MANAGEMENT'S DISCUSSION AND ANALYSIS

*This management's discussion and analysis ("**MD&A**") of the financial condition and results of operations of Discovery Air Inc. ("**Discovery Air**" or the "**Corporation**") for the year ended January 31, 2014 should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2014 and 2013, which are available on SEDAR at www.sedar.com.*

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

Business Profile

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

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

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

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

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

Selected Financial Information

(thousands of dollars, except per share amounts)	For the year ended January 31 2014	2013	% change
Results of operations			
Revenue	**$ 213,526**	$ 229,353	-7%
Expenses	**$ 190,572**	$ 188,657	1%
Depreciation of property, equipment and intangible assets	**$ 22,985**	$ 22,860	1%
	$ (31)	$ 17,836	
Financing costs	**$ 17,561**	$ 17,378	
Other (gains) and losses	**$ 7,830**	$ 78	
Profit (loss) attributable to shareholders of Discovery Air	**$ (17,955)**	$ 596	
Basic earnings (loss) per share	**$ (1.21)**	$ 0.04	
Diluted earnings (loss) per share	**$ (1.21)**	$ 0.04	
Financial position and liquidity			
Total assets	**$ 300,155**	$ 306,224	-2%
Total loans, borrowings and finance leases	**$ 162,031**	$ 163,615	-1%
Cash from operations	**$ 17,879**	$ 27,611	-35%
Working capital	**$ 12,143**	$ 30,423	-60%
Key non-IFRS performance measures*			
Adjusted profit (loss)	**$ (12,403)**	$ 2	
Basic and diluted Adjusted profit (loss) per share	**$ (0.83)**	$ -	
EBITDAR	**$ 39,111**	$ 57,650	-32%
EBITDA	**$ 24,758**	$ 41,361	-40%
EBITDA Margin	**12%**	18%	

* See "Non-IFRS measures" below

Recent Developments

On February 24, 2014, the Corporation announced its intention to complete a rights offering (the "**Offering**") in order to raise up to $15,000,000 of equity capital through the sale of Shares (as defined below). Under the Offering, the Corporation distributed a total of 14,555,661 rights to its shareholders of record on April 1, 2014 entitling them to subscribe for up to an aggregate of 17,441,860 Shares at a price of $0.86 per Share. Clairvest Group Inc. ("**Clairvest**") agreed, in accordance with the terms of a standby purchase agreement with the Corporation dated February 24, 2014 (the "**Standby Purchase Agreement**"), to purchase from the Corporation such number of Shares that were available to be purchased, but not otherwise subscribed for under the Offering, up to a predetermined cap. Clairvest also agreed to provide the Corporation with a subordinated, secured loan in the event that Clairvest was unable (due to the cap) to backstop the entire Offering and the Corporation was unable to raise gross proceeds from the Offering in an amount of $15.0 million. With the Standby Purchase Agreement in place, the Corporation was able to use the anticipated proceeds from the Offering (including the standby commitment and the secured, subordinated loan from Clairvest) to obtain from its operating lender an immediate $10 million increase in the operating line of credit within the existing credit limit of its operating facility (by way of an increase in the Corporation's borrowing base), and (ii) a commitment to increase the overall limit of the operating facility by $10.0 million, in each case until May 24, 2014 or the completion of the Offering (whichever is earlier). Copies of the short form prospectus for the Offering and the Standby Purchase Agreement can be found on SEDAR at www.sedar.com.

The Offering was completed on April 28, 2014. The Corporation raised approximately $1.7 million in gross proceeds from the issuance of 1,952,009 Shares. The Corporation expects to issue a further 15,489,851 Shares (at $0.86 per Share) to Clairvest and/or certain of its funds and co-investors (the "**Standby Shares**") on or before May 5, 2014 pursuant to the Standby Purchase Agreement. As a result of the Offering and the issuance of the Standby Shares, the Unsecured Debentures conversion price is expected to change to $6.53 per Share (formerly $7.30 per Share).

On March 31, 2014, the Corporation entered into a loan agreement with Element Financial Corporation in the principal amount of $21.5 million. The proceeds from the loan were used to refinance approximately $20.5 million in existing term indebtedness of the Corporation and provided the Corporation with approximately $0.9 million in cash (net of loan arrangement fees but before transaction costs). In connection with this refinancing, the Corporation's obligation to restore the airworthiness of two aircraft or pay down $4.0 million in indebtedness was eliminated. The Corporation filed a Material Change Report in connection with this transaction on April 3, 2014, a copy of which is available on SEDAR at www.sedar.com.

The Corporation undertook a number of initiatives in Fiscal 2014 (as defined below) to streamline core businesses and shift aircraft composition which resulted in a number of operational and asset divestitures. In late January 2014, the Corporation ceased its executive jet service program based in Calgary. In April, 2014, the Corporation accepted an offer to purchase five 601 Challenger jets for approximately US $2.5 million. The transaction is expected to close during the second quarter of Fiscal 2015 (as defined below).

Financial Highlights of Fiscal 2014

- On December 17, 2013, the Corporation, through a subsidiary of Defence Services, acquired Advanced Training Systems International, Inc. by way of a merger of that entity with and into Advanced Training Systems International Corp. ("**ATSI**") for $7.2 million (U.S. $6.6 million plus adjustments of U.S. $0.2 million). ATSI is a U.S. airborne training services company based in Mesa, Arizona. It owns a fleet of ten Douglas A-4 Skyhawk aircraft and offers airborne training services, including, among other services, tactical "Red Air" services, fighter lead-in training, electronic warfare, radar theory and other combat tactics. ATSI was acquired in order to facilitate the expansion of Defence Services' airborne training services into the U.S. and other international markets. At the time of acquisition, ATSI's predecessor entity had minimal operations and revenues; however it previously provided airborne training services to the U.S. Navy, U.S. Air Force and the Canadian Armed Forces, and has also provided advanced operational test and evaluation services such as air-to-air refueling trials. The estimated fair values of the ATSI assets acquired approximate the purchase price. The Corporation expects to finalize the preliminary purchase price allocation before the end of Fiscal 2015. The Corporation filed a Material Change Report in connection with this transaction on December 17, 2013, a copy of which is available on SEDAR at www.sedar.com.

- Following the acquisition of ATSI, Defence Services entered into a five year contract to provide fast jet combat airborne training services to the German Armed Forces (the "**German Contract**") utilizing a fleet of seven Douglas A-4 aircraft owned by ATSI. The services will be provided from various locations in Europe, including Germany, France, the Netherlands, Belgium and Italy. Defence Services anticipates performing approximately 1,200 flight hours per year under this contract commencing in January 2015. Discovery Air attributes strategic importance to this contract as it establishes Defence Services in Europe, and provides a solid foundation for future expansion in that market. The Corporation filed a Material Change Report in connection with this contract on February 4, 2014, a copy of which is available on SEDAR at www.sedar.com.

- In addition to the above transactions, the Corporation has been pursuing an opportunity to acquire six F-16, six A-4N aircraft and related support packages (**the "Additional Fighter Jets**") for the expansion of Defence Services' airborne training capabilities. The cost of acquiring these assets and deploying them into service is estimated to be between U.S. $40.0 to $50.0 million. The Corporation has placed a U.S. $2.5 million deposit for the acquisition of these assets which would be refundable should the purchase not be completed due to the inability to obtain third party transfer authorization from the U.S. Department of State ("**U.S. Government Approval**"). In addition to the U.S. Government Approval, the Corporation would only complete the purchase of these assets upon securing the necessary financing for the purchase. During Fiscal 2014, the Corporation incurred approximately $3.6 million in business development costs related to this opportunity as well as acquisition expenses related to ATSI.

- In an effort to streamline core businesses and shift aircraft fleet composition that will garner higher utilization, the Corporation divested of Hudson Bay Helicopters Ltd. ("**HBH**"), based out of Churchill, Manitoba, in May 2013 for $1.2 million, disposed of two King Air 300s for proceeds of $2.1 million in January 2013 and closed a fixed wing facility in Calgary upon exiting the executive jet service market. The aggregate of these transactions resulted in a net gain of $0.1 million. With the cessation of the executive jet service program in late January 2014, the Corporation assessed the five 601 Challenger jets for impairment on the basis that there was no pending plan to redeploy these assets in the near term. As noted in "Recent Developments", the Corporation received an offer to purchase these assets. The Corporation recognized an impairment charge of $5.2 million on these aircraft, reflecting the estimated amount of the carrying value net of proceeds and disposal costs.

- Fiscal 2014 consolidated revenues decreased 7%, with the Aviation segment's revenues and flight hours decreasing 9% relative to the comparative period. The decline was primarily attributable to lower mining based activity and forest fire activity as well as lower airborne training activity. Corporate Support and Other segment's revenue increased 7% compared to Fiscal 2013 (as defined below) due to increased contribution from Technical Services' MRO and related activity.

- Fiscal 2014 EBITDA decreased 40%, with an EBITDA margin of 12% compared to 18% in Fiscal 2013. The decline in EBITDA and EBITDA margin was largely attributable to lower than expected revenues for the operating support costs carried on during the year. The Corporation also incurred acquisition and business development costs related to Defence Services' airborne training service expansion.

- Fiscal 2014 loss was $18.0 million ($1.21 loss per Share) compared to $0.6 million ($0.04 per Share) in Fiscal 2013. The difference is comprised of lower EBITDA ($16.6 million), and non-cash net losses ($7.8 million) offset by an income tax recovery ($5.7 million). The non-cash net loss was primarily related to $9.2 million of asset impairment charges offset by a $1.2 million gain on extinguishment of a contingent liability. Excluding these non-cash items produces an Adjusted loss of $12.4 million or $0.83 loss per Share in Fiscal 2014 compared to an Adjusted profit of nil in Fiscal 2013 (see "Adjusted profit (loss)" under "Non-IFRS measures" below).

Results of Operations for the year ended January 31, 2014

(thousands of dollars)	Fiscal 2014			Fiscal 2013		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	**$ 182,351**	**$ 31,175**	**$ 213,526**	**$ 200,229**	**$ 29,124**	**$ 229,353**
Expenses	147,757	42,815	190,572	150,540	38,117	188,657
Share of (profits) of equity accounted investees	(390)	(1,414)	(1,804)	(78)	(587)	(665)
EBITDA	**$ 34,984**	**$ (10,226)**	**$ 24,758**	**$ 49,767**	**$ (8,406)**	**$ 41,361**
Depreciation	21,262	1,723	22,985	21,516	1,344	22,860
Finance costs			17,561			17,378
Other (gains) and losses			7,830			78
Earnings before income tax			(23,618)			1,045
Current income tax (recovery)			(3,427)			(1,025)
Deferred income tax provision (recovery)			(2,236)			1,572
			(5,663)			547
Profit (loss)			**(17,955)**			**498**
Loss attributable to non-controlling interest			-			(98)
Profit (loss) attributable to shareholders of Discovery Air			**$ (17,955)**			**$ 596**
Capital expenditures	**$ 23,331**	**$ 3,504**	**$ 26,835**	**$ 49,907**	**$ 5,896**	**$ 55,803**
	As at January 31, 2014			*As at January 31, 2013*		
Total assets	**$ 274,319**	**$ 25,836**	**$ 300,155**	**$ 273,226**	**$ 32,998**	**$ 306,224**
Goodwill	**$ 37,861**	**$ -**	**$ 37,861**	**$ 40,722**	**$ -**	**$ 40,722**
Intangible assets	**$ 6,049**	**$ 340**	**$ 6,389**	**$ 9,794**	**$ 519**	**$ 10,313**

Consolidated Results

Revenue

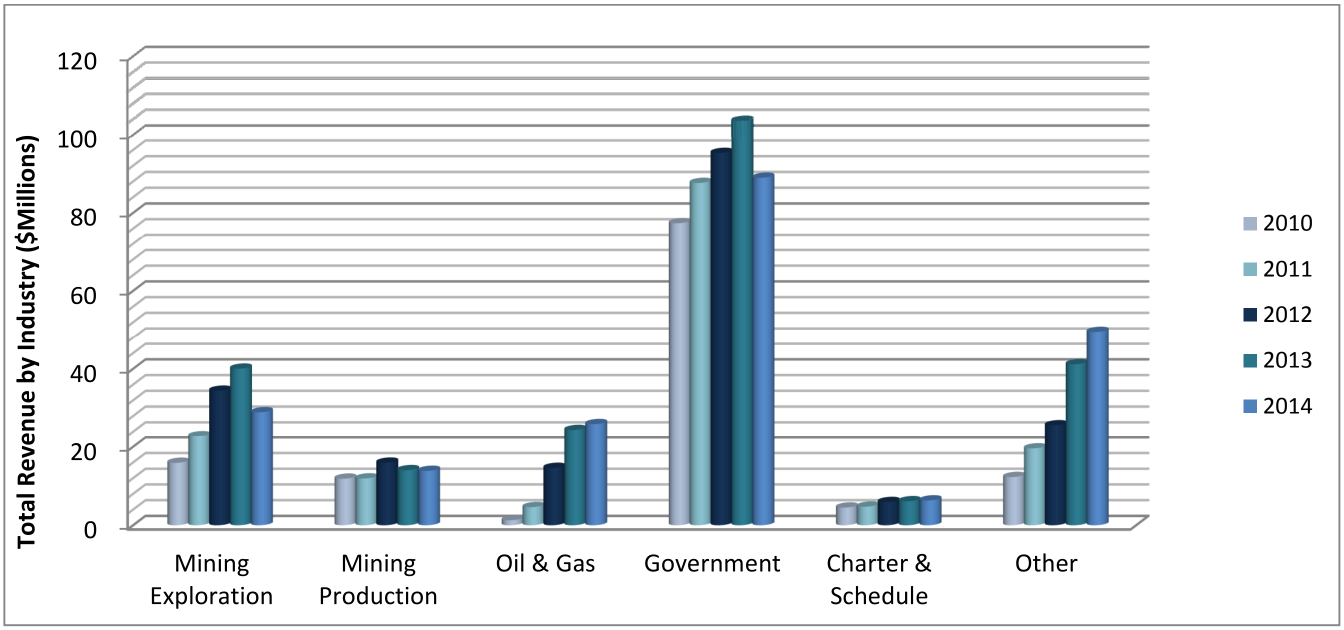
Fiscal 2014 consolidated revenues were $213.5 million, a 7% decrease relative to the comparative period due to lower revenue contribution from the Aviation segment (lower by $17.9 million or 9% compared to for Fiscal 2013). The segment was negatively impacted by weakness in the resource-based sectors and lower airborne training services. The Corporate Support and Other segment's incremental revenues (7% or $2.1 million increase compared to Fiscal 2013), slightly offsetting the decrease in the Aviation segment revenues, was largely attributable to higher MRO activity at Technical Services.

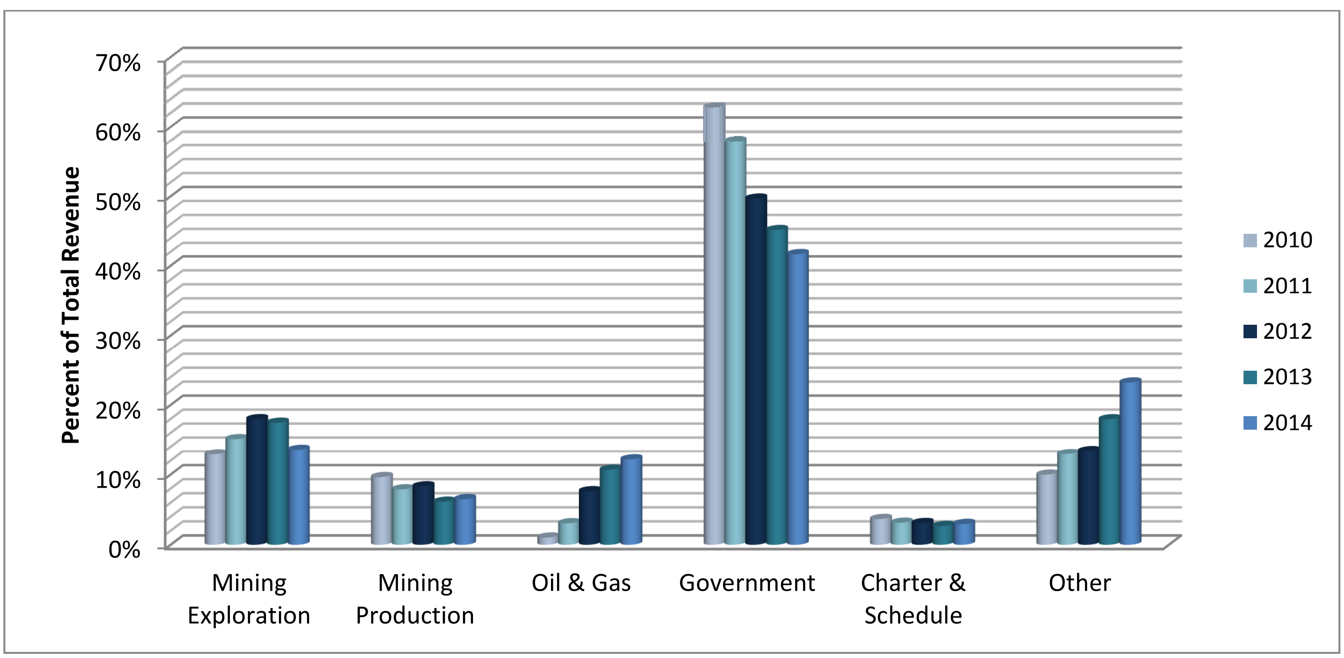
The Corporation's two largest customer sectors are government services and resource-based (mining and oil & gas) industries.

As reflected in the Consolidated Revenue by Industry Sector table below, the Corporation's revenues from government-based customers decreased by 14% and represented 42% of total revenues in Fiscal 2014 compared to 45% in Fiscal 2013. Revenue contribution from this customer base was negatively impacted by lower forest fire management services and lower airborne training services. Revenues from forest fire decreased by 26% compared to Fiscal 2013 due to wet and cool weather conditions in northern Ontario and western Canada, while airborne training services were impacted by the DND's budget constraints.

Revenue from resource-based customers decreased by 13% and represented 32% of total revenues, compared to 34% in Fiscal 2013. The Corporation's decrease in revenue from resource-based customers is primarily due to the decrease in mining-based activity in northern Canada (28% lower than the comparative period). The increase in the Corporation's Other customer base revenues reflect the impact of increased MRO activity and parts sales from Technical Services.

Consolidated Revenue by Industry Sector





Expenses
Expenses consist of fixed and variable expenses, with the largest expense items being crew, fleet and parts costs, as well as general and administrative expenses.

Fiscal 2014 expenses were $190.6 million (or 89% of revenues) compared to $188.7 million (or 82% of revenues) in Fiscal 2013. While there were variable cost decreases associated with lower revenues, notably on the crew related costs, many of the fleet support and maintenance cost were comparable to the prior year due to the fixed cost nature associated with these costs. Expenses were higher due to $3.6 million of business development (noted in "Financial Highlights of Fiscal 2014") and acquisition costs.

EBITDA and EBITDAR (see "Non-IFRS Measures" below)
Fiscal 2014 EBITDA was $24.8 million compared to $41.4 in Fiscal 2013; and EBITDA margin was 12% and 18% respectively. The decrease in EBITDA and EBITDA margin was largely attributable to lower than expected revenues for the operating support costs carried on during the year and higher costs associated with business development and the acquisition of ATSI. EBITDAR was $39.1 million, compared to $57.7 million in the comparative period with the decline attributable to the decline in EBITDA. The aircraft lease expense was 12% lower than the comparative period on lower flight hour demand.

Depreciation, finance and other expenses
Depreciation expense of $23.0 million was consistent with the comparative period.

Finance costs of $17.6 million were also consistent with the comparative period. Accretion charges on loans and borrowings were $2.1 million compared to $2.3 million in Fiscal 2013. Interest charges include a non-cash, in-kind payment of $8.0 million ($7.3 million in the comparative year) on account of interest accrued on the Secured Debentures (as defined below). Current year finance costs reflect a bad debt charge of $1.0 million compared to $0.2 million in Fiscal 2013.

In Fiscal 2014 and 2013, the Corporation recognized a gain of $1.2 million and $1.3 million, respectively, due to realizing a lower payment on the contingent consideration liability related to the Corporation's acquisition of Helicopters.cl SpA ("**Helicopters Chile**"). Offsetting these and other non-cash gains was the recognition of an impairment charge of $9.2 million in Fiscal 2014 and $3.8 million in Fiscal 2013. The current year impairment charge related primarily to eight fixed wing aircraft and the goodwill and customer relationships intangible assets related to Helicopters Chile. In the prior year $3.0 million of the impairment charge pertained to four fixed wing aircraft in the Aviation segment and $0.8 million pertained to non-aircraft assets in the Corporate Support and Other segment. (see "Adjusted profit (loss)" below).

The Corporation's income tax recovery was $5.7 million compared to an income tax provision of $0.5 million in the comparative period. The Fiscal 2014 effective income tax rate of 24% was lower than the statutory income tax rate of 27% primarily due to differences in provincial rates and non-deductible permanent adjustments offset by tax rates in foreign jurisdictions. In Fiscal 2013 the effective income tax rate of 52% was higher than the statutory tax rate of 27% due to permanent tax differences related to extinguishment of debt, contingent liabilities and difference in tax rates in foreign tax jurisdictions. The Corporation received a cash tax refund of $1.9 million related to Fiscal 2013. The Corporation expects to recover approximately $3.9 million of taxes based on the Fiscal 2014 tax filings.

Earnings
The Corporation's loss was $18.0 million ($1.21 loss per Share – basic) compared to a profit of $0.6 million ($0.04 earnings per Share – basic) in the comparative period. The Corporation's profit includes a tax-effected gain of $0.4 million from the sale of HBH, and a non-taxable gain of $1.2 million related to the reduction of the contingent consideration liability for the purchase of Helicopters Chile, a tax-effected asset impairment charge of $5.2 million, and a tax-effected goodwill and customer list intangible impairment on GSH's Helicopters Chile operation of $1.7 million. The comparative year profit reflects a tax-effected gain of $1.9 million on extinguishment of debt, a $0.2 million non-taxable gain related to a change in the fair value of the Corporation's embedded derivative that existed up to March 26, 2012, a $0.3 million non-taxable gain on the acquisition of the assets of Northern Air Support Ltd. ("**NAS**"), a non-taxable gain of $1.3 million related to the contingent consideration liability for the purchase of Helicopters Chile, and a tax-effected impairment loss of $2.7 million. Adjusted loss, which excludes the impact of the non-recurring gains and losses, was $12.4 million ($0.83 loss per Share – basic) compared to an Adjusted profit of nil in the comparative period (see "Adjusted profit (loss)" below).

The weighted average number of Shares has been retrospectively adjusted for the bonus element of the rights issued pursuant to the Offering, which allows shareholders of record on April 1, 2014 to purchase up to an additional

17,441,860 Shares in the aggregate at a price of $0.86 per Share. The Shares attributable to the bonus element of the rights issued was 310,983.

The conversion features of the Unsecured Debentures and the Secured Debentures were antidilutive in relation to the earnings in Fiscal 2014. Despite the Corporation's Class A Share price as at January 31, 2014 being below the conversion price of those debentures, IAS 33 considers these debentures dilutive when the interest (net of tax) per share is less than the basic earnings per share.

Aviation Segment

Fiscal 2014 revenues were $182.4 million on 64,805 flight hours, compared to revenues of $200.2 million on 71,387 flight hours in Fiscal 2013. The 9% decrease in revenue and flight hours reflects the softness in the mining resource-based sector in northern Canada and lower forest fire management activity due to cool and wet weather conditions in northern Ontario and western Canada. The demand for airborne training services by the DND was curtailed during the tail end of the year due to government budget constraints. The segment was also negatively impacted by poor weather conditions in the first quarter. The Corporation's executive jet service program did not generate the expected utilization of aircraft and the Corporation determined to cease this service in late January 2014.

The Aviation Segment's expenses were $147.8 million (or 81% of revenues) compared to $150.5 million (or 75% of revenues) in the comparative year. The higher cost as a percentage of revenue reflect a fixed cost level incurred during the first half of the year to support higher flight hour capacity (that did not materialize) during the Corporation's peak season activity in the second and third quarter.

Crew costs, which include wages, benefits, travel and training for pilots and maintenance engineers, for Fiscal 2014 were $54.1 million (or 30% of revenues) compared to $56.3 million (or 28% of revenues) in Fiscal 2013, primarily attributable to lower flight hour demand.

Fleet costs include aircraft lease, facility, parts, maintenance, and fuel costs. Fleet costs, excluding fuel costs, were $47.4 million (or 26% of revenues) compared to $50.1 million (or 25% of revenues) in Fiscal 2013.

General and administrative expenses consist mainly of wages and benefits for administrative personnel, facility, travel, and insurance costs as well as other overhead expenses. General and administrative expenses were $29.9 million (or 16% of revenues) compared to $29.4 million (or 15% of revenues) in the prior period. Business development and acquisition costs accounted for $2.5 million of this expense item.

EBITDA for the segment was $35.0 million compared to $49.8 million in the comparative period, yielding EBITDA margins of 19% and 25%, respectively. EBITDAR was $49.3 million compared to EBITDAR of $66.1 million in the comparative period. Aircraft lease expense of $14.4 million was 12% lower than the comparative period on lower flight hours.

Depreciation expense was $21.3 million (or 12% of revenues) for Fiscal 2014 compared to $21.5 million (or 11% of revenues) in Fiscal 2013.

Corporate Support and Other

The Corporate Support and Other segment's revenues were $31.2 million compared to $29.1 million in the comparative period. The 7% increase in revenues was largely attributable to higher MRO activities from Technical Services.

The segment's expenses were $42.8 million compared to $38.1 million in the comparative period, a 12% increase. The increase in expenses was largely attributable to higher MRO expenses as well as business development support ($1.1 million).

EBITDA loss was $10.2 million compared to an EBITDA loss of $8.4 million in Fiscal 2013.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components:

	For the year ended January 31	
(thousands of dollars)	**2014**	2013
Operating activities	**$ 17,879**	$ 27,611
Investing activities	**(24,707)**	(49,422)
Financing activities	**1,022**	14,521
Net increase (decrease) in cash for the period	**$ (5,806)**	$ (7,290)

Operating Activities

Cash from operating activities for Fiscal 2014 was $17.9 million, a $9.7 million decrease from Fiscal 2013. The unfavourable variance is largely attributable to the $16.6 million reduction in EBITDA, offset by a $6.2 million reduction in taxes paid.

Working Capital

As at January 31, 2014, the Corporation had positive working capital of $12.1 million (of which approximately $1.9 million relates to inventory from the acquisition of ATSI) and a current ratio of 1.3 compared to a working capital position of $30.4 million and a current ratio of 2.0 as at January 31, 2013. The decrease in working capital reflects the $17.1 million impact from moving to an $11.3 million operating line of credit balance at the end of Fiscal 2014 compared to a $5.8 million cash balance at the end Fiscal 2013. The reduced cash position was primarily attributable to lower EBITDA and cash requirements for the growth projects at Defence Services.

In early February 2014, the Corporation was in urgent need of additional liquidity. The Corporation's management met with representatives of Clairvest to explore financing alternatives. Those discussions culminated in the Corporation's decision to undertake the Offering. With the Standby Purchase Agreement in place, the Corporation was able to use the anticipated proceeds from the Offering (including the standby commitment and the secured, subordinated loan from Clairvest) to obtain from its operating lender an immediate $10 million increase in the operating line of credit within the existing credit limit of its operating facility (by way of an increase in the Corporation's borrowing base), and (ii) a commitment to increase the overall limit of the operating facility by $10 million, in each case until May 24, 2014 or the completion of the Offering (whichever is earlier), further supporting the Corporation's near-term liquidity requirements. With the proceeds from the Offering, the standby commitment and the secured, subordinated loan from Clairvest, the Corporation believes that it has sufficient liquidity to meet its normal operating requirements based on its existing working capital position, expected cash from operations and available credit under its operating facility (see "Risks Relating to the Corporation's Financial Condition"). The Corporation believes that these cash resources are also sufficient to fund expenditures that will be required to fund the German Contract. This assessment could change if the Corporation experiences, in the near term time horizon, higher than expected capital expenditures related to aircraft purchases or fleet maintenance, no recovery in resource based activities, lower than normal levels of forest fire activity, or no earnings growth at Technical Services. In addition, the Corporation may need additional financing to fund Defence Services' project or curtail expenditures related to this project.

With respect to the Corporation's existing operations, there are no significant commitments to any expenditures that would significantly change its working capital requirements for these operations. Each significant, non-maintenance related capital expenditure for these operations is assessed to gain reasonable assurance that the capital expenditure will be matched by projected revenues or cost savings generated by the expenditure. The acquisition of the Additional Fighter Jets is contingent on securing U.S. Government Approval and financing.

Investing Activities

The Fiscal 2014 net cash outlay for investing activities was $24.7 million compared to $49.4 million in Fiscal 2013. The current year capital expenditures of $21.5 million was comprised of the purchase of one helicopter for $1.2 million, $3.7 million for Defence Services growth initiatives and facility enhancements, and $16.6 million for sustaining capital expenditures and aircraft overhaul costs. During the year, two aircraft were sold for proceeds of $2.1 million.

During Fiscal 2014, the Corporation acquired ATSI for $7.2 million (or U.S. $6.8 million) and disposed of GSH's wholly-owned subsidiary, HBH, for $1.2 million (see "Financial Highlights of Fiscal 2014").

Capital expenditures in Fiscal 2013 were $38.5 million and primarily comprised of three helicopters and 10 fixed-wing aircraft totaling $20.6 million, facility additions of $1.0 million and equipment purchases related to a new Technical Services contract of $2.1 million. The remaining capital asset additions related to sustaining capital expenditures and aircraft overhaul costs. The comparative period also included the disposal of two aircraft for proceeds of $0.2 million.

Fiscal 2013 business acquisitions of $11.7 million included the following:

- On February 2, 2012, the Corporation purchased 100% of Helicopters Chile and certain of its affiliated entities. At the time of the acquisition the purchase price consisted of cash consideration of $2.4 million (net of cash acquired of $0.1 million) and contingent consideration liability with a present value of $3.7 million based on the expected financial performance for the calendar years 2012 and 2013. As the financial targets were not achieved, the fair value of the contingent consideration liability was reduced to cash obligations of $1.5 million resulting in a gain of $1.2 million and $1.3 million in Fiscal 2014 and Fiscal 2013 respectively.

- On May 4, 2012, the Corporation completed the purchase of the assets and business of NAS for $9.3 million. The fair value of the NAS assets acquired exceeded the purchase price and accordingly, the Corporation recorded a gain of $0.4 million.

While there is no formal commitment on growth related projects, as noted above in "Working Capital" the Corporation intends to invest in growth related expenditures to prepare for the German Contract and, subject to obtaining U.S. Government Approval and securing financing, the Corporation intends to acquire the Additional Fighter Jets. At year end, the Corporation had an undertaking to restore the airworthiness of two aircraft pledged as security to a lender or pay down approximately $2.0 million in debt secured by those aircraft. The deadline to satisfy the undertaking was March 31, 2014, however, this obligation was cancelled upon completing the loan refinancing with Element Financial Corporation on March 31, 2014 (see "Recent Developments").

Financing Activities

The Corporation's operating line of credit provides a borrowing base of up to $25.0 million during the Corporation's peak period of operation based on eligible accounts receivable and inventory, subject to an allowance for specific reserves. As at January 31, 2014, the Corporation had available a borrowing capacity of $15.0 million of which $2.9 million remained unused. The Corporation normally draws on its operating line of credit primarily in the first and second quarters to fund costs associated with seasonal increases in business volumes, as well as to fund increased working capital and repays these draws during the latter half of the fiscal year. The $2.9 million of unused borrowing capacity is lower than normal due to weaker than expected financial performance in Fiscal 2014 and the use of the operating line to finance the acquisition of ATSI.

In order to address the Corporation's near-term liquidity requirements, the Corporation's operating lender temporarily provided (i) an immediate $10.0 million increase in the credit available to the Corporation within the existing credit limit of its operating facility (by way of an increase in the Corporation's borrowing base), and (ii) a commitment to increase the overall limit of the operating facility by $10.0 million. These commitments expire no later than May 24, 2014.

In addition, the Corporation completed a loan refinancing transaction on March 31, 2014 with Element Financial Corporation which eliminated the undertaking to restore the airworthiness of two aircraft (or, in the alternative, repay $4.0 million in debt secured by those aircraft) and provided the Corporation with approximately $0.9 million in cash (net of loan arrangement fees but before transaction costs) (see "Recent Developments")

During Fiscal 2014, the Corporation made debt repayments of $9.5 million and an instalment of $0.8 million on account of contingent consideration payable for the purchase of Helicopters Chile. In Fiscal 2013, the Corporation made debt payments of $41.4 million, consisting of a $32.0 million to retire a $34.0 million term loan at a discount, $4.5 million to replace a bridge loan, a $0.5 million debt retirement related to a hanger and $4.4 million of scheduled debt repayments.

The Corporation is required to comply with several financial covenants in its debt agreements, including: a debt leverage covenant, which requires the Corporation to maintain a total debt to EBITDA (as specifically defined in the Secured Debentures) ratio of not more than 6.00:1.00 (the "**Debt Leverage Covenant**"), and a pledged asset ratio covenant, which requires the Corporation to provide the holders of the Secured Debentures with a first-lien security interest over assets having an appraised value equal to a prescribed ratio of the adjusted principal amount of the Secured Debentures) (the "**PAR Covenant**"); a trailing four quarter consolidated EBITDAR to fixed charge ratio; a debt service coverage ratio; a total liabilities to tangible net worth ratio; and a total funded debt to EBITDAR ratio. The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the adequacy of the security pledged to its lenders in relation to its debt levels.

The Corporation required and received prior to the end of the quarter ended January 31, 2014 a waiver of the Debt Leverage Covenant for that quarter. The Corporation was in compliance with all other financial covenants in its debt agreements for the quarter ended January 31, 2014. As announced on February 24, 2014, the Corporation received irrevocable waivers from the Debt Leverage Covenant and the PAR Covenant for the quarters ending April 30, 2014 and July 31, 2014. The security agent for and on behalf of the Secured Debenture holders have agreed to grant further waivers for the Debt Leverage Covenant and the PAR Covenant for the quarters ending October 31, 2014 and January 31, 2015 following the closing of the Offering. There is no assurance that following the periods covered by these waivers that the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant. In connection with these waivers, the Corporation also agreed to pledge certain real estate assets as security for the Secured Debentures and to refrain from exercising certain subordination rights in the Secured Debentures. For more information, please refer to the Corporation's Material Change Report dated February 28, 2014, a copy of which is available on SEDAR at www.sedar.com.

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

Contractual Obligations and Off-Balance Sheet Arrangements

The following chart outlines the Corporation's contractual principal obligations as at January 31, 2014:

(thousands of Canadian dollars)

January 31, 2014	**Due within 1 year**	**Due between 1 & 2 years**	**Due between 2 & 3 years**	**Due between 3 & 4 years**	**Due between 4 & 5 years**	**Due after 5 years**	**Total**
Trade and other payables	$ 27,817	$ -	$ -	$ -	$ -	$ -	**$ 27,817**
Contingent consideration for business acquisition	750	-	-	-	-	-	**750**
Finance leases	887	782	512	477	485	3,162	**6,305**
Loans and borrowings	7,146	5,935	48,520	132,102	-	195	**193,898**
Operating leases	5,830	3,203	2,600	2,118	1,425	8,002	**23,178**
	$ 42,430	$ 9,920	$ 51,632	$134,697	$ 1,910	$ 11,359	**$ 251,948**

As reflected in the Corporation's audited consolidated financial statements, the Corporation's loans and borrowings, contingent consideration liability and finance lease obligation as at January 31, 2014 was $162.0 million. The contractual principal repayment amount in loans and borrowings in the table above assumes the Corporation makes scheduled repayments to maturity and in the case of the Secured Debentures includes the future accrued payment in kind interest that would be added to the principal balance throughout the term of this facility. Both the Unsecured Debentures and Secured Debentures contain early redemption and conversion rights which are not factored in the above table.

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.

Shareholders' Equity

At January 31, 2014, there were 14,510,855 Class A Shares and 44,760 Class B Shares outstanding. At the same date, there were 1,089,350 stock options outstanding and no Share purchase warrants outstanding. The

Corporation maintains 208,750 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 the year, 115,205 stock options expired or were otherwise terminated in accordance with their terms

As noted in "Recent Developments", the Corporation raised approximately $1.7 million in gross proceeds from the issuance of 1,952,009 Shares. The Corporation expects to issue a further 15,489,851 Shares (at $0.86 per Share) to Clairvest and/or certain of its funds and co-investors on or before May 5, 2014 pursuant to the Standby Purchase Agreement.

Additional information with respect to shareholders' equity is contained in the audited consolidated financial statements for the year ended January 31, 2014 and 2013, which can be found on SEDAR at www.sedar.com.

Related Party Transactions

Clairvest and its affiliates have the ability to exercise control or direction over the rights attaching to the Secured Debentures and has certain director nomination rights in relation to the Corporation. The Secured Debentures would represent, on a post-conversion basis, more than 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the year ended January 31, 2014 was $8.0 million, (January 31, 2013 - $7.3 million). In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest on a monthly basis.

The Corporation's revenues reflect $28.4 million (January 31, 2013 - $29.8 million) and expenses of $2.3 million (January 31, 2013 - $2.0 million) from the Corporation's equity held investees. As at January 31, 2014, $1.6 million (January 31, 2013 - $4.1 million) of the Corporation's accounts receivable were due from equity held investees and $0.7 million (January 31, 2013 - $0.1 million) of the Corporation's accounts payable were due to equity held investees.

Results of Operations for the three months ended January 31, 2014

(thousands of dollars)	Three months ended January 31, 2014			Three months ended January 31, 2013		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
		(unaudited)			(unaudited)	
Revenue	**$ 24,886**	**$ 7,752**	**$ 32,638**	**$ 27,385**	**$ 9,936**	**$ 37,321**
Expenses	31,923	10,624	42,547	32,438	11,889	44,327
Share of (profits) of equity accounted investees	(104)	(341)	(445)	-	(245)	(245)
EBITDA	**$ (6,933)**	**$ (2,531)**	**$ (9,464)**	**$ (5,053)**	**$ (1,708)**	**$ (6,761)**
Depreciation	4,251	559	4,810	3,855	437	4,292
Finance costs			5,106			4,176
Other (gains) and losses			8,720			(990)
Earnings before income tax			(28,100)			(14,239)
Current income tax (recovery)			(2,742)			(6,132)
Deferred income tax provision (recovery)			(3,918)			2,850
			(6,660)			(3,282)
Loss			**(21,440)**			**(10,957)**
Loss attributable to non-controlling interest			-			(28)
Loss attributable to shareholders of Discovery Air			**$ (21,440)**			**$ (10,929)**
Capital expenditures	**$ 12,137**	**$ 287**	**$ 12,424**	**$ 8,376**	**$ 1,141**	**$ 9,517**

Consolidated Results

Given the seasonal nature of the Corporation's business, the fourth quarter is traditionally the slowest in terms of flight hours and accordingly the Corporation has historically realized losses in this period.

Revenue

Quarterly revenue decreased 13% to $32.6 million, primarily attributable to reduce flight hours at Defence Services and lower MRO from Technical Services. Revenues from government sector represented 36% of total revenues compared to 38% in the fourth quarter of Fiscal 2013, with the decline due to lower revenue contribution from Defence Services. The Corporation's resource-based revenues decreased by 27% reflecting the ongoing softness in the resource based sectors for the year.

Expenses

Quarterly expenses decreased 4% to $42.5 million reflecting overall improvement in cost containment during the low season compared to Fiscal 2013. The current quarter expense reflects $0.5 million in business development and acquisition related expenses.

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

EBITDA loss in the fourth quarter of Fiscal 2014 was $9.5 million, compared to EBITDA loss of $6.8 million in the fourth quarter of Fiscal 2013 on lower revenue contribution from DADS airborne training flight hours and lower MRO activity in DATS.

Quarterly EBITDAR loss was $7.7 million compared to $5.0 million EBITDAR loss in the comparative period reflecting consistent year-over-year aircraft lease expense. The Corporation generally utilizes leased aircraft to support short term, seasonal flight services.

Depreciation, finance and other expenses

Depreciation expense in the fourth quarter was $4.8 million compared to $4.3 million in the comparative period with the increase attributable to higher flight hours from the GSH operation.

Finance costs were $5.1 million in the fourth quarter of Fiscal 2014 compared to $4.2 million in the fourth quarter of Fiscal 2013 with the increase due to a $1.0 million accounts receivable write down and provision taken in the current quarter. Finance costs also include accretion of transaction costs on loans and borrowings of $0.5 million consistent with the comparative period.

During the fourth quarter of Fiscal 2014, the Corporation reported a $6.2 million impairment charge related to six fixed wing aircraft and a $2.1 million impairment charge related to the goodwill and customer relationships intangible assets of Helicopters Chile. In the comparative period, the Corporation recognized a gain of $1.3 million due to realizing a lower payment on the contingent consideration liability related to the Corporation's acquisition of Helicopters Chile.

The Corporation had an income tax recovery of $6.7 million, compared to an income tax recovery of $3.3 million in the comparative period. The Corporation's effective tax rate of 24% differs from the Corporation's statutory income tax rate of 27% due to differences in provincial rates and non-deductible permanent differences. In the comparative period, the effective income tax rate of 23% was lower than the statutory income tax rate of 27% due to differences in tax rates in foreign jurisdictions.

Earnings

The Corporation recorded a loss of $21.4 million ($1.44 loss per Share - basic) in the fourth quarter of Fiscal 2014 compared to a loss of $10.9 million ($0.74 loss per Share – basic) in the fourth quarter of Fiscal 2013. Excluding the tax effected non-cash gains and losses noted above, the Corporation had an adjusted loss of $14.8 million in current quarter ($1.00 loss per Share – basic) compared to an adjusted loss of $11.9 million ($0.80 loss per Share – basic) in the comparative period (see "Adjusted profit (loss)" below).

Aviation Segment

The Aviation segment's quarterly revenues were $24.9 million on 8,599 flight hours, compared to revenue of $27.4 million on 7,920 flight hours in the comparative period. The segment recognized lower revenue contribution despite an increase flight hours due to the notable reduction in Defence Services' airborne training flight hours which generate more revenue per hour. The curtailment of the airborne training services to the DND was a result of government expenditure cutback announced in the latter part of the year. This overshadowed increased revenue contribution from the other aviation operations, notably GSH's Chilean operation.

Crew costs for the quarter were $11.5 million (or 46% of revenues) compared to $12.4 million (or 45% of revenues) in the comparative period. As noted in the yearly results, the lower costs reflect the favourable impact of cost containment initiatives implemented during the year.

Fleet costs, excluding fuel, for the quarter were $10.3 million (or 42% of revenues), compared to $10.2 million (or 37% of revenues) in the comparative period.

General and administrative expenses were $7.0 million (or 28% of revenues) in the quarter compared to $6.9 million (or 25% of revenues) in the comparative quarter. The current quarter expense reflects $0.5 million in business development and acquisition costs.

The segment's quarterly EBITDA loss was $6.9 million compared to a $5.1 million EBITDA loss in the comparative period stemming from lower airborne training flight hours. The quarterly EBITDAR loss was $5.2 million, compared to $3.3 million EBITDAR loss in the fourth quarter of Fiscal 2013. The difference was attributable to lower EBITDA, as aircraft lease expense of $1.8 million was consistent with the comparative period.

Depreciation expense in the quarter was $4.3 million (or 17% of revenues) compared to $3.9 million (or 14% of revenues) in the comparative period, the increase consistent with increased flight hours.

Corporate Support and Other

Corporate Support and Other generated revenues of $7.8 million in the quarter compared to $9.9 million in comparative period. The 22% decrease in revenue was primarily attributable to Technical Services' decreased MRO and engineering modification services as well as lower revenue contribution from DMS' camp and expediting services which remained negatively impacted from weak mining based activity in northern Canada. The segment incurred expenses totaling $10.6 million compared to $11.9 million in comparative period, a decrease of 11%. The segment recorded an EBITDA loss of $2.5 million in the quarter, compared to an EBITDA loss of $1.7 million in comparative period.

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. The Corporation's Annual Information Form available on SEDAR at www.sedar.com discusses additional risks not otherwise identified below along with risk mitigation strategies associated with the principal risks identified therein.

Risks Relating to the Corporation's Financial Condition

Leverage and Access to Capital

If the Corporation is unable to achieve certain key milestones set out in the Secured Debentures relating to the award to or loss by Defence Services of the Canadian Contracted Airborne Training Services Program (the "**CATS Contract**"), the maturity date of the Secured Debentures may be accelerated to a date as early as April 23, 2015 and it may be difficult for the Corporation to continue meeting certain financial covenants. Further, if the Corporation's share price fails to rise above the minimum price necessary for the Unsecured Debentures and the Secured Debentures to be converted into equity (whether because the key milestones set in the Secured Debentures are not met or otherwise), the Corporation will owe $34.5 million on June 30, 2016 and approximately $118.4 million on March 22, 2017. If this were to occur, there is a risk that the Corporation might not be able to fully repay or refinance those debts as they come due.

The Corporation's other debt agreements also contain affirmative and negative covenants that could limit the Corporation's ability to respond to changes in business and economic conditions or to undertake profitable growth initiatives. Failure to observe those covenants could result in a default under one or more of the Corporation's debt agreements, and upon such default and any related cross defaults, 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 currently carries a significant amount of debt relative to its peers. Adverse changes in credit conditions, including significant increases in interest rates or the adoption of more restrictive lending practices, could have an adverse effect on the Corporation's ability to fund future growth or refinance existing debt as it matures.

Compliance with the Debt Leverage Covenant and the PAR Covenant

The Secured Debenture holders have granted the Corporation waivers of the Debt Leverage Covenant for the first and second quarters of Fiscal 2015 and will receive further waivers for the third and fourth quarter of Fiscal 2015 with the closing of the Standby Purchase Agreement. However, there is no assurance that the Corporation will be in compliance with the Debt Leverage Covenant or the PAR Covenant in periods subsequent to Fiscal 2015. Factors that could increase the risk of non-compliance with the Debt Leverage Covenant include that (i) EBITDA is calculated by reference to trailing 12 month EBITDA, which may be negatively affected by expenditures on discretionary growth initiatives and other general business conditions that could negatively affect the Corporation's EBITDA, and (ii) the Corporation will need to incur additional debt in order to fund the continued pursuit of growth projects at Defence

Services, which will increase total indebtedness under the Debt Leverage Covenant. Factors that could increase the risk of non-compliance with the PAR Covenant include that (i) the Corporation may be unable to acquire assets of a sufficient value and type that would be acceptable as security to the Secured Debenture Holders, and (ii) the Corporation may be unable to refinance its real property assets so as to generate sufficient funds to pay down indebtedness against other assets that might otherwise be acceptable as security to the Secured Debenture holders.

Since interest on the Secured Debentures is paid in kind (i.e., accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time. The Corporation may need to take other measures to remain in compliance, or seek a waiver of or an amendment to, the PAR Covenant (none of which is assured) unless the Secured Debentures are subordinated as a result of a satisfactory award of CATS to Defence Services or otherwise in accordance with their terms.

There is no assurance that the Secured Debenture holders will agree to grant further waivers of the Debt Leverage Covenant or the PAR Covenant if required in the period subsequent to Fiscal 2015. Absent waivers or other concessions from the Secured Debenture Holders or any other lenders whose loans are then in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Shares may decline or become worthless.

Liquidity constraints particularly during seasonal ramp up period

The Corporation's cash flows are affected by the seasonality of its operations, in particular, the cash outflows required to support the ramp up in operations in the first quarter of each fiscal year (which, among other things, requires expenditures on aircraft maintenance and ferrying and additional working capital). The Corporation anticipates spending additional funds in Fiscal 2015 to support growth projects at Defence Services including the start-up of German Contract. In the event that the Corporation's liquidity is constrained during the ramp up period, the Corporation will need to curtail expenditures on growth projects which could adversely affect the future profitability of its business.

Additional funding for pursuit of growth projects

In order to continue to fund the costs to bring the Additional Fighter Jets into service and related ancillary costs, the Corporate may require an additional financing in Fiscal 2015, over and above the proceeds contemplated by the Offering. This excludes any additional capital that would be required to purchase the Additional Fighter Jets for its expanded combat support services offering to Canada, the U.S. Department of Defense (the "**U.S. DoD**"), and other international customers. There can be no assurance that the Corporation will be able to secure this additional financing on terms acceptable to the Corporation. If the Corporation is unable to secure such financing on terms acceptable to it, the Corporation may need to curtail further expenditures on growth projects at Defence Services, which could impair the ability of Defence Services and its U.S. subsidiaries to secure a new combat support contract with the U.S. Government that would likely be necessary to obtain U.S. Government Approval to acquire the Additional Fighter Jets.

If, in addition to being unable to secure such additional financing, the Corporation's financial condition deteriorates further, the Corporation may be unable to maintain adequate liquidity solely by curtailing expenditures on growth projects. In such case, the Corporation may be unable to pay its debts as they become due. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Shares may decline or become worthless.

Sale of underutilized aircraft and other non-core assets

The Corporation has identified underutilized aircraft, including aircraft previously used to provide executive jet charter services. As noted in "Recent Developments", the Corporation has accepted an offer to sell five 601 Challengers for proceeds of approximately U.S. $2.5 million. There can be no assurance as to if and when any of the other underutilized aircraft will be sold and, if so, whether the sale prices will be at or above their carrying value. Proceeds from the sale of aircraft and other assets will be used to pay down outstanding loan balances, or provide additional working capital for the Corporation. Should the value realized on the sale of assets be lower than their associated loan balances, the Corporation may be required to use additional cash from operations to repay the deficiency. The timing of these sales will be dependent on the demand from purchasers, which is currently not determinable.

Risks to existing long-term contracts

In the normal course of business, the Corporation's subsidiaries are required to compete with other suppliers in respect of various contracts for specialty aviation services. While many of the contracts are less than three years in duration, certain of the Corporation's subsidiaries currently have several multi-year contracts that are approaching renewal periods. These include (i) Defence Services' Standing Offers under the ICATS program which are expected to be superseded by a long-term contract under the CATS Contract following the completion of an upcoming competitive bid process (see "Risk Factors - Dependence on Contracted Airborne Training Services"), (ii) the forest fire services management contract held by Fire Services with the Ontario Ministry of Natural Resources which expires on December 31, 2014 and will be retendered prior to the end of 2014, and (iii) Air Tindi's contract for medevac services with the Stanton Territorial Health Authority which is currently subject to a competitive bid process and is expected to result in a contract award with a start state for the new contract in October 2014. While the Corporation's management believes the Corporation's subsidiaries are well positioned to be the prevailing bidders under these competitive bid processes, there can be no assurance that all or any of them will ultimately be successful. The loss of one or more of these contracts could have a significant adverse effect on the Corporation's consolidated revenues, EBITDA and cash flows. Furthermore, due to the specialized nature of the aircraft and other assets employed in support of these contracts, the Corporation could, if no alternative uses were found for these assets, incur a significant loss on their disposal.

Air Tindi's cost reduction measures

Air Tindi is undertaking an aggressive cost cutting program which commenced in Fiscal 2014 and includes the sale of surplus aircraft, the cessation of its executive jet charter service and the closure of its facility in Calgary, Alberta. Although Air Tindi is realizing some benefits from the lower cost structure, there can be no assurance that these steps will result in a successful turnaround of the business. Air Tindi has remaining lease payment obligations for the Calgary facility of approximately $4.4 million in the aggregate over the next six years. Air Tindi intends to sublease the facility, however, this has not been finalized. Accordingly, Air Tindi may have an obligation for future lease payments that it will be unable to completely offset by generating sublease income. As at January 31, 2014, the Corporation established a provision for $0.2 million related to shortfall in sublease income against the aggregate lease obligation.

Business and Operational Risks

Dependence on Contracted Airborne Training Services

A significant portion of the Corporation's revenue and earnings is derived from Defence Services' National Individual Standing Offers under the ICATS program (the "**Standing Offers**"). These Standing Offers expire in June 2016 and do not contain any minimum revenue commitments. Furthermore, there is a risk that Defence Services may not be the successful bidder in any future request for proposals for a long-term CATS contract. If Defence Services competes for and fails to win the long-term CATS contract or the Standing Offers for ICATS are terminated or drastically reduced in scope, the loss of this business would result in a significant loss of revenues and earnings for the Corporation. This could result in the Corporation being unable to meet its obligations as they become due and/or to go offside of its debt covenants. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events would have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Shares may decline or become worthless.

Public Works Government Services Canada is in the process of auditing the profit earned by Defence Services under the ICATS Standing Offers for the period February 1, 2010 to January 31, 2013. The implications of the audit (if any) are not determinable at this time.

New Business

In Fiscal 2014, the Corporation (through its subsidiaries) began operating in Arizona, U.S. through the business acquisition of ATSI, and subsequently secured the German Contract. New businesses such as these require an upfront investment in capital assets and an ongoing investment to develop the business. Under these circumstances, the new business will initially have a negative impact on earnings and cash flow until the business reaches its peak operating performance. While management closely monitors each operation's progress, there is a risk that some or all of the new businesses may not reach their peak operating performance. Furthermore, Defence

Services' ability to perform the services required under the German Contract remains subject to the receipt of certain regulatory approvals that are not within Defence Services' control.

Defence Services Expansion

U.S. Government Approval for the Additional Fighter Jets

In order to complete the purchase of the Additional Fighter Jets, Defence Services or its U.S. subsidiaries must first obtain U.S. Government Approval. There can be no assurance that Defence Services or its U.S. subsidiaries will be able to secure a contract with the U.S. Government, which likely constitutes a prerequisite to obtaining the necessary approvals and securing ownership of the Additional Fighter Jets. Risk factors that could adversely affect the ability of Defence Services or its U.S. subsidiaries to secure a combat support services contract with the U.S. Government include the possibility that: (i) the U.S. DoD may, in connection with future requests for proposal, require that bidders provide evidence of aircraft ownership or U.S. registration in order to be eligible for a contract award; (ii) U.S. DoD procurement processes could result in long lead times for the issuance of contract solicitations and/or the award of contracts; (iii) budgetary constraints could impair the U.S. DoD's ability to award a services contract; (iv) other combat support services providers may attempt to offer their services at significantly lower prices than the prices offered by Defence Services' U.S. subsidiaries or may attempt to acquire aircraft that are the same as or comparable to the F-16 and A-4N aircraft; (v) changes in U.S. law or procurement policy may provide favourable treatment to U.S. owned or controlled businesses; and (vi) changes in U.S. aviation regulations could restrict foreign owned or controlled companies from operating ex-military aircraft possessing experimental airworthiness certificates for compensation.

Although Defence Services may be permitted to utilize F-16 aircraft under the existing ICATS Standing Offers, there can be no assurance that U.S. Government Approval would be granted for this use.

Financing for the purchase of the Additional Fighter Jets

In order to purchase the Additional Fighter Jets the Corporation will require approximately U.S. $40.0 to $50.0 million (including costs to bring the aircraft into service). The Corporation will require significant additional capital should it proceed to exercise all of the options to purchase up to an additional nineteen F-16 aircraft and up to an additional eight A-4N aircraft. The Corporation has yet to confirm the sources and terms for the financing required to exercise the options on these aircraft. Furthermore, although Clairvest may provide a financing proposal for this purpose, there is no assurance that such a proposal will be made available to the Corporation or that the Corporation's board of directors would determine that any Clairvest financing proposal is in the best interest of the Corporation. Even if such determination were made, approval by a majority of the Corporation's disinterested shareholders may be required under applicable securities laws to implement any such Clairvest financing proposal.

Resources required to support an expanded Defence Services business

Over the last eight years, Defence Services has derived substantially all of its revenues from the Standing Offers and, accordingly, has operated almost exclusively in North America on behalf of the Canadian Armed Forces. Defence Services recently established ATSI (through the merger of Advanced Training Systems International, Inc. with and into ATSI) and announced that it has been awarded the German Contract commencing in January 2015. As a result of these developments, Defence Services now directly manages, or oversees the management of, operations in Canada, the U.S. and Germany.

If Defence Services is successful in obtaining U.S. Government Approval to acquire the Additional Fighter Jets, those aircraft will, together with the ten aircraft of ATSI which were recently acquired, result in a significant increase in the fleet size actively employed (directly and indirectly) in the Defence Services business from eighteen aircraft prior to the acquisition of the aircraft of ATSI to forty aircraft after the acquisition of the Additional Fighter Jets.

The expansion of the Defence Services business requires Defence Services and its subsidiaries to recruit, hire and train experienced pilots, maintenance engineers and management personnel in Germany and the U.S. To the extent that the subsidiaries of Defence Services are required to hold security clearances from the U.S. or German governments, those subsidiaries may be required to abide by certain measures designed to limit influence or control by foreign persons and, therefore, may need to operate at arm's length from Defence Services' management in Canada. Although the Corporation's management believes that the human resources required by Defence Services and its subsidiaries are readily available, there is a risk that Defence Services or its subsidiaries may be unable to recruit, hire and train all of the required personnel on a timely basis.

In addition to the capital required to purchase the Additional Fighter Jets, Defence Services and its subsidiaries will also have elevated capital requirements associated with the on-going maintenance of a larger fleet of aircraft. The Corporation may need to fund future capital requirements of Defence Services with external sources of financing. There can be no assurance that the necessary equity or debt financing will be available to the Corporation when required or, if available, that it will be on terms acceptable to the Corporation. If the Corporation is not able to meet its capital requirements, this could adversely affect the Corporation's ability to maintain the airworthiness (and, therefore, value) of its aircraft and service commitments to customers.

Challenges to growing the Corporation's business if purchase of Additional Fighter Jets is not completed

The Corporation believes that the Additional Fighter Jets will, if ultimately acquired by Defence Services or its U.S. subsidiaries, provide Defence Services with the most advanced fleet of combat support aircraft in the world and, accordingly, provide Defence Services with a highly competitive offering with which to grow in the U.S. combat support market. If the Corporation is unable to obtain U.S. Government Approval and complete the purchase of the Additional Fighter Jets, Defence Services' prospects for competitive advantage in the U.S. combat support market will be significantly reduced. Although Defence Services may continue to pursue revenue diversification in the U.S. and other international jurisdictions leveraging the strength of its track record as an experienced combat support services provider, the Corporation believes that the lack of an advanced supersonic offering, such as the F-16 aircraft, will limit Defence Services' growth prospects. Absent the identification and execution of significant, offsetting growth opportunities in the Corporation's other subsidiaries, the Corporation's long-term growth prospects may be limited.

In the event that the Corporation fails to grow revenues, it may not be able to generate sufficient EBITDA and cash flows to remain in compliance with its debt covenants beyond Fiscal 2015. Absent waivers or other concessions from any lenders whose loans are in default, those lenders may be entitled to accelerate the amounts due under their loans or otherwise take enforcement action against the Corporation. If enforcement action were taken by the Corporation's lenders, the Corporation may need to seek protection from its creditors. Such events could have a material adverse effect on the Corporation's business, prospects, operations, financial condition and operating results. As a result, the value of the Shares may decline or become worthless.

Attraction and Retention of Required Human Resources

Qualified pilots, aircraft mechanics and other highly trained personnel are in high demand and are likely to remain a scarce resource for the foreseeable future. This is made even more challenging by the Corporation's need to place personnel in remote geographic locations and by the need to meet high minimum levels of experience stipulated by some of the Corporation's largest customers. If the Corporation is unable to successfully attract and retain personnel possessing the skills and experience required for its business at a sustainable cost, it may be unable to profitably retain its most profitable customers and/or grow the business.

INDUSTRY AND COMPETITIVE CONDITIONS

Exposure to Resource Exploration Sector

A significant portion of the Corporation's revenues and earnings are derived from customers in the resource exploration sector. Reductions in resource exploration activities, whether due to reduced demand for resources, a reduction in the number of exploration permits or otherwise, could reasonably be expected to result in a reduction in demand for helicopter and fixed wing services of the type provided by the Corporation. In addition to potentially reducing the Corporation's revenues and earnings, the increased competitive environment could also be expected to reduce the Corporation's profit margins on new and existing business.

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. Further, a significant portion of the Corporation's businesses are exposed to seasonal operations in northern Canada, where operations may be exposed to unfavourable weather conditions.

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 2014 audited 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 property and equipment, intangibles and goodwill, valuation allowances for receivables, inventories, 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 audited consolidated financial statements are summarized in Note 3 of the audited consolidated financial statements in Fiscal 2014 and Fiscal 2013. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the audited consolidated financial statements.

Property and equipment

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

Cost includes 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 life 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 that property and equipment.

The cost of day-to-day servicing of property and equipment is recognized in profit and loss when 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 property and equipment, and are recognized in 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 have 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 lives of each part of an item of property and equipment.

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred by the Corporation, including the recognized amount of any non-controlling interest in the acquiree, 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 a 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 issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

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 financial 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 profit or loss.

If the amount of the impairment loss decreases in a subsequent period 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 profit or loss.

Non-financial assets

Assets that have an indefinite useful life, (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 with finite lives 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 (a cash-generating unit or "**CGU**").

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 in profit or loss for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount.

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.

Previously impaired financial assets other than goodwill 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 is comprised of 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 ("**OCI**") 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 the Corporation intends to settle current tax liabilities and assets on a net basis or the 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. An option valuation model is used to fair value the stock options on the grant date. 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 be met, 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.

Cash-settled transactions

The Corporation has a deferred share unit ("**DSU**") plan for directors as described in note 15 of the Corporation's audited consolidated financial statements and related notes for the years ended January 31, 2014 and 2013. 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 the end of 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.

Provisions

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 management's 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. An increase in a 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 the Corporation on or after February 1, 2013.

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 OCI. Where equity instruments are measured at fair value through OCI, 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 an entity's own credit risk for liabilities designated at fair value through profit and loss are generally recorded in OCI. The effective date for implementation for this standard has been delayed and is now expected in fiscal 2019, however early application is permitted.

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. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

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. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

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.

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.

IAS 36, Impairment of Assets, was amended to clarify the disclosure requirements for the recoverable amount for an individual asset (including goodwill) or CGU when an impairment loss has been recognized or reversed. The amendment is effective for annual periods beginning on or after January 1, 2014.

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. For the standards not yet adopted the Corporation does not expect that these standards will have a significant impact on the Corporation's consolidated financial statements.

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.

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

	Three months ended January 31 (unaudited)		For the year ended January 31	
(thousands of dollars)	**2014**	2013	**2014**	2013
Profit (loss) attributable to shareholders' of Discovery Air Inc.	**$ (21,440)**	$ (10,929)	**$ (17,955)**	$ 596
Income tax provision	**(6,660)**	(3,282)	**(5,663)**	547
Impairment loss	**8,366**	46	**9,169**	3,769
Gain on extinguishment of debt	**-**	-	**-**	(2,224)
Gain on extinguishment of contingent liability	**-**	(1,297)	**(1,248)**	(1,297)
Gain on business acquisition	**-**	(58)	**-**	(355)
Gain on disposal of subsidiary	**-**	-	**(414)**	-
Change in fair value of financial liabilities reported at fair value	**-**	-	**-**	(201)
Interest and financing charges	**5,106**	4,176	**17,561**	17,378
Depreciation	**4,810**	4,292	**22,985**	22,860
Gain on disposal of property and equipment	**50**	319	**19**	386
Non-controlling interest	**-**	(28)	**-**	(98)
Restructuring costs	**304**	-	**304**	-
EBITDA	**$ (9,464)**	$ (6,761)	**$ 24,758**	$ 41,361
Aircraft lease expenses	**1,762**	1,789	**14,353**	16,289
EBITDAR	**$ (7,702)**	$ (4,972)	**$ 39,111**	$ 57,650

"**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, gains and losses on disposal of property and equipment, gains on acquisitions and disposals, gains and losses resulting from the change in fair value of financial liabilities, and impairment loss, net of related taxes. Management believes Adjusted profit (loss) better reflects the Corporation's operational performance. Adjusted profit (loss) per 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)	Three months ended January 31 (unaudited) 2014	Three months ended January 31 (unaudited) 2013	For the year ended January 31 (unaudited) 2014	For the year ended January 31 (unaudited) 2013
Profit (loss) attributable to shareholders of Discovery Air Inc.	**$ (21,440)**	$ (10,929)	**$ (17,955)**	$ 596
Summary of other (gains) and losses:				
Gain on sale of subsidiary	**-**	-	**(414)**	-
Tax effect on sale of subsidiary	**-**	-	**13**	-
Gain on extinguishment of contingent liability	**-**	(1,297)	**(1,248)**	(1,297)
Impairment loss	**8,366**	46	**9,169**	3,769
Tax effect on impairment loss	**(2,075)**	(13)	**(2,291)**	(1,008)
Loss (gain) on disposal of property & equipment	**50**	319	**19**	386
Tax effect on disposal of property & equipment	**-**	(43)	**-**	(52)
Gain on extinguishment of debt	**-**	-	**-**	(2,224)
Tax effect on extinguishment of debt	**-**	(5)	**-**	295
Gain on business acquisition	**-**	(58)	**-**	(355)
Tax effect on business acquisition	**-**	93		93
Change in fair value of financial liabilities at fair value	**-**	-	**-**	(201)
Restructuring costs	**304**	-	**304**	-
Adjusted profit (loss)	**$ (14,795)**	$ (11,887)	**$ (12,403)**	$ 2

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	**Three months ended January 31, 2014 (unaudited)**			Three months ended January 31, 2013 (unaudited)		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
		(unaudited)			(unaudited)	
Revenue	**$ 24,886**	**$ 7,752**	**$ 32,638**	$ 27,385	$ 9,936	$ 37,321
Expenses	**31,923**	**10,624**	**42,547**	32,438	11,889	44,327
Share of (profit) loss of equity accounted investees	**(104)**	**(341)**	**(445)**	-	(245)	(245)
EBITDA	**$ (6,933)**	**$ (2,531)**	**$ (9,464)**	$ (5,053)	$ (1,708)	$ (6,761)
Aircraft lease expenses	**1,762**	**-**	**1,762**	1,789	-	1,789
EBITDAR	**$ (5,171)**	**$ (2,531)**	**$ (7,702)**	$ (3,264)	$ (1,708)	$ (4,972)

(thousands of dollars)	**For the year ended January 31, 2014**			For the year ended January 31, 2013		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 182,351**	**$ 31,175**	**$ 213,526**	$ 200,229	$ 29,124	$ 229,353
Expenses	**147,757**	**42,815**	**190,572**	150,540	38,117	188,657
Share of (profit) of equity accounted investees	**(390)**	**(1,414)**	**(1,804)**	(78)	(587)	(665)
EBITDA	**$ 34,984**	**$ (10,226)**	**$ 24,758**	$ 49,767	$ (8,406)	$ 41,361
Aircraft lease expenses	**14,353**	**-**	**14,353**	16,289	-	16,289
EBITDAR	**$ 49,337**	**$ (10,226)**	**$ 39,111**	$ 66,056	$ (8,406)	$ 57,650

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share amounts)

	(unaudited)							
	Jan-14	Oct-13	Jul-13	Apr-13	**Jan-13**	Oct-12	Jul-12	Apr-12
Results of operations:								
Total Revenue	**$ 32,638**	$ 64,985	$ 72,308	$ 43,594	**$ 37,321**	$ 64,874	$ 74,225	$ 52,933
EBITDA	**$ (9,464)**	$ 15,394	$ 21,017	$ (2,190)	**$ (6,761)**	$ 15,963	$ 23,292	$ 8,867
Cash from (used in) operations	**$ 10,992**	$ 14,995	$ 5,360	$ (13,468)	**$ 5,521**	$ 23,133	$ 4,458	$ (5,500)
Adjusted profit (loss)*	**$ (14,795)**	$ 3,624	$ 7,572	$ (8,804)	**$ (11,887)**	$ 4,059	$ 8,613	$ (773)
Profit (loss) attributable to shareholders of Discovery Air	**$ (21,440)**	$ 3,050	$ 9,239	$ (8,804)	**$ (10,929)**	$ 1,230	$ 8,935	$ 1,360
Basic earnings (loss) per share	**$ (1.44)**	$ 0.21	$ 0.62	$ (0.59)	**$ (0.74)**	$ 0.08	$ 0.60	$ 0.09
Basic adjusted profit (loss) per share*	**$ (1.00)**	$ 0.24	$ 0.51	$ (0.59)	**$ (0.80)**	$ 0.27	$ 0.58	$ (0.05)
Diluted earnings (loss) per share	**$ (1.44)**	$ 0.19	$ 0.40	$ (0.59)	**$ (0.74)**	$ 0.08	$ 0.38	$ 0.09
Diluted adjusted profit (loss) per share*	**$ (1.00)**	$ 0.21	$ 0.34	$ (0.59)	**$ (0.80)**	$ 0.22	$ 0.37	$ (0.05)

*See "Non-IFRS Measures"

Seasonality and Quarterly Fluctuations

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

- In Canada, demand for the services provided by the Aviation segment is higher commencing in the spring and continuing through the end of the summer.
- Defence Services revenue-generation opportunities are usually significantly higher in the February to June and September to November time periods. Though Defence Services' 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.

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, 2014, 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 (1992) (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

As at January 31, 2014, 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, 2014 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 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.

DEFINITIONS

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

"**Class A Shares**" means the Corporation's Class A common voting shares, which trade on the Toronto Stock Exchange under the symbol "DA.A";
"**Class B Shares**" means the Corporation's Class B common variable voting shares;
"**Fiscal 2013**" means the fiscal year of the Corporation ended January 31, 2013;
"**Fiscal 2014**" means the fiscal year of the Corporation ended January 31, 2014;
"**Fiscal 2015**" means the fiscal year of the Corporation ended January 31, 2015;
"**Secured Debentures**" means the $70,000,005 aggregate principal amount of 10.00% senior secured convertible debentures issued by the Corporation on September 23, 2011 pursuant to a private placement, which, as of January 31, 2014, had an adjusted principal amount of $87,816,013 (inclusive of accrued interest); and
"**Shares**" means the Class A Shares and the Class B Shares.
"**Unsecured Debentures**" means the $34,500,000 aggregate principal amount of 8.375% unsecured convertible debentures issued by the Corporation in May 2011.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this MD&A contains forward-looking statements relating to: the Corporation's financial results for the fiscal year ended January 31, 2015; its intent to use certain aircraft for the provision of combat support services to the German Armed Forces and associated expenditures; its expectations with respect to the request for proposals and the award of the CATS Contract ; its expectations with respect to the terms of certain covenant waivers; its expectations with respect to the U.S. DoD's requirements for combat support services; its expectations with respect to complying with the Debt Leverage Covenant (as defined below) through most of the 2015 fiscal year; its expectations regarding spending in the first quarter of the 2015 fiscal year to support growth projects at Defence Services and support the start-up of Defence Services' operations in Germany; the seasonality of its business; its business development initiatives; the impact of current economic conditions on the results of its operations and/or financial condition; management's outlook for the future; management's ability to reduce costs and/or contain them at their existing levels; management's ability to continue to manage working capital effectively; the impact of weather conditions on the results of its operations and/or financial condition; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet its debt covenants and other terms and conditions of its credit agreements; and 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 and foreign exchange, including in particular changes to Canadian-U.S. dollar, Euro-Canadian dollar and Chilean Pesos-Canadian dollar exchange 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 to the Corporation and fluctuations in interest rates and their associated impact on floating rate debt instruments; 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; unforeseen reduction in demand for services, particularly in the primary markets in which the Corporation operates (including, military airborne training, mining and oil and gas exploration, forest fire and natural resources monitoring, and maintenance, repair and overhaul); changes in commodity prices which negatively affect the underlying cost of the Corporation's services which cannot be immediately recovered from the Corporation's customers; the inability of the Corporation to adjust its fixed cost structure in the event of lower demand for its services; losses arising from uninsured events; higher insurance costs; cost over-runs on the initial start-up and the provision of combat support services to the German Armed Forces; unplanned costs to service the Corporation's aircraft and other assets; timing of collection of accounts receivable; unplanned increases in the Corporation's working capital and unexpected changes in business volume; costs to secure and initiate new business initiatives which are not planned for; unexpected severance or termination costs in the event of unplanned closures; other factors referenced herein under "Risk Factors"; 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: May 1, 2014