



Interim Condensed Consolidated Financial Statements
April 30, 2011
(Unaudited)

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position

Unaudited

(thousands of Canadian dollars)

	Note	April 30, 2011	January 31, 2011	February 1, 2010
Assets			(Notes 13 & 14)	(Notes 13 & 14)
Current assets:				
Cash		\$ 3,922	\$ 7,399	\$ 7,355
Restricted cash		634	834	1,330
Trade and other receivables		30,420	16,895	9,738
Inventory		14,157	14,884	13,483
Prepaid expenses and other		4,721	2,159	2,930
		53,854	42,171	34,836
Property and equipment		152,213	149,213	150,702
Goodwill		37,862	37,862	37,862
Intangible assets		18,049	19,159	23,599
Investments in equity accounted investees	4	2,762	2,533	2,187
		\$ 264,740	\$ 250,938	\$ 249,186
Liabilities and Shareholders' Equity				
Current liabilities:				
Bank indebtedness	6	\$ 13,991	\$ -	\$ -
Trade and other payables		15,726	12,418	10,290
Income taxes payable		1,791	1,244	659
Current portion of loans and borrowings	5, 10	51,098	38,840	10,149
		82,606	52,502	21,098
Loans and borrowings	5, 10	88,176	100,440	134,883
Deferred income taxes		21,459	22,927	23,350
		109,635	123,367	158,233
Shareholders' equity:	7			
Share capital		65,134	65,134	184,535
Contributed surplus		7,186	7,170	7,141
Retained earnings (deficit)		179	2,765	(121,821)
		72,499	75,069	69,855
		\$ 264,740	\$ 250,938	\$ 249,186

Commitments and contingencies (note 11)

Subsequent events (note 15)

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Loss and Comprehensive Loss

Unaudited

(thousands of Canadian dollars, except per share amounts)

	Note	For the three months ended	
		April 30 2011	April 30 2010
Revenue		\$ 37,249	\$ 25,815
Expenses		32,457	23,459
Depreciation of property and equipment and intangible assets		4,503	4,384
		289	(2,028)
Finance costs		3,752	3,547
Loss on sale of property and equipment		255	-
Share of earnings of equity accounted investees (net of income tax)		(229)	(77)
		3,778	3,470
Loss before income taxes		(3,489)	(5,498)
Income tax provision			
Current		565	(1,567)
Deferred		(1,468)	(2)
		(903)	(1,569)
Loss and comprehensive loss		\$ (2,586)	\$ (3,929)

Earnings (loss) per share:

Basic earnings (loss) per share	8	\$ (0.02)	\$ (0.03)
Diluted earnings (loss) per share	8	\$ (0.02)	\$ (0.03)

See accompanying notes to the interim condensed consolidated financial statements

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity

Unaudited

(thousands of Canadian dollars)

	Note	Share Capital	Contributed surplus	Retained earnings (deficit)	Total equity
Balance, February 1, 2010	13,14	\$ 184,535	\$ 7,141	\$ (121,821)	\$ 69,855
Net earnings (loss)		-	-	(3,929)	(3,929)
Share-based compensation	7	-	5	-	5
Balance at April 30, 2010		\$ 184,535	\$ 7,146	\$ (125,750)	\$ 65,931
Balance, February 1, 2011	13,14	\$ 65,134	\$ 7,170	\$ 2,765	\$ 75,069
Net earnings (loss)		-	-	(2,586)	(2,586)
Share-based compensation	7	-	16	-	16
Balance at April 30, 2011		\$ 65,134	\$ 7,186	\$ 179	\$ 72,499

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Cash Flows

Unaudited

(thousands of Canadian dollars)

	Note	For the three months ended	
		April 30 2011	April 30 2010
Cash provided by (used in):			(Note 13 & 14)
Operating activities:			
Loss		\$ (2,586)	\$ (3,929)
Items not involving cash:			
Deferred tax expense (recovery)		(1,468)	(2)
Amortization of finance costs		417	444
Share-based compensation		16	5
Deferred share unit compensation		110	155
Depreciation of property and equipment and intangible assets		4,503	4,384
Share of earnings of equity accounted investees	4	(229)	(77)
Loss on disposal of property and equipment		255	-
Change in non-cash operating working capital	9	(11,415)	(10,518)
Net cash used in operating activities		(10,397)	(9,538)
Investing activities:			
Acquisition of property and equipment		(7,812)	(1,914)
Proceeds on disposal of property and equipment		1,164	178
Net cash used in investing activities		(6,648)	(1,736)
Financing activities:			
Proceeds from operating line of credit		13,991	7,818
Proceeds from loans and borrowings		2,926	-
Repayment of loans and borrowings		(3,349)	(1,263)
Net cash from financing activities		13,568	6,555
Decrease in cash		(3,477)	(4,719)
Cash, beginning of period		7,399	7,355
Cash, end of period		\$ 3,922	\$ 2,636
Supplementary cash flow information:			
Interest paid		\$ 2,683	\$ 2,488
Income tax paid (recovered)		18	(301)

See accompanying notes to the interim condensed consolidated financial statements

DISCOVERY AIR INC.

Notes to the interim condensed consolidated financial statements (unaudited) For the three months ended April 30, 2011 and 2010

1. Reporting entity

Discovery Air Inc. (the "Corporation") was incorporated on November 12, 2004 under the *Ontario Business Corporations Act* and on March 27, 2006 was continued under the *Canada Business Corporations Act*. The address of the registered office is P.O. Box 1530, 126 Bristol Avenue, Yellowknife, NT, X1A 2P2, Canada. The Corporation's primary business activities are to provide aviation and aviation-related services through its wholly-owned subsidiaries Great Slave Helicopters Ltd. ("Great Slave"), Air Tindi Ltd. ("Air Tindi"), Top Aces Inc. ("Top Aces"), Hicks & Lawrence Limited ("Hicks"), Discovery Mining Services Ltd. ("Discovery Mining"), Discovery Air Technical Services Inc. ("Technical Services"), and Discovery Air Innovations Inc. ("Innovations"). Certain of these wholly-owned subsidiaries also conduct a portion of their business activities through jointly controlled or non-controlled entities. The Corporation's common stock is traded on the Toronto Stock Exchange under the symbol "DA.A".

Great Slave is a helicopter company that, directly and in partnership with northern Aboriginal groups, operates a fleet of 68 helicopters and provides services throughout northern Canada, in several Canadian provinces and in a number of international locations. Services are provided to private sector companies and governments in areas such as resource and base mineral exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, tourism and flight training. Great Slave's principal operations are carried out in Yellowknife, Northwest Territories and Calgary, Alberta. Great Slave has additional facilities in Fort Simpson, Fort Liard, Norman Wells and Inuvik in the Northwest Territories, Rankin Inlet in Nunavut, Churchill in Manitoba and Dryden in Ontario.

Air Tindi, based in Yellowknife, operates a diversified fleet of 21 fixed-wing aircraft offering scheduled and chartered passenger and cargo services, as well as air ambulance services, in northern Canada. Air Tindi, both directly and in partnership with northern Aboriginal groups, provides services to a diversified customer base that includes major diamond and mineral exploration and mining companies, as well as the Governments of Canada and the Northwest Territories.

Discovery Mining is a provider of remote exploration camps and expediting, logistics and staking services to diamond and mineral exploration companies. Based in Yellowknife, Discovery Mining conducts operations in the Northwest Territories, Nunavut, northern Alberta, northern Saskatchewan and northern Ontario.

Top Aces is a Quebec-based approved supplier of airborne training and special mission services to the Department of National Defence ("DND"). Top Aces operates a fleet of 22 aircraft. Top Aces provides a variety of military training services ranging from simulated combat to target tow and ground support, operating throughout Canada as well as in parts of the United States.

Hicks is an Ontario-based aviation company that provides aerial fire management services to the Province of Ontario, employing 29 aircraft from bases throughout northern Ontario. Hicks also provides air charter services, using 3 aircraft, to the provincial government and various other corporate entities which conduct business in northern Ontario.

Technical Services is a Quebec-based company that provides a range of aircraft maintenance, repair and overhaul, modification engineering and certification services.

Innovations is a Quebec-based company which acts as the Corporation's business development arm focused on identifying and capturing new market opportunities.

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

1. Reporting entity (continued)

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

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Financial Reporting Standards Board ("IASB"). These are the Corporation's first condensed consolidated interim financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The accounting policies and basis of preparation differ from those set out in the previously published consolidated financial statements for the year ended January 31, 2011 which were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). An explanation of how the transition from CGAAP to IFRSs has affected the reported financial position, financial performance and cash flows of the Corporation is set out in notes 13 and 14. These notes include reconciliations of equity and total comprehensive income from GAAP to IFRSs at the date of transition and for the comparative period.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors of the Corporation ("the Board") on July 12, 2011.

(b) Basis of measurement

The condensed consolidated financial statements have been prepared on the historical cost basis except for liabilities for cash-settled share-based payment arrangements, which are measured at fair value.

(c) Functional and presentation currency

These condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation and its subsidiaries. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for share and per share amounts.

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the statement of financial position date and non-monetary items that are measured in terms of historical cost are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in finance costs.

(d) Use of estimates and judgements

The preparation of the condensed consolidated financial statements in conformity with IFRSs requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and liabilities at the dates of the condensed consolidated financial statements. Actual results may differ materially from these estimates.

2. Basis of preparation (continued)

Estimates, judgements and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates used in the preparation of these condensed consolidated financial statements include estimates and assumptions used in the determination of the allowance for doubtful accounts and of the useful lives of property and equipment and intangible assets with finite useful lives.

3. Significant accounting policies

The significant accounting policies used in the preparation of these condensed consolidated financial statements, and applied consistently to all periods presented, are summarized below:

(a) Consolidation:

i) Subsidiaries

A subsidiary is an entity over which the Corporation has “control”. “Control” is defined as the power to govern the financial and operating policies of the entity generally accompanying a shareholding of more than one half of the voting rights. All significant intercompany balances, transactions and unrealized gains/losses on transactions with each subsidiary have been eliminated on consolidation. Accounting policies of each subsidiary have been changed where necessary to ensure consistency with the accounting policies adopted by the Corporation.

ii) Associates and jointly controlled entities (equity accounted investees)

An “associate” is an entity in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20 and 50 percent of the voting power of another entity. A jointly controlled entity is an entity over whose activities the Corporation has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

An associate or jointly controlled entity is accounted for using the equity method (an “equity accounted investee”) and is carried initially at cost, including transaction costs incurred. The Corporation’s investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The condensed consolidated financial statements include the Corporation’s share of the income and expenses and equity movements of each equity accounted investee, after adjustments to align the accounting policies of the equity accounted investee with those of the Corporation, from the date that significant influence or joint control of the equity accounted investee commences until the date that such significant influence or joint control ceases. When the Corporation’s share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation to make or has made payments on behalf of the equity accounted investee.

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated financial statements. Unrealized gains on transactions between the Corporation and an equity accounted investee are eliminated to the extent of the Corporation’s interest in the equity accounted investee. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising in an investment in an equity accounted investee are recognised in the Corporation’s income statement.

3. Significant accounting policies (continued)

(b) Inventory:

Inventory consists primarily of aircraft parts and supplies. Inventory is stated at the lower of cost and net realizable value (where replacement cost may be used as an indicator) using the first-in, first-out principle. The cost of all inventory includes expenditures incurred in acquiring the inventory, production or conversion costs and other costs incurred in bringing inventory to its existing location and condition. Net realizable value of inventory is the estimated selling price of the part or supply in the ordinary course of business, less estimated costs to make the sale.

(c) Property and equipment:

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

Property and equipment costs include expenditures which are directly attributable to the acquisition of the property and equipment. Subsequent property and equipment costs are included in the property and equipment'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 inspection, repair and overhaul costs are capitalized as incurred when the above criteria are met and amortized over the property and equipment's 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 property and equipment.

The cost of day-to-day servicing of property and equipment is recognized in earnings and loss as incurred.

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

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

The method and rates used in calculating depreciation of property and equipment are as follows:

Asset	Basis	Rate
Buildings	Straight-line	20 years
Airframes	Straight-line	20 years
Major aircraft components, overhauls and inspections	Flight hours	Hours flown
Vehicles	Straight-line	3 years
Furniture and equipment	Straight-line	3-5 years
Leasehold improvements	Straight-line	5 years

Each asset's residual value, useful life and depreciation method is reviewed annually and adjusted, if appropriate.

3. Significant accounting policies (continued)

(d) Leases:

A lease in which a significant portion of the risks and rewards of ownership are retained by the lessor is classified as an operating lease. An asset leased under an operating lease is not recognized on the Corporation's condensed consolidated statement of financial position. Payments made under an operating lease (net of any incentives received from the lessor) are charged to earnings or loss on a straight-line or hours flown basis over the period of the lease.

(e) Goodwill and Business Combinations:

Acquisitions prior to February 1, 2010

As described in note 14 (a) as part of its transition to IFRS, the Corporation elected to restate only those business combinations that occurred on or after February 1, 2010. In respect of acquisitions prior to February 1, 2010, goodwill represents the amount recognized as such under CGAAP.

Acquisitions on or after February 1, 2010

Goodwill on an acquisition represents the excess of (i) the fair value of the consideration paid by the Corporation for the acquisition over (ii) the Corporation's acquired interest in the net fair value of the other identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative ("negative goodwill"), it is recognized immediately in earnings 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 issue of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

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

(f) Intangible assets:

"Intangible assets" are acquired assets which lack physical substance and which meet the specified criteria for recognition apart from goodwill. Intangible assets comprise mainly trade names and customer relationships. Customer relationships are amortized on a straight-line basis over eight years. Trade names have an indefinite life and, therefore, are not amortized.

The assessment of an acquired trade name as having an indefinite useful life is based on the prospects for long-term profitability of the trade name and the overall market positioning of the trade name in terms of notoriety and volume.

(g) Impairment:

(i) 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(s) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

3. Significant accounting policies (continued)

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

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

(ii) Non-financial assets:

"Non-financial assets" are assets that have an indefinite useful life. Non-financial assets such as goodwill and trade names 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.

Non-financial assets such as property and equipment and other intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount, and the loss is recognized as an expense immediately.

Impairment losses recognized in respect of a CGU are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a *pro rata* basis.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

(h) Revenue recognition:

Revenue is recognised at the fair value of the consideration received or receivable, net of trade discounts and rebates. Revenue from providing aviation and aviation-related services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown or services provided at contract rates or fixed monthly charges or a combination of both.

Revenue is recognized when recovery of the consideration is probable, the associated costs and costs to complete can be estimated reliably, and the amount of revenue can be measured reliably.

3. Significant accounting policies (continued)

(i) Income taxes:

Income tax expense (recovery) for the period is comprised of current and deferred tax. Income tax is recognized in earnings or loss, except to the extent that it relates to a business combination, or items recognized in other comprehensive income or, directly in equity.

Current income tax is the expected tax payable, calculated on the basis of tax laws enacted or substantively enacted at the date of consolidated statement of financial position and any adjustment to income taxes payable in respect of previous years. Management periodically evaluates positions taken in income tax returns with respect to situations in which applicable income tax legislation and regulations are subject to interpretation. Management establishes provisions, where appropriate, on the basis of amounts expected to be payable by the Corporation.

Deferred tax assets and liabilities are recognized to record 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 on the part of a member of the Corporation to offset current tax liabilities and assets, and the current tax liabilities and assets 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 their tax assets and liabilities will be realized simultaneously.

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

(j) Stock-based payments

Equity-settled transactions

The grant date fair value of a share-based payment award granted to an employee is recognized as an employee expense, with a corresponding increase in equity, over the period that the employee unconditionally becomes entitled to the award. The fair value is calculated using the Black-Scholes option pricing model. The amount recognized as an expense is adjusted to reflect the number of awards which are expected to meet related service and non-market vesting conditions, such that the amount ultimately recognized as an expense is based on the number of awards that meet related service and non-market performance conditions at the vesting date. For share-based payment awards without award conditions, there is no true-up for differences between expected and actual outcomes.

Cash-settled transactions

The Corporation issues stock-based compensation to its directors in the form of deferred stock units ("DSUs") as described in note 7. The DSUs are recognized at their fair value as compensation expense (with a corresponding liability) when they are granted. The DSUs are remeasured at each reporting period, using the closing market price of the Corporation's common shares and any changes in the fair value of the liability are recognized in earnings or loss.

(k) Finance Costs:

"Finance costs" are comprised of interest expense on loans and borrowings, net foreign exchange losses and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in earnings or loss using the effective interest method.

3. Significant accounting policies (continued)

Earnings per share:

The Corporation presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the earnings or loss attributable to common shareholders of the Corporation by the weighted average number of common shares outstanding during the period, adjusted for shares held and not cancelled. Diluted EPS is determined by adjusting the earnings or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for shares held and not cancelled, for the effects of all dilutive potential issues of common shares (which generally relate to convertible debt and share options granted to employees).

(l) Cash:

Cash consists of cash on hand, balances with financial institutions and short-term investments with an initial term to maturity of three months or less.

Financial instruments

i) Classification, recognition and measurement

At initial recognition, the Corporation's financial assets and liabilities are classified into the following categories:

Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Operating line of credit	Financial liabilities at amortized cost
Trade and other payables	Financial liabilities at amortized cost
Loans and borrowings	Financial liabilities at amortized cost

The Corporation initially recognizes loans and receivables on the date that they are originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation became a party to the contractual provisions of the instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payment dates which are not quoted in an active market. Loans and receivables are included in current assets, except for loan and receivables with maturities more than 12 months after the end of the reporting period which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less provision for impairment.

Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs and financing costs related to credit facilities and, subsequently, are measured at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if payment is due within one year or less. If financial liabilities at amortized cost are not classified as current liabilities they are presented as non-current liabilities. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liabilities for at least 12 months after the end of the reporting period.

The Corporation has reviewed its contractual arrangements and, where appropriate, has designated purchase contracts entered into for the purpose of receiving non-financial items for its normal usage requirements as executory contracts.

The Corporation has not identified any material embedded derivatives in its non-financial instruments which require separate recognition and measurement.

3. Significant accounting policies (continued)

Financial assets and liabilities are offset and the net amount reported in the condensed consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle the financial assets and liabilities on a net basis or to realize the asset and settle the liability simultaneously.

ii) Compound financial instruments

“Compound financial instruments” are issued by the Corporation and consist of convertible debentures that can be converted to common shares at the option of the holder. The number of common shares to be issued by the Corporation does not vary with changes in the fair value of the common shares. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have a conversion option. The equity component of a compound financial instrument is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Interest, gains and losses relating to the financial liability are recognized in earnings or loss.

(iii) Share Capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(m) Segment reporting:

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segment results are reviewed regularly by the Corporation's Chief Executive Officer (“CEO”) in order to make decisions with reference to resources to be allocated to the segment and assess the segment's performance, for which discrete financial information is available.

Segment results which are reported to the CEO include items directly attributable to a segment as well as those which can be allocated to that segment on a reasonable basis. Segment capital expenditure for any period represents the total cost incurred by a segment during the period to acquire property, plant and equipment and intangible assets other than goodwill. Items not allocated to a segment consist mainly of corporate assets, head office expenses, finance costs and income tax assets and liabilities.

(n) Provisions:

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

Each provision is measured at management's best estimate of the outflow of resources expected to be required to settle the obligation at the date of the condensed consolidated statement of financial position. Where material, each provision is discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. Any increase in a provision due to passage of time is recognized as finance cost.

3. Significant accounting policies (continued)

(o) Employee benefits:

A defined contribution pension plan is a post-employment benefit plan under which an entity pays a fixed contribution in respect of each employee covered by the plan and has no legal or constructive obligation to pay further amounts in respect of that employee. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in earnings or loss in the periods during which services are rendered by employees. The Canada Pension Plan and any Registered Retirement Savings Plan contributions correspond to contributions under a defined contribution plan.

Short-term employee benefit obligations are measured on an undiscounted basis. Short-term employee benefit obligations are expensed as the related service is provided.

A liability is recognized for the amount expected to be paid on or in respect of a short-term cash bonus or profit-sharing plan to an employee if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(p) New standards, amendments and interpretations issued but not effective for the financial year beginning February 1, 2011 and not early adopted.

(i) IFRS 9 Financial Instruments, issued in November 2009, is the first step in the process to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 Financial Instruments introduces new requirements for classifying and measuring financial assets. The standard of IFRS 9 Financial Instruments is not applicable until years beginning on or after January 1, 2013, but is available for early adoption. The Corporation has not early adopted IFRS 9 Financial Instruments, and is yet to assess its full impact.

(ii) In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation intends to adopt IFRS 10 in its financial statements for the annual period beginning on February 1, 2013. The Corporation has not yet determined the impact of adoption of IFRS 10.

(iii) In May 2011, the IASB issued IFRS 11 Joint Arrangements, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Corporation intends to adopt IFRS 11 in its financial statements for the annual period beginning on February 1, 2013. The Corporation does not expect IFRS 11 to have a material impact on the financial statements.

(iv) In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Corporation intends to adopt IFRS 12 in its financial statements for the annual period beginning on February 1, 2013. When applied, it is expected that the amendment to IFRS 12 will increase the current level of disclosure of interests in other entities.

3. Significant accounting policies (continued)

- (v) In May 2011, the IASB published IFRS 13 Fair Value Measurement, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as 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, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs, the effect of the measurements on earnings or loss or other comprehensive income. The Corporation intends to adopt IFRS 13 prospectively in its financial statements for the annual period beginning on February 1, 2013. The extent of the impact of adoption of IFRS 13 has not yet been determined.
- (vi) In May 2011, the IASB issued Amendments to IAS 28 Investments in Associates and Joint Ventures, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases with gain recognition in earnings or loss, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment is not remeasured. The Company intends to adopt the amendments in its financial statements for the annual period beginning on February 1, 2013. The extent of the impact of adoption of the amendments has not yet been determined.

4. Investments in equity accounted investees:

The Corporation has the following investments in equity accounted investees over which the Corporation has significant influence. These investments have been accounted for using the equity method:

- (i) 49% interest in Gwich'in Helicopters Limited ("Gwich'in"), a corporate venture incorporated in Canada. Gwich'in contracts helicopter aviation services to the government and corporate sectors within the Gwich'in settlement area of the Northwest Territories.
- (ii) 49% interest in Denendeh Helicopters Ltd. ("Denendeh"), a corporate venture incorporated in Canada. Denendeh provides helicopter charter services to the government and corporate sectors within the South Mackenzie District of the Northwest Territories.
- (iii) 49% interest in Sahtu Helicopters ("Sahtu"), a corporate venture incorporated in Canada. Sahtu provides helicopter charter services to the government and corporate sectors within the Tulita district within the Sahtu settlement area of the Northwest Territories.
- (iv) 48% interest in Tli Cho Air Inc. ("Tli Cho"), a corporate venture incorporated in Canada. Tli Cho provides fixed wing charter services to the mining, corporate and government sectors within the Tli Cho region of the Northwest Territories.
- (v) 49% interest in Aqsaqniq Airways Ltd. ("Aqsaqniq"), a corporate venture incorporated in Canada. Aqsaqniq provides fixed wing charter services to the mining, corporate and government sectors within the Kitikmeot region of Nunavut.
- (vi) 35% interest in K'ahsho Got'ine Helicopters Ltd. ("K'ahsho"), a corporate venture incorporated in Canada. K'ahsho provides helicopter charter services to the government and corporate sectors within the K'ahsho Got'ine District within the Sahtu settlement area of the Northwest Territories.

4. Investments in equity accounted investees (continued):

Carrying Value	
Balance, February 1, 2010	\$ 2,187
Investment in equity	250
Distribution	(67)
Share of earnings (loss)	163
Balance, January 31, 2011	\$ 2,533
Share of earnings (loss)	229
Balance, April 30, 2011	\$ 2,762

5. Loans and borrowings:

	April 30, 2011	January 31, 2011	February 1, 2010
8.75% unsecured convertible debentures, maturing December 31, 2011	\$ 28,243	\$ 28,053	\$ 27,349
Long-term secured debt bearing a floating interest rate of 90 day BA yield plus 7.65%, maturing September 24, 2020	44,368	46,186	48,027
Long-term secured debt bearing a fixed interest rate of 10.00%, maturing February 1, 2013	33,465	33,388	33,156
Long-term secured debt incurred by a subsidiary bearing an interest rate of floating base bank rate plus 4.50%, maturing January 15, 2015	11,390	12,149	15,188
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 8.19%, maturing fiscal 2012 through fiscal 2035	2,790	155	299
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 5.55%, maturing fiscal 2013 through fiscal 2017	1,843	1,897	1,244
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1.25%, maturing fiscal 2015 through fiscal 2016 (note 10)	13,264	13,447	14,277
Unsecured notes payable to former officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing fiscal 2010 (note 15)	-	-	752
Conditional sales contracts	378	172	107
Secured demand loan bearing an interest rate of 18.00% per annum, maturing June 9, 2011 (note 15)	3,533	3,833	4,633
Loans and borrowings	139,274	139,280	145,032
Less current portion of loans and borrowings	51,098	38,840	10,149
	\$ 88,176	\$ 100,440	\$ 134,883

5. Loans and borrowings (continued):

Principal repayments on or in respect of the above-listed loans and borrowings as at April 30, 2011 for each of the next five years and thereafter are as follows:

(thousands of dollars)

Within 1 year	\$	51,098
Within 2 years		40,162
Within 3 years		6,697
Within 4 years		6,279
Within 5 years		4,233
Thereafter		30,805
Total	\$	139,274

Interest on or in respect of the above-listed loans and borrowings for the three month period ended April 30, 2011 was \$3.2 million (2010 - \$3.2 million).

On April 21, 2011, the Corporation entered into an agreement to sell to a syndicate of underwriters \$30.0 million principal amount of new convertible unsecured subordinated debentures (the "New Debentures") at a price of \$1,000 per debenture. The Corporation also granted the underwriting syndicate an over-allotment option to purchase up to an additional \$4.5 million aggregate principal amount of New Debentures for a period of up to 30 days following closing to cover over-allotments at closing and for market stabilization purposes. The net proceeds of the offering will be used by the Corporation to fully repay the Corporation's existing 8.75% Convertible Unsecured Subordinated Debentures due December 31, 2011 and accrued interest payable thereon, and the balance, if any, will be used for working capital and general corporate purposes.

The New Debentures will mature on June 30, 2016 and will accrue interest at the rate of 8.375% per annum payable semi-annually. At the holders' option, the New Debentures may be converted into the Corporation's Class A common voting or Class B variable voting shares at any time prior to the maturity date at a conversion price of \$0.73 for each common share, subject to standard anti-dilution provisions.

The New Debentures will not be redeemable before June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option and subject to notice period requirements, redeem the New Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

Subject to specified conditions, the Corporation will have the right to repay the outstanding principal amount of the New Debentures on maturity or redemption, by delivering common shares of the Corporation. The Corporation also has the option to pay interest in cash and/or through the issue and sale of additional common shares of the Corporation. Additionally, the Corporation has the option, subject to prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

The issue of the \$30 million New Debentures closed on May 12, 2011 with the issue of an additional \$4.5 million over-allotment closing on May 27, 2011. On June 16, 2011, the Corporation used proceeds from the issuance of the New Debentures to repay the 8.75% Convertible Debentures (see note 15 - Subsequent events).

6. Operating line of credit:

The Corporation maintains a secured demand operating line of credit (the "Operating Line of Credit") to finance its working capital requirements. The Operating Line of Credit has a maximum borrowing limit of \$15.0 million with increased availability of up to \$25.0 million during the peak operating period of April through November of each year, and with the maximum borrowing limit restricted by a lending margin applied to eligible accounts receivable and inventory, subject to an allowance for specific reserves. As at April 30, 2011, the Corporation had available a borrowing capacity of \$17.9 million, against which it had drawn \$14.0 million. The Operating Line of Credit is secured by a first charge over the accounts receivable and inventories of all the Corporation's operating entities (except inventories of Top Aces), as well as a floating charge over all other assets of the Corporation and its subsidiaries, except real estate, subject to specific permitted prior encumbrances. The Operating Line of Credit bears an interest rate of 18.00% per annum. As at April 30, 2011, the Corporation was in compliance with all covenants related to the Operating Line of Credit. Subsequent to April 30, 2011, the Lender and the Corporation agreed to extend the previous June 9, 2011 maturity date to July 29, 2011 in order to complete the documentation of the annual renewal of this facility (see note 15 – subsequent events).

7. Share capital and share-based compensation:

(a) Authorized:

The Corporation is authorized to issue an unlimited number of Class A common voting shares with no par value ("Class A Shares") and an unlimited number of Class B common voting shares with no par value ("Class B Shares").

The holders of both Class A Shares and Class B Shares ("Common Shares") are entitled to receive dividends, as declared from time-to-time and are entitled to one vote per share at meetings of the shareholders of the Corporation. All Common Shares rank equally with regard to the Corporation's residual assets.

(b) Issued and outstanding

(thousands of dollars, except for shares)

	for the three months ended			
	April 30, 2011		April 30, 2010	
	Shares	Amount	Shares	Amount
Class A Shares				
Outstanding, beginning of period	134,461,555	\$ 62,843	134,461,555	\$ 182,244
Reclassification of deficit	-	-	-	(119,401)
Outstanding, end of period	134,461,555	\$ 62,843	134,461,555	\$ 62,843
Class B Shares				
Outstanding, beginning of period	742,604	\$ 2,291	742,604	\$ 2,291
Outstanding, end of period	742,604	\$ 2,291	742,604	\$ 2,291

(c) Share-based compensation:

Employee Stock Options (equity settled)

As at October 31, 2010, the Corporation had stock options outstanding that were granted to the officers and employees of the Corporation from two different employee stock option plans. The employee stock option plan created in January 2006 (the "January 2006 plan") was terminated in June 2008, ceasing any additional grants under this plan. All outstanding stock options granted under the January 2006 plan are fully vested.

7. Share capital and share-based compensation (continued):

In June 2010, a new employee stock plan (the "June 2010 plan") was approved by the shareholders. In September 2010, a total of 1,500,000 employee stock options were granted. The stock options were granted at an exercise price set at the closing market price of the Corporation's common shares on the day preceding the date when the options were granted. Subject to vesting conditions, the stock options are exercisable for seven years from the date of grant. These stock options are scheduled to vest on two separate dates. 300,000 stock options will vest on January 31, 2013 and 1,200,000 will vest on January 31, 2015.

At April 30, 2011, 4,357,300 Common Shares have been reserved for employee stock options as follows:

Range of exercise prices	Options outstanding			Options exercisable	
	Number Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number Exercisable	Weighted average exercise price
\$0.26	1,500,000	6.38	\$ 0.26	-	\$ 0.26
\$0.50 - \$1.00	95,000	5.66	\$ 0.59	95,000	\$ 0.59
\$1.01 - \$1.50	312,800	6.81	\$ 1.24	312,800	\$ 1.24
\$1.51 - \$1.75	1,920,200	6.05	\$ 1.58	1,920,200	\$ 1.58
\$1.76 - \$1.85	529,300	5.81	\$ 1.85	529,300	\$ 1.85
	4,357,300			2,857,300	

Employee stock option transactions for the periods ended April 30, 2011 and 2010 are as follows:

	April 30, 2011		April 30, 2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Class A Shares				
Outstanding, beginning of period	4,390,800	\$ 1.12	3,129,900	\$ 1.57
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Expired	(33,500)	1.71	(50,250)	1.85
Outstanding, end of period	4,357,300	1.11	3,079,650	1.56

During the three month period ended April 30, 2011, the Corporation recognized compensation expense of \$16,000 (2010 - \$5,000) relating to the estimated fair value of vesting employee stock options.

(d) Deferred share units (cash settled)

At April 30, 2011, there were 2,246,911 (January 31, 2011 – 2,089,065; February 1, 2010 – 1,308,779) DSUs held by the directors of the Corporation. Each DSU entitles a retiring director to a cash payment equal to the closing market price of the Common Shares on a date selected by the retiring director, which date may not be later than December 31 of the year following the year of the director's retirement. During the three months ended April 30, 2011, the Corporation granted 157,846 (2010 – 191,491) DSUs. The Corporation recognized \$74,000 (2010 - \$50,000) of compensation expense related to DSUs in the current quarter. The outstanding DSUs were marked to market at April 30, 2011 which resulted in a \$36,000 charge (April 30, 2010 - \$105,000 charge) to earnings in the quarter.

8. Earnings (loss) per share:

Basic earnings (loss) per share:

(thousands except per share amounts)	for the three months ended	
	April 30 2011	April 30 2010
Earnings (loss) attributable to equity-holders of the Corporation	\$ (2,586)	\$ (3,929)
Weighted average number of common shares outstanding	135,204	135,204
Basic earnings (loss) per share	\$ (0.02)	\$ (0.03)

Diluted earnings (loss) per share:

(thousands except per share amounts)	for the three months ended	
	April 30 2011	April 30 2010
Earnings (loss) attributable to equity-holders of the Corporation	\$ (2,586)	\$ (3,929)
Weighted average number of common shares outstanding	135,204	135,204
Dilutive adjustments:		
- Assumed conversion of convertible debt	-	-
- Share options	-	-
Weighted average number of common shares outstanding assuming dilution	135,204	135,204
Diluted earnings (loss) per share	\$ (0.02)	\$ (0.03)

As at April 30, 2011 and 2010, all employee stock options and the conversion feature on the convertible debentures were anti-dilutive.

9. Change in non-cash operating working capital:

(thousands except per share amounts)	for the three months ended	
	April 30 2011	April 30 2010
Restricted Cash	\$ 200	\$ 446
Trade and other receivables	(13,525)	(10,145)
Inventory	727	(1,095)
Prepaid expenses and other	(2,562)	(3,236)
Trade and other payables	3,198	4,778
Income taxes payable	547	(1,266)
	\$ (11,415)	\$ (10,518)

10. Related party transactions:

Loans and borrowings

At April 30, 2011, the Corporation had long-term debt including accrued interest totalling \$13.4 million (January 31, 2011 - \$13.6 million) owing primarily to current officers of the Corporation or its subsidiaries who were former owners of the subsidiaries. During the quarter the Corporation entered into an agreement to settle this debt through a cash payment of \$3.1 million and the issuance of 10,352,000 Class A common shares (see note 15 - Subsequent events. For the three month period ended April 30, 2011, interest expense on this debt totalled \$143,000 (April 30, 2010 - \$84,000).

11. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. For the three month period ended April 30, 2011, the Corporation expensed \$2.1 million of operating lease payments (April 30, 2010 - \$1.7 million). Minimum annual lease payments under these non-cancellable leases are due as follows:

(thousands of dollars)	
Less than 1 year	\$ 7,824
1 – 2 years	2,266
2 – 3 years	735
3 – 4 years	375
4 – 5 years	237
Thereafter	8,255

The Corporation is committed to the purchase of a fixed wing aircraft for approximately USD \$1.8 million in the second quarter of fiscal 2012, a fixed wing aircraft for approximately USD \$0.9 million in the third quarter of fiscal 2012 and 2 fixed wing aircraft for approximately USD \$3.2 million in the fourth quarter of fiscal 2012. The Corporation has provided a \$0.3 million non-refundable deposit to be applied to the final purchase price of these aircraft.

12. Segmented information:

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the markets in which they operate. The Northern Services segment comprises Great Slave, Air Tindi and Discovery Mining and the Government Services segment comprises Top Aces, Technical Services and Hicks.

The Northern Services segment's primary market is based on activities, and is located, in Northern Canada.

The Government Services segment provides specialty aviation related services generally aimed at government entities.

All other operating activities not allocated to these two business segments are reported under Corporate Support. Innovations is included in Corporate Support.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment earnings before income tax, as included in the internal management reports that are reviewed by the Corporation's CEO. This measure is used to assess performance because management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

12. Segmented information (continued):

For the three months ended April 30, 2011

(thousands of Canadian dollars)

	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 18,547	\$ 18,702	\$ -	\$ 37,249
Expenses	18,447	12,204	1,806	32,457
Depreciation of property and equipment and intangible assets	2,380	2,107	16	4,503
	(2,280)	4,391	(1,822)	289
Finance costs				3,752
Loss on sale of property and equipment				255
Share of earnings of equity accounted investees				(229)
Loss before income tax				(3,489)
Income taxes provision (recovery)				
Current				565
Deferred				(1,468)
				(903)
Loss and comprehensive loss				(2,586)
Segment assets	\$ 131,136	\$ 128,583	\$ 5,021	\$ 264,740
Capital expenditures	2,424	5,369	19	7,812
Investment in equity accounted investees	2,707	55	-	2,762

For the three months ended April 30, 2010

(thousands of Canadian dollars)

	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 15,382	\$ 10,433	\$ -	\$ 25,815
Expenses	14,454	7,359	1,646	23,459
Depreciation of property and equipment and intangible assets	2,576	1,792	16	4,384
	(1,648)	1,282	(1,662)	(2,028)
Finance costs				3,547
Loss on sale of assets				-
Share of earnings of equity accounted investees				(77)
Loss before income tax				(5,498)
Income taxes provision (recovery)				
Current				(1,567)
Deferred				(2)
				(1,569)
Loss and comprehensive loss				(3,929)
Segment assets	\$ 138,412	\$ 115,545	\$ 2,575	\$ 256,532
Capital expenditures	1,341	543	30	1,914
Investment in equity accounted investees	2,263	-	-	2,263

12. Segmented information (continued):

Substantially all the Corporation's revenues are earned within Canada and substantially all the Corporation's non-current assets are located within Canada.

The Government Services segment includes business entities that are economically reliant upon a single customer.

Top Aces' revenue is primarily derived from Standing Offer Agreements ("SOAs") to provide airborne training services to DND. These SOAs were extended in January 2011 for a further 16-month period, with an option in favour of DND to extend the SOAs for an additional twelve months thereafter. DND is not obligated to call up any Top Aces services under these SOAs and may cancel them at its convenience. Top Aces is currently the only supplier with approved airworthiness clearances under these SOAs, and given this fact, together with the essential nature of the services provided by Top Aces, management does not believe it likely that these SOAs will be terminated prior to their expiry, or that there will be any substantial reduction in service required by DND. Top Aces submitted a proposal in October 2010 in response to a Public Works Government Services Canada (PWGSC) solicitation of a Request for Proposal ("RFP") for a 10 year contracted airborne training services program with an option in favour of DND for two 5 year extensions. This solicitation was cancelled in early fiscal 2012, with PWGSC recently confirming its intention to retender a new RFP in August 2011.

Hicks' revenue from aerial fire management services is derived from three 5-year contracts with the Government of Ontario. The continuation of each contract for each new fiscal year is conditional upon a sufficient appropriation of funds by the Government of Ontario. Given the nature of the services being provided, management believes that it is unlikely that the appropriation of funds for these contracts will be discontinued. Any one of the contracts may be terminated by the Government of Ontario (i) upon occurrence of certain events of default, including Hicks' insolvency or its breach of specified material terms or conditions of the contract, and (ii) without cause by giving 30 days prior written notice to Hicks.

13. Explanation of transition to IFRS:

As stated in note 2(a), these are the Corporation's first condensed consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the three months ended April 30, 2010, the comparative information presented in these financial statements for the year ended January 31, 2011 and in the preparation of an opening IFRS statement of financial position at February 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRSs has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

13. Explanation of transition to IFRS (continued):

(a) Reconciliation of equity at February 1, 2010 (date of transition to IFRS):

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash	\$ 9,237	\$ (1,882)	\$ 7,355
Restricted cash	1,330	-	1,330
Trade and other receivables	9,501	237	9,738
Inventory	13,902	(419)	13,483
Prepaid expenses and other	2,935	(5)	2,930
	<u>36,905</u>	<u>(2,069)</u>	<u>34,836</u>
Property and equipment	157,944	(7,242)	150,702
Goodwill	37,862	-	37,862
Intangible assets	23,599	-	23,599
Investments in equity accounted investees	-	2,187	2,187
	<u>\$ 256,310</u>	<u>\$ (7,124)</u>	<u>\$ 249,186</u>
Liabilities and Shareholders' Equity			
Current liabilities			
Trade and other payables	\$ 10,444	\$ (154)	\$ 10,290
Income taxes payable	817	(158)	659
Current portion of loans and borrowings	10,330	(181)	10,149
	<u>21,591</u>	<u>(493)</u>	<u>21,098</u>
Loans and borrowings	135,777	(894)	134,883
Deferred income taxes	24,531	(1,181)	23,350
Non-controlling interest in equity	2,136	(2,136)	-
Shareholders' equity:			
Share capital	184,535	-	184,535
Contributed surplus	7,141	-	7,141
Deficit	(119,401)	(2,420)	(121,821)
	<u>72,275</u>	<u>(2,420)</u>	<u>69,855</u>
	<u>\$ 256,310</u>	<u>\$ (7,124)</u>	<u>\$ 249,186</u>

13. Explanation of transition to IFRS (continued):

(b) Reconciliation of equity at January 31, 2011:

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash	\$ 9,693	\$ (2,294)	\$ 7,399
Restricted cash	834	-	834
Trade and other receivables	16,685	210	16,895
Inventory	14,950	(66)	14,884
Prepaid expenses and other	2,170	(11)	2,159
	<u>44,332</u>	<u>(2,161)</u>	<u>42,171</u>
Property and equipment	157,633	(8,420)	149,213
Goodwill	37,862	-	37,862
Intangible assets	19,159	-	19,159
Investments in equity accounted investees	-	2,533	2,533
	<u>\$ 258,986</u>	<u>\$ (8,048)</u>	<u>\$ 250,938</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	\$ 12,633	\$ (215)	\$ 12,418
Income taxes payable	1,282	(38)	1,244
Current portion of loans and borrowings	38,888	(48)	38,840
	<u>52,803</u>	<u>(301)</u>	<u>52,502</u>
Loans and borrowings	101,325	(885)	100,440
Deferred income taxes	24,204	(1,277)	22,927
Non-controlling interest in equity	2,884	(2,884)	-
Shareholders' equity:			
Share capital	65,134	-	65,134
Contributed surplus	7,170	-	7,170
Deficit	5,466	\$ (2,701)	2,765
	<u>77,770</u>	<u>(2,701)</u>	<u>75,069</u>
	<u>\$ 258,986</u>	<u>\$ (8,048)</u>	<u>\$ 250,938</u>

13. Explanation of transition to IFRS (continued):

(c) Reconciliation of equity at April 30, 2010:

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash	\$ 4,215	\$ (1,579)	\$ 2,636
Restricted cash	884	-	884
Trade and other receivables	20,143	(260)	19,883
Income taxes recoverable	524	83	607
Inventory	15,053	(475)	14,578
Prepaid expenses and other	6,180	(14)	6,166
	<u>46,999</u>	<u>(2,245)</u>	<u>44,754</u>
Property and equipment	156,378	(7,207)	149,171
Goodwill	37,862	-	37,862
Intangible assets	22,482	-	22,482
Investments in equity accounted investees	-	2,263	2,263
	<u>\$ 263,721</u>	<u>\$ (7,189)</u>	<u>\$ 256,532</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Operating line of credit	\$ 7,818	-	\$ 7,818
Trade and other payables	15,461	(239)	15,222
Current portion of loans and borrowings	10,054	(195)	9,859
	<u>33,333</u>	<u>(434)</u>	<u>32,899</u>
Loans and borrowings	135,237	(884)	134,353
Deferred income taxes	24,578	(1,229)	23,349
Non-controlling interest in equity	2,217	(2,217)	-
Shareholders' equity:			
Share capital	184,535	-	184,535
Contributed surplus	7,146	-	7,146
Deficit	(123,325)	(2,425)	(125,750)
	<u>68,356</u>	<u>(2,425)</u>	<u>65,931</u>
	<u>\$ 263,721</u>	<u>\$ (7,189)</u>	<u>\$ 256,532</u>

13. Explanation of transition to IFRS (continued):

(d) Reconciliation of comprehensive income for the year ended January 31, 2011:

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Revenue	\$ 152,418	\$ (1,133)	\$ 151,285
Expenses	115,023	(5,316)	109,707
Depreciation of property and equipment and intangible assets	13,874	5,856	19,730
	23,521	(1,673)	21,848
Finance costs	15,298	(89)	15,209
Gain on sale of property and equipment	-	(892)	(892)
Share of earnings of equity accounted investees (net of income tax)	-	(163)	(163)
	15,298	(1,144)	14,154
Earnings before income taxes	8,223	(529)	7,694
Income tax provision (recovery)			
Current	2,765	167	2,932
Deferred	(327)	(97)	(424)
	2,438	70	2,508
Non-controlling interest	319	(319)	-
Earnings and comprehensive income (loss)	\$ 5,466	\$ (280)	\$ 5,186

(e) Reconciliation of comprehensive income for the three month period ended April 30, 2010:

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Revenue	\$ 25,914	\$ (99)	\$ 25,815
Expenses	24,452	(993)	23,459
Depreciation of property and equipment and intangible assets	3,368	1,016	4,384
	(1,906)	(122)	(2,028)
Finance costs	3,658	(111)	3,547
Share of earnings of equity accounted investees (net of income tax)	-	(77)	(77)
	3,658	(188)	3,470
Earnings before income taxes	(5,564)	66	(5,498)
Income tax provision (recovery)			
Current	(1,721)	154	(1,567)
Deferred	-	(2)	(2)
	(1,721)	152	(1,569)
Non-controlling interest	81	(81)	-
Loss and comprehensive income (loss)	\$ (3,924)	\$ (5)	\$ (3,929)

13. Explanation of transition to IFRS (continued):

- (e) Material adjustments to the statement of cash flows for 2011:

The Corporation did not make any material changes to the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous CGAAP.

14. Notes to the reconciliation:

- (a) IFRS 1

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the requirements that the Corporation must follow when it adopts IFRS for the first time as the basis for preparing its condensed consolidated financial statements. The Corporation is required to establish its IFRS accounting policies for the three month period ended April 30, 2011 and the comparative information presented in these financial statements for the year ended January 31, 2011, and apply these retrospectively to determine the IFRS opening statement of financial position at the Corporation's date of transition of February 1, 2010. To assist companies in the transition process, the standard permits a number of specified exemptions from the general principle of retrospective restatement. The Corporation elected to apply IFRSs retrospectively to all business combinations that occurred on or after February 1, 2010. As a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to February 1, 2010 was tested for impairment even though no impairment indicators were identified at that date. No further impairment existed at the date of transition.

Therefore there was no impact on retained earnings in respect of this exemption.

The Corporation has applied the optional exemption to apply IFRS 2, Share-based payments, to equity instruments that were granted after November 7, 2002 that vest after February 1, 2010. Effective February 1, 2010, the Company retrospectively changed its method of recognizing stock-based compensation to graded vesting from the straight line method used under CGAAP. This change in methodology was not material.

The remaining optional exemptions under IFRS 1 are not applicable to the Corporation. All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of CGAAP in these areas.

- (b) Variable interest entities

The Corporation previously consolidated its interests in variable interest entities under CGAAP. Under IFRS, the Corporation does not control these entities and as a result, these variable interest entities are no longer consolidated but are treated as equity accounted investees.

14. Notes to the reconciliation (continued):

(thousands of Canadian dollars)

	For the quarter ended April 30, 2010	For the year ended January 31, 2011
Consolidated statement of comprehensive income		
Decrease in revenue	\$ (99)	\$ (1,133)
Decrease in operating expenses	8	418
Decrease in finance costs	19	88
Decrease in amortization	70	319
Increase in income tax provision	(156)	(174)
Share of earnings net of income tax investees (before income tax)	77	163
Decrease in non-controlling interest	81	319
Adjustment to loss and comprehensive loss	\$ -	\$ -

	February 1, 2010	April 30, 2010	January 31, 2011
Consolidated statement of financial position			
Increase (decrease) in cash	\$ (1,882)	\$ (1,579)	\$ (2,294)
Increase (decrease) in trade and other receivables	237	(260)	210
Decrease in inventory	(24)	(80)	(66)
Decrease in prepaid expenses and other	(5)	(14)	(11)
Decrease in property and equipment	(4,361)	(4,322)	(4,761)
Decrease in trade and other payables	154	239	215
Decrease in income taxes payable	158	83	38
Decrease in current portion of loans and borrowings	181	195	48
Decrease in loans and borrowings	894	884	885
Decrease in deferred income taxes	325	372	319
Investments in equity accounted investees	2,187	2,263	2,533
Decrease in non-controlling interest in equity	2,136	2,219	2,884
Increase in retained earnings	\$ -	\$ -	\$ -

(c) Componentization of property and equipment

Under IFRS, when parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. This has resulted in a more detailed approach to determining the useful lives of certain asset components under IFRS than was used under previous CGAAP. As at February 1, 2010, the Corporation retroactively componentized certain items of plant and equipment under IFRS, which resulted in an increase in accumulated depreciation of \$3.3 million.

The tax effected impact on retained earnings of IFRS measurement differences related to property and equipment as at February 1, 2010 was \$0.9 million.

(d) Cash-settled share based compensation

The Corporation granted cash-settled share based payments to directors (note 7). The Corporation accounted for these share based payment arrangements by reference to their intrinsic value under previous CGAAP. Under IFRS the related liability is recorded at fair value of the outstanding cash-settled share based payments, which is not materially different from the amount determined under CGAAP.

Notes to the reconciliation (continued):

- (e) Reclassification of Cash from Held for trading under CGAAP to Loans and Receivables under IFRS

Cash does not meet the criteria for the fair value through profit and loss designation under IFRS because cash is not managed on a fair value basis but on a yield to maturity basis and because cash is not traded on an active market. Under CGAAP, cash met the applicable criteria and was classified as held-for-trading.

As a result of the Corporation's adoption of IFRS, cash will be classified under loans and receivables. This change in classification constitutes a disclosure difference and does not have a financial impact on the consolidated financial statements because the fair value of cash approximates cost.

- (f) Reclassification within the statement of comprehensive income

The Corporation chose to present the statement of comprehensive income by nature.

Amortization of rotatable and overhauled components were included in operating expenses under previous CGAAP. These costs are now included within depreciation under IFRS.

- (g) Taxes

The above changes decreased the deferred tax assets/liabilities as follows based on a tax rate of 26%.

(thousands of Canadian dollars)	February 1, 2010	April 30, 2010	January 31, 2011
Componentization of property and equipment	\$ (856)	\$ (857)	\$ (958)
Variable interest entities	(325)	(372)	(319)
Change in deferred tax liability	\$ (1,181)	\$ (1,229)	\$ (1,277)

The effect on the statement of comprehensive income for the year ended January 31, 2011 was to increase the previously reported tax charge for the period by \$69,780.

- (h) Retained earnings

The above changes decreased retained earnings as follows:

(thousands of Canadian dollars)	February 1, 2010	April 30, 2010	January 31, 2011
Componentization of property and equipment	\$ (3,276)	\$ (3,282)	\$ (3,659)
Deferred income taxes	856	857	958
Change in retained earnings	\$ (2,420)	\$ (2,425)	\$ (2,701)

14. Notes to the reconciliation (continued):

(i) Property and equipment

(thousands of Canadian dollars)

Cost	Furniture, Equipment and					Total
	Land and Buildings	Leaseholds	Aircraft and Components	Vehicles		
Balance, February 1, 2010	\$ 17,383	\$ 9,738	\$ 168,528	\$ 1,615	\$	197,264
Additions	1,739	1,341	14,556	80		17,716
Disposals	8	1,072	8,456	175		9,711
Balance, January 31, 2011	\$ 19,114	\$ 10,007	\$ 174,628	\$ 1,520	\$	205,269

Depreciation and Impairment	Furniture, Equipment and					Total
	Land and Buildings	Leaseholds	Aircraft and Components	Vehicles		
Balance, February 1, 2010	\$ 3,070	\$ 4,991	\$ 37,361	\$ 1,140	\$	46,562
Depreciation	896	1,904	12,645	235		15,680
Disposals	-	1,009	5,007	170		6,186
Balance, January 31, 2011	\$ 3,966	\$ 5,886	\$ 44,999	\$ 1,205	\$	56,056

Net book value	Furniture, Equipment and					Total
	Land and Buildings	Leaseholds	Aircraft and Components	Vehicles		
Balance, February 1, 2010	\$ 14,313	\$ 4,747	\$ 131,167	\$ 475	\$	150,702
Balance, January 31, 2011	\$ 15,148	\$ 4,121	\$ 129,629	\$ 315	\$	149,213

15. Subsequent events:

- (a) On May 2, 2011, the Corporation completed a transaction to repay related party debts and accrued interest totalling \$13.4 million (see note 5 and note 10) through a cash payment of \$3.1 million and the issuance of 10,352,000 Class A common shares. Based on the market value of the Class A common shares at the date of settlement (\$0.43 per share), the Corporation expects to record a pre-tax gain on the extinguishment of the related party debts of approximately \$5.8 million in its second quarter.
- (b) On May 12, 2011, the Corporation closed a \$30.0 million issuance of new convertible unsecured subordinated debentures (the "New Debentures") at a price of \$1,000 per debenture. On May 27, 2011, the Corporation also closed the issuance of an overallotment option on the original issue, for an additional \$4.5 million aggregate principal amount of New Debentures. On June 16, 2011, the Corporation used the net proceeds of issuance of the New Debentures to fully repay the Corporation's \$28.8 million 8.75% Convertible Unsecured Subordinated Debentures due December 31, 2011 and accrued interest payable thereon. The Corporation intends to use the remaining funds from the issuance of the New Debentures to fund working capital and general corporate purposes.
- (c) The Corporation and its Lender agreed to extend the maturity date of the Corporation's existing operating line of credit from June 9, 2011 to July 29, 2011 in order to complete the documentation of the annual renewal of this facility. The renewal is for another one year term, with minor modifications to certain terms and conditions and with a reduction in the annual interest rate from 18% to 13%. The aircraft term loan provided by the same Lender will also be renewed for another 1 year term at 13% per annum.