Interim Condensed Consolidated Financial Statements
July 31, 2012
(Unaudited)

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Financial Position
(Unaudited)

(thousands of Canadian dollars)	Note	July 31, 2012	January 31, 2012	July 31, 2011
Assets				
Current assets:				
Cash		$ 686	$ 13,096	$ 2,144
Restricted cash	10	643	638	634
Trade and other receivables		55,271	23,629	51,886
Inventory		21,178	17,861	17,264
Prepaid expenses and other		6,630	3,369	4,971
		84,408	58,593	76,899
Property and equipment		187,373	157,994	150,069
Long term notes receivable		2,361	2,490	-
Goodwill	5	41,439	37,862	37,862
Intangible assets		12,577	14,789	16,939
Investments in equity accounted investees		3,188	2,907	3,007
		$ 331,346	$ 274,635	$ 284,776
Liabilities and Shareholders' equity				
Current liabilities:				
Operating line of credit	7	$ 7,892	$ -	$ 11,611
Trade and other payables		26,014	18,349	23,086
Income taxes payable		7,338	3,307	3,726
Current portion of finance leases		486	333	23
Current portion of contingent liability	5	2,239	-	-
Current portion of loans and borrowings	6	6,527	112	9,728
		50,496	22,101	48,174
Finance leases		4,058	2,873	3,228
Contingent Liability	5	1,865	-	-
Loans and borrowings	6	148,099	132,298	111,476
Financial liabilities at fair value	6(e)	-	1,419	-
Deferred income taxes		22,626	23,246	25,105
		176,648	159,836	139,809
Shareholders' equity:				
Share capital		68,469	68,469	69,585
Contributed surplus		10,972	9,727	9,050
Retained earnings		24,708	14,413	18,158
Accumulated other comprehensive loss	5	15	-	-
Equity attributable to shareholders of Discovery Air Inc.		104,164	92,609	96,793
Equity attributable to non-controlling interest		38	89	-
Total equity		104,202	92,698	96,793
		$ 331,346	$ 274,635	$ 284,776

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Profit and Comprehensive Income

(Unaudited)

(thousands of Canadian dollars, except per share amounts)	Note	For the three months ended July 31, 2012	For the three months ended July 31, 2011	For the six months ended July 31, 2012	For the six months ended July 31, 2011
Revenue		$ 74,225	$ 70,657	$ 127,158	$ 107,906
Expenses		51,073	41,206	95,280	73,673
Depreciation of property and equipment and intangible assets		6,785	6,184	12,381	10,688
		16,367	23,267	19,497	23,545
Finance costs		4,605	4,721	8,927	8,465
Change in fair value of financial liabilities at fair value	6(e)	-	-	(201)	-
Gain on extinguishment of debt	6(a)	-	(5,900)	(2,224)	(5,900)
Gain on disposal of property and equipment		(25)	(369)	(34)	(115)
Share of profit of equity accounted investees (net of income tax)		(140)	(245)	(281)	(474)
Gain on business acquisition	5	(297)	-	(297)	-
		4,143	(1,793)	5,890	1,976
Profit before income taxes		12,224	25,060	13,607	21,569
Income tax provision (recovery):					
Current		1,969	3,678	3,981	4,241
Deferred		1,348	3,403	(618)	1,935
		3,317	7,081	3,363	6,176
Profit		$ 8,907	$ 17,979	$ 10,244	$ 15,393
Other comprehensive income:					
Exchange differences on translation of foreign operation	5	129	-	15	-
Total comprehensive income		$ 9,036	$ 17,979	$ 10,259	$ 15,393
Profit (loss) attributable to:					
Non-controlling interest		(28)	-	(51)	-
Shareholders of Discovery Air Inc.		8,935	17,979	10,295	15,393
		$ 8,907	$ 17,979	$ 10,244	$ 15,393
Total comprehensive income attributable to:					
Non-controlling interest		(28)	-	(51)	-
Shareholders of Discovery Air Inc.		9,064	17,979	10,310	15,393
		$ 9,036	$ 17,979	$ 10,259	$ 15,393
Earnings per share:					
Basic earnings per share	8	$ 0.61	$ 1.24	$ 0.71	$ 1.10
Diluted earnings per share	8	$ 0.38	$ 0.96	$ 0.50	$ 0.96

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Shareholders' Equity
(Unaudited)

(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive Income	Non-controlling interest	Total equity
Balance at January 31, 2012		$ 68,469	$ 9,727	$ 14,413	$ -	$ 89	$ 92,698
Profit (loss)		-	-	10,295	-	(51)	10,244
Other comprehensive income	5	-	-	-	15	-	15
Share-based compensation		-	28	-	-	-	28
Amendment of convertible debentures	6(e)	-	1,217	-	-	-	1,217
Balance at July 31, 2012		$ 68,469	$ 10,972	$ 24,708	$ 15	$ 38	$ 104,202
Balance at January 31, 2011		$ 65,134	$ 7,170	$ 2,765	$ -	$ -	$ 75,069
Profit		-	-	15,393	-	-	15,393
Shares issued on debt extinguishment		4,451	-	-	-	-	4,451
Fair value of conversion feature on convertible debenture		-	1,843	-	-	-	1,843
Share-based compensation		-	37	-	-	-	37
Balance at July 31, 2011		$ 69,585	$ 9,050	$ 18,158	$ -	$ -	$ 96,793

See accompanying notes to the interim condensed consolidated financial statements.

DISCOVERY AIR INC.

Interim Condensed Consolidated Statements of Cash Flows
(Unaudited)

(thousands of Canadian dollars)	Note	For the six months ended July 31, 2012	July 31, 2011
Cash Provided by (used in)			
Operating activities			
Profit		$ 10,244	$ 15,393
Adjustments for:			
Current tax expense		3,981	4,241
Deferred tax expense (recovery)		(618)	1,935
Finance costs		8,927	8,465
Change in fair value of financial liabilities	6(e)	(201)	-
Share-based compensation		28	37
Deferred share unit compensation		(111)	304
Depreciation of property, equipment and intangible assets		12,381	10,688
Share of profit of equity accounted investees		(281)	(474)
Gain on acquisition of subsidiary		(297)	-
Gain on disposal of property and equipment		(34)	(115)
Gain on extinguishment of debt	6(a)	(2,224)	(5,900)
		31,795	34,574
Change in non-cash operating working capital	9	(28,913)	(29,844)
Interest paid		(3,745)	(6,842)
Net income taxes paid		(180)	(1,516)
Net cash used in operating activities		(1,043)	(3,628)
Investing activities:			
Acquisition of property and equipment		(26,038)	(9,013)
Acquisition of subsidiaries, net of cash acquired	5	(11,687)	-
Long term notes receivable collections		121	-
Proceeds on disposal of property and equipment		137	2,474
Net cash used in investing activities		(37,467)	(6,539)
Financing Activities:			
Proceeds from operating line of credit	7	7,789	11,611
Loans and borrowings transaction costs		(798)	(2,227)
Proceeds from loans and borrowings	6	57,148	34,500
Repayment of loans, borrowings and finance leases	6(a),(d)	(38,040)	(38,972)
Net cash from financing activities		26,099	4,912
Foreign exchange gain on cash held in foreign currency		1	-
Decrease in cash		(12,410)	(5,255)
Cash, balance beginning of period		13,096	7,399
Cash, balance end of period		$ 686	$ 2,144

See accompanying notes to the interim condensed 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 on 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 their own wholly-owned subsidiaries and through jointly controlled entities or investments in associates. Through its direct and indirect subsidiaries, the Corporation operates over 160 aircraft with approximately 850 employees. The Corporation's Class A common 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 its wholly-owned subsidiaries and joint venture arrangements with Aboriginal groups in northern Canada, provides services throughout Canada and in a number of international locations utilizing a fleet of owned and leased 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 major operations are carried out in Yellowknife, Northwest Territories, Calgary and Rocky Mountain House, Alberta, and Kelowna, British Columbia, and 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. Internationally, Great Slave has operations in Peru and Chile.

Air Tindi operates a diverse fleet of turbo-prop and jet aircraft for scheduled and charter services for passengers and cargo. With bases in Cambridge Bay, Yellowknife, Edmonton and Calgary, Air Tindi offers scheduled services to communities around Great Slave Lake, and charter flights to the public, government, and industry in the Northwest Territories, Nunavut, Alberta, and other parts of Western Canada. Air Tindi provides specialized, safe and reliable air transportation solutions to the mining, mineral exploration, oil and gas and air ambulance sectors. Air Tindi has strategic alliances with aboriginal development corporations and consortiums in regions of northern Canada where Air Tindi operates, facilitating a partnership in the development of the aboriginal regions.

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

Top Aces provides airborne training services to the Canadian Department of National Defence and Canadian Forces ("DND"). Top Aces provides a variety of military training ranging from simulated combat to target tow. Top Aces has bases throughout Canada and operates internationally.

Fire Services is an Ontario-based aviation company that provides aerial fire management services to the Province of Ontario, utilizing 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. Fire Services, through its Discovery Aviation Academy, also provides recreational and commercial flight training programs from its Sudbury, Ontario facility.

Technical Services' maintenance division based in Quebec City, Quebec provides a range of in-house capabilities, including welding, avionics, engineering, machining, heat treatment, plating, composite, non-destructive testing and sheet metal repairs. The engineering division based in Toronto, Ontario provides aircraft upgrade and modification design services, with experience working on civil and military fixed and rotary wing aircraft. Technical Services owns a majority stake in a subsidiary that carries on business as, Aero Vision Technologies International ("AVTi"), which specializes in the development of aviation software and imaging technology.

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

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors such as weather conditions can affect the comparability of results from one period to another, particularly from quarter to quarter.

Some of the seasonal factors that impact quarterly results are as follows: there is increased demand for the services provided by Great Slave, Fire Services, Air Tindi and Discovery Mining normally commencing in the late spring and continuing through to the end of the summer; Top Aces' revenue-generating opportunities are significantly higher in the February to June and September to November time periods; though Top Aces' revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customers' priorities; weather conditions can have an impact on flight activity from one period to another, especially in the Corporation's fire suppression activities; the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential; and repair and maintenance on aircraft do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

2. Basis of preparation:

(a) Statement of compliance:

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Corporation's consolidated financial statements for the year ended January 31, 2012, which were prepared in accordance with International Financial Reporting Standards. Effective February 1, 2012, the Corporation revised its reportable operating segments (see note 4).

(b) Basis of measurement:

These interim condensed 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 (the "Secured Debentures") (see note 6(e)), which were measured at fair value.

(c) Functional and presentation currency:

These interim condensed consolidated financial statements are presented in Canadian dollars. The Corporation has a Chilean subsidiary which has a functional currency of the Chilean Peso (see note 5). The consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of the Corporation's operations in Chile to Canadian dollars. The assets and liabilities of the Corporation's Chilean subsidiary are translated to Canadian dollars at exchange rates applicable at each reporting date. Income and expenses are translated to Canadian dollars at exchange rates applicable at the dates of the transactions. Foreign currency translation differences relating to the impact of changes in exchange rates on the net assets of the Chilean subsidiary are recognized in other comprehensive income. The Corporation's operations in Peru and its remaining subsidiaries have a functional currency of the Canadian dollar.

3. Significant accounting policies:

These interim condensed consolidated financial statements have been prepared using the same accounting policies and methods of computation as the Corporation's most recent annual audited consolidated financial statements for the year ended January 31, 2012.

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

4. Segmented information:

Effective February 1, 2012, the Corporation revised its reportable segments from "Northern Services", which included Great Slave, Air Tindi and Discovery Mining; and "Government Services", which included Top Aces, Fire Services and Technical Services to "Aviation", which includes Great Slave, Top Aces, Air Tindi and Fire Services and "Corporate Support and Other", which includes Technical Services, Discovery Mining, Innovations and Corporate. In assessing the reportable segments, the Corporation considered the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. The revised reportable segments reflect the changing environment noted in the operating units and management's focus on allocating resources and measuring performance. The Aviation segment aggregates operating units by operations that have substantially the same basis of deriving revenues, infrastructure to conduct operations and regulatory environment.

Corporate Support and Other contains operating units which do not meet the basis for aggregation under Aviation and individually represent less than 10% of the Corporation's total assets, annual revenues and annual earnings. Corporate reflects direct corporate overhead costs.

The change in segment reporting had no impact on the Corporation's interim condensed consolidated statements of financial position, statement of profit and comprehensive income or statement of cash flows for any periods.

The Aviation 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 expire in 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 and 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, the Corporation's 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 the occurrence of certain events of default, including the insolvency of Fire Services or a breach by Fire Services of specified material terms or conditions of the contract, and (ii) without cause by giving 30 days prior written notice to Fire Services.

(thousands of Canadian dollars)	For the three months ended July 31, 2012			For the three months ended July 31, 2011		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 67,997	$ 6,228	$ 74,225	$ 63,264	$ 7,393	$ 70,657
Expenses	42,237	8,836	51,073	32,750	8,456	41,206
Depreciation of property and equipment and intangible assets	6,483	302	6,785	5,989	195	6,184
	19,277	(2,910)	16,367	24,525	(1,258)	23,267
Finance costs			4,605			4,721
Change in fair value of financial liabilities at fair value			-			-
Gain on extinguishment of debt			-			(5,900)
Gain on disposal of property and equipment			(25)			(369)
Share of profit of equity accounted investees (net of income tax)			(140)			(245)
Gain on business acquisition			(297)			-
Profit before income tax			12,224			25,060
Income tax provision						
Current			1,969			3,678
Deferred			1,348			3,403
Profit			$ 8,907			$ 17,979
Loss attributable to non-controlling interest			(28)			-
Profit attributable to shareholders of Discovery Air Inc.			$ 8,935			$ 17,979
Segment assets	$ 307,805	$ 23,541	$ 331,346	$ 267,805	$ 16,971	$ 284,776
Capital expenditures	$ 25,045	$ 2,279	$ 27,324	$ 3,425	$ 450	$ 3,875

DISCOVERY AIR INC.

(thousands of Canadian dollars)	For the six months ended July 31, 2012			For the six months ended July 31, 2011		
	Aviation	Corporate Support and Other	Total	Aviation	Corporate Support and Other	Total
Revenue	$ 115,679	$ 11,479	$ 127,158	$ 96,465	$ 11,441	$ 107,906
Expenses	78,634	16,646	95,280	59,200	14,473	73,673
Depreciation of property and equipment and intangible assets	11,836	545	12,381	10,369	319	10,688
	25,209	(5,712)	19,497	26,896	(3,351)	23,545
Finance costs			8,927			8,465
Change in fair value of financial liabilities at fair value			(201)			-
Gain on extinguishment of debt			(2,224)			(5,900)
Gain on disposal of property and equipment			(34)			(115)
Share of profit of equity accounted investees (net of income tax)			(281)			(474)
Gain on business acquisition			(297)			-
Profit before income tax			13,607			21,569
Income tax provision (recovery)						
Current			3,981			4,241
Deferred			(618)			1,935
Profit			$ 10,244			$ 15,393
Loss attributable to non-controlling interest			(51)			-
Profit attributable to shareholders of Discovery Air Inc.			$ 10,295			$ 15,393
Segment assets	$ 307,805	$ 23,541	$ 331,346	$ 267,805	$ 16,971	$ 284,776
Capital expenditures	$ 36,512	$ 3,517	$ 40,029	$ 8,330	$ 683	$ 9,013

5. Business combinations:

(a) On February 2, 2012, the Corporation, through a subsidiary of Great Slave, acquired 100% of Helicopers.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("SAL") and its subsidiaries. SAL was acquired due to its 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 approximately 10 intermediate and medium sized helicopters. The Chilean Peso is SAL's functional currency. Foreign exchange gains and losses arising from translating SAL's results and financial position into Canadian dollars are recorded in "Other comprehensive income".

The purchase price consisted of cash consideration of $2.3 million (net of cash acquired of $0.2 million) and contingent consideration of up to $4.5 million, payable in two installments on December 31, 2012 and on December 31, 2013. The contingent payments are based on a multiple of expected profit before income tax, depreciation and amortization, adjusted for long term debt assumed and working capital requirements. The Corporation estimated the total purchase price to be $7.0 million. The contingent liability is recorded at its present value and will accrete to the face value of the liability at the scheduled payment dates. The purchase price allocation has not been finalized as the Corporation continues to assess the fair values of the assets acquired. The Corporation expects to finalize the purchase price allocation before the end of the current fiscal year, January 31, 2013.

(b) On May 4, 2012, the Corporation, through a subsidiary of Great Slave, completed the purchase of the assets of Northern Air Support Ltd. ("NAS") for $9.4 million. NAS is a helicopter charter company that serves the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia and Rocky Mountain House, Alberta. The acquisition of NAS supports the Corporations growth into the British Columbia market and is a good strategic fit with Great Slave's operations. The fair value of the assets acquired is $9.7 million, including aircraft valued at $8.5 million, buildings at $0.9 million, inventory at $0.2 million and vehicles, furniture and equipment at $0.1 million. The Corporation assumed net working capital payables below $0.1 million. The ultimate purchase price and the intangible valuations are currently being finalized. Prior to these assessments, a gain of $0.3 million has been recorded and is presented separately on the Interim Condensed Consolidated Statements of Profit and Comprehensive Income. The transaction resulted in a gain as the Corporation was able to acquire the assets at a value less than the fair market value. The gain may be adjusted upon finalizing the purchase price and the valuation of assets acquired.

6. **Loans and borrowings:**

(thousands of Canadian dollars)

	Note	July 31, 2012	January 31, 2012	July 31, 2011
Long-term secured debt bearing interest of lenders base rate plus 1.50%, maturing February 16, 2015	6(f)	$ 13,718	$ -	$ -
Long-term unsecured debt bearing a fixed interest rate of 9.00%, maturing April 22, 2016	6(g)	4,409	-	-
Long-term secured debt bearing interest of lenders base rate plus 3.00%, maturing March 15, 2017	6(b)	19,296	-	-
Long-term secured debt bearing interest of BA rate plus 4.55%, maturing March 26, 2017	6(c)	13,700	-	-
10.00% secured convertible debentures, maturing March 22, 2017	6(e)	71,252	67,293	-
8.375% unsecured convertible debentures, maturing June 30, 2016		31,219	30,890	30,564
Long-term secured debt bearing a fixed interest rate of 10.00%, maturing February 1, 2013	6(a)	-	33,687	33,543
Long-term secured debt incurred by subsidiary companies bearing fixed and floating interest rates at a weighted average of 5.88% (January 31, 2012 - 7.48%, July 31, 2011 - 7.79%), maturing fiscal 2013 through fiscal 2016		1,032	540	15,660
Long-term secured debt bearing an interest rate of 90 day BA rate plus 7.65%		-	-	41,437
Loans and borrowings		$ 154,626	$ 132,410	$ 121,204
Less current portion of loans and		6,527	112	9,728
		$ 148,099	$ 132,298	$ 111,476

(a) On March 26, 2012, the Corporation repaid the $34.0 million term loan (the “$34 Million Term Loan”) in full, ten months prior to its February 1, 2013 maturity. To repay this loan and related transaction costs, the Corporation entered into: two new credit facilities totaling $29.9 million (see notes 6(b) and (c) below), and a $4.5 million bridge loan from a related party (see note 6(d) below). The repayment of the $34 Million Term Loan was reduced by $2.2 million, in return for the Corporation retiring it prior to maturity.

(b) On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement to refinance a portion of the $34 Million Term Loan (see note 6(a)) and to fund the purchase of additional aircraft. The loan matures on March 15, 2017 and is repayable in monthly instalments of $167,000 plus interest, with the balance due at maturity. The loan bears an interest rate equal to the lender's floating base rate plus 3.00% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $214,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on its effective interest rate of 4.99% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage.

On July 31, 2012, the $20.0 million term loan was amended to facilitate the new operating facility that was secured on August 1, 2012. The $20.0 million term loan was amended to confirm the lender's priority over their collateral. See Subsequent event note 12(a) for further details concerning the new operating facility.

(c) On March 26, 2012, the Corporation entered into four term loan agreements for an aggregate principal amount of $14.2 million to refinance a portion of the $34 Million Term Loan (see note 6(a)) and to fund the purchase of additional aircraft. As at July 31, 2012, an additional $2.2 million was available to be drawn under a separate loan agreement with this lender on or before September 30, 2012. The loans mature on March 26, 2017 and are repayable in aggregate monthly instalments of $185,000 plus interest payments, with the balance due at maturity. The loans bear interest at a rate equal to the one-month Canadian dollar banker's acceptance rate ("BA rate") plus 4.55% per annum. The loans are secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $163,000 are netted against the carrying value of the loan and are being accreted to the loans' face value based on the loans' effective interest rate of 5.97% per annum. The agreements require that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

(d) On March 26, 2012, the Corporation entered into a $4.5 million bridge loan agreement ("Bridge Loan") with a related party. The bridge lender was a related party as it is an affiliate of Clairvest Group Inc. whose affiliates and investors in certain of its funds hold approximately $58.3 million adjusted principal amount of the Secured Debentures and have certain director nomination rights. The bridge loan had a 91-day term and bore interest at 9.5% per annum with interest payable monthly and was 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 was not convertible into securities of the Corporation. The Bridge Loan was repaid in full on June 22, 2012.

(e) On March 22, 2012, $3.5 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at July 31, 2012, the loan balance included accrued interest of $2.5 million (January 31, 2012 - $2.5 million).

The Secured Debentures were amended to, among other things, facilitate the early repayment of the $34 Million Term Loan. The amendments also included, but where not limited to, revised language as to when and in what circumstances, the existing maturity date (currently set at March 22, 2017) of the Secured Debentures can be changed; revised language as to when and in what circumstances the Corporation (as borrower) can early redeem the Secured Debentures; and new language requiring the consent of the holders of the Secured Debentures in the event that the Corporation issues equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures. As a result of these amendments, 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. The amendment of the terms was not considered a significant modification of the Secured Debentures. However, the fair value of the liability related to the conversion feature was considered extinguished upon the amendment of the Secured Debentures. Accordingly, prior to extinguishment, a final mark-to-market adjustment of $0.2 million was recorded in profit.

On July 31, 2012, the Secured Debentures were amended to facilitate the new operating facility that was secured on August 1, 2012. Secured Debentures were amended to, among other things, confirm the Secured Debentures holders' priority in relation to cash proceeds from their collateral and clarify certain defined terms. See Subsequent event note 12(a) for further details concerning the new operating facility.

(f) On May 2, 2012, the Corporation entered into a $15.0 million term loan agreement to fund the purchase of additional aircraft. $13.8 million was drawn on May 4, 2012 to purchase NAS' assets and two additional aircraft. The loan matures on February 15, 2016 and is repayable through an annual curtailment each December equal to 1/10th of the original amounts drawn and monthly payments of interest. The loan bears an interest rate equal to the greater of: (i) 4.50%, and (ii) the lender's floating base rate plus 1.50% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $136,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 5.00% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

(g) On June 22, 2012, the Corporation entered into a $4.5 million term loan agreement to refinance the Bridge Loan (see note 6(d)). The loan matures on April 22, 2015 and is repayable in twelve quarterly payments of $500,000 per quarter in the first year, $375,000 per quarter in the second year and $250,000 per quarter in the final year. The loan bears a fixed interest rate of 9.00%. The loan is secured by a subordinated general security agreement with the Corporation and certain of its subsidiaries. Transaction costs of $95,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 10.22% per annum. The agreements requires that the Corporation observe a variety of non-financial covenants.

As at July 31, 2012, the Corporation was in compliance with all covenants related to debt.

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

(thousands of Canadian dollars)		
Within 1 year	$	6,527
Within 2 years		6,598
Within 3 years		6,053
Within 4 years		13,952
Within 5 years		50,031
Thereafter		71,465
Total	$	154,626

Interest on or in respect of loans and borrowings for the three and six month period ended July 31, 2012, was $4.0 million (July 31, 2011 - $3.7 million) and $7.6 million (July 31, 2011 - $6.9 million), respectively.

7. Operating line of credit:

The Corporation has a secured demand operating line of credit (the "Operating Line") to finance its working capital requirements. The Operating Line bears interest at a rate of 13.00% per annum and is repayable on October 31, 2012 or earlier upon demand by the lender. The Operating Line has a maximum borrowing limit of $15.0 million, increasing to $25.0 million during the Corporation's peak operating period of March through November, which is restricted by a lending margin applied to eligible accounts receivable and inventory, subject to an allowance for specific reserves.

On March 26, 2012, the Corporation also amended certain terms of the Operating Line. Among other things, these amendments allowed the Corporation to formalize a new intercreditor agreement, facilitate future borrowings by the Corporation from other non-operating lenders, extend the peak borrowing period to begin in March instead of April, increased the stand by fee to 2% and change the borrowing margin applied to eligible accounts receivable and inventory.

As at July 31, 2012, the Corporation had available a borrowing capacity of $25.0 million, against which it had drawn $7.9 million (January 31, 2012 – nil, July 31, 2011 - $11.6 million). The Operating Line was secured by a first charge over the accounts receivable and inventories of all of 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 encumbrances. As at July 31, 2012, the Corporation was in compliance with all covenants related to the Operating Line.

On August 1, 2012, the Corporation replaced the current demand operating facility with a new committed operating facility. See Subsequent event note 12(a) for further details.

8. Earnings per share:

(thousands of Canadian dollars, except per share amounts)	For the three months ended		For the six months ended	
	July 31, 2012	July 31, 2011	July 31, 2012	July 31, 2011
Basic earnings per share:				
Profit attributable to holders of common shares	$ 8,935	$ 17,979	$ 10,295	$ 15,393
Weighted average number of Common Shares outstanding (post - consolidation)	14,556	14,556	14,556	14,047
Basic earnings per share	$ 0.61	$ 1.24	$ 0.71	$ 1.10
Diluted Earnings per Share:				
Profit attributable to holders of the Common Shares	$ 8,935	$ 17,979	$ 10,295	$ 15,393
Dilutive adjustments:				
- Interest savings from assumed conversion of convertible debt	$ 2,047	$ 445	$ 4,139	$ 445
Adjusted profit attributable to holders of common shares	$ 10,982	$ 18,424	$ 14,434	$ 15,838
Weighted average number of Common Shares outstanding	14,556	14,556	14,556	14,047
Dilutive adjustments:				
- Assumed conversion of convertible debt	14,059	4,726	14,059	2,402
- Share options	2	-	6	-
Weighted average number of Common Shares outstanding assuming dilution	28,617	19,282	28,621	16,449
Diluted earnings per share	$ 0.38	$ 0.96	$ 0.50	$ 0.96

As at July 31, 2012 and 2011, the conversion features of the convertible debentures were dilutive. As at July 31, 2012, employee stock options were dilutive and as at July 31, 2011, employee stock options were anti-dilutive.

9. Change in non-cash operating working capital:

(thousands of Canadian dollars)	For the six months ended	
	July 31, 2012	July 31, 2011
Restricted cash	$ (5)	$ 200
Trade and other receivables	(29,528)	(34,991)
Inventory	(2,197)	(2,380)
Prepaid expenses	(3,252)	(2,812)
Trade and other payables	6,069	10,139
	$ (28,913)	$ (29,844)

10. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. For the three and six month periods ended July 31, 2012, the Corporation incurred $6.0 million (July 31, 2011- $4.5 million) and $10.1 million (July 31, 2011 - $6.6 million) in operating lease expense, respectively. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)	
Within 1 year	$ 7,667
Within 2 years	3,278
Within 3 years	2,287
Within 4 years	2,064
Within 5 years	1,937
Thereafter	11,534
	$ 28,767

The lease terms range from a period of 1 to 50 years, the majority of which are renewable at the end of the lease term at market rates.

The Corporation is committed to inventory, and service contracts for a total cost of $0.3 million. No deposits have been made on these commitments.

As at July 31, 2012, the Corporation had $0.6 million of restricted cash (January 31, 2012 and July 31, 2011 - $0.6 million), which is required to collateralize contingent exposures. Included in this balance are letters of credit totalling $0.2 million. The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

11. Comparative figures:

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

12. Subsequent events:

(a) On August 1, 2012, the Corporation replaced its demand operating line of credit with a committed operating line of credit ("New Operating Line") that matures on April 9, 2015, which in respect of most advances, bears interest at the lender's prime rate plus 2%. The New Operating Line has a maximum borrowing limit of $15.0 million, increasing $25.0 million during the Corporation's peak operating period of March 1 through October 31, which is restricted by a lending margin applied to eligible accounts receivable and inventory, subject to an allowance for specific reserves. The New Operating Line, which may be used by the Corporation for working capital and general corporate purposes, is secured by a first charge on the receivables and inventory of the Corporation and certain of its subsidiaries, general security agreements and other customary security agreements. The estimated transaction costs are $0.4 million.

(b) On September 5, 2012, the Corporation acquired two fixed wing aircraft and related parts, for $2.0 million. Prior to the purchase of these aircraft they were being leased by the Corporation.