



## Second Quarter Report July 31, 2008

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations for the second quarter of fiscal 2009 of Discovery Air Inc. (the "Corporation" or "Discovery Air") should be read in conjunction with the unaudited interim consolidated financial statements and related notes of the Corporation for the period ended July 31, 2008 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2008, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Business Profile**

##### *Mission*

The mission of the Corporation is to create shareholder value by building an alliance of profitable aviation and aviation related businesses that can realize synergies, economies of scale and deliver safe, professional air services to clients in selected niche markets.

##### *Organization structure*

The Corporation was incorporated on November 12, 2004 and has made the following acquisitions consistent with the Corporation's mission.

- *December 21, 2004* - The Corporation acquired 50% of the outstanding shares of Hicks & Lawrence Limited ("H&L")
- *August 16, 2005* - The Corporation acquired the remaining 50% of the outstanding shares of H&L.
- *June 20, 2006* - The Corporation acquired 100% of the outstanding shares of Great Slave Helicopters Ltd. ("GSHL").
- *December 19, 2006* - The Corporation acquired 100% of the outstanding shares of Air Tindi Ltd. ("ATL").
- *March 14, 2007* - The Corporation, through H&L, purchased the wheel division assets of Walsten Air Service (1986) Ltd. ("Walsten").
- *August 24, 2007* - The Corporation acquired 100% of the outstanding shares of Top Aces Inc. ("TAI").
- *January 4, 2008* - The Corporation acquired 100% of the outstanding shares of Discovery Mining Services Ltd. ("DMS").

##### *Operations*

Starting in fiscal 2009, for management purposes, the operations of the Corporation are being segregated into two operating segments:

1. Northern Services, being the operations of GSHL, ATL and DMS; and
2. Government Services, being the operations of TAI and H&L.

The Corporation has re-aligned the segment disclosure of its operations with the objective of providing better insight into the Corporation's performance, its prospects for future net cash flow and ultimately to allow the readers to make a more informed assessment of the Corporation's results. The revised segment disclosure is consistent with management's approach in evaluating the Corporation's subsidiaries. In updating the segment information, management assessed the economic and market characteristics of the Corporation's subsidiaries, considering the more relevant variables such as the type of customers that the operations service, and ultimately determined that the revised segments better represent the commonalities of the operations within their respective segments.

Non-segmented activities are classified as Corporate Support. The results of operations for the Corporation's subsidiaries are included in the Corporation's consolidated financial accounts from the date of acquisition.

#### *Northern Services Segment*

GSHL is a Northwest Territories-based helicopter company that provides chartered air transport services throughout Northern Canada and several of the Canadian provinces. It provides, on its own and in partnership with northern Aboriginal groups, aviation services to private sector companies and governments in areas such as mineral, base and precious metal exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, tourism and flight training.

ATL is a Northwest Territories-based fixed wing aviation company that provides scheduled and chartered passenger and air cargo services to private sector companies, governments and individuals in such areas as mineral, base and precious metal exploration, oil and gas exploration and tourism. ATL also provides air ambulance services throughout the Northwest Territories.

DMS is a Northwest Territories-based company that provides remote exploration camps, expediting, logistics and staking services to primarily diamond and mineral exploration companies.

#### *Government Services Segment*

TAI is a Quebec-based fixed wing aviation company that provides highly specialized airborne training services to the Department of National Defence.

H&L is an Ontario-based fixed wing aviation company that provides air services to niche markets in Northwest Ontario, primarily fire suppression and other transportation services to the provincial government.

#### *Seasonality and quarterly fluctuations*

Seasonality and other factors can impact on the comparability of results from one period to another.

- There is increased demand for the services provided by GSHL, H&L, ATL and DMS normally commencing in the spring and continuing through to the end of the summer.
- TAI's revenue generating opportunities are significantly higher in the February to June and September to November time periods. Though TAI revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customer's priorities.
- The Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue generating potential. As well, repair and maintenance on aircraft are not incurred evenly throughout the year and the timing of expenses within a year may vary from one period to another.
- Weather conditions can have an impact on available flight hours from one period to another.
- The timing of an acquisition in relation to the above factors can have an impact on the comparability of results.

As a result, the operations of the Corporation are subject to seasonal and other variations that make comparability difficult. Operating results therefore may vary from quarter to quarter and results of one quarter may not be indicative of results that may be achieved for another quarter or the full year.

#### *Strategy and Strengths*

The Corporation is an investment company. It invests in businesses that provide aviation and aviation related services to customers in niche markets. The Corporation's investment portfolio is currently comprised of companies that provide fixed-wing and rotary-wing transport services as well as logistics and remote operations management services.

The Corporation will drive accretive growth by continuing to seek and acquire high-quality niche aviation and aviation related service companies. In identifying new acquisition opportunities, the Corporation will consistently employ selection criteria that considers, among other factors, sustainable growth potential, enduring competitive advantage, strong cash flow, and the existence of a highly competent, trustworthy management team. Growth will also be achieved organically from the Corporation's existing operating companies through increased utilization of the existing fleet, fleet expansion, introduction of new or expanded services and by entering into new geographic markets that would benefit from the high level of service of the Corporation's operating companies.

Aviation services are delivered by the Corporation's subsidiaries. Discovery Air Inc. at the corporate level has no day-to-day operational responsibilities. It provides its subsidiaries with access to capital and corporate services which include investor relations management, treasury services, group financial reporting and accounting, corporate legal services, public company administration, and group-wide human resource policies. It also provides a forum through which its subsidiaries can benefit from synergies and economies of scale as well as sharing of best operational practices.

The Corporation's current investment portfolio is comprised of companies whose success is fundamentally based upon strong customer service, a reputation for quality and safety, a loyal customer base, a dominant position in their markets, significant barriers to entry, and a minimum 20-year successful business track record in the case of GSHL, ATL and H&L.

GSHL and ATL provide an essential service to many of their customers as access to, and movement at, the majority of their customers' locations are only possible via aircraft. This includes the movement and transport of people, freight, equipment, and essential supplies. TAI and H&L also provide essential services to their customers in the form of cost-effective government outsourced aviation service solutions.

## Overview

The current quarter and year-to-date results highlighted the strength of the Corporation's business and market diversity which has been accomplished through acquisition. The Corporation's acquisition of TAI and DMS during the last twelve months has expanded both its operating presence throughout Canada as well as the range of aviation related services provided. This has reduced the Corporation's reliance on a specific region or industry sector and thus minimized its revenue stream exposure to isolated negative impacts in a specific region or industry sector.

The Corporation faced significant revenue challenges in the current quarter due to unfavourable weather conditions in Ontario and Quebec and reduced exploration activities in certain sectors of the resource based industry in the North. Despite these challenges the Corporation's revenues for the quarter and year-to-date increased by \$14.8 million and \$29.2 million respectively from the comparative periods last year, representing a 33% and 48% increase respectively from the comparative periods last year. The increase from the comparative periods was attributable almost entirely to the inclusion of TAI and DMS in the current period results, although revenues were also positively influenced by a favourable mix in flight hour composition compared to the comparative prior year periods, an overall increase in flight rates, and higher fuel recovery revenue due to higher fuel prices experienced in the current quarter. The higher fuel recovery offset the higher fuel expense incurred by the Corporation.

The wet weather conditions that led to reduced fire activity were the largest contributor of the Corporation's overall decrease in flight hours which for the quarter and year-to-date were 7% and 3% lower than the comparative periods last year. Historically the second and third quarters represent a peak season for the Corporation's fire related operations. However, in the current quarter, the Ontario forest fire region recorded one of its lowest fire counts in over two decades due to unseasonably cool and wet weather conditions which negatively impacted the Corporation's fire related services in this region. As well, Quebec, a market in which GSHL operates, experienced much lower levels of demand for forest fire fighting services due to wetter than normal weather conditions. To illustrate the severity that wet weather conditions have had on demand for forest fire fighting services, Natural Resources Canada reported the following number of forest fires for the period from January 1 to August 27.

	<u>2008</u>	<u>10 Year Average</u> <sup>1</sup>
Ontario	277	1,093
Quebec	179	723

<sup>1</sup> Natural Resources Canada (accessed September 2, 2008); <http://fire.cfs.nrcan.gc.ca/firereport/graph-eng.php>

The Corporation also noted reduced activities in certain parts of the resource sector due to increased operating costs and tightened funding, contributing to reduced exploration and drilling activities for the smaller resource based companies in the North. While this reduced demand for lighter aircraft services, stronger demand from more established companies led to higher demand for intermediate aircraft services.

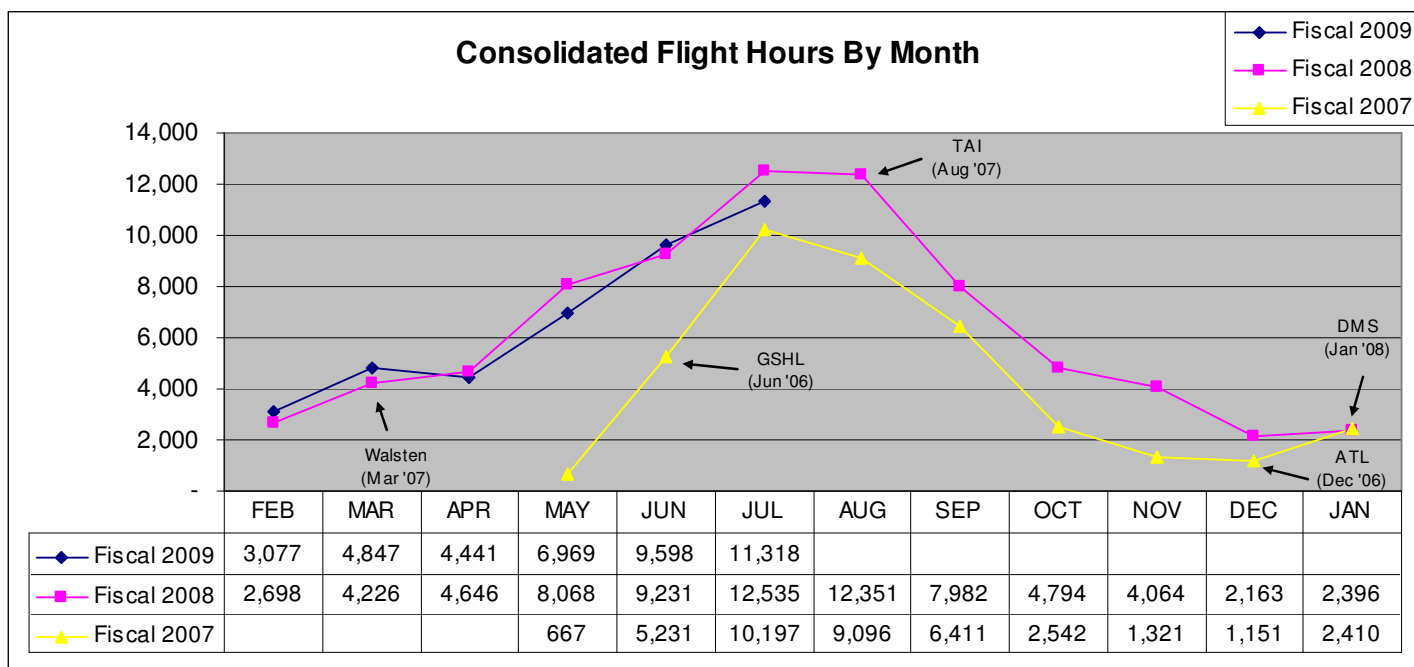
EBITDA for the quarter and year-to-date of \$19.6 million and \$21.9 million respectively, increased by 5% and 22% respectively compared to the comparative periods last year. While the EBITDA increased over the comparative period, the EBITDA margin for the quarter and year-to-date of 33% and 24% respectively, declined as a percentage of revenue by 9% and 5% respectively. As noted above, contributing to the decline in margin was the lower than expected revenues from the Ontario and Quebec forest fire region as well the reduced activities in certain resource sectors. The margins were to a greater extent negatively impacted by higher operating expenses incurred in the current periods. The higher operating expenses were largely due to higher wage costs and higher than expected levels of aircraft maintenance costs. Wage costs increased due to a higher year over year staff complement carried by the Northern Services segment combined with across the board increases in wage rates. The staff complement is constantly evaluated by the operations' management to ensure there is sufficient skilled staff to meet expected flight demands.

Net earnings for the quarter and year-to-date decreased by 12% and 5% respectively compared to the comparative periods last year. While net earnings results in the current year reflect higher finance and amortization expenses due primarily to the impact of acquiring TAI and DMS, the year over year reduction in earnings is related to market and operational challenges experienced by GSHL, ATL and H&L.

### Results of operations for the comparative three months ended July 31, 2008 and July 31, 2007

#### Revenue and Hours Flown

The Corporation's revenue is primarily generated from rotary-wing and fixed-wing transportation services that are delivered through its subsidiaries and, with the exception of DMS, are largely driven by flight hours. The following graph provides monthly consolidated flight hour information that demonstrates the impact of acquisitions on total flight hours and the relative historical seasonality of the Corporation's flight operations. The month of purchase for each acquisition is noted in the chart below.



### Consolidated

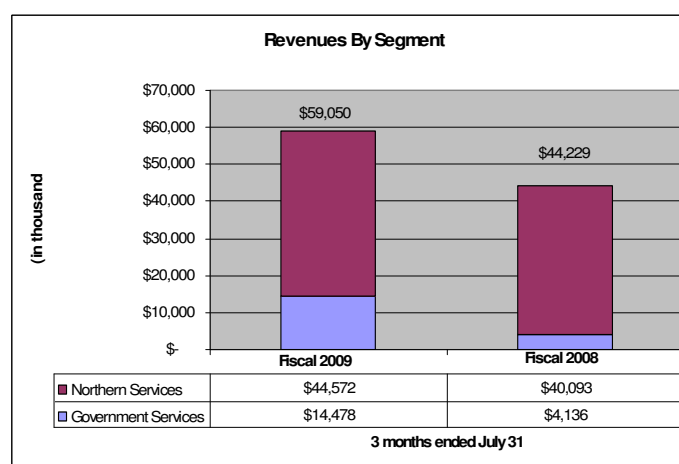
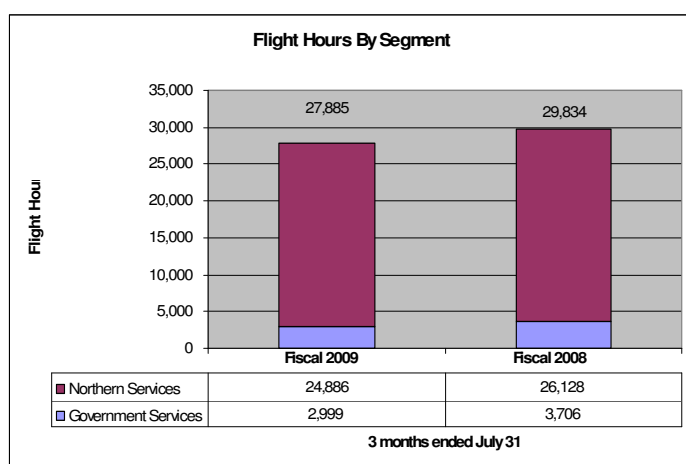
Revenues were \$59.1 million for the current quarter, compared to \$44.3 million for the same period last year, representing a year over year increase of \$14.8 million or 33%. The increase in revenues was achieved despite lower flight hours in the current quarter of 27,885 compared to 29,834 for the same period last year. The decrease in hours flown of 1,949 hours or 7% can be summarized as follows:

Incremental hours from TAI not reflected in the comparative results	1,390
Net decrease in hours from businesses reflected in the comparative results (GSHL, ATL & H&L)	<u>(3,339)</u>
	(1,949)

A significant portion of the overall net decrease in flight hours in the current quarter was attributable to the wet weather conditions that led to reduced fire activity in the Ontario and Quebec regions. The Corporation's fire detection and suppression related operations in those regions had 72% lower flight hours in the current quarter compared to prior year. This is consistent with the reduced number of forest fires in those provinces during the current year versus the 10 year average. Also contributing to the lower flight hours, though to a lesser extent, was decreased hours in the light rotary aircraft fleet which has traditionally been utilized by the Corporation's smaller resource based clientele. The inverse relationship between the higher revenues and lower flight hours was attributed to the following:

- TAI, acquired on August 24, 2007 and DMS, acquired on January 4, 2008, collectively contributed 24% of the Corporation's total revenues in the quarter. The inclusion of their results in the quarter represented 95% of the \$14.8 million year over year increase compared to the comparative period.
- From the operations that were reflected in the comparative prior year results (GSHL, ATL & H&L), a year over year increase of \$800,000 or 2% was achieved despite an 11% decrease in flight hours from these operations compared to the prior year. Fuel prices increased significantly year over year, which had the impact of increasing operating costs as well as recovery revenues. If the impact of the year over year increase in recoveries is excluded from total revenues, revenues decreased by 1% year over year despite the higher decreased level of flight hours. This was due in large part to the favourable mix in flight hour composition compared to prior year in the Northern Services segment.
- All operations were able to increase their flight hour rates.

The following is a summary of Northern Services and Government Services segment hours and revenues for the comparative periods.



### Northern Services segment

The Northern Services segment flew 24,866 hours generating revenues of \$44.6 million for the current quarter, compared to 26,128 hours generating revenues of \$40.1 million in the comparative period last year. The segment's 11% year over year increase in revenues despite a 5% decrease in year over year flight hours was attributed to the following:

- Both GSHL and ATL had a significant favourable shift in flight hour composition. GSHL operates VFR aircraft in three capacity categories: light, intermediate and medium. Flight hours for GSHL's light aircraft fleet decreased

by 27% compared to the prior period in part due to less activity from their smaller, early stage resource based clients. Also contributing to the decline in the light aircraft flight hours in the current year was a noted shift by GSHL's clientele to the larger intermediate aircraft. A number of GSHL's clientele who had previously utilized the light aircraft have advanced into later stages of their mining life cycle which requires the use of the larger intermediate aircraft. This has resulted in a 12% increase in GSHL's intermediate aircraft flight hours compared to the prior year. GSHL's medium flight hours were 20% lower for this quarter than the same quarter in the prior year. ATL's flight hours increased by 5% in the quarter compared to the prior year. ATL saw a 33% increase in demand in its medium capacity Dash-7 fleet offsetting the lower flight hours in its intermediate capacity Twin Otter and light capacity Cessna Caravan fleets.

- GSHL was negatively impacted by the wet weather conditions that led to reduced fire activity in Ontario and Quebec as flight hours from these regions were off 92% from the prior year. This reduced forest fire revenues from these regions by approximately \$3.0 million compared to the prior year. This notable decline in forest fire hours and revenues in Ontario and Quebec were largely offset by strong forest fire flight hours and revenues from the western provinces and Northwest Territories, which combined, had a 33% increase in forest fire flight hours and a \$2.7 million increase in revenues in these regions compared to the prior year. The net impact to the forest fire flights and revenues for GSHL was a 9% decrease in flight hours and \$300,000 decrease in revenues compared to the prior period.
- The inclusion of DMS's results in the current quarter contributed approximately 6% of the Northern Services segment's total revenue.
- Both GSHL and ATL were able to increase their flight hour rates compared to the comparative period.
- The fuel price increase noted in the quarter impacted the fuel recoverable revenue by \$1.3 million representing a 51% increase in fuel recoverable compared to the comparable period. The year over year increase in same business revenues (i.e. excluding the impact of DMS on current year revenues) and excluding fuel recoveries from revenues was 1%.

#### *Government Services segment*

The Government Services segment flew 2,999 hours generating revenues of \$14.5 million for the current quarter, compared to 3,706 hours generating revenues of \$4.1 million in the comparative period last year. H&L was severely impacted by the wet weather conditions that led to reduced fire activity in Ontario. H&L's flight hours related to forest fires were down by 63% in the current quarter compared to the comparative period which resulted in a \$1.0 million decrease in forest fire related revenues. While the Government Services segment flight hours declined by 20% even with the inclusion of TAI's operation, the segment provided a net increase in revenues of \$10.3 million due to the significantly higher rate per hour generated from TAI compared to H&L. Prior year's revenues for this segment did not include TAI as it was acquired on August 24, 2007.

### **Operating Expenses**

#### *Consolidated*

Operating expenses consist of fixed and variable expenses including crew and fleet costs and general and administrative expenses. Crew and fleet costs are the largest expense categories. Crew costs are comprised of wages, benefits and training for pilots and maintenance engineers. Fleet costs are comprised of aircraft lease cost and maintenance costs, which consist of the purchase, repair and overhaul of parts, major components and accessories. The amortization of engine and rotatable component overhauls is included in maintenance costs and is classified as operating expenses for financial reporting purposes. General and administrative expenses are mainly comprised of wages and benefits of administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. These operating expenses contain both a fixed and variable cost component.

Operating expenses were \$39.4 million for the current quarter, compared to \$25.5 million for the same period last year. Of the \$13.9 million year over year increase, \$7.9 million was attributed to the inclusion of the operating expenses of TAI and DMS, which due to the timing of their acquisition would not have been included in prior year's results. Fuel costs represent \$1.3 million of this variance for the quarter which was offset largely by recovery revenues. The remaining \$4.7 million variance related to a general increase in operating expenses in the operations of GSHL, ATL and H&L. The more notable increase in operating expenses was related to wage and maintenance costs for these operations.

The Corporation granted 25,000 stock options to employees in the quarter. Non-cash stock-based compensation expense of \$225,000 was incurred in the quarter related to the vesting of options granted, compared to \$415,000 for the same period last year.

### *Northern Services segment*

The segment's operating expenses for the quarter were \$29.5 million, compared to \$22.2 million for the same period last year. The operating expenses as a percentage of revenues increased by 11%, from 55% to 66%, in the current quarter compared to the same period last year. Of the \$7.3 million year over year increase in operating costs, the inclusion of DMS contributed to 21% of the year over year variance and the increase in fuel costs accounted for 18% of the year over year variance. While the fuel cost did increase significantly, the increased costs were largely recovered from customers, the impact of which was included in increased revenues. Beyond these two items, the remaining increase in operating expenses was largely attributed to increased wage and maintenance costs in both GSHL and ATL. A primary factor that increased overall wage costs was a significant year over year increase in employee complement at GSHL in all areas. This led to GSHL carrying a higher level of staff complement than actual flight volumes warranted during the most recent quarter. For example, in anticipation of a strong season and as a pilot and maintenance engineer retention strategy, GSHL increased its staff complement compared to the prior year due to an in-house program to hire a number of low-hour pilots and apprentice maintenance engineers to train and develop at GSHL, and to eventually integrate into GSHL's operations. GSHL routinely evaluates expected demands for its services and aligns its staff complement in relation to these expected demands. The high demand for skilled pilots and maintenance staff in the Northern market has been reflected in a significant year over year increase in wage rates for both GSHL and ATL. The impact of higher wages accounted for 23% of the year over year increase in operating costs. The segment also incurred higher unscheduled maintenance cost in the quarter compared to the prior year which accounted for 13% of the year over year increase in operating expenses. While much of the major overhaul and maintenance work is performed during the low season, these costs can fluctuate from period to period based on the needs of the aircraft. .

### *Government Services segment*

The segment's operating expenses for the quarter were \$8.3 million, compared to \$2.0 million for the same period last year. Consistent with this segment's revenue, a significant portion of the segment's operating expense in the quarter and variance from the same period last year is related to the addition of TAI. The operating expenses for H&L are largely fixed costs. As a result while the year over year expenses were similar, the operating expenses as a percentage of revenues increased by 15% due to lower than expected revenues.

## ***EBITDA and EBITDAR (see Non-GAAP Measures)***

### *Consolidated*

EBITDA was \$19.6 million for the current quarter, compared to EBITDA of \$18.7 million for the same period last year. The inclusion of the results of TAI and DMS combined totaled \$6.2 million in the current quarter. This offset the lower EBITDA from GSHL, ATL and H&L. EBITDA as a percentage of sales reduced year over year from 42% to 33%. EBITDA during the quarter was impacted by the same factors that influenced revenue and operating expenses.

EBITDAR was \$24.4 million for the quarter, compared to \$23.2 million for the same period last year. The aircraft lease cost for the quarter was \$4.8 million compared to \$4.5 million for the same period last year, with the variance largely attributed to the addition of TAI, which leases its Westwind aircraft, and GSHL increasing the utilization of leased hours in its operation to meet increased intermediate aircraft demand.

### *Northern Services segment*

The Northern Services segment had EBITDA of \$15.0 million for the quarter, compared to \$17.9 million for the same period last year. The EBITDA margin was 34% in the quarter compared to 45% in the same period last year. The decline in EBITDA and EBITDA margin was due largely to wet weather conditions that led to reduced fire activity in Ontario and Quebec which negatively impacted GSHL revenue, lower early stage resource demand, and higher wage and maintenance cost incurred in the current quarter compared to the same period last year. EBITDAR for the quarter was \$19.5 million compared to \$22.4 million for the same period last year.

### *Government Services segment*

The Government Services segment had EBITDA of \$6.1 million for the quarter compared to EBITDA of \$2.1 million for the same period last year. EBITDAR for the quarter was \$6.5 million compared to EBITDAR of \$2.1 million for the same period last year. Both EBITDA and EBITDAR were positively impacted by the results of TAI in the quarter since the prior year comparative only included the results of H&L. However, the positive impact of including TAI in the current year was offset by weaker year over year EBITDA and EBITDAR contribution from H&L due to weaker levels of forest fire activity.

## **Financing charges**

Financing charges were \$3.2 million for the quarter, compared to \$2.1 million for the same period last year. The increased financing charges are reflective of the increased debt levels the Corporation has assumed in growing the business through acquisitions and investing in new aircraft. The year over year increase in financing charges was attributed in part to incremental debt incurred related to the acquisition of TAI and DMS, the purchase of three new aircraft for the Northern Services segment, and financing of the new alpha jet program at TAI, but was also due to the static principal balance in the revolving term debt facility which required only interest payment. The revolving term debt facility has increased cash availability for fleet expansion.

## **Amortization Expenses**

### *Amortization of buildings and equipment*

Amortization of building and equipment expense was \$2.1 million for the current quarter, compared to \$929,000 for the same period last year. The increased amortization of buildings and equipment in the current quarter was due largely to the inclusion of assets acquired with TAI and DMS as well as fleet additions.

### *Amortization of intangible assets*

Amortization of intangible assets expense was \$1.1 million for the current quarter, compared to \$503,000 for the same period last year. The amortization of intangible assets relates to the periodic expensing of a portion of the purchase price for acquired companies attributable to certain identifiable intangible assets such as the estimated fair market value of customer relationships. The significant increase in the amortization of intangible assets was due to the amortization of the intangible assets recorded on the acquisition of TAI and DMS. The portions of the purchase prices attributed to customer relationships for TAI and DMS were \$18.2 million and \$1.4 million respectively. While these assets are being amortized in accordance with Canadian generally accepted accounting principles, the Corporation has no reason to believe that these customer relations will not be of continuing value to the Corporation.

## **Income Taxes**

Income tax expense was \$4.1 million for the current quarter, compared to \$5.0 million for the same period last year. The Corporation's statutory rate for the quarter was approximately 31%, compared to approximately 34% for the same period last year. The effective rate applied in calculating the current quarter income tax expense was approximately 31%.

## **Results of operations for the comparative six months ended July 31, 2008 and July 31, 2007**

### **Revenue and Hours Flown**

#### *Consolidated*

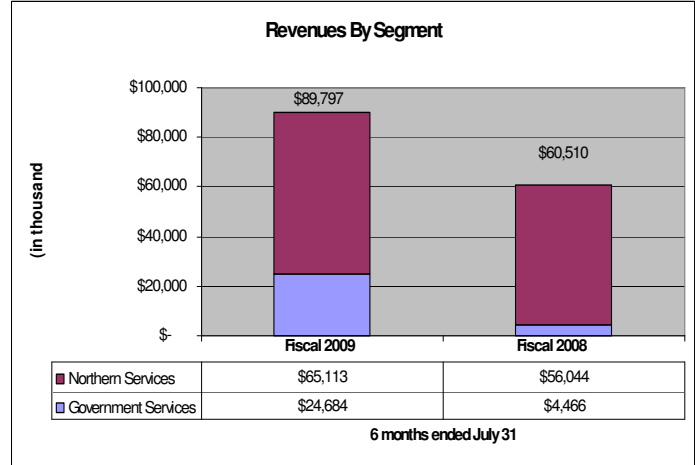
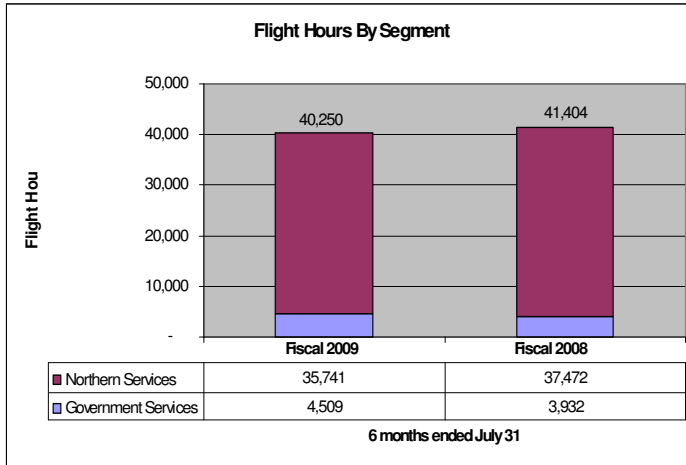
Revenues were \$89.8 million year-to-date, compared to \$60.6 million for the same period last year, representing a year over year increase in revenues of \$29.2 million or 48%. This increase in revenue was achieved despite lower flight hours of 40,250 compared to 41,404 for the same period last year. The decrease in hours flown of 1,154 hours or 3% can be summarized as follows:

Incremental hours from TAI not reflected in the comparative results	2,548
Net decrease in hours from businesses reflected in the comparative results (GSHL, ATL & H&L)	<u>(3,702)</u>
	(1,154)

The year-to-date results were impacted significantly by the events in the second quarter which represents the first half of the Corporation's peak season, the most material of which was an overall net decrease in flight hours attributed to wet weather conditions that led to reduced fire activity in the Ontario and Quebec regions. Since the Corporation's fire detection and suppression related operations commence substantially in the second quarter, the year-to-date flight hours from the fire related services also recorded 72% lower flight hours in the current year-to-date compared to prior year. Once again, this is consistent with the significantly lower than normal level of fires in those provinces. Also contributing to the lower flight hours, though to a lesser extent, was decreased hours in the light rotary aircraft fleet which has traditionally been utilized by the Corporation's smaller resource based clientele. The inverse relationship between the higher revenues and lower flight hours was attributed to the following:

- TAI and DMS collectively contributed 29% of the Corporation's total revenues year-to-date. The inclusion of their results year-to-date represented 88% of the \$29.2 million year over year increase compared to the comparative period;
- From operations that were reflected in the comparative prior year results (GSHL, ATL & H&L), a year over year increase of \$3.5 million or 6% was achieved despite a 9% decrease in flown hours from these operations compared to the prior year. If the impact of the year over year increase in recoveries is excluded from total revenues, revenues increased by 3% year over year. This was due in large part to the favourable mix in flight hour composition compared to the prior year.

The following is a summary of Northern Services and Government Services segment hours and revenues for the comparative period.



#### Northern Services segment

The Northern Services segment flew 35,741 hours generating revenues of \$65.1 million year-to-date, compared to 37,472 hours generating revenues of \$56.0 million in the comparative period last year. The segment's 16% year over year increase in revenues despite a 5% decrease in year over year flight hours was attributed to the following:

- The inclusion of DMS' year to date results contributed approximately 8% of the Northern Services segment's total revenue.
- Both GSHL and ATL noted a significant favourable shift in flight hour composition. Flight hours for GSHL's light aircraft flight hours decreased by 28% while its larger intermediate aircraft flight hours increased by 12%. Year over year medium aircraft hours are down by 13%. ATL's medium capacity Dash-7 fleet increased flight hours by 36% offsetting the lower flight hours in its intermediate capacity Twin Otter and light capacity Cessna Caravan fleets.
- Since GSHL's forest fire season substantially starts in the second quarter the year-to-date results closely mirror the quarter results. The Ontario and Quebec region flight hours were off 92% from the prior year which negatively impacted forest fire revenues from these regions by \$3.0 million compared to the prior year. Largely offsetting this notable drop in forest fire hours and revenues in Ontario and Quebec were strong forest fire flight hours and revenues from the western provinces and Northwest Territories, which combined had a 33% increase in forest fire flight hours and a \$2.7 million increase revenues in these regions compared to the prior year. The net impact to the forest fire flights and revenues for GSHL is a 9% decrease in flight hours and \$300,000 decrease in revenues over the comparative period last year.
- Both GSHL and ATL were able to increase their flight hour rates compared to the comparative period.
- The fuel price increase noted above favourably impacted the fuel recoverable revenue by \$1.8 million compared to the comparable period. The increase in fuel recovery largely offsets the increase in fuel expense recorded year-to-date.

#### Government Services segment

The Government Services segment flew 4,509 hours generating revenues of \$24.7 million year-to-date, compared to 3,932 hours generating revenues of \$4.5 million in the comparative period last year. H&L was severely impacted by the wet weather conditions that led to reduced fire activity in Ontario. H&L's flight hours related to forest fires was off 63%

year-to-date compared to the comparative period which resulted in a \$1.0 million decrease in forest fire revenues. The Government Services segment flight hours increased by 15% and had a net increase in revenues of \$20.2 million due to inclusion of TAI. TAI did not contribute to revenues in the comparative period as it was acquired on August 24, 2007.

## **Operating Expenses**

### *Consolidated*

Operating expenses were \$67.9 million year-to-date, compared to \$42.7 million for the same period last year. Of the \$25.2 million year over year increase, \$14.4 million was attributed to the inclusion of the operating expenses of TAI and DMS, which due to the timing of their acquisition would not have been included in the prior year's results. \$1.8 million of this variance relates to increased fuel costs that are offset by recovery revenues. The remaining \$9.0 million variance related to a general increase in operating expenses in the operations of GSHL, ATL and H&L. The more notable increase in operating expenses was related to wage and maintenance costs for these operations.

The Corporation granted 406,000 stock options to employees year-to-date. Non-cash stock-based compensation expense of \$629,000 was incurred year-to-date related to the vesting of options granted, compared to \$1.1 million for the same period last year.

### *Northern Services segment*

The segment's operating expenses year-to-date were \$49.9 million, compared to \$37.0 million for the same period last year, an increase of \$12.9 million. The operating expenses as a percentage of revenues increased by 11% year-to-date compared to the same period last year. The inclusion of DMS contributed to 21% of the year over year increase in operating expense. The increase in fuel cost accounted for 14% of the year over year increase in operating costs which was largely recovered from customers. Consistent with the quarterly results, the remaining year-to-date increase in operating expenses and the operating expenses as a percentage of revenues was largely attributed to increased wage and maintenance costs in both GSHL and ATL. The increase in wage costs and maintenance costs accounted for 36% and 16% respectively of the year over year increase in operating expenses.

### *Government Services segment*

The segment's operating expenses year-to-date were \$14.9 million, compared to \$2.9 million for the same period last year. Consistent with this segment's revenue, a significant portion of the segment's operating expense year-to-date and variance from the same period last year is related to the addition of TAI. As noted in the quarterly results for H&L, the impact of lower than expected sales in a largely fixed cost operation increased H&L's operating cost as a percentage of revenues by 18% compared to prior year.

## **EBITDA and EBITDAR (see Non-GAAP Measures)**

### *Consolidated*

EBITDA was \$21.9 million year-to-date, compared to EBITDA of \$17.9 million for the same period last year. The inclusion of the results of TAI and DMS combined totaled \$11.3 million year-to-date. EBITDA as a percentage of revenues reduced from 30% to 24% year over year. EBITDA year-to-date was impacted by the same factors that influenced revenue and operating expenses.

EBITDAR was \$29.1 million year-to-date, compared to \$24.4 million for the same period last year. The inclusion of the results of TAI and DMS combined totaled \$11.9 million year-to-date. The aircraft lease cost year-to-date was \$7.1 million compared to \$6.4 million for the same period last year, with the variance largely attributed to the addition of TAI, which leases its Westwind aircraft, and GSHL increasing the utilization of leased hours in its operation to meet intermediate aircraft demand.

### *Northern Services segment*

The Northern Services segment earned EBITDA of \$15.2 million year-to-date, compared to \$19.1 million for the same period last year. The EBITDA margin was 23% year-to-date compared to 34% in the same period last year. The decline in EBITDA and EBITDA margin was due largely lower revenue levels and higher wage and maintenance cost incurred year-to-date compared to the same period last year. EBITDAR year-to-date was \$21.7 million compared to \$25.5 million for the same period last year.

### *Government Services segment*

The Government Services segment had EBITDA of \$9.8 million year-to-date compared to EBITDA of \$1.5 million for the same period last year. EBITDAR year-to-date was \$10.3 million compared to EBITDAR of \$1.5 million for the same

period last year. Both EBITDA and EBITDAR were positively impacted by the results of TAI in the quarter since the prior year comparative only included the results of H&L. However, the positive impact of including TAI's results in the current year was offset by weaker year over year performance by H&L due to weaker demand for its forest fire related services.

### **Financing charges**

Financing charges were \$6.2 million year-to-date, compared to \$4.0 million for the same period last year. The increased financing charges are reflective of the increased debt levels the Corporation has assumed in growing the business through acquisitions and investing in new aircraft. The year over year increase in financing charges can be attributed in part to incremental debt incurred related to the acquisition of TAI and DMS, the purchase of three new aircraft for the Northern Services segment, and financing related to the new alpha jet program for TAI, but was also due to the static principal balance in the revolving term debt facility which required only interest payment.

### **Amortization Expenses**

#### *Amortization of buildings and equipment*

Amortization of building and equipment expense was \$4.1 million year-to-date, compared to \$2.8 million for the same period last year. The increased amortization of buildings and equipment in the current quarter was due largely to the inclusion of assets acquired with TAI and DMS as well as fleet additions.

#### *Amortization of intangible assets*

Amortization of intangible assets expense was \$2.2 million year-to-date compared to \$1.0 million for the same period last year. The significant increase in the amortization of intangible assets was due to the amortization of the intangible assets recorded on the acquisition of TAI and DMS. The portion of the purchase price attributed to customer relationships for TAI and DMS were \$18.2 million and \$1.4 million respectively. While these assets are being amortized in accordance with Canadian generally accepted accounting principles, the Corporation has no reason to believe that these customer relations will not be of continuing value to the Corporation.

### **Income Taxes**

Income tax expense was \$3.0 million year-to-date compared to \$3.5 million for the same period last year. The Corporation's statutory rate for the quarter was approximately 31%, compared to approximately 34%. The effective rate applied in calculating the current quarter income tax expense was approximately 31%.

### **Liquidity and Financial Resources**

The following schedule summarizes the movement in cash flow components for the comparative quarter and year-to-date:

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
(thousands of dollars)	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Operating activities	\$ 6,546	\$ (390)	\$ (3,064)	\$ (4,767)
Investing activities	(5,382)	(5,596)	(15,174)	(22,097)
Financing activities	(3,276)	1,411	12,665	11,940
Net change in cash	\$ (2,112)	\$ (4,575)	\$ (5,573)	\$ (14,924)

The cash position at July 31, 2008 decreased by \$5.6 million compared to the cash position at January 31, 2008. This is largely due to the seasonal working capital demands of the Corporation's operating companies where increased revenues result in increased receivables that have to be funded by the operating line of credit.

#### *Operating activities*

The current quarter operating activities generated net cash inflow of \$6.5 million compared to net cash outflow of \$390,000 for the same period last year. Year-to-date operating activities resulted in a net cash outflow of \$3.1 million compared to a net cash outflow of \$4.8 million for the same periods last year. While the earnings for the quarter and year-

to-date decreased compared to the same period last year, the current period cash flow from operating activities improved from the comparative period due to a combination of higher non-cash operating adjustments and improved non-cash working capital position. The non-cash working capital reduction for the quarter and year-to-date were \$9.0 million and \$20.3 million respectively compared to a reduction of \$14.7 million and \$17.1 million respectively for the same periods last year. The year-to-date non-cash working capital was higher than last year due to the inclusion of the operations of TAI and DMS.

After-tax operating cash flow was \$15.5 million for the current quarter or \$0.11 per share compared to \$14.3 million or \$0.13 per share for the same period last year (see Non-GAAP Measures). Year-to-date after-tax operating cash flow was \$17.2 million or \$0.13 per share compared to \$12.3 million or \$0.11 per share for the same period last year. The quarter and year-to-date after tax cash flow increased by 9% and 40% respectively compared to the same period last year, due in large part to the contribution of the operating results of TAI and DMS.

As at July 31, 2008, the Corporation's working capital balance was in a negative position of \$5.7 million compared to a positive position of \$16.2 million as at January 31, 2008. The \$21.9 million variance in working capital balance from January 31, 2008 was due to the classification change of a \$33.0 million debt instrument, used to acquire TAI, from a long-term liability to a current liability. The term debt instrument matures in February 2009 and the Corporation is in discussion with several parties regarding the refinancing of this debt.

The current ratio was 0.92 as at July 31, 2008 compared to 1.78 as at January 31, 2008. Similar to the working capital balance the current ratio was largely impacted by the classification of the TAI acquisition debt of \$33.0 million as a current liability in the current year. If this debt was excluded from current liabilities the current ratio would be 1.77.

The Corporation has recently experienced lower profitability than anticipated in certain operations due to unfavourable weather conditions and lower demand for certain services which have been partially offset by strong results in the Corporation's other lines of business. However, the Corporation recognizes that should the adverse factors noted continue, especially if the severity is unmatched by other strong conditions experienced by the Corporation's other businesses, it could lead to weaker earnings and cash flow generated by operations reducing the Corporation's available working capital and liquidity. There is increased earnings and liquidity exposure due to adverse market conditions since certain operating costs are largely fixed in nature. Other than this risk factor and the \$33.0 million in term debt that matures in February 2009, the Corporation is not aware of any current balance sheet conditions, income items or cash flow items that could materially impact liquidity.

The Corporation has financial covenants that it is required by its lenders to maintain on a quarterly and annual basis. These covenants place minimum and maximum requirements, as applicable, on certain funded debt and leverage ratios, interest and debt coverage ratios, the current ratio, shareholders' equity, and tangible net worth. As well, there are other non-financial covenants that could affect the Corporation's ability to grow organically and by acquisition or make distributions. As at July 31, 2008, the Corporation met all of these requirements. While these covenants were met as at July 31, 2008, the Corporation recognizes that if the above-noted risk factors continued, the Corporation's interest coverage ratio would likely fall marginally short of its 3 to 1 required level in future reporting periods. However, the Corporation believes it is unlikely that this potential financial covenant default under its current circumstances outlined above would result in an accelerated repayment of its indebtedness.

#### *Investing activities*

The net cash outlays from investing activities for the quarter and year-to-date were \$5.4 million and \$15.2 million respectively compared to \$5.6 million and \$22.1 million respectively for the same period last year. Year-to-date, the investing activities related to fleet expansion and capitalized overhaul and maintenance cost. Fleet expansion included the purchase of two intermediate helicopters, the purchase of a fixed wing, twin-engine turbo-prop airplane, and progress payments related to the purchase of eight Alpha jets. The prior year comparative reflects the acquisition of Walsten assets for \$5.3 million and \$16.8 million in fleet expansion and capitalized overhaul and maintenance cost in the Corporation's other businesses. As at July 31, 2008, the Corporation's commitments totaled \$11.6 million, of which \$9.0 million is expected to be realized in the next year, related to the acquisition of eight Alpha jets and related parts and inventory. Other than maintenance in the ordinary course of business and overhaul related to the Corporation's existing fleet, the Corporation does not expect any significant overhaul or maintenance outlay in the foreseeable future.

#### *Financing activities*

The Corporation increased long term debt in the quarter and year-to-date totaling \$771,000 and \$10.7 million respectively, compared to \$3.4 million and \$15.6 million respectively for the same period last year, to finance aircraft and capital

equipment purchases. Prior year's results also reflect \$5.2 million financing for the acquisition of Walsten's wheel division assets. Scheduled repayments of long term debt were made in the quarter and year-to-date totaling \$1.7 million and \$3.2 million respectively compared to \$3.2 million and \$5.1 million for the same period last year.

The Corporation made net draws on its operating lines of credit totaling \$5.3 million.

The Corporation did not receive cash related to the issue of common shares in the quarter or year-to-date. The Corporation received \$10,000 and \$272,000 respectively, in cash related to the issue of common shares for the same periods last year.

#### *Debt Financing*

In February 2008 the Corporation entered into a \$21.5 million term loan agreement to refinance existing TAI term debt and the purchase of additional aircraft, spare engines and aircraft parts. The principal amount of the loan is repayable in monthly installments of \$256,000 commencing in February 2008 and ending in January 2015. The term debt bears an interest rate of the lender's floating base rate plus 3.25% per annum. The loan is secured by a debenture over all the assets of TAI, subject to a priority interest provided to an operating lender over TAI's accounts receivable. As at July 31, 2008, \$8.6 million was outstanding under this banking facility with the remainder to be available to fund remaining purchase commitments. There are various covenants, including financial covenants, which the Corporation is required to comply with. The Corporation remained in compliance with these covenants as at July 31, 2008.

In January 2008, the Corporation arranged a \$75.0 million five year revolving term debt facility to replace the fleet debt in H&L, GSHL and ATL as well as to finance future aircraft expenditures. The full availability under this credit facility is subject to certain conditions being met. At the end of the current quarter the Corporation had approximately \$52.6 million available to it and drawn from this facility to refinance existing credit facilities and to finance additional aircraft purchases. Assuming the Corporation continues to meet all conditions over the term of the revolving facility, the Corporation is obligated to pay on a regular basis only the interest related to this facility, thus allowing the Corporation greater flexibility to reinvest the cash generated from operations to continue growing the business. Advances up to \$50.0 million bear an interest rate of the applicable 30 day Bankers Acceptance yield plus 2.5% and advances in excess of \$50.0 million bear an interest rate of the applicable 30 day Bankers Acceptance yield plus 3.0%. The Corporation has provided a general security agreement over its assets and the assets of GSHL, ATL, H&L and DMS to secure this credit facility. On each anniversary date the lender has the option to convert the revolving term facility to an amortizing debt with the principal balance at the time amortized over a 10 year period, at which time the revolving feature of the facility would be terminated. There are various covenants, including financial covenants, which the Corporation is required to comply with. The Corporation remained in compliance with these covenants as at July 31, 2008.

The Corporation has a 364-day committed revolving banking facility which consists of an operating line of credit to a maximum of \$15 million that increases by an additional \$10 million during the Corporation's peak operating season, from April 1 to November 30. The banking facility bears an interest rate of prime plus 0.50% and is secured by a general security agreement over the assets of Discovery Air Inc., GSHL, ATL and H&L. At July 31, 2008, \$5.3 million has been drawn under this banking facility. There are various covenants, including financial covenants that the Corporation is required to comply with. The Corporation remained in compliance with these covenants as at July 31, 2008.

TAI has a banking facility which consists of an operating line of credit to a maximum of \$2.75 million, bearing interest at prime plus 0.50%. This facility is secured by a general security agreement which provides a first charge over accounts receivable and inventory, and a floating charge over all other assets subject to permitted encumbrances. At July 31, 2008, no balance was outstanding under this banking facility.

The Corporation has \$33.0 million of term debt that matures on February 1, 2009. As noted in the operating activities, this debt has been classified as a current liability on the balance sheet as at July 31, 2008. The Corporation has initiated discussions with various parties regarding the refinancing of this debt.

## **Shareholders' Equity**

Shareholders' equity at July 31, 2008, was \$208.7 million compared to \$201.9 million as at January 31 2008, with the increase attributable to the retention of earnings. At July 31, 2008, the Corporation had 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding compared to 110,920,019 Class A common shares outstanding and nil Class B common shares outstanding as at July 31, 2007. The detail of the 23.5 million increase in Class A common shares issued during the most recent twelve-month period is as follows: 19.2 million Class A common shares were issued as partial consideration for the acquisition of TAI, 4.3 million Class A common shares were issued as partial consideration for the acquisition of DMS, and 20,000 Class A common shares were issued on the exercise of options. 742,604 Class B common shares were issued as partial consideration for the acquisition of TAI.

There were no common share purchase warrants outstanding at July 31, 2008. Prior to July 31, 2008 there were 1.2 million common share purchase warrants outstanding which entitled the holders of these warrants to subscribe for one Class A share for every warrant held at a subscription price of \$2.00 per share; however these warrants expired on July 31, 2008.

There were 7.5 million (2008 - 6.8 million) common share options outstanding at July 31, 2008. For the six-month period ended July 31, 2008, 406,000 (2008 - 2.8 million) common share options were granted. In the same period, salary expense and an addition to contributed surplus of \$629,000 (2008 - \$1.1 million) were recorded relating to the vesting of options granted.

On March 27, 2006, the Corporation was continued under the *Canada Business Corporations Act*. At the time of the continuance, its share structure was amended to authorize the issuance of an unlimited number of Class A common voting shares and an unlimited number of Class B common variable voting shares. Each issued and outstanding common voting share as at March 27, 2006, was converted into a Class A common voting share on a one for one basis.

Additional information with respect to share capital is contained in note 5 of the interim consolidated financial statements.

## **Normal Course Issuer Bid**

On June 10, 2008, the Corporation filed a notice with the Toronto Stock Exchange ("Exchange") to make a normal course issuer bid ("NCIB") allowing the Corporation to purchase for cancellation up to 5,000,000 of its Class A common voting shares ("common shares") representing 3.72% of the 134,461,555 issued and outstanding common shares as at June 11, 2008. Subject to one block purchase per calendar week allowed pursuant to the rules of the Exchange, the maximum number of common shares to be acquired under the NCIB each day is 11,670 common shares. The Corporation may buy back common shares from time to time during the twelve months commencing June 12, 2008 and ending June 11, 2009, or such earlier date as the Corporation may complete its purchases pursuant to the Notice of Intention. Any purchase made under the NCIB will be effected through the facilities of the Exchange and in accordance with the policies and rules of the Exchange. The Corporation did not make any repurchases under the NCIB during the most recent quarter.

## **Updated Share Information**

At September 12, 2008, there were 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding. At the same date, there were 7,519,550 common share options outstanding.

## **Related Party Transactions**

At July 31, 2008, the Corporation had total indebtedness, including accrued interest, of \$19.1 million (2008 - \$18.6 million), bearing an interest rate range of prime to prime plus 1% per annum, owing primarily to officers and directors of the Corporation or its subsidiaries and who were former owners of the subsidiaries. For the quarter and year-to-date the interest expense on this debt totaled \$303,000 (2008 - \$289,000) and \$531,000 (2008 - \$576,000) respectively.

## **Change in Accounting Policies**

### ***Financial instruments – presentation and disclosure***

CICA 3862, *Financial Instruments – Disclosure*, and CICA 3863, *Financial Instruments Presentation*, effective for the Corporation on February 1, 2008, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. CICA 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance with classification of financial instruments, from the perspective of the issuer, between liabilities and equity. There was no impact to the previously reported financial statements as a result of the implementation of these new standards.

### ***Inventories***

In May 2007, the Accounting Standards Board issued Handbook Section 3031, *Inventories*, which supersedes Handbook Section 3030 and is effective February 1, 2008. The standard introduces significant changes to the measurement and disclosure of inventory. The most significant change for the Corporation is the requirement to measure inventories at the lower of cost and net realizable value, as opposed to lower of cost and replacement cost. The implementation of this standard had no material impact on the Corporation's financial results or condition.

### ***Capital disclosures***

CICA 1535, *Capital Disclosures*, effective for the Corporation on February 1, 2008, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital.

Additional information on the application of the above Handbook Sections is contained in the interim consolidated financial statements for the period ended July 31, 2008.

## **Future Changes in Accounting Policies**

### ***Goodwill and Intangible Assets***

Effective February 1, 2009, the Corporation will adopt the new Canadian standard, Handbook Section 3064, *Goodwill and intangible assets*, which replaces Handbook Section 3062, *Goodwill and other intangible assets* and Section 3450, *Research and development costs*. The standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The standard also harmonizes Canadian standards with IFRS. The Corporation is assessing the impact of the new standard on its consolidated financial statements.

### ***International financial reporting standards ("IFRS")***

In February 2008, the CICA Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt *IFRS* effective for fiscal years beginning on or after January 1, 2011. Although *IFRS* employs a conceptual framework that is similar to Canadian GAAP, differences in accounting policies will have to be addressed. The Corporation is currently assessing the impact of this announcement on its financial statements.

## Non-GAAP Measures

References to “EBITDA” are to earnings before interest, income taxes, depreciation and amortization (except for amortization of rotatable and overhauled components which are treated as operating expenses), gain on disposal of land, buildings and equipment, and non-controlling interest. As is common in the industry, the Corporation uses EBITDA as a supplemental financial measure of its operational performance. Reference to “EBITDAR” is EBITDA before aircraft lease cost. Management believes EBITDA and EBITDAR to be important measures as they exclude the effects of items which primarily reflect the impact of long-term investment decisions rather than the performance of the Corporation’s day-to-day operations. Management believes their measurements are useful to measure a company’s ability to service debt and to meet other payment obligations or as valuation measurements.

The following is a reconciliation of loss before non-controlling interest to EBITDA and EBITDAR.

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2008</b>	<b>July 31 2007</b>	<b>July 31 2008</b>	<b>July 31 2007</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Earnings before non-controlling interest	\$ 9,085	\$ 10,204	\$ 6,422	\$ 6,618
Income taxes	4,136	4,965	2,972	3,499
Financing charges	3,185	2,127	6,210	4,046
Amortization	3,215	1,432	6,332	3,760
<b>EBITDA</b>	<b>\$ 19,621</b>	<b>\$ 18,728</b>	<b>\$ 21,936</b>	<b>\$ 17,923</b>
Aircraft lease expenses	4,801	4,543	7,143	6,430
<b>EBITDAR</b>	<b>\$ 24,422</b>	<b>\$ 23,271</b>	<b>\$ 29,079</b>	<b>\$ 24,353</b>

References to “after-tax operating cash flow” are to net earnings(loss) adjusted for amortization, future income tax and other non-cash charges but is not adjusted for changes in non-cash operating working capital. Management believes after-tax operating cash flow is a strong supplemental financial measure of the Corporation’s ability to generate cash flow from its operations. While the non-cash working capital position is monitored by management, it is excluded in the after-tax operating cash flow calculation due to the high variability of the working capital components attributable to the high seasonality and the high rate of growth of the Corporation’s operations.

The following is a reconciliation of net earnings to after-tax operating cash flow.

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2008</b>	<b>July 31 2007</b>	<b>July 31 2008</b>	<b>July 31 2007</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net earnings	\$ 8,869	\$ 10,057	\$ 6,169	\$ 6,476
Future income tax expense (recovery)	688	1,029	35	(766)
Stock-based compensation	225	415	629	1,052
Amortization of buildings and equipment and intangible assets	3,215	1,432	6,332	3,760
Amortization of rotatable and overhauled component:	1,977	1,055	3,162	1,390
Amortization of discount of long-term debt	312	124	633	244
Non-controlling interest	216	147	253	142
<b>After-tax cash flow</b>	<b>\$ 15,502</b>	<b>\$ 14,259</b>	<b>\$ 17,213</b>	<b>\$ 12,298</b>
<b>After-tax cash flow per share</b>	<b>\$ 0.11</b>	<b>\$ 0.13</b>	<b>\$ 0.13</b>	<b>\$ 0.11</b>

## SEGMENTED INFORMATION

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the market in which the Corporation's aviation and related services operate. The Northern Services segment is represented by GSHL, ATL and DMS and the Government Services segment is represented by TAI and H&L. The Northern Services segment's primary market is Northern Canada. This segment has a wide customer base servicing companies in the business of mineral, base and precious metal exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys exploration and tourism. The Government Services segment provides niche services primarily aimed at government entities.

All other activities that are not allocated to these two business segments are reported under Corporate Support.

(thousands of dollars)	<i>for the three months ended July 31 2008</i>				<i>for the three months ended July 31 2007</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
<b>Revenue</b>	\$ 44,572	\$ 14,478	\$ -	\$ 59,050	\$ 40,093	\$ 4,136	\$ 29	\$ 44,258
Operating expenses	29,528	8,346	1,555	39,429	22,195	2,022	1,313	25,530
Amortization	2,188	1,008	18	3,214	1,231	188	13	1,432
Earnings (loss) from operations								
before undernoted items	12,856	5,124	(1,573)	16,407	16,667	1,926	(1,297)	17,296
Financing costs				3,186				2,127
Income taxes				4,136				4,965
Minority interest				216				147
<b>Net earnings</b>				<b>8,869</b>				<b>10,057</b>
<b>Total assets</b>	\$ 302,405	\$ 106,315	\$ 559	\$ 409,279	\$ 286,243	\$ 15,489	\$ 588	\$ 302,320
<b>Goodwill</b>	\$ 120,497	\$ 38,946	\$ -	\$ 159,443	\$ 113,512	\$ 1,085	\$ -	\$ 114,597
<b>Intangible assets</b>	\$ 25,297	\$ 16,996	\$ -	\$ 42,293	\$ 25,624	\$ 123	\$ -	\$ 25,747
<b>Capital expenditures</b>	\$ 4,107	\$ 1,927	\$ 28	\$ 6,062	\$ 5,428	\$ 120	\$ 27	\$ 5,575

(thousands of dollars)	<i>for the six months ended July 31 2008</i>				<i>for the six months ended July 31 2007</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
<b>Revenue</b>	\$ 65,113	\$ 24,684	\$ 7	\$ 89,804	\$ 56,044	\$ 4,466	\$ 92	\$ 60,602
Operating expenses	49,936	14,915	3,017	67,868	36,953	2,940	2,786	42,679
Amortization	4,274	2,023	34	6,331	3,445	302	13	3,760
Earnings (loss) from operations								
before undernoted items	10,903	7,746	(3,044)	15,605	15,646	1,224	(2,707)	14,163
Financing costs				6,211				4,046
Income taxes				2,972				3,499
Minority interest				253				142
<b>Net earnings</b>				<b>6,169</b>				<b>6,476</b>
<b>Total assets</b>	\$ 302,405	\$ 106,315	\$ 559	\$ 409,279	\$ 286,243	\$ 15,489	\$ 588	\$ 302,320
<b>Goodwill</b>	\$ 120,497	\$ 38,946	\$ -	\$ 159,443	\$ 113,512	\$ 1,085	\$ -	\$ 114,597
<b>Intangible assets</b>	\$ 25,297	\$ 16,996	\$ -	\$ 42,293	\$ 25,624	\$ 123	\$ -	\$ 25,747
<b>Capital expenditures</b>	\$ 12,200	\$ 3,745	\$ 44	\$ 15,989	\$ 16,402	\$ 372	\$ 44	\$ 16,818

## Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	<i>for the three months ended July 31, 2008</i>				<i>for the three months ended July 31, 2007</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 44,572	\$ 14,478	\$ -	\$ 59,050	\$ 40,093	\$ 4,136	\$ 29	\$ 44,258
Operating expenses	29,528	8,346	1,555	39,429	22,195	2,022	1,313	25,530
<b>EBITDA</b>	<b>\$ 15,044</b>	<b>\$ 6,132</b>	<b>\$ (1,555)</b>	<b>\$ 19,621</b>	<b>\$ 17,898</b>	<b>\$ 2,114</b>	<b>\$ (1,284)</b>	<b>\$ 18,728</b>
Aircraft lease expenses	4,476	325	-	4,801	4,543	-	-	4,543
<b>EBITDAR</b>	<b>\$ 19,520</b>	<b>\$ 6,457</b>	<b>\$ (1,555)</b>	<b>\$ 24,422</b>	<b>\$ 22,441</b>	<b>\$ 2,114</b>	<b>\$ (1,284)</b>	<b>\$ 23,271</b>

(thousands of dollars)	<i>for the six months ended July 31, 2008</i>				<i>for the six months ended July 31, 2007</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 65,113	\$ 24,684	\$ 7	\$ 89,804	\$ 56,044	\$ 4,466	\$ 92	\$ 60,602
Operating expenses	49,936	14,915	3,017	67,868	36,953	2,940	2,786	42,679
<b>EBITDA</b>	<b>\$ 15,177</b>	<b>\$ 9,769</b>	<b>\$ (3,010)</b>	<b>\$ 21,936</b>	<b>\$ 19,091</b>	<b>\$ 1,526</b>	<b>\$ (2,694)</b>	<b>\$ 17,923</b>
Aircraft lease expenses	6,568	575	-	7,143	6,430	-	-	6,430
<b>EBITDAR</b>	<b>\$ 21,745</b>	<b>\$ 10,344</b>	<b>\$ (3,010)</b>	<b>\$ 29,079</b>	<b>\$ 25,521</b>	<b>\$ 1,526</b>	<b>\$ (2,694)</b>	<b>\$ 24,353</b>

## SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except per share amounts)	2009		2008				2007*	2006
	Q2	Q1	Q4	Q3	Q2	Q1	Q1	Q4
<b>Results of operations:</b>								
Total revenue	\$ 59,050	\$ 30,754	\$ 20,154	\$ 42,789	\$ 44,258	\$ 16,344	\$ 7,342	\$ 23,150
Operating expenses	39,429	28,439	24,338	28,077	25,530	17,149	12,640	14,389
EBITDA	19,621	2,315	(4,184)	14,712	18,728	(805)	(5,298)	8,761
Amortization	3,214	3,117	3,047	2,590	1,432	2,328	1,510	1,326
Financing costs	3,186	3,025	3,473	2,771	2,127	1,919	1,366	929
Earnings (loss) before income taxes and non-controlling interest	13,221	(3,827)	(10,704)	9,351	15,169	(5,052)	(8,174)	6,506
Income tax provision (recovery)	4,136	(1,164)	(5,849)	3,327	4,965	(1,466)	(3,616)	2,041
Non-controlling interest	216	37	24	122	147	(5)	(47)	200
Net earnings (loss)	<u>\$ 8,869</u>	<u>\$ (2,700)</u>	<u>\$ (4,879)</u>	<u>\$ 5,902</u>	<u>\$ 10,057</u>	<u>\$ (3,581)</u>	<u>\$ (4,511)</u>	<u>\$ 4,265</u>
Earnings (loss) per share								
-basic	\$ 0.07	\$ (0.02)	\$ (0.04)	\$ 0.05	\$ 0.09	\$ (0.03)	\$ (0.05)	\$ 0.05
-diluted	\$ 0.07	\$ (0.02)	\$ (0.04)	\$ 0.05	\$ 0.09	\$ (0.03)	\$ (0.05)	\$ 0.05

\* The Corporation changed its year end from October 31 to January 31

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

## ***SUBSEQUENT EVENT***

On September 12, 2008, the Corporation announced that its Board of Directors had terminated David Taylor as the President and Chief Executive Officer of the Corporation and that Mr. Taylor and Ian McLean resigned from the Board of Directors at the same time. David Jennings, a co-Chief Executive Officer of Top Aces Inc., has been appointed the Interim President and Chief Executive Officer of the Corporation.

## ***OUTLOOK FOR FISCAL 2009***

In the Management's Discussion and Analysis for the year ended January 31, 2008, the Corporation felt it prudent to provide guidance for the year ended January 31, 2009 as this period would represent the first full twelve months of continuous operating results for the Corporation and all of its current subsidiaries. This guidance was based on the outlook and underlying assumptions for the operating performance of its subsidiaries at that time and for other expenses estimated by the Corporation and assuming normalized weather and operating conditions. As outlined in earlier sections of this report, circumstances have changed over the first six months and particularly the last quarter, requiring the Corporation to withdraw its previous guidance. Under the current circumstances, the Corporation will not be providing guidance on its expected performance for the balance of the current fiscal year.

## ***RISK FACTORS***

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Details are provided in the "Risk Factors" section of the Corporation's Annual Information Form dated April 25, 2008, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## ***DISCLOSURE CONTROLS AND INTERNAL CONTROLS***

The Corporation's Interim Chief Executive Officer and Chief Financial Officer have assessed the effectiveness of the disclosure procedures and controls used for the consolidated financial statements and Management's Discussion and Analysis as at July 31, 2008. Their assessment led them to conclude that these disclosure procedures and controls are adequate and effective to ensure that material information relating to the Corporation and its subsidiaries would have been known to them.

The Interim Chief Executive Officer and the Chief Financial Officer are responsible for designing internal control over financial reporting (ICFR), or causing them to be designed under their supervision to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The Corporation's Interim Chief Executive Officer and Chief Financial Officer have evaluated the design of the Corporation's ICFR as at July 31, 2008 and believe the design to be sufficient to provide such reasonable assurance. There were no other changes in the Corporation's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

## ***FORWARD-LOOKING STATEMENTS***

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

The foregoing list of important factors is not exhaustive. When relying on forward-looking statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. There is no undertaking to update any forward-looking statement that is contained in this management's discussion and analysis or made from time to time by the Corporation.

Additional information relating to the Corporation, including the Corporation's Annual Information Form can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

**Dated: September 12, 2008**