Consolidated Financial Statements of

DISCOVERY AIR INC.

Years ended January 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Discovery Air Inc.

We have audited the accompanying consolidated financial statements of Discovery Air Inc., which comprise the consolidated statements of financial position as at January 31, 2012, January 31, 2011 and February 1, 2010, the consolidated statements of profit and comprehensive income, shareholders' equity and cash flows for the years ended January 31, 2012 and January 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Discovery Air Inc. as at January 31, 2012, January 31, 2011 and February 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended January 31, 2012 and January 31, 2011, in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

April 29, 2012
Edmonton, Canada

DISCOVERY AIR INC.

Consolidated Statements of Financial Position

As at January 31, 2012, January 31, 2011 and February 1, 2010

(thousands of Canadian dollars)	Note	January 31, 2012	January 31, 2011	February 1, 2010
Assets			(Notes 23 & 24)	(Notes 23 & 24)
Current assets:				
Cash		$ 13,096	$ 7,399	$ 7,355
Restricted cash	22	638	834	1,330
Trade and other receivables	20(b)	23,629	16,895	9,738
Inventory	5	17,861	14,489	13,485
Prepaid expenses and other		3,369	2,159	2,930
		58,593	41,776	34,838
Property and equipment	6	157,994	149,464	150,618
Long Term notes receivable	9	2,490	-	-
Goodwill	7	37,862	37,862	37,862
Intangible assets	8	14,789	19,159	23,599
Investments in equity accounted investees	9	2,907	2,533	2,187
		$ 274,635	$ 250,794	$ 249,104
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade and other payables		$ 20,861	$ 12,418	$ 10,290
Income taxes payable		3,307	1,244	659
Current portion of finance leases	12	333	54	104
Current portion of loans and borrowings	10	112	38,786	10,149
		24,613	52,502	21,202
Finance leases	12	2,873	118	18
Loans and borrowings	10	129,786	100,322	134,761
Financial liabilities at fair value	10(b)	1,419	-	-
Deferred income taxes	13	23,246	22,887	23,328
		157,324	123,327	158,107
Shareholders' equity				
Share capital	14	68,469	65,134	184,535
Contributed surplus		9,727	7,170	7,141
Retained earnings (deficit)		14,413	2,661	(121,881)
Equity attributable to shareholders of Discovery Air Inc.		92,609	74,965	69,795
Equity attributable to non-controlling interest		89	-	-
Total equity		92,698	74,965	69,795
		$ 274,635	$ 250,794	$ 249,104

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Gilbert S. Bennett" (signed)
Director

"James L. Goodfellow" (signed)
Director

DISCOVERY AIR INC.

Consolidated Statements of Profit and Comprehensive Income

Years ended January 31, 2012 and 2011

(thousands of Canadian dollars, except per share amounts)	Note		January 31, 2012		January 31, 2011
					(Notes 23 & 24)
Revenue		$	191,720	$	151,285
Expenses	15		147,758		109,613
Depreciation of property and equipment and intangible assets			21,092		19,791
			22,870		21,881
Finance costs	16		17,415		15,303
Change in fair value of financial liabilities at fair value	10(b)		(1,879)		-
Gain on extinguishment of related party debt	10(i)		(5,900)		-
Gain on disposal of property and equipment			(2,066)		(892)
Share of profit of equity accounted investees (net of income tax)	9		(394)		(163)
			7,176		14,248
Profit before income taxes			15,694		7,633
Income tax provision (recovery):					
Current	13		4,104		2,933
Deferred	13		(129)		(441)
			3,975		2,492
Profit			11,719		5,141
Loss attributable to non-controlling interest			(33)		-
Profit attributable to shareholders of Discovery Air Inc.		$	11,752	$	5,141
Earnings per share:					
Basic earnings per share	17	$	0.82	$	0.38
Diluted earnings per share	17	$	0.72	$	0.38

See accompanying notes to consolidated financial statements

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity
Years ended January 31, 2012 and 2011

(thousands of Canadian dollars)

	Note	Share Capital	Contributed surplus	Retained earnings (deficit)	Non-Controlling Interest	Total equity
Balance at February 1, 2010		$ 184,535	$ 7,141	$ (121,881)	$ -	$ 69,795
Reclassification of deficit	14(b)	(119,401)	-	119,401	-	-
Profit		-	-	5,141	-	5,141
Share-based compensation	14(c)	-	29	-	-	29
Balance at January 31, 2011		65,134	7,170	2,661	-	74,965
Profit (loss)		-	-	11,752	(33)	11,719
Shares issued on debt extinguishment	10(i)	4,451	-	-	-	4,451
Fair value of conversion feature on convertible debenture, net of tax	10(c)	-	1,355	-	-	1,355
Reclassification due to debt repayment	14(b)	(1,116)	1,116	-	-	-
Share-based compensation	14(c)	-	86	-	-	86
Acquisition	8	-	-	-	122	122
Balance at January 31, 2012		$ 68,469	$ 9,727	$ 14,413	$ 89	$ 92,698

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows
Years ended January 31, 2012 and 2011

(thousands of Canadian dollars)	Note		January 31, 2012		January 31, 2011
Cash Provided by (used in)					
Operating activities					
Profit		$	11,719	$	5,141
Adjustments for:					
Current tax expense			4,104		2,933
Deferred tax recovery			(129)		(441)
Finance costs			17,415		15,303
Change in fair value of financial liabilities	10(b)		(1,879)		-
Share-based compensation	14(c)		86		29
Deferred share unit compensation	14(d)		239		216
Depreciation of property, equipment and intangible assets			21,092		19,791
Share of profit of equity accounted investees	9		(394)		(163)
Gain on disposal of property and equipment			(2,066)		(892)
Gain on extinguishment of related party debt	10(i)		(5,900)		-
			44,287		41,917
Change in non-cash operating working capital	18		(4,959)		(5,089)
Interest paid			(12,337)		(13,527)
Net income taxes paid			(2,040)		(2,348)
Net cash from operating activities			24,951		20,953
Investing activities:					
Investments in and distributions from equity accounted investees	9		20		(183)
Acquisition of property and equipment			(32,800)		(17,792)
Acquisition of subsidiary, net of cash acquired	8		(8)		-
Proceeds on disposal of property and equipment			10,031		4,487
Net cash used in investing activities			(22,757)		(13,488)
Financing Activities:					
Loans and borrowings transaction costs			(4,358)		(546)
Proceeds from loans and borrowings			104,681		2,782
Repayment of loans, borrowings and finance leases			(96,820)		(9,657)
Net cash from (used in) financing activities			3,503		(7,421)
Increase in cash			5,697		44
Cash, balance beginning of period			7,399		7,355
Cash, balance end of period		$	13,096	$	7,399

See accompanying notes to consolidated financial statements.

1. Reporting Entity

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*. The address of the registered office is 200, 4915 – 48th Street, YK Centre East, Yellowknife, Northwest Territories, X1A 2N6. Its business consists of providing aviation and aviation-related services carried out by its wholly-owned subsidiaries Great Slave Helicopters Ltd. ("Great Slave"), Air Tindi Ltd. ("Air Tindi"), Top Aces Inc. ("Top Aces"), Discovery Air Fire Services Inc. ("Fire Services") (formerly Hicks & Lawrence Limited) , Discovery Mining Services Ltd. ("Discovery Mining"), Discovery Air Technical Services Inc. ("Technical Services"), and Discovery Air Innovations Inc. ("Innovations"). Certain of these wholly-owned subsidiaries also conduct a portion of their business activities through jointly controlled entities, or investments in associates. The Corporation's Class A voting shares (the "Class A Shares") are traded on the Toronto Stock Exchange ("TSX") under the symbol "DA.A". The Corporation also has Class B common variable voting shares (the "Class B Shares"), which are not listed for trading on any exchange (the Class B Shares and the Class A Shares are collectively referred to as the "Shares").

Great Slave is a helicopter company that, directly and through joint venture arrangements with Aboriginal groups in northern Canada, provides services throughout northern Canada, in several Canadian provinces and in a number of international locations utilizing a fleet of approximately 65 leased and owned helicopters. Services are provided 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. Great Slave 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 21 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 through joint venture arrangements with Aboriginal groups in northern Canada, provides services to a diversified customer base that includes major diamond, mineral exploration and mining companies as well as the Governments of Canada and Northwest Territories.

Discovery Mining provides remote exploration camps and expediting, logistics and staking services to diamond and mineral exploration sector. Based in Yellowknife, Discovery Mining conducts operations in the Northwest Territories, Nunavut, Yukon, northern Alberta, northern Saskatchewan, northern Quebec and northern Ontario.

Top Aces provides airborne training services to the Canadian Department of National Defence ("DND"). Top Aces provides a variety of military training ranging from simulated combat to target tow with a fleet of approximately 19 aircraft in operation located throughout Canada.

Fire Services is an Ontario-based aviation company that provides aerial fire management services to the Province of Ontario, utilizing almost 30 aircraft from bases located in northern Ontario. Fire Services also provides air charter services to the Ontario government and various other corporate entities which conduct business in northern Ontario.

Technical Services provides maintenance, repair and overhaul services and modifications from its facility in Quebec. During Fiscal 2012, Technical Services acquired a majority stake in a new subsidiary, Aero Vision Technologies International Inc. ("AVTi") which specializes in the development of aviation software (see note 8).

Innovations acts as the Corporation's business development arm, focused on identifying, pursuing and capitalizing on new market opportunities.

2. Basis of preparation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Corporation's first consolidated financial statements prepared in accordance with IFRS and IFRS 1 *First-time Adoption of International Financial Reporting Standards*. The accounting policies and basis of preparation differ from those set out in the previously published consolidated financial statements for the year ended January 31, 2011, which were prepared in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP"). An explanation of how the transition from CGAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is set out in note 23. These notes include reconciliations of equity and total comprehensive income from CGAAP to IFRS at the date of transition and for the comparative period.

These financial statements were authorized for issue by the Corporation's board of directors on April 29, 2012.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for liabilities for cash-settled share-based payment arrangements and embedded derivatives in the Corporation's 10.00% secured convertible debentures (see note 10(b)), which are measured at fair value.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation and its subsidiaries. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for share and per share amounts.

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items that are measured in terms of historical cost are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in finance costs.

(d) Use of estimates and judgements:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgements and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses, and disclosures of contingent assets and liabilities at the dates of the consolidated financial statements. Actual results may differ materially from these estimates.

Estimates, judgements and assumptions are reviewed on an ongoing basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant estimates and assumptions used in the preparation of these consolidated financial statements include estimates and assumptions used in the determination of the allowance for doubtful accounts, useful lives of property and equipment, intangible assets with finite useful lives and the determination of the fair value of the debt and equity components of the Corporation's convertible debentures.

Significant judgements applied in the preparation of these consolidated financial statements include the determination of cash generating units and the determination of control or significant influence of equity accounted investees. The determination of cash generating unit's ("CGU's") (see note 3(g)) was based on management's judgement in assessing shared infrastructure, independence of revenue earned, operating asset utilization, geographic proximity and similarity of risk exposures. The determination of significant influence of associates or jointly controlled entities (see note 3(a)) was based on management's judgement in assessing control through evaluating factors such as ownership interests, voting rights, board representation and shareholders' agreements.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the note appearing below related to the impairment of financial and non-financial assets (see note 3(g)). The estimate and assumption uncertainties relating to the impairment of financial and non-financial assets also have a significant risk of resulting in a material adjustment within the next financial year.

3. Significant accounting policies:

The significant accounting principles used in the preparation of these consolidated financial statements, and applied consistently to all periods presented, are summarized below:

(a) Consolidation:

i) Subsidiaries:

Subsidiaries are all entities over which the Corporation has control, which is the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. All significant intercompany balances, transactions, and unrealized gains and losses on transactions have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Corporation.

ii) Associates and jointly controlled entities ("equity accounted investees"):

Associates are those entities in which the Corporation has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Corporation holds between 20 and 50 percent of the voting power of another entity. Jointly controlled entities are those entities over whose activities the Corporation has joint control, established by contractual agreement and requiring unanimous consent for strategic financial and operating decisions.

Equity accounted investees are accounted for using the equity method and are recognized initially at cost, including transaction costs incurred. The Corporation's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Corporation's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases. When the Corporation's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation to fund the equity accounted investee's operations or has made payments on behalf of the equity accounted investee.

Unrealized gains on transactions between the Corporation and its equity accounted investees are eliminated to the extent of the Corporation's interest in the equity accounted investees. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising in investments in equity accounted investees are recognised in profit or loss.

(b) Inventory:

Inventory, consisting of aircraft parts and supplies, is stated at the lower of cost and net realizable value (where replacement cost may be used as an indicator). Cost is determined on a first-in, first-out basis and a specific item basis depending on the nature of the inventory. The cost of all inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing the inventories to their existing location and condition. Net realizable value is the estimated selling price of the parts or supplies in the ordinary course of business, less estimated costs to make the sale.

(c) Property and equipment:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. In particular, aircraft airframes, engines and components are inspected, repaired and overhauled at pre-specified intervals. These subsequent costs are capitalized, as incurred, when the above criteria are met and amortized over their useful life based on hours flown. The carrying amount of a major inspection is derecognized if a new major inspection is completed.

When major parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of that property and equipment.

The cost of day-to-day servicing of property and equipment is recognized in profit and loss as incurred.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

Depreciation is calculated using the "depreciable amount", which is the cost of an asset, or other amount substituted for cost, less its residual value, on either a straight line basis, or flight hours. If the useful lives of significant components of individual assets have a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment. Land is not depreciated.

The method and rates used in calculating depreciation are as follows:

Asset	**Basis**	**Rate**
Buildings	Straight-line	20-25 years
Aircraft frames	Straight-line	20 years
Major aircraft components, overhauls and major inspections	Flight hours	Hours flown
Vehicles	Straight-line	3 years
Furniture and equipment	Straight-line	3-10 years
Leasehold improvements	Straight-line	5 years

The assets' residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

(d) Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. These leased assets are not recognized on the Corporation's consolidated statement of financial position. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line or hours flown basis over the period of the lease.

(e) Goodwill and Business Combinations:

<u>Acquisitions prior to February 1, 2010</u>
As described in note 24(a), as part of its transition to IFRS, the Corporation elected to restate only those business combinations that occurred on or after February 1, 2010. In respect of acquisitions prior to February 1, 2010, goodwill represents the amount recognized under CGAAP.

<u>Acquisitions on or after February 1, 2010</u>
Goodwill represents the excess of the fair value of the consideration transferred by the Corporation, including the recognized amount of any non-controlling interest in the acquiree, over the Corporation's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity accounted investee.

(f) Intangible assets:

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of trade names and customer relationships. The customer relationships are amortized on a straight-line basis over eight years. Trade names held by Top Aces have an indefinite life and, therefore, are not amortized. The carrying value of these indefinite life intangibles are $0.8 million.

The assessment of a trade name as having an indefinite useful life is based on the prospects for long-term profitability and the overall positioning of the trade name in the market in terms of notoriety and volume.

(g) Impairment:

(i) Financial Assets:

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, or indications that a debtor or issuer will enter bankruptcy.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through an allowance account and the amount of the loss is recognized in profit or loss.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

(ii) Non-financial assets:

Assets that have an indefinite useful life, for example goodwill and trade names, are not subject to amortization and are tested for impairment annually in the Corporation's fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating units or "CGUs").

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount, and the loss is recognised as an expense immediately.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Non-financial assets other than goodwill that suffer an impairment loss are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Revenue recognition:

Revenue is recognized at the fair value of the consideration received or receivable, net of trade discounts and rebates. Revenue from providing aviation and aviation-related services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown or services provided at contract rates or fixed monthly charges or a combination of both.

Revenue is recognized when recovery of the consideration is probable, the associated costs and costs to complete can be estimated reliably, and the amount of revenue can be measured reliably.

(i) Income taxes:

Income tax expense for the period comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized in other comprehensive income or directly in equity.

Current income tax is the expected tax payable calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Stock-based compensation:

Equity-settled transactions

The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The fair value is calculated using the Black-Scholes option pricing model. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to meet, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share based payment awards with non-vesting award conditions, there is no true-up for differences between expected and actual outcomes.

Cash-settled transactions

The Corporation has a deferred share unit (“DSU”) plan for directors (see note 14(d)). These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at the end of each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

(k) Finance costs:

Finance costs comprise interest expense on loans and borrowings, net foreign exchange gains and losses, impairment loss (recovery) on trade receivable, the amortization of the deferred transaction costs and financing costs related to loans and borrowings, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(l) Earnings per share:

The Corporation presents basic and diluted earnings per share ("EPS") data for its Shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of Shares outstanding during the period, adjusted for Shares held but not cancelled. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Shares outstanding, adjusted for Shares held but not cancelled, for the effects of all dilutive potential Shares. Convertible debentures and Share options granted to employees are included in the determination of dilutive potential Shares.

(m) Cash:

Cash includes cash on hand, balances with financial institutions and short-term investments with an initial term to maturity of three months or less.

(n) Financial instruments:

i) Classification, recognition and measurement:

At initial recognition, the Corporation's financial assets and liabilities are classified into the following categories:

Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Operating line of credit	Financial liabilities at amortized cost
Trade and other payables	Financial liabilities at amortized cost
Loans and borrowings	Financial liabilities at amortized cost

The Corporation initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less a provision for impairment.

Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs and financing costs related to credit facilities, and subsequently measured at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if payment is due within one year or less; otherwise, they are presented as non-current liabilities. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The Corporation has reviewed its contractual arrangements and, where appropriate has designated purchase contracts entered into for the purpose of receiving non-financial items for its normal usage requirements as executory contracts.

Financial assets and liabilities are offset (and the net amount is reported in the balance sheet) only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

ii) Compound financial instruments:

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to Shares at the option of the holder, and the number of Shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

Interest, losses and gains relating to the financial liability are recognized in profit or loss.

(iii) Share capital:

Shares are classified as equity. Incremental costs directly attributable to the issuance of Shares and Share options are recognized as a deduction from equity, net of any tax effects.

(o) Segment reporting:

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation’s other components. All operating segment results for which discrete financial information is available are reviewed regularly by the Corporation’s Chief Executive Officer (“CEO”) to make decisions about resources to be allocated to the segment and to assess its performance.

Operating segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill. Unallocated items comprise mainly corporate assets, head office expenses, finance costs and income tax assets and liabilities.

(p) Provisions:

Provisions are recognized when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can been reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at management's best estimate of the expenditures expected to be required to settle the obligation at the balance sheet date. Where material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in a provision due to passage of time is recognized as finance cost.

(q) Employee benefits:

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit or loss in the periods during which services are rendered by employees. The Canada Pension Plan and any Registered Retirement Savings Plan contributions correspond to a defined contribution plan.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

(r) A number of new standards, and amendments and interpretations of standards, are not yet effective for the year ended January 31, 2012, and have not been applied in preparing these consolidated financial statements. Management is currently reviewing such standards to determine the impact on the Corporation's financial statements.

4. Segmented information:

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the markets in which they operate. The Northern Services segment comprises Great Slave, Air Tindi and Discovery Mining and the Government Services segment comprises Top Aces, Technical Services and Fire Services. The Northern Services segment's primary market is based on activities, and is located, in northern Canada. The Government Services segment provides specialty aviation related services generally aimed at government entities. All other operating activities not allocated to these two business segments are reported under Corporate Support. Innovations is included in Corporate Support.

Information regarding the results of each reportable segment is included in the following table. Performance is measured based on segment earnings before income tax, finance charges and amortization as included in the internal management reports that are reviewed by the Corporation's CEO. This measure is used to assess performance because management believes that such information is the most relevant in evaluating the results of the segments relative to other entities that operate within these industries.

January 31, 2012

(thousands of Canadian dollars)

	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 111,789	$ 79,931	$ -	$ 191,720
Expenses	90,126	48,644	8,988	147,758
Depreciation of property and equipment and intangible assets	12,324	8,681	87	21,092
	9,339	22,606	(9,075)	22,870
Finance costs				17,415
Change in fair value of financial liabilities at fair value				(1,879)
Gain on extinguishment of related party debt				(5,900)
Gain on disposal of property and equipment				(2,066)
Share of profit of equity accounted investees (net of income tax)				(394)
Earnings before income tax				15,694
Income tax provision (recovery)				
Current				4,104
Deferred				(129)
Profit				$ 11,719
Loss attributable to non-controlling interest				(33)
Profit attributable to shareholders of Discovery Air Inc				$ 11,752
Segment assets	$ 136,641	$ 125,274	$ 12,720	$ 274,635
Capital expenditures	18,953	7,749	6,164	32,866
Investment in equity accounted investees	2,885	22	-	2,907

January 31, 2011

(thousands of Canadian dollars)

	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 89,251	$ 62,028	$ 6	$ 151,285
Expenses	68,460	34,481	6,672	109,613
Depreciation of property and equipment and intangible assets	11,715	8,017	59	19,791
	9,076	19,530	(6,725)	21,881
Finance costs				15,303
Change in fair value of financial liabilities at fair value				-
Gain on extinguishment of related party debt				-
Gain on disposal of property and equipment				(892)
Share of profit of equity accounted investees (net of income tax)				(163)
Earnings before income tax				7,633
Income tax provision (recovery)				
Current				2,933
Deferred				(441)
Profit				$ 5,141
Loss attributable to non-controlling interest				-
Profit attributable to shareholders of Discovery Air Inc				$ 5,141
Segment assets	$ 127,701	$ 116,729	$ 6,364	$ 250,794
Capital expenditures	9,726	8,013	53	17,792
Investment in equity accounted investees	2,533	-	-	2,533

Substantially all of the Corporation’s revenues are earned within Canada and substantially all of the Corporation’s non-current assets are located within Canada.

The Government Services segment includes business entities that are economically reliant upon a single customer. Top Aces’ revenue is primarily derived from Standing Offer Agreements (“SOAs”) to provide airborne training services to the DND. These SOAs were extended in January 2011 for a further 16-month period, with an option in favour of DND to extend the SOAs for an additional 12 months thereafter. In November 2011, the Government of Canada exercised its option to extend the Standing Offers to June 2013.

In October 2010, Top Aces submitted a proposal in response to a request for proposals (the “2010 RFP”) for contracted airborne training services (“CATS”) issued by Public Works Government Services Canada (“PWGSC”). The 2010 RFP was cancelled in early calendar 2011 (Fiscal 2012), with PWGSC indicating its intention to issue a new request for proposals for a long term CATS program. PWGSC reissued a request for proposals in August 2011 (the “2011 RFP”) with substantially the same requirements as the 2010 RFP. Top Aces submitted a proposal in November 2011; however, the 2011 RFP was cancelled in November 2011. PWGSC has recently initiated a consultation process in anticipation of the issuance of a further solicitation for CATS.

Fire Services’ revenue from aerial fire management services is derived from three five-year contracts, entered into in 2010, with the Government of Ontario. The continuation of each contract for each new fiscal year is conditional upon a sufficient appropriation of funds by the Government of Ontario. Given the nature of the services being provided, management believes that it is unlikely that the appropriation of funds for these contracts will be discontinued. Any one of the contracts may be terminated by the Government of Ontario (i) upon occurrence of certain events of default, including Fire Services insolvency or its breach of specified material terms or conditions of the contract, and (ii) without cause by giving 30 days prior written notice to Fire Services.

5. Inventory:

The Corporation's inventory is substantially comprised of consumable spare aircraft parts and supplies. Inventory expensed in operating expenses during the year ended January 31, 2012 was $11.4 million (January 31, 2011 - $6.7 million). During the years ended January 31, 2012 and 2011, there were no inventory write-downs to net realizable value and no reversals of previously recorded write-downs.

The Corporation has provided a first charge over all assets (including inventory), under a general security agreement, as security for the Corporation's operating line of credit. That first charge does not extend to inventory of Top Aces, which has been pledged to the holders of the 10.00% secured convertible debentures (see note 10(a)).

6. Property and equipment:

(thousands of Canadian dollars)

Cost	Land and Buildings	Furniture, Equipment and Leaseholds	Aircraft and Components	Vehicles	Total
Balance, February 1, 2010	$ 17,383	$ 9,738	$ 168,528	$ 1,615	$ 197,264
Additions	1,738	1,341	14,556	80	17,715
Disposals	8	1,072	8,456	175	9,711
Balance, January 31, 2011	$ 19,113	$ 10,007	$ 174,628	$ 1,520	$ 205,268
Additions	5,857	3,145	26,505	314	35,821
Disposals	150	69	15,966	6	16,191
Acquired in business combinations	21	1	43	1	66
Balance, January 31, 2012	$ 24,841	$ 13,084	$ 185,210	$ 1,829	$ 224,964

Depreciation and Impairment	Land and Buildings	Furniture, Equipment and Leaseholds	Aircraft and Components	Vehicles	Total
Balance, February 1, 2010	$ 3,070	$ 4,991	$ 37,445	$ 1,140	$ 46,646
Depreciation	896	1,904	12,316	235	15,351
Disposals	-	1,009	5,014	170	6,193
Balance, January 31, 2011	$ 3,966	$ 5,886	$ 44,747	$ 1,205	$ 55,804
Depreciation	902	2,032	13,304	431	16,669
Disposals	34	32	5,431	6	5,503
Balance, January 31, 2012	$ 4,834	$ 7,886	$ 52,620	$ 1,630	$ 66,970

Net book value	Land and Buildings	Furniture, Equipment and Leaseholds	Aircraft and Components	Vehicles	Total
Balance, February 1, 2010	$ 14,313	$ 4,747	$ 131,083	$ 475	$ 150,618
Balance, January 31, 2011	$ 15,147	$ 4,121	$ 129,881	$ 315	$ 149,464
Balance, January 31, 2012	$ 20,007	$ 5,198	$ 132,590	$ 199	$ 157,994

Included in property and equipment are assets capitalized under finance lease arrangements. During the year, $3.0 million of total additions were acquired under these arrangements. At January 31, 2012 the net book values of the total assets under finance lease arrangements are $2.6 million of land and buildings, $0.2 million of vehicles and $0.2 million of furniture, equipment and leaseholds. Total net book value of property and equipment under finance lease, for the year ended January 31, 2011, was $0.2 million.

The Corporation has mortgages on Land and Buildings with a carrying value of $16.4 million, and floating charges over the Corporation's other classes of assets through general security agreements in favour of the debts identified in notes 10(a), 10(c) and 11.

7. Goodwill:

For the purposes of testing the impairment of goodwill, the aggregate amount of goodwill arising on acquisition has been assigned to the CGU of Top Aces. The CGU represents the lowest level within the Corporation for which information about goodwill is available and monitored for internal management purposes. Implied market-comparable valuation multiples and transaction premiums are considered; however, differences exist in the services and operating characteristics of the CGU when compared to a set of comparable companies. Accordingly, the recoverable amount of the Top Aces CGU is based on a "fair value less costs to sell" determined using a discounted cash flow model based on marketplace participant assumptions. The cash flow projections were based on historical results with a 2% per annum growth rate and a post-tax discount rate of 12% per annum. The Corporation believes that in the CGU, reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value. Based upon the analysis, the Corporation concluded that the recoverable amount of the CGU exceeded its carrying value. The process for determining fair value is subjective and requires management to exercise a significant amount of judgment in determining future growth rates, discount rates, tax implications and other.

8. Intangible assets:

(thousands of Canadian dollars)

Cost	Customer Relationships	Trade Names	Other	Total
Balance, February 1, 2010	$ 35,385	$ 845	$ 210	$ 36,440
Balance, January 31, 2011	$ 35,385	$ 845	$ 210	$ 36,440
Additions	-	-	53	53
Balance, January 31, 2012	$ 35,385	$ 845	$ 263	$ 36,493

Amortization and Impairment	Customer Relationships	Trade Names	Other	Total
Balance, February 1, 2010	$ 12,649	$ -	$ 192	$ 12,841
Depreciation	4,422	-	18	4,440
Balance, January 31, 2011	$ 17,071	$ -	$ 210	$ 17,281
Depreciation	4,423	-	-	4,423
Balance, January 31, 2012	$ 21,494	$ -	$ 210	$ 21,704

Net Book Value	Customer Relationships	Trade Names	Other	Total
Balance, February 1, 2010	$ 22,736	$ 845	$ 18	$ 23,599
Balance, January 31, 2011	$ 18,314	$ 845	$ -	$ 19,159
Balance, January 31, 2012	$ 13,891	$ 845	$ 53	$ 14,789

The Corporation tested indefinite life intangible assets related to Top Aces CGU for impairment on January 31, 2012 in conjunction with its test for impairment of goodwill, using the same method and assumptions as disclosed in note 7. Following the assessments of recoverable amounts, no impairment loss was realized or reversed in the current year.

During the year ending January 31, 2012, Technical Services acquired 75% of the outstanding shares of AVTi, a software company in the development stage, for cash consideration of $0.5 million. The transaction was accounted for as an asset acquisition. Accordingly, the consideration was allocated to the acquired assets and liabilities based upon their relative fair value as follows: working capital $0.4 million, property and equipment $0.1 million and intangible assets $0.1 million. Non-controlling interest in the carrying value of AVTi's net assets of $0.1 million was also recognized at the date of acquisition. The Corporation expects synergies from this acquisition as potential software products of AVTi could be used by the Corporation's other subsidiaries to better service their customers and expand into new markets.

9. Jointly controlled entities and investments in equity accounted investees:

The Corporation has the following investments in equity accounted investees:

i) 49% interest in Gwich'in Helicopters Limited ("Gwich'in"), a corporate venture incorporated in Canada; Gwich'in contracts helicopter aviation services to the government and corporate sectors within the Gwich'in settlement area of the Northwest Territories;

ii) 49% interest in Denendeh Helicopters Ltd. ("Denendeh"), a corporate venture incorporated in Canada; Denendeh provides helicopter charter services to the government and corporate sectors within the South Mackenzie District of the Northwest Territories;

iii) 49% interest in Sahtu Helicopters ("Sahtu"), a corporate venture incorporated in Canada; Sahtu provides helicopter charter services to the government and corporate sectors within the Tulita district within the Sahtu settlement area of the Northwest Territories;

iv) 35% interest in K'Ahsho Got'ine Helicopters Ltd. ("K'Ahsho Got'ine"), a corporate venture incorporated in Canada; K'Ahsho Got'ine provides helicopter charter services to the government and corporate sectors within the Kitikmeot region of Nunavut;

v) 48% interest in Tli Cho Air Inc. ("Tli Cho"), a corporate venture incorporated in Canada; Tli Cho provides fixed wing charter services to the mining, corporate and government sectors within the Tli Cho region of the Northwest Territories. In January 2012, the Corporation sold an aircraft to Tli Cho for $5.3 million, of which $2.5 million will be repaid over 8 years. The long term portion of this receivable is reflected in long term notes receivable. The note bears an interest rate of 7%. The Corporation has entered into a leaseback arrangement for this aircraft, subsequent to year end;

vi) 49% interest in Aqsaqniq Airways Ltd. ("Aqsaqniq"), a corporate venture incorporated in Canada; Aqsaqniq provides fixed wing charter services to the mining, corporate and government sectors within the Kitikmeot region of Nunavut; and

vii) 49% interest in Global Aviation Tools and Equipment Inc. ("GATE"), a corporate venture incorporated in Canada; GATE provides supplies and repairs aircraft parts.

Carrying Value

(thousands of Canadian dollars)		
Balance, February 1, 2010	$	2,187
Investment in equity		250
Distribution		(67)
Share of profit		163
Balance, January 31, 2011	$	2,533
Investment in equity		-
Distribution		(20)
Share of profit		394
Balance, January 31, 2012	$	2,907

10. Loans and borrowings:

(thousands of Canadian dollars)

	January 31, 2012	January 31, 2011	February 1, 2010
10.00% secured convertible debentures, maturing March 22, 2017 (note 10(a))	$ 64,781	$ -	$ -
8.375% unsecured convertible debentures, maturing June 30, 2016 (note 10(c))	30,890	-	-
Long-term secured debt bearing a fixed interest rate of 10.00%, maturing February 1, 2013 (note 10(d))	33,687	33,388	33,156
Long-term secured debt incurred by a subsidiary bearing an interest rate of floating base bank rate plus 4.5%, maturing January 15, 2015 (note 10(e))	-	12,149	15,188
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 7.48%, maturing fiscal 2012 through fiscal 2016	540	1,897	-
Long-term secured debt bearing a floating interest rate of 90 day BA yield plus 7.65%, maturing September 24, 2020 (note 10(f))	-	46,186	48,027
Secured demand loan bearing an interest rate of 18.00% per annum, maturing June 9, 2011 (note 10(g))	-	3,833	4,633
8.75% unsecured convertible debentures, maturing December 31, 2011 (note 10(h))	-	28,053	27,349
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1.25%, maturing fiscal 2015 through fiscal 2016 (note 10(i))	-	13,447	14,277
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates of 9.05%, maturing August 23, 2011	-	155	-
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 5.55%, maturing fiscal 2013 through fiscal 2017	-	-	1,244
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 8.19%, maturing fiscal 2012 through fiscal 2035	-	-	284
Unsecured notes payable to former officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing fiscal 2010	-	-	752
Loans and borrowings	$ 129,898	$ 139,108	$ 144,910
Less current portion of loans and borrowings	112	38,786	10,149
	$ 129,786	$ 100,322	$ 134,761

(a) On September 23, 2011, the Corporation closed the private placement of $70,000,005 principal amount of secured convertible debentures (the "Secured Debentures"). The Secured Debentures mature on March 22, 2017, subject to adjustment by the holders of the Secured Debentures in the event that certain milestones are not achieved by the Corporation. The Corporation may redeem the Secured Debentures on or after September 23, 2014 provided the weighted average trading price of Class A Shares exceeds 116% of the then-applicable conversion price of the Secured Debentures over a specified trading period prior to issuance of the redemption notice. The Corporation may also redeem the Secured Debentures before September 23, 2014 if, upon the occurrence or failure to occur of certain milestone events and the giving of a prescribed amount of notice by the Corporation, the security agent of the holders for the Secured Debentures fails to subordinate the Secured Debentures holders' security interest in the assets of the Corporation. Interest on the Secured Debentures accrues at a rate of 10% per annum and is added to the adjusted principle amount of Secured Debentures on March 22 of each year commencing on March 22, 2012. The original conversion price of the Secured Debentures of $7.50 per Share (post-consolidation – see note 14(b)) will also increase at 10% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest will continue to be convertible into 9,333,334 Shares (subject to customary anti-dilution adjustments). The Secured Debentures have a first-lien security interest in all assets of the Corporation and its subsidiaries except with respect to accounts receivable, certain inventory, and certain equipment. The Corporation has the right to require full subordination of the Secured Debentures' security interest in respect of new indebtedness upon the achievement of certain milestone events by the Corporation. Prior to any of the milestone events being achieved, the Corporation can require subordination of the Secured Debentures' security interest in yet-to-be acquired assets in an amount up to $50 million. The net proceeds of the transaction were used to repay existing debt owed to certain of the Corporation's lenders (see notes 10(e), (f) and (g)) and for working capital purposes. Transaction costs of $2.0 million and the $3.3 million fair value of the conversion feature at inception (see note 10(b)) are netted against the carrying value of the Secured Debentures and are being accreted to its face value based on the effective interest rate of 11.61% per annum. As at January 31, 2012, the Corporation was in compliance with all financial covenants related to the Secured Debentures.

On March 26, 2012, the Corporation and the holders of the Secured Debentures amended certain terms of the Secured Debentures (see Subsequent events - note 25). Among other things, these amendments: facilitated the early repayment of the $34 Million Term Loan (see note10(c)); changed when, and in what circumstances, the Secured Debenture holders can adjust the maturity date; changed when, and in what circumstances, the Corporation can early redeem the Secured Debentures; and require the consent of the Secured Debenture holders before the Corporation can issue equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures.

(b) The conversion feature in the Secured Debentures originally met the definition of a liability-classified embedded derivative and as such was bifurcated from the host debt contract. The embedded derivative was initially measured at a fair value of $3.3 million at the issuance of the Secured Debentures and the residual amount of the proceeds was allocated to the host debt contract. Mark-to-market changes in the fair value of the embedded derivative were recorded in the consolidated statements of earnings and comprehensive earnings. The fair value of the embedded derivative was estimated using appropriate price modeling commonly used by market participants with inputs of observable market data including the price of the Class A Shares, implied volatility and risk free interest rates. Within the fair value hierarchy, the embedded derivative was segregated into Level 2 (see note 20) as it was valued using observable inputs of similar instruments. During the year, the Corporation recorded a gain of $1.9 million related to a mark-to-market decrease in the fair value of the embedded derivative. As at January 31, 2012, the fair value of the embedded derivative was $1.4 million.

As a result of amendments made to the Secured Debentures on March 26, 2012 (see note 10(a)), the conversion feature in the Secured Debentures as at March 26, 2012 will no longer be classified as a financial liability that is recorded at fair value each reporting period, but will instead be classified as equity and recorded in contributed surplus (see Subsequent events – note 25).

(c) On May 12, 2011, the Corporation closed a $30.0 million issuance of 8.375% convertible unsecured subordinated debentures at a price of $1,000 per debenture (the "Unsecured Debentures"). On May 27, 2011, the Corporation closed the issuance of an overallotment option on the original issue of these debentures for an additional $4.5 million, bringing the total principal amount of the debentures to $34.5 million. These Unsecured Debentures accrue interest at the rate of 8.375% per annum payable semi-annually and the principal balance is due at maturity on June 30, 2016. At the holders' option, the Unsecured Debentures may be converted into Shares at any time prior to the maturity date at a conversion price of $7.30 per Share (post-consolidation – see note 14(b)), subject to standard anti-dilution provisions. The Unsecured Debentures are not redeemable before June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option and subject to notice period requirements, redeem the Unsecured Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares on the TSX during a specified period prior to redemption is not less than 125% of the conversion price. At inception, the fair value of the future payments of principal and interest under the Unsecured Debentures was $32.7 million and the fair value of the holders' conversion option (the "Equity Component") was determined to be $1.4 million ($1.8 million pre-tax) and recorded in contributed surplus. The Equity Component and transaction costs of $2.2 million are netted against the carrying value of the Unsecured Debentures and are being accreted to its face value based on the effective interest rate of 11.86% per annum. As at January 31, 2012, the Corporation was in compliance with all financial covenants contained in the Unsecured Debentures.

On June 16, 2011, the Corporation used the net proceeds of issuance of the Unsecured Debentures to fully repay the $28.8 Million Debentures (see note 10(h)). The Corporation used the remaining funds to fund working capital and for general corporate purposes.

(d) On February 4, 2009, the Corporation entered into an agreement with the Northwest Territories Opportunities Fund ("NWTOF") for $34.0 million term loan (the "$34 Million Term Loan") to refinance a maturing debt. The $34 Million Term Loan carried an interest rate of 10.0% per annum. Interest was paid monthly and the principal balance was due at maturity on February 1, 2013. The loan was secured by: (i) a general security agreement over the assets of the Corporation and a specific pledge of the shares of Top Aces; (ii) guarantees from each of Great Slave and its subsidiaries, Fire Services, Air Tindi and Discovery Mining, each of which was supported by a general security agreement over the assets of those subsidiaries; and (iii) an unsecured guarantee of the indebtedness by Top Aces. The security package provided NWTOF with a first charge over specific aircraft and a secondary floating charge over all other assets of the guarantors, including real estate assets, subordinated in specific instances to the interests of other lenders by way of priority agreements. The Corporation incurred $1.1 million in transaction costs which were netted against the carrying value of the $34 Million Term Loan and were being accreted to its face value based on the effective interest rate of 10.98% per annum. The terms of the $34 Million Term Loan required the Corporation to relocate its corporate office to Yellowknife, Northwest Territories from London, Ontario. As at January 31, 2012, the Corporation was in compliance with all financial covenants related to this debt.

On March 26, 2012, the Corporation fully repaid the $34 Million Term Loan and interest payable thereon with proceeds from newly issued debt (see Subsequent Events - note 25).

(e) On February 4, 2008 the Corporation entered into a $21.5 million term loan agreement (the "$21.5 Million Term Loan") to refinance an existing term debt and the purchase of additional aircraft, spare engines and aircraft parts. The principal amount of the $21.5 Million Term Loan was repayable in monthly instalments of $256,000 plus interest commencing in February 15, 2008 and ending on January 15, 2015 and bore interest at the lender's floating base rate plus 4.50% per annum. The loan was secured by a charge on all of the assets of Top Aces, subject to a priority interest provided to an operating lender over Top Aces' accounts receivable. Transaction costs of $226,000 were netted against the carrying value of the $21.5 Million Term Loan and were being accreted to its face value based on the effective interest rate of 6.79% per annum.

On September 23, 2011, the Corporation used the net proceeds of the issuance of the Secured Debentures (see note 10(a)) to fully repay the $21.5 Million Term Loan and interest payable thereon.

(f) On January 21, 2008, the Corporation entered into a five year revolving credit agreement to finance certain fleet assets. The facility borrowing base and interest rate were subject to annual review, and the lender retained an option to convert the facility to an amortizing term loan at each annual review date. The lender exercised this option during the 2010 annual review, and effective September 24, 2010, negotiated (i) repayment of the facility over a 10-year term through monthly blended principal and interest payments, and (ii) a reduction in the facility interest rate to the 90 day Bankers' Acceptance rate plus 7.65%. Transaction costs of $0.5 million were netted against the carrying value of the debt and were being accreted to its face value over the renewal term based on the effective interest rate of 9.29% per annum.

On September 23, 2011, the Corporation used the net proceeds of issuance of the Secured Debentures (see note 10(a)) to fully repay this debt and interest payable thereon

(g) On December 4, 2009, the Corporation entered into a $6.2 million demand loan agreement with its operating lender (see Operating Line of Credit - note 11) to finance the purchase of additional aircraft and support equipment for one of its subsidiaries. The principal amount of the loan was repayable in monthly instalments of $100,000 ending on September 30, 2011, at which time the principal balance was due in full. The loan bore an interest rate of 18.00% per annum payable monthly and was secured by a specific charge on the purchased aircraft and support equipment.

On September 23, 2011, the Corporation used the net proceeds of issuance of the Secured Debentures (see note 10(a)) to fully repay this debt and interest payable thereon

(h) On December 19, 2006, the Corporation closed a $28.8 million issuance of 8.75% convertible unsecured subordinated debentures (the "28.8 Million Debentures") at a price of $1,000 per debenture. The $28.8 Million Debentures accrued interest at the rate of 8.75% per annum payable semi-annually and had a maturity date of December 31, 2011. At issuance, 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 and was recorded in contributed surplus. The $1.1 million conversion option and transaction costs of $1.9 million were netted against the carrying value of the $28.8 Million Debentures and were being accreted to its face value based on the effective interest rate of 11.70% per annum.

On June 16, 2011, the Corporation used the net proceeds of the issuance of the Unsecured Debentures (see note 10(c)) to fully repay the $28.8 Million Debentures and accrued interest payable thereon.

(i) On May 2, 2011, the Corporation completed a transaction to repay related party debts and accrued interest totalling $13.4 million through a cash payment of $3.1 million and the issuance of 1,035,200 Class A Shares. Based on the $4.30 per Class A Share (post-consolidation – see note 14(b)) market value of the Class A Shares at the date of the transaction, the Corporation recorded a pre-tax gain on the transaction of approximately $5.9 million. Interest expense on this debt was $0.1 million (January 31, 2011 - $0.5 million).

Repayments on or in respect of the above-listed outstanding loans and borrowings as at January 31, 2012 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)		January 31, 2012
Within 1 year	$	112
Within 2 years		33,800
Within 3 years		173
Within 4 years		106
Within 5 years		30,926
Thereafter		64,781
Total	$	129,898

Interest on or in respect of loans and borrowings for the year totalled $14.8 million (January 31, 2011 - $13.6 million).

11. Operating line of credit:

The Corporation has a secured demand operating line of credit (the “Operating Line of Credit”) to finance its working capital requirements. The Operating Line of Credit bears interest at a rate of 13.00% per annum and is repayable on October 31, 2012. The Operating Line of Credit has a maximum borrowing limit of $15.0 million, increasing to $25.0 million during the Corporation’s peak operating period of April through November, which is restricted by a lending margin applied to eligible accounts receivable and inventory, subject to an allowance for specific reserves. As at January 31, 2012, the Corporation had an unused borrowing capacity of $15 million in respect of the Operating Line of Credit. The Operating Line of Credit is secured by a first charge over the accounts receivable and inventories of all the Corporation’s operating entities (except inventories of Top Aces), as well as a floating charge over all other assets of the Corporation and its subsidiaries, except real estate, subject to specific permitted prior encumbrances. As at January 31, 2012, the Corporation was in compliance with all covenants related to the Operating Line of Credit.

On March 26, 2012, the Corporation amended certain terms of the Operating Line of Credit (see Subsequent events - note 25).

12. Finance leases:

The Corporation has leases of various facilities, equipment and vehicles, which are classified as finance leases. The interest rates on these leases range from 4.5% to 11% per annum and lease terms range from 1 to 23 years. The obligations under these leases are secured by the related assets associated with the leases.

(thousands of Canadian dollars)

Minimum lease payment due	Within one year	One to five years	After five years	Total
January 31, 2012:				
Future minimum lease payments	$ 504	$ 1,472	$ 5,021	$ 6,997
Interest	(171)	(681)	(2,939)	(3,791)
Present value of minimum payments	$ 333	$ 791	$ 2,082	$ 3,206

The present value of finance lease obligations, in total, for the year ended January 31, 2011 was $0.2 million (February 1, 2010 - $0.1 million).

13. Income taxes:

Income tax expense is comprised of:

(thousands of Canadian dollars)		2012		2011
Current income tax expense:				
Current period	$	3,846	$	2,933
Adjustments to prior periods		258		-
		4,104		2,933
Deferred income tax expense (recovery):				
Origination and reversal of temporary differences		47		(441)
Change in unrecognized deductible temporary differences		(176)		-
		(129)		(441)
Total income tax expense	$	3,975	$	2,492

Income tax recognized directly in equity:

For the year ended January 31, 2012:

(thousands of Canadian dollars)		Before tax		Income tax expense		Net of tax
Convertible debentures	$	1,843	$	488	$	1,355
	$	1,843	$	488	$	1,355

Reconcilation of effective tax rate:

Income tax expense (recovery) differs from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 28% (2011 – 30%) to profit (loss) before income tax. The reasons for the differences are as follows:

(thousands of Canadian dollars)		2012		2011
Profit before income taxes	$	15,694	$	7,633
Federal and provincial statutory income tax rate		28%		30%
Expected tax expense		4,394		2,290
Increase (decrease) resulting from:				
Change in fair value of financial liabilities		(529)		-
Other permanent differences		(70)		97
Adjustment to deferred tax assets and liabilities for changes in expected effective tax rates		180		105
	$	3,975	$	2,492

The significant components of deferred income tax assets/liabilities are as follows:

(thousands of Canadian dollars)

	February 1, 2010	Recognized in Profit	Recognized in Equity	January 31, 2011
Property and equipment	$ 22,613	$ 1,300	$ -	$ 23,913
Intangible assets	5,372	(1,152)	-	4,220
Non-capital loss carry forwards	(4,747)	(671)	-	(5,418)
Other	90	82	-	172
	$ 23,328	$ (441)	$ -	$ 22,887

(thousands of Canadian dollars)

	January 31, 2011	Recognized in Profit	Recognized in Equity	January 31, 2012
Property and equipment	$ 23,913	$ 1,030	$ -	$ 24,943
Intangible assets	4,220	(1,116)	-	3,104
Non-capital loss carry forwards	(5,418)	442	-	(4,976)
Conversion feature on convertible	-	(96)	488	392
Other	172	(389)	-	(217)
	$ 22,887	$ (129)	$ 488	$ 23,246

As at January 31, 2012, the Corporation had estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. These losses have been recognized for accounting purposes.

These tax losses will expire as follows:

(thousands of Canadian dollars)

Year of expiry	Taxable losses
2029	$ 2,753
2030	3,037
2031	5,126
2032	7,993
	$ 18,909

14. Share capital and share-based compensation:

(a) Authorized:

The Corporation is authorized to issue an unlimited number of Class A Shares and an unlimited number of Class B Shares.

Class A Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are Canadians and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians.

The holders of both Class A Shares and Class B Shares are entitled to receive dividends, as declared from time-to-time, and are entitled to one vote per share at meetings of the shareholders of the Corporation provided that the Class B Shares as a class are entitled to exercise no greater than 25% of all votes attached to the Shares. All Shares rank equally with regard to the Corporation's residual assets.

(b) Issued and outstanding:

(thousands of Canadian dollars, except for shares)

		January 31, 2012			January 31, 2011		
	Note	Shares		Amount	Shares		Amount
Class A Shares							
Outstanding, beginning of period		134,461,555	$	62,843	134,461,555	$	182,244
Issued on retirement of debt	10(i)	10,352,000		4,451	-		-
Reclassification of deficit		-		-	-		(119,401)
Impact of share consolidation		(130,332,200)		-	-		-
Impact of trading between share classes		29,500		137	-		-
Outstanding, end of period		14,510,855	$	67,431	134,461,555	$	62,843
Class B Shares							
Outstanding, beginning of period		742,604	$	1,175	742,604	$	1,175
Impact of share consolidation		(668,344)		-	-		-
Impact of trading between share classes		(29,500)		(137)	-		-
Outstanding, end of period		44,760	$	1,038	742,604	$	1,175
Warrants and other equity							
Outstanding, beginning of period		-		1,116	-		1,116
Reclassification on extinguishment of debt	10(h)	-		(1,116)	-		-
Outstanding, end of period		-		-	-		1,116
		14,555,615	$	68,469	135,204,159	$	65,134

At the Corporation's annual and special shareholders meeting held on June 3, 2010, the shareholders approved the reclassification of the Corporation's deficit of $119.4 million as at January 31, 2011 to share capital. The deficit arose primarily during the year ended January 31, 2009, when the Corporation recorded a goodwill and intangible assets impairment charge of approximately $133.6 million.

Other equity related to the conversion feature embedded in $28.8 Million Debentures was reclassified to contributed surplus upon repayment (see note 10(h)).

On September 23, 2011, the Corporation received the approval of the TSX to effect a Share consolidation (the "Consolidation") on the basis of 10 pre-consolidation Shares for every 1 post-consolidation Share. The Shares commenced trading on a post-consolidated basis on September 29, 2011. The consolidation reduced the number of shares outstanding as at the date of the share consolidation from 145,556,159 to 14,555,615.

(c) Share-based compensation:

All stock option balances have been adjusted to account for the Consolidation that occurred September 23, 2011.

Employee Stock Options (equity settled)

As at January 31, 2012, the Corporation had stock options outstanding that were granted to the officers and employees of the Corporation under two different employee stock option plans. The employee stock option plan created in January 2006 (the "2006 plan") was terminated in June 2008, terminating any additional grants under this plan. All outstanding stock options granted under the January 2006 plan are fully vested.

In June 2010, a new employee stock plan (the "2010 plan") was approved by the shareholders. Stock options granted under the 2010 plan have an exercise price set at the closing market price of the Class A Shares on the day preceding the date of grant are exercisable for up to 10 years, and have vesting periods of three to five years, as determined by the Corporation`s board of directors. At January 31, 2012, 417,165 Class A Shares have been reserved for stock options as follows:

	Options outstanding				Options exercisable		
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)		Weighted average exercise price	Number exercisable		Weighted average exercise price
\$2.55 - \$4.99	144,500	5.86	\$	3.26	-	\$	-
\$5.00 - \$10.00	9,500	4.91	\$	5.87	9,500	\$	5.87
\$10.10 - \$15.00	29,605	6.04	\$	12.42	29,605	\$	12.42
\$15.01 - \$17.50	192,020	5.29	\$	15.82	192,020	\$	15.82
\$17.51 - \$18.50	41,540	5.05	\$	18.50	41,540	\$	18.50
	417,165				272,665		

Stock option transactions for the periods ended January 31, 2012 and January 31, 2011 are as follows:

	January 31, 2012			**January 31, 2011**		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Class A Shares						
Outstanding, beginning of year	439,080	\$	11.20	312,990	\$	15.70
Granted	54,500		4.42	150,000		2.60
Exercised	-		-	-		-
Forfeited	(60,000)		2.58	-		-
Expired	(16,415)		17.49	(23,910)		16.00
Outstanding, end of year	417,165	\$	11.26	439,080	\$	11.20

The Corporation recognized a net compensation expense of \$86,041 for the year ending January 31, 2012 (January 31, 2011 - \$28,837) relating to the estimated fair value of vesting employee stock options.

The fair value of the options granted is determined using the Black-Scholes option pricing model with the following weighted average assumptions.

		May 2011		**June 2011**
Options granted		20,000		34,500
Exercise price per share	\$	4.50	\$	4.40
Risk-free interest rate		2%		2%
Dividend yield		0%		0%
Expected volatility		121%		119%
Expected option life		4 Years		4 Years
Expected forfeiture rate		0%		0%

Expected volatility is measured at the standard deviation of continuous compounded share returns and is based on statistical analysis of the Corporation’s historical daily share prices.

(d) Deferred share units (cash settled):

Comparative DSU numbers have been adjusted to reflect the Consolidation that occurred September 23, 2011.

At January 31, 2012, there were 274,321 (January 31, 2011 – 208,907, February 1, 2010 – 130,878) DSUs held by the directors of the Corporation. Each DSU entitles a director, upon ceasing to be a director or (in the case of U.S. resident directors) upon a separation from service, to a cash distribution equal to the market value of the Class A Shares. . During the year ended January 31, 2012, the Corporation granted 65,415 (2011 – 78,029, February 1, 2010 106,112) DSUs. The Corporation recognized $238,552 (2011 - $215,739) of compensation expense related to DSUs.

The carrying amount of the liability at January 31, 2012 in respect of the DSUs was $1,105,514 (January 31, 2011 - $866,962, February 1, 2010 – $241,586). The total intrinsic value of the liability in respect of vested benefits is equal to the Corporation's carrying value.

15. Expenses:

(thousands of Canadian dollars)

	January 31, 2012	January 31, 2011
Wages and related benefits	$ 70,307	$ 53,899
Crew related expenses including travel	10,627	7,918
Repair and maintenance	16,121	10,894
Fuel	11,851	8,465
Aircraft lease expense	13,119	9,322
Facility and related support costs	11,515	8,247
Other expenses	14,218	10,868
	$ 147,758	**$ 109,613**

16. Finance costs:

(thousands of Canadian dollars)

	Note	January 31, 2012	January 31, 2011
Interest and fees payable in cash		$ 12,240	$ 13,555
Interest payable in kind	10(a)	2,512	-
Accretion of discounts on loans and borrowings		1,666	1,670
Loss on extinguishment of loans and borrowings	10(e,f,h)	1,112	-
Net foreign exchange gain		(62)	(16)
Impairment loss(recovery) on trade receivables		(53)	94
		$ 17,415	**$ 15,303**

17. Earnings per share:

(thousands of Canadian dollars, except per share amounts)	for the year ended January 31, 2012	January 31, 2011
Basic Earnings per Share:		
Profit attributable to holders of Common Shares	$ 11,752	$ 5,141
Weighted average number of Common Shares outstanding	14,300	13,520
Basic earnings per share	$ 0.82	$ 0.38
Diluted Earnings per Share:		
Profit attributable to holders of the Common Shares	$ 11,752	$ 5,141
Dilutive adjustments:		
- Interest savings from assumed conversion of convertible debt	3,300	-
Adjusted Profit attributable to holders of Common Shares	$ 15,052	$ 5,141
Weighted average number of Common Shares outstanding	14,300	13,520
Dilutive adjustments:		
- Assumed conversion of convertible debt	6,742	-
Weighted average number of Common Shares outstanding assuming dilution	21,042	13,520
Diluted earnings per share	$ 0.72	$ 0.38

As at January 31, 2012, all employee stock options were anti-dilutive. As at January 31, 2011, all employee stock options and conversion features on the Convertible Debentures were anti-dilutive.

18. Change in non-cash operating working capital:

(thousands of Canadian dollars)	January 31, 2012	January 31, 2011
Restricted cash	$ 200	$ 496
Trade and other receivables	(6,477)	(7,251)
Inventory	(3,372)	(1,004)
Prepaid expenses	(1,210)	771
Trade and other payables	5,900	1,899
	$ (4,959)	$ (5,089)

19. Capital disclosures:

The Corporation’s capital structure consists of long-term debt and shareholders’ equity. The Corporation’s capital management objectives are to:

1. achieve an appropriate balance between levels of debt and equity in the Corporation’s capital structure;
2. secure sufficient, appropriately–structured and properly-priced credit facilities to meet ongoing operational and capital investment requirements;
3. develop and manage relationships with lenders in a manner that supports continued access to capital; and
4. position the Corporation to issue, when it is favourable to do so, additional equity to support the execution of its long-term strategy.

Capital is managed in accordance with polices and financial plans that are approved and regularly reviewed by senior management and the Corporation`s board of directors and take into account forecasted capital needs, actual performance and market conditions. The Corporation`s board of directors reviews and approves any material transactions outside the ordinary course of business. An improvement in capital market conditions over the past several quarters, combined with improved operating results, have led the Corporation to reassess and modify its capital structure to better support future operations and growth (see note 25).

Certain of the Corporation’s debt agreements include affirmative and negative covenants which restrict the Corporations ability to deal with its assets and operations in the normal course of business including, but not limited to: issuing equity securities borrowing money or issuing guarantees; incurring liens to secure indebtedness; undertaking investments or disposing of assets; paying dividends, redeeming capital stock, or making other restricted payments; and merging with another company or selling substantially all of its assets. Certain of the Corporation’s debt agreements also require that the Corporation maintain specified financial ratios and satisfy specified financial tests. The Corporation monitors these covenants regularly Other than covenants in its credit facilities or shareholders` agreement (which was entered into in connection with the Secured Debentures); the Corporation is not subject to any externally-imposed capital restrictions.

20. Financial instruments - Disclosure and Presentation:

(a) Fair value estimation:

The Corporation classifies its fair value measurements by reference to the following fair value measurement hierarchy:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Carrying values for assets and liabilities classified as loans and receivables and financial liabilities at amortized cost (excluding loans and borrowings) approximate their fair value due to their short-term nature.

The fair value of fixed rate loans and borrowings, excluding the Secured Debentures and Unsecured Debentures, as at January 31, 2012 was $32.0 million (January 31, 2011 - $37.4 million, February 1, 2010 - $38.1 million) as compared to $33.7 million in carrying value (January 31, 2011 - $37.4 million, February 1, 2010 - $38.1 million).

The fair value of the Secured Debentures and Unsecured Debentures as at January 31, 2012 was $105.3 million as compared to a carrying value of $99.8 million. These debentures were issued in Fiscal 2012; therefore, there are no prior period comparisons. At January 31, 2012 the fair value of the Unsecured Debenture was based on the closing trade price on the TSX and the fair value for the Secured Debenture was based a valuation report. In the prior year, as of January 31, 2011, the now retired $28.8 Million Debentures had a fair market value of $27.5 million (February 1, 2010 - $19.2 million) as compared to $28.0 million in carrying value (February 1, 2010 - $27.3 million). The fair value of the $28.8 Million Debentures was based on their closing trading price on the TSX.

The fair value of the Corporation's embedded derivative is estimated based on appropriate price modeling commonly used by market participants. Such modeling uses discounted cash flow analysis with observable market inputs including future interest rates, implied volatilities and the credit risk of the Corporation or the counterparties as appropriate. The embedded derivative is reflected on the statement of financial position at fair value each reporting period. The fair value, which is equal to the carrying value, was $1.4 million at January 31, 2012.

The fair value of the Corporation's variable rate loans and borrowings approximates their carrying value, as the applicable interest rate is at a floating market rate.

(b) Financial risk management:

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. The Corporation`s management and the board of directors, review the principal business risks of the Corporation discussed in the Corporation's Annual Information Form and Management`s Discussion and Analysis. The Corporation`s board of directors expects management to develop a formal, disciplined and integrated enterprise risk management process that enables management to identify, assess, monitor, and manage the Corporation`s strategic, operational, reporting and compliance risks. Such a process is intended to provide reasonable assurance that the Corporation`s principal risks are managed having regard to the Corporation's business objectives and risk tolerance. Certain risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The Corporation's primary financial risk management objective is to achieve an optimal balance between maximizing return for its shareholders and minimizing the volatility of its cash flows.

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

i) 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 held. 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.

ii) Currency Risk

The Corporation's revenues and expenses are primarily in Canadian dollars; however, the Corporation's growing foreign operations (whose expenses and revenues are primarily incurred in U.S. dollars) and revenues from Technical Services (which are partially received in U.S. dollars) increase its exposure to foreign currency risk. Changes in exchange rates will result in fluctuations in the Corporation's operating results; however, they did not have a significant impact on the Corporation's earnings in Fiscal 2012.

As at January 31, 2012, the Corporation evaluated the currency risk on unhedged foreign currency liabilities by assessing the impact of a 5.00% rise or fall in the Canadian dollar against the foreign currencies, with all other variables unchanged. Such an exchange rate change would result in an immaterial impact on the Corporation's profit or loss and equity for the year ended January 31, 2012 the same as for the year ended January 31, 2011.

The Corporation's $9.6 million commitment to purchase aircraft and related inventory (note 22) as at January 31, 2012 includes foreign currency amounts of USD $6.2 million. These U.S. dollar based purchases are expected to be completed in the Fiscal 2013. These forward commitments have not been hedged by the Corporation.

iii) Interest rate risk

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

As at January 31, 2012, a substantial portion of the Corporation's debt bears a fixed rate of interest. A 25 basis point increase or decrease in interest rates, with all other variables unchanged, would have resulted in an immaterial impact on the Corporation's profit or loss and equity for the year ended January 31, 2012 ($127,000 for the year ended January 31, 2011).

However, subsequent to the completion of Fiscal 2012, the Corporation re-financed the $34 Million Term Loan with new facilities having a variable interest rate. As a result, the Corporation may be exposed to future financial risk from fluctuations in interest rates and the resulting interest expense associated with its short-term and long-term debt. A 25 basis point increase or decrease in interest rates on such new debt obligations will increase or decrease the Corporation's annual interest expense by $75,000

iv) Credit risk:

Some of the Northern Services segment's revenues are derived from services provided to mining and oil & gas exploration companies. These customers are exposed to changes in the related commodities market. The customers' ability to pay for the services provided could deteriorate if commodity prices decline. In addition, the Northern Services segment provides some services akin to a subcontractor. The Corporation may be delayed in receiving payment if the ultimate customer delays paying the Corporation's customer. The Corporation's Fiscal 2012 and fiscal 2011 bad debt expense was immaterial; however an increase in customer defaults could negatively affect the Corporation's net income.

Payment terms are generally net 30 days. As at January 31, 2012, January 31, 2011 and February 1, 2010 the gross aging of trade and other receivables was as follows:

(thousands of Canadian dollars)

	January 31, 2012	January 31, 2011	February 1, 2010
Current	$ 18,518	$ 12,292	$ 7,069
31-60 days	3,082	2,504	1,073
61-90 days	643	980	1,181
> 90 days	1,636	1,548	876
	$ 23,879	$ 17,324	$ 10,199

Changes in the Corporation's provision for impairment of trade and other receivables are as follows:

(thousands of Canadian dollars)		
Balance, February 1, 2010	$	(461)
Provision for receivables impairment		(162)
Recoveries of previously written off receivables		68
Receivables written off as uncollectible		126
Balance, January 31, 2011	$	(429)
Provision for receivables impairment		(40)
Recoveries of previously written off receivables		93
Receivables written off as uncollectible		126
Balance, January 31, 2012	$	(250)

The carrying amount of the Corporation's trade and other receivables are denominated in the following currencies:

(thousands of Canadian dollars)	**January 31, 2012**	**January 31, 2011**	**February 1, 2010**
Canadian dollars	$ 22,893	$ 15,077	$ 9,827
United States dollars	938	2,247	372
Euros	48	-	-
	$ 23,879	$ 17,324	$ 10,199

The maximum exposure to credit risk at each reporting date is the carrying amount of trade and other receivables.

v) 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 through a daily assessment of both a detailed four-week forward cash forecast of cash balances and non-cash working capital, and the use of annual budgets with updated projections during the fiscal year. Such projections identify cash funding requirements for operating and capital investment purposes and also provide advance visibility of potential covenant violations.

The Corporation has financial covenants that it is required by its lenders to meet on a quarterly and annual basis. These covenants require that the Corporation maintain specified financial ratios and satisfy specified financial tests. As well, there are other non-financial covenants that could affect the Corporation's ability to grow organically and by acquisition or to make distributions. As at January 31, 2012, the Corporation was in compliance with all financial covenants.

The Corporation requires working capital to fund its operations generally and, in particular, to meet increased cash flow requirements associated with seasonal operations. The

Corporation has a demand Operating Line of Credit (see notes 10 and 25) to finance its working capital requirements with a borrowing limit of $15.0 million and increased availability of up to $25.0 million during the Corporation's peak operating period of March through November. This facility expires on October 31, 2012. If the Corporation were unable to maintain the availability of this demand facility on acceptable terms, its ability to fund its working capital requirements would be adversely affected. Assuming the Operating Line of Credit remains available on comparable terms or is replaced by an alternate facility on comparable terms, the Corporation expects that its cash from operations, together with its existing or replacement operating loan, will be sufficient to meet its anticipated working capital requirements.

On or before June 25, 2012 the Corporation will need to repay a $4.5 million bridge loan (see note 25). The Corporation is not aware of any other current balance sheet conditions, income items or cash flow items, other than those previously disclosed, that could materially impact liquidity.

In addition, the Secured Debentures mature on March 22, 2017. However, if the Corporation is unable to achieve certain key milestones set out in the terms of the Secured Debentures, the holders of the Secured Debentures may elect to accelerate the maturity date to a date that could be as early as April 23, 2015. Upon the maturity of the Secured Debentures, the Corporation is required to repay the principal amount of such Secured Debentures together with all accrued and unpaid interest and any other amounts owing pursuant to the terms of the Secured Debentures.

The expected repayment of financial liabilities (undiscounted) is as follows:

(thousands of Canadian dollars)

January 31, 2012	**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**
Trade and other payables	$ 20,861	$ -	$ -	$ -	$ -	$ -	**$ 20,861**
Loans and borrowings	112	33,800	173	106	30,926	64,781	**129,898**
	$ 20,973	$ 33,800	$ 173	$ 106	$ 30,926	$ 64,781	**$ 150,759**

21. Related party transactions:

(a) Loans and borrowings:

At January 31, 2012, the Corporation had no long-term debt (January 31, 2011 - $13.6 million, February 1, 2010 - $15.0 million) owing primarily to current and former officers and directors of the Corporation or its subsidiaries and who were former owners of the subsidiaries. Prior year balances were repaid during the year (see note 10(i)). For the period, interest expense on this debt totalled $0.1 million (January 31, 2011 - $0.5 million).

(b) Key management compensation:

Key management includes members of the executive management team. The compensation paid or payable to key management for employee services is shown below:

(thousands of Canadian dollars)

	January 31, 2012	January 31, 2011
Salaries and other short-term employee benefits	$ 1,805	$ 2,325
Pension adjustment	110	99
Share based compensation	5	14
	$ 1,920	$ 2,438

22. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the year, the Corporation incurred $13.1 million in operating lease expense. Future minimum lease payments under these non-cancellable leases are due as follows:

(thousands of Canadian dollars)		
Less than 1 year	$	4,455
1 - 2 years		1,724
2 - 3 years		682
3 - 4 years		419
4 - 5 years		387
Thereafter		8,129
	$	15,796

The lease terms range from a period of one to 50 years, the majority of which are renewable at the end of the lease term at market rates.

The Corporation is committed to purchase additional aircraft, related inventory, service contracts and business combinations (note 25) for a total cost of $9.6 million. The Corporation provided non-refundable deposits totalling $1.1 million, which will be applied to the final purchase of aircraft.

Subsequent to year end the Corporation has committed to making minimum lease payments of $9.3 million with terms ranging from one to eight years.

As at January 31, 2012, the Corporation had $0.6 million of restricted cash which is required to collaterize contingent exposures. Included in this balance are letters of credit totalling $198,000. The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

23. Explanation of transition to IFRS:

As stated in note 2(a), these are the Corporation's first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended January 31, 2012, the comparative information presented in these financial statements for the year ended January 31, 2011 and in the preparation of an opening IFRS statement of financial position at February 1, 2010 (the Corporation's date of transition to IFRS).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with CGAAP. An explanation of how the transition from CGAAP to IFRS has affected the Corporation's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

a) Reconciliation of equity at February 1, 2010 (date of transition to IFRS):

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Assets:			
Current assets:			
Cash	$ 9,237	$ (1,882)	$ 7,355
Restricted cash	1,330	-	1,330
Trade and other receivables	9,501	237	9,738
Inventory	13,902	(417)	13,485
Prepaid expenses and other	2,935	(5)	2,930
Total current assets	36,905	(2,067)	34,838
Property and equipment	157,944	(7,326)	150,618
Goodwill	37,862	-	37,862
Intangible assets	23,599	-	23,599
Investment in equity accounted investees	-	2,187	2,187
Total assets	$ 256,310	$ (7,206)	$ 249,104
Liabilities:			
Current liabilities:			
Trade and other payables	$ 10,444	$ (154)	$ 10,290
Income taxes payable	817	(158)	659
Current portion of finance leases	-	104	104
Current portion of loans and borrowings	10,330	(181)	10,149
Total current liabilities	21,591	(389)	21,202
Finance leases	-	18	18
Loans and borrowings	135,777	(1,016)	134,761
Deferred income taxes	24,531	(1,203)	23,328
Total non-current liabilities	160,308	(2,201)	158,107
Shareholders' equity:			
Share capital	184,535	-	184,535
Contributed surplus	7,141	-	7,141
Retained earnings (deficit)	(119,401)	(2,480)	(121,881)
Non-controlling interest in equity	2,136	(2,136)	-
	$ 74,411	$ (4,616)	$ 69,795
Total liabilities and equity	$ 256,310	$ (7,206)	$ 249,104

b) Reconciliation of equity at January 31, 2011:

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Assets:			
Current assets:			
Cash	$ 9,693	$ (2,294)	$ 7,399
Restricted cash	834	-	834
Trade and other receivables	16,685	210	16,895
Inventory	14,950	(461)	14,489
Prepaid expenses and other	2,170	(11)	2,159
Total current assets	44,332	(2,556)	41,776
Property and equipment	157,633	(8,169)	149,464
Goodwill	37,862	-	37,862
Intangible assets	19,159	-	19,159
Investment in equity accounted investees	-	2,533	2,533
Total assets	$ 258,986	$ (8,192)	$ 250,794
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables	$ 12,633	$ (215)	$ 12,418
Income taxes payable	1,282	(38)	1,244
Current portion of finance leases	-	54	54
Current portion of loans and borrowings	38,888	(102)	38,786
Total current liabilities	52,803	(301)	52,502
Finance leases	-	118	118
Loans and borrowings	101,325	(1,003)	100,322
Deferred income taxes	24,204	(1,317)	22,887
Total non-current liabilities	125,529	(2,202)	123,327
Shareholders' equity:			
Share capital	65,134	-	65,134
Contributed surplus	7,170	-	7,170
Retained earnings (deficit)	5,466	(2,805)	2,661
Non-controlling interest in equity	2,884	(2,884)	-
Total equity	$ 80,654	$ (5,689)	$ 74,965
Total liabilities and equity	$ 258,986	$ (8,192)	$ 250,794

c) Reconciliation of comprehensive income for the year ended January 31, 2011:

(thousands of Canadian dollars)

	CGAAP	Effect of transition to IFRS	IFRS
Revenue	$ 152,418	$ (1,133)	$ 151,285
Operating expenses	115,023	(5,410)	109,613
Depreciation of property and equipment and intangible assets	13,874	5,917	19,791
Gross earnings	23,521	(1,640)	21,881
Finance costs	15,298	5	15,303
Gain on disposal of property and equipment	-	(892)	(892)
Share of earnings of equity accounted investees (net of income tax)	-	(163)	(163)
	15,298	(1,050)	14,248
Earnings before income taxes	8,223	(590)	7,633
Income tax provision (recovery)			
Current	2,765	168	2,933
Deferred	(327)	(114)	(441)
	5,785	(644)	5,141
Non-controlling interest	319	(319)	-
Earnings and comprehensive income	$ 5,466	$ (325)	$ 5,141

(d) Material adjustments to the statement of cash flows for 2011:

Interest paid and income taxes paid have moved into the body of the statement of cash flows, whereas they were previously disclosed as supplementary information. There are no other material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under previous CGAAP, except as indicated in note 24(b), where other changes resulted from the deconsolidation of the Corporation's VIE's.

24. Notes to the reconciliation:

(a) IFRS 1:

IFRS 1 *First-time adoption of International Financial Reporting Standards* sets out the requirements that the Corporation must follow when it adopts IFRS for the first time as the basis for preparing its consolidated financial statements. The Corporation is required to establish its IFRS accounting policies for the year ended January 31, 2012, and apply those policies retrospectively to determine the IFRS opening statement of financial position at the Corporation's date of transition of February 1, 2010. To assist companies in the transition process, IFRS 1 permits a number of specified exemptions from the general principle of retrospective restatement. The Corporation elected to apply IFRS retrospectively to all business combinations that occurred on or after February 1, 2010. As a condition under IFRS 1 for applying this exemption, goodwill relating to business combinations that occurred prior to February 1, 2010 was tested for impairment even though no impairment indicators were identified at that date. No impairment existed at the date of transition. Therefore, there was no impact on retained earnings in respect of this exemption.

The Corporation has applied the optional exemption to apply IFRS 2, share-based payments, to equity instruments that were granted after November 7, 2002 and which vest after February 1, 2010. Effective February 1, 2010 the Corporation retrospectively changed its method of recognizing stock-based compensation to graded vesting from the straight line method used under CGAAP. This change in methodology was not material.

The remaining optional exemptions under IFRS 1 are not applicable to the Corporation. All other mandatory exceptions in IFRS 1 were not applicable because there were no significant differences in management's application of CGAAP in these areas.

(b) Variable interest entities:

The Corporation previously consolidated its interests in variable interest entities under CGAAP. Under IFRS, the Corporation does not control these entities and, as a result, these interests are no longer consolidated but are treated as equity accounted investees.

(thousands of Canadian dollars)	For the year ended January 31, 2011
Consolidated statement of comprehensive income	
Decrease in revenue	$ (1,133)
Decrease in operating expenses	447
Decrease in finance costs	59
Decrease in amortization	319
Increase in income tax provision	(174)
Share of profit of equity accounted investees (before income taxes)	163
Decrease in non-controlling interest	319
Adjustment before income tax	$ -

(thousands of Canadian dollars)	February 1, 2010	January 31, 2011
Consolidated statement of financial position		
Decrease in cash	$ (1,882)	$ (2,294)
Increase in trade and other receivables	237	210
Decrease in inventory	(24)	(66)
Decrease in prepaid expenses and other	(5)	(11)
Decrease in property and equipment	(4,361)	(4,761)
Decrease in trade and other payables	154	215
Decrease in income taxes payable	158	38
Decrease in current portion of loans and borrowings	181	48
Decrease in loans and borrowings	894	885
Decrease in deferred income taxes	325	319
Investments in equity accounted investees	2,187	2,533
Decrease in non-controlling interest in equity	2,136	2,884
Increase in retained earnings	$ -	$ -

(c) Componentization of property and equipment:

Under IFRS, when parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. This has resulted in a more detailed approach to determining the useful lives of certain asset components under IFRS than was previously used under CGAAP. As at February 1, 2010, the Corporation retrospectively componentized certain items of property and equipment under IFRS, which resulted in an increase in accumulated depreciation of $3.3 million.

The tax effected impact on retained earnings of IFRS measurement differences related to property and equipment as at February 1, 2010 was $0.9 million.

(d) Cash-settled share based compensation:

The Corporation granted cash-settled share based payments to directors (note 14(d)). The Corporation accounted for these share based payment arrangements by reference to their intrinsic value under previous CGAAP. Under IFRS, the related liability is recorded at fair value of the outstanding cash-settled share based payments, which is not materially different from the amount determined under CGAAP.

(e) Reclassification of Cash from Held for Trading under CGAAP to Loans and Receivables under IFRS:

Cash does not meet the criteria for the fair value through profit and loss designation under IFRS because cash is not managed on a fair value basis but yield to maturity basis and it is not traded on an active market. Under CGAAP, cash met the criteria and was classified as held-for-trading.

As a result, cash is classified as loans and receivables. This change in classification does not have a financial impact on the consolidated financial statements as the fair value of approximates cost; therefore there is only a disclosure difference.

(f) Reclassification within the statement of comprehensive income:

The Corporation chose to present the statement of comprehensive income by nature. Amortization of rotable and overhauled components was included in operating expenses under previous CGAAP. These costs are now included within depreciation under IFRS.

(g) Taxes:

The above changes decreased/increased the deferred tax assets/liabilities as follows based on a tax rate of 26%:

(thousands of Canadian dollars)	Note	February 1, 2010	January 31, 2011
Componentization of property and equipment		$ (878)	$ (998)
Variable interest entities		(325)	(319)
Change in deferred tax liability	23	$ (1,203)	$ (1,317)

The effect on the statement of comprehensive income for the year ended January 31, 2011 was to decrease/increase the previously reported tax charge for the period by $55,000.

(h) Retained earnings

The above changes decreased (increased) retained earnings as follows:

(thousands of Canadian dollars)	Note	February 1, 2010	January 31, 2011
Componentization of property and equipment		$ (3,358)	$ (3,803)
Deferred income taxes		878	998
Change in retained earnings	23	$ (2,480)	$ (2,805)

25. Subsequent Events:

On February 2, 2012, the Corporation, through Great Slave, purchased 100% of Servicios Aereos Helicopters.cl Ltda ("SAL") and its subsidiaries. SAL is considered by management to be a good strategic fit with Great Slave`s South American operations, providing helicopter services to domestic and multinational customers in Chile's mining, power construction and forestry sectors. SAL has two main operating bases in central and southern Chile, and currently operates a fleet of up to 10 intermediate and medium sized helicopters. The purchase price consisted of cash consideration of $2.5 million and contingent consideration ranging between $1.5 million and $4.5 million, payable in two installments on December 31, 2012 and on December 31, 2013. The Corporation estimates that the total purchase price will be $7 million. Therefore, the contingent consideration recorded in Fiscal 2013 is expected to be $4.5 million. The estimated cash outflows of these future payments are $3.4 million in 2012 and $1.1 million in 2013. The estimated fair value of the assets acquired is $9.8 million including cash of $0.4 million, receivables of $1.4 million and tangible assets of $8.0 million. The estimated fair value of the liabilities assumed is $4.6 million. These numbers are preliminary and subject to change. The accounting for the business combination is incomplete at the time the financial statements were authorized for issue, due to fair value assessments of intangible assets being incomplete.

On February 20, 2012, the Corporation, through a subsidiary of Great Slave, entered into an asset purchase agreement to acquire the operating assets of Northern Air Support Ltd. ("NAS"). This purchase fulfills Great Slave's search for a partner in the B.C. market. NAS is a profitable, safety-oriented helicopter charter company serving the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, B.C. and Rocky Mountain House, Alberta. The purchase price consists of cash consideration of $9.4 million. The completion of the transactions is subject to certain closing conditions. The accounting for the business combination is incomplete at the time the financial statements were authorized for issue, due to fair value assessments of intangible assets being incomplete.

On March 26, 2012 the Corporation repaid the $34 Million Term Loan in full, ten months prior to its February 1, 2013 maturity. To repay this loan, the Corporation entered into: two new credit facilities with a combined average interest rate of 5.2%; and a $4.5 million bridge loan from a related party. The bridge lender is a related party as it is an affiliate of Clairvest Group Inc. whose affiliates and investors in certain of its funds hold approximately $55 million principal amount of the Secured Debentures and have certain director nomination rights. The bridge loan has a 90-day term and bears interest at 9.5% per annum with interest payable monthly and is secured by way of certain guarantees, and real estate previously pledged as security for the $34 Million Term Loan. No financing fees were payable in connection with the bridge loan, and the bridge loan is not convertible into securities of the Corporation. In order to facilitate these new loans, the Secured Debentures were amended to: facilitate the early repayment of the $34 Million Debentures; change when and in what circumstances the existing maturity date (currently March 22, 2017) can be adjusted; when and in what circumstances the Corporation can early redeem the Secured Debentures; and require the consent of the holders of the Secured Debentures for the Corporation to issue equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures (currently $7.50 per share). As a result of the last amendment referred to above, the conversion feature in the Secured Debentures will no longer be classified as a liability that is recorded at fair value each reporting period, but will instead will be classified as equity and included in contributed surplus.

On March 26, 2012, the Corporation also amended certain terms of the Operating Line of Credit. These amendments allowed the Corporation to formalize a new intercreditor agreement that gives the Corporation greater flexibility to manage its assets in support of its growth plans. The amendments also extended the peak borrowing period to begin in March instead of April, increased the stand by fee to 2%, and changed the borrowing margin applied to eligible accounts receivable and inventory.