



**Interim Condensed Consolidated Financial Statements  
July 31, 2013  
(Unaudited)**

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Financial Position

(Unaudited)

(thousands of Canadian dollars)	Note	July 31, 2013	January 31, 2013
<b>Assets</b>			
Current assets:			
Cash		\$ -	\$ 5,806
Restricted cash		-	543
Trade and other receivables		51,959	26,417
Income taxes receivable		647	2,283
Inventory		22,681	20,927
Prepaid expenses and other		6,103	5,537
		<b>81,390</b>	61,513
Property and equipment		185,349	188,141
Long term notes receivable		1,922	2,061
Goodwill		39,612	40,722
Intangible assets		9,007	10,313
Investments in equity accounted investees		4,345	3,474
		<b>\$ 321,625</b>	\$ 306,224
<b>Liabilities and Shareholders' equity</b>			
Current liabilities:			
Operating line of credit	7	\$ 14,762	\$ -
Trade and other payables		25,866	23,283
Current portion of contingent consideration for business acquisition	4	710	750
Current portion of loans and borrowings	6	7,197	7,057
		<b>48,535</b>	31,090
Contingent consideration for business acquisition	4	-	1,881
Loans and borrowings	6	153,735	153,927
Deferred income taxes		24,386	24,698
		<b>178,121</b>	180,506
Shareholders' equity:			
Share capital		68,469	68,469
Contributed surplus		11,240	11,078
Retained earnings		15,444	15,009
Accumulated other comprehensive income (loss)		(249)	64
Equity attributable to shareholders of Discovery Air Inc.		<b>94,904</b>	94,620
Equity attributable to non-controlling interest		65	8
Total equity		<b>94,969</b>	94,628
		<b>\$ 321,625</b>	\$ 306,224

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Profit

(Unaudited) (thousands of Canadian dollars, except per share amounts)	Note	For the three months ended		For the six months ended	
		July 31, 2013	July 31, 2012	July 31, 2013	July 31, 2012
Revenue		\$ 72,308	\$ 74,225	\$ 115,902	\$ 127,158
Expenses		51,787	51,073	97,940	95,280
Depreciation of property, equipment and intangible assets		6,310	6,785	11,915	12,381
		14,211	16,367	6,047	19,497
Finance costs		4,131	4,605	8,224	8,927
Share of profit of equity accounted investees (net of income tax)		(496)	(140)	(865)	(281)
Other gains	9	(1,680)	(322)	(1,680)	(2,756)
		1,955	4,143	5,679	5,890
Profit before income taxes		12,256	12,224	368	13,607
Income tax provision (recovery):					
Current		2,502	1,969	(132)	3,981
Deferred		517	1,348	8	(618)
		3,019	3,317	(124)	3,363
Profit		\$ 9,237	\$ 8,907	\$ 492	\$ 10,244
Profit (loss) attributable to:					
Non-controlling interest		(2)	(28)	57	(51)
Shareholders' of Discovery Air Inc.		9,239	8,935	435	10,295
		\$ 9,237	\$ 8,907	\$ 492	\$ 10,244
Basic earnings per share	8	\$ 0.63	\$ 0.61	\$ 0.03	\$ 0.71
Diluted earnings per share	8	\$ 0.40	\$ 0.38	\$ 0.03	\$ 0.50

## Interim Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited) (thousands of Canadian dollars)	Note	For the three months ended		For the six months ended	
		July 31, 2013	July 31, 2012	July 31, 2013	July 31, 2012
<b>Profit</b>		\$ 9,237	\$ 8,907	\$ 492	\$ 10,244
Other comprehensive income (loss):					
Exchange differences on translation of foreign operation	4	(356)	129	(313)	15
Total comprehensive income		\$ 8,881	\$ 9,036	\$ 179	\$ 10,259
Total comprehensive income (loss) attributable to:					
Non-controlling interest		(2)	(28)	57	(51)
Shareholders' of Discovery Air Inc.		8,883	9,064	122	10,310
		\$ 8,881	\$ 9,036	\$ 179	\$ 10,259

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Shareholders' Equity

(Unaudited)

(thousands of Canadian dollars)

	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Non-controlling interest	Total equity
Balance at January 31, 2013	\$ 68,469	\$ 11,078	\$ 15,009	\$ 64	\$ 8	\$ 94,628
Profit	-	-	435	-	57	492
Other comprehensive income (loss)	-	-	-	(313)	-	(313)
Share-based compensation	-	162	-	-	-	162
Balance at July 31, 2013	\$ 68,469	\$ 11,240	\$ 15,444	\$ (249)	\$ 65	\$ 94,969
Balance at January 31, 2012	\$ 68,469	\$ 9,727	\$ 14,413	\$ -	\$ 89	\$ 92,698
Profit (loss)	-	-	10,295	-	(51)	10,244
Other comprehensive income	-	-	-	15	-	15
Amendment of convertible debentures	-	1,217	-	-	-	1,217
Share-based compensation	-	28	-	-	-	28
Balance at July 31, 2012	\$ 68,469	\$ 10,972	\$ 24,708	\$ 15	\$ 38	\$ 104,202

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Condensed Consolidated Statements of Cash Flows (Unaudited)

(thousands of Canadian dollars)	Note	For the six months ended	
		July 31, 2013	July 31, 2012
Cash provided by (used in)			
Operating activities:			
Profit		\$ 492	\$ 10,244
Adjustments for:			
Current tax expense (recovery)		(132)	3,981
Deferred tax expense (recovery)		8	(618)
Finance costs		8,224	8,927
Share-based compensation		-	(83)
Depreciation of property, equipment and intangible assets		11,915	12,381
Share of profit of equity accounted investees (net of income tax)		(865)	(281)
Other gains	9	(1,680)	(2,756)
		<b>17,962</b>	31,795
Change in non-cash operating working capital	10	(24,524)	(28,912)
Interest paid		(3,220)	(3,745)
Net income taxes received (paid)		1,674	(180)
Net cash used in operating activities		<b>(8,108)</b>	(1,042)
Investing activities:			
Acquisition of property and equipment		(8,350)	(26,038)
Acquisition of subsidiaries, net of cash acquired	4	-	(11,687)
Long term notes receivable collections		129	121
Proceeds on disposal of property and equipment		137	137
Proceeds on sale of subsidiary and investment	5	1,216	-
Net cash used in investing activities		<b>(6,868)</b>	(37,467)
Financing activities:			
Proceeds from operating line of credit	7	14,762	7,789
Loans and borrowings transaction costs		(61)	(798)
Proceeds from loans and borrowings		-	57,148
Repayment of contingent consideration for business acquisition	4	(750)	-
Repayment of loans, borrowings and finance leases		(4,781)	(38,040)
Net cash provided by financing activities		<b>9,170</b>	26,099
Decrease in cash		<b>(5,806)</b>	(12,410)
Cash, balance beginning of period		<b>5,806</b>	13,096
Cash, balance end of period		\$ -	\$ 686

See accompanying notes to the interim condensed consolidated financial statements.

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements  
(unaudited)

For the six months ended July 31, 2013 and 2012

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## 1. Reporting entity:

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

## 2. Basis of preparation:

### (a) Statement of compliance:

The Corporation prepares its interim condensed consolidated financial statements in accordance with International Accounting Standard ("**IAS**") 34, *Interim Financial Reporting*. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's audited annual consolidated financial statements for the year ended January 31, 2013, which were prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board.

## 3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation's most recent annual audited consolidated financial statements for the year ended January 31, 2013, except as noted below.

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

## 4. Business combinations:

On February 2, 2012, the Corporation, through a subsidiary of Great Slave Helicopters Ltd. ("**GSH**"), acquired 100% of Helicopters.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("**Helicopters Chile**") and its subsidiaries. Helicopters Chile was acquired due to its good strategic fit with GSH's South American operations, providing helicopter services to domestic and multinational customers in Chile's mining, power construction and forestry sectors. Helicopters Chile has two main operating bases in central and southern Chile, and currently operates a fleet of approximately 10 intermediate and medium sized helicopters. The Chilean Peso is Helicopters Chile's functional currency. Foreign exchange gains and losses arising from translating Helicopters Chile's results and financial position into Canadian dollars are recorded in "Other comprehensive income".

The purchase price included contingent consideration of up to \$4.1 million, payable in two installments based on financial performance for the calendar years 2012 and 2013 (contingent consideration is based on a multiple of expected profit before income tax). The Corporation initially estimated the fair value of the total purchase price to be \$6.1 million. The estimate of the first installment was revised in the year ended January 31, 2013 from \$2.1 million to \$0.8 million and the resulting gain of \$1.3 million was recorded in the Consolidated Statements of Profit for the year ended January 31, 2013. The first installment was paid in May 2013. The second installment is also estimated to be below the original estimate and accordingly, the Corporation has recorded a gain of \$1.2 million (Note 9 – Other gains) for the quarter ended July 31, 2013, reducing the present value of the final installment to \$0.7 million.

The purchase price allocation was completed during the quarter ended April 30, 2013 which resulted in the recognition of intangible assets including trade name and licence valued at \$0.5 million, and customer relationships valued at \$0.5 million. The goodwill was revised to \$1.9 million due to the recognition of these intangible assets.

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(unaudited)

For the six months ended July 31, 2013 and 2012

On May 4, 2012, the Corporation, through a subsidiary of GSH, completed the purchase of the assets of Northern Air Support Ltd. (“**NAS**”) for \$9.3 million. NAS is a helicopter charter company that serves the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia and Rocky Mountain House, Alberta. The acquisition of NAS supports the Corporation’s growth into the British Columbia market and is a good strategic fit with GSH’s operations. The fair value of the NAS assets acquired exceeded the purchase price and accordingly, the Corporation recorded a gain of \$0.4 million in the Corporation’s Consolidated Statements of Profit for the year ended January 31, 2013.

A summary of net assets acquired in the business combinations is as follows:

(thousands of Canadian dollars)

Net assets acquired	Helicopters Chile	NAS	Total
Cash	\$ 104	\$ -	\$ 104
Other current assets	3,017	155	3,172
Property and equipment	4,474	9,579	14,053
Intangibles	1,000	-	1,000
Goodwill	1,860	-	1,860
Deferred income tax	120	-	120
Current liabilities	(1,706)	(72)	(1,778)
Long term debt	(2,752)	-	(2,752)
	\$ 6,117	\$ 9,662	\$ 15,779
Cash payments	\$ 2,395	\$ 9,307	\$ 11,702
Contingent consideration	3,722	-	3,722
	\$ 6,117	\$ 9,307	\$ 15,424

## 5. Sale of subsidiary:

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

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(unaudited)

For the six months ended July 31, 2013 and 2012

## 6. Loans and borrowings:

(thousands of Canadian dollars)

	Note	July 31, 2013	January 31, 2013
10.00% secured convertible debentures, maturing March 22, 2017	6(a)	\$ 79,662	\$ 75,352
8.375% unsecured convertible debentures, maturing June 30, 2016	6(b)	31,946	31,579
Long-term secured debt bearing interest of lender's base rate plus 3.00%, maturing March 15, 2017	6(c)	16,790	18,309
Long-term secured debt bearing interest of lender's base rate plus 1.50%, maturing February 15, 2016	6(d)	12,712	13,734
Long-term secured debt bearing interest of BA rate plus 4.55%, maturing March 26, 2017	6(e)	12,261	12,992
Long-term unsecured debt bearing a fixed interest rate of 9.00%, maturing April 22, 2015	6(f)	2,433	3,416
Long-term secured debt incurred by subsidiary companies bearing fixed and floating interest rates at a weighted average of 4.89% (January 31, 2013 - 4.6%), maturing fiscal 2014 through fiscal 2020		877	1,031
Finance leases		4,251	4,571
<b>Loans and borrowings</b>		<b>\$ 160,932</b>	<b>\$ 160,984</b>
<b>Less current portion of loans and borrowings</b>		<b>7,197</b>	<b>7,057</b>
		<b>\$ 153,735</b>	<b>\$ 153,927</b>

(a) On September 23, 2011, the Corporation closed the private placement of \$70,000,005 principal amount of 10.00% secured convertible debentures (the "**Secured Debentures**"). Interest on the Secured Debentures accrues at a rate of 10% per annum and is added to the adjusted principal amount of Secured Debentures on March 22 of each year commencing on March 22, 2012. The original conversion price of the Secured Debentures of \$7.50 per Share increases at 10% 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 standard anti-dilution and adjustment provisions.

On March 22, 2013, \$7.3 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at July 31, 2013, the loan balance included accrued interest of \$2.9 million (January 31, 2013 - \$6.3 million).

(b) On May 12, 2011, the Corporation closed a \$30.0 million issuance of 8.375% convertible unsecured subordinated debentures at a price of \$1,000 per debenture (the "**Unsecured Debentures**"), with an additional \$4.5 million issued on May 27, 2011 through an overallotment option on the original issue of these debentures. The Unsecured Debentures accrue interest at the rate of 8.375% per annum payable semi-annually and the principal balance is due at maturity on June 30, 2016. At the holders' option, the Unsecured Debentures may be converted into Shares at any time prior to the maturity date at a conversion price of \$7.30 per Share, subject to standard anti-dilution and adjustment provisions.

(c) On March 26, 2012, the Corporation entered into a \$20.0 million secured term loan agreement. 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.

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



# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
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For the six months ended July 31, 2013 and 2012

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- (e) On March 26, 2012, the Corporation entered into four secured term loan agreements for an aggregate principal amount of \$14.2 million. The loans mature on March 26, 2017 and are repayable in aggregate monthly instalments of \$185,000, with the balance due at maturity. The loans bear interest at a rate equal to the one-month Canadian dollar banker's acceptance rate ("**BA rate**") plus 4.55% per annum.
- (f) On June 22, 2012, the Corporation entered into a \$4.5 million term loan agreement. The loan matures on April 22, 2015 and is repayable in scheduled installments made during September, December, March and June. Four scheduled payments of \$500,000 are due during the first year of the loan, four scheduled payments of \$375,000 are due in the second year of loan, and three scheduled payments of \$250,000 during the final year of the loan, with a final payment of \$250,000 due at maturity. The loan bears a fixed interest rate of 9.00% and is payable monthly. The loan is secured by a subordinated general security agreement with the Corporation and certain of its subsidiaries.

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

The Secured Debentures require that the Corporation be in compliance with certain financial and non-financial covenants. On April 22, 2013 the holders of the Secured Debentures waived the covenant requiring the Corporation to maintain total debt leverage ratio of not greater than 6.00:1.00 for the quarter ended July 31, 2013. With this waiver, the Corporation was in compliance with all its debt covenants for the quarter ended July 31, 2013.

The decrease in the Corporation's trailing twelve month EBITDA (primarily from lower than expected first quarter results) continues to exert pressure on the total debt leverage ratio covenant in the Secured Debentures. To avoid any possibility of non-compliance with this covenant, the Corporation requested and received an additional waiver for the third quarter ending October 31, 2013.

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

Repayments on or in respect of the outstanding loans and borrowings as at July 31, 2013 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)

Within 1 year	\$	7,197
Within 2 years		6,663
Within 3 years		46,185
Within 4 years		98,330
Within 5 years		299
Thereafter		2,258
Total	\$	160,932

Interest expense on or in respect of loans and borrowings for the three and six months ended July 31, 2013, was \$3.9 million (July 31, 2012 - \$4.0 million) and \$7.7 million (July 31, 2012 - \$7.6 million), respectively.

## 7. Operating line of credit:

On August 1, 2012, the Corporation entered into a committed operating line of credit ("**Operating Line**") that matures on April 9, 2015 and which bears interest at the lender's prime rate plus 2% with an option to use bankers' acceptance rates upon payment of a 3% stamping fee. The Operating Line has a maximum borrowing limit of \$15.0 million, increasing up to \$25.0 million during the Corporation's peak operating period of March 1 through October 31. Aggregate borrowings are also limited to eligible accounts receivable and inventory, subject to an allowance for specific reserves. The Operating Line, which may be used by the Corporation for working capital and general corporate purposes, is secured by a first charge on the receivables and inventory of the Corporation and certain of its subsidiaries, general security agreements and other customary security agreements. In addition

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(unaudited)

For the six months ended July 31, 2013 and 2012

to financial covenants, the Corporation is required to have a nil loan balance for thirty consecutive days during each non-peak operating period.

As at July 31, 2013, the Corporation had available a borrowing capacity of \$25.0 million, against which \$2.1 million was applied to issue letters of credit and \$14.8 million was drawn (January 31, 2013 - nil). The Corporation was in compliance with all applicable covenants.

## 8. Earnings per share:

(thousands of Canadian dollars, except per share amounts)	For the three months ended		For the six months ended	
	July 31, 2013	July 31, 2012	July 31, 2013	July 31, 2012
<b>Basic earnings per share:</b>				
Profit attributable to shareholders	\$ 9,239	\$ 8,935	\$ 435	\$ 10,295
Weighted average number of Shares outstanding	14,556	14,556	14,556	14,556
Basic earnings per share	\$ 0.63	\$ 0.61	\$ 0.03	\$ 0.71
<b>Diluted Earnings per share:</b>				
Profit attributable to shareholders	\$ 9,239	\$ 8,935	\$ 435	\$ 10,295
Dilutive adjustments:				
- Interest savings from assumed conversion of convertible debt	\$ 2,319	\$ 2,047	\$ -	\$ 4,139
Adjusted profit attributable to shareholders	\$ 11,558	\$ 10,982	\$ 435	\$ 14,434
Weighted average number of Shares outstanding	14,556	14,556	14,556	14,556
Dilutive adjustments:				
- Assumed conversion of convertible debt	14,059	14,059	-	14,059
- Share options	-	2	-	6
Weighted average number of Shares outstanding assuming dilution	28,615	28,617	14,556	28,621
Diluted earnings per share	\$ 0.40	\$ 0.38	\$ 0.03	\$ 0.50

For the six months ended July 31, 2013, 14,059,361 potentially dilutive instruments were excluded from the computation of dilutive earnings per share as they were anti-dilutive.

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

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(unaudited)

For the six months ended July 31, 2013 and 2012

## 9. Other gains:

(thousands of Canadian dollars)	For the three months ended		For the six months ended	
	July 31, 2013	July 31, 2012	July 31, 2013	July 31, 2012
Gain on disposal of property and equipment	\$ (18)	\$ (25)	\$ (18)	\$ (34)
Gain on sale of subsidiary	(414)	-	(414)	-
Change in fair value of financial liabilities at fair value	-	-	-	(201)
Gain on business acquisition	-	(297)	-	(297)
Gain on extinguishment of debt	-	-	-	(2,224)
Gain on contingent consideration for business acquisition	(1,248)	-	(1,248)	-
	\$ (1,680)	\$ (322)	\$ (1,680)	\$ (2,756)

## 10. Change in non-cash operating working capital:

(thousands of Canadian dollars)	For the six months ended	
	July 31, 2013	July 31, 2012
Restricted cash	\$ 543	\$ (5)
Trade and other receivables	(25,562)	(29,528)
Inventory	(1,375)	(2,197)
Prepaid expenses	(653)	(3,252)
Trade and other payables	2,523	6,070
	\$ (24,524)	\$ (28,912)

## 11. Fair value of financial assets and liabilities:

Fair value estimation:

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

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

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

The fair value of the Secured Debentures and Unsecured Debentures as at July 31, 2013 was \$96 million (January 31, 2013 - \$104 million) as compared to a carrying value of \$112 million (January 31, 2013 - \$107 million). At July 31, 2013 and January 31, 2013 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

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

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
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For the six months ended July 31, 2013 and 2012

## 12. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the three and six months ended July 31, 2013, the Corporation incurred \$5.5 million (July 31, 2012- \$6.0 million) and \$7.6 million (July 31, 2012 - \$10.1 million) in operating lease expenses, respectively. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)

Within 1 year	\$	8,238
Within 2 years		3,638
Within 3 years		2,648
Within 4 years		2,186
Within 5 years		1,930
Thereafter		9,904
	\$	28,544

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

## 13. Segmented information:

The Corporation has two reportable segments: Aviation, and Corporate Support and Other.

The Aviation segment includes business operations that generate revenues by flying aircraft to serve customers in various industries and governments. This segment includes GSH, Discovery Air Defence Services Inc. ("**Defence Services**"), Discovery Air Innovations Inc. ("**Innovations**"), Air Tindi Ltd. ("**Air Tindi**"), and Discovery Air Fire Services Inc. ("**Fire Services**").

The Corporate Support and Other segment contains operating units which do not meet the basis for inclusion in the Aviation Segment and individually represent less than 10% of the Corporation's total assets, annual revenues and annual earnings. This segment includes Discovery Air Technical Services Inc. ("**Technical Services**"), Discovery Air Mining Services Ltd. ("**Discovery Mining**"), and certain support functions of Discovery Air Inc. (collectively, "**Corporate**").

Effective February 1, 2013, the Aviation segment includes the activities of Innovations as the business development efforts of Innovations are now focused on supporting Defence Services growth initiatives. In addition, the costs of various telecommunication and information technology costs have been transferred from the Aviation segment to Corporate Support and Other as these infrastructure costs are now being managed on a consolidated basis at Corporate.

These changes in segment reporting had no material impact on the Corporation's Consolidated Statements of Financial Position, Statements of Profit, Statements of Comprehensive Income (Loss) or Statements of Cash Flows for any periods.

The revenues disclosed in the tables are from external customers. There are inter-segment revenues; however, they are eliminated on consolidation. For the three and six months ended July 31, 2013, Corporate Support and Other segment inter-segment revenue was \$0.3 million (July 31, 2012 - \$0.8 million) and \$0.6 million (July 31, 2012 - \$0.9 million), respectively.

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors such as weather conditions can affect the comparability of results from one period to another, particularly from quarter to quarter.

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

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(unaudited)

For the six months ended July 31, 2013 and 2012

(thousands of Canadian dollars)	For the three months ended July 31, 2013			For the three months ended July 31, 2012		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	\$ 63,610	\$ 8,698	\$ 72,308	\$ 67,997	\$ 6,228	\$ 74,225
Expenses	40,233	11,554	51,787	42,237	8,836	51,073
Depreciation of property, equipment and intangible assets	6,005	305	6,310	6,483	302	6,785
	17,372	(3,161)	14,211	19,277	(2,910)	16,367
Share of profit of equity accounted investees (net of income tax)	(189)	(307)	(496)	(7)	(133)	(140)
	17,561	(2,854)	14,707	19,284	(2,777)	16,507
Finance costs			4,131			4,605
Other gains			(1,680)			(322)
Profit before income taxes			12,256			12,224
Income tax provision:						
Current			2,502			1,969
Deferred			517			1,348
Profit			\$ 9,237			\$ 8,907
Loss attributable to non-controlling interest			(2)			(28)
Profit attributable to shareholders of Discovery Air Inc.			\$ 9,239			\$ 8,935
Segment assets	\$ 290,537	\$ 31,088	\$ 321,625	\$ 307,805	\$ 23,541	\$ 331,346
Capital expenditures	\$ 2,155	\$ 1,005	\$ 3,160	\$ 25,045	\$ 2,279	\$ 27,324
Investments in equity accounted investees	\$ 3,044	\$ 1,301	\$ 4,345	\$ 2,413	\$ 775	\$ 3,188

# DISCOVERY AIR INC.

Notes to Interim Condensed Consolidated Financial Statements (continued)  
(unaudited)

For the six months ended July 31, 2013 and 2012

(thousands of Canadian dollars)	For the six months ended July 31, 2013			For the six months ended July 31, 2012		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	\$ 98,754	\$ 17,148	\$ 115,902	\$ 115,679	\$ 11,479	\$ 127,158
Expenses	75,110	22,830	97,940	78,634	16,646	95,280
Depreciation of property, equipment and intangible assets	11,119	796	11,915	11,836	545	12,381
	12,525	(6,478)	6,047	25,209	(5,712)	19,497
Share of profit of equity accounted investees (net of income tax)	(191)	(674)	(865)	(47)	(234)	(281)
	12,716	(5,804)	6,912	25,256	(5,478)	19,778
Finance costs			8,224			8,927
Other gains			(1,680)			(2,756)
Profit before income taxes			368			13,607
Income tax provision (recovery):						
Current			(132)			3,981
Deferred			8			(618)
Profit			\$ 492			\$ 10,244
Profit (loss) attributable to non-controlling interest			57			(51)
Profit attributable to shareholders of Discovery Air Inc.			\$ 435			\$ 10,295
Segment assets	\$ 290,537	\$ 31,088	\$ 321,625	\$ 307,805	\$ 23,541	\$ 331,346
Capital expenditures	\$ 6,262	\$ 2,088	\$ 8,350	\$ 36,512	\$ 3,517	\$ 40,029
Investments in equity accounted investees	\$ 3,044	\$ 1,301	\$ 4,345	\$ 2,413	\$ 775	\$ 3,188