage its fleet in a more cash-efficient manner. Subsequent to year-end, the Corporation has committed to minimum lease payments of $9.3 million related to these arrangements.

The Corporation was required to obtain letters of credit issued by its lenders totaling $0.2 million (2011 - $0.6 million). The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

Share Consolidation

On September 23, 2011, the Corporation received the approval of the TSX to effect a share consolidation on the basis of 10 pre-consolidation Shares for every one post-consolidation Share. The Class A shares commenced trading on a post-consolidation basis on September 29, 2011. The consolidation reduced the number of Shares outstanding as at the date of the share consolidation from 145,556,159 to 14,555,615.

Shareholders' Equity

At January 31, 2012, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 417,165 stock options outstanding and no Share purchase warrants outstanding. During Fiscal 2012, the Corporation granted 54,500 stock options under the employee stock option plan approved by the shareholders in June 2010. No other activity has occurred under this plan to date. The Corporation maintains 272,665 outstanding stock options issued under an employee stock option plan created in January 2006. This plan was terminated in June 2008, eliminating any additional grants under this plan. During Fiscal 2012, 16,415 stock options expired.

Additional information with respect to shareholders' equity is contained in the consolidated financial statements in Fiscal 2012 and Fiscal 2011.

Related Party Transactions

On May 2, 2011, the Corporation completed a transaction to repay $13.2 million in related party debts owing to a senior officer of the Corporation and a senior officer of Great Slave. The debt was settled through a cash payment of $2.9 million and the issuance of 1,035,200 (post consolidation) Class A Shares. Based on the $4.30 (post-consolidation) market value of the Class A Shares at the date of the transaction, the Corporation recorded a Q2/12 pre-tax gain on the transaction of approximately $5.9 million. Interest expense on this debt was $0.1 million (Fiscal 2011 - $0.5 million).

On March 26, 2012, the Corporation received a $4.5 million bridge loan from a related party that is repayable on June 25, 2012 (see "Subsequent Events" below).

Results of operations for the Q4/12 and Q4/11

Selected Financial Information

(thousands of dollars, except per share amounts)		Q4/12		Q4/11
		(unaudited)		(unaudited)
Results of operations				
Revenue	$	28,699	$	23,747
Expenses	$	34,892	$	24,560
Depreciation of property and equipment and intangible assets	$	5,246	$	4,162
	$	(11,439)	$	(4,975)
Finance costs	$	4,333	$	3,811
Loss and comprehensive loss	$	(9,825)	$	(6,099)
Basic loss per common share	$	(0.67)	$	(0.45)
Diluted loss per common share	$	(0.67)	$	(0.45)
Financial position and liquidity				
Total assets	$	274,635	$	250,794
Total long-term debt	$	133,104	$	139,280
Cash provided by operations	$	9,635	$	9,811
Working capital	$	33,980	$	(10,726)
Key non-IFRS performance measures*				
Adjusted Earnings	$	(10,604)	$	(6,099)
Basic adjusted loss per common share	$	(0.73)	$	(0.45)
Diluted adjusted lost per common share	$	(0.73)	$	(0.45)
EBITDAR	$	(3,190)	$	608
EBITDA	$	(5,029)	$	(597)
EBITDA Margin		-18%		-3%
After-tax operating cash flow	$	(8,374)	$	(1,936)
After-tax operating cash flow per common share	$	(0.58)	$	(0.14)

* See "Non-IFRS measures" below

The business of the Corporation follows a seasonal pattern, with the revenues being generally at their lowest from November to April. The Corporation's revenues for the three-month periods ended January 31 are at the lowest point in the seasonal cycle. Accordingly, the Corporation typically expects to incur a loss from operations in the fourth quarter. In addition, repair and maintenance costs on aircraft are not incurred evenly during the year and the timing of these costs can vary from year to year. Therefore, the Corporation's results for a quarter are not indicative of the results that may be expected for a full year.

(thousands of dollars)	Q4/12 (unaudited)				Q4/11 (unaudited)			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	**$ 12,893**	**$ 15,806**	**$ -**	**$ 28,699**	**$ 11,474**	**$ 12,271**	**$ 2**	**$ 23,747**
Expenses	19,758	12,488	2,646	34,892	13,819	9,073	1,668	24,560
Loss (gain) on disposal of property and equipment	(1,143)	4	-	(1,139)	(440)	-	-	(440)
Share of (earnings) of equity accounted investees	(48)	23	-	(25)	224	-	-	224
EBITDA	**$ (5,674)**	**$ 3,291**	**$ (2,646)**	**$ (5,029)**	**$ (2,129)**	**$ 3,198**	**$ (1,666)**	**$ (597)**
Amortization	3,183	2,032	31	5,246	2,227	1,920	15	4,162
Interest and financing charges				4,333				3,811
Change in fair value of financial liabilities at fair value				(779)				-
Loss before income taxes				(13,829)				(8,570)
Current income tax recovery				(1,553)				(2,300)
Deferred income tax recovery				(2,418)				(171)
				(3,971)				(2,471)
Loss				(9,858)				(6,099)
Non controlling interest				(33)				-
Loss attributable to shareholders of Discovery Air Inc.				**$ (9,825)**				**$ (6,099)**

Consolidated results

Revenue and Hours Flown

Revenue of $28.7 million in Q4/12 represented a 21% increase compared to $23.7 million in Q4/11. Revenue generated from flight hours in Q4/12 was $20.4 million (71% of total revenue), compared to $20.0 million in Q4/11 (84% of total revenue). Hours flown in Q4/12 were 7,671 compared to 6,290 for Q4/11, a 22% increase. The increase in revenue is largely attributable to the operations of Technical Services and an increase in lower rate flight hours.

Operating Expenses

Operating expenses were $34.9 million in Q4/12, compared to $24.6 million in Q4/11, a 42% increase. The increase in operating expenses was largely attributable to the provision of additional services and certain start-up and business development costs including:

- operating expenses for Technical Services, which accounted for approximately 47% of the year-over-year increase in operating expenses. Those expenses were, however, coupled with an increase in revenues from that business;
- increased aircraft lease, facility and wage-related costs incurred in the Northern Services segment to support increased activity;
- ongoing business development, start-up and acquisition related costs such as start-up costs incurred by Air Tindi to acquire the capabilities necessary to provide medevac services to Aqsaqniq Airways in Nunavut, start-up costs incurred by Great Slave to rollout IFR-compliant services, and costs incurred in connection with Great Slave's recent acquisition of SAL in Chile and the pending acquisition of NAS' business (see "Subsequent events" below). No revenues were derived from these investments in Fiscal 2012, however, the Corporation expects to begin generating incremental revenues from these investments in Fiscal 2013.

Crew costs for Q4/12 were $12.0 million compared to $8.9 million in Q4/11, representing a 35% increase. The increase was attributable to additional staffing primarily by Technical Services and the Northern Services segment, both of which saw increased business volume compared to the prior year.

Fleet costs in Q4/12 were $14.0 million compared to $8.1 million in Q4/11, representing a 73% increase. Parts and maintenance expenses represented 48% of the fleet cost increase, with a significant portion of this increase attributable to Technical Services' year-over-year increase in operations. Aircraft lease expense represented 11% of the fleet cost increase which was attributable to increased flight hour volume demand from the Corporation's helicopter operations. Facility costs represented 7% of the fleet cost increase due to the change in lease arrangement for the Peruvian operation explained above. Fuel costs represented 16% of the fleet cost increase, which was substantially recovered from the Corporation's customers.

General and administrative expenses were $10.6 million in Q4/12 compared to $7.7 million in Q4/11. As noted in the Fiscal 2012 results, the year-over-year increase was attributable to growth oriented investments made by the Corporation, including start-up and acquisition related costs. Revenue from these acquisitions and start-up operations is expected to be realized starting in Fiscal 2013.

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

The Corporation recorded an EBITDA loss of $5.0 million in Q4/12 compared to an EBITDA loss of $0.6 million for Q4/11 with the variance attributable to increased operational costs and business development related costs in the quarter. EBITDAR loss was $3.2 million in Q4/12, compared to an EBITDAR of $0.6 million in Q4/11.

Loss

The Corporation recorded a net loss of $9.8 million in Q4/12, compared to a net loss of $6.1 million in Q4/11. The Adjusted loss, which excludes an $0.8 million non-cash gain related to the fair value change of embedded derivative, was $10.6 million in Q4/12 compared to $6.1 million in Q4/11. The year-over-year change was impacted by the variables noted in the EBITDA and EBITDAR section above, as well as increased utilization of loss carry forwards in Fiscal 2012. Amortization expense was $5.2 million compared to $4.2 million in Q4/11 which was attributable to higher flight hours. Finance costs of $4.3 million for Q4/12 compared to $3.8 million in Q4/11 with the increase primarily due to higher interest cost associated with the Secured Debentures. However, as noted, the interest charge from the Secured Debentures is a non-cash payment in kind. The Corporation had an income tax recovery of $4.0 million in Q4/12, compared to a recovery of $2.5 million in Q4/11. The Corporation's statutory tax rate in Q4/12 was approximately 28% compared to 30% in Q4/11.

Northern Services

The Northern Services segment generated revenues of $12.9 million from 6,254 flight hours in Q4/12, compared to revenue of $11.5 million from 4,643 flight hours in Q4/11. Revenue increased by 12% compared to a 35% increase in flight hours, with the variance primarily due to a negative shift on flight hour composition.

The segment incurred operating expenses of $19.8 million in Q4/12, compared to $13.8 million in Q4/11, a 43% increase. The increase in operating costs was largely attributable to the increased volume of business. Reflected in the increased cost were additional infrastructure costs, which are largely fixed in nature and would not correlate to the low season flight hours in Q4. The segment also incurred setup costs to support a recently awarded medevac contract in Nunavut and Great Slave's provision of IFR compliant services and acquisition costs related to SAL and NAS. The segment expects to generate revenues from these start-ups and acquisitions in Fiscal 2013.

The Northern Services segment had an EBITDA loss of $5.7 million in Q4/12, compared to an EBITDA loss of $2.1 million in Q4/11. The EBITDAR loss in Q4/12 was $4.0 million compared to an EBITDAR loss of $1.2 million in Q4/11. Both EBITDA and EBITDAR were impacted by higher operating costs in the quarter, with EBITDAR impacted by increased utilization of leased aircraft compared to Q4/11.

Government Services

The Government Services segment generated revenues of $15.8 million from 1,418 flight hours in Q4/12, compared to revenue of $12.3 million from 1,647 flight hours in Q4/11. Revenues increased by 29% compared to a decrease of 14% in flight hours. The increase in revenue for Q4/12 was largely attributable to increased revenue contribution from Technical Services. Revenue from the segment's flight based operations remained comparable to Q411 despite lower flight hours due to favourable flight hour composition, with higher rate flight hours increasing despite lower overall flight hours**.**

The segment incurred operating expenses totaling $12.5 million in Q4/12, compared to $9.1 million in Q4/11, an increase of 38% which was substantially all attributable to Technical Services increase in operations.

The Government Services segment had EBITDA of $3.3 million in Q4/12 compared to $3.2 million in Q4/11. EBITDAR in Q4/12 was $3.5 million, consistent with EBITDAR of $3.5 million in Q4/11.

Corporate Support

Corporate support incurred operating expenses of $2.6 million in Q4/12, compared to $1.7 million in Q4/11, with the increase attributed to business development costs.

RISK FACTORS

The Corporation's operations involve a variety of risks and uncertainties and the Corporation analyzes and, where appropriate, actively manages such risks. Certain risks are mitigated through the use of common management techniques such as business and cash forecasting, variance analysis, the development and use of standard policies and operating procedures, and the use of internal reviews to monitor compliance. Other risks are mitigated by arranging with third parties to bear them on the Corporation's behalf, as is achieved through the Corporation's commercial insurance arrangements. Other risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The discussion below summarizes some of the more important and relevant risks that the Corporation currently views as having the potential to significantly impact its business, financial condition, liquidity or results of operations. These risks may become more or less important with the passage of time, and additional risks may exist that the Corporation has not identified, or that it currently deems to be immaterial. Additional risks are disclosed in the Corporation's Annual Information Form available on SEDAR at www.sedar.com.

CAPITAL MARKETS AND FINANCIAL RISKS

RISK MANAGEMENT STRATEGY

In managing capital market and financial risks, the Corporation establishes and complies with policies and processes designed to monitor and provide advance warning of volatility in exchange rates, interest rates and debt and equity capital market conditions. Liquidity monitoring includes a daily assessment of both a detailed four-week forward cash forecast of cash balances and non-cash working capital, and the use of annual budgets with updated projections during the fiscal year. Such projections identify cash funding requirements for operating and capital investment purposes and also provide advance visibility of potential covenant violations. Improvement in the capital markets allowed the Corporation to refinance debt at more favorable terms during Fiscal 2012. The Corporation is seeking to further improve the terms of its debt financing to bear lower interest rates, extend maturities and provide additional flexibility to facilitate growth.

Leverage and Access to Capital

The Corporation is engaged in competitive and capital intensive businesses which, subject to seasonal and cyclical influences. There is a risk that, from time to time, such seasonal and cyclical influences may limit the Corporation's ability to fund its operations from operating cash flows. Additionally, implementation of the Corporation's existing strategic plan is based on existing operations generating strong organic growth and on developing new and high-return lines of business, including business start-ups and acquisitions. Moreover, the Corporation has substantial debt and debt service obligations. The Corporation actively monitors its current and expected cash flows to maintain reasonable assurance that the Corporation is at all times positioned to meet its obligations under its debt obligations; however, there remains a risk that to the extent the Corporation is unable to generate sufficient cash flow to fund operations or to service its debt, it may be required to refinance all or a portion of its existing debt or to obtain additional financing on less favorable terms.

These factors require the Corporation to maintain ongoing access to capital markets, including equity markets, to fund existing operations and to fund the implementation of its strategic plan. Changes in capital market conditions, including significant changes in market interest rates or lending practices and/or the condition of equity markets, may have an adverse effect on the Corporation's ability to raise or refinance short-term or long-term debt, on its ability to dedicate cash flow to purposes other than payments on its indebtedness and fixed cost obligations, on its vulnerability to economic downturns, or on its flexibility to plan for and respond to competitive pressures or changes in its business environment, and thus on its financial position and ability to operate.

Liquidity

The Corporation requires working capital to fund its operations generally and, in particular, to meet increased cash flow requirements associated with seasonal operations. The Corporation has a secured, demand operating loan facility to finance its working capital requirements, with a borrowing limit of $15.0 million and increased availability of up to $25.0 million during the Corporation's peak operating period of March through November. The operating loan terminates on October 31, 2012. If the Corporation were unable to maintain the availability of this demand facility on acceptable terms, its ability to fund its working capital requirements would be adversely affected. Assuming the demand facility remains available on comparable terms or is replaced by an alternate facility on comparable terms, the Corporation expects that its cash from operations, together with its existing or replacement operating loan, will be sufficient to meet its anticipated working capital requirements.

On March 26, 2012, the Corporation received a $4.5 million short term bridge loan from a related party. This bridge loan matures on June 25, 2012 and the Corporation's liquidity will be significantly reduced if the debt is not refinanced. The Corporation intends to replace the bridge loan with a long term loan; however, it will also have options to arrange another short term loan that would allow the Corporation to repay the amount with cash from operations within the year without adversely impacting the Corporation's liquidity.

In addition, the Corporation issued the Secured Debentures in September 2011, with a maturity date of March 22, 2017. If the Corporation is unable to achieve certain key milestones set out in the terms of the Secured Debentures, the holders of the Secured Debentures may elect to accelerate the maturity date to a date that could be as early as April 23, 2015. Upon the maturity of the Secured Debentures, the Corporation is required to repay the principal amount of such Secured Debentures together with all accrued and unpaid interest and any other amounts owing pursuant to the terms of the Secured Debentures.

Limitations Due to Restrictive Covenants

Certain of the Corporation's debt agreements include affirmative and negative covenants which restrict the Corporation's ability to deal with its assets or operations in the normal course of business, including with respect to:

- issuing equity securities;
- purchasing new aircraft and selling existing aircraft;
- borrowing money or issuing guarantees;
- the incurring of liens to secure indebtedness;
- undertaking investments or selling operating units;
- paying dividends, redeeming capital stock, or making other restricted payments; and
- merging with another person or selling substantially all of its assets.

Certain of the Corporation's debt agreements also require that the Corporation maintain specified financial ratios and satisfy specified financial tests. A failure to observe the stipulated covenants or to meet the required financial tests could result in a default under one or more of the Corporation's debt agreements, and upon such default, the Corporation's lenders could elect to declare all principal and interest owing under such debt agreements to be immediately due and payable. The Corporation's lending agreements typically contain cross-default provisions whereby a default under one agreement would lead to a default under the other agreements.

Interest Rates

As January 31, 2012, virtually all of the Corporation's debt bears a fixed interest rate. Subsequent to Fiscal 2012, the Corporation refinanced its $34 million term loan with new debts bearing a variable interest rate (see "Subsequent Events" below). These new debts expose the Corporation to financial risk from increased interest rates and a resulting increase in interest expense. A 25 basis point increase or decrease in interest rates on the new debt will increase or decrease the Corporation's annual interest expense by $75,000.

Foreign Currency

The Corporation's revenues and expenses are primarily in Canadian dollars; however, its growing foreign operations (earnings and expenses from which are primarily denominated in US dollars) and Technical Services revenues (partially denominated in US dollars) increase its exposure to foreign exchange rate risk. The Corporation also incurs payment obligations on the purchase of aircraft, maintenance expenditures related to overhauls and spare parts procurement in Euros and US dollars. Changes in exchange rates will result in fluctuations in the Corporation's operating results; however, such fluctuations did not have a significant impact on the Corporation's earnings in Fiscal 2012.

BUSINESS AND OPERATIONAL RISKS

RISK MANAGEMENT STRATEGY

The Corporation is committed to servicing its existing customers while seeking to source new opportunities outside its current markets to diversify its customer base. When entering new markets, the Corporation relies on its strong reputation for safety, its asset mix and the quality of its people. Key aspects of the Corporation's strategic plan include ensuring its Safety Management Systems ("SMS") programs are well maintained, developing recruiting and retention plans to ensure it has the skilled personnel required to operate successfully in existing and new markets and actively monitoring fleet optimization. The Corporation has conducted a return on capital assessment by aircraft fleet, and continues to modify its fleet composition based on the assets required to best service its current and future markets and customers.

Start-up operations

The Corporation created a start-up operation, Technical Services, in late Fiscal 2011 and, while this operation has grown, the Corporation believes it will remain in the development phase for a least another year before becoming an established and sustaining operation.

In Fiscal 2013, the Corporation will begin operating in Chile through a recently completed acquisition, and launch the operations of Discovery Air International's medevac and charter services. The Corporation is also seeking new revenue streams and opportunities which could be established as a form of a start-up operation.

Start-up operations require an upfront investment in capital assets and an ongoing investment to develop the business, with an understanding that positive returns may not be generated in the short term. Under these circumstances, the Corporation anticipates a timing difference where the start-up operation will initially have a negative impact on earnings and cash flow until the business is established and generates long-term positive earnings and cash flow. During the start-up phase, management monitors the operation's progress in generating a sustainable revenue stream; however the start-up operation may not become an established business.

Dependence on Key Customers

Top Aces' revenue is derived from standing offers to provide Contracted Airborne Training Services ("**CATS**") to the Government of Canada. Top Aces is currently the only supplier with approved airworthiness clearances under these standing offers and the only supplier to have operated under the Memorandum of Understanding between Transport Canada and the Department of National Defence and the Canadian Forces ("**DND**") for the provision of airborne training services. DND is not obligated to use any minimum amount of Top Aces' services under the current standing offers. Due to the essential nature of this military training, the Corporation does not believe it likely that there will be any substantial reduction in service required by DND over the balance of fiscal 2013, or that the standing offers will be terminated. The current standing offers extend to June 2013 but may be cancelled by the Government of Canada at any time.

In 2011, Public Works and Government Services Canada ("**PWGSC**") cancelled two separate solicitations that had been issued for the purpose of retendering the CATS project. In early 2012, PWGSC initiated a consultation process in anticipation of the issuance of a further solicitation for CATS and in connection therewith indicated that funding for CATS services has been approved until March 31, 2031. Should the CATS project be re-tendered, there is a risk that Top Aces may not be the successful bidder in the re-tender.

Fire Services' revenue from airborne fire management services is based upon contracts with the Ontario Ministry of Natural Resources. These contracts expire at the end of the fire season in 2014, with funding under the contracts contingent upon an annual appropriation of funds by the Ontario Government. Given the nature of the services provided under the contracts, management believes that it is unlikely that the funding will be substantially reduced or cancelled. The contracts may be immediately terminated by the government agency upon 30 days prior written notice or immediately upon the occurrence of certain events of default, including a breach of specified material terms of the contracts, or an event of the insolvency of Fire Services.

Dependence on Personnel, Labour Costs and Labour Relations
The success of the Corporation is dependent on the skills, talents and efforts of certain management personnel, and the loss of a key individual, without being able to attract an equally qualified individual in a timely manner, could delay or impede the Corporation's operations.

In addition, there is significant competition in the current market for qualified pilots, mechanics and other highly-trained personnel with the skills required by the Corporation's subsidiaries. Certain customers stipulate high minimum levels of flight hour experience for air crew deployed in support of their operations. Qualified personnel are in great demand and are likely to remain a scarce resource for the foreseeable future. The risk of losing qualified personnel may also require the Corporation to maintain staffing at peak season levels during the off-season to ensure that the Corporation can retain the personnel for operations during the peak season. The scarcity of skilled personnel could limit the Corporation's ability to expand operations as well as cause the Corporation to incur higher operating costs to attract and retain such personnel.

The Corporation is required to employ personnel in various offices and facilities, some of which are in remote locations. Sourcing and retaining qualified personnel in such locations are frequently difficult. When qualified personnel are not locally available, the Corporation must incur the additional cost of ferrying offsite personnel into and out of the remote location. It is likely that the Corporation will also incur increased hiring and retention costs and higher levels of turnover in such locations than if its operations were located in major markets.

INDUSTRY AND COMPETITIVE CONDITIONS

RISK MANAGEMENT STRATEGY
A significant portion of the Corporation's businesses are exposed to seasonal operations in the Canadian north, where operations are exposed to unfavourable weather conditions, and include specialized flight services which (in some cases) are subject to volatile demand. While these risk factors are not likely to change materially in the near future, the Corporation has actively sought to minimize the impact of the seasonal swings and unpredictable weather conditions on the Corporation's revenues and earnings. Initiatives undertaken to mitigate such exposures include;

- Fire Services' contract with the Ontario Ministry of Natural Resources that calculates a larger portion of revenues on basing fees; this structure mitigates the impact on Fire Services' revenues due to low forest fire activity noted in prior years;
- the establishment of Technical Services and Discovery Air International which will be less affected by the seasonal and weather constraints experienced by the Corporation's other businesses; and
- establishing counter seasonal operations such as the Corporation's Peruvian and Chilean operations, which generate revenues during the Corporation's low season in northern Canada.

As the Corporation grows it will look for further opportunities to mitigate the seasonal and weather-dependent nature of its existing businesses. The Corporation will also continue to attempt to identify new customers and markets which appropriately align with the Corporation's specialized capabilities.

Environmental Conditions
The demand for certain services which the Corporation's subsidiaries offer are subject to environmental conditions, which in turn affect the number of flight hours booked in a given reporting period. For example, a significant portion of Fire Services' revenues is dependent on the level of forest fire activity in Ontario, and weather conditions which decrease the likelihood of such activity during the forest fire peak season (May through to September) would decrease the revenues Fire Services may be able to earn in a fiscal year. Similarly, air operations are affected across all subsidiaries by weather. Unusually harsh conditions may affect the ability to complete operations.

Fluctuations in Commodity Prices
The demand for certain services which the Corporation's subsidiaries offer are subject to variations in commodity prices, especially the demand for services offered by the Northern Services segment, whose customers include companies within the mining sector. During periods of low commodity pricing, certain of the Corporation's customers may experience diminished cash flows and reduced access to capital, resulting in less demand and heightened price competition for flight and related services.

High Fixed Cost Structure

The aviation industry in general is characterized by significant investment in specialized fixed assets, a high fixed cost structure, cyclically volatile profit margins and limited barriers to entry. As a result, a relatively small change in revenues, traffic mix, or direct or indirect costs may have a significant impact on the Corporation's profitability. In the short term, fixed costs will not fluctuate in any meaningful way with revenues. Should the Corporation be required to reduce capacity or the number of aircraft it operates, margins may be compressed and/or potentially significant restructuring or termination costs may be incurred.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Fiscal 2012 consolidated financial statements have been prepared in accordance with IFRS. Management is often required to make judgments, assumptions and estimates that affect the carrying amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. The Corporation's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about accounting policies and the carrying value of assets and liabilities. Significant items subject to such estimates, assumptions and judgments include the carrying amount of land, buildings and equipment, intangibles and goodwill, valuation allowances for receivables, inventories, future income taxes, stock-based compensation and contingent liabilities related to lawsuits. Actual results could differ from these estimates.

The significant accounting policies used in the preparation of the consolidated financial statements are summarized in Note 3 to the consolidated financial statements in Fiscal 2012 and Fiscal 2011. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the consolidated financial statements.

Property and equipment

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Costs include expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. In particular, aircraft airframes, engines and components are inspected, repaired and overhauled at pre-specified intervals. These subsequent costs are capitalized as incurred when the above criteria are met and amortized over their useful lives based on hours flown. The carrying amount of a major inspection is derecognized if a new major inspection is completed.

When major parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

The costs of day-to-day servicing of property and equipment are recognized in profit and loss as incurred.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the item of property and equipment, and are recognized within operating expenses in calculating profit or loss.

Depreciation is calculated using the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value, on either a straight line basis, or flight hours. If the useful lives of significant components of individual assets are assessed as having a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

Goodwill

Goodwill represents the excess of the fair value of the consideration paid by the Corporation over the Corporation's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date. Transaction costs, other than those associated with the issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

Impairment

Financial Assets

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, or indications that a debtor or issuer will enter bankruptcy.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through an allowance account and the amount of the loss is recognized in the profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

Non-financial assets

Assets that have an indefinite useful life, for example goodwill and trade names, are not subject to amortization and are tested for impairment annually in the Corporation's fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating units or "**CGUs**").

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount, and the loss is recognized as an expense immediately. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Non-financial assets other than goodwill that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Income tax
Income tax expense for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized in other comprehensive income or directly in equity.

Current income tax is the expected tax payable calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Stock-based compensation
Equity-settled transactions
The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value is calculated using the Black-Scholes option pricing model. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to meet, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting award conditions, there is no true-up for differences between expected and actual outcomes.

Cash-settled transactions
The Corporation has a deferred share unit ("**DSU**") plan for directors as described in note 14 of the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2012 and 2011. These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

Litigation
Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can been reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at the best estimate of the expenditures expected to be required to settle the obligation at the balance sheet date. Where material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as finance cost.

RECENTLY ISSUED STANDARDS

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted. The Corporation has not yet assessed the impact of these standards and amendments or determined whether it will early adopt them.

(i) IFRS 9, *Financial Instruments,* was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement,* except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

(ii) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces *SIC-12, Consolidation—Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.

(iii) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities—Non-monetary Contributions by Venturers.*

(iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

(vi) There have been amendments to existing standards, including IAS 27, *Separate Financial Statements* (IAS 27), and IAS 28, *Investments in Associates and Joint Ventures* (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

(vii) IAS 19, *Employee Benefits*, has been amended to make significant changes to the recognition and measurement of defined benefit pension expense and termination benefits and to enhance the disclosure of all employee benefits. The amended standard requires immediate recognition of actuarial gains and losses in other comprehensive income as they arise, without subsequent recycling to net income. This is consistent with the company's current accounting policy. Past service cost (which will now include curtailment gains and losses) will no longer be recognized over a service period but instead will be recognized immediately in the period of a plan amendment. Pension benefit cost will be split between (i) the cost of benefits accrued in the current period (service cost) and benefit changes (past-service cost, settlements and curtailments); and (ii) finance expense or income. The finance expense or income component will be calculated based on the net defined benefit asset or liability. A number of other amendments have been made to recognition, measurement and classification including redefining short term and other long-term benefits, guidance on the treatment taxes related to benefit plans, guidance on risk/cost sharing features, and expanded disclosures.

(viii) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in other comprehensive income ("**OCI**") into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012, with earlier application permitted.

(ix) IFRS 7, *Financial Instruments: Disclosures,* has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual periods beginning on or after July 1, 2011, with earlier application permitted.

(x) IAS 12, *Income Taxes,* was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendment, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale when considering the expected manner or recovery or settlement. SIC 21*, Income Taxes - Recovery of Revalued Non-Depreciable Assets*, will no longer apply to investment properties carried at fair value. The amendment also incorporates into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The amendment is effective for annual periods beginning on or after January 1, 2012 with earlier application permitted.

NON-IFRS MEASURES

("**EBITDA margin**") is EBITDA as a percentage of revenue. Management believes EBITDA and EBITDAR to be important measures, as they exclude the effects of long-term investment decisions from the performance of the Corporation's day-to-day operations. Management believes these measurements are useful in assessing a company's ability to service debt and to meet other payment obligations, and as a valuation measurement.

Prior to Fiscal 2012, the Corporation's EBITDA and EBITDAR were calculated on the basis that depreciation of rotable and over-hauled components were classified as operating expenses. Starting in Fiscal 2012 with the Corporation's conversion to IFRS, depreciation of rotable and overhauled components is included in depreciation, and is therefore excluded in the calculation of EBITDA and EBITDAR.

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

(thousands of dollars)		**Fiscal 2012**		**Fiscal 2011**		**Q4/12**		**Q4/11**
						(unaudited)		(unaudited)
Net earnings (Loss)	$	11,752	$	5,141	$	(9,825)	$	(6,099)
Income tax provision (recovery)		3,975		2,492		(3,971)		(2,471)
Gain on extinguishment of related party debt		(5,900)		-		-		-
Change in fair value financial liabilities reported at fair value		(1,879)		-		(779)		-
Interest and financing charges		17,415		15,303		4,333		3,811
Amortization		21,092		19,791		5,246		4,162
Non-controlling interest		(33)		-		(33)		-
EBITDA	$	46,422	$	42,727	$	(5,029)	$	(597)
Aircraft lease expenses		13,119		9,322		1,839		1,205
EBITDAR	$	59,541	$	52,049	$	(3,190)	$	608

References to "**after-tax operating cash flow**" are references to cash from operating activities excluding changes in non-cash working capital. Management believes after-tax operating cash flow is a strong supplemental financial measure of the Corporation's ability to generate cash flow from its operations. While the non-cash working capital position is monitored by management, it is excluded in the after-tax operating cash flow calculation due to the high variability of the working capital components attributable to the high seasonality and the high rate of growth of the Corporation's operations from prior years.

The following is a reconciliation of the net cash from operating activities to after-tax operating cash flow:

(thousands of dollars)		**Fiscal 2012**		**Fiscal 2011**		**Q4/12**		**Q4/11**
						(unaudited)		(unaudited)
Net cash from operating activities	$	24,951	$	20,953	$	9,635	$	9,811
Less: Change in non-cash working capital		(4,959)		(5,089)		18,982		16,543
Less: Change in Interest Payable								
Financing Costs		17,415		15,303		4,333		3,811
Interest paid		(12,337)		(13,527)		(3,210)		(4,703)
Accretion of discount on long term debt		(1,666)		(1,671)		(440)		(361)
Loss on extinguishment of debt		(1,112)		-		-		-
Net Foreign exchange gain		62		16		(79)		(46)
Impairment loss (recovery) on trade receivables		53		(94)		43		(74)
		2,415		27		647		(1,373)
Less: Change in income taxes payable								
Current Tax expense		4,104		2,933		(1,553)		(2,301)
Net income tax paid		(2,040)		(2,348)		(67)		(1,122)
		2,064		585		(1,620)		(3,423)
After-tax operating cash flow	$	25,431	$	25,430	$	(8,374)	$	(1,936)

"**Adjusted earnings (loss)**" refers to net earnings (loss) excluding a non-recurring gain on extinguishment of related party debt and gains and losses resulting from the change in fair value of financial liabilities, net of related taxes. Management believes adjusted earnings better reflects the Corporation's operational performance. Adjusted earnings (loss) per share is equal to earnings (loss) per share excluding the above noted items.
The following is a reconciliation of adjusted earnings (loss):

(thousands of dollars)	Fiscal 2012	Fiscal 2011	Q4/12	Q4/11
			(unaudited)	(unaudited)
Net earnings (Loss)	$ 11,752	$ 5,141	$ (9,825)	$ (6,099)
Gain on extinguishment of related party debt	(5,900)	-	-	-
Tax effect on gain on extinguishment of related party debt	1,652	-	-	-
Change in fair value of financial liabilities at fair value	(1,879)	-	(779)	-
Adjusted earnings (loss)	$ 5,625	$ 5,141	$ (10,604)	$ (6,099)

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	*Fiscal 2012*				*Fiscal 2011*			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	**$ 111,789**	**$ 79,931**	**$ -**	**$ 191,720**	$ 89,251	$ 62,028	$ 6	$ 151,285
Expenses	90,126	48,644	8,988	147,758	68,460	34,481	6,672	109,613
Gain (loss) on disposal of property and equipment	(2,070)	4	-	(2,066)	(892)	-	-	(892)
Share of (earnings) of equity accounted investees	(372)	(22)	-	(394)	(163)	-	-	(163)
EBITDA	**$ 24,105**	**$ 31,305**	**$ (8,988)**	**$ 46,422**	**$ 21,846**	**$ 27,547**	**$ (6,666)**	**$ 42,727**
Aircraft lease expenses	12,462	657	-	13,119	8,188	1,134	-	9,322
EBITDAR	**$ 36,567**	**$ 31,962**	**$ (8,988)**	**$ 59,541**	**$ 30,034**	**$ 28,681**	**$ (6,666)**	**$ 52,049**

(thousands of dollars)	*Q4/12*				*Q4/11*			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	**$ 12,893**	**$ 15,806**	**$ -**	$ 28,699	$ 11,474	$ 12,271	$ 2	$ 23,747
Expenses	19,758	12,488	2,646	34,892	13,819	9,073	1,668	24,560
Gain (loss) on disposal of property and equipment	(1,143)	4	-	(1,139)	(440)	-	-	(440)
Share of (earnings) of equity accounted investees	(48)	23	-	(25)	224	-	-	224
EBITDA	**$ (5,674)**	**$ 3,291**	**$ (2,646)**	**$ (5,029)**	**$ (2,129)**	**$ 3,198**	**$ (1,666)**	**$ (597)**
Aircraft lease expenses	1,682	157	-	1,839	896	309	-	1,205
EBITDAR	**$ (3,992)**	**$ 3,448**	**$ (2,646)**	**$ (3,190)**	**$ (1,233)**	**$ 3,507**	**$ (1,666)**	**$ 608**

OTHER SELECTED YEARLY FINANCIAL INFORMATION

(thousands of Canadian dollars, except per share amounts)	IFRS Fiscal 2012 (unaudited)	IFRS Fiscal 2011 (unaudited)	CGAAP Fiscal 2010 (unaudited)
Revenue	$ 191,720	$ 151,285	$ 123,173
Operating expenses	$ 147,758	$ 109,613	$ 94,362
Share of profit of equity account investees	$ 394	$ 163	$ -
Gain(loss) on disposal of property and equipment	$ 2,066	$ 892	$ -
EBITDA *	$ 46,422	$ 42,727	$ 28,811
Interest and financing charges	$ 17,415	$ 15,303	$ 15,410
Amortization	$ 21,092	$ 19,791	$ 14,078
Relocation of corporate office	$ -	$ -	$ 1,678
Net earnings (loss)	$ 11,752	$ 5,141	$ (286)
Basic earnings (loss) per common share:	$ 0.82	$ 0.38	$ (0.00)
Total assets	$ 274,635	$ 250,794	$ 256,310
Total long-term debt	$ 133,104	$ 139,280	$ 146,107
Cash provided by operations	$ 24,951	$ 20,953	$ 21,438

* see "Non-IFRS measures"

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

	2012 (IFRS) (unaudited)				2011 (IFRS) (unaudited)			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Results of operations:								
Total Revenue	$ 28,699	$ 55,115	$ 70,657	$ 37,249	$ 23,747	$ 44,066	$ 57,658	$ 25,815
EBITDA	$ (5,029)	$ 16,624	$ 30,063	$ 4,766	$ (597)	$ 14,501	$ 26,386	$ 2,433
Adjusted earnings (loss)*	$ (10,604)	$ 5,084	$ 13,731	$ (2,586)	$ (6,099)	$ 3,843	$ 11,324	$ (3,929)
Earnings (loss)	$ (9,825)	$ 6,184	$ 17,979	$ (2,586)	$ (6,099)	$ 3,843	$ 11,324	$ (3,929)
Basic earnings per share	$ (0.67)	$ 0.42	$ 1.24	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84	$ (0.29)
Basic adjusted earnings per share*	$ (0.73)	$ 0.35	$ 0.95	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84	$ (0.29)
Diluted earnings per share	$ (0.67)	$ 0.31	$ 0.97	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84	$ (0.29)
Diluted adjusted earnings per share*	$ (0.73)	$ 0.26	$ 0.71	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84	$ (0.29)

*See "Non-IFRS Measures"

The business of the Corporation follows a seasonal pattern with the lowest revenue occurring from November to April. Therefore, the Corporation's results vary from quarter to quarter and results for an interim period are not necessarily indicative of results that may be expected for a full year.

SUBSEQUENT EVENTS

On February 2, 2012, the Corporation, through Great Slave, purchased 100% of SAL. SAL is a good strategic fit with Great Slave's South American operations, providing helicopter services to domestic and multinational customers in Chile's mining, power construction, and forestry sectors. SAL has two main operating bases in central and southern Chile which currently operate a fleet of up to 10 intermediate and medium sized helicopters. The purchase price consisted of cash consideration of $2.5 million and contingent consideration ranging between $1.5 million and $4.5 million, payable in two installments on December 31, 2012 and on December 31, 2013. The Corporation estimates that the total purchase price will be $7 million. Therefore the contingent consideration recorded in Fiscal 2013 is expected to be $4.5 million. The estimated cash outflows of these future payments are $3.4 million in 2012 and $1.1 million in 2013. The estimated fair value of the tangible and intangible assets acquired is $8.5 million and $1.4

million, respectively. The estimated fair value of the liabilities assumed is $4.6 million. These numbers are preliminary and subject to change.
On February 20, 2012, the Corporation, through Great Slave's wholly-owned subsidiary, entered into an asset purchase agreement to acquire the operating assets of NAS. This purchase fulfills Great Slave's search for a partner in the B.C. market. NAS is a charter company serving the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, B.C. and Rocky Mountain House, Alta. The purchase price consists of cash consideration of $9.35 million. The completion of this transaction is subject to various conditions in favour of Great Slave. The accounting for the business combination is incomplete at the time the financial statements were authorized for issue, due to fair value assessments of intangible assets being incomplete.

On March 26, 2012 the Corporation repaid the $34 million indebtedness owing to NWTOF in full, 10 months prior to its February 1, 2013 maturity. To repay this loan the Corporation entered into two new credit facilities with a combined average interest rate of 5.2% and a $4.5 million bridge loan from a related party. The bridge loan lender is a related party, as it is a subsidiary of Clairvest Group Inc. whose affiliates and clients hold approximately $55 million principal amount of Secured Debentures and have the ability to nomine directors to the Corporation's Board of Directors. The bridge loan has a 90 day term and bears interest at 9.5% per annum with interest payable monthly and is secured by way of certain guarantees and real estate previously pledged to NWTOF as security for the $34 million indebtedness. No financing fees were payable in connection with the bridge loan, and the bridge loan is not convertible into securities of the Corporation.

In order to facilitate these new loans, the terms of the Secured Debentures were amended to: facilitate the early repayment of the $34 million indebtedness owing to NWTOF; change when and in what circumstances the existing maturity date (presently set at March 22, 2017) can be adjusted; change when and in what circumstances the Corporation can early redeem the Secured Debentures; and require the consent of the Secured Debenture holders for the Corporation to issue equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures (presently set at $7.50 per share). As a result of these amendments, the conversion feature in the Secured Debentures will be no longer be classified as a liability that will be recorded at fair value at each reporting period, but will instead will be classified as equity and included in contributed surplus.

On March 26, 2012, the Corporation also amended certain terms of its operating line of credit. These amendments allowed the Corporation to finalize a new intercreditor agreement that gives the Corporation more flexibility to manage its assets in support of its growth plans. The amendments also extended the peak borrowing period to begin in March instead of April, increased the stand by fee to 2%, and changed the borrowing margin applied to eligible accounts receivable and inventory.

DISCLOSURE CONTROLS

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Corporation is identified and communicated to the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, in order to allow timely decisions regarding required disclosure.

The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at January 31, 2012, that the Corporation's disclosure controls and procedures are effective and provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, required to be disclosed in reports that the Corporation files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")

Management is responsible for and has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Chief Executive Officer and the Chief Financial Officer evaluated the design and effectiveness of the Corporation's ICFR based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

As at January 31, 2012, management assessed the effectiveness of the Corporation's ICFR and concluded that the Corporation's ICFR were effective. There have been no changes to the Corporation's ICFR during the interim quarter ended January 31, 2012 that have materially affected, or are reasonably likely to materially affect, its ICFR.

Due to its inherent limitations, ICFR can provide only a reasonable level of assurance and they may not prevent all errors and fraud or detect misstatements. Furthermore, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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 management's discussion and analysis contains forward-looking statements relating to: the seasonality of the Corporation's business; its Objective and 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 the 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; the cost of relocating its corporate office; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet lender covenants and other terms and conditions of its credit agreements; plans and/or requirements to make new capital investments; and its plans, decisions and capacity to implement the new IFRS reporting standards in the timelines required and the impacts of the planned implementation of IFRS.

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, can be found on SEDAR at www.sedar.com.

Dated: April 29, 2012