



**Interim Consolidated Financial Statements
April 30, 2009
(Unaudited)**

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

	<u>April 30 2009</u>	<u>January 31 2009</u>
Assets		
Current assets:		
Cash	\$ 3,042	\$ 6,865
Restricted cash (note 10)	2,861	-
Accounts receivable	20,730	14,433
Income taxes recoverable	850	798
Inventory	14,854	14,894
Prepaid expenses and other	<u>7,001</u>	<u>3,567</u>
	49,338	40,557
Land, buildings and equipment	154,186	153,544
Goodwill	37,862	37,862
Intangible assets	<u>26,947</u>	<u>28,063</u>
	<u>\$ 268,333</u>	<u>\$ 260,026</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating line of credit (note 3)	\$ 14,484	\$ -
Accounts payable and accrued liabilities	14,330	11,928
Current portion of long-term debt (notes 4 and 9)	<u>8,588</u>	<u>10,383</u>
	<u>37,402</u>	<u>22,311</u>
Long-term debt (notes 4 and 9)	135,549	135,343
Future income taxes	26,155	27,993
Non-controlling interest	1,844	1,947
Shareholders' equity		
Share capital (note 5)	184,535	184,535
Contributed surplus	7,084	7,012
Deficit	<u>(124,236)</u>	<u>(119,115)</u>
	<u>67,383</u>	<u>72,432</u>
	<u>\$ 268,333</u>	<u>\$ 260,026</u>

Nature of operations (note 1)
Commitments (note 10)
Subsequent events (note 13)

See accompanying notes to the interim consolidated financial statements.

DISCOVERY AIR INC.

Interim Consolidated Statements of Loss and Comprehensive Loss

Unaudited

(thousands of dollars, except loss per share)

	<i>for the three months ended</i>	
	April 30	April 30
	2009	2008
Revenue	\$ 25,566	\$ 30,754
Operating expenses	23,728	28,439
Earnings before undernoted items	<u>1,838</u>	<u>2,315</u>
Interest expense	3,499	3,025
Amortization of buildings and equipment	2,282	1,999
Amortization of intangible assets	1,116	1,118
Relocation of corporate office (note 11)	1,173	-
Financing transaction costs (note 3)	830	-
	<u>8,900</u>	<u>6,142</u>
Loss before income taxes and non-controlling interest	(7,062)	(3,827)
Income taxes recovery	(1,838)	(1,164)
Loss before non-controlling interest	(5,224)	(2,663)
Non-controlling interest	<u>(103)</u>	<u>37</u>
Loss and comprehensive loss	<u>\$ (5,121)</u>	<u>\$ (2,700)</u>
Basic loss per share (note 6)	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>
Diluted loss per share (note 6)	<u>\$ (0.04)</u>	<u>\$ (0.02)</u>

See accompanying notes to the interim consolidated financial statements.

DISCOVERY AIR INC.

Interim Consolidated Statements of Shareholders' Equity

Unaudited

(thousands of dollars)

for the three months ended

April 30	April 30
2009	2008

Share capital (note 5)

Common shares:

Outstanding, beginning of period

\$ 184,535 \$ 184,968

Outstanding, end of period

\$ 184,535 \$ 184,968

Contributed surplus

Balance, beginning of period

\$ 7,012 \$ 5,689

Stock-based compensation

72 404

Balance, end of period

\$ 7,084 \$ 6,093

Retained earnings (deficit)

Retained earnings (deficit), beginning of period

\$ (119,115) \$ 11,210

Loss and comprehensive loss

(5,121) (2,700)

Retained earnings (deficit), end of period

\$ (124,236) \$ 8,510

See accompanying notes to the interim consolidated financial statements.

DISCOVERY AIR INC.
Interim Consolidated Statements of Cash Flow
Unaudited
(thousands of dollars)

for the three months ended

	April 30 2009	April 30 2008
Cash provided by (used in):		
Operations:		
Loss	\$ (5,121)	\$ (2,700)
Items not involving cash:		
Future income tax recovery	(1,838)	(653)
Stock-based compensation (note 5)	72	404
Amortization of buildings and equipment and intangible assets	3,398	3,117
Amortization of rotatable and overhauled components	1,436	1,185
Amortization of discount of long-term debt	328	321
Loss (gain) on sale of equipment	111	(72)
Non-controlling interest	(103)	37
Change in non-cash operating working capital (note 7)	(10,202)	(11,320)
	<u>(11,919)</u>	<u>(9,681)</u>
Investing:		
Purchases of land, buildings and equipment	(4,547)	(9,927)
Proceeds on disposal of equipment	76	206
	<u>(4,471)</u>	<u>(9,721)</u>
Financing:		
Proceeds from operating line of credit	14,484	7,543
Proceeds from long-term debt	36,261	9,972
Financing costs	(1,121)	(9)
Repayment of long-term debt	(37,057)	(1,565)
	<u>12,567</u>	<u>15,941</u>
Decrease in cash	(3,823)	(3,461)
Cash, beginning of period	6,865	3,756
Cash, end of period	<u>\$ 3,042</u>	<u>\$ 295</u>
Supplementary cash flow information:		
Interest paid during the period	\$ 2,145	\$ 1,863
Income taxes paid during the period	\$ 52	\$ 26

See accompanying notes to the interim consolidated financial statements.

DISCOVERY AIR INC.

Notes to the interim consolidated financial statements (unaudited)

For the three months ended April 30, 2009 and 2008

(thousands of dollars, except per share amounts or unless otherwise specified)

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 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 directly and in partnership with northern Aboriginal groups, operates a fleet of 63 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 23 fixed wing aircraft offering scheduled and chartered passenger and cargo services, as well as air ambulance services, in Northern Canada. Air Tindi both directly and in partnership with northern Aboriginal groups, provides services to a diversified customer base that includes major diamond and mineral exploration and mining companies and the Governments of Canada and the Northwest Territories.

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.

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 18 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 27 aircraft and flight operation and aircraft maintenance bases throughout Northern Ontario. Hicks also provides air charter services using 3 turbine aircraft to the provincial government and various other corporate entities which conduct business in Northern Ontario.

1. Nature of operations

The Corporation has incurred a loss of \$5.1 million for the three months ended April 30, 2009 and has a cumulative deficit of \$124.2 million as at April 30, 2009. The Corporation's results continue to be impacted by weak conditions in the resource sector that are resulting in a significantly reduced demand for aviation and aviation-related services from customers operating in this sector. These adverse factors have been partially offset by strong positive results in some of the Corporation's other lines of business. Management's plans with respect to managing these uncertainties include actively managing working capital, reducing non-essential operating expenses and general and administrative costs and limiting non-critical capital expenditures. There can be no assurance that the strategies discussed above will be successful. 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 positive results 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.

2. Significant accounting policies

(a) Basis of presentation:

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, 2009.

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

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.

(b) Future changes in accounting policies

(i) 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 note 2(b)(iii) 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.

(ii) 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.

(iii) International Financial Reporting Standards

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.

3. Operating line of credit:

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 seasonally 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 prior permitted security interests in favour of the Corporation's term lenders. The Corporation incurred \$649 in transaction costs in the current quarter to establish this operating line of credit facility. These costs were expensed and classified as financing transaction costs in the accompanying statement of consolidated loss and comprehensive loss. As at April 30, 2009, the Corporation had \$14.5 million drawn on this operating loan facility.

4. Long-term debt:

	April 30 2009	January 31 2009
8.75% unsecured convertible debentures, maturing December 31, 2011 (described below)	\$ 26,892	\$ 26,740
Revolving long-term secured debt bearing a floating interest rate of the 30 day BA yield (with a minimum base of 2.50%) plus 6.25%, maturing January 21, 2013 (described below)	49,055	51,637
Long-term secured debt bearing a fixed interest rate of 9.25%, maturing February 1, 2009	-	33,000
Long-term secured debt bearing a fixed interest rate of 10.00%, maturing February 1, 2013 (described below)	32,998	-
Long-term secured debt incurred by a subsidiary bearing an interest rate of floating base bank rate plus 3.25%, maturing fiscal January 15, 2015 (described below)	14,202	12,741
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 7.23%, maturing fiscal 2012 through fiscal 2014	1,581	1,652
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 4.40%, maturing fiscal 2013 through fiscal 2017	1,409	1,463
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1.00%, maturing fiscal 2015 through fiscal 2016 (note 8)	14,900	15,108
Unsecured notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing in fiscal 2010 (note 8)	2,831	3,081
Conditional sales contracts	269	304
	144,137	145,726
Less current portion of long-term debt	8,588	10,383
	\$ 135,549	\$ 135,343

The 8.75% convertible debentures are convertible at any time into common shares at \$2.05 per share. The convertible debentures are not redeemable before December 31, 2009. Between December 31, 2009 and December 31, 2010, the convertible debentures are redeemable by the Corporation at the principal amount outstanding plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares of the Corporation's shares is greater than 125% of the conversion price. On or after December 31, 2010, the convertible debentures are redeemable by the

Corporation at their principal amount plus accrued interest. The debentures were issued in December, 2006 at which time the fair value of the Corporation's obligation to make future payments of principal and interest was \$27.6 million and the fair value of the holders' conversion option was determined to be \$1.1 million. Financing costs of \$1.9 million related to the issue of the convertible debentures have been included in the carrying value of long-term debt. As interest expense and financing costs are recognized they increase the recorded carrying value of the related long-term debt until such time as the liability recorded is equal to the debentures' face value of \$28.75 million, calculated based on an effective interest rate of 11.70%.

In January 2008, the Corporation entered into a five year revolving long-term debt agreement to finance certain of its fleet assets. As at January 31, 2009, the Corporation had approximately \$52.6 million available to it and drawn from this facility. The loan bears an interest rate of the applicable 30 days Bankers Acceptance yield (subject to a floor rate of 2.50%) plus 6.25% per annum. On April 24, 2009, the available borrowing base was reduced to \$50.0 million. The debt currently requires only the repayment of interest. On July 24, 2009 and each year thereafter 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 on a blended repayment basis 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. and its wholly-owned subsidiaries Great Slave, Air Tindi, Discovery Mining and Hicks, an unsecured guarantee of the indebtedness by Top Aces, and a mortgage over certain real estate owned by the Corporation which is subordinate to the interest of other term lenders. The security structure provides a first charge over specific aircraft owned by these subsidiaries and a secondary floating charge over all their other assets, subject to permitted encumbrances in favour of other term debt lenders and the operating lender. Related financing costs of \$1.3 million were netted against the carrying value of the long-term debt 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 require the Corporation to maintain specified financial ratios related to balance sheet leverage and debt coverage as well as a minimum level of tangible net worth. As at April 30, 2009, the Corporation was in compliance with all covenants related to this debt. Subsequent to April 30, 2009, the Corporation was advised by the lender of amendments to this debt agreement that will be effective July 2009 (note 13).

In February 2009, the Corporation entered into a \$34.0 million term loan agreement to refinance a maturing term loan. The term loan has an effective interest rate of 11.10% per annum and the principal balance is due on February 1, 2013. The loan is secured by a general security agreement over the assets of Discovery Air Inc. and its wholly-owned subsidiaries Great Slave, 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 second 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 their other assets, subject to permitted encumbrances in favour of other term lenders and the operating lender. The Corporation incurred \$1.1 million in transaction costs related to the new term loan, which are netted against the debt and will be expensed over the term of the loan on an effective interest basis.

In February 2008 the Corporation entered into a \$21.5 million term loan agreement to refinance its existing term debt and the purchase of additional aircraft, spare engines and aircraft parts. The principal amount of the loan is repayable in monthly instalments of \$256 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 interest provided to an operating lender over Top Aces' accounts receivable. As at April 30, 2009, \$14.4 million was outstanding under this term loan. Financing costs of \$227 were incurred to date in obtaining the loan and 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 a minimum level of tangible net worth. As at April 30, 2009, the Corporation was in compliance with all covenants related to this debt.

The scheduled principal repayment of the long-term debt over the next five years and thereafter is presented in note 9.

Interest on long-term debt for the quarter ended April 30, 2009 was \$3.3 million (2009 - \$2.7 million).

5. Share capital and stock-based compensation:

(a) Authorized and outstanding:

The Corporation is authorized to issue an unlimited number of Class A common voting shares and an unlimited number of Class B common variable voting shares. As at April 30, 2009, there were 134,461,555 (January 31, 2009 – 134,461,555) Class A common voting shares issued and outstanding and 742,604 (January 31, 2009 – 742,604) Class B common variable voting shares issued and outstanding.

(b) Stock-based compensation:

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, 2008. Also in the current quarter, 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 (April 30, 2008 - \$404) 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 (January 31, 2009 – 7,447,450) common shares issuable under options. Prior to the termination 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.

(d) Deferred share units

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 \$112 (April 30, 2008 - \$1) of compensation expense related to DSUs in the current quarter.

(e) 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.

6. Per share amounts

(thousands except per share amounts)	<i>for the three months ended</i>	
	April 30 2009	April 30 2008
Basic loss per share		
Loss	\$ (5,121)	\$ (2,700)
Average number of common shares outstanding	135,204	135,204
Basic loss per share	\$ (0.04)	\$ (0.02)
Diluted loss per share		
Loss	\$ (5,121)	\$ (2,700)
Average number of common shares outstanding	135,204	135,204
Dilutive effects of stock options	-	-
Average number of common shares outstanding assuming dilution	135,204	135,204
Diluted loss per share	\$ (0.04)	\$ (0.02)

For the three months ended April 30, 2009 and 2008, employee stock options as well as the conversion feature on the convertible debentures were not included in the calculation of diluted earnings per share as the result would be anti-dilutive.

7. Change in non-cash operating working capital

(thousands of dollars)	<i>for the three months ended</i>	
	April 30 2009	April 30 2008
Restricted cash	\$ (2,861)	\$ -
Accounts receivable	(6,297)	(9,614)
Income taxes recoverable	(52)	-
Inventory	40	(1,193)
Prepaid expenses and other	(3,434)	(3,929)
Accounts payable and accrued liabilities	2,402	3,947
Income taxes payable	-	(531)
	\$ (10,202)	\$ (11,320)

8. 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 \$129 (April 30, 2008 - \$227).

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 \$952, 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. There have been no further developments in this matter since the last quarter. 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.

9. 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 and restricted cash	Held for trading
Accounts receivable	Loans and receivables
Operating line of credit	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

Held for trading financial assets and liabilities are recorded at fair value, with realized and unrealized gains and losses reported in net income. Loans and receivables and other financial liabilities are accounted for on initial recognition at fair value and subsequent to initial recognition at amortized cost using the effective interest method.

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 inventory parts, financing of aircraft, and periodic purchase of aircraft.

As at April 30, 2009, the Corporation held net unhedged assets of USD \$105 and net unhedged liabilities of EUR 361. 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 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 (note 10) 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 to the Corporation's earnings for the three-month period ended April 30, 2009.

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 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 (note 13). As at April 30, 2009, the Corporation was in compliance with these new financial covenants.

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
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
	\$ 37,402	\$ 4,479	\$ 31,276	\$ 85,319	\$ 11,190	\$ 3,285	\$ 172,951

Fair Value

The fair value of accounts receivable and accounts payable and accrued liabilities 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.

10. 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 following table:

(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.

As at April 30, 2009, the Corporation had \$1.7 million in letters of credit it obtained through its lenders. The contingent exposures are cash collateralized, which comprises a significant component of the Corporation's restricted cash balance. The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries. The requirement to cash collateralize contingent exposures has arisen as the Corporation's new operating lender is only in a position to provide direct loan advances.

11. Relocation of corporate office:

A condition in obtaining the \$34.0 million term loan (note 4) obligates the Corporation to re-locate its current corporate office to Yellowknife, NWT from its current location in London, Ontario 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 made an initial estimate of the potential total liability of up to \$1.6 million to be incurred over the current year and into fiscal 2011 related to severance and termination benefits. Other expenses related to the relocation of the corporate office would relate primarily to logistical costs of transferring physical assets and recruiting costs. The Corporation is assessing the expected costs related to these other costs and they remain indeterminable as at April 30, 2009.

As at April 30, 2009, the Corporation recorded a liability of \$1,173 related primarily to termination benefits.

12. Segmented information:

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the markets in which the Corporation's aviation and related services operate. The Northern Services segment is comprised of Great Slave, Air Tindi and Discovery Mining and the Government Services segment is comprised of Top Aces and Hicks. 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 operating 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
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	-	-	-	-
Amortization	2,272	1,113	13	3,398	2,086	1,015	16	3,117
Earnings (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				(1,838)				(1,164)
Minority interest				(103)				37
Loss and comprehensive loss				(5,121)				(2,700)
Capital expenditures	\$ 2,536	\$ 2,011	\$ -	\$ 4,547	\$ 8,093	\$ 1,818	\$ 16	\$ 9,927

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

13. 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 (note 4). 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 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 each are to be made commencing July 2009;
- ii) The interest rate structure will be amended to the 90-day BA yield (with a minimum base of 0.25%) plus 8.25% per annum; 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.

14. Comparative figures

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