



**Interim Consolidated Financial Statements  
July 31, 2009  
(Unaudited)**

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

	<u>July 31</u> <u>2009</u>	<u>January 31</u> <u>2009</u>
<b>Assets</b>		
Current assets:		
Cash	\$ 2,958	\$ 6,865
Restricted cash (note 9)	1,457	-
Accounts receivable	29,276	14,433
Income taxes recoverable	775	798
Inventory	14,224	14,894
Prepaid expenses and other	<u>5,257</u>	<u>3,567</u>
	53,947	40,557
Land, buildings and equipment	151,432	153,544
Goodwill	37,862	37,862
Intangible assets	<u>25,831</u>	<u>28,063</u>
	<u>\$ 269,072</u>	<u>\$ 260,026</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit (note 3)	\$ 8,735	\$ -
Accounts payable and accrued liabilities	13,300	11,928
Current portion of long-term debt (notes 4)	<u>7,966</u>	<u>10,383</u>
	30,001	22,311
Long-term debt (notes 4)	134,280	135,343
Future income taxes	27,271	27,993
Non-controlling interest	<u>2,100</u>	<u>1,947</u>
	193,652	187,594
<b>Shareholders' equity</b>		
Share capital (note 5)	184,535	184,535
Contributed surplus	7,117	7,012
Deficit	<u>(116,232)</u>	<u>(119,115)</u>
	75,420	72,432
	<u>\$ 269,072</u>	<u>\$ 260,026</u>

Nature of operations (note 1)  
Commitments (note 9)

See accompanying notes to the interim consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Consolidated Statements of Net Earnings and Comprehensive Income

Unaudited

(thousands of dollars, except per share amounts)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2009</b>	<b>July 31 2008</b>	<b>July 31 2009</b>	<b>July 31 2008</b>
Revenue	\$ 45,733	\$ 59,050	\$ 71,299	\$ 89,804
Operating expenses	26,584	39,429	50,312	67,868
Earnings before undernoted items	19,149	19,621	20,987	21,936
Interest expense	3,824	3,186	7,323	6,211
Amortization of buildings and equipment	2,289	2,098	4,571	4,097
Amortization of intangible assets	1,116	1,116	2,232	2,234
Relocation of corporate office (note 10)	318	-	1,491	-
Financing transaction costs (note 3)	-	-	830	-
	7,547	6,400	16,447	12,542
Earnings before income taxes and non-controlling interest	11,602	13,221	4,540	9,394
Income taxes expense	3,342	4,136	1,504	2,972
Earnings before non-controlling interest	8,260	9,085	3,036	6,422
Non-controlling interest	256	216	153	253
<b>Net earnings and comprehensive income</b>	<b>\$ 8,004</b>	<b>\$ 8,869</b>	<b>\$ 2,883</b>	<b>\$ 6,169</b>
Basic earnings per share (note 6)	\$ 0.06	\$ 0.07	\$ 0.02	\$ 0.05
Diluted earnings per share (note 6)	\$ 0.06	\$ 0.07	\$ 0.02	\$ 0.05

See accompanying notes to the interim consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Consolidated Statements of Shareholders' Equity

Unaudited

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Share capital (note 5)</b>				
Common shares:				
Outstanding, beginning of period	\$ 184,535	\$ 184,968	\$ 184,535	\$ 184,968
Expiry of warrants	-	(433)	-	(433)
Outstanding, end of period	<u>\$ 184,535</u>	<u>\$ 184,535</u>	<u>\$ 184,535</u>	<u>\$ 184,535</u>
<b>Contributed surplus</b>				
Balance, beginning of period	\$ 7,084	\$ 6,093	\$ 7,012	\$ 5,689
Stock-based compensation	33	225	105	629
Expiry of warrants	-	433	-	433
Balance, end of period	<u>\$ 7,117</u>	<u>\$ 6,751</u>	<u>\$ 7,117</u>	<u>\$ 6,751</u>
<b>Retained earnings (deficit)</b>				
Retained earnings (deficit), beginning of period	\$ (124,236)	\$ 8,510	\$ (119,115)	\$ 11,210
Net earnings and comprehensive income	8,004	8,869	2,883	6,169
Retained earnings (deficit), end of period	<u>\$ (116,232)</u>	<u>\$ 17,379</u>	<u>\$ (116,232)</u>	<u>\$ 17,379</u>

See accompanying notes to the interim consolidated financial statements.

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

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>Cash provided by (used in):</b>				
<b>Operations:</b>				
Net earnings and comprehensive income	\$ 8,004	\$ 8,869	\$ 2,883	\$ 6,169
Items not involving cash:				
Future income taxes expense (recovery)	1,116	688	(722)	35
Stock-based compensation (note 5)	33	225	105	629
Amortization of buildings and equipment and intangible assets	3,405	3,215	6,803	6,332
Amortization of rotatable and overhauled components	1,717	1,977	3,153	3,162
Amortization of discount on long-term debt	307	312	635	633
Loss (gain) on sale of equipment	62	(150)	173	(222)
Non-controlling interest	256	216	153	253
Change in non-cash operating working capital (note 7)	(5,723)	(8,956)	(15,925)	(20,277)
	<u>9,177</u>	<u>6,396</u>	<u>(2,742)</u>	<u>(3,286)</u>
<b>Investing:</b>				
Purchases of land, buildings and equipment	(2,848)	(6,062)	(7,395)	(15,989)
Proceeds on disposal of equipment	1,534	830	1,610	1,037
	<u>(1,314)</u>	<u>(5,232)</u>	<u>(5,785)</u>	<u>(14,952)</u>
<b>Financing:</b>				
Proceeds from (repayment of) operating line of credit	(5,749)	(2,288)	8,735	5,255
Proceeds from long-term debt	-	771	36,261	10,743
Financing costs	(569)	(60)	(1,690)	(69)
Repayment of long-term debt	(1,629)	(1,699)	(38,686)	(3,264)
	<u>(7,947)</u>	<u>(3,276)</u>	<u>4,620</u>	<u>12,665</u>
Decrease in cash	(84)	(2,112)	(3,907)	(5,573)
Cash, beginning of period	<u>3,042</u>	<u>295</u>	<u>6,865</u>	<u>3,756</u>
Cash (bank indebtedness), end of period	<u>\$ 2,958</u>	<u>\$ (1,817)</u>	<u>\$ 2,958</u>	<u>\$ (1,817)</u>
<b>Supplementary cash flow information:</b>				
Interest paid during the period	\$ 4,507	\$ 3,362	\$ 6,652	\$ 5,225
Income taxes paid during the period	\$ 2,151	\$ 424	\$ 2,203	\$ 450

See accompanying notes to the interim consolidated financial statements.

## **DISCOVERY AIR INC.**

### **Notes to the interim consolidated financial statements (unaudited)**

**For the six months ended July 31, 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 55 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.

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors related to that seasonality, such as weather conditions, can impact the comparability of results from one period to another, particularly from quarter to quarter. Some of the seasonal factors that impact quarterly results are as follows: 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; weather conditions can have an impact on available flight activity from one period to another, especially with respect to the Corporation's fire suppression activities; and, 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 do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

## 1. Nature of operations

The Corporation's net earnings of \$2.9 million for the six months ended July 31, 2009 is \$3.3 million lower than the comparative period and the Corporation has a cumulative deficit of \$116.2 million as at July 31, 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. In the most recent quarter results were also impacted by weak forest fire conditions in some of the geographic markets the Corporation serves. 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)(iv) 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) Financial instruments

Handbook section 3862, *Financial Instruments – Disclosures* was amended in June 2009 to improve disclosure requirements around fair value measurement for financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments to Section 3862 apply for annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The Corporation is assessing the potential impact of the amendments to this standard.

(iv) 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 has commenced the process of assessing the impact of the implementation of IFRS on its accounting policies and financial statements. IFRS allows for different accounting treatments on first implementing IFRS and management will be evaluating its alternatives as part of the implementation process. Management will also be assessing possible changes that may need to be implemented to ensure that adequate internal controls over financial reporting and disclosure controls and procedures will remain in place once IFRS is implemented. Once the assessment is completed the Corporation intends to disclose the potential material impacts in its future consolidated financial statements.

### 3. Operating line of credit:

The Corporation has established a demand operating line of credit facility that provides a limit 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. As at July 31, 2009, the Corporation had available and unused borrowing capacity of \$12.1 million under this operating line of credit. The credit facility bears an interest rate of 18.00% per annum and expires on June 8, 2010. 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 first 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 earnings and comprehensive income. As at July 31, 2009, the Corporation had \$8.7 million drawn on this operating loan facility.

### 4. Long-term debt:

	July 31 2009	January 31 2009
8.75% unsecured convertible debentures, maturing December 31, 2011 (described below)	\$ 27,045	\$ 26,740
Revolving long-term secured debt bearing a floating interest rate of the 90 day BA yield (with a minimum base of 0.25%) plus 8.25%, maturing January 21, 2013 (described below)	48,402	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)	33,043	-
Long-term secured debt incurred by a subsidiary bearing an interest rate of floating base bank rate plus 3.75%, maturing January 15, 2015 (described below)	13,442	12,741

Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 7.21%, maturing fiscal 2012 through fiscal 2014	1,508	1,652
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 3.91%, maturing fiscal 2013 through fiscal 2017	1,353	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)	14,664	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)	2,581	3,081
Conditional sales contracts	208	304
	142,246	145,726
Less current portion of long-term debt	7,966	10,383
	\$ 134,280	\$ 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 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. On July 24, 2009, the Corporation's borrowing base was adjusted from \$50.0 million, set on April 24, 2009, to \$49.8 million which is the balance the Corporation has drawn on this facility as at July 31, 2009. Also effective on this date were the following amendments to the facility:

- A change in the interest rate base to a 90 day Bankers Acceptance yield (subject to a floor rate of 0.25%) plus 8.25% per annum.
- Ten monthly principal repayments of USD \$83 in addition to scheduled monthly interest payments commencing September 2009.
- The agreement allows the lender on each anniversary date (July 24th) the option convert the revolving term facility to an amortizing debt with the principal balance at the time amortized over a 102 month period on a blended repayment basis at which time the revolving feature of the debt would be terminated. Should the lender choose to exercise its option to convert the revolving term loan to an amortizing loan, the maturity date of the credit facility would remain unchanged.

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 \$1.8 million were netted against the carrying value of the long-term debt and will be expensed over the related term of the loan on an effective interest basis. The loan has an effective interest rate of 9.32%. 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 July 31, 2009, the Corporation was in compliance with all covenants related to this debt.

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 10.98% 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 to purchase 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 3.75% 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 July 31, 2009, \$13.6 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 July 31, 2009, the Corporation was in compliance with all covenants related to this debt.

Interest on long-term debt for the quarter ended July 31, 2009 and year-to-date totaled \$3.4 million (2009 - \$2.9 million) and \$6.7 million (2009 - \$5.6 million) respectively.

## 5. Share capital and stock-based compensation:

### (a) Authorized and outstanding:

The Corporation is authorized to issue an unlimited number of Class A common voting shares and an unlimited number of Class B common variable voting shares. As at July 31, 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:

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2009</b>	<b>July 31 2008</b>	<b>July 31 2009</b>	<b>July 31 2008</b>
	Number of options	Number of options	Number of options	Number of options
Outstanding, beginning of period	6,622,450	7,494,550	7,447,450	7,113,200
Granted	-	25,000	-	406,350
Exercised	-	-	-	-
Forfeited	(3,475)	-	(3,475)	-
Expired	(24,875)	-	(849,875)	-
<b>Outstanding, end of period</b>	<b>6,594,100</b>	<b>7,519,550</b>	<b>6,594,100</b>	<b>7,519,550</b>

The Corporation terminated the existing stock option plan in June 2008. 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. As at July 31, 2009, there were 6,330,017 (January 31, 2009 – 6,156,003) outstanding stock options exercisable with a weighted-average exercise price of \$1.28 (January 31, 2009 - \$1.21). The Corporation had compensation expense of \$33 (July 31, 2008 - \$225) for the quarter and \$105 (July 31, 2008 - \$629) year-to-date related to the vested portion of the stock options granted.

(c) Deferred share units

At July 31, 2009, there were 851,652 (January 31, 2009 – 247,655) deferred share units (“DSU”) held by the directors of the Corporation which had a fair value of \$187 (January 31, 2009 - \$59) recorded in the Corporation’s accounts payable and accrued liabilities. 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. The Corporation granted 227,923 (July 31, 2008 – 1,776) DSUs during the quarter and 603,909 (July 31, 2008 – 12,776) DSUs year-to-date. The Corporation recognized DSU compensation expense of \$71 (July 31, 2008 - \$2) in the quarter and \$183 (July 31, 2008 - \$3) year-to-date. No payment was made in the current quarter or year-to-date to retire DSUs. Payments totaling \$5 were made in the comparative quarter to retire 6,063 DSUs.

(d) Normal course issuer bid:

On June 10, 2008, the Corporation filed a notice with the Toronto Stock Exchange (“Exchange”) to make a normal course issuer bid (“NCIB”) allowing the Corporation to purchase for cancellation up to 5,000,000 of its Class A common voting shares (“common shares”) representing 3.72% of the 134,461,555 issued and outstanding common shares as at June 11, 2008. Subject to one block purchase per calendar week allowed pursuant to the rules of the Exchange, the maximum number of common shares to be acquired under the NCIB each day was 11,670 common shares. The NCIB allowed the Corporation to 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 completed its purchases pursuant to the Notice of Intention. Any purchase made under the NCIB would have been effected through the facilities of the Exchange and in accordance with the policies and rules of the Exchange. The Corporation did not make any repurchases under the NCIB and did not extend the term of the NCIB after it expired on June 11, 2009.

**6. Per share amounts**

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2009</b>	<b>July 31 2008</b>	<b>July 31 2009</b>	<b>July 31 2008</b>
(thousands except per share amounts)				
<b>Basic earnings per share</b>				
Net earnings	\$ 8,004	\$ 8,869	\$ 2,883	\$ 6,169
Average number of common shares outstanding	135,204	135,204	135,204	135,204
Basic earnings per share	\$ 0.06	\$ 0.07	\$ 0.02	\$ 0.05
<b>Diluted earnings per share</b>				
Net earnings	\$ 8,004	\$ 8,869	\$ 2,883	\$ 6,169
Average number of common shares outstanding	135,204	135,204	135,204	135,204
Dilutive effects of stock options	-	1,214	-	1,321
Average number of common shares outstanding assuming dilution	135,204	136,418	135,204	136,525
Diluted earnings per share	\$ 0.06	\$ 0.07	\$ 0.02	\$ 0.05

As at July 31, 2009, 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. As at July 31, 2008, 4.9 million employee stock options and the conversion feature on the convertible debentures were anti-dilutive.

## 7. Change in non-cash operating working capital

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Restricted cash	\$ 1,404	\$ -	\$ (1,457)	\$ -
Accounts receivable	(8,546)	(16,421)	(14,843)	(26,035)
Income taxes recoverable	75	-	23	-
Inventory	630	(761)	670	(1,954)
Prepaid expenses and other	1,744	1,471	(1,690)	(2,458)
Accounts payable and accrued liabilities	(1,030)	3,737	1,372	7,683
Income taxes payable	-	3,018	-	2,487
	<b>\$ (5,723)</b>	<b>\$ (8,956)</b>	<b>\$ (15,925)</b>	<b>\$ (20,277)</b>

## 8. Related party transactions:

At July 31, 2009, the Corporation had long-term debt including accrued interest totaling \$17.2 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 and year-to-date the interest expense on this debt totaled \$90 (July 31, 2008 - \$303) and \$219 (July 31, 2008 - \$531) respectively.

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 of a subsidiary 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. 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)	<b>Due within 1 year</b>	<b>Due between 1 &amp; 2 years</b>	<b>Due between 2 &amp; 3 years</b>	<b>Due between 3 &amp; 4 years</b>	<b>Due between 4 &amp; 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
Operating leases	\$ 4,495	\$ 1,781	\$ 1,358	\$ 1,054	\$ 320	\$ 274	\$ 9,282

The Corporation is committed to purchase aircraft, related inventory and service contracts for an estimated purchase price of \$1.7 million. The committed purchases are scheduled to be made within one year of the current reporting period.

As at July 31, 2009, the Corporation had \$1.5 million in restricted cash (January 31, 2009 - \$0). \$0.6 million of this restricted cash is used as collateral for letters of credit the Corporation obtained through its lenders. 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.

## 10. Relocation of corporate office:

A condition in obtaining the \$34.0 million term loan (note 4) obligates the Corporation to re-locate its 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 has expensed \$1.3 million to date related to severance and termination benefits and currently estimates an additional liability of \$200 will be incurred over the balance of the current year and into fiscal 2011. 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 July 31, 2009. For the six months ended July 31, 2009, the Corporation has recorded an expense of \$1,491 related to the relocation of its corporate office, which includes the \$1.3 million severance and termination benefits expense.

## 11. 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 July 31, 2009</i>				<i>for the three months ended July 31, 2008</i>			
	<b>Northern Services</b>	<b>Government Services</b>	<b>Corporate Support</b>	<b>Total</b>	<b>Northern Services</b>	<b>Government Services</b>	<b>Corporate Support</b>	<b>Total</b>
<b>Revenue</b>	<b>\$ 26,375</b>	<b>\$ 19,330</b>	<b>\$ 28</b>	<b>\$ 45,733</b>	<b>\$ 44,572</b>	<b>\$ 14,478</b>	<b>\$ -</b>	<b>\$ 59,050</b>
Operating expenses	16,267	9,111	1,206	26,584	29,528	8,346	1,555	39,429
Relocation of corporate office	-	-	318	318	-	-	-	-
Amortization	2,250	1,142	13	3,405	2,188	1,008	18	3,214
Earnings (loss) from operations								
before undernoted items	7,858	9,077	(1,509)	15,426	12,856	5,124	(1,573)	16,407
Interest expense				3,824				3,186
Financing transaction costs				-				-
Income taxes provision				3,342				4,136
Non-controlling interest				256				216
<b>Net earnings and comprehensive income</b>				<b>8,004</b>				<b>8,869</b>
<b>Capital expenditures</b>	<b>\$ 1,481</b>	<b>\$ 1,360</b>	<b>\$ 7</b>	<b>\$ 2,848</b>	<b>\$ 4,107</b>	<b>\$ 1,927</b>	<b>\$ 28</b>	<b>\$ 6,062</b>

(thousands of dollars)	<i>for the six months ended July 31, 2009</i>				<i>for the six months ended July 31, 2008</i>			
	<b>Northern Services</b>	<b>Government Services</b>	<b>Corporate Support</b>	<b>Total</b>	<b>Northern Services</b>	<b>Government Services</b>	<b>Corporate Support</b>	<b>Total</b>
<b>Revenue</b>	<b>\$ 38,042</b>	<b>\$ 33,227</b>	<b>\$ 30</b>	<b>\$ 71,299</b>	<b>\$ 65,113</b>	<b>\$ 24,684</b>	<b>\$ 7</b>	<b>\$ 89,804</b>
Operating expenses	30,216	17,525	2,571	50,312	49,936	14,915	3,017	67,868
Relocation of corporate office	-	-	1,491	1,491	-	-	-	-
Amortization	4,522	2,255	26	6,803	4,274	2,023	34	6,331
Earnings (loss) from operations								
before undernoted items	3,304	13,447	(4,058)	12,693	10,903	7,746	(3,044)	15,605
Interest expense				7,323				6,211
Financing transaction costs				830				-
Income taxes provision				1,504				2,972
Non-controlling interest				153				253
<b>Net earnings and comprehensive income</b>				<b>2,883</b>				<b>6,169</b>
<b>Capital expenditures</b>	<b>\$ 4,017</b>	<b>\$ 3,371</b>	<b>\$ 7</b>	<b>\$ 7,395</b>	<b>\$ 12,200</b>	<b>\$ 3,745</b>	<b>\$ 44</b>	<b>\$ 15,989</b>
	<i>As at July 31, 2009</i>				<i>As at January 31, 2009</i>			
<b>Total assets</b>	<b>\$ 153,747</b>	<b>\$ 113,708</b>	<b>\$ 1,617</b>	<b>\$ 269,072</b>	<b>\$ 145,699</b>	<b>\$ 111,960</b>	<b>\$ 2,367</b>	<b>\$ 260,026</b>
<b>Goodwill</b>	<b>\$ -</b>	<b>\$ 37,862</b>	<b>\$ -</b>	<b>\$ 37,862</b>	<b>\$ -</b>	<b>\$ 37,862</b>	<b>\$ -</b>	<b>\$ 37,862</b>
<b>Intangible assets</b>	<b>\$ 11,151</b>	<b>\$ 14,680</b>	<b>\$ -</b>	<b>\$ 25,831</b>	<b>\$ 12,225</b>	<b>\$ 15,838</b>	<b>\$ -</b>	<b>\$ 28,063</b>

## 12. Comparative figures

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