MANAGEMENT'S DISCUSSION AND ANALYSIS
of
First Quarter Report
April 30, 2012

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 quarter ended April 30, 2012 should be read in conjunction with the Corporation's unaudited interim condensed consolidated financial statements and related notes for the 3 months ended April 30, 2012 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2012 which are available on SEDAR at www.sedar.com. The MD&A provides statements which are forward-looking in nature; please refer to "**Forward Looking Statements**" below for an expanded disclosure of the risk, uncertainties and assumptions associated with these statements. See "**Non-IFRS measures**" for reconciliation of "**EBITDA**", "**EBITDAR**" and "**Adjust Profit**" which are measurements that are not defined by IFRS but represent a meaningful financial measurement tool for management. The MD&A makes reference to a number of defined and abbreviated terms, see "**Definitions**" below for an expanded definition of these terms.

Business Profile

Discovery Air, founded in 2004, is a specialty aviation services company which, through its subsidiaries, operates over 150 aircraft with approximately 850 team members, delivering airborne training to the Canadian military; air ambulance services; airborne fire services; helicopter operations; fixed-wing air charter services; expediting and logistics support; and a range of maintenance, repair, overhaul, modification, engineering and certification services; to government and commercial customer bases.

Effective February 1, 2012, the Corporation revised its reportable segments from "Northern Services" and "Government Services" to "Aviation" and "Corporate Support and Other". In assessing the reportable segments, the Corporation considered the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The revised reportable segments reflect the changing environment noted in the operating units and management's focus on allocating resources and measuring performances. The Aviation segment aggregates the operations that have substantially the same basis of deriving revenues, infrastructure to conduct operations and regulatory environment.

The Aviation segment includes four subsidiaries. Great Slave Helicopters Ltd. ("**Great Slave**"), one of the largest helicopter operators in Canada, has bases throughout Canada and South America 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 and western Canada. Top Aces Inc. ("**Top Aces**") provides primarily airborne training services to the Canadian Department of National Defence ("**DND**"). 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.

The Corporate and Other segment includes three subsidiaries as well as Corporate. Discovery Air Technical Services Inc. ("**Technical Services**") provides a range of maintenance, repair and overhaul ("**MRO**"), modification, engineering and certification services. Discovery Mining Services Ltd. ("**Discovery Mining**") provides remote exploration camp and expediting, logistics and staking services to a broad spectrum of resource exploration companies. Discovery Air Innovations Inc. ("**Innovations**"), the Corporation's business development arm, is focused on identifying, pursuing and capitalizing on new market opportunities for Discovery Air and its subsidiaries.

Under the previous reporting segment structure, Northern Services included Great Slave, Air Tindi and Discovery Mining, while Government Services included Top Aces, Technical Services and Fire Services. Innovations was included in Corporate Support.

The change in reporting segments did not have any impact on the Corporation's consolidated financial position, statement of profit and comprehensive income and statement of cash flows.

Selected Financial Information

(thousands of dollars, except per share amounts)		Q1/13		Q1/12
		(unaudited)		(unaudited)
Results of operations				
Revenue	$	52,933	$	37,249
Expenses	$	44,207	$	32,464
Depreciation of property and equipment and intangible assets	$	5,596	$	4,503
	$	3,130	$	282
Financing costs	$	4,322	$	3,745
Proft (loss) attributable to shareholders of Discovery Air Inc	$	1,360	$	(2,586)
Basic earnings per common share	$	0.09	$	(0.19)
Diluted earnings per common share	$	0.09	$	(0.19)
Financial position and liquidity				
Total assets	$	295,885	$	264,740
Total loans, borrowings and finance leases	$	140,135	$	139,274
Cash used in operations	$	(5,495)	$	(10,397)
Working capital	$	22,446	$	(28,752)
Key non-IFRS performance measures*				
Adjusted Profit (loss)	$	(765)	$	(2,586)
Basic Adjusted profit (loss) per common share	$	(0.05)	$	(0.19)
Diluted Adjusted profit (loss) per common share	$	(0.05)	$	(0.19)
EBITDAR	$	12,956	$	7,018
EBITDA	$	8,867	$	5,014
EBITDA Margin		17%		13%

* See "Non-IFRS measures" below.

Consolidated Results

Revenue and Hours Flown

Revenue was $52.9 million in Q1/13, compared to $37.2 million for Q1/12, representing a 42% increase. The Corporation's revenue is largely determined by flight hours generated primarily from aviation transportation services performed by its subsidiaries. Non-flight hour-based revenues 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 Q1/13 was 79% of total revenue, compared to 83% of total revenue in Q1/12. Hours flown, which are derived from the Corporation's Aviation segment, were 14,445 in Q1/13 compared to 10,106 for Q1/12, a 43% increase. The Corporation's 22% increase in government-based revenues over the comparative period was attributable to increased flight service demand to support medevac services, airborne training and special missions to the Canadian military and forest fire management services. The Corporation's 64% increase in mining and oil and gas-based revenues over the comparative period was attributable to continuing strong resource-based activities in western and northern Canada. The Corporation's Q1/13 revenues from scheduled services and MRO services remained largely consistent with Q1/12.

Operating Expenses

Operating expenses consist of fixed and variable expenses and include crew and fleet costs as well as general and administrative expenses. Operating expenses were $44.2 million or 84% of revenues in Q1/13, compared to $32.5 million or 87% of revenues in Q1/12. The increase in operating expenses was largely attributable to the increase in revenue volume and seasonal preparation costs for the upcoming peak season. While the Corporation supported higher operating expenses, it improved efficiencies in relation to revenues generated and for the Aviation segment, hours flown.

Crew, parts 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 $15.1 million in Q1/13, representing 29% of revenues, compared to $11.2 million for Q1/12, representing 30% of revenues. Parts and fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, were $13.4 million in Q1/13 or 25% of revenues, compared to $10.1 million in Q1/12 or 27% of revenues. Again, the increase in these costs was largely attributable to increased flight hour activity from the Corporation's Aviation segment. Fuel costs are solely related to the Aviation segment. Substantially all of the fuel costs associated with the revenue flight hours are recovered from customers and recorded 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 Q1/13, these costs were $11.6 million or 22% of revenues, compared to $8.7 million in Q1/12 or 23% of revenues. The increased expense relates to infrastructure costs invested to support the increase volume of business and ongoing business development initiatives.

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

EBITDA was $8.9 million in Q1/13, compared to $5.0 million Q1/12, and EBITDA margin in Q1/13 was 17% compared to 13% in Q1/12. The increase in EBITDA and EBITDA margin in Q1/13 was largely attributable to a strong year-over-year increase in revenue contribution from the Aviation segment. EBITDAR was $13.0 million in Q1/13, compared to $7.0 million in Q1/12, a year-over-year increase of 86%. The EBITDAR reflects the Aviation segment's increased utilization of leased aircraft to meet increased demand for services.

Earnings

In Q1/13, the Corporation recorded profit of $1.4 million compared to a loss of $2.6 million in Q1/12. The Corporation's Q1/13 profit reflects a tax-effected gain of $1.9 million on extinguishment of debt and a $0.2 million gain related to a change in the fair value of the Corporation's embedded derivative that existed up to March 26, 2012 (see "Financing activities" below). Excluding the impact of these gains results in an adjusted loss of $0.8 million compared to adjusted loss of $2.6 million in Q1/12 (see "Non-IFRS Measures" below).

Amortization expense in Q1/13 was $5.6 million compared to $4.5 million in Q1/12. The increase in amortization expenses was largely attributable to higher flight hours in the Aviation segment.

Finance costs were $4.3 million in Q1/13 compared to $3.7 million in Q1/12. The increase in finance costs is attributable to a $0.3 million non-cash write off of unamortized deferred finance costs on $34 million term debt that was extinguished in the quarter and higher interest charges largely attributable to the interest on the Secured Debentures. The $1.7 million interest charge related to these debentures represents a non-cash charge.

The Corporation's income tax provision was less than $0.1 million in Q1/13, compared to an income tax recovery of $0.9 million in Q1/12. The Corporation's statutory income tax rate in Q1/13 was approximately 27%, compared to 28% in Q1/12.

Seasonality and Quarterly Fluctuations

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

Results of Operations in Q1/13 and Q1/12

(thousands of dollars)	Q1/13			Q1/12		
	(unaudited)			(unaudited)		
	Aviation Services	Corporate Support and Other	Total	Aviation Services	Corporate Support and Other	Total
Revenue	**$ 47,682**	**$ 5,251**	**$ 52,933**	**$ 33,201**	**$ 4,048**	**$ 37,249**
Expenses	36,397	7,810	44,207	26,450	6,014	32,464
Share of (profit) of equity accounted investees	(40)	(101)	(141)	(174)	(55)	(229)
EBITDA	**$ 11,325**	**$ (2,458)**	**$ 8,867**	**$ 6,925**	**$ (1,911)**	**$ 5,014**
Depreciation	5,353	243	5,596	4,380	123	4,503
Loss (gain) on disposal of property and equipment			(9)			255
Finance Costs			4,322			3,745
Change in fair value of financial liabilities at fair value			(201)			-
Gain on extinguishment of debt			(2,224)			-
Profit before income tax			1,383			(3,489)
Current Income tax provision			2,012			565
Deferred Income tax recovery			(1,966)			(1,468)
			46			(903)
Profit and comprehensive income			**1,337**			**(2,586)**
Loss attributable to non-controlling interest			(23)			-
Profit attributable to shareholders of Discovery Air Inc.			**$ 1,360**			**$ (2,586)**
Capital expenditures	**$ 11,468**	**$ 1,238**	**$ 12,706**	**$ 4,904**	**$ 233**	**$ 5,137**
	As at April 30, 2012			*As at April 30, 2011*		
Total assets	**$ 281,106**	**$ 14,779**	**$ 295,885**	**$ 249,535**	**$ 15,205**	**$ 264,740**
Goodwill	**$ 41,370**	**$ -**	**$ 41,370**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 12,978**	**$ 705**	**$ 13,683**	**$ 17,220**	**$ 829**	**$ 18,049**

Aviation Segment

The Aviation segment generated revenue of $47.7 million on 14,445 flight hours in Q1/13, compared to revenue of $33.2 million on 10,106 flight hours in Q1/12. The 44% increase in revenue and 43% increase in flight hours were attributable to increased activities from the segment's resource-based customers, increased demand for airborne training services and special mission service engagements by the DND, and incremental contribution from Great Slave's Chilean operation acquired on February 2, 2012 (see "Investing activities" below).

The segment incurred operating expenses totaling $36.4 million, representing 76% of revenues in Q1/13, compared to $26.5 million, representing 80% of revenues in Q1/12. As noted in the consolidated results, the increase in costs was largely attributable to higher volume of business and the seasonal preparation costs for the upcoming peak season, however the segment's lower operating costs were lower as percentage of revenues due to higher return on these costs from strong year–over-year increase in revenues.

Crew costs were $12.5 million for Q1/13, 26% of revenues, compared to $9.4 million for Q1/12, 28% of revenues. Increased crew costs were largely attributable to increased wage cost to support higher flight hours activity; higher crew travel costs due to increased engagements in remote locations, increased training costs related to introducing new aircraft types into service, and the seasonal preparation costs for the upcoming peak flying season in the second and third quarters.

Fleet costs, excluding fuel costs, were $12.0 million in Q1/13 (25% of revenues), compared to $8.4 million in Q1/12 (25% of revenues). Aircraft maintenance costs were $3.4 million in Q1/13 compared to $2.7 million. Aircraft lease expense were $4.1 million in Q1/13 compared to $2.0 million in Q1/12. The increase was largely attributable to increase flight hour demand resulting in increased utilization of leased aircraft to meet increased demand for services. Facility costs of $1.5 million compared to $1.1 million in Q1/12, with the increase largely attributable to the incremental costs associated with supporting a larger scale of operations. The segment recovers substantially all of the fuel costs associated with the revenue flight hours from its customers and records these recoveries as revenue.

General and administrative expenses were $7.8 million, representing 16% of revenues in Q1/13 compared to $6.1 million, representing 18% of revenues in Q1/12. The increased expense reflects the incremental overhead costs to support ongoing growth in operations.

The segment recorded EBITDA of $11.3 million in Q1/13 compared to $6.9 million in Q1/12, yielding an EBITDA margin of 24% and 21%, respectively. The increase in EBITDA and EBITDA margin was largely attributable to strong Q1/13 revenues. EBITDAR in Q1/13 was $15.4 million compared to $8.9 million Q1/12, with the increase in aircraft lease expense in Q1/13 due to increased utilization of leased aircraft to support the increase volume in flight hours.

Depreciation expense in Q1/13 was $5.4 million, 11% of revenues compared to $4.4 million, 13% of revenues in Q1/12. While depreciation increased, in part due to the increase in flight hours, the decrease as a percentage of revenue and on a per flight hour basis reflect improved utilization of the segment's capital assets.

Corporate Support and Other

Corporate Support and Other generated revenues of $5.3 million in Q1/13 compared to $4.0 million in Q1/12. The 33% increase in revenues was attributable to increased activity by Discovery Mining which continued to benefit from strong mining exploration activity. Technical Services revenues in Q1/13 remained consistent with Q1/12.

The segment incurred operating expenses totaling $7.8 million in Q1/13, compared to $6.0 million in Q1/12, an increase of 30%. The increase in operating expenses was largely attributable to increased infrastructure cost to support the higher volume of revenues and ongoing business development initiatives, and Technical Services' supporting larger scale of operations compared to Q1/12.

The segment recorded an EBITDA loss of $2.5 million in Q1/13, compared to EBITDA loss of $1.9 million in Q1/12 with the increase in loss attributable to higher operating and support costs.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components in Q1/13 and Q1/12:

(thousands of dollars)		Q1/13		Q1/12
Operating activities	$	(5,495)	$	(10,397)
Investing activities		(11,245)		(3,722)
Financing activities		7,075		10,642
Exchange loss on cash held in foreign currency		(5)		-
Net decrease in cash for the year	$	(9,670)	$	(3,477)

Operating activities

Operating activities in Q1/13 consumed $4.9 million less cash than in Q1/12 largely as result of increased net profit while maintaining a relatively flat non-cash working capital position compared to Q1/12.

Working capital

At the end of Q1/13, the Corporation had a positive working capital position of $22.4 million and a current ratio of 1.5 compared to a negative working capital position of $28.8 million and a current ratio of 0.7 at the end of Q1/12, for an increase in working capital of $51.2 million. $41.5 million of this variance relates to the 2006 Unsecured Debentures and $13.3 million in related party debt classified as current liabilities in Q1/12. The 2006 Unsecured Debentures were refinanced and the related party debt was repaid during Q2/12. Had both of these debts not been included in Q1/12 current liabilities, the Corporation would have had a working capital position of \$12.7 million and current ratio of 1.3, for a normalized year-over year increase in working capital of \$9.7 million. This increase in working capital is due to:

- Increased operating activity in Q1/13;
- an \$8.1 million decrease in the operating line of credit; and
- a decrease in the current portions of long term debt and finance leases due to the Corporation replacing debt that required monthly principal payments with the Secured Debentures that do not require monthly payments.

Offsetting the increase in working capital noted above was the \$4.5 million bridge loan that matures on June 25, 2012 and a \$2.2 million contingent liability related to the acquisition of a Chilean operation, Helicopers.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("**SAL**"), as at Q1/13 (see "investing activities" below).

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 below 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.

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's ability to repay the \$4.5 million bridge loan maturing on June 25, 2012;
- the Aviation segment no longer providing service to the 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.

Investing activities

The net cash outlay from investing activities in Q1/13 was \$11.2 million compared to \$3.7 million in Q1/12. Capital expenditures of \$11.4 million in Q1/13 included \$4.3 million related to two aircraft and facility expansion; \$2.9 million related to acquisition of new businesses (including a \$0.5 million deposit for the asset acquisition of Northern Air Support ("**NAS**")), with the remaining investing activities related to sustaining capital expenditures and aircraft overhaul costs.

On February 2, 2012, the Corporation, through Great Slave, purchased 100% of SAL and its subsidiaries. SAL was acquired due to its 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, and currently operates a fleet of up to 10 intermediate and medium sized helicopters. The Chilean Peso is SAL's functional currency.

The purchase price consisted of cash consideration of \$2.5 million and contingent consideration of \$4.5 million, payable in two installments on December 31, 2012 and on December 31, 2013. The contingent payments are based on a multiple of expected profit before income tax, depreciation and amortization, adjusted for long term debt assumed and working capital requirements. The Corporation estimated the total purchase price to be \$7.0 million. The purchase price allocation has not been finalized as the Corporation continues to assess the fair values of the assets acquired. The Corporation expects to finalize the purchase price allocation before the end of Fiscal 2013.

Q1/12 capital expenditures of \$4.9 million reflected two aircraft purchased for \$2.0 million and sustaining capital expenditures and capitalized aircraft overhaul costs of \$2.9 million. Q1/12 also reflects the sale of one aircraft for proceeds of \$1.2 million.

The Corporation has the following business acquisition and capital asset expenditure commitments:

- the purchase of NAS assets for $9.4 million (less a $0.5 million deposit previously paid), which closed on May 4, 2012 (see “Subsequent event” below) and was partially funded with new debt;
- the purchase of four aircraft for $10.2 million in early Q2/13 (see “Subsequent events” below) and were partially funded with new debt;
- the purchase of an aircraft for approximately $2.6 million which is expected to close in late Q2/13 and will be partially funded with new debt; 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 had an outstanding balance of $5.7 million on its operating line of credit as at Q1/13, compared to an outstanding balance of $14.0 million in Q1/12. As at the end of Q1/13, the Corporation had unrestricted cash of $3.4 million and available but unused borrowing capacity of $13.2 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.

During Q1/13, the Corporation made debt repayments of $32.7 million made up of $32.0 million to retire the $34 million term loan at a discount and $0.7 million of scheduled debt repayments. During Q1/12, the Corporation made scheduled debt payments of $3.3 million and entered into a financing lease valued at $2.9 million.

On March 26, 2012, the Corporation repaid the $34 million term loan in full, ten months prior to its February 1, 2013 maturity. To repay this loan and related transaction costs, the Corporation entered into: two new credit facilities totaling $29.9 million, and a $4.5 million bridge loan from a related party. The repayment of the $34 million term loan was reduced by $2.2 million, comprised of a $2.0 million discount and $0.2 million in accrued interest, in return for the Corporation retiring it prior to maturity.

On March 22, 2012, $3.5 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at April 30, 2012, the loan balance included accrued interest of $0.7 million. As at January 31, 2012, the loan balance included $2.5 million in accrued interest.

The Secured Debentures were amended to, among other things, facilitate the early repayment of the $34 million term loan. The amendments also included, but where not limited to, revised language as to when and in what circumstances, the existing maturity date (presently set at March 22, 2017) of the Secured Debentures can be changed; revised language as to when and, in what circumstances, the Corporation (as borrower) can early redeem the Secured Debentures; and new language requiring the consent of the holders of the Secured Debentures in the event that the Corporation issues equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures. As a result of these amendments, the conversion feature in the Secured Debentures is no longer classified as a liability that is recorded at fair value each reporting period, and is now classified as equity and included in contributed surplus. The amendment of the terms was not considered a significant modification of the Secured Debentures. However, the fair value of the liability related to the conversion feature was considered extinguished upon the amendment of the Secured Debentures. Accordingly, a mark-to-market adjustment of $0.2 million was recorded in profit.

On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement to refinance a portion of the $34 million term loan and to fund the purchase of additional aircraft. As at April 30, 2012, $15.7 million was outstanding under this term facility and an additional $4.3 million can be drawn on or before March 23, 2014. The loan matures on March 15, 2017 and is repayable in monthly instalments of $167,000 plus interest, with the balance due at maturity. The loan bears an interest rate equal to the lender’s floating base rate plus 3.00% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $161,000 are netted against the carrying value of the loan and are being accreted to the loan’s face value based on its effective interest rate of 4.99% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage

On March 26, 2012 the Corporation entered into four term loan agreements for an aggregate principal amount of $14.2 million to refinance a portion of the $34 million term loan and to fund the purchase of additional aircraft. As at April 30, 2012, an additional $2.2 million can be drawn under a separate loan agreement with this lender on or before September 30, 2012. The loans mature on March 26, 2017 and are repayable in aggregate monthly instalments of $185,000 plus interest payments, with the balance due at maturity. The loans bear an interest at a rate equal to the one-month Canadian dollar banker's acceptance rate plus 4.55% per annum. The loans are secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $157,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 5.97% per annum. The agreements require that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

On March 26, 2012 the Corporation entered into a $4.5 million bridge loan from a related party. The bridge lender is a related party as it is an affiliate of Clairvest Group Inc. whose affiliates and investors in certain of its funds hold approximately $58.3 million principal amount of the Secured Debentures and have certain director nomination rights. The bridge loan has a 91-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 as security for the $34 million term loan. No financing fees were payable in connection with the bridge loan, and the bridge loan is not convertible into securities of the Corporation.

As at April 30, 2012, the Corporation was in compliance with all covenants related to debt.

Contractual Obligations and Off-Balance Sheet Arrangements

The Corporation has no off-balance sheet arrangements that management is aware of other than those disclosed in note 22 of the Corporation's annual audited consolidated financial statements for the year ended January 31, 2012.

Share Consolidation

On September 23, 2011, the Corporation received the approval of the Toronto Stock Exchange 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

Shareholders' equity increased by the amount of the Q1/13 comprehensive income and the after-tax value of the Secured Debenture's conversion option included in contributed surplus.

As at April 30, 2012, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 416,495 stock options outstanding and no Share purchase warrants outstanding. During Q1/13, the Corporation issued no stock options under the employee stock option plan approved by the shareholders in June 2010. The Corporation maintains 271,995 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 Q1/13, 670 stock options expired.

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the year ended January 31, 2012 and 2011, which can be found on SEDAR at www.sedar.com.

Related Party Transactions

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 "Financing activities" above).

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. These risks and uncertainties are substantially unchanged from the description found in the "Risk Factors" section of the Corporation's MD&A for the year ended January 31, 2012, as well as in the "Risk Factors" section of the Corporation's Annual Information Form dated April 30, 2012, both of which can be found on SEDAR at www.sedar.com.

SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

In preparing the interim condensed consolidated financial statements, various accounting estimates are made in applying the Corporation's accounting policies. These estimates require significant judgment on the part of management and are considered critical as they are important to the Corporations financial condition and results. There have been no changes to the Corporations significant account estimates disclosed in the Corporation's MD&A for the year ended January 31, 2012, which can be found on SEDAR at www.sedar.com.

RECENTLY ISSUED STANDARDS

For detailed discussion on recently issued standards please refer to Corporation's for the year ended January 31, 2012, which can be found on SEDAR at www.sedar.com. There were no additional recently issued standards relevant to the Corporation during Q1/13.

NON-IFRS MEASURES

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 the Corporation's ability to service debt and to meet other payment obligations, and as a basis for valuation. Beginning in Q1/13, the Corporation changed the definition of EBITDA and EBITDAR to exclude gains and losses on disposal of property. EBITDA and EBITDAR for prior periods are restated to reflect this change in their composition. EBITDA margin is EBITDA as a percentage of revenue.

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

(thousands of dollars)	Q1/13	Q1/12
	(unaudited)	(unaudited)
Net profit (loss) attributable to shareholders of Discovery Air Inc	$ 1,360	$ (2,586)
Income tax provision (recovery)	46	(903)
Gain on extinguishment of debt	(2,224)	-
Change in fair value financial liabilities reported at fair value	(201)	-
Interest and financing charges	4,322	3,745
Depreciation	5,596	4,503
Loss (gain) on disposal of property and equipment	(9)	255
Non-controlling interest	(23)	-
EBITDA	$ 8,867	$ 5,014
Aircraft lease expenses	4,089	2,004
EBITDAR	$ 12,956	$ 7,018

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

The following is a reconciliation of adjusted profit (loss):

(thousands of dollars)	Q1/13	Q1/12
	(unaudited)	(unaudited)
Net profit (loss) attributable to shareholders of Discovery Air Inc	$ 1,360	$ (2,586)
Gain on extinguishment of debt	(2,224)	-
Tax effect on gain on extinguishment of debt	300	-
Change in fair value of financial liabilities at fair value	(201)	-
Adjusted profit (loss)	$ (765)	$ (2,586)

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	Q1/13			Q1/12		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 47,682	$ 5,251	$ 52,933	$ 33,201	$ 4,048	$ 37,249
Expenses	36,397	7,810	44,207	26,450	6,014	32,464
Share of (profit) of equity accounted investees	(40)	(101)	(141)	(174)	(55)	(229)
EBITDA	**$ 11,325**	**$ (2,458)**	**$ 8,867**	**$ 6,925**	**$ (1,911)**	**$ 5,014**
Aircraft lease expenses	4,089	-	4,089	2,004	-	2,004
EBITDAR	**$ 15,414**	**$ (2,458)**	**$ 12,956**	**$ 8,929**	**$ (1,911)**	**$ 7,018**

SUMMARY OF QUARTERLY RESULTS

(thousands of Canadian dollars, except per share amounts)

	2013 (unaudited)	**2012 (unaudited)**				**2011 (unaudited)**		
	Q1	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Results of operations:								
Total Revenue	$ 52,933	$ 28,699	$ 55,115	$ 70,657	$ 37,249	$ 23,747	$ 44,066	$ 57,658
EBITDA	$ 8,867	$ (6,169)	$ 15,812	$ 29,694	$ 5,014	$ (1,036)	$ 14,311	$ 26,123
Adjusted profit (loss)*	$ (765)	$ (10,604)	$ 5,084	$ 13,731	$ (2,586)	$ (6,099)	$ 3,843	$ 11,324
Profit (loss) attributable to shareholders of Discovery Air Inc	$ 1,360	$ (9,825)	$ 6,184	$ 17,979	$ (2,586)	$ (6,099)	$ 3,843	$ 11,324
Basic earnings per share	$ 0.09	$ (0.67)	$ 0.42	$ 1.24	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84
Basic adjusted profit per share*	$ (0.05)	$ (0.73)	$ 0.35	$ 0.95	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84
Diluted earnings per share	$ 0.09	$ (0.67)	$ 0.31	$ 0.97	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84
Diluted adjusted profit per share*	$ (0.05)	$ (0.73)	$ 0.26	$ 0.71	$ (0.19)	$ (0.45)	$ 0.28	$ 0.84

*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 May 2, 2012, the Corporation entered into a $15 million term loan agreement to fund the purchase of additional aircraft. On May 4, 2012, $13.9 million was drawn on this facility to purchase NAS' assets and two additional aircraft. The loan matures on February 15, 2016, and is repayable through an annual curtailment each December equal to 1/10th of the original amounts drawn and monthly payments of interest. The loan bears an interest rate equal to the greater of: 4.50% and the lender's floating base rate plus 1.50% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. The agreement requires that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

On May 4, 2012 the Corporation completed an asset purchase of NAS for $9.4 million. This purchase fulfills Great Slave's search for a partner in the British Columbia market. NAS is a charter company serving the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia, and Rocky Mountain House, Alberta. The purchase price allocation is currently being finalized.

Subsequent to April 30, 2012 the Corporation purchased four aircraft for $10.2 million. These purchases were partially funded with new debt.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

There were no changes in the Corporation's disclosure controls and procedures and internal controls over financial reporting that occurred during the three months ended April 30, 2012 that have materially affected or are reasonably likely to materially affect the Corporation's internal control over financial reporting and disclosures of required information.

DEFINITIONS

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

(a) "**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) "**Fiscal 2012**" means the fiscal year of the Corporation ended January 31, 2012;
(f) "**Fiscal 2013**" means the fiscal year of the Corporation ending January 31, 2013;
(g) "**Q1/12**", "**Q2/12**", "**Q3/12**" and "**Q4/12**" mean the first, second, third and fourth quarters, respectively, of Fiscal 2012; "**Q1/13**", "**Q2/13**", "**Q3/13**" and "**Q4/13**" mean the first, second, third and fourth quarters, respectively, of Fiscal 2013;
(h) "**Secured Debentures**" means the $70,000,005 aggregate principal amount of senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of April 30, 2012, had an adjusted principal amount of $74,238,361 (inclusive of accrued interest); and
(i) "**Shares**" means the Class A Shares and the Class B Shares.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this management's discussion and analysis contains forward-looking statements relating to: the seasonality of the Corporation's business; its business development; the impact of the current economic conditions on the results of its operations and/or financial condition; management's outlook for the future; management's ability to reduce costs and/or contain them at 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; 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.

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

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

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

Dated: June 13, 2012