



## First Quarter Report April 30, 2009

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations of Discovery Air Inc. (the "Corporation" or "Discovery Air") for the first quarter of fiscal 2010 should be read in conjunction with the unaudited interim consolidated financial statements and related notes of the Corporation for the three months ended April 30, 2009 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2009, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### **Business Profile**

##### *Mission*

The Corporation's mission is to create shareholder value by building an alliance of profitable aviation businesses that can realize synergies and economies of scale and deliver safe, professional air services to clients in selected niche markets. While the mission has not changed, the Corporation has adjusted its focus to ensure the Corporation's businesses are soundly positioned to withstand the negative effects of the global economic downturn experienced in the latter part of the prior fiscal year and continuing into the current year. The Corporation's strategy in addressing the recent economic downturn is discussed in greater detail in the "*Strategy and Strengths*" section of this document.

##### *Organization structure*

Discovery Air is incorporated under the Canada Business Corporations Act. It was established in November 2004 to acquire aviation and aviation related businesses that provide services to clients in niche markets. Since its inception, the Corporation has completed the acquisition of six businesses whose services are delivered through five wholly-owned subsidiaries. These wholly-owned subsidiaries are segregated into two operating segments:

1. Northern Services, being the operations of Great Slave Helicopters Ltd. ("Great Slave"), Air Tindi Ltd. ("Air Tindi") and Discovery Mining Services Ltd. ("Discovery Mining"); and
2. Government Services, being the operations of Top Aces Inc. ("Top Aces") and Hicks & Lawrence Limited ("Hicks").

All other operating activities are classified as Corporate Support.

##### *Northern Services Segment*

The Northern Services segment's primary market is 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.

Great Slave 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. Great Slave was founded in 1984.

Air Tindi 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. Air Tindi also provides air ambulance services throughout the Northwest Territories. Air Tindi was founded in 1988.

Discovery Mining is a Northwest Territories-based company that provides remote exploration camps, expediting, logistics and staking services to primarily diamond and mineral exploration companies. Discovery Mining was founded in 1991.

### *Government Services Segment*

The Government Services segment provides niche services primarily aimed at government entities.

Top Aces is a Quebec-based fixed wing aviation company that provides highly specialized airborne training services to the Department of National Defence ("DND"). Top Aces was founded in 2000.

Hicks 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. Hicks has been in business for over 50 years.

### *Seasonality and quarterly fluctuations*

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

- There is increased demand for the services provided by Great Slave, Hicks, Air Tindi and Discovery Mining normally commencing in the late spring and continuing through to the end of the summer.
- Top Aces' revenue-generating opportunities are significantly higher in the February to June and September to November time periods. Though Top Aces revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its 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 required evenly throughout the year and the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on available flight activity 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.

### *Strategy and Strengths*

The Corporation's businesses provide aviation and aviation related services to customers in niche markets. The Corporation's operating subsidiaries provide fixed-wing and rotary-wing aviation services as well as logistics and remote operations management services.

The Corporation acquired companies whose success was fundamentally based upon strong customer service, a reputation for quality and safety, a loyal customer base and a dominant position in their markets. Great Slave and Air Tindi 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. Discovery Mining provides its services to many of these customers as well. Top Aces and Hicks also provide essential services to their customers in the form of cost-effective government outsourced aviation service solutions.

The severe global economic downturn and illiquidity in the capital markets have negatively affected certain sectors of the Corporation's customer base, primarily the resource exploration and oil and gas sectors. The Corporation's revenue levels have been adversely impacted as a result. The Corporation has also been challenged from a financing standpoint as the rapid deterioration in global financial markets dramatically curtailed lending activities in the market and access to capital at a time when the Corporation needed to refinance debt that matured immediately after its most recent year end. The Corporation also made arrangements with a new lender for its operating line of credit requirements during the recently completed quarter. Accordingly, the Corporation's priority during the latter part of fiscal 2009 and the current quarter shifted away from its previously stated strategy of seeking growth through new acquisition and organic growth from the Corporation's existing operating companies, to focus on ensuring the Corporation's existing operations are positioned to address the negative impact of the economic slowdown in the current and foreseeable future. The Corporation is focused on maximizing and preserving cash flow and is doing this by actively managing working capital, reducing non-essential expenses and limiting non-critical capital expenditures. A greater focus on managing cash flow will help to ensure the Corporation is able to meet its operating and financing obligations in a very challenging economic environment as well as to fund the capital expenditures required to sustain its fleet and facilities. The Corporation has heightened the monitoring of both its operating and capital expenditures in order to align them with expected revenue levels.

## Selected Financial Information

	<b>3 months ended April 30 2009</b>	<b>3 months ended April 30 2008</b>
(thousands of dollars, except per share amounts)	(unaudited)	(unaudited)
<b>Results of operations</b>		
Revenue	\$ 25,566	\$ 30,754
Operating expenses	\$ 23,728	\$ 28,439
Earnings before undernoted items	\$ 1,838	\$ 2,315
Interest expense	\$ 3,499	\$ 3,025
Amortization	\$ 3,398	\$ 3,117
Relocation of corporate office	\$ 1,173	\$ -
Financing transaction costs	\$ 830	\$ -
Loss	\$ (5,121)	\$ (2,700)
Loss per common share:		
Basic	\$ (0.04)	\$ (0.02)
Diluted	\$ (0.04)	\$ (0.02)
<b>Financial position and liquidity</b>		
Total assets	\$ 268,333	\$ 393,665
Total long-term debt	\$ 144,137	\$ 142,788
Cash provided by operations	\$ (11,919)	\$ (9,681)
Working capital	\$ 11,936	\$ (13,156)
<b>Key non-GAAP performance measures*</b>		
Adjusted loss	\$ (4,293)	\$ (2,700)
EBITDAR	\$ 2,017	\$ 4,657
Adjusted EBITDAR	\$ 3,190	\$ 4,657
EBITDA	\$ 665	\$ 2,315
Adjusted EBITDA	\$ 1,838	\$ 2,315

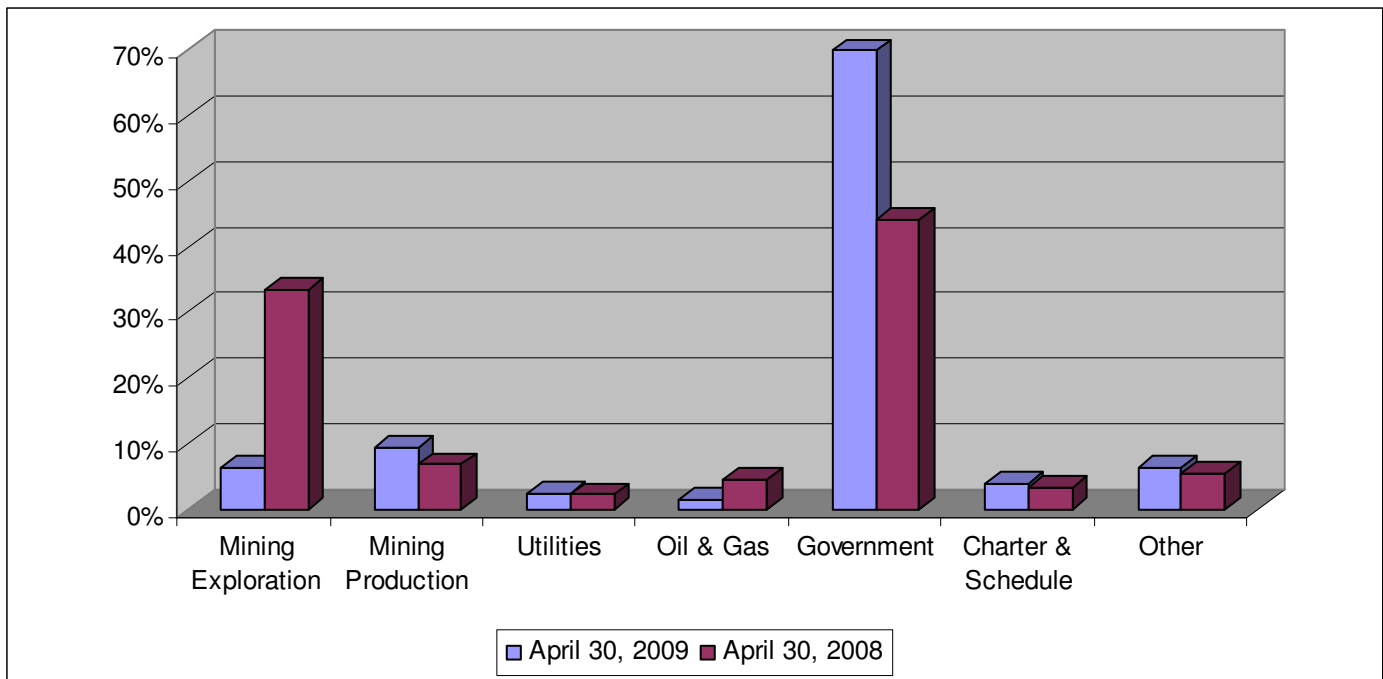
\* See Non-GAAP measures

## Results of operations for the comparative three months ended April 30, 2009 and 2008

### Overview

The negative impact on the Corporation of the global economic downturn and tight capital markets which were noted in the third and fourth quarters of the previous year continued into the first quarter of fiscal 2010. However, despite very challenging credit market conditions, the Corporation was able to successfully refinance a \$33.0 million term loan that matured in February 2009. The Corporation entered into a new four year term loan for \$34.0 million with a stated interest rate of 10.00% and an effective interest rate of 11.10%. The Corporation also arranged a \$15.0 million operating line of credit with a new lender, with availability for up to an additional \$10.0 million during the Corporation's peak operating season subject to borrowing margins established by the lender. The successful completion of these financing arrangements during the most recent quarter allows the Corporation to focus more attention on dealing with the impact the current depressed global economy is continuing to have on its operations.

The Corporation's first quarter results reflect the dramatic impact of the continued slowdown in resource sector activity in the north. Consolidated revenues of \$25.6 million in the current quarter were 17% lower than the comparative period last year. This was largely attributable to a substantial year over year decline in the Northern Services segment's revenue. Partially offsetting the significant impact of lower revenues from the Northern Services segment were higher year over year revenues from the Corporation's Government Services segment. The increase in Government Services segment revenue was attributed to higher revenues generated by Top Aces, which increased its Alpha jet fleet from eight in April 2008 to fourteen by the end of April 2009. The following graph demonstrates the impact the current economic downturn has had on the composition of the Corporation's revenue by industry sector year over year as a percentage of total revenues. Revenue from the mining exploration and oil & gas sectors has reduced significantly as a percentage of total revenues while revenue from Government sources has increased significantly.



The Corporation reported EBITDA of \$0.7 million and a loss of \$5.1 million in the first quarter, representing a year over year decline of 71% and 90% respectively. While a significant portion of the decline corresponds with the decline in revenues, the current quarter EBITDA and earnings also reflect a non-recurring corporate office relocation charge of \$1.2 million. A condition of the new \$34.0 million term loan obligates the Corporation to re-locate its corporate office to Yellowknife, Northwest Territories from its current location in London, Ontario by February 1, 2010. The corporate relocation costs will be comprised of termination benefits, recruitment costs and the logistical costs of transferring physical assets. The Corporation has made an initial estimate that total potential termination benefits could be as high as \$1.6 million. The actual expense will be dependent upon whether current staff remains in the employment of the Corporation as agreed during the transition process. The other costs outlined above have not been determined to date. Earnings for the current quarter were also affected by non-recurring financing costs of \$0.8 million, most of which relates to establishing the new operating line of credit facility this quarter. The year over year decline in Adjusted EBITDA and Adjusted loss were 21% and 59%, respectively, adjusted to exclude the impact of the corporate office relocation charge accrued in the most recent quarter. The increase in year over year Adjusted loss was more dramatic than the decline in Adjusted EBITDA as financing and amortization costs, including non-recurring finance transaction costs, were higher year over year.

### **Revenue and Hours Flown**

The Corporation's revenue is primarily generated from helicopter and airplane transportation services that are delivered through its subsidiaries and is largely driven by flight hours. The exception to this is the business of Discovery Mining. Revenues were \$25.6 million for the quarter ended April 30, 2009, compared to \$30.8 million for the same period last year, representing a 17% year over year decrease in revenues. Hours flown for the quarter ended April 30, 2009 were 7,527 compared to 12,365 for the same period last year, representing a 39% decrease in year over year flight hours. Revenues and flight hours were negatively impacted by reduced resource sector activity, particularly the mining exploration and oil and gas sectors. The decline in revenues in relation to flight hours was less severe due to increased revenues and flight hours from the Government Services segment, specifically Top Aces' Alpha jet fleet which has significantly higher revenue per flight hour compared to the Corporation's other aircraft fleet.

The Northern Services segment generated revenues of \$11.7 million on 5,733 flight hours for the quarter ended April 30, 2009 compared to revenues of \$20.5 million on 10,855 flight hours for the same period last year. The 43% decline in revenues and 47% decline in flight hours were attributable to the weak demand for services from the resource industry sector. Revenues from the mining exploration and oil & gas sectors were lower by 84% and 73%, respectively.

The Government Services segment generated revenues of \$13.9 million on 1,794 flight hours for the quarter ended April 30, 2009 compared to revenues of \$10.2 million on 1,510 flight hours for the same period last year. The 36% increase in revenues and 19% increase in flight hours were attributable to Top Aces' ability to produce higher revenues from the increased capacity in its Alpha jet fleet. Top Aces' Alpha jet fleet has increased from eight to fourteen over the last year and Top Aces expects to add two more Alpha jets to its fleet in the second quarter.

### **Operating Expenses**

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 costs and maintenance costs, the latter consisting of the purchase, repair and overhaul of parts, major components and accessories. Fuel costs represent a significant component of the Northern Services segment's operating expenses. A significant portion of the fuel costs incurred by the Northern Services segment are recoverable from its customers and these recoveries are classified as revenues. The amortization of engine and rotatable component overhauls is included in maintenance costs and is classified as an operating expense for financial reporting purposes. General and administrative expenses are mainly comprised of wages and benefits of administrative personnel, facility costs, travel costs, non-fleet insurance costs and other overhead expenses. These operating expenses contain both fixed and variable cost components.

Operating expenses were \$23.7 million for the quarter ended April 30, 2009 compared to \$28.4 million for the same period last year, representing a 17% decline in year over year operating expenses. The Corporation's crew costs, fleet costs and fuel costs combined represent 61% of the current quarter's total operating costs, and were lower by 21%, 35% and 33% respectively compared to the same period last year. The lower crew, fleet and fuel costs correspond with the lower revenues generated in the quarter. The Corporation's general and administrative expenses represented 28% of the current quarter's total operating expenses and were 10% higher than the same period last year, in part due to the increase in the Government Services segment business.

The Northern Services segment's operating expenses for the current quarter were \$13.9 million, compared to \$20.4 million for the same period last year, representing a 32% decline in year over year operating expenses. Certain of the segment's crew, fleet and fuel costs decreased as a result of lower revenues. For example, in response to the lower level of flight activity, the segment has reduced its quarterly aircraft lease cost year over year by 51% through the return of leased aircraft and renegotiation of existing leases where possible. Great Slave's overall fleet size has reduced from 70 helicopters as at January 31, 2009 to 63 as at April 30, 2009 to a current level of 58 aircraft, mostly due to the return of leased aircraft. However, there are costs of a fixed nature in the segment's operating expenses that would not necessarily reduce in line with revenue levels, explaining why the reduction in costs is not as high as the reduction in revenues. Some of this would be attributable to the seasonal nature of the segment's business. The Corporation's management is continuing to undertake a review of the segment's operating costs to appropriately align them with the expected level of service activity for this current fiscal year.

The Government Services segment's operating expenses for the current quarter were \$8.4 million compared to \$6.6 million for the same period last year, representing a 28% increase in year over year operating expenses. The increase in operating costs corresponds to the increase in revenue.

Corporate Services incurred \$1.4 million in operating expenses in the current quarter compared to \$1.5 million for the same period last year.

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

EBITDA was \$0.7 million for the quarter ended April 30, 2009, compared to \$2.3 million for the same period last year. EBITDA margin for the current quarter was 3% compared to 8% for the same period last year. The current quarter EBITDA margin was negatively impacted by the corporate office relocation charge as the Adjusted EBITDA margin was 7% in the current quarter, which is lower but comparable to the 8% EBITDA margin recorded in the prior year. EBITDAR was \$2.0 million and Adjusted EBITDAR was \$3.2 million for the quarter ended April 30, 2009, compared to \$4.7 million for both in the same period last year. This results in an Adjusted EBITDAR margin in the current year of 12% versus 15% in the prior year.

EBITDA for the Northern Services segment reduced by \$2.4 million year over year largely due to an \$8.9 million reduction in revenues. As previously noted, business activity has dramatically reduced primarily as a result of weak resource sector activity brought on by the current economic downturn. EBITDAR was more severely impacted, reducing by \$3.5 million year over year.

Government Services segment EBITDA increased by \$1.8 million year over year largely driven by an increase in revenues arising from the additional capital investment in the Alpha jet fleet over the last year. The segment's EBITDAR increased by \$1.9 million year over year.

### ***Interest Expense and Financing Transaction Costs***

Interest expense was \$3.5 million for the current quarter compared to \$3.0 million for the same period last year. The Corporation's interest expense was higher due to higher borrowing costs on its operating line of credit and some of its term debt as well as expensing a portion of the deferred financing charges related to the term debt repayment of \$2.6 million in the quarter related to the revolving term loan. The Corporation uses the effective interest rate method to account for transaction costs on its term loan financings.

The Corporation incurred non-recurring costs associated with its financing activities that it expensed in the most recent quarter. These financing transaction costs totaled \$0.8 million and were classified as financing transaction costs in the Corporation's statement of loss and comprehensive loss. The majority of these costs relate to the transaction costs and fees associated with arranging the new operating line of credit.

### ***Amortization Expenses***

#### *Amortization of buildings and equipment*

Amortization of building and equipment expense was \$2.3 million for the current quarter, compared to \$2.0 million for the same period last year due to the impact of purchases made over the course of the last fiscal year.

#### *Amortization of intangible assets*

Amortization of intangible assets expense was \$1.1 million for the current quarter, compared to \$1.1 million for the same period last year. The amortization of intangible assets relates to the 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.

### ***Income Taxes***

The future income tax recovery was \$1.8 million for the current quarter, compared to \$1.2 million for the same period last year. The Corporation's statutory rate for the quarter was approximately 31%, compared to approximately 32% for the same period last year.

### ***Liquidity and Financial Resources***

The following schedule summarizes the movement in cash flow components for the comparative quarters ended April 30.

<i>(thousands of dollars)</i>	<b>April 30 2009</b>	<b>April 30 2008</b>
Cash provided by (used in):		
Operating activities	\$ (11,919)	\$ (9,681)
Investing activities	(4,471)	(9,721)
Financing activities	12,567	15,941
Decrease in cash for the period	\$ (3,823)	\$ (3,461)

The cash position for the quarter ended April 30, 2009 reflected a net cash outflow of \$3.8 million compared to a net cash outflow of \$3.5 million for the comparative period last year. The negative cash flow in the first quarter is consistent with the seasonality of most of the Corporation's operating units where the operating units borrow funds to set up for the peak season in the second and third quarter.

#### *Operating activities*

The current quarter's operating activities generated net cash outflow of \$11.9 million compared to net cash outflow of \$9.7 million for the same period last year. The higher level of cash used in operations compared to the prior year was due largely to a lower level of earnings adjusted for non-cash charges such as amortization, future income taxes, stock-based compensation, and non-controlling interest. The current quarter non-cash operating working capital used in operations

was \$10.2 million compared to a use of non-cash operating working capital of \$11.3 million for the comparative period last year. Other than changes to non-cash operating working capital arising from normal operating activities, the current year's change in non-cash operating working capital was positively impacted by the \$1.2 million accrual of corporate office relocation costs and was negatively impacted by a \$2.9 million increase in restricted cash balances in the current quarter. The restricted cash balance arose as a result of the current operating line of credit which does not provide for the availability of certain contingent exposures such as letters of credit. These contingent exposures must be cash collateralized by the Corporation.

#### *Investing activities*

The net cash outlay from investing activities for the current quarter was \$4.5 million compared to \$9.7 million for the same period last year. The current quarter investing activities related to fleet expansion and capitalized aircraft overhaul costs. Fleet expansion in the current year included progress payments related to the purchase of additional Alpha jets and related equipment. The prior year comparative period reflects fleet expansion that included the acquisition of two intermediate helicopters, progress funding related to the purchase of eight additional Alpha jets and a fixed wing, twin-engine turbo-prop airplane, as well as capitalized overhaul costs. As at April 30, 2009, the Corporation's remaining fleet purchase commitments related to the Alpha jet program totaled \$4.1 million. Other than aircraft overhaul costs related to the Corporation's existing fleet and completion of the Alpha jet purchase program, the Corporation does not expect any significant expenditures for capital assets in the current year.

#### *Financing activities*

The Corporation obtained new long-term loans totaling \$36.3 million during the quarter ended April 30, 2009, which was comprised of a \$34.0 term loan to replace a \$33.0 term loan which matured in February 2009, and \$2.3 million of financing related to the Alpha jet program. The comparative period reflects new debt of \$10.0 million which related to the financing of new aircraft and capital equipment outlined in the investing activities section above.

The Corporation had an outstanding balance of \$14.5 million on its operating line of credit as at April 30, 2009. Consistent with the seasonal nature of the Corporation's overall business cycle, the Corporation draws on its operating line of credit in the first and second quarter to fund the start up costs leading into the summer months as well as to fund the build-up in accounts receivable. In the comparative period the Corporation drew and had an outstanding balance of \$7.5 million. Netting cash and restricted cash against the outstanding operating line of credit results in a net line of credit balance of \$8.6 million compared to a net line of credit balance of \$7.2 million for the same period last year.

The Corporation made principal repayments totaling \$37.1 million during the quarter ended April 30, 2009, of which \$33.0 million related to the repayment of the term loan that matured in February 2009 and \$2.6 million related to a one-time reduction in fleet term debt. The balance of the repayments relates to scheduled term loan repayments. In the prior year the Corporation made principal repayments totaling \$1.6 million, all of which were regularly scheduled term debt repayments.

#### *Working capital and cash position*

The Corporation had a positive working capital position of \$11.9 million compared to a positive working capital position of \$18.2 million as at January 31, 2009. Given the seasonal nature of the Corporation's businesses, a more meaningful comparison would be of the working capital positions as at April 30, 2009 and April 30, 2008. The Corporation's \$11.9 million positive working capital position as at April 30, 2009 compared to a negative position of \$13.2 million as at April 30, 2008, which translates into a current ratio of 1.3 as at April 30, 2009 compared to 0.8 as at April 30, 2008. The improved working capital balance and current ratio from April 30, 2008 was due to the refinancing of the \$33.0 million term loan that came due in February 2009, which resulted in a reclassification of the related debt from current as at April 30, 2008 to long term as at April 30, 2009. If the current portion of long-term debt for the quarter ended April 30, 2008 is adjusted to exclude the \$33.0 million maturing debt, the adjusted comparative working capital and current ratio positions are \$19.8 million and 1.7 respectively. The comparable adjusted positive working capital position of the Corporation has been impacted by an increase in year over year losses for the quarter (including the accrual of the non-recurring corporate office relocation costs), capital expenditures, and the financing of term debt repayments out of working capital.

The Corporation is aware of the following balance sheet conditions, income items or cash flow items that could materially impact liquidity in the upcoming year:

- the impact that continuing weak market conditions could have on the business activities of the Corporation's Northern Services segment;
- the impact that the U.S./Canadian dollar exchange rate could have on the available borrowing base for one of its term loans in July 2009;
- the cash flow and liquidity impact of its term loan lender exercising its option to begin a term out its loan exposure in July 2009; and
- possible increases in expenditures caused by capital expenditures related to fleet maintenance that are higher than expected.

While the Corporation currently believes it has sufficient working capital to meet its current and future operating requirements based on its existing working capital position, cash generated from operations, and the operating credit facilities it recently put in place, this could change depending on whether some or all of the above factors have an impact on the Corporation. The Corporation's management is assessing strategies for dealing with these potential risks.

The new operating line of credit facility will be used to fund any short-term financing requirements which arise as a result of the seasonality of its revenue and cash flow patterns. Except as noted above, the Corporation does not expect any significant changes to its working capital requirements for the upcoming year. Any significant non-maintenance related capital expenditures are assessed to ensure reasonable support exists to match the capital expenditure to projected revenues or cost saving generated from the transaction. Given the current economic outlook, the Corporation intends to focus on ensuring adequate funding exists for its current operations and, unless the underlying economics of a new business opportunity are very compelling, minimize any capital intensive expansion until the economy and capital markets support active growth again. The Corporation also continues to look for ways to conduct its businesses more efficiently and reduce costs.

#### *Debt financing*

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. On March 3, 2009, the Corporation agreed to amendments to this credit facility which limited the borrowing capacity to \$50.0 million effective April 24, 2009 and changed the anniversary date from January 24 to July 24. The Corporation has been advised that the following amendments will be implemented at the anniversary date: (1) the interest rate will be amended to the yield on 90 day Bankers' Acceptances (subject to a floor of 0.25%) plus 8.25% per annum; (2) in the event the lender exercises its option to convert the revolving term loan to an amortizing debt, the amortization period will be 102 months; and (3) four quarterly principal payments of USD \$250,000 each will be made commencing July 2009 (see Subsequent Event section). 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 the agreed upon amortization period, at which time the revolving feature of the debt would be terminated. Also on each anniversary date the available borrowing base is reset based on updated appraisals and currency exchange rates. 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, Discovery Mining and Hicks. The security structure provides a first charge over specific aircraft owned by these subsidiaries and a secondary floating charge over all their other assets, except real estate, subject to prior permitted encumbrances in favour of the operating lender and other term lenders. Mortgages over certain real estate of the Corporation, subject to the prior security interest of other term lenders, and an unsecured guarantee of this debt was also provided by Top Aces during the last quarter. Financing costs of \$1.3 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. The loan has an effective interest rate of 9.35%. At the end of the current quarter the Corporation had \$50.0 million available to it and drawn from this facility. The Corporation has covenants related to this debt that requires the Corporation to maintain specified financial ratios related to balance sheet leverage and debt coverage as well as minimum tangible net worth. As at April 30, 2009, the Corporation was in compliance with all covenants related to this debt.

On February 4, 2009 the Corporation's \$33.0 million term loan was repaid with the proceeds of a new \$34.0 million term loan. The new loan has an effective interest rate of 11.10% per annum and matures on February 1, 2013. The Corporation is required to make monthly interest only payments until the end of the term, at which time the principal and any outstanding accrued interest are due and payable. 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, Discovery Mining and Hicks, a pledge of the shares of Top Aces, an unsecured guarantee of the indebtedness by Top Aces, and a mortgage over certain

real estate assets owned by the Corporation. The security structure provides a first charge over specific aircraft and a secondary floating charge over all other assets subject to the prior security interests of other term lenders and the operating lender. To date, the Corporation has incurred \$1.1 million in transaction costs related to the new term loan which are netted against the carrying value of the debt and will be expensed over the term of the loan on an effective interest basis. A condition of this term loan obligates the Corporation to relocate its current corporate office from London, Ontario to Yellowknife, Northwest Territories by February 1, 2010. The relocation of the corporate office will result in additional costs for the corporation, including transition costs and termination benefits related to the employees who perform the affected job functions at the Corporation's current corporate office. The Corporation has accrued \$1.2 million for these non-recurring costs during the current quarter.

In February 2008 the Corporation entered into a \$21.5 million term loan agreement to refinance an existing Top Aces term loan and to finance the purchase of additional aircraft, spare engines and aircraft parts. The principal amount of the loan is repayable in monthly instalments of \$0.3 million commencing in February 2008 and ending on January 15, 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 security interest provided to the operating lender over Top Aces' accounts receivable. As at April 30, 2009, \$14.4 million was outstanding under this term loan facility. The Corporation has incurred \$0.2 million in financing costs which will be expensed over the term of the loan on an effective interest basis. The loan has an effective interest rate of 5.73%. The Corporation has covenants related to this debt that require the Corporation to maintain specified financial ratios related to balance sheet leverage and debt coverage as well as minimum tangible net worth. As at April 30, 2009, the Corporation was in compliance with all covenants related to this debt.

The Corporation established a new demand operating line of credit facility on April 9, 2009 that provides an operating line of credit of up to \$15.0 million, increasing by up to a further \$10.0 million during the Corporation's seasonably busy period of April through November. The credit facility bears an interest rate of 18.00% per annum and has a term of 14 months. The credit facility is secured by security agreements that provide the lender with a first charge over the accounts receivable of all the Corporation's operating entities and over inventories for all the Corporation's entities except Top Aces and a secondary floating charge over the other assets of the Corporation and its subsidiaries subject to the prior permitted security interests in favour of the Corporation's term lenders. The Corporation incurred \$0.6 million in transaction costs in the current quarter to establish this operating line of credit facility. As at April 30, 2009, the Corporation had \$14.5 million drawn on this operating loan facility.

The Corporation had unsecured notes totaling \$2.1 million which were due for repayment on December 19, 2008. These notes were due to the former owners of one of the Corporation's subsidiaries. The Corporation did not repay these notes on their due date as it is of the opinion the original purchase agreement provides it with the right of set-off for potential liabilities that related to periods prior to the acquisition of the subsidiary. Interest continues to be paid on these notes at the prime lending rate. The holders of a portion of these notes payable with a balance aggregating \$1.0 million as at April 30, 2009 have extended the maturity date of the notes to December 19, 2009. The full balance of these notes is included in current portion of long-term debt.

### **Contractual Obligations**

The following chart outlines the Corporation's contractual obligations as at April 30, 2009.

(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
Operating line of credit	\$ 14,484	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,484
Accounts payable and accrued liabilities	14,330	-	-	-	-	-	14,330
Long-term debt	8,588	4,479	31,276	85,319	11,190	3,285	144,137
	<b>\$ 37,402</b>	<b>\$ 4,479</b>	<b>\$ 31,276</b>	<b>\$ 85,319</b>	<b>\$ 11,190</b>	<b>\$ 3,285</b>	<b>\$ 172,951</b>

The Corporation has unutilized capacity under the \$21.5 million term facility to fund the \$4.1 million commitments disclosed below in Off-Balance Sheet Arrangements.

## Off-Balance Sheet Arrangements

The Corporation has annual lease obligations for aircraft and premises. Minimum lease payments under these leases for each of the five succeeding years and thereafter are noted 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
Operating leases	\$ 4,417	\$ 2,462	\$ 1,235	\$ 1,030	\$ 186	\$ 290	\$ 9,620

The Corporation is committed to purchase aircraft, related inventory and service contracts for an estimated purchase price of \$4.1 million. The committed purchases are scheduled to be made within one year of the current reporting period.

The Corporation was required to arrange letters of credit totaling \$1.7 million. The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries. The letters of credit issued on behalf of the Corporation are secured by cash collateral which forms part of the balance of restricted cash on the Corporation's balance sheet.

## Financial instruments

### Risk management overview

The Corporation is exposed to a number of different financial risks arising from normal business operations as well as through the Corporation's financial instruments comprised of cash, trade accounts receivable, trade accounts payable, accrued liabilities, operating loan indebtedness and long-term debt. These risk factors 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 could result 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. The Corporation's management is responsible for determining the acceptable level of risk and may 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 does not hold or use derivative instruments for trading or speculative purposes.

#### 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 and aircraft inventory parts, financing of aircraft and periodic purchases of aircraft.

As at April 30, 2009, the Corporation held net unhedged assets of USD \$0.1 million and net unhedged liabilities of EUR 0.4 million. As at April 30, 2009, 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 \$15,000 to the Corporation's earnings for the three-month period ended April 30, 2009.

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 July of each year (previously January) based on an appraisal of the aircraft that are included in the borrowing base. The borrowing limit is established

annually in July based on the lesser of \$50.0 million and the borrowing base that is determined by an annual U.S. dollar appraisal of the aircraft included in the lender's borrowing base. The borrowing base calculation will be affected by the U.S./Canadian dollar exchange rate in effect when the borrowing base is reset annually. The borrowing base available to the Corporation effective July 2009 is estimated to be \$56.4 million based on recent desktop appraisals completed on behalf of the lender and a U.S./Canadian exchange rate as at April 30, 2009 of \$1.19 Canadian dollars for each U.S. dollar. Under the agreement, physical appraisals are in process for a sample of the aircraft and the final borrowing base calculation in July 2009 could be adjusted up or down depending on the results of these appraisals and/or a change in exchange rates. The Corporation's estimated borrowing base exceeds the amount available and drawn under the loan agreement by \$6.4 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 estimated borrowing base of \$2.8 million.

The Corporation's \$4.1 million commitment to purchase aircraft and related inventory in the current year includes foreign currency amounts of USD \$1.5 million. 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 debt instruments.

As at April 30, 2009, a 25 basis point increase or decrease in interest rates, with all other variables unchanged, would have resulted in an increase or decrease of \$14,000 to the Corporation's earnings for the three-month period ended April 30, 2009.

#### *Credit risk*

Credit risk is the risk that financial loss may be increased if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation manages the credit risk associated with its cash and restricted cash by holding its funds with what it believes to be reputable financial institutions. 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 April 30, 2009, 67% 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, the Corporation's exposure to the resource industry 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 and medium-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 lower than anticipated profitability noted in the third and fourth quarters of fiscal 2009 has continued into the first quarter of fiscal 2010 in certain of the Corporation's operations due to adverse factors such as lower demand for certain services provided to customers in the exploration, mining and tourism markets. These adverse factors have been partially offset by strong results in some of the Corporation's other lines of business. The Corporation recognizes that should these adverse factors continue without successful management intervention and especially if the continuing adverse factors were to be unmatched by offsetting strong conditions experienced by the Corporation's other businesses, weaker future earnings and cash flow generated by operations could result, reducing the Corporation's available working capital and liquidity. Management's plans with respect to managing this uncertainty include actively managing working capital, reducing non-essential operating expenses and limiting non-critical capital expenditures. In these uncertain times, however, there can be no assurance that these activities will be successful in ensuring sufficient working capital and liquidity will be available to fund the Corporation's operations.

The Corporation's operating line of credit is a demand loan. As well, 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 balance sheet leverage ratios, debt coverage ratios 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 has been successful in renegotiating its financial covenants with its term lenders for fiscal 2010 (see Subsequent Event). As at April 30, 2009, the Corporation was in compliance with these new financial covenants.

#### **Fair Value**

The fair value of accounts receivable and accounts payable approximate their carrying value due to the relatively short periods to maturity of the instruments. The fair value of the Corporation's fixed interest rate operating line of credit and long-term debt as at April 30, 2009 was \$147.1 million as compared to \$158.6 million in carrying value.

The fair value of the Corporation's fixed interest rate operating line of credit and 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 April 30, 2009. 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.

#### **Shareholders' Equity**

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.

Shareholders' equity at April 30, 2009, was \$67.4 million compared to \$72.4 million as at January 31, 2009. At April 30, 2009 and at January 31, 2009 the Corporation had 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding.

The Corporation terminated the existing stock option plan in June 2008. As a result there were no stock options granted for the quarter ended April 30, 2009. There were 381,350 stock options with a weighted-average exercise price of \$1.14 granted in the quarter ended April 30, 2008. No stock options were exercised in the current and comparative quarter ended April 30. Also in the same period, there were nil (April 30, 2008 – nil) stock options forfeited and 825,000 (April 30, 2008 – nil) stock options expired. The Corporation had compensation expense for the first quarter of \$72,000 (April 30, 2008 - \$0.4 million) relating to the vested portion of the estimated fair value of the options that have been granted. As at April 30, 2009, there were 6,622,450 (April 30, 2008 - 7,494,550) common shares issuable under options. Prior to determination of the stock option plan the fair value of options granted was estimated using the Black-Scholes option pricing model which considered the weighted-average risk-free interest rate, expected option life, expected volatility, and expected forfeiture rate at the time of grant.

At April 30, 2009, there were 623,640 (January 31, 2009 – 247,655) deferred share units ("DSU") held by the directors of the Corporation. Each DSU entitles a retiring director to a cash distribution equal to the closing market price of the Corporation's common shares on a date selected by the retiring director, which date may not be later than December 31 of the year following the year of the director's retirement. During the quarter ended April 30, 2009, the Corporation granted 375,986 (April 30, 2008 – 11,000) DSUs. No payment was made in the current or comparative quarters ended April 30 to retire DSUs. The Corporation recognized \$0.1 million (April 30, 2008 - \$1,000) of compensation expense related to DSUs in the current quarter.

#### **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 has not made any repurchases under the NCIB since its inception.

### **Updated Share Information**

At June 12, 2009, there were 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding. At the same date, there were 6,622,450 common share options outstanding.

### **Related Party Transactions**

At April 30, 2009, the Corporation had long-term debt including accrued interest totaling \$17.7 million (January 31, 2009 - \$18.3 million), bearing interest rates ranging from prime to prime plus 1.00% per annum, owing primarily to officers and directors of the Corporation or its subsidiaries who were former owners of the subsidiaries. For the quarter ended April 30 2009, the interest expense on this debt totaled \$0.1 million (April 30, 2008 - \$0.2 million).

On December 19, 2008, a payment of \$2.1 million was scheduled to be made by one of the Corporation's subsidiaries in accordance with the terms of an unsecured promissory note entered into with its former owners. Certain of these creditors, with an aggregate principal balance owing of \$1.0 million, extended the repayment date of their promissory notes from December 19, 2008 to February 15, 2009. A further extension has since been provided by these creditors to December 19, 2009. In fiscal 2009, the Corporation was made aware of potential liabilities that related to periods prior to the acquisition of the subsidiary. The Corporation believes the amount of these potential liabilities could exceed the liabilities owing under the unsecured note principal. The Corporation is of the opinion that the original purchase agreement provides it with the right of set-off for these potential liabilities. Since the settlement date of these liabilities has not been established, the Corporation has classified the full principal balance of this debt as a current liability.

### **Critical Accounting Estimates**

The management's discussion and analysis for the year ended January 31, 2009 includes a description of critical accounting estimates on page 22. As at April 30, 2009, critical accounting estimates have not changed significantly from the description provided in the year end management's discussion and analysis except for the estimate of cost associated with the relocation of the Corporation's corporate office. The relocation of corporate office costs include estimates related to the accrual of termination benefits.

### **Recently Adopted Standards**

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

Effective February 1, 2009, the Corporation adopted 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 implementation of this standard had no material impact on the Corporation's financial results or condition.

### **Future Changes in Accounting Policies**

#### ***Business combinations***

Handbook Section 1582, *Business Combinations* replaced the former Handbook Section 1581, *Business Combinations*. This section will be equivalent to International Financial Reporting Standards ("IFRS") 3 - *Business Combinations*. See "*International Financial Reporting Standards*" below for further discussion on IFRS. Section 1582 will require additional use of fair value measurements, recognition of additional assets and liabilities, including contingent consideration and contingencies, the expensing of transaction costs and increased financial statement disclosures. This standard will become effective for business combinations for which the acquisition date is on or after February 1, 2011. The Corporation is assessing whether it will apply the new accounting standard at the beginning of fiscal 2012 or elect to early adopt the new accounting standards in order to minimize the amount of retroactive application when the Corporation adopts IFRS.

#### ***Consolidated financial statements and non-controlling interest***

Handbook Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests* replaced the former Handbook Section 1600, *Consolidated Financial Statements* and established a new method of accounting for a non-controlling interest and subsidiary. These sections will require a change in the measurement of non-controlling

interest and will require the change to be presented as part of shareholders' equity. The Corporation will adopt the new accounting standards concurrently with the adoption of the new Handbook Section 1582 and is currently assessing the impact that the adoption of these standards will have 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. The Corporation's first annual IFRS consolidated financial statements will be for the year ending January 31, 2012 and will include the comparative period of fiscal 2011. The Corporation is in the process of completing a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP, including the determination of the impacts of these differences on the consolidated financial statements. As this assessment progresses, the Corporation intends to disclose such impacts in its future consolidated financial statements.

### *Non-GAAP Measures*

References to "EBITDA" are to earnings before interest, financing transaction costs, income taxes, depreciation and amortization (except for amortization of rotatable and overhauled components which are treated as operating expenses), goodwill and intangible asset impairment charge, and non-controlling interest. As is common in the industry, the Corporation uses EBITDA as a supplemental financial measure of its operational performance. "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 the measurements are useful to measure a company's ability to service debt and to meet other payment obligations or as valuation measurements.

"Adjusted EBITDA" is EBITDA before the relocation of corporate office charge. "Adjusted EBITDAR" is EBITDAR before the relocation of corporate office charge. The relocation of corporate office charge is a financial obligation that arose as a result of a condition of a term loan transaction as completed in the current quarter. Given the non-recurring nature of these costs, the Corporation is of the view that Adjusted EBITDA and Adjusted EBITDAR provide a more meaningful comparison of year over year results. The following is a reconciliation of earnings before non-controlling interest to EBITDA, EBITDAR, Adjusted EBITDA, and Adjusted EBITDAR.

	<i>for the three months ended</i>	
	<b>April 30 2009</b>	<b>April 30 2008</b>
(thousands of dollars)	(unaudited)	(unaudited)
Loss	\$ (5,121)	\$ (2,700)
Income tax provision (recovery)	(1,838)	(1,164)
Interest expense	3,499	3,025
Amortization	3,398	3,117
Financing transaction costs	830	-
Non-controlling interest	(103)	37
<b>EBITDA</b>	<b>\$ 665</b>	<b>\$ 2,315</b>
Aircraft lease expenses	1,352	2,342
<b>EBITDAR</b>	<b>\$ 2,017</b>	<b>\$ 4,657</b>
EBITDA	\$ 665	\$ 2,315
Relocation of Corporate office costs	\$ 1,173	\$ -
Adjusted EBITDA	\$ 1,838	\$ 2,315
Aircraft lease expenses	\$ 1,352	\$ 2,342
<b>Adjusted EBITDAR</b>	<b>\$ 3,190</b>	<b>\$ 4,657</b>

“Adjusted loss” is loss adjusted for impairment of goodwill and intangible assets, relocation of corporate office charge and related income taxes provision (recovery). Management believes Adjusted loss is a meaningful supplemental financial measure as these charges are considered non-recurring and their exclusion provides a more relevant comparison of year over year loss. The following is a reconciliation of Adjusted loss:

(thousands of dollars)	<i>for the three months ended</i>	
	<b>April 30 2009</b>	<b>April 30 2008</b>
	(unaudited)	(unaudited)
Loss	\$ (5,121)	\$ (2,700)
Relocation of corporate office	1,173	-
Income tax provision (recovery) related to relocation of corporate office	(345)	-
<b>Adjusted loss</b>	<b>\$ (4,293)</b>	<b>\$ (2,700)</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 Great Slave, Air Tindi and Discovery Mining and the Government Services segment is represented by Top Aces and Hicks. 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, 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.

(thousands of dollars)	<i>for the three months ended April 30 2009</i>				<i>for the three months ended April 30 2008</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
<b>Revenue</b>	\$ 11,667	\$ 13,897	\$ 2	\$ 25,566	\$ 20,541	\$ 10,206	\$ 7	\$ 30,754
Operating expenses	13,949	8,414	1,365	23,728	20,408	6,569	1,462	28,439
Relocation of corporate office	-	-	1,173	1,173				
Amortization	2,272	1,113	13	3,398	2,086	1,015	16	3,117
Loss from operations before undernoted items	(4,554)	4,370	(2,549)	(2,733)	(1,953)	2,622	(1,471)	(802)
Interest expense				3,499				3,025
Financing transaction costs				830				-
Income taxes provision (recovery)				(1,838)				(1,164)
Non-controlling interest				(103)				37
<b>Loss and comprehensive loss</b>				<b>(5,121)</b>				<b>(2,700)</b>
<b>Capital expenditures</b>	<b>\$ 2,536</b>	<b>\$ 2,011</b>	<b>\$ -</b>	<b>\$ 4,547</b>	<b>\$ 8,093</b>	<b>\$ 1,818</b>	<b>\$ 16</b>	<b>\$ 9,927</b>

	<i>As at April 30, 2009</i>				<i>As at January 31, 2009</i>			
<b>Total assets</b>	\$ 149,086	\$ 115,748	\$ 3,499	\$ 268,333	\$ 145,699	\$ 111,960	\$ 2,367	\$ 260,026
<b>Goodwill</b>	\$ -	\$ 37,862	\$ -	\$ 37,862	\$ -	\$ 37,862	\$ -	\$ 37,862
<b>Intangible assets</b>	\$ 11,688	\$ 15,259	\$ -	\$ 26,947	\$ 12,225	\$ 15,838	\$ -	\$ 28,063

## Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	<i>for the three months ended April 30, 2009</i>				<i>for the three months ended April 30, 2008</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 11,667	\$ 13,897	\$ 2	\$ 25,566	\$ 20,541	\$ 10,206	\$ 7	\$ 30,754
Operating expenses	13,949	8,414	1,365	23,728	20,408	6,569	1,462	28,439
Relocation of corporate office	-	-	1,173	1,173	-	-	-	-
EBITDA	\$ (2,282)	\$ 5,483	\$ (2,536)	\$ 665	\$ 133	\$ 3,637	\$ (1,455)	\$ 2,315
Aircraft lease expenses	1,034	318	-	1,352	2,091	251	-	2,342
EBITDAR	\$ (1,248)	\$ 5,801	\$ (2,536)	\$ 2,017	\$ 2,224	\$ 3,888	\$ (1,455)	\$ 4,657
Adjusted EBITDA	\$ (2,282)	\$ 5,483	\$ (1,363)	\$ 1,838	\$ 133	\$ 3,637	\$ (1,455)	\$ 2,315
Adjusted EBITDAR	(1,248)	5,801	(1,363)	3,190	2,224	3,888	(1,455)	4,657

## SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except per share amounts)	2010		2009			2008		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Results of operations:</b>								
Total revenue	\$ 25,566	\$ 19,590	\$ 42,536	\$ 59,050	\$ 30,754	\$ 20,161	\$ 42,789	\$ 44,258
Operating expenses	23,728	23,578	32,042	39,429	28,439	24,345	28,077	25,530
Relocation of corporate office	1,173	-	-	-	-	-	-	-
EBITDA	665	(3,988)	10,494	19,621	2,315	(4,184)	14,712	18,728
Amortization	3,398	3,325	3,309	3,214	3,117	3,047	2,590	1,432
Non-amortized finance fees	830	-	-	-	-	-	-	-
Interest expense	3,499	2,944	3,151	3,186	3,025	3,473	2,771	2,127
Goodwill and intangible assets impairment charge	-	133,579	-	-	-	-	-	-
Earnings (loss) before income taxes and non-controlling interest	(7,062)	(143,836)	4,034	13,221	(3,827)	(10,704)	9,351	15,169
Income tax provision (recovery)	(1,838)	(4,714)	1,322	4,136	(1,164)	(5,849)	3,327	4,965
Non-controlling interest	(103)	17	67	216	37	24	122	147
Net earnings (loss)	\$ (5,121)	\$ (139,139)	\$ 2,645	\$ 8,869	\$ (2,700)	\$ (4,879)	\$ 5,902	\$ 10,057
Earnings (loss) per share								
-basic	\$ (0.04)	\$ (1.03)	\$ 0.02	\$ 0.07	\$ (0.02)	\$ (0.04)	\$ 0.05	\$ 0.09
-diluted	\$ (0.04)	\$ (1.03)	\$ 0.02	\$ 0.07	\$ (0.02)	\$ (0.04)	\$ 0.05	\$ 0.09

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**

Subsequent to quarter end, the Corporation successfully renegotiated its financial covenants on the \$50.0 million revolving term loan and the \$21.5 million term loan. The revisions altered the manner in which the covenants are calculated and the threshold levels to be maintained. In the case of the revolving term loan, an additional additional balance sheet leverage covenant was added. The revised covenants for both lenders are effective April 30, 2009. As at April 30, 2009, the Corporation was in compliance with these revised covenants. In providing its consent to the revised covenant levels, the revolving term loan lender advised the Corporation of the following conditions it would require in conjunction with its annual review in July 2009:

- i) Four quarterly principal payments of USD \$250,000 each are to be made commencing July 2009;
- ii) The interest rate structure will be amended to 90 day BA yield (with a minimum base of 0.25%) plus 8.25%; and
- iii) Should the lender elect to convert the revolving term facility to an amortizing debt, the amortization period will be reduced from 120 months to 102 months.

Management will be adjusting its operating plans to take into account these conditions as the first condition will have an impact on the Corporation's liquidity and working capital position and the third condition could have an impact on the Corporation's liquidity and working capital position should the lender choose to exercise its option to amortize the loan. The current portion of long-term debt as at April 30, 2009 reflects the requirement to make the principal payments outlined in the first condition. Provided the yield on 90-day Bankers' Acceptance yield does not change materially, the second condition is not expected to have a material impact on the Corporation's financial performance.

## **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 management's discussion and analysis for the year ended January 31, 2009, which can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS**

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures to ensure that material information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management in order to allow timely decisions regarding required disclosure. The Corporation's management, including the CEO and CFO have evaluated the effectiveness of the Corporation's disclosure controls and procedures as at April 30, 2009 and have concluded that those disclosure controls and procedures were effective.

The CEO and the CFO are responsible for the design of internal controls 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 control framework that has been used is the COSO framework. The Corporation's CEO and CFO have evaluated whether there were changes to the Corporation's ICFR during the three month period ended April 30, 2009. There were no changes in the Corporation's ICFR during the current quarter that have materially affected, or are likely to materially affect, the Corporation's ICFR.

Because of their inherent limitations, disclosure controls and procedures and ICFR may not prevent or detect misstatements, errors or fraud. The inherent limitations include the realities that judgments in decision-making can be faulty, controls can be circumvented by individual acts of some persons or by collusion of two or more people or management can override of the controls. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

## **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, including the availability of equity and/or debt capital to the Corporation; 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 implied 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: June 15, 2009**