



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

Notice Regarding Incomplete Auditor Review of Interim Consolidated Financial Statements
Period ended October 31, 2008

The accompanying consolidated interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

In the current quarter, the Corporation's management determined that, due to the rapid deterioration in general business conditions in recent months and its impact on the Corporation's resource exploration revenue base, there was evidence indicative of a potential impairment in the carrying value of its goodwill. However, the Corporation has come to the conclusion that it is not possible to make a reasonable estimate of such impairment at this time.

The Corporation will complete its assessment of goodwill, together with its business and financial planning by the end of the fourth quarter. The Corporation has certain debt covenants and cross covenants that could be violated in the event of an impairment charge in excess of \$31.4 million.

The Corporation's independent auditor was engaged to conduct a review of the interim financial statements as at and for the three-month and nine-month periods ended October 31, 2008. As a result of the factors described above, the auditors were unable to complete their review because the Corporation was unable to complete its best estimate of goodwill impairment and conclude on the presentation of long-term debt as at October 31, 2008.

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

	October 31	January 31
	2008	2008
	(unaudited)	(audited)
Assets		
Current assets:		
Cash	\$ 4,221	\$ 3,756
Accounts receivable	28,526	15,212
Inventory	15,131	14,731
Prepaid expenses and other	4,964	3,323
	<u>52,842</u>	<u>37,022</u>
Land, buildings and equipment	151,221	135,906
Intangible assets	41,177	44,528
Goodwill (note 4)	159,443	159,443
	<u>\$ 404,683</u>	<u>\$ 376,899</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 13,768	\$ 10,094
Income taxes payable	3,595	531
Current portion of long-term debt (note 6)	40,719	10,168
	<u>58,082</u>	<u>20,793</u>
Long-term debt (note 6)	104,491	123,901
Future income taxes	28,678	28,669
Non-controlling interest	1,989	1,669
Shareholders' equity		
Share capital (note 7)	184,535	184,968
Contributed surplus	6,884	5,689
Retained earnings	20,024	11,210
	<u>211,443</u>	<u>201,867</u>
	<u>\$ 404,683</u>	<u>\$ 376,899</u>
Going concern (note 1)		
Commitments (note 14)		

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

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

	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	\$ 42,536	\$ 42,789	\$ 132,340	\$ 103,393
Operating expenses	32,042	28,077	99,910	70,757
	<u>10,494</u>	<u>14,712</u>	<u>32,430</u>	<u>32,636</u>
Financing charges	3,151	2,771	9,362	6,818
Amortization of buildings and equipment	2,192	1,730	6,289	4,484
Amortization of intangible assets	1,117	860	3,351	1,866
	<u>6,460</u>	<u>5,361</u>	<u>19,002</u>	<u>13,168</u>
Earnings before income taxes and non-controlling interest	4,034	9,351	13,428	19,468
Income tax expense (note 11)	1,322	3,327	4,294	6,826
Earnings before non-controlling interest	2,712	6,024	9,134	12,642
Non-controlling interest	67	122	320	264
	<u>67</u>	<u>122</u>	<u>320</u>	<u>264</u>
Net earnings	\$ 2,645	\$ 5,902	\$ 8,814	\$ 12,378
Basic earnings per share (note 8)	\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.11
Diluted earnings per share (note 8)	\$ 0.02	\$ 0.05	\$ 0.06	\$ 0.11

See accompanying notes to 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 nine months ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Share capital (note 7)				
Common shares:				
Outstanding, beginning of period	\$ 184,535	\$ 151,414	\$ 184,968	\$ 151,137
Issued on acquisition of subsidiary	-	30,563	-	30,563
Issued on exercise of options	-	-	-	15
Issued on exercise of warrants	-	-	-	262
Expiry of warrants	-	-	(433)	-
Outstanding, end of period	<u>\$ 184,535</u>	<u>\$ 181,977</u>	<u>\$ 184,535</u>	<u>\$ 181,977</u>
Contributed surplus				
Balance, beginning of period	\$ 6,751	\$ 2,269	\$ 5,689	\$ 1,222
Fair value of options granted	133	499	762	1,551
Fair value of warrants granted	-	433	-	433
Options exercised	-	-	-	(5)
Expiry of warrants	-	-	433	-
Balance, end of period	<u>\$ 6,884</u>	<u>\$ 3,201</u>	<u>\$ 6,884</u>	<u>\$ 3,201</u>
Total share capital and contributed surplus	<u>\$ 191,419</u>	<u>\$ 185,178</u>	<u>\$ 191,419</u>	<u>\$ 185,178</u>
Retained earnings				
Retained earnings, beginning of period	\$ 17,379	\$ 10,187	\$ 11,210	\$ 3,711
Net earnings	2,645	5,902	8,814	12,378
Retained earnings, end of period	<u>\$ 20,024</u>	<u>\$ 16,089</u>	<u>\$ 20,024</u>	<u>\$ 16,089</u>

See accompanying notes to 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 nine months ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in):				
Operations:				
Net earnings	\$ 2,645	\$ 5,902	\$ 8,814	\$ 12,378
Items not involving cash:				
Future income tax expense (recovery)	(26)	1,146	9	380
Stock-based compensation	133	499	762	1,552
Amortization of buildings & equipment and intangible assets	3,309	2,590	9,640	6,350
Amortization of rotatable and overhauled components	1,332	1,112	4,495	2,502
Amortization of discount of long-term debt	332	170	965	414
Non-controlling interest	67	122	320	264
Change in non-cash operating working capital (note 9)	10,781	7,372	(9,496)	(9,693)
	<u>18,573</u>	<u>18,913</u>	<u>15,509</u>	<u>14,147</u>
Investing:				
Land, buildings and equipment	(10,179)	(2,901)	(26,168)	(19,719)
Proceeds on disposal of asset, net	143	379	958	378
Acquisition of subsidiary operations	-	(35,555)	-	(40,834)
Cash acquired on acquisition of subsidiary operations	-	3,946	-	3,946
	<u>(10,036)</u>	<u>(34,131)</u>	<u>(25,210)</u>	<u>(56,229)</u>
Financing:				
Net repayments from operating line of credit	(5,255)	(1,189)	-	-
Proceeds from long-term debt	4,212	32,729	14,955	48,337
Financing costs	-	-	(69)	-
Repayment of long-term debt	(1,456)	(3,952)	(4,720)	(9,081)
Net proceeds from issue of common shares	-	-	-	272
	<u>(2,499)</u>	<u>27,588</u>	<u>10,166</u>	<u>39,528</u>
Increase (decrease) in cash	6,038	12,370	465	(2,554)
Cash (bank indebtedness), beginning of period	<u>(1,817)</u>	<u>2,710</u>	<u>3,756</u>	<u>17,634</u>
Cash, end of period	<u>\$ 4,221</u>	<u>\$ 15,080</u>	<u>\$ 4,221</u>	<u>\$ 15,080</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 2,040	\$ 1,724	\$ 7,365	\$ 5,518
Income taxes paid during the period	\$ 908	\$ 731	\$ 1,358	\$ 4,538

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Notes to the interim consolidated financial statements (unaudited) For the nine months ended October 31, 2008 and 2007

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. ("Great Slave"), Air Tindi Ltd. ("Air Tindi"), Top Aces Inc. ("Top Aces"), Hicks & Lawrence Limited ("Hicks") and Discovery Mining Services Ltd. ("Discovery Mining").

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.

The Corporation's business is divided into two segments: the Northern Services segment, which consists of Great Slave, Air Tindi and Discovery Mining; and the Government Services segment, consisting of Top Aces and Hicks.

Great Slave is a helicopter company that, on its own and in partnership with northern Aboriginal groups, operates a fleet of 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. Great Slave'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.

Air Tindi 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.

Top Aces is an approved supplier of airborne training services to the Department of National Defence. Top Aces provides a variety of military training ranging from simulated combat to target tow with a fleet of 14 aircraft in operation located throughout Canada.

Hicks is an Ontario-based aviation company that operates 30 aircraft focused on providing air services to niche markets in the Province of Ontario. Hicks 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. Hicks also provides air charter services using 4 turbine aircraft to the provincial government and various other corporate entities which conduct business in Northern Ontario.

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

1. Going concern

The Corporation has a \$33.0 million term loan which matures on February 1, 2009 and as a result is reflected in its entirety in current liabilities. The Corporation has engaged an independent financial advisor and has been in discussion with several parties regarding the refinancing of this debt. These discussions continue. As well, the Corporation has a \$7.5 million operating line of credit that matures on January 17, 2009. The renewal of the operating line of credit is at the option of the lender, which is not assured, and is highly dependent upon a successful refinancing or extension of the maturing term loan. While the Corporation is taking all available steps, there can be no assurance that this will result in a successful refinancing or extension of the maturing term loan or the operating line of credit before their maturity date. Although no current event of default or covenant violation exists, events relating to accounting judgment as to the assessment of possible goodwill impairment and the refinancing or extension of maturing credit facilities could entitle the Corporation's lenders to place the Corporation in a situation where it is not able to operate as a going concern. Further detail on the terms and conditions of the term loan agreement and operating line of credit is provided in note 6 and note

5(a) respectively. There are cross-default provisions contained in the Corporation's various lending agreements. The Corporation has prepared its statements in accordance with Canadian generally accepted accounting polices that are applicable to a going concern although there are material uncertainties related to the refinancing risks outlined above that may cast significant doubt on the Corporation's ability to continue as a going concern. The financial statements do not reflect any adjustments, which could be material, in the carrying value of the assets and liabilities, the classification of assets and liabilities between current and long term, and the reported revenues and expenses that would be required should the Corporation not be able to refinance or extend the term loan and/or the operating line of credit.

2. 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 13.

(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 12.

3. 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 (see paragraph (b) below). 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.

4. Goodwill:

The Corporation tests goodwill for impairment on an annual basis during the second quarter of each year, and at any other time when circumstances or events have occurred that would more likely than not reduce the long term fair value below the carrying value of its reporting units. The goodwill impairment test is a two-step process. In the first step, the Corporation compares the fair value of its reporting units to their carrying value, which includes the goodwill allocated to each reporting unit. As the Corporation's business units are not publicly listed, fair value is determined by using a revenue, earnings and discounted cash flow analysis. If the carrying value of the reporting unit exceeds its fair value then step two requires the fair value of the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit which results in a revised fair value of goodwill. If the carrying value of the reporting unit's goodwill exceeds the revised fair value of that goodwill, an impairment loss equal to the excess is recorded on the consolidated balance sheet and recognized as a non-cash impairment charge in net earnings. The assessment of goodwill impairment is not a mechanical exercise and requires the use of considerable management judgment. Changes in expected financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting units or the amount of the goodwill impairment charged.

In determining the fair value of the reporting units, management makes assumptions and estimates on three key variables: expected future cash flows, discount rate and terminal value. Future cash flow takes into account, among other variables, current and future contracts with clients, margins and market conditions. Discount rates used in the fair value assessment reflect the most probable debt equity ratio in an acquisition scenario. The terminal value is the value attributed to the reporting unit's operations beyond the five year projected cash flow using a perpetuity growth rate which is based on industry trend and growth prospects.

Assessing these variables in today's rapidly deteriorating and increasingly uncertain environment is a complex exercise that requires amongst other things an estimate as to the extent and timing of an economic recovery in principal markets of the Corporation's customers (primarily the resource sector). It also requires an assessment of operational and financial capacity at both the business unit level and for the Corporation as a whole and a determination as to whether recent economic events will be temporary in nature, or whether they will have a negative long term impact on the fair value of the operating units. As well, and as outlined in note 1 to these financials statements, the Corporation's ability to generate future cash flow is highly dependent upon its ability to deal with the current refinancing risk it faces. The Corporation believes it needs another quarter of experience to determine whether and to what extent current trends are likely to continue.

In the current quarter, the Corporation's management determined that, due to the rapid deterioration in general business conditions in recent months and its impact on the Corporation's resource exploration revenue base, there was evidence indicative of a potential impairment in the carrying value of its goodwill. However, the Corporation has come to a conclusion that it is not possible to make a reasonable estimate of such impairment at this time. Further data and consensus around the medium and longer term impact of recent commodity and security price changes, and the resolution of the financing issue described in note 1 above need to be incorporated into the Corporation's annual business and financial planning process to ensure a comprehensive assessment is made.

The Corporation will complete its assessment of goodwill, together with its business and financial planning by the end of the fourth quarter and record the potential loss (if any) related to goodwill impairment at that time. Any loss on goodwill impairment would be non-cash in nature and would not adversely affect the Corporation's liquidity or cash flow from operations, or necessarily have an impact on future operations of the reporting units. An impairment charge recorded in the fourth quarter could have an impact on certain debt covenant calculations and potentially cause a violation of financial covenants involving shareholders' equity depending on the amount of any loss recorded due to a goodwill impairment.

5. 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 \$7.5 million. The current credit facility expires on January 17, 2009 and can be extended at the option of the lender. The banking facility bears an interest rate of prime plus 2.50% and is secured by a general security agreement over the assets of Discovery Air Inc. and its wholly owned subsidiaries except Top Aces (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 October 31, 2008, there were no direct advances outstanding and \$2.0 million in letters of credit issued under this banking facility.
- (b) Top Aces has a banking facility which consists of an operating line of credit to a maximum of \$3.75 million, bearing interest at prime plus 0.50%. The banking facility is a demand facility with no fixed maturity and is extended at the option of the lender. 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 October 31, 2008, there were no amounts outstanding under this banking facility.

6. Secured debt arrangements:

The scheduled principal repayment of long-term debt over the next five years and thereafter is presented in note 13.

In February 2008 the Corporation entered into a \$21.5 million term loan agreement to refinance existing Top Aces 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 charge on all the assets of Top Aces, subject to a priority interest provided to an operating lender over Top Aces accounts receivable. As at October 31, 2008, \$11.9 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. It is unlikely that amounts will become available to the Corporation beyond the \$52.6 million that has been advanced by the lender. 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., Great Slave and its wholly-owned subsidiaries, Air Tindi and Hicks. 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 purchase price of Top Aces. The term loan has an effective interest rate of 11.07% per annum. The principal balance is due on February 1, 2009 and, as a result, is reflected in current liabilities in the current quarter. The term loan is secured by the shares of Top Aces and a second charge over all of Top Aces 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. The Corporation has engaged an independent financial advisor and has been in discussion with several parties regarding the refinancing of this debt. The Corporation recognizes that, in the event the term loan is not refinanced or extended before its maturity date, the Corporation could be placed in a situation by its lenders where it is not able to operate as a going concern (see Note 1).

7. 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 October 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 October 31, 2008, there were no common share purchase warrants issued and outstanding.

(c) Stock-based compensation:

For the nine months ended October 31, 2008, 431,350 (2008 – 2,989,400) stock options with a weighted-average exercise price of \$1.10 (2008 - \$1.68) were granted, nil (2008 – 20,000) stock options were exercised, 40,278 (2008 – 74,816) stock options were forfeited and 46,822 (2008 – 2,234) stock options expired. In the same period, salary expense of \$762,000 (2008-\$1,552,000) has been recognized by the Corporation relating to the vested portion of the estimated fair value of the options that have been granted in total. As at October 31, 2008, there were 7,457,450 common shares issuable under options. 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 3.14%, (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 since its inception.

8. Per share amounts

(thousands except per share amounts)	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
Basic earnings per share				
Net earnings	\$ 2,645	\$ 5,902	\$ 8,814	\$ 12,378
Average number of common shares outstanding	135,204	125,578	135,204	115,402
Basic earnings per share	\$ 0.02	\$ 0.05	\$ 0.07	\$ 0.11
Diluted earnings per share				
Net earnings	\$ 2,645	\$ 5,902	\$ 8,814	\$ 12,378
Average number of common shares outstanding	135,204	125,578	135,204	115,402
Dilutive effects of stock options	100	1,733	1,077	1,920
Average number of common shares outstanding assuming dilution	135,304	127,311	136,281	117,322
Diluted earnings per share	\$ 0.02	\$ 0.05	\$ 0.06	\$ 0.11

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

9. Change in non-cash operating working capital

(thousands of dollars)	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
Accounts receivable	\$ 12,721	\$ 7,127	\$ (13,314)	\$ (13,296)
Inventory	1,554	(898)	(400)	(959)
Prepaid expenses and other	(62)	(1,768)	(2,520)	(1,818)
Accounts payable and accrued liabilities	(4,009)	894	3,674	3,738
Income taxes payable	577	2,017	3,064	2,642
	\$ 10,781	\$ 7,372	\$ (9,496)	\$ (9,693)

10. Related party transactions:

At October 31, 2008, the Corporation had total indebtedness, including accrued interest, of \$18.6 million (2008-\$18.2 million), bearing interest rates ranging from prime to prime plus 1% per annum, owing primarily to officers and directors of the Corporation or its subsidiaries who were former owners of the subsidiaries. For the quarter and year-to-date the interest expense on this debt totaled \$259,000 (2008 - \$304,000) and \$790,000 (2008 - \$880,000) respectively.

11. Income taxes:

(thousands of dollars)	<i>for the three months ended</i>		<i>for the nine months ended</i>	
	October 31 2008	October 31 2007	October 31 2008	October 31 2007
Tax provision (recovery) at the basic rate of 31% (2008-34%)	\$ 1,251	\$ 3,129	\$ 4,163	\$ 6,567
Changes resulting from:				
Permanent differences	71	198	131	611
Adjustment to future income tax assets and liabilities for enacted changes in tax laws and rates	-	-	-	(352)
Income tax expense	\$ 1,322	\$ 3,327	\$ 4,294	\$ 6,826

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

12. Capital disclosures:

In the management of capital, the Corporation considers its capital structure to consist of long-term debt and shareholders' equity. 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 capital management objectives and strategies remain the same from the comparative prior year period and are being more closely monitored in light of the current economic and capital market environments, which have changed quickly and dramatically over the course of the last quarter.

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)	October 31 2008	January 31 2008
Long-term debt (including current portion)	\$ 145,210	\$ 134,069
Shareholders' Equity	\$ 211,443	\$ 201,867
Long-term debt to equity	0.69	0.66

13. 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 October 31, 2008 was \$133.7 million as compared to \$145.2 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 October 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 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 October 31, 2008, the Corporation held net unhedged liabilities, of US \$956,000 and EUR 705,000. As at October 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 \$72,000 to the Corporation's earnings for the nine-month period ended October 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 October 31, 2008, was \$61.0 million based on the U.S./Canadian exchange rates in effect at the time of funding, which was \$1.025 Canadian dollars for each US dollar. The Corporation's borrowing base as at October 31, 2008 exceeds the amount available and drawn under the loan agreement by \$7.1 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 \$3.0 million.

The Corporation's \$8.1 million commitment to purchase aircraft and related inventory (note 13) includes foreign currency amounts of USD \$3.5 million and EUR 711,000. Approximately USD \$2.0 million in commitments are scheduled to be purchased in the current fiscal year and USD \$1.5 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 October 31, 2008, a 25 basis point increase or decrease in interest rates, with all other variables unchanged, would have resulted in an increase or decrease of \$155,000 to the Corporation's earnings for the nine-month period ended October 31, 2008.

Credit risk

The Corporation is exposed to credit risk from a diverse range of customers, including mining, oil and gas companies, governments 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 October 31, 2008, 50% 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. In light of the rapid deterioration in economic conditions, and particularly restricted access to capital, management is placing higher importance on monitoring aged account balances. The diverse distribution of accounts receivable, combined with management's diligence to monitor the credit quality of its customers, serves as a mitigating factor for the credit risk that exists.

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.

In the current year the Corporation has experienced lower profitability than anticipated in certain of its operations due to unfavourable weather conditions and lower demand for certain services provided to customers in the exploration, mining and tourism markets. These unfavourable results have been partially offset by strong results in some of the Corporation's other lines of business. However, the Corporation recognizes that should the adverse factors noted continue without successful management intervention to address these factors, especially if the severity is unmatched by other strong conditions experienced by the Corporation's other businesses, it could lead to weaker future earnings and cash flow generated by operations, reducing the Corporation's available working capital and liquidity. There is increased earnings and liquidity exposure caused by rapidly deteriorating market conditions since certain operating costs are largely fixed in nature. The Corporation has \$33.0 million in term debt that matures in February 2009 and the credit markets continue to deteriorate, increasing the refinancing risk during the most recent quarter. The Corporation does not have a lender or lenders who have committed to refinance this maturing debt. In the event the term loan is not refinanced before its maturity date, the Corporation could be placed in a position by its lenders where it is no longer able to operate as a going concern (see note 1).

The Corporation has financial covenants that it is required by its lenders to meet 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. The Corporation's lenders agreed to an amendment to certain of the financial covenants during the current quarter. As at October 31, 2008, the Corporation was in compliance with these revised financial covenants in the absence of a goodwill impairment charge this quarter (see note 4).

The Corporation arranged an operating line of credit that is used to fund the operations of Great Slave, Air Tindi, Discovery Mining, Hicks and the Corporate Services segment (see note 5(a)). During the most recent quarter, the lender reduced the limit on this credit facility to \$7.5 million. This facility is scheduled for renewal by its lender in January 2009 and successful renewal at a similar or higher limit will be dependent upon the lender's willingness to extend suitable credit terms, which is highly dependent upon the Corporation's ability to refinance the \$33.0 million term debt that matures in February 2009. The Corporation requires an operating line of credit to finance the operations of these entities in their build-up to and during their period of peak operations. The line of credit that was arranged to fund the operations of Top Aces (see note 5(b)) was increased by its lender to \$3.75 million during the most recent quarter.

The Corporation is not aware of any other current balance sheet conditions, income items or cash flow items, other than those previously disclosed, that could materially impact liquidity.

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
Accounts payable and accrued liabilities	\$ 13,768	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,768
Operating leases	4,382	2,306	1,496	1,102	639	317	10,242
Long-term debt (note 1)	40,719	4,773	4,459	30,737	53,084	11,438	145,210
Commitments (note 14)	8,110	-	-	-	-	-	8,110
	<u>\$ 66,979</u>	<u>\$ 7,079</u>	<u>\$ 5,955</u>	<u>\$ 31,839</u>	<u>\$ 53,723</u>	<u>\$ 11,755</u>	<u>\$ 177,330</u>

The Corporation has \$40.7 million in long-term debt that is scheduled to come due within one year of which \$33.0 million relates to the financing of Top Aces (see note 6). While the Corporation is in discussion with several parties regarding the refinancing of this debt, the continuing deterioration of credit markets, especially over the last quarter, adds a level of uncertainty as to whether the Corporation will be in a position to refinance this debt at its maturity (see note 1).

14. Commitments:

The Corporation has annual lease obligations for aircraft and premises. Amounts due under these operating leases for each of the five succeeding years and thereafter is presented in the expected repayment schedule in note 13.

The Corporation is committed to purchase aircraft, related inventory and service contracts for an estimated purchase price of \$8.1 million. As presented in note 13, the committed purchases are scheduled to be made within one year of the current reporting period.

15. 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 Great Slave, Air Tindi and Discovery Mining and the Government Services segment is represented by Top Aces and Hicks. For the comparative prior year period, the Northern Services segment includes only the operations of Great Slave and Air Tindi and the Government Services segment includes only the operation of Hicks and the operations of Top Aces from the date of its acquisition on August 24, 2007. The Northern Services segment's primary market is based on activities in Northern Canada. The segment has a wide customer base servicing companies and government entities 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, seismic, air ambulance, scheduled charters 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 Corporation re-aligned the segment disclosure of its operations at the start of the current fiscal period 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.

(thousands of dollars)	<i>for the three months ended October 31, 2008</i>				<i>for the three months ended October 31, 2007</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 30,185	\$ 12,350	\$ 1	\$ 42,536	\$ 35,309	\$ 7,472	\$ 8	\$ 42,789
Operating expenses	23,832	6,993	1,217	32,042	21,306	5,425	1,346	28,077
Amortization	2,248	1,044	17	3,309	1,838	744	8	2,590
Earnings (loss) from operations								
before undernoted items	4,105	4,313	(1,233)	7,185	12,165	1,303	(1,346)	12,122
Financing costs				3,151				2,771
Income taxes				1,322				3,327
Minority interest				67				122
Net earnings				2,645				5,902
Total assets	\$ 285,167	\$ 113,531	\$ 5,985	\$ 404,683	\$ 288,342	\$ 98,595	\$ 2,586	\$ 389,523
Goodwill (note 4)	\$ 120,497	\$ 38,946	\$ -	\$ 159,443	\$ 114,228	\$ 39,095	\$ -	\$ 153,323
Intangible assets	\$ 24,760	\$ 16,417	\$ -	\$ 41,177	\$ 25,132	\$ 18,799	\$ -	\$ 43,931
Capital expenditures	\$ 3,065	\$ 7,111	\$ 3	\$ 10,179	\$ 1,116	\$ 1,719	\$ 66	\$ 2,901

	<i>for the nine months ended October 31, 2008</i>				<i>for the nine months ended October 31, 2007</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 95,298	\$ 37,034	\$ 8	\$ 132,340	\$ 91,210	\$ 12,084	\$ 99	\$ 103,393
Operating expenses	73,768	21,908	4,234	99,910	58,257	8,368	4,132	70,757
Amortization	6,522	3,067	51	9,640	5,283	1,046	21	6,350
Earnings (loss) from operations before undernoted items	15,008	12,059	(4,277)	22,790	27,670	2,670	(4,054)	26,286
Financing costs				9,362				6,818
Income taxes				4,294				6,826
Minority interest				320				264
Net earnings				8,814				12,378
Total assets	\$ 285,167	\$ 113,531	\$ 5,985	\$ 404,683	\$ 288,342	\$ 98,595	\$ 2,586	\$ 389,523
Goodwill (note 4)	\$ 120,497	\$ 38,946	\$ -	\$ 159,443	\$ 114,228	\$ 39,095	\$ -	\$ 153,323
Intangible assets	\$ 24,760	\$ 16,417	\$ -	\$ 41,177	\$ 25,132	\$ 18,799	\$ -	\$ 43,931
Capital expenditures	\$ 15,265	\$ 10,856	\$ 47	\$ 26,168	\$ 17,518	\$ 2,091	\$ 110	\$ 19,719

16. Comparative figures

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