



**Interim Financial Statements
July 31, 2008
(unaudited)**

DISCOVERY AIR INC.
Interim Consolidated Balance Sheets
(thousands of dollars)

	July 31	January 31
	2008	2008
	(unaudited)	(audited)
Assets		
Current assets:		
Cash	\$ -	\$ 3,756
Accounts receivable	41,247	15,212
Inventory	16,685	14,731
Prepaid expenses and other	4,902	3,323
	<u>62,834</u>	<u>37,022</u>
Land, buildings and equipment	144,709	135,906
Intangible assets	42,293	44,528
Goodwill	159,443	159,443
	<u>\$ 409,279</u>	<u>\$ 376,899</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	\$ 1,817	\$ -
Operating line of credit, secured (note 3)	5,255	-
Accounts payable and accrued liabilities	17,777	10,094
Income taxes payable (note 9)	3,018	531
Current portion of long-term debt (note 11)	40,642	10,168
	<u>68,509</u>	<u>20,793</u>
Long-term debt (note 4)	101,479	123,901
Future income taxes	28,704	28,669
Non-controlling interest	1,922	1,669
Shareholders' equity		
Share capital (note 5)	184,535	184,968
Contributed surplus	6,751	5,689
Retained earnings	17,379	11,210
	<u>208,665</u>	<u>201,867</u>
	<u>\$ 409,279</u>	<u>\$ 376,899</u>
Commitments (note 12)		

See accompanying notes to interim consolidated financial statements.

DISCOVERY AIR INC.

Interim Consolidated Statement of Earnings (thousands of dollars, except earnings per share)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 59,050	\$ 44,258	\$ 89,804	\$ 60,602
Operating expenses	39,429	25,530	67,868	42,679
	<u>19,621</u>	<u>18,728</u>	<u>21,936</u>	<u>17,923</u>
Financing charges	3,186	2,127	6,211	4,046
Amortization of buildings and equipment	2,098	929	4,097	2,754
Amortization of intangible assets	1,116	503	2,234	1,006
	<u>6,400</u>	<u>3,559</u>	<u>12,542</u>	<u>7,806</u>
Earnings before income taxes and non-controlling interest	13,221	15,169	9,394	10,117
Income tax expense (note 9)	4,136	4,965	2,972	3,499
Earnings before non-controlling interest	9,085	10,204	6,422	6,618
Non-controlling interest	216	147	253	142
Net earnings	\$ 8,869	\$ 10,057	\$ 6,169	\$ 6,476
Basic earnings per share (note 6)	\$ 0.07	\$ 0.09	\$ 0.05	\$ 0.06
Diluted earnings per share (note 6)	\$ 0.07	\$ 0.09	\$ 0.05	\$ 0.06

See accompanying notes to interim consolidated financial statements.

DISCOVERY AIR INC.

Interim Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Share capital (note 5)				
Common shares:				
Outstanding, beginning of period	\$ 184,968	\$ 151,399	\$ 184,968	\$ 151,137
Issued on exercise of options	-	15	-	15
Issued on exercise of warrants	-	-	-	262
Expiry of warrants	(433)	-	(433)	-
Outstanding, end of period	<u>\$ 184,535</u>	<u>\$ 151,414</u>	<u>\$ 184,535</u>	<u>\$ 151,414</u>
Contributed surplus				
Balance, beginning of period	\$ 6,093	\$ 1,859	\$ 5,689	\$ 1,222
Fair value of options granted	225	415	629	1,052
Options exercised	-	(5)	-	(5)
Expiry of warrants	433	-	433	-
Balance, end of period	<u>\$ 6,751</u>	<u>\$ 2,269</u>	<u>\$ 6,751</u>	<u>\$ 2,269</u>
Total share capital and contributed surplus	<u><u>\$ 191,286</u></u>	<u><u>\$ 153,683</u></u>	<u><u>\$ 191,286</u></u>	<u><u>\$ 153,683</u></u>
Retained earnings				
Retained earnings, beginning of period	\$ 8,510	\$ 130	\$ 11,210	\$ 3,711
Net earnings	8,869	10,057	6,169	6,476
Retained earnings, end of period	<u><u>\$ 17,379</u></u>	<u><u>\$ 10,187</u></u>	<u><u>\$ 17,379</u></u>	<u><u>\$ 10,187</u></u>

See accompanying notes to interim consolidated financial statements.

DISCOVERY AIR INC.

Interim Consolidated Statements of Cash Flow (thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net earnings	\$ 8,869	\$ 10,057	\$ 6,169	\$ 6,476
Items not involving cash:				
Future income tax expense (recovery)	688	1,029	35	(766)
Stock-based compensation	225	415	629	1,052
Amortization of buildings & equipment and intangible assets	3,215	1,432	6,332	3,760
Amortization of rotatable and overhauled components	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
Change in non-cash operating working capital (note 7)	(8,956)	(14,649)	(20,277)	(17,065)
	<u>6,546</u>	<u>(390)</u>	<u>(3,064)</u>	<u>(4,767)</u>
Investing:				
Land, buildings and equipment	(6,062)	(5,575)	(15,989)	(16,818)
Proceeds on disposal of asset, net	680	-	815	-
Acquisition of subsidiary operations	-	(21)	-	(5,279)
	<u>(5,382)</u>	<u>(5,596)</u>	<u>(15,174)</u>	<u>(22,097)</u>
Financing:				
Net proceeds from operating line of credit	(2,288)	1,189	5,255	1,189
Proceeds from long-term debt	771	3,415	10,743	15,608
Financing costs	(60)	-	(69)	-
Repayment of long-term debt	(1,699)	(3,203)	(3,264)	(5,129)
Net proceeds from issue of common shares	-	10	-	272
	<u>(3,276)</u>	<u>1,411</u>	<u>12,665</u>	<u>11,940</u>
Increase (decrease) in cash	(2,112)	(4,575)	(5,573)	(14,924)
Cash, beginning of period	295	7,285	3,756	17,634
Cash (bank indebtedness), end of period	<u>\$ (1,817)</u>	<u>\$ 2,710</u>	<u>\$ (1,817)</u>	<u>\$ 2,710</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 3,362	\$ 2,689	\$ 5,225	\$ 3,794
Income taxes paid during the period	\$ 424	\$ 2,435	\$ 450	\$ 3,807

See accompanying notes to interim consolidated financial statements.

DISCOVERY AIR INC.

Notes to the interim consolidated financial statements (unaudited) For the six months ended July 31, 2008

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*. Its primary business activities are carried out by its wholly-owned subsidiaries Great Slave Helicopters Ltd. ("GSHL"), Air Tindi Ltd. ("ATL"), Top Aces Inc. ("TAI"), Hicks & Lawrence Limited ("H&L") and Discovery Mining Services Ltd. ("DMS").

The business of the Corporation follows a seasonal pattern with the lowest revenues occurring from November to April. Therefore the Corporation's results for the most recent quarter and its comparative period are not necessarily indicative of the results that may be expected for a full year. In addition, repair and maintenance on aircraft are not incurred evenly throughout the year and the timing of such expenses within a year may vary from one year to another.

GSHL is a helicopter company that, in partnership with Aboriginal groups, operates a fleet of over 70 helicopters and provides services throughout Northern Canada and several of the Canadian provinces 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. GSHL's principal operations are carried out in Yellowknife, Northwest Territories and Calgary, Alberta. It 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.

ATL operates a diversified fleet of 25 fixed wing aircraft offering scheduled and chartered passenger and cargo services, as well as air ambulance services, in Northern Canada. It has a diversified customer base that includes major diamond and mineral exploration and mining companies and the Governments of Canada and the Northwest Territories.

TAI is an approved supplier of airborne training services to the Department of National Defence. TAI provides a variety of military training ranging from simulated combat to target tow with a fleet of 12 aircraft located throughout Canada.

H&L is an Ontario-based aviation company that operates 30 aircraft focused on providing air services to niche markets in the Province of Ontario. H&L provides aerial forest fire services to the Province of Ontario with its fleet of 26 aircraft and flight operation and aircraft maintenance bases throughout Northern Ontario. H&L also provides air charter services using 4 turbine aircraft to the provincial government and various other corporate entities which conduct business in Northern Ontario.

DMS is a provider of remote exploration camps, expediting, logistics and staking to diamond and mineral exploration companies. Based in Northwest Territories, DMS conducts operations in the Northwest Territories, Nunavut, Northern Alberta and Northern Saskatchewan.

1. Accounting Policies

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures in these interim financial statements do not meet all disclosure requirements of GAAP for annual financial statements and should be read in conjunction with the Corporation's most recent audited annual consolidated financial statements for the year ended January 31, 2008.

These interim financial statements follow the same accounting policies as the most recent annual consolidated financial statements except for the following changes in accounting policies:

(a) 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. The new disclosure requirements are presented in note 11.

(b) 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.

(c) 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. The new disclosure requirements are presented in note 10.

2. Future changes in accounting policy:

(a) 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.

(b) 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.

3. Operating lines of credit:

The Corporation has secured demand operating loans to finance working capital requirements. These arrangements can be summarized as follows:

- (a) The Corporation has a 364-day committed revolving banking facility which consists of an operating line of credit to a maximum of \$15 million with an option to increase the maximum 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. and its wholly owned subsidiaries except TAI (see note 4(b)). The security structure provides a first charge over accounts receivable and inventory for these entities as well as a second floating charge over all other assets subject to specific permitted encumbrances. As at July 31, 2008, \$5.3 million has been drawn under this banking facility.
- (b) 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. As at July 31, 2008, there were no amounts outstanding under this banking facility.

4. Secured debt arrangements:

The scheduled principal repayment of the long-term debt over the next five years and thereafter is presented in note 11.

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, \$8.4 million was outstanding under this banking facility. Financing costs of \$190,000 were incurred in obtaining the loan and will be expensed over the term of the loan on an effective interest basis.

In January 2008, the Corporation entered into a \$75.0 million five year revolving long-term debt agreement to finance certain of its fleet assets. 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. 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 debt currently requires only the repayment of interest. 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 debt would be terminated. The loan is secured by a general security agreement over the assets of Discovery Air Inc., GSHL and its wholly-owned subsidiaries, ATL and H&L. The security structure provides a first charge over the aircraft owned by these subsidiaries and a secondary floating charge over all their other assets, except real estate, subject to permitted encumbrances. Financing costs of \$1.2 million, included in long-term debt, represent the unamortized cost of obtaining the term loan and will be expensed over the term of the loan on an effective interest basis.

In August 2007, the Corporation entered into a \$33.0 million term loan agreement with a syndicate of lenders to finance a portion of the TAI business combination. The term loan has an effective interest rate of 11.07% per annum and the principal balance is due on February 1, 2009 and as a result is reflected in current liabilities in the current quarter. The Corporation is in discussion with several parties regarding the refinancing of this debt. The term loan is secured by the shares of TAI and a second charge over all of TAI's fixed assets. As part of the term loan agreement the Corporation issued 1,178,568 warrants to the syndicate with a subscription price of \$2.00 per share, which expired on July 31, 2008. The warrants were initially recorded at a value of \$433,000.

5. Share capital and stock-based compensation:

(a) Authorized and outstanding:

The Corporation is authorized to issue an unlimited number of Class A common voting shares and an unlimited number of Class B common variable voting shares. As at July 31, 2008, there were 134,461,555 Class A common voting shares issued and outstanding and 742,604 Class B common variable voting shares issued and outstanding.

(b) Warrants:

At July 31, 2008, there were no common share purchase warrants issued and outstanding.

(c) Stock-based compensation:

For the six months ended July 31, 2008, 406,350 (2008 - 2,736,234) stock options with a weighted-average exercise price of \$1.13 (2008 - \$1.69) were granted. Salary expense of \$629,000 (2008-\$1,052,000) has been recognized in the quarter by the Corporation relating to the vested portion of the estimated fair value of the 7,519,550 options that have been granted in total. The fair value of options granted was estimated using the Black-Scholes option pricing model based on the following assumptions: (i) weighted-average risk-free interest rate of 3.16%, (ii) expected option life of 4.5 years, (iii) expected volatility of 50%, and (iv) expected forfeiture rate of 5%. The weighted-average fair value of options granted was estimated at \$0.50 per share.

(d) 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.

6. Per share amounts

(thousands except per share amounts)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
Basic earnings per share				
Net earnings	\$ 8,869	\$ 10,057	\$ 6,169	\$ 6,476
Average number of common shares outstanding	135,204	110,902	135,204	109,535
Basic earnings per share	\$ 0.07	\$ 0.09	\$ 0.05	\$ 0.06
Diluted earnings per share				
Net earnings	\$ 8,869	\$ 10,057	\$ 6,169	\$ 6,476
Average number of common shares outstanding	135,204	110,902	135,204	109,535
Dilutive effects of stock options	1,214	1,620	1,321	625
Average number of common shares outstanding assuming dilution	136,418	112,522	136,525	110,160
Diluted earnings per share	\$ 0.07	\$ 0.09	\$ 0.05	\$ 0.06

As at July 31, 2008, 4.9 million employee stock options as well as the conversion feature on the convertible debentures were anti-dilutive.

7. Change in non-cash operating working capital

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
Accounts receivable	\$ (16,421)	\$ (16,892)	\$ (26,035)	\$ (20,423)
Inventory	(761)	(484)	(1,954)	(61)
Prepaid expenses and other	1,471	286	(2,458)	(50)
Accounts payable and accrued liabilities	3,737	821	7,683	2,844
Income taxes payable	3,018	1,620	2,487	625
	\$ (8,956)	\$ (14,649)	\$ (20,277)	\$ (17,065)

8. 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.

9. Income taxes:

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	July 31 2008	July 31 2007	July 31 2008	July 31 2007
Tax provision at basic rate of 31% (2008-34%)	\$ 4,099	\$ 5,150	\$ 2,912	\$ 3,438
Changes resulting from:				
Permanent differences	37	167	60	413
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	-	(352)	-	(352)
Income tax recovery	\$ 4,136	\$ 4,965	\$ 2,972	\$ 3,499

Permanent differences relate primarily to adjustment for the non-deductible stock-based compensation expense.

10. Capital disclosures:

The Corporation's objective in managing its capital is to maintain a strong capital base to ensure investor, creditor and market confidence and to sustain continued growth and value of the Corporation. The Corporation seeks to achieve continued growth and value through acquisition and by growing its existing operations. Capital is managed in accordance with policies and financial plans that are approved and regularly reviewed by senior management and the Board of Directors and take into account forecasted capital needs, actual performance and market conditions. The overall objectives for managing capital remained unchanged in the second quarter of fiscal 2009 from the comparative prior year period. In the management of capital, the Corporation considers its capital structure to consist of long-term debt and shareholders' equity.

The Corporation monitors its capital adequacy on a number of bases, which include monitoring the ratio of long-term debt to equity.

(thousands of dollars)	July 31 2008	January 31 2008
Long-term debt (including current portion)	\$ 142,121	\$ 134,069
Shareholders' Equity	\$ 208,665	\$ 201,867
Long-term debt to equity	0.68	0.66

11. Financial instruments - Disclosure and Presentation:

The Corporation is exposed, in varying degrees, to a variety of financial instrument related risks.

Financial instruments

The Corporation's financial assets and liabilities are classified into the following categories:

Cash	Assets held for trading
Accounts receivable	Loans and receivables
Bank indebtedness	Other financial liabilities
Operating line of credit	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Carrying values for assets and liabilities classified as held for trading, loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value as such instruments are carried at fair value due to their short-term nature. The fair value of long-term debt as at July 31, 2008 was \$140.2 million as compared to \$142.1 million in carrying value.

The fair value of the Corporation's fixed long-term debt, excluding the convertible debentures, was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair value of the convertible debentures was based on the closing trade price on the Toronto Stock Exchange, as at July 31, 2008. The fair value of the Corporation's variable rate long-term debt approximates its carrying value as it is at a floating market rate of interest.

Risk management overview

The Corporation is exposed to a number of different financial risks arising from normal business exposures as well as its use of financial instruments which include market, credit and liquidity risks. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk which includes financial risk, among others. Management and the Board of Directors, both separately and together, discuss the principal business risks to which the Corporation is exposed. The Board of Directors sets policies for the implementation of systems to manage, monitor and mitigate identifiable risks. Risk management strategies, policies and limits are designed to provide reasonable assurance that the risk exposures are managed within the Corporation's business objectives and risk tolerance. The Corporation's risk management objective is to optimize the balance between maximizing return for its shareholders and protecting and minimizing volatility in cash flow.

The risks associated with the Corporation's financial instruments and the way in which such risks are managed are provided as follows:

Market risk

Market risk is the risk of loss that results from changes in market factors such as foreign currency exchange rates and interest rates. The level of market risk to which the Corporation is exposed at any point in time varies depending on market conditions, market rate movements and the composition of the Corporation's financial assets and liabilities held, non-trading physical assets and contract portfolios. The Corporation's management is responsible for determining the acceptable level of risk and will utilize hedging instruments to the extent it believes it is prudent to manage existing or anticipated risks, commitments, or obligations based on its past experiences and expectations for the future.

The Corporation's exposure to market risks is constantly changing in relation to the changes in the above mentioned market risk variables. As a result, the changes in fair value or cash flows based on the market variable fluctuations cannot be extrapolated as the relationship between the change in the market variable and the change in fair value or cash flow may not be linear.

i) Foreign exchange risk

The Corporation is exposed to foreign currency exchange risk arising from fluctuations in exchange rates on its U.S. dollar and Euro denominated purchases of aircraft inventory parts, financing of aircraft, and periodic purchase of aircraft.

As at July 31, 2008, the Corporation held net unhedged liabilities, of US \$953,000 and EUR 571,000. As at July 31, 2008, a 5% rise or fall in the Canadian dollar against the U.S. dollar and Euro, with all other variables unchanged, would have resulted in net increase or decrease of \$63,000 to the Corporation's earnings for the six-month period ended July 31, 2008.

Aircraft are valued and traded in U.S. dollars. Under the terms and conditions of the Corporation's revolving long-term debt agreement to finance certain fleet assets, the borrowing base is recalculated in January of each year based on an appraisal of the aircraft that are included in the borrowing base. The borrowing base as at July 31, 2008, was \$61.2 million based on the U.S./Canadian exchange rates in effect at the time of funding. The Corporation's borrowing base as at July 31, 2008 exceeds the amount available and drawn under the loan agreement by \$7.2 million. A 5% rise or fall in the Canadian dollar against the U.S. dollar, with all other variables unchanged, would result in an increase or decrease in the eligible borrowing base of \$2.9 million.

The Corporation's \$11.6 million commitment to purchase aircraft and related inventory (note 12) includes foreign currency amounts of US \$7.1 million and EUR 982,000. Approximately U.S. \$4.5 million in commitments are scheduled to be purchased in the current fiscal year and U.S. \$2.6 million in commitments are scheduled to be purchased in fiscal 2010. All Euro based commitments are scheduled to be purchased in the current fiscal year. These forward commitments have not been hedged by the Corporation.

ii) Interest rate risk

The Corporation's cash flow and net earnings are exposed to interest rate fluctuations due to its variable interest rate long term instruments.

As at July 31, 2008, a 25 basis point decrease or increase in interest rates, with all other variables unchanged, would have resulted in an increase or decrease of \$101,000 to the Corporation's earnings for the six-month period ended July 31, 2008.

Credit risk

The Corporation is exposed to credit risk from a diverse range of customers, including mining, oil & gas, government and the general public, related to charters and tourism activities. The Corporation performs on-going credit evaluations of new and existing customers and provisions are set up for potential credit losses.

As at July 31, 2008, 42% of the Corporation's total accounts receivable balance was due from government entities. The Corporation considers the credit risk from government entities to be extremely low. The remaining accounts receivable are distributed throughout a large base of customers with no high concentration with a particular customer. This distribution, combined with management's diligence to monitor the credit quality of the customers, mitigates credit risk.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to satisfactorily meet its financial obligations as they fall due or will not be in a position to refinance maturing obligations at a reasonable price or credit structure. The Corporation's management is responsible for ensuring that there is sufficient capital in order to meet the short-term business requirements, after taking into account cash flows from operations and the Corporation's cash position. The Corporation's liquidity is monitored regularly by management and the Board of Directors, factoring in the seasonal cycle of the Corporation's operations, by preparing short-term and long-term cash flow forecasts and also matching the maturity profiles of financial assets and liabilities to identify financing requirements well in advance of their maturity.

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 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.

The expected repayment of financial liabilities is as follows:

(thousands of dollars)	Due within 1 year	Due between 1 & 2 years	Due between 2 & 3 years	Due between 3 & 4 years	Due between 4 & 5 years	Due after 5 years	Total
Bank indebtedness	\$ 1,817	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,817
Operating line of credit	5,255	-	-	-	-	-	5,255
Accounts payable and accrued liabilities	17,777	-	-	-	-	-	17,777
Operating leases	6,414	2,699	1,570	1,153	844	585	13,265
Long-term debt	40,642	5,035	3,702	27,972	53,097	11,673	142,121
Commitments (note 12)	8,976	2,654	-	-	-	-	11,630
	<u>\$ 80,881</u>	<u>\$ 10,388</u>	<u>\$ 5,272</u>	<u>\$ 29,125</u>	<u>\$ 53,941</u>	<u>\$ 12,258</u>	<u>\$ 191,865</u>

The Corporation has \$40.6 million in long-term debt that is scheduled to come due within one year of which \$33.0 million relates to the financing of TAI (see note 4). The Corporation is in discussion with several parties regarding the refinancing of this debt under reasonable credit terms.

12. Commitments:

The Corporation has annual lease obligations for aircraft and premises. Amounts due under these leases for each of the five succeeding years and thereafter is presented in note 11.

The Corporation is committed to purchase aircraft, related inventory and service contracts for an estimated purchase price of \$11.6 million. As presented in note 11, approximately \$9.0 million of the committed purchases are scheduled to be made in the current fiscal year with the remaining \$2.6 million in committed purchases to be made in the third quarter of fiscal 2010.

13. 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. For the comparative prior year period, the Northern Services segment includes only the operations of GSHL and ATL and the Government Services segment only includes the operation of H&L. The Northern Services segment's primary market is based on activities in Northern Canada. The 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.

The operations were previously segmented between Rotary Wing, which included GSHL, and Fixed Wing, which included ATL and H&L for the comparative prior year period. 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 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 segment better represents the commonalities of the operations within their respective segments.

	<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
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
Net earnings				8,869				10,057
Total assets	\$ 302,405	\$ 106,315	\$ 559	\$ 409,279	\$ 286,243	\$ 15,489	\$ 588	\$ 302,320
Goodwill	\$ 120,497	\$ 38,946	\$ -	\$ 159,443	\$ 113,512	\$ 1,085	\$ -	\$ 114,597
Intangible assets	\$ 25,297	\$ 16,996	\$ -	\$ 42,293	\$ 25,624	\$ 123	\$ -	\$ 25,747
Capital expenditures	\$ 4,107	\$ 1,927	\$ 28	\$ 6,062	\$ 5,428	\$ 120	\$ 27	\$ 5,575

	<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
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
Net earnings				6,169				6,476
Total assets	\$ 302,405	\$ 106,315	\$ 559	\$ 409,279	\$ 286,243	\$ 15,489	\$ 588	\$ 302,320
Goodwill	\$ 120,497	\$ 38,946	\$ -	\$ 159,443	\$ 113,512	\$ 1,085	\$ -	\$ 114,597
Intangible assets	\$ 25,297	\$ 16,996	\$ -	\$ 42,293	\$ 25,624	\$ 123	\$ -	\$ 25,747
Capital expenditures	\$ 12,200	\$ 3,745	\$ 44	\$ 15,989	\$ 16,402	\$ 372	\$ 44	\$ 16,818

14. Comparative figures:

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.