Consolidated Financial Statements of

DISCOVERY AIR INC.

Periods ended January 31, 2007 and October 31, 2006

KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
Saskatoon SK S7K 1M8

Telephone (306) 934-6200
Fax (306) 934-6233
Internet www.kpmg.ca

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Discovery Air Inc. as at January 31, 2007 and October 31, 2006 and the consolidated statement of earnings (loss), shareholders' equity and cash flows for the periods November 1, 2006 to January 31, 2007 and November 1, 2005 to October 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2007 and October 31, 2006 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
April 30, 2007

DISCOVERY AIR INC.

Consolidated Balance Sheets

(thousands of dollars)

	January 31, 2007	October 31, 2006
Assets		
Current assets:		
Cash	$ 17,634	$ 7,497
Accounts receivable	12,028	14,950
Inventory	9,532	7,018
Prepaid expenses and other	1,817	1,521
	41,011	30,986
Land, buildings and equipment (note 4)	97,840	50,607
Intangible assets (note 5)	26,754	19,497
Goodwill	114,159	82,579
	$ 279,764	$ 183,669
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 7,842	$ 4,713
Income taxes payable	2,435	5,259
Current portion of long-term debt (note 6)	14,218	11,195
	24,495	21,167
Long-term debt (note 6)	74,729	33,221
Future income taxes (note 7)	22,837	11,861
Non-controlling interest	1,633	1,646
Shareholders' equity:		
Share capital (note 8)	152,359	107,552
Retained earnings	3,711	8,222
	156,070	115,774
Commitments (note 13)		
	$ 279,764	$ 183,669

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"David R. Taylor" Director

"Jonathan F.P. Taylor" Director

DISCOVERY AIR INC.
Consolidated Statements of Earnings (Loss)

(thousands of dollars)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Revenue	$ 7,114	$ 40,350
Operating expenses	12,412	24,688
Earnings (loss) before undernoted items	(5,298)	15,662
Financing charges	1,366	1,553
Amortization of buildings and equipment	1,115	1,416
Amortization of intangible assets	395	483
	2,876	3,452
Earnings (loss) before income taxes and non-controlling interest	(8,174)	12,210
Income taxes (recovery) (note 7)	(3,616)	4,288
Earnings (loss) before non-controlling interest	(4,558)	7,922
Non-controlling interest	(47)	232
Net earnings (loss)	$ (4,511)	$ 7,690
Basic earnings (loss) per share (note 9)	$ (0.05)	$ 0.15
Diluted earnings (loss) per share (note 9)	$ (0.05)	$ 0.14

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Share capital (note 8)		
Outstanding, beginning of period	$ 105,071	$ 1,241
Issued for cash	–	19,938
Issued on acquisition of subsidiary	43,250	81,900
Issued on exercise of warrants	21	1,992
	148,342	105,071
Less share issue costs, net of tax	(763)	(763)
Outstanding, end of period	$ 147,579	$ 104,308
Contributed surplus:		
Balance, beginning of period	3,244	–
Warrants issued for cash	–	2,732
Fair value of broker warrants granted	–	100
Fair value of options granted	420	802
Warrants exercised	–	(390)
Fair value of conversion feature on convertible debt	1,116	–
Balance, end of period	4,780	3,244
Total share capital	$ 152,359	$ 107,552
Retained earnings		
Retained earnings, beginning of period	$ 8,222	$ 532
Net earnings (loss)	(4,511)	7,690
Retained earnings, end of period	$ 3,711	$ 8,222

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows

(thousands of dollars)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (4,511)	$ 7,690
Items not involving cash:		
Future income tax recovery	(391)	(1,351)
Stock-based compensation	420	802
Amortization	1,790	2,667
Amortization of discount on convertible debenture	15	–
Non-controlling interest	(47)	232
Change in non-cash operating working capital (note 10)	5,719	(690)
	2,995	9,350
Investing:		
Land, buildings and equipment	(672)	(1,398)
Acquisition of subsidiary operations (note 3)	(20,466)	(20,591)
Cash acquired on acquisition of subsidiary operations (note 3)	2,846	961
	(18,292)	(21,028)
Financing:		
Proceeds from long-term debt	28,760	2,348
Deferred financing charges	(1,943)	–
Repayment of long-term debt	(1,404)	(6,835)
Net proceeds from issue of common shares and warrants	21	23,353
	25,434	18,866
Increase in cash position	10,137	7,188
Cash, beginning of period	7,497	309
Cash, end of period	$ 17,634	$ 7,497
Supplementary cash flow information:		
Interest paid during the period	$ 927	$ 1,553
Income taxes paid during the period	66	1,316

See accompanying notes to consolidated financial statements.

Discovery Air Inc. (the "Corporation") was incorporated on November 12, 2004 under the *Ontario Business Corporations Act* and on March 27, 2006 was continued under the *Canada Business Corporations Act*. Its primary business activities are carried out by its subsidiaries Great Slave Helicopters Ltd. ("GSHL"), Hicks & Lawrence Limited ("H & L") and Air Tindi Ltd. ("ATL").

The business of the Corporation follows a seasonal pattern with the lowest revenues occurring from November to April. Therefore the Corporation's results for the period are not necessarily indicative of the results that may be expected for a full year.

GSHL is a helicopter company that, in partnership with aboriginal groups, operates a fleet of over 70 helicopters and provides services throughout Northern Canada and several of the Canadian Provinces to governments and private sector companies 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. GSHL's principal operations are carried out in Yellowknife, NT and Calgary, Alberta. It has additional facilities in Fort Simpson, Fort Liard, Norman Wells and Inuvik in the Northwest Territories, Rankin Inlet in Nunavut, Churchill in Manitoba and Geraldton in Ontario.

H & L is an Ontario-based aviation company focused on providing air services to niche markets in the Province of Ontario. H & L currently provides aerial forest fire services to the Province of Ontario with its fleet of 27 aircraft with flight operations support and aircraft maintenance bases throughout Northern Ontario. Its primary flight operations and maintenance base is located in Dryden, Ontario.

ATL operates a diversified fleet of 22 fixed wing aircraft offering scheduled and chartered passenger and cargo services, as well as air ambulance services, in Northern Canada. Its customers include, among others, major diamond and base metal exploration and mining companies and the Governments of Canada and the Northwest Territories.

1. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the periods. Significant items subject to such estimates and assumptions include the carrying amount of land, buildings and equipment, intangibles and goodwill, valuation allowances for receivables, inventories and future income taxes and stock-based compensation. Actual results could differ from those estimates.

1. Significant accounting policies (continued):

The significant accounting principles used in the preparation of these consolidated financial statements are summarized below:

(a) Investments:

The consolidated financial statements include the accounts of the Corporation's 100%-owned subsidiaries GSHL, ATL and H& L. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Variable interest entities:

The Corporation is the primary beneficiary of variable interest entities and consolidates these entities in its financial statements. Accounting Guideline 15, Consolidation of Variable Interest Entities requires the primary beneficiary of a variable interest entity (VIE) to consolidate the VIE. A VIE is an entity which either does not have sufficient equity at risk to finance its activities without additional subordinated financial support or where the holders of the equity at risk lack the characteristics of a controlling financial interest. The primary beneficiary is the enterprise that will absorb or receive the majority of the VIE's expected losses or residual returns or both.

(c) Inventory:

Inventory, consisting of parts and supplies, is stated at the lower of cost, on a first-in, first-out basis, and replacement cost.

(d) Land, buildings and equipment:

Land, buildings and equipment are stated at cost and amortized over their expected useful lives. Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred under the direct expensing method.

Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Straight-line	5%
Furniture and equipment	Diminishing balance	20 - 30%
Aircraft	Straight-line	5%
Leasehold improvements	Straight-line	20%
Vehicles	Diminishing balance	30%
Rotable and overhauled components	Flight hours	hours flown

1. Significant accounting policies (continued):

(e) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Consolidated Statements of Earnings (Loss).

(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 tradenames and customer relationships. The customer relationships are amortized on a straight-line basis over eight years, while the tradenames have an indefinite life and, therefore, are not amortized.

(g) Impairment of long-lived assets:

Long-lived assets, including land, building and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount in which the carrying amount of the asset exceeds the fair value of the asset.

1. **Significant accounting policies (continued):**

(h) Revenue recognition:

Revenue from providing aviation services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown at contract rates.

Revenue from aerial forest fire services is derived from government contracts and is recognized as follows: (i) revenue from the use of aircraft for forest fire services is recognized as hours are flown, (ii) basing fees for having aircraft available for the exclusive use of the government are recognized over the period of availability and (iii) fees from positioning and depositioning aircraft at government bases are recognized at the time aircraft are located to and from the bases at the beginning and end of the forest fire season.

(i) Income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future 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. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(j) Foreign currency:

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 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 income.

(k) Stock-based compensation:

The Corporation has a stock-based compensation plan which is described in Note 8. The Corporation accounts for employee stock options using the fair value method. This method recognizes the fair value of the stock option over the applicable vesting period as an increase in compensation expense. Any consideration paid by employees on exercise of these stock options is credited to common shares.

The Corporation also accounts for grants of warrants to non-employees in accordance with the fair value method.

2. Recently issued standards:

New accounting standards have been established for the recognition and measurement of financial instruments. The new standards also provide a characteristics-based definition of a derivative instrument, criteria to be used to determine when a financial instrument should be recognized, and criteria to be used to determine when a financial liability is considered to be extinguished. This new standard, along with new standards on equity, comprehensive income and hedges were effective for the Corporation's interim and annual periods beginning November 1, 2006. It was determined that these standards did not have a material impact on these consolidated financial statements.

3. Business acquisitions:

a) Air Tindi Ltd.

On December 19, 2006, the Corporation acquired 100% of the outstanding common shares of ATL for cash consideration of $20.4 million including costs of acquisition, and 20 million common shares which were recorded for accounting purposes at $43.3 million. The results of ATL's operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)	
Net assets acquired	
Cash	$ 2,846
Other current assets	10,288
Land, buildings and equipment	47,956
Current liabilities	(4,987)
Long-term debt	(20,215)
Future income tax liability	(11,367)
Non-controlling interest	(34)
Intangible assets	7,652
Goodwill	31,577
	$ 63,716

The Corporation has completed its initial valuation of certain acquired assets and liabilities however the allocation of the purchase price has not been finalized and may change.

3. Business acquisitions (continued):

b) Great Slave Helicopters Ltd.

On June 20, 2006, the Corporation acquired 100% of the outstanding common shares of GSHL for cash consideration of $20.6 million including costs of acquisition, and 40 million common shares which were recorded for accounting purposes at $81.9 million. The results of its operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)	
Net assets acquired	
Cash	$ 961
Other current assets	18,876
Land, buildings and equipment	45,016
Current liabilities	(8,780)
Long-term debt	(41,973)
Future income tax liability	(11,910)
Non-controlling interest	(1,414)
Intangible assets	19,784
Goodwill	81,931
	$ 102,491

The Corporation has completed its initial valuation of certain acquired assets and liabilities however the allocation of the purchase price has not been finalized and may change.

c) Walsten Air Service (1986) Ltd.

On March 15, 2007, the Corporation purchased the wheel division assets of Walsten Air Service (1986) Ltd., including an aircraft facility and intangible assets related to the business. The purchase price consisted of cash consideration totalling $5.2 million.

4. Land, buildings and equipment:

(thousands of dollars)

	January 31, 2007			October 31, 2006
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 637	$ –	$ 637	$ 159
Buildings	16,463	319	16,144	7,723
Furniture and equipment	1,188	114	1,074	575
Aircraft	75,033	2,067	72,966	38,151
Rotable and overhauled components	5,740	–	5,740	2,953
Vehicles	1,033	149	884	726
Leasehold improvements	466	71	395	320
	$ 100,560	$ 2,720	$ 97,840	$ 50,607

During the period ended January 31, 2007, $280,000 (2006 - $768,000) relating to the amortization of rotable and overhauled components was included in operating expenses in the Consolidated Statements of Earnings (Loss).

5. Intangible assets:

(thousands of dollars)

	January 31, 2007			October 31, 2006
	Cost	Accumulated amortization	Net book value	Net book value
Customer relationships	$ 15,763	$ 826	$ 14,937	$ 10,151
Tradenames	11,673	–	11,673	9,192
Other	210	66	144	154
	$ 27,646	$ 892	$ 26,754	$ 19,497

6. Long-term debt:

(thousands of dollars)

	January 31, 2007	October 31, 2006
8.75% unsecured convertible debentures, maturing December 31, 2011 (described below)	$ 25,706	$ –
Long-term secured debt incurred by the subsidiary companies bearing fixed interest rates at a weighted average of 7.22%, maturing at various dates through 2014.	32,611	19,651
Non-revolving demand debt incurred by the subsidiary companies bearing floating interest rates at a weighted average of prime plus 0.93%, maturing at various dates through 2009	9,956	7,974
Mortgages payable incurred by the subsidiary companies bearing fixed interest rates at a weighted average of 8.5%, maturing at various dates through 2016	1,610	–
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1%, maturing 2014 through 2015	16,604	16,604
Unsecured notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1%, maturing 2008	2,097	–
Other mortgages and conditional sales contracts	363	187
	88,947	44,416
Less current portion of long-term debt	14,218	11,195
	$ 74,729	$ 33,221

Other than the unsecured convertible debentures, the above debt is contracted at the subsidiary level and debts which are indicated as secured or a mortgage are secured by various assets of the subsidiary that contractually borrows the funds.

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

6. Long-term debt (continued):

The debentures were issued in December, 2006 at which time the fair value of the Corporation's obligation to make future payments of principal and interest was $27,634,000 and the fair value of the holders' conversion option was determined to be $1,116,000 (note 8(b)). Interest expense is recognized to accrete the liability component to the debenture's face value of $28,750,000, calculated based on the Corporation's effective interest rate of 9.75%. Deferred financing costs of $1,943,000, included in long-term debt, represent the unamortized cost of the issue of the convertible debentures. Amortization is provided on an effective interest rate method over the term of the related debt and is included in interest expense for the period.

The Corporation's operating subsidiaries maintain secured demand operating loans to finance working capital requirements of the subsidiary. These arrangements can be summarized as follows:

a) GSHL has a banking facility which consists of an operating line of credit to a maximum of $6 million, bearing interest at prime plus 0.5%. This facility is secured by a charge over accounts receivable as well as a general security agreement. At January 31, 2007 and October 31, 2006, there were no amounts outstanding under the operating line.

b) ATL has a banking facility which consists of an operating line of credit to a maximum of $1.5 million, bearing interest at prime plus 1.0%. This facility is secured by a charge over accounts receivable as well as a general security agreement. At January 31, 2007 and October 31, 2006, there were no amounts outstanding under the operating line.

c) H & L has available to it a revolving bank loan to a maximum of $1.0 million, bearing interest at prime plus 1.0%, whereby it pledges eligible accounts receivable at face value. At January 31, 2007 and October 31, 2006, there were no amounts outstanding under the revolving bank loan.

Principal repayments for each of the next five years and thereafter are as follows:

(thousands of dollars)	
2008	$ 14,218
2009	13,925
2010	7,471
2011	6,805
2012	33,443
Thereafter	13,085

Interest on long-term debt for the period November 1, 2006 to January 31, 2007 was $1,265,000 (year ended October 31, 2006 - $1,517,000).

7. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 34% (2006 - 34%) to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

(thousands of dollars)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Computed tax expense (recovery)	$ (2,779)	$ 4,151
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(1,012)	157
Permanent differences	175	(20)
	$ (3,616)	$ 4,288

The income tax provision (recovery) is comprised of:

(thousands of dollars)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Current income tax provision (recovery)	$ (3,225)	$ 5,639
Future income tax recovery	(391)	(1,351)
	$ (3,616)	$ 4,288

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

(thousands of dollars)

	January 31, 2007	October 31, 2006
Future tax assets:		
Loss carry-forwards	$ 614	$ –
	614	–
Future tax liabilities:		
Land, buildings and equipment	(23,451)	(11,861)
	(23,451)	(11,861)
Net future income tax liability	$ (22,837)	$ (11,861)

8. Share capital and stock-based compensation:

a) Authorized:

The Corporation is authorized to issue an unlimited number of Class A common voting shares and an unlimited number of Class B variable voting shares.

b) Issued and outstanding:

(thousands of dollars)

	January 31, 2007		October 31, 2006	
	Shares	Amount	Shares	Amount
Class A common shares:				
Outstanding, beginning of period	88,339,397	$ 105,071	26,277,271	$ 1,241
Issued for cash	–	–	19,841,840	19,938
Issued on acquisition of subsidiary	20,000,000	43,250	40,000,000	81,900
Issued on exercise of warrants	187,119	21	2,220,286	1,992
	108,526,516	148,342	88,339,397	105,071
Less share issue costs, net of tax		(763)		(763)
Outstanding, end of period		$ 147,579		$ 104,308
Contributed surplus:				
Balance, beginning of period		$ 3,244		$ –
Warrants issued for cash		–		2,732
Fair value of broker warrants granted		–		100
Fair value of options granted		420		802
Warrants exercised		–		(390)
Fair value of conversion feature on convertible debt		1,116		–
Balance, end of period		4,780		3,244
Total share capital		$ 152,359		$ 107,552

At January 31, 2007 and October 31, 2006 there were nil Class B shares issued and outstanding.

8. Share capital and stock-based compensation (continued):

c) Stock-based compensation:

The Corporation has a stock option plan for its directors, officers and employees. Options are granted at an exercise price set at the closing market price of the Corporation's common shares on the day preceding the date on which the option is granted and are exercisable within ten years of issue. The options typically vest over a two year period.

At January 31, 2007, 4,020,000 common shares have been reserved for stock options as follows:

Expiry date	Options outstanding	Options Exercisable	Price
January 13, 2016	2,625,000	1,750,000	$ 0.50
May 31, 2016	710,000	236,667	1.64
November 14, 2016	205,000	68,333	1.56
November 28, 2016	170,000	56,667	1.70
December 15, 2016	60,000	20,000	1.60
January 17, 2017	250,000	83,333	1.49

Stock option transactions for the periods ended 2007 and 2006 are as follows:

	Number of options	2007 weighted average exercise price	Number of options	2006 weighted average exercise price
Outstanding, beginning of period	3,335,000	$ 0.74	–	$ –
Granted	685,000	1.57	3,335,000	$ 0.74
Outstanding, end of period	4,020,000	$ 0.88	3,335,000	$ 0.74

8. Share capital and stock-based compensation (continued):

c) Stock-based compensation (continued):

The fair value of the options granted during the period was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

	January 31, 2007	October 31, 2006
Options granted	685,000	3,335,000
Exercise price per share	$1.57	$0.74
Risk-free interest rate	3.94%	3.95%
Dividend yield	0%	0%
Expected volatility	63%	63%
Expected option life	4.5 years	4.5 years
Expected forfeiture rate	5%	5%
Fair value per option	$0.85	$0.40

During the period ended January 31, 2007, the Corporation recognized compensation expense of $420,000 (2006 - $802,000) relating to the estimated fair value of stock options granted by the Corporation.

At January 31, 2007, the Corporation had 7,799,423 (2006 – 7,986,542) common share purchase warrants issued and outstanding. The holders of 2,373,503 (2006 - 2,560,622) warrants are entitled to subscribe for 1 Class A common share for every 1 warrant held for a subscription price of $0.11 per share. The holders of 5,425,920 (2006 - 5,425,920) warrants are entitled to subscribe for 1 Class A common share for every 1 warrant held for a subscription price of $1.75 per share. The warrants expire in 2007.

8. Share capital and stock-based compensation (continued):

c) Stock-based compensation (continued):

During 2006, 770,000 broker warrants with a subscription price of $0.50 per share were issued as part of the initial public offering. The fair value of these warrants was estimated at $0.13 per warrant ($100,100) using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 4.06%; (ii) expected option life of 1 year; (iii) expected volatility of 63%, and (iv) expected forfeiture rate of 0%.

This amount was originally recorded as an addition to contributed surplus. During 2006, these warrants were exercised for cash consideration of $385,000 and $100,100 was transferred from contributed surplus to share capital.

During 2006, 6,070,920 common share purchase warrants with a subscription price of $1.75 per share were issued as part of the private placement of units comprised of one common share and one half share purchase warrant. The value attributed to the warrants was estimated at $0.45 per warrant ($2,732,000) using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 4.40%; (ii) expected option life of 18 months; (iii) expected volatility of 63%, and (iv) expected forfeiture rate of 0%.

During 2006, 645,000 of these warrants were exercised for cash consideration of $1,129,000 and $290,000 was transferred from contributed surplus to share capital.

During 2005, the Corporation issued 3,365,908 common share purchase warrants. The holders of warrants are entitled to subscribe for 1 share for every 1 warrant held for a subscription price of $0.11 per share. The value attributed to the warrants was determined to be nominal. During the period November 1, 2006 to January 31, 2007, 187,119 (2006 - 805,286) of these warrants were exercised for cash consideration of $21,000 (2006 - $88,000).

d) Deferred share units

During the period, the Corporation granted 9,000 deferred share units ("DSU") to directors of the Corporation. Each DSU entitles the holder to a cash distribution equal to the closing market price of the Corporation's common shares upon the director's retirement. During the period ended January 31, 2007, the Corporation recognized $1,400 (2006 - $nil) of compensation expense related to DSUs.

9. Per share amounts:

Basic earnings (loss) per share:

(thousands except per share amounts)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Net earnings (loss)	$ (4,511)	$ 7,690
Average number of common shares outstanding	97,750	50,372
Basic earnings (loss) per share	$ (0.05)	$ 0.15

Diluted earnings (loss) per share:

(thousands except per share amounts)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Net earnings (loss)	$ (4,511)	$ 7,690
Average number of common shares outstanding	97,750	50,372
Dilutive adjustments	-	4,289
Average number of common shares outstanding assuming dilution	97,750	54,661
Diluted earnings (loss) per share	$ (0.05)	$ 0.14

The dilutive effect of warrants for November 1, 2005 to October 31, 2006 excludes warrants totalling 5,425,920 where the exercise price is greater than the average market price.

For the period November 1, 2006 to January 31, 2007 all employee stock options and warrants and the conversion feature on the convertible debenture were anti-dilutive.

10. Change in non-cash operating working capital:

(thousands of dollars)

	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Accounts receivable	$ 10,044	$ (1,951)
Inventory	(131)	(947)
Prepaid expenses and other	487	(578)
Accounts payable and accrued liabilities	(1,139)	(1,893)
Income taxes payable	(3,542)	4,679
	$ 5,719	$ (690)

11. Financial instruments:

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities and income taxes payable approximate their fair values due to the relatively short periods to maturity of the instruments.

The carrying amount of long-term debt approximates the fair value. Fair value was determined at the present value of contractual future payments of principal and interest, discounted at the current market rates of interest available to the Corporation for the same or similar debt instruments.

12. Related party transactions:

At January 31, 2007, the Corporation had long-term debt including accrued interest totalling $18,701,000 (October 31, 2006 - $18,217,000) owing primarily to officers and directors of the Corporation or its subsidiaries and who were former owners of the subsidiaries. For the period, interest expense on this debt totalled $277,000 (year ended October 31, 2006 - $574,000).

13. Commitments:

The Corporation has annual lease obligations for aircraft and premises. Amounts under these leases for each of the five succeeding years and thereafter are as follows:

(thousands of dollars)		
2008	$	3,658
2009		2,273
2010		1,281
2011		1,166
2012 and thereafter		2,216

The Corporation is committed to purchase additional aircraft for an estimated purchase price of $14.3 million.

14. Segmented information:

The Corporation has two reportable business segments: rotary wing and fixed wing. These segments are differentiated by the nature of the aircraft used to provide aviation services. The rotary wing segment is represented by helicopter charter services as provided by GSHL and the fixed wing segment is represented by airplane services as provided by H & L and ATL. Customers serviced by both segments consist of governments and private sector companies in the resource and base mineral exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys exploration, tourism and flight training.

All of the revenue from the fixed wing segment during the period November 1, 2005 to October 31, 2006, was derived from two government contracts which expire in 2007 and 2009. There was $nil revenue earned from these two contracts during the period November 1, 2006 to January 31, 2007.

All other activities that are not allocated to these two business segments are reported under Corporate Support.

(thousands of dollars)	November 1, 2006 to January 31, 2007				November 1, 2005 to October 31, 2006			
	Rotary Wing	Fixed Wing	Corporate Support	Total	Rotary Wing	Fixed Wing	Corporate Support	Total
Revenue	$ 4,368	$ 2,718	$ 28	$ 7,114	$ 34,533	$ 5,787	$ 30	$ 40,350
Operating expenses	7,748	3,472	1,192	12,412	19,566	3,821	1,301	24,688
Amortization	1,069	441	–	1,510	1,555	344	–	1,899
Financing charges	724	302	340	1,366	1,163	390	–	1,553
Income taxes	(2,622)	(625)	(369)	(3,616)	4,145	366	(223)	4,288
Net earnings (loss)	(2,496)	(880)	(1,135)	(4,511)	7,872	866	(1,048)	7,690
Total assets	$ 165,013	$ 108,162	$ 6,589	$ 279,764	$ 172,343	$ 9,410	$ 1,916	$ 183,669