First Quarter Report
April 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations for the quarters ended April 30, 2010 ("Q1 2011") and April 30, 2009 ("Q1 2010") of Discovery Air Inc. ("Discovery Air" or the "Corporation") should be read in conjunction with the unaudited consolidated financial statements and related notes of the Corporation for the three months ended April 30, 2010 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2010, which are available on SEDAR at www.sedar.com.

Business Profile

Discovery Air Inc., founded in 2004, is a specialty aviation services company operating across Canada and in select markets internationally. With over 130 aircraft, it is one of the largest aircraft operators in Canada, employing 450 flight crew, maintainers and support staff working to deliver a variety of air transport and logistics solutions to a wide range of government and business customers. Through its five operating subsidiaries, Discovery Air offers fixed-wing and rotary-wing capabilities as well as logistics and remote operations management services. These operations are represented in the following business segments:

The Government Services segment includes two subsidiaries. Top Aces Inc. ("Top Aces") delivers airborne training and special mission services to the Canadian military and select NATO allies. Hicks & Lawrence Limited ("Hicks") is a primary supplier of airborne fire management services to the Ontario government, and also provides charter service to government agencies and corporate customers throughout northern Ontario and eastern Manitoba.

The Northern Services segment includes three subsidiaries. Great Slave Helicopters Ltd. "(Great Slave"), the second-largest VFR helicopter operator in the country, has bases throughout northern Canada from which it operates support flights for mining and oil/gas seismic and exploration work, forest fire suppression, aerial construction and precision external load applications, and environmental impact surveys. Air Tindi Ltd. ("Air Tindi") utilizes a varied fleet of fixed-wing aircraft to provide vital air ambulance services, and to operate both scheduled and charter cargo and passenger flights to remote areas of northern Canada. Finally, Discovery Mining Services Ltd. ("Discovery Mining") constructs and rents all-weather exploration camps, and provides expediting and logistical support services.

All other operating activities are classified as Corporate Support.

Overarching Objective

Discovery Air's Five Year Overarching Objective ("Objective") is to significantly increase annual earnings per share and to position its businesses for long-term, profitable growth thereafter. The Objective will be a constant consideration in management's decision making and the Corporation's progress will be measured against management's internally established milestones to ensure the Objective is achieved. Management's strategies to achieve the Objective will have a continued focus on specialty aviation services in current and new markets that provide appropriate pricing and returns on investments and position the Corporation for sustainable and profitable growth. Management will seek to increase the Corporation's profitability by increasing the range of services offered and by optimizing fleet variety and capacity for our customers. Maintaining key relationships and developing new partnerships will be important to the Corporation as will the continual development of highly qualified staff. Safety will remain a paramount consideration in all of our service offerings.

Over the next several quarters, the Corporation's business development activities will be one of the critical components of achieving the long-term Overarching Objective. Early results in this regard are encouraging. The Corporation's Great Slave Helicopters subsidiary recently commenced a new revenue operation to provide oil and gas seismic support with a

local operator in Peru, and is pursuing additional opportunities to expand its presence in this active and growing market. Great Slave Helicopters and Air Tindi have extended or renewed contracts with longstanding customers such as Newmont Mining and Rio Tinto's Diavik mine. Great Slave Helicopters has also signed additional contracts with the Government of Manitoba and Enbridge to provide support for their operations. At Top Aces, significant advances are underway to develop that Company's response to an expected long-term contract opportunity to supply airborne training services to the Canadian military upon expiration of the current interim arrangements in February 2011. Top Aces has also actively sought to provide additional air services to the Canadian government, and was successful in securing contract work outside the ICATS program. Top Aces is attempting to increase the scope of these activities and continues to explore opportunities to provide airborne training and other services to government customers outside of Canada, including in the U.S. and Europe. Discovery Mining Services recently established an office in Ontario, and is actively bidding on work in that area to expand its geographic reach and deliver services similar to those provided in the Northwest Territories. And a new subsidiary, Discovery Air Technical Services Ltd., has been established to pursue opportunities in the MRO (Maintenance, Repair and Overhaul) business as a method of potentially diversifying the Corporation's business activities into areas that are less seasonal and less dependent on flight hours.

Selected Financial Information

(thousands of dollars, except per share amounts)		**Q1 2011**		**Q1 2010**
Results of operations				
Revenue	$	25,914	$	25,566
Operating expenses	$	24,401	$	23,728
Earnings before undernoted items	$	1,513	$	1,838
Interest expense	$	3,658	$	3,499
Amortization	$	3,368	$	3,398
Relocation of corporate office	$	51	$	1,173
Financing transaction costs	$	-	$	830
Loss	$	(3,924)	$	(5,121)
Basic and diluted loss per common share	$	(0.03)	$	(0.04)
Financial position and liquidity				
Total assets	$	263,721	$	268,333
Total long-term debt	$	145,291	$	144,137
Cash provided by operations	$	(9,815)	$	(11,919)
Working capital	$	13,666	$	11,936
Key non-GAAP performance measures*				
Adjusted loss	$	(3,888)	$	(4,293)
EBITDAR	$	3,008	$	2,017
Adjusted EBITDAR	$	3,059	$	3,190
EBITDA	$	1,462	$	665
EBITDA Margin		6%		3%
Adjusted EBITDA	$	1,513	$	1,838
Adjusted EBITDA Margin		6%		7%

* See Non-GAAP measures

Seasonality and quarterly fluctuations

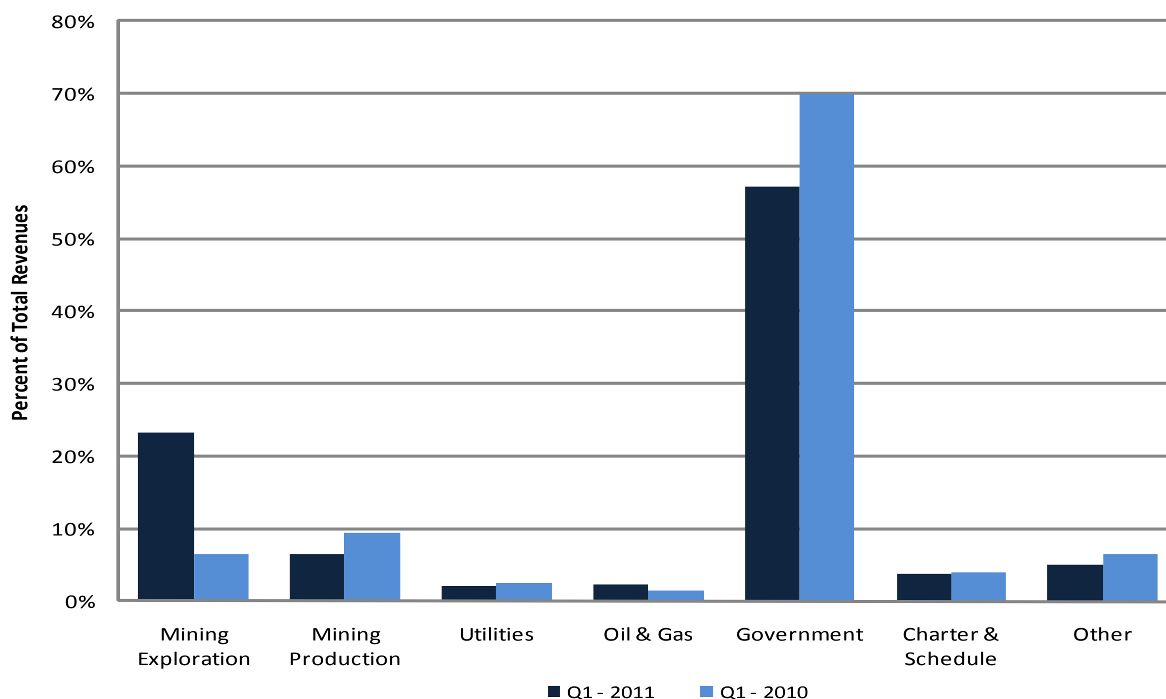
The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors can impact the comparability of results from one period to another, particularly from quarter to quarter.

- There is normally increased demand for the services provided by the Northern Services segment and Hicks commencing in the spring and continuing through to the end of the summer.

- Top Aces' revenue-generating opportunities are usually 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 largely on its customer's priorities and on occasion due to weather conditions.
- The Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential. As well, repair and maintenance on aircraft are not required evenly throughout the year and the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on available flight activity from one period to another, especially related to the forest fire suppression businesses.

Overview

The Corporation's consolidated revenues of $25.9 million for Q1 2011 represent a 1% year over year increase from Q1 2010. While the year over year consolidated revenues were similar, Q1 2011's revenue composition reflects a substantial change from Q1 2010. The Corporation's Northern Services segment recorded a 32% increase in revenues due largely to a significant increase in demand for services from its resource-based customers. The comparative composition of revenue by industry sector graph below illustrates the notable resurgence in revenues from the Corporation's mining exploration-based sector, which had the greatest negative impact from the economic downturn in fiscal 2010. The Corporation's collective resource-based revenues have increased by 87% from the prior period. The Corporation also benefited from a year over year increase in demand for airborne forest fire management and suppression services during the current quarter. Quarterly revenues in the Government Services segment decreased by 25% due to reduced flight hour demand from the Department of National Defence and Canadian Forces ("DND"). Revenue from this customer is subject to month to month variability due to short-term shifts in priorities within a year, and the flight hour demand in the first quarter is not necessarily indicative of flight hour demand over the full year.



The Corporation's Q1 2011 EBITDA of $1.5 million increased from $0.7 million in Q1 2010. The positive variance was attributable to the Corporation incurring in the comparative quarter $1.2 million in relocation costs. Adjusted EBITDA, which normalizes for these non-recurring costs, was $1.5 million in Q1 2011 compared to $1.8 million in Q1 2010. The negative variance was largely attributable to lower revenues from the Government Services segment.

The Corporation's loss of $3.9 million in Q1 2011 represents a $1.2 million positive variance from Q1 2010, attributable to the relocation costs noted above and to a one-time financing charge of $0.8 million incurred in Q1 2010 to establish an operating line of credit, and to fees to amend existing long-term debt arrangements related to covenant reporting.

The Corporation continues to closely monitor its costs, working capital and levels of capital investments to ensure liquidity is maintained at a level sufficient to fund operations and capital expenditures. As at Q1 2011, working capital of $13.7 million improved from Q1 2010's working capital balance of $11.9 million due to reduced draws on the Corporation's operating line of credit.

Consistent with the Corporation's Objective, Northern Services' helicopter operation recently secured a new one year contract to provide oil and gas seismic support in Peru, South America. The expansion into this new market is expected to provide significant incremental revenues for the Corporation.

On June 9, 2010, the Corporation successfully renewed its operating line of credit for a twelve month term. Conditions were substantially consistent with those previously applicable, except for an amendment to include a stand-by fee of 75 basis points per annum on amounts authorized but not drawn; and an amendment to include a prepayment fee of $156,000 payable if the facility is paid in full on or before December 9, 2010.

Results of operations for Q1 2011 and Q1 2010

(thousands of dollars)	for Q1 2011				for Q1 2010			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	**$ 15,481**	**$ 10,433**	**$ -**	**$ 25,914**	**$ 11,667**	**$ 13,897**	**$ 2**	**$ 25,566**
Operating expenses	15,447	7,359	1,595	24,401	13,949	8,414	1,365	23,728
Relocation of corporate office	-	-	51	51	-	-	1,173	1,173
Amortization	2,112	1,244	12	3,368	2,272	1,113	13	3,398
Earnings (loss) from operations before undernoted items	(2,078)	1,830	(1,658)	(1,906)	(4,554)	4,370	(2,549)	(2,733)
Interest expense				3,658				3,499
Financing transaction costs				-				830
Income tax provision				(1,721)				(1,838)
Non-controlling interest				81				(103)
Loss				**(3,924)**				**(5,121)**
Capital expenditures	**$ 1,393**	**$ 543**	**$ 30**	**$ 1,966**	**$ 2,536**	**$ 2,011**	**$ -**	**$ 4,547**
	As at April 30, 2010				*As at January 31, 2010*			
Total assets	**$ 145,859**	**$ 115,611**	**$ 2,251**	**$ 263,721**	**$ 135,272**	**$ 113,401**	**$ 7,637**	**$ 256,310**
Goodwill	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 9,540**	**$ 12,942**	**$ -**	**$ 22,482**	**$ 10,077**	**$ 13,522**	**$ -**	**$ 23,599**

Consolidated results

The Corporation's revenue is primarily generated from helicopter and airplane transportation services that are delivered through its subsidiaries and is largely driven by direct flight hours. Revenues from non-hourly sources include revenues of Discovery Mining, the scheduled services to remote communities provided by Air Tindi, and the basing, standby and minimum fees that are typical of Government contracts, such as those held by Top Aces, Hicks, and to a lesser extent, Great Slave. Revenues were $25.9 million for Q1 2011 compared to $25.6 million for Q1 2010, representing a 1% increase. Hours flown for Q1 2011 were 8,718 compared to 7,527 for Q1 2010, representing a 16% increase. Revenues generated from direct flight hours in Q1 2011 were $20.9 million representing 81% of total revenues for the quarter compared to $21.9 million in Q1 2010 representing 86% of total revenues. The lower percentage of direct revenues was largely attributable to lower flight revenues from the Government Services segment and increased revenues from the Northern Services segment's non-flight hour based operations.

Operating expenses consist of fixed and variable expenses including crew and fleet costs and general and administrative expenses. Operating expenses were $24.4 million for Q1 2011, compared to $23.7 million for Q1 2010, representing a 3% overall increase in operating expenses. The increase in operating expenses is in part attributable to higher revenues and costs associated with preparing aircraft and crew for the upcoming peak season in the second and third quarters. Crew and fleet costs are the largest expense categories. Crew costs include wages, benefits, travel and training for pilots

and maintenance engineers, and totaled $7.8 million in Q1 2011 compared to $6.9 million in Q1 2010. The 13% increase in crew costs was consistent with increased flight hour demand in the current quarter as well as seasonal ramp up cost. The Corporation also incurred incremental costs associated with crew hiring and travel to support the new contract work in Peru. Fleet costs are comprised of aircraft lease costs, amortization of engine and rotable component overhauls and maintenance costs, the latter consisting of the purchase, repair and overhaul of parts, major components and accessories. Fleet costs in Q1 2011 were $5.5 million compared to $6.2 million in Q1 2010. The 11% reduction in fleet costs was due to lower unscheduled maintenance costs. Fuel costs represent a significant component of the Corporation's operating expenses; however, a significant portion of these and other costs are recoverable from customers and these recoveries are classified as revenues. General and administrative expenses are mainly comprised of wages and benefits of administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. For Q1 2011, these costs were $7.2 million compared to $6.7 million for Q1 2010. The 7% increase was largely attributable to new corporate staff hiring in support of the operating units.

EBITDA was $1.5 million for Q1 2011 or 6% of revenues, compared to $0.7 million or 3% of revenues for Q1 2010. With increases and decreases in the two segments' EBITDA results offsetting each other, the increase in EBITDA and EBITDA percentage was largely attributable to one-time costs totaling $1.2 million incurred in Q1 2010 related to the Corporation's relocation of its head office to Yellowknife, NT. Adjusted EBITDA (which adjusts for this cost) was $1.5 million in Q1 2011, compared to $1.8 million for Q1 2010. The $0.3 million variance was due to higher corporate costs and a slight negative variance from consolidated operation's EBITDA. EBITDAR was $3.0 million for Q1 2011, compared to $2.0 million for Q1 2010. The increase was attributable to increased flight hour demand in the Northern Services segment resulting in higher flight hour-based aircraft lease costs.

The Corporation recorded a loss of $3.9 million in Q1 2011, compared to a loss of $5.1 million in Q1 2010. Adjusted loss, which adjusts for one-time head office relocation cost, was $3.9 million for Q1 2011, compared to adjusted loss of $4.3 million for Q1 2010. The following account for the difference in loss year over year:

- In Q1 2011, the Corporation incurred $0.05 million of costs related to corporate office relocation, compared to $1.2 million in Q1 2010.
- Interest expense was $3.7 million for Q1 2011, compared to $3.5 million for Q1 2010. The Corporation's interest expense was higher due largely to increased year over year debt levels.
- The Corporation did not incur any non-recurring costs associated with financing activities for the current quarter. Q1 2010 included $0.8 million in non-recurring costs associated with financing activities.
- The Corporation had income tax recovery of $1.7 million for Q1 2011, compared to a recovery of $1.8 million for Q1 2010.

Northern Services

The Northern Services segment generated revenues of $15.5 million on 7,178 flight hours in Q1 2011, compared to revenues of $11.7 million on 5,733 flight hours for Q1 2010, representing a 32% increase in revenues on a flight hour increase of 25%. The increase in the segment's flight and non-flight generated revenues in the quarter was directly attributable to increased demand from the segment's resource based customers.

The segment incurred operating expenses totaling $15.4 million for Q1 2011, compared to $13.9 million for Q1 2010. The 11% increase in operating expense is consistent with increased flight activity in the segment and the seasonal ramp up in costs associated with preparation of the upcoming peak season. As noted above, the segment also incurred set up costs related to a new contract in Peru, South America.

The segment generated EBITDA of $0.03 million for Q1 2011, compared to a $2.3 million EBITDA loss for Q1 2010. EBITDAR for Q1 2011 was $1.4 million, compared to $ 1.2 million EBITDA loss for Q1 2010. The favourable EBITDA and EBITDAR variance was attributable to increased revenues with corresponding increase in operating cost being lower than the revenue increase.

Government Services

The Government Services segment generated revenues of $10.4 million on 1,540 flight hours for Q1 2011, compared to revenues of $13.9 million on 1,794 flight hours for Q1 2010. This represented a 25% decrease in revenues and a 14% decrease in total flight hours. The segment's year over year reduction in flight hours and revenues was due to lower demand by the DND in the current quarter, although this was partly offset by increased forest fire activity and basing fees revenues at Hicks.

The segment incurred operating expenses totaling $7.4 million for Q1 2011, compared to $8.4 million for Q1 2010. The 12% year over year decrease in operating costs is consistent with the segment's decreased revenue level. The cost reduction did not match the revenue reduction due to the fixed costs component that is present in operating costs.

The segment generated EBITDA of $3.1 million for Q1 2011, compared to EBITDA of $5.5 million for Q1 2010. EBITDAR for Q1 2011 was $3.3 million, compared to EBITDAR of $5.8 million for Q1 2010. The negative year over year variance was attributable to lower flight hour demands for Top Aces' services in the current quarter.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components for Q1 2011 and Q1 2010:

(thousands of dollars)		Q1 2011		Q1 2010
Operating activities	$	(9,815)	$	(11,919)
Investing acitivities		(1,765)		(4,471)
Financing activities		6,558		12,567
Decrease in cash for the period	$	(5,022)	$	(3,823)

The cash position for Q1 2011 reflected a net cash outflow of $5.0 million, compared to a net cash outflow of $3.8 million for Q1 2010. On a year over year comparison, the Corporation has been able to fund its operations with less reliance on short-term debt, leaving it well-positioned to meet the higher working capital requirements associated with peak operating season in the second and third quarters.

Operating activities

Operating activities for Q1 2011 recorded a net cash outflow of $9.8 million, compared to net cash outflow of $11.9 million for Q1 2010. The lower level of cash used in operations in the current quarter was due largely to the lower loss combined with a net positive level of cash generated from working capital items. The change in non-cash operating working capital for Q1 2011 was an outflow of $10.9 million, compared to an outflow of $10.2 million for Q1 2010. Aside from changes to non-cash operating activities arising from normal seasonal operating activities, the Corporation reduced its restricted cash balance in the quarter by $0.4 million. The restricted cash balance relates to certain contingent exposures such as letters of credit which are not provided by the lender under the current operating line of credit. These facilities are arranged through third parties who require them to be cash collateralized by the Corporation.

Investing activities

The net cash outlay from investing activities in Q1 2011 was $1.8 million, compared to $4.5 million for Q1 2010. The current quarter investing activities related to sustaining capital expenditures and capitalized aircraft overhaul costs. The investing activities in Q1 2010 included completion of the Top Aces fleet expansion program initiated in fiscal 2009 as well as sustaining capital expenditures and capitalized aircraft overhaul costs.

Other than aircraft overhaul costs related to its existing fleet, the Corporation has not committed to any significant purchases of capital assets in the immediate future. However, consistent with its Objective, the Corporation will actively pursue feasible capital expenditure opportunities that support sustained long-term growth.

Financing activities

The Corporation had an outstanding balance of $7.8 million on its operating line of credit as at April 30, 2010. Consistent with the seasonal nature of the Corporation's overall business cycle, the Corporation draws on its operating line of credit in the first and second quarters to fund start up costs associated with seasonal increases in business volumes as well as to fund an increased investment in accounts receivable. In the comparative period, the Corporation drew and had an outstanding balance of $14.5 million. Netting cash and restricted cash against the outstanding operating line of credit results in a net line of credit balance of $2.7 million compared to a net line of credit balance of $8.6 million for the same period last year. The Corporation was able to draw less in Q1 2011 compared to Q1 2010 due to a stronger cash position at the beginning of the quarter and ongoing efforts to closely manage working capital.

The Corporation did not undertake any significant new long-term financing in Q1 2011 and made scheduled repayments of $1.3 million. In Q1 2010, the Corporation obtained new long-term loans totaling $36.3 million during the quarter, which

was comprised of a $34.0 term loan to replace a $33.0 term loan which matured in February 2009, and $2.3 million of financing related to the Alpha jet program. The principal repayments totaling $37.1 million during Q1 2010 related to $33.0 million repayment of the term loan noted and $2.6 million related to a one-time reduction in fleet term debt. The balance of the repayments relates to scheduled term loan repayments.

Working capital and cash position

At April 30, 2010, the Corporation had a working capital position of $13.7 million and a current ratio of 1.4 compared to a working capital position of $15.3 million and a current ratio of 1.7 as at January 31, 2010. Given the seasonal nature of the Corporation's businesses, a more meaningful comparison would be of the working capital positions as at April 30, 2010 and April 30, 2009. As at April 30, 2009 the working capital position was $11.9 million with a current ratio of 1.3. The improved working capital balance and current ratio from April 30, 2009 was due largely to the Corporation's ability to draw less on the operating line of credit to fund its existing operations and future ramp up costs.

The Corporation is aware of the following balance sheet conditions, income items or cash flow items that could materially impact liquidity in the upcoming year:

- A weaker than expected recovery in the resource sector resulting in continued low business activity levels in the Corporation's Northern Services segment;
- Movement of the U.S./Canadian dollar exchange rate and the resulting impact on the available borrowing base associated with the Corporation's fleet financing facility renewal in July 2010;
- The potential cash flow and liquidity impact should a term lender exercise its option to require potential term debt reductions commencing in February 2011;
- The potential impact of the current operating line of credit not being extended or refinanced by the expiry date of June 2010; and
- Potential fleet maintenance capital expenditures that are higher than expected.

While the Corporation currently believes it has sufficient working capital to meet its current and future operating requirements based on its existing working capital position, cash generated from operations and the operating credit facilities it currently has in place, this could change depending on whether some or all of the above factors materialize. The Corporation's management continues to monitor factors that could adversely impact the Corporation's working capital and cash position.

The operating line of credit facility will be used to fund any short-term financing requirements which arise as a result of the seasonality of the Corporation's revenue and cash flow patterns. Except as noted above, the Corporation has not committed to any expenditures that would significantly change its working capital requirements for the upcoming year. Any significant non-maintenance related capital expenditures are assessed to gain reasonable assurance that the capital expenditure will be matched by projected revenues or cost saving generated from the transaction. The Corporation also continues to look for ways to conduct its businesses more efficiently and reduce costs.

Shareholders' Equity and Updated Share Information

Shareholders' Equity was impacted by the loss recorded for the current quarter. Share capital was unchanged and there was only a nominal charge to contributed surplus related to vesting stock options granted in previous years.

At April 30, 2010, there were 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding. At the same date, there were 3,079,650 common share options outstanding and no common share purchase warrants outstanding. Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the years ended January 31, 2010 and 2009.

Critical Accounting Estimates

The management's discussion and analysis for the year ended January 31, 2010 includes a description of critical accounting estimates on page 21. As at April 30, 2010, critical accounting estimates have not changed significantly from the description provided in the year end management's discussion and analysis.

RECENTLY ISSUED STANDARDS

Business combinations

Handbook Section 1582, *Business Combinations* replaced the former Handbook Section 1581, *Business Combinations*. This section will be equivalent to International Financial Reporting Standards ("IFRS") 3 - *Business Combinations*. See *"International Financial Reporting Standards*" below for further discussion on IFRS. Section 1582 will require additional use of fair value measurements, recognition of additional assets and liabilities, including contingent consideration and

contingencies, the expensing of transaction costs and increased financial statement disclosures. This standard will become effective for business combinations for which the acquisition date is on or after February 1, 2011. The Corporation is assessing whether it will apply the new accounting standard at the beginning of fiscal 2012 or elect to early-adopt the new accounting standard in order to minimize the amount of retroactive application when the Corporation adopts IFRS.

Consolidated financial statements and non-controlling interest
Handbook Section 1601, *Consolidated Financial Statements* and Section 1602, *Non-controlling Interests* replaced the former Handbook Section 1600, *Consolidated Financial Statements* and established a new method of accounting for a non-controlling interest in a subsidiary. These sections will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity. The Corporation will adopt the new accounting standards concurrently with the adoption of the new Handbook Section 1582 and is currently assessing the impact that the adoption of these standards will have on its consolidated financial statements.

Multiple deliverable revenue arrangements
In December 2009, the CICA issued Emerging Issues Committee EIC-175, *Multiple Deliverable Revenue Arrangements.* This new standard is applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011 but with earlier adoption permitted. The new standard requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. It is the Company's intention to not early adopt the standard and it is in the process of assessing the impact the standard may have on the Company's financial statements.

International Financial Reporting Standards ("IFRS")
In February 2008, the CICA Accounting Standards Board announced that all Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards (IFRS) for fiscal years beginning on or after January 1, 2011. The Corporation's first annual IFRS consolidated financial statements will be for the year ending January 31, 2012 and will include the comparative period of fiscal 2011.

The Corporation commenced its IFRS conversion project during fiscal 2009, at which time it completed a high level review and impact assessment of the Standards to assess the degree of potential impact each standard would have on the Corporation. The Corporation took into consideration the impact that implementing each standard would have on its accounting policies, financial reporting processes, information systems, business processes, control environment and external disclosures.

As a result of the Phase 1 Review, the Corporation has identified that the following IFRS standards are likely to have the highest potential implementation impact on the Corporation.

- First-time Adoption of IFRS
- Business Combinations
- Financial Instruments
- Property, Plant & Equipment
- Consolidated Financial Statements
- Impairment of Assets

The list of Standards indicates the Corporation's assessment of items with the highest potential implementation impact on the Corporation and should not be considered to be exhaustive. The list is subject to change with changes to the IFRS standards as well as changes to the Corporation within its normal business environment.

The Corporation conducted a more detailed assessment of the above standards so that it could more clearly identify the impacts and judgments entailed in implementing the new standards. The impact of these standards is detailed in the Corporation's January 31, 2010 Management Discussion & Analysis. The Corporation has not made any material changes in that assessment.

The transition from Canadian GAAP to IFRS is a significant task for the Corporation to undertake. There will be various choices of elections and exemptions within the new standards as well as the requirement to exercise a considerable level

of judgment in adopting the new standards. The choices made and the judgments exercised during IFRS implementation may materially alter the Corporation's financial position and results of operations as currently reported under Canadian GAAP. The Corporation is carefully assessing all accounting policy options and IFRS 1 exemptions and exceptions as part of its Assessment and Documentation phase.

Management is also assessing possible changes that may need to be implemented to ensure that adequate internal controls over financial reporting and disclosure controls and procedures will remain in place once IFRS is implemented. Once the assessment is completed, the Corporation intends to disclose the potential material impacts in its future consolidated financial statements and Management's Discussion and Analysis.

The Corporation continues to monitor standards developed and issued by the IASB and the Canadian Accounting Standards Board, as well as any regulatory developments produced by the Canadian Securities Administrators, which may affect the Corporation's timing, nature and extent of disclosures as they relate to the implementation of IFRS. Further changes to standards, regulations or economic conditions prior to the date of changeover could result in changes to the timing, nature and extent of disclosures as indicated above.

At this time, the full impact of the implementation of IFRS on the Corporation's future financial position and results of operations is not reasonably determinable or estimable.

NON-GAAP MEASURES

References to "EBITDA" are to earnings before financing charges, income taxes, depreciation and amortization (except for amortization of rotable and overhauled components which are treated as operating expenses), goodwill and intangible asset impairment charge, and non-controlling interest. As is common in the industry, the Corporation uses EBITDA as a supplemental financial measure of its operational performance. Reference to "EBITDAR" is EBITDA before aircraft lease cost. Management believes EBITDA and EBITDAR to be important measures as they exclude the effects of items which primarily reflect the impact of long-term investment decisions from the performance of the Corporation's day-to-day operations. Management believes these measurements are useful to measure a company's ability to service debt and to meet other payment obligations or as a valuation measurement.

"Adjusted EBITDA" is EBITDA before the relocation of corporate office charge. "Adjusted EBITDAR" is EBITDAR before the relocation of corporate office charge. The relocation of corporate office charge is a financial obligation that arose as a result of a condition of a term loan transaction completed in the first quarter of last fiscal year. Given the non-recurring nature of these costs, the Corporation is of the view that Adjusted EBITDA and Adjusted EBITDAR provide a more meaningful comparison of year over year results.

The following is a reconciliation of EBITDA and EBITDAR and Adjusted EBITDA and Adjusted EBITDAR to loss:

(thousands of dollars)		Q1 2011		Q1 2010
Loss	$	(3,924)	$	(5,121)
Income tax recovery		(1,721)		(1,838)
Interest expense		3,658		3,499
Financing charges		-		830
Amortization		3,368		3,398
Non-controlling interest		81		(103)
EBITDA	$	1,462	$	665
Aircraft lease expenses		1,546		1,352
EBITDAR	$	3,008	$	2,017
EBITDA	$	1,462	$	665
Corporate relocation costs		51		1,173
Adjusted EBITDA	$	1,513	$	1,838
Aircraft lease expenses		1,546		1,352
Adjusted EBITDAR	$	3,059	$	3,190

The EBITDA margin, Adjusted EBITDA margin and EBITDAR margin are EBITDA, Adjusted EBITDA and EBITDAR as a percentage of revenue.

References to “adjusted earnings” or “adjusted loss” are to net earnings (loss) adjusted to eliminate impairment of goodwill and intangible assets and related income tax provision (recovery). Management believes adjusted earnings is a meaningful supplemental financial measure as charges related to the impairment of goodwill and intangible assets are considered non-recurring and non-operational and its exclusion provides a more relevant comparison of year over year net earnings (loss).

The following is a reconciliation of adjusted earnings (loss):

(thousands of dollars)	Q1 2011	Q1 2010
Loss	$ (3,924)	$ (5,121)
Impairment on goodwill and intangible assets	-	-
Corporate office relocation charge	51	1,173
Income tax recovery related to relocation of corporate office	(15)	(345)
Adjusted loss	$ (3,888)	$ (4,293)

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	Q1 2011				Q1 2010			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 15,481	$ 10,433	$ -	$ 25,914	$ 11,667	$ 13,897	$ 2	$ 25,566
Operating expenses	15,447	7,359	1,595	24,401	13,949	8,414	1,365	23,728
Relocation of corporate office costs	-	-	51	51	-	-	1,173	1,173
EBITDA	**$ 34**	**$ 3,074**	**$ (1,646)**	**$ 1,462**	**$ (2,282)**	**$ 5,483**	**$ (2,536)**	**$ 665**
Aircraft lease expenses	1,356	190	-	1,546	1,034	318	-	1,352
EBITDAR	**$ 1,390**	**$ 3,264**	**$ (1,646)**	**$ 3,008**	**$ (1,248)**	**$ 5,801**	**$ (2,536)**	**$ 2,017**
Adjusted EBITDA	**$ 34**	**$ 3,074**	**$ (1,595)**	**$ 1,513**	**$ (2,282)**	**$ 5,483**	**$ (1,363)**	**$ 1,838**
Adjusted EBITDAR	**$ 1,390**	**$ 3,264**	**$ (1,595)**	**$ 3,059**	**$ (1,248)**	**$ 5,801**	**$ (1,363)**	**$ 3,190**

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share amounts)	2011	2010				2009		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Results of operations:								
Total revenue	$ 25,914	$ 17,749	$ 34,125	$ 45,733	$ 25,566	$ 19,590	$ 42,536	$ 59,050
Operating expenses	24,401	19,978	24,072	26,584	23,728	23,578	32,042	39,429
Relocation of corporate office	51	67	120	318	1,173	-	-	-
EBITDA	1,462	(2,296)	9,933	18,831	665	(3,988)	10,494	19,621
Amortization	3,368	3,774	3,501	3,405	3,398	3,325	3,309	3,214
Non-amortized finance fees	-	112	125	-	830	2,944	3,151	3,186
Interest expense	3,658	3,560	3,460	3,824	3,499	-	-	-
Goodwill and intangible assets impairment charge	-	-	-	-	-	133,579	-	-
Earnings (loss) before income taxes and non-controlling interest	(5,564)	(9,742)	2,847	11,602	(7,062)	(143,836)	4,034	13,221
Income tax provision (recovery)	(1,721)	(4,937)	1,116	3,342	(1,838)	(4,714)	1,322	4,136
Non-controlling interest	81	32	63	256	(103)	17	67	216
Net earnings (loss)	$ (3,924)	$ (4,837)	$ 1,668	$ 8,004	$ (5,121)	$ (139,139)	$ 2,645	$ 8,869
Basic and diluted earnings (loss) per share	$ (0.03)	$ (0.04)	$ 0.01	$ 0.06	$ (0.04)	$ (1.03)	$ 0.02	$ 0.07

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

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of the control of its management. Details are provided in the "Risk Factors" section of the Corporation's management's discussion and analysis for the year ended January 31, 2010, which can be found on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures which provide reasonable assurance that material information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management in order to allow timely decisions regarding required disclosure. The Corporation's management, including the CEO and CFO, have evaluated the effectiveness of the Corporation's disclosure controls and procedures as at April 30, 2010 and have concluded that those disclosure controls and procedures were effective.

There were no control deficiencies identified or changes made to the Corporation's internal controls over financial reporting ("ICFR") during the current quarter that have materially affected, or are likely to materially affect, the Corporation's ICFR.

Because of their inherent limitations, disclosure controls and procedures and ICFR may not prevent or detect misstatements, errors or fraud. The inherent limitations include the realities that judgments in decision-making can be faulty, controls can be circumvented by individual acts of some persons or by collusion of two or more people or management can override the controls. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this Management's Discussion and Analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities, and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this Management's Discussion and Analysis contains forward-looking statements relating to: the seasonality of the Corporation's business; its Objective and business development; the impact of the current economic conditions on the results of its operations and/or financial condition; management's outlook for the future, management's ability to reduce costs and/or contain them at the existing levels; management's ability to continue to manage working capital effectively; the impact of weather conditions on the results of the Corporation's operations and/or financial condition; the cost of relocating its corporate office; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet lender covenants and other terms and conditions of its credit agreements; plans and/or requirements to make new capital investments; and, its plans, decisions and capacity to implement the new IFRS reporting standards in the timelines required.

All forward-looking information and statements presented in this document are based on reasonable assumptions, estimates and analysis that take into account management's experience and perception of trends and interpretation of external factors, such as economic conditions, to the Corporation's future results. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the Corporation's ability to secure operating contracts; the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Corporation conducts operations; the effects of changes in interest rates; the effects of competition in the markets in which the Corporation operates; inflation; capital market fluctuations, including the availability of equity and/or debt capital to the Corporation; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implied by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking information and statements to make decisions, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. There is no undertaking to update any forward-looking statement that is contained in this Management's Discussion and Analysis or made from time to time by the Corporation.

Additional information relating to the Corporation, including the Corporation Annual Information Form can be found on SEDAR at www.sedar.com.

Dated: June 11, 2010