# MANAGEMENT'S DISCUSSION AND ANALYSIS

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

## *Financial Definitions*
In this management discussion and analysis ("MD&A"), the following financial terms have the meanings ascribed to them below:

(a) "EBITDA" means earnings before interest, taxes, depreciation and amortization, except for amortization of rotable and overhaul components, which are treated as operating expenses;
(b) "Adjusted EBITDA" means EBITDA excluding costs related to the Corporation's head office relocation in March of 2010;
(c) "EBITDAR" means EBITDA before aircraft lease costs;
(d) "Adjusted EBITDAR" means EBITDAR excluding costs related to the Corporation's head office relocation in March of 2010;
(e) "Fiscal 2012" means the fiscal year of the Corporation ending January 31, 2012;
(f) "Fiscal 2011" means the fiscal year of the Corporation ending January 31, 2011;
(g) "Fiscal 2010" means the fiscal year of the Corporation ending January 31, 2010;
(h) "Fiscal 2009" means the fiscal year of the Corporation ending January 31, 2009;
(i) "Q1/12", "Q2/12", "Q3/12" and "Q4/12" mean the first, second, third and fourth quarters, respectively, of Fiscal 2012;
(j) "Q1/11", "Q2/11", "Q3/11" and "Q4/11" mean the first, second, third and fourth quarters, respectively, of Fiscal 2011; and
(k) "Q1/10", "Q2/10", "Q3/10" and "Q4/10" mean the first, second, third and fourth quarters, respectively, of Fiscal 2010.

## *Business Profile*
Discovery Air, 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 during its peak periods over 600 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 operating subsidiaries, Discovery Air offers fixed-wing and rotary-wing capabilities and aircraft maintenance services, as well as logistics and remote operations management services. The Corporation classifies its operating subsidiaries in two reportable segments, as follows:

The Government Services segment includes three 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 aerial fire management services to the Ontario government and also provides charter service to government agencies and corporate customers throughout northern Ontario. Discovery Air Technical Services Inc. ("Technical Services") provides a range of maintenance, repair and overhaul ("MRO"), modification, engineering and certification services from its Quebec City location.

The Northern Services segment includes three subsidiaries. Great Slave Helicopters Ltd. ("Great Slave"), the second-largest visual flight rules ("VFR") helicopter operator in Canada, has bases primarily throughout northern Canada from which it operates support flights for mining and oil and 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. 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*
The Five Year Overarching Objective of the Corporation (the "Objective") is to significantly increase annual earnings per share and to position the Corporation's businesses for long-term, profitable growth. In assessing the first year of the Corporation's five year strategic plan, management believes the Corporation remains on track to achieving the Objective.

The internal milestones set with regard to growth in revenue and EBITDA were in line with the Corporation's year one performance. The Corporation's ability to initiate new revenue streams in new markets in Fiscal 2011 was an important step in ensuring the Corporation is able to meet the next milestones in the strategic plan.

The Objective remains a constant consideration in management's decision making and the Corporation's progress is measured against management's internally established milestones to ensure the Objective is ultimately achieved. The Corporation 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 seeks to increase the Corporation's profitability by increasing the range of services offered and by optimizing fleet variety and capacity for its customers. Maintaining key relationships and developing new partnerships is important to the Corporation, as is the continual development and retention of highly qualified staff. Safety remains a paramount consideration in all of the Corporation's service offerings.

## *Selected Financial Information*

| (thousands of dollars, except per share amounts) | | Fiscal 2011 | | Fiscal 2010 |
|---|---|---|---|---|
| **Results of operations** | | | | |
| Revenue | $ | 152,418 | $ | 123,173 |
| Operating expenses | $ | 114,865 | $ | 94,362 |
| Earnings before undernoted items | $ | 37,553 | $ | 28,811 |
| Interest and financing charges | $ | 15,298 | $ | 15,410 |
| Amortization | $ | 13,874 | $ | 14,078 |
| Relocation of corporate office | $ | 158 | $ | 1,678 |
| Net earnings (loss) | $ | 5,466 | $ | (286) |
| Basic and diluted loss per common share: | $ | 0.04 | $ | (0.00) |
| **Financial position and liquidity** | | | | |
| Total assets | $ | 258,986 | $ | 256,310 |
| Total long-term debt | $ | 140,213 | $ | 146,107 |
| Cash provided by operations | $ | 21,984 | $ | 21,438 |
| Working capital | $ | (8,471) | $ | 15,314 |
| **Key non-GAAP performance measures*** | | | | |
| Adjusted earnings | $ | 5,581 | $ | 899 |
| EBITDAR | $ | 46,501 | $ | 33,610 |
| Adjusted EBITDAR | $ | 46,659 | $ | 35,288 |
| EBITDA | $ | 37,395 | $ | 27,133 |
| EBITDA Margin | | 25% | | 22% |
| Adjusted EBITDA | $ | 37,553 | $ | 28,811 |
| Adjusted EBITDA Margin | | 25% | | 23% |
| After-tax operating cash flow | $ | 26,516 | $ | 17,662 |
| After-tax operating cash flow per common share | $ | 0.20 | $ | 0.13 |

* See Non-GAAP measures

## *Financial Highlights of Fiscal 2011*

- The Corporation's Fiscal 2011 consolidated revenue reflects a significant recovery from fiscal 2010, when the Corporation was severely hampered by the dramatic decline in resource-based activity in the North and unseasonably wet weather conditions in the forest fire markets in which the Corporation operates. The Corporation recorded year-over-year increases in all the major industry sectors it serves, with the largest increase occurring in the Corporation's mining exploration and oil and gas sectors. The increase in revenue from the Government Services segment was largely attributable to increased demand for airborne training and special mission services and forest fire related services in Ontario.
- The Corporation's EBITDA of $37.4 million reflects a 38% year-over-year increase. Adjusted EBITDA, which excludes charges related to corporate head office relocation in March 2010, was $37.6 million reflecting a 30% year–over-year increase. The Corporation was able to increase its overall adjusted EBITDA margin to 25% despite incurring higher operating and business development costs to support the Corporation's effort to expand its revenue base. The margin increase was driven by growth rates in the Corporation's higher-margin services.

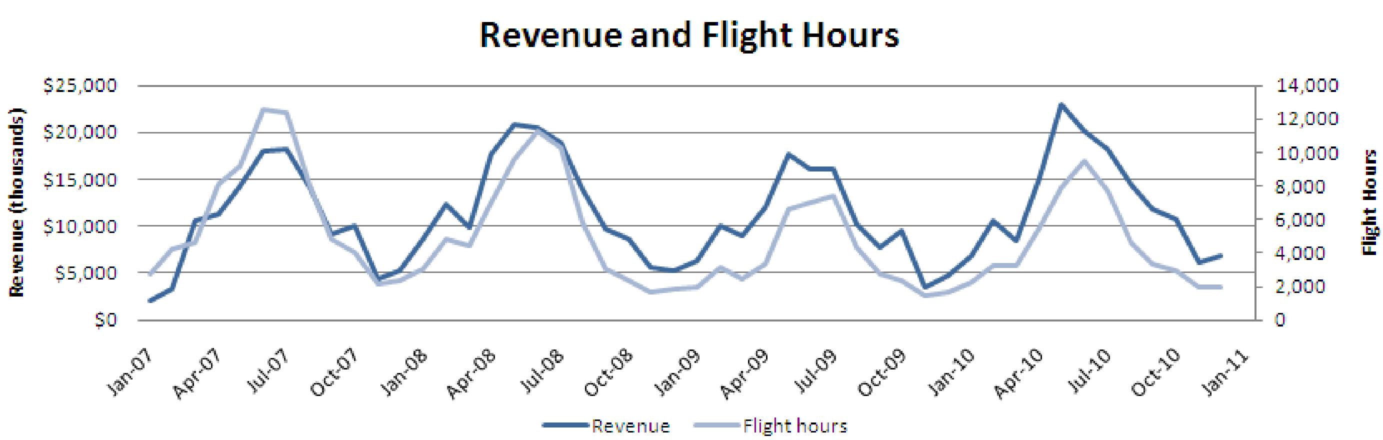
- In Fiscal 2011, the Corporation increased earnings to $5.5 million, or $0.04 per share, compared to a loss of $0.3 million, or $0.00 per share, in the prior year. The Corporation's financing and amortization charges were slightly lower compared to the prior year; however, this was offset by a higher income tax provision in Fiscal 2011.
- The Corporation generated an after-tax operating cash flow of $26.5 million in Fiscal 2011 compared to $17.7 million in Fiscal 2010. The year-over-year increase was largely due to a $5.8 million increase in earnings and a $3.1 million reduction in future income tax recoveries.
- The Corporation's organic growth in Fiscal 2011 was largely achieved by entering new markets. The Corporation established two notable emerging opportunities during the year: through Great Slave, by providing services in Peru for oil and gas customers; and through Technical Services' creation of a maintenance repair and overhaul ("MRO") service platform.
- The Corporation extended Top Aces' airborne combat training Standing Offer Agreements for a further 16-month period, with an option for an additional 12 months thereafter. Top Aces also submitted a proposal for a Public Works Government Services Canada ("PWGSC") Request for Proposal ("RFP") for a 10 year contracted airborne training services contract with an option for two 5 year extensions in October 2010. This solicitation was cancelled in early fiscal 2012, with PWGSC indicating its intention to retender a new RFP for a long term Contracted Airborne Training Services program.
- The Corporation refinanced $49.2 million of revolving debt in the third quarter of Fiscal 2011 under a provision set out under the original revolving debt agreement. The debt was converted from an evergreen facility to a 10-year term debt. The interest rate is set at the 90 day bankers' acceptance rate plus 7.65%, with the premium subject to an annual review, at which time the Corporation may exercise an option to borrow via a fixed rate arrangement. All collateral arrangements and lending conditions remained substantially the same. In the second quarter of Fiscal 2011, the Corporation also renewed its $15 million operating line of credit which increases to $25 million during the Corporation's peak season.

***Seasonality and quarterly fluctuations***

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

- In Canada, 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 - June and September - 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 the customers' training priorities and, on occasion, weather conditions.
- The Corporation attempts to perform most major repairs and refurbishments during the slower periods of revenue-generating activity. As well, repairs 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 flight activity from one period to another, especially in the forest fire suppression businesses.

**Seasonality of monthly revenue and flight hours**



## *Results of operations for Fiscal 2011 and Fiscal 2010*

| (thousands of dollars) | Fiscal 2011 | | | | Fiscal 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Northern Services** | **Government Services** | **Corporate Support** | **Total** | **Northern Services** | **Government Services** | **Corporate Support** | **Total** |
| **Revenue** | **$ 90,383** | **$ 62,029** | **$ 6** | **$ 152,418** | **$ 70,761** | **$ 52,378** | **$ 34** | **$ 123,173** |
| Operating expenses | 71,514 | 36,859 | 6,492 | 114,865 | 57,980 | 30,896 | 5,486 | 94,362 |
| Relocation of corporate office | - | - | 158 | 158 | - | - | 1,678 | 1,678 |
| **EBITDA** | **$ 18,869** | **$ 25,170** | **$ (6,644)** | **$ 37,395** | **$ 12,781** | **$ 21,482** | **$ (7,130)** | **$ 27,133** |
| Amortization | 8,555 | 5,278 | 41 | 13,874 | 9,281 | 4,743 | 54 | 14,078 |
| Earnings (loss) from operations before undernoted items | 10,314 | 19,892 | (6,685) | 23,521 | 3,500 | 16,739 | (7,184) | 13,055 |
| Interest and financing charges | | | | 15,298 | | | | 15,410 |
| Income tax provision | | | | 2,438 | | | | (2,317) |
| Non-controlling interest | | | | 319 | | | | 248 |
| **Net earnings and comprehensive income** | | | | **5,466** | | | | **(286)** |
| **Capital expenditures** | **$ 10,087** | **$ 8,013** | **$ 53** | **$ 18,153** | **$ 10,019** | **$ 12,644** | **$ 28** | **$ 22,691** |

| | *As at January 31, 2011* | | | | *As at January 31, 2010* | | | |
|---|---|---|---|---|---|---|---|---|
| **Total assets** | **$ 134,989** | **$ 117,616** | **$ 6,381** | **$ 258,986** | **$ 135,272** | **$ 113,401** | **$ 7,637** | **$ 256,310** |
| **Goodwill** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** |
| **Intangible assets** | **$ 7,929** | **$ 11,230** | **$ -** | **$ 19,159** | **$ 10,077** | **$ 13,522** | **$ -** | **$ 23,599** |

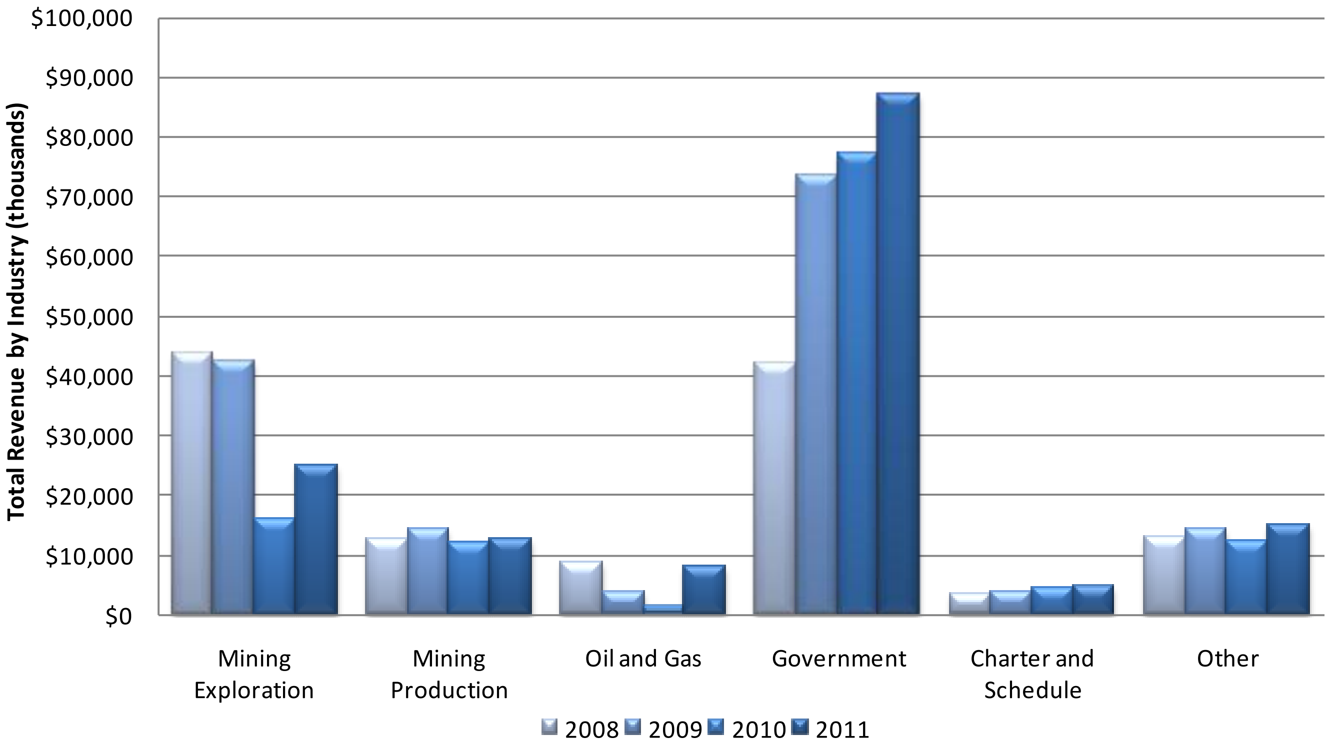
## *Consolidated results*

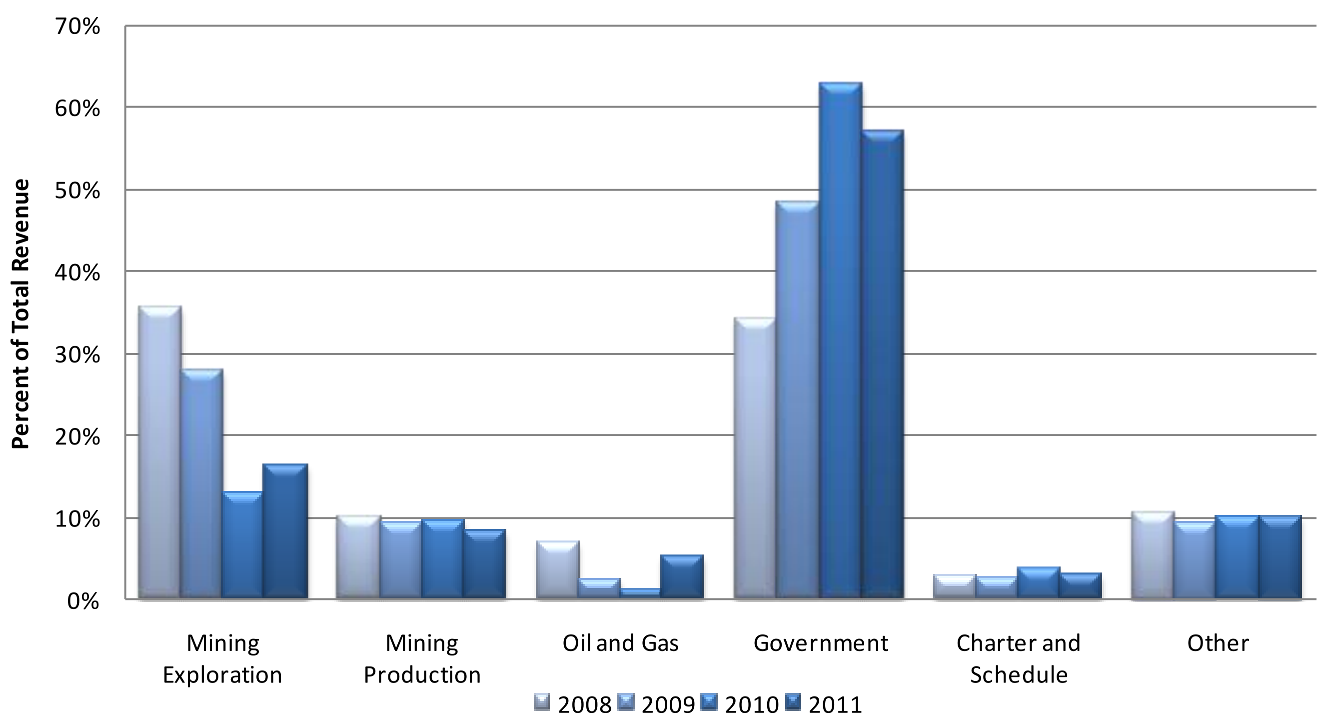
### *Revenue and Hours Flown*

Revenue was $152.4 million for Fiscal 2011, compared to $123.2 million for Fiscal 2010, a 24% increase. The Corporation's revenue, which is largely driven by flight hours, is primarily generated from aviation transportation services that are delivered through its subsidiaries. Revenues from non-flight hour sources includes revenue of Discovery Mining, Technical Services, scheduled passenger 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. Revenue generated from flight hours for Fiscal 2011 was $124.4 million (82% of total revenue), compared to $101.2 million (82% of total revenue) in the prior year. Hours flown in Fiscal 2011 were 54,349 compared to 44,550 for the prior year, representing a 22% increase. The Northern Services and Government Services segments recorded year-over-year increases in revenue of 28% and 18%, respectively.

As noted in the Consolidated Revenue by Industry Sector tables below, the Corporation's revenue reflects a positive year-over-year contribution from all major industry sectors served. Revenue increases were led by the rebound of the mining exploration sector (56%), and the government sector (12%). The government sector revenue increase was due to increased forest fire management activity and increased services provided to the Canadian military. The Corporation's revenue from the oil and gas sector increased largely due to the Corporation's entrance into the Peruvian oil and gas market. While the Corporation's mining exploration sector revenue did not return to levels seen prior to the economic recession in fiscal 2010, the Corporation as a whole was able to eclipse total revenue recorded prior to the recession due to its expansion into new markets and a shift to higher-margin business opportunities in the markets it currently serves.

## Consolidated Revenue by Industry Sector



*Operating Expenses*
Operating expenses were $114.9 million for Fiscal 2011, compared to $94.4 million for Fiscal 2010, a 22% increase. Operating expenses consist of fixed and variable expenses and include crew and fleet costs as well as general and administrative expenses. The increase in operating expenses was attributable to the following factors:

- increased direct costs associated with higher revenue;
- increased utilization of leased aircraft compared to aircraft owned compared to Fiscal 2010;
- higher wage rates to remain competitive with the skilled labour market;
- start-up costs related to both Great Slave's Peruvian operations and Technical Services' MRO operations; and,
- business development costs focused on new business opportunities.

Crew and fleet costs are the largest expense categories. Crew costs include wages, benefits, travel and training for pilots and maintenance engineers, and totaled $38.8 million for Fiscal 2011, compared to $30.4 million for the prior year, representing a 28% increase. Fleet costs include aircraft lease costs and amortization of engine and rotable component overhauls and maintenance costs, the latter consisting of the purchase, repair and overhaul of parts and major components and accessories. Fleet costs for Fiscal 2011 were $27.3 million compared to $21.6 million for the prior year, representing a 26% increase. While fuel costs represent a significant component of the Corporation's operating expenses, the Corporation recovers substantially all of these and other recoverable costs from its customers. These recoveries are classified as revenue. The historically high level of fuel recovery has greatly mitigated the impact of rising fuel prices on the Corporation's earnings. General and administrative expenses are mainly wages and benefits of administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. For Fiscal 2011, these costs were $29.7 million compared to $25.8 million for the prior year. The 15% increase was largely attributable to staff hiring and increased infrastructure in support of operating activities.

*EBITDA and EBITDAR (see Non-GAAP Measures)*
EBITDA was $37.4 million for Fiscal 2011, compared to $27.1 million for the prior year. EBITDA margin for the current year was 25% compared to 22% for the prior year. For Fiscal 2011, EBITDA includes costs totaling $0.2 million related to the Corporation's relocation of its head office to Yellowknife, NT, compared to $1.7 million in the prior year. Adjusted EBITDA adds these costs back to provide a more meaningful year-over-year comparison. Adjusted EBITDA for Fiscal 2011 was $37.6 million, representing a 30% increase from the adjusted EBITDA of $28.8 million for the prior year. The Adjusted EBITDA margin was 25% compared to 23% for the prior year. The favourable year-over-year increases in EBITDA and in EBITDA margin for Fiscal 2011 were largely attributable to increased utilization of higher margin aircraft and related services. Adjusted EBITDAR was $46.7 million for Fiscal 2011, compared to $35.3 million for the prior year, a year-over-year increase of 32%. Aircraft lease costs were $9.1 million in Fiscal 2011, compared to $6.5 million in the prior year. In Fiscal 2011, the Corporation utilized more short-term aircraft lease arrangements to meet increased demand during the Corporation's peak season.

*Earnings*
In Fiscal 2011, the Corporation recorded earnings of $5.5 million compared to a loss of $0.3 million for Fiscal 2010. Adjusted earnings (see Non-GAAP Measures) of $5.6 million for Fiscal 2011 (which adjusts for head office relocation costs) increased from adjusted earnings of $0.9 million for Fiscal 2010. Amortization expense related to capital assets and intangible assets for Fiscal 2011 was $13.9 million compared to $14.1 million for Fiscal 2010. The slight reduction was attributable to the Corporation's divesture of non-essential assets in recent years to optimize asset utilization. Interest and financing charges of $15.3 million for Fiscal 2011 were comparable to $15.4 million for Fiscal 2010. The Corporation incurred lower finance charges in Fiscal 2011; however, the lower financing charges were offset by a higher accretion charge related to the discount on long-term debt. The Corporation had an income tax provision of $2.4 million for Fiscal 2011, compared to an income tax recovery of $2.3 million for Fiscal 2010. The Corporation's statutory income tax rate for Fiscal 2011 was approximately 30% compared to 31% for Fiscal 2010. The difference between the Corporation's income tax provision rate and the statutory rate arises from changes in the timing of the reversal of temporary differences and permanent tax differences.

## *Northern Services*
The Northern Services segment generated revenue of $90.4 million on 44,050 flight hours for Fiscal 2011, compared to revenue of $70.8 million on 36,087 flight hours for Fiscal 2010. The 28% increase in revenue and 22% increase in flight hours from Fiscal 2010 were largely attributable to the segment's resource-based customers, who recorded a year-over-year revenue increase of 32%. The mining exploration and oil and gas sectors combined for a 91% year-over-year revenue increase which was offset by lower non-forest fire management forestry revenue.

The segment incurred operating expenses totaling $71.5 million for Fiscal 2011, compared to $58.0 million for Fiscal 2010, a 23% increase. The increase in operating expenses was consistent with the increase in the segment's revenue, setup costs related to the Peruvian operation and higher wage rates reflecting the increased demand for pilots and maintenance crews.

The segment recorded EBITDA of $18.9 million for Fiscal 2011, compared to $12.8 million for Fiscal 2010. EBITDAR for Fiscal 2011 was $26.8 million, compared to $18.1 million for Fiscal 2010. The segment incurred higher aircraft lease expense in Fiscal 2011 due to a shift in increased utilization of leased aircraft over owned aircraft to meet the peak season demands in Q2/11 and Q3/11.

### *Government Services*

The Government Services segment generated revenue of $62.0 million on 10,299 flight hours for Fiscal 2011, compared to revenue of $52.4 million on 8,463 flight hours for Fiscal 2010. This represented an 18% increase in revenue and a 22% increase in total flight hours. These increases were largely attributable to an increase in forest fire suppression work in Ontario and increased demand for airborne training and special mission services.

The segment incurred operating expenses totaling $36.9 million for Fiscal 2011, compared to $30.9 million for Fiscal 2010, an increase of 19%. The increase in operating expenses is consistent with the segment's increased revenue level.

The segment generated EBITDA of $25.2 million for Fiscal 2011, compared to EBITDA of $21.5 million for Fiscal 2010. The improvement arose from a notable increase in forest fire management operations and, to a lesser degree, increased utilization of higher-rate aircraft. The segment's EBITDA was negatively impacted by the start-up costs associated with Technical Services. EBITDAR for Fiscal 2011 was $26.3 million, compared to EBITDAR of $22.7 million for Fiscal 2010.

### *Corporate Support*

Corporate support operating expenses totaled $6.5 million for Fiscal 2011, compared to $5.5 million for Fiscal 2010. A significant part of the increase was attributable to increased business development activity.

## *Liquidity and Financial Resources*

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

| (thousands of dollars) | Fiscal 2011 | Fiscal 2010 |
|---|---|---|
| Operating activities | $ 21,984 | $ 21,438 |
| Investing acitivities | (14,393) | (17,918) |
| Financing activities | (7,135) | (1,148) |
| Net increase in cash for the year | $ 456 | $ 2,372 |

The cash position at the end of Fiscal 2011 reflected a net cash inflow of $0.5 million in Fiscal 2011 compared to a net cash inflow of $2.4 million in Fiscal 2010. The Corporation recorded a modest year-over-year increase in cash from operations, while the increase in principal repayments of debt exceeded the decrease in year-over-year capital expenditures.

*Operating activities*

Fiscal 2011 operating activities generated a net cash inflow of $22.0 million, compared to a net cash inflow of $21.4 million in Fiscal 2010. Cash flow from operations in Fiscal 2011 was favourably impacted by a $5.8 million increase in year-over-year earnings and by a $3.1 million reduction in future income tax recoverable, offset by an $8.3 million negative variance in non-cash working capital. The Corporation realized greater revenue in Q4/11 compared to Q4/10, resulting in increased non-cash working capital attributable to accounts receivable owing by slower paying customers.. After-tax operating cash flow was $26.5 million for Fiscal 2011 year or $0.20 per share compared to $17.7 million or $0.13 per share for Fiscal 2010 (see Non-GAAP Measures).

*Investing activities*

The net cash outlay from investing activities for Fiscal 2011 was $14.4 million compared to $17.9 million for Fiscal 2010. Capital expenditures in Fiscal 2011 included two aircraft purchases for a total of $5.1 million, with the remaining $13.1 million arising from sustaining capital expenditures and capitalized aircraft overhaul costs. Offsetting the capital expenditures in Fiscal 2011 were proceeds of $3.8 million from divestitures of an aircraft ($2.7 million) and other equipment. Fiscal 2010 capital expenditures of $22.7 million reflected capital expenditures related to the completion of the Top Aces fleet expansion program, the purchase of a helicopter, sustaining capital expenditures and capitalized aircraft overhaul costs.

The Corporation has entered into the following business acquisition and capital assets expenditure commitments for Fiscal 2012:

- the purchase of one fixed-wing and one rotary-wing aircraft in late Q1/12 or early Q2/12. The fixed-wing aircraft will be acquired directly by the Corporation for approximately $1.8 million. The rotary-wing aircraft will be acquired through an Aboriginal partnership for $1.2 million, of which the Corporation will contribute 49% of the total value, consistent with its ownership interest in the Aboriginal partnership;
- the purchase of two fixed-wing aircraft for approximately USD $2.2 million in Q3/12;
- the entering into of a capital lease agreement for Technical Services' hangar facility in Quebec for approximately $2.7 million to replace the existing month-to-month operating lease; and
- regular aircraft overhaul costs related to the existing fleet.

Consistent with the Objective, the Corporation will actively pursue capital expenditure opportunities that support sustained long-term growth.

*Financing activities*
The Corporation did not have a balance outstanding on its operating line of credit as at the end of Fiscal 2011, which is consistent with the prior year. As at the end of Fiscal 2011, the Corporation had unrestricted cash of $9.7 million and available but unused borrowing capacity of $9.6 million to fund its operating requirements. Consistent with the seasonal nature of the Corporation's business cycle, the Corporation draws on its operating line of credit primarily in the first and second quarters to fund start-up costs associated with seasonal increases in business volumes, as well as to fund increased non-cash working capital; these draws are typically substantially repaid during the third quarter.

The Corporation obtained new financing of $2.8 million, mainly comprised of $1.8 million for the purchase of an aircraft in Q3/11 and $0.9 million related to leasehold costs for Technical Services' hangar facility. The Corporation made scheduled debt repayments of $8.4 million during Fiscal 2011 as well as a $1.4 million repayment on its revolving aircraft loan from proceeds of sale of an aircraft during Q2/11. In Fiscal 2010, the Corporation obtained new long-term loans totaling $44.2 million, including a $34.0 million term loan to replace a $33.0 million term loan which matured in February 2009, and $2.3 million financing related to Top Aces' Alpha jet program. The principal repayments totaling $43.6 million during Fiscal 2010 included the repayment of the $33.0 million term loan noted and a $3.6 million repayment related to a one-time reduction in fleet term debt, with the balance of the repayments being scheduled term loan repayments.

The Corporation has $28.8 million of convertible debentures outstanding which mature on December 31, 2011. This debenture debt was classified in its entirety as current portion of long-term debt on the Corporation's Consolidated Balance Sheet as at the end of Fiscal 2011. Subsequent to Fiscal 2011, the Corporation has entered into an agreement to retire the debentures before their maturity date (see Subsequent Events below).

*Working capital and cash position*
At the end of Fiscal 2011, the Corporation had a negative working capital position of $8.5 million and a current ratio of 0.8 compared to a working capital position of $15.3 million and a current ratio of 1.7 at the end of Fiscal 2010. The year–over-year decrease in the working capital balance and current ratio is attributable to the Corporation's convertible debentures being classified as current portion of long-term debt. Had the convertible debentures not been classified as current, the Corporation would have had a working capital position of $19.6 million and a current ratio of 1.8 as at the end of Fiscal 2011.

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

- the Corporation's failure to complete a suitable equity and/or debt issuance to fund repayment of the Corporation's $28.8 million convertible debentures by their December 31, 2011 maturity date;

- a reversal in the resource sector recovery, resulting in lower levels of business activity in the Corporation's Northern Services segment;
- the Government Services segment not being awarded DND's new long-term contract; the Corporation is currently awaiting an RFP and anticipates that it will be released in Fiscal 2012; and
- capital expenditures related to aircraft purchases or fleet maintenance that are higher than expected.

While the Corporation believes it will have sufficient liquidity 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 maintains, this belief could change if any or all of the above factors materialize. The Corporation's management is actively working to source appropriate equity and/or debt financing to fund the retirement of the convertible debentures maturity, and continues to monitor Northern Services demand and other factors that could adversely impact its working capital and cash position.

The Corporation renewed its operating line of credit on June 9, 2010 for a one year term. The operating line of credit is 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 in "Investing Activities", the Corporation has not committed to any expenditures that would significantly change its working capital requirements for the foreseeable future. Each significant, non-maintenance related capital expenditure is assessed to gain reasonable assurance that the capital expenditure will be matched by projected revenues or cost savings generated by the expenditure. The Corporation also continues to look for ways to conduct its businesses more efficiently and reduce costs.

*Debt financing*

In January 2008, the Corporation entered into a five-year revolving credit agreement to finance certain fleet assets. The facility borrowing base and interest rate were subject to annual review, and the lender retained an option to convert the facility to an amortizing term loan at each annual review date. The lender exercised this option during the 2010 annual review and, effective September 24, 2010, negotiated (i) repayment of the facility over a 10-year term through monthly blended principal and interest payments, and (ii) a reduction in the facility interest rate to the 90 day Bankers' Acceptance rate plus 7.65%. Financing costs of $2.3 million are netted against the carrying value of the loan and are being expensed on an effective interest basis, resulting in an effective interest rate of 9.29%. The Corporation can elect at future anniversary dates to retain a floating interest rate, or to amend the interest basis to a market-based fixed rate under various term options. Security arrangements remain unchanged and the Corporation was in full compliance with all facility covenant requirements as at January 31, 2011. The facility borrowing base has been set at $49.2 million, with $47.1 million drawn at January 31, 2011. The Corporation does not expect the revised terms and conditions established in the recent renewal to materially impact its ability to fund operations or capital expenditures in the foreseeable future.

The Corporation maintained $140.2 million in term debt obligations as at January 31, 2011 compared to $146.1 million for the prior year. The Corporation was in compliance with all covenants established by its lenders as at January 31, 2011. Aside from the renewal of the fleet debt noted above, the Corporation did not enter into any significant debt transactions during the year. With the ongoing recovery in capital market conditions and its operating and financial performance, the Corporation is well-positioned to focus on restructuring its balance sheet to better support operations and achieve its objectives. As at January 31, 2011, the Corporation's long-term debt to equity ratio was 1.8 to 1 (2010 - 2.0 to 1) and with the recent $13.2 million debt extinguishment (see Subsequent Events below) the ratio will be further reduced.

## *Contractual Obligations and Off-Balance Sheet Arrangements*

The following chart outlines the Corporation's contractual obligations as at January 31, 2011:

| (thousands of dollars) | Due within 1 year | Due between 1 & 2 years | Due between 2 & 3 years | Due between 3 & 4 years | Due between 4 & 5 years | Due after 5 years | Total |
|---|---|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 12,633 | $ - | $ - | $ - | $ - | $ - | **$ 12,633** |
| Operating leases | 3,899 | 1,612 | 848 | 377 | 267 | 8,430 | **15,433** |
| Long-term debt | 38,888 | 7,707 | 49,237 | 10,108 | 4,222 | 30,051 | **140,213** |
| Commitments | 2,200 | - | - | - | - | - | **2,200** |
| | $ 57,620 | $ 9,319 | $ 50,085 | $ 10,485 | $ 4,489 | $ 38,481 | **$ 170,479** |

Long-term debt due within one year includes scheduled repayments in addition to the $28.8 million of convertible debentures which mature on December 31, 2011. The Corporation's operating leases relate to aircraft and premises obligations.

The Corporation was required to obtain letters of credit issued by its lenders totaling $0.6 million (2010 - $0.5 million). The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

The Corporation enters into short-term (less than one year) aircraft operating lease arrangements in the first quarter of each year. The arrangements allow the Corporation to manage its fleet in a more cash-efficient manner. Subsequent to year-end, the Corporation has committed to minimum lease payments of $6.2 million related to these arrangements.

### *Shareholders' Equity*

Shareholders' equity increased by the amount of Fiscal 2011 net earnings. Share capital was reduced by the reclassification of the January 31, 2010 deficit of $119.4 million to share capital. The deficit balance arose primarily during the year ended January 31, 2009, when the Corporation recorded a $133.6 million goodwill and intangible assets impairment charge. The reclassification was approved by the shareholders at the Corporation's annual general special meeting held on June 3, 2010. Total shareholders' equity was unaffected by this reclassification.

At January 31, 2011, there were 134,461,555 Class A common shares and 742,604 Class B common shares outstanding. At the same date, there were 4,390,800 common share options outstanding and no common share purchase warrants outstanding. During Q3/11, the Corporation granted 1,500,000 stock options under a new employee stock option plan approved by the shareholders in June 2010. No other activity has occurred under this plan to date. The Corporation maintains 2,890,800 outstanding stock options issued under an employee stock option plan created in January 2006. This plan was terminated in June 2008, eliminating any additional grants under this plan. During Fiscal 2011, 239,100 stock options expired.

Additional information with respect to shareholders' equity is contained in the consolidated financial statements for Fiscal 2011 and Fiscal 2010.

### *Related Party Transactions*

At January 31, 2011, the Corporation had long-term debt including accrued interest totalling $13.6 million (January 31, 2010 - $15.0 million) owed to current and former officers and directors of the Corporation or its subsidiaries who were former owners of the subsidiaries. Interest expense on this debt for Fiscal 2011 was $0.5 million (Fiscal 2010 - $0.5 million). Subsequent to January 31, 2011, the Corporation entered an agreement to settle this debt in Fiscal 2012 through a cash payment of $3.2 million and the issuance of 10,352,000 Class A common shares (see Subsequent Events below).

During Fiscal 2009, the Corporation was made aware of potential liabilities that related to periods prior to the acquisition of one of its subsidiaries. The Corporation believes the amount of these liabilities could exceed the $1.1 million owing to the former shareholders of the subsidiary. The Corporation is of the opinion that the original purchase agreement provides it with the right of set-off for these potential liabilities. The face value of the amount owing of $1.1 million has been fully offset by the quantified claim as at January 31, 2011.

# Results of operations for the Q4/11and Q4/10

## Selected Financial Information

| (thousands of dollars, except per share amounts) | | Q4/11 | | Q4/10 |
|---|---|---|---|---|
| | | (unaudited) | | (unaudited) |
| **Results of operations** | | | | |
| Revenue | $ | 23,725 | $ | 17,749 |
| Operating expenses | $ | 25,822 | $ | 19,978 |
| Loss before undernoted items | $ | (2,097) | $ | (2,229) |
| Interest and financing charges | $ | 3,687 | $ | 3,672 |
| Amortization | $ | 3,484 | $ | 3,774 |
| Relocation of corporate office | $ | - | $ | 67 |
| Loss | $ | (6,437) | $ | (4,837) |
| Basic and diluted loss per share | $ | (0.05) | $ | (0.04) |
| **Financial position and liquidity** | | | | |
| Total assets | $ | 258,986 | $ | 256,310 |
| Total long-term debt | $ | 140,213 | $ | 146,107 |
| Cash provided by operations | $ | 10,503 | $ | 1,795 |
| Working capital | $ | (8,471) | $ | 15,314 |
| **Key non-GAAP performance measures*** | | | | |
| Adjusted loss | $ | (6,437) | $ | (4,790) |
| EBITDAR | $ | (946) | $ | (1,762) |
| Adjusted EBITDAR | $ | (946) | $ | (1,695) |
| EBITDA | $ | (2,097) | $ | (2,296) |
| EBITDA Margin | | -9% | | -13% |
| Adjusted EBITDA | $ | (2,097) | $ | (2,229) |
| Adjusted EBITDA Margin | | -9% | | -13% |
| After-tax operating cash flow | $ | (1,667) | $ | (1,989) |
| After-tax operating cash flow per common share | $ | (0.01) | $ | (0.01) |

* See Non-GAAP measures

The business of the Corporation follows a seasonal pattern with the lowest revenues generally occurring from November to April. The Corporation's revenue for the three-month periods ended January 31 are at the lowest point in the seasonal cycle. Accordingly, the Corporation typically expects to incur a loss from operations in the fourth quarter. In addition, repair and maintenance costs on aircraft are not incurred evenly during the year and the timing of these costs can vary from year to year. Therefore, the Corporation's results for a quarter are not indicative of the results that may be expected for a full year.

| (thousands of dollars) | Q4/11 | | | | Q4/10 | | | |
|---|---|---|---|---|---|---|---|---|
| | (unaudited) | | | | (unaudited) | | | |
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support | Total |
| **Revenue** | **$ 11,453** | **$ 12,270** | **$ 2** | **$ 23,725** | **$ 8,361** | **$ 9,386** | **$ 2** | **$ 17,749** |
| Operating expenses | 14,634 | 9,522 | 1,666 | 25,822 | 11,802 | 6,657 | 1,519 | 19,978 |
| Relocation of corporate office | - | - | - | - | - | - | 67 | 67 |
| **EBITDA** | **$ (3,181)** | **$ 2,748** | **$ (1,664)** | **$ (2,097)** | **$ (3,441)** | **$ 2,729** | **$ (1,584)** | **$ (2,296)** |
| Amortization | 2,116 | 1,358 | 10 | 3,484 | 2,455 | 1,305 | 14 | 3,774 |
| Earnings (loss) from operations before undernoted items | (5,297) | 1,390 | (1,674) | (5,581) | (5,896) | 1,424 | (1,598) | (6,070) |
| Interest and financing charges | | | | 3,687 | | | | 3,672 |
| Income tax recovery | | | | (2,746) | | | | (4,937) |
| Non-controlling interest | | | | (85) | | | | 32 |
| **Net loss and comprehensive loss** | | | | **(6,437)** | | | | **(4,837)** |
| **Capital expenditures** | **$ 5,694** | **$ 3,068** | **$ 2** | **$ 8,764** | **$ 3,043** | **$ 1,484** | **$ 14** | **$ 4,541** |
| | *As at January 31, 2011* | | | | *As at January 31, 2010* | | | |
| **Total assets** | **$ 134,989** | **$ 117,616** | **$ 6,381** | **$ 258,986** | **$ 135,272** | **$ 113,401** | **$ 7,637** | **$ 256,310** |
| **Goodwill** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** |
| **Intangible assets** | **$ 7,929** | **$ 11,230** | **$ -** | **$ 19,159** | **$ 10,077** | **$ 13,522** | **$ -** | **$ 23,599** |

## *Consolidated results*

*Revenue and Hours Flown*

Revenue of $23.7 million for Q4/11 represented a 34% increase compared to $17.7 million for Q4/10. Revenue generated from flight hours for Q4/11 was $19.9 million (84% of total revenue), compared to $14.1 million for Q4/10 (80% of total revenue). Hours flown for Q4/11 were 6,855 compared to 5,495 for Q4/10, a 25% increase. The 41% increase in flight hour revenue contrasts with the 25% increase in flight hour percentage increase due to increased utilization of the Corporation's higher rate aircraft compared to Q4/10.

*Operating Expenses*

Operating expenses were $25.8 million for Q4/11, compared to $20.0 million for Q4/10, a 29% increase. Crew costs for Q4/11 were $8.9 million compared to $6.3 million in Q4/10, representing a 41% increase. The increase was attributed to increased year-over-year staff related to the Peruvian and Technical Services operations, the latter which would not correlate to flight hours. The Corporation also incurred higher wage rates to remain competitive with the skilled labour market. Fleet costs for Q4/11 were $5.2 million compared to $3.3 million for Q4/10, representing a 58% increase. This increase was attributed to increased utilization of leased aircraft. As discussed in the yearly results, fuel costs represent a significant component of the Corporation's operating expenses; however, the Corporation recovers substantially all of these and other recoverable costs from its customers. These recoveries are classified as revenue. General and administrative expenses are mainly wages and benefits of administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. For Q4/11, these costs were $7.7 million compared to $7.3 million for Q4/10. The 5% increase was largely attributable to staff hiring and increased infrastructure costs in support of increased operating activities.

*EBITDA and EBITDAR (see Non-GAAP Measures)*

The Corporation recorded an EBITDA loss of $2.1 million for Q4/11 compared to an EBITDA loss of $2.3 million for Q4/10. Q4/11 EBITDA loss remained flat to Q4/10 despite higher revenue which was offset by higher infrastructure costs in order to support anticipated future growth. EBITDAR loss was $0.9 million for Q4/11, compared to an EBITDAR loss of $1.8 million for Q4/10. The improvement was attributable to the Northern Services segment's increased utilization of leased aircraft to support increased flight hour demands.

*Loss*

The Corporation recorded a net loss of $6.4 million for Q4/11, compared to a net loss of $4.8 million for Q4/10. The year-over-year change was impacted by the variables noted in the EBITDA and EBITDAR section above, as well as increased utilization of loss carry forwards in Fiscal 2011. Amortization expense related to capital and intangible assets was $3.5 million compared to $3.8 million for Q4/10. Interest and financing charges of $3.7 million for the quarter remained unchanged from Q4/10. The Corporation had an income tax recovery of $2.7 million for Q4/11, compared to a recovery of

$4.9 million for Q4/10. The Corporation's statutory rate for Q4/11 was approximately 30% compared to 31% for Q4/10. The difference from the Corporation's income tax provision rate and the statutory rate relates to the impact of changes in the timing of the reversal of temporary differences and permanent tax differences.

### *Northern Services*

The Northern Services segment generated revenues of $11.5 million from 5,208 flight hours for Q4/11, compared to revenue of $8.4 million from 4,283 flight hours for Q4/10. Revenue increased by 37% compared to a 22% increase in flight hours, primarily due to the segment's higher-margin operations in Peru.

The segment incurred operating expenses totaling $14.6 million for Q4/11, compared to $11.8 million for Q4/10, a 24% increase. The segment increased its level of operating costs largely mirroring the quarterly increase in revenue.

The Northern Services segment had an EBITDA loss of $3.2 million for Q4/11, compared to an EBITDA loss of $3.4 million for Q4/10. The EBITDAR loss for Q4/11 was $2.3 million compared to an EBITDAR loss of $3.2 million for Q4/10. Both EBITDA and EBITDAR improved due to increased revenue in the quarter, with EBITDAR impacted by increased utilization of leased aircraft compared to Q4/10.

### *Government Services*

The Government Services segment generated revenues of $12.3 million from 1,647 flight hours for Q4/11, compared to revenue of $9.4 million from 1,212 flight hours for Q4/10. Revenues increased by 31% compared to a 36% in flight hours. The increase in revenue for Q4/11 was attributable to an increased demand for the segment's airborne training and special mission services and government charter services compared to Q4/10. The revenue increase was lower than the flight hour increase due to increased utilization of lower rate aircraft.

The segment incurred operating expenses totaling $9.5 million for Q4/11, compared to $6.7 million for Q4/10, an increase of 42%. While much of the increase in the segment's operating expenses related to increased revenue, the segment also incurred start-up and operating expenses related to Technical Services.

The Government Services segment had EBITDA of $2.7 million for Q4/11 compared to $2.7 million for Q4/10. EBITDAR for Q4/11 was $3.1 million, compared to EBITDAR of $3.0 million for Q4/10.

### *Corporate Support*

Corporate support incurred operating expenses of $1.7 million for Q4/11, compared to $1.5 million for Q4/10.

## RISK FACTORS

The Corporation's operations involve a variety of risks and uncertainties and the Corporation analyzes and, where appropriate, actively manages such risks. Certain risks are mitigated through the use of common management techniques such as business and cash forecasting, variance analysis, the development and use of standard policies and operating procedures, and the use of internal reviews to monitor compliance. Other risks are mitigated by arranging with third parties to bear them on the Corporation's behalf, as is achieved through the Corporation's commercial insurance arrangements. Certain other risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The discussion below summarizes some of the more important and relevant risks that the Corporation currently views as having the potential to significantly impact its business, financial condition, liquidity or results of operations. These risks may become more or less important with the passage of time, and additional risks may exist that the Corporation has not identified, or that it currently deems to be immaterial.

### *CAPITAL MARKETS AND FINANCIAL RISKS*

### *RISK MANAGEMENT STRATEGY*

In managing capital market and financial risks, the Corporation establishes and complies with policies and processes designed to monitor and provide advance warning of volatility in exchange rates, interest rates and debt and equity capital market conditions. Liquidity monitoring includes a daily assessment of both a detailed four-week forward cash forecast of cash balances and non-cash working capital, and the use of a rolling 6-quarter cash flow forecast. Such projections, used to identify cash funding requirements for operating and capital investment purposes, are also used to provide advance visibility as to potential covenant violations. The Corporation has seen the capital markets improve over the last year and with continued strong earnings, the Corporation will be actively seeking to modify its debt/equity ratio in the coming year and de-lever its balance sheet (see Subsequent Events below).

### *Leverage and Access to Capital*

The Corporation is engaged in competitive and capital intensive businesses which are subject to seasonal and cyclical influences. There is a risk that from time to time such seasonal and cyclical influences may limit the Corporation's ability to fund its operations from cash flow. Additionally, implementation of the Corporation's strategic plan is based on existing operations generating strong organic growth and on developing new and high-return lines of business, including business start-ups and acquisitions. Moreover, the Corporation and its subsidiaries on a consolidated basis have incurred substantial debt and debt service obligations. Management actively manages its businesses and investments to maximize cash flow generation, and actively monitors current and expected cash flows to provide reasonable assurance that the Corporation is at all times positioned to meet all requirements under its debt obligations; however, there remains a risk that to the extent the Corporation is unable to generate sufficient cash flow to fund operations or to service its debt, it may be required to refinance all or a portion of its existing debt, or to obtain additional financing.

These factors require that the Corporation maintain ongoing access to capital markets, including equity markets, to fund existing operations and to fund the implementation of its strategic plan. Changes in capital market conditions, including significant changes in market interest rates or lending practices and/or the condition of equity markets, may have a material adverse effect on the Corporation's ability to raise or refinance short-term or long-term debt, on its ability to dedicate cash flow to purposes other than payments on its indebtedness and fixed cost obligations, on its vulnerability to economic downturns, or on its flexibility to plan for and respond to competitive pressures or changes in its business environment, and thus on its financial position and ability to operate.

### *Liquidity*

The Corporation has a $28.8 million convertible debenture maturity on December 31, 2011 and, as a result, this debt was classified in current portion of long-term debt on the Corporation's Consolidated Balance Sheet for Fiscal 2011. Subsequent to Fiscal 2011, the Corporation has entered into an agreement to retire the debentures before their maturity date (see Subsequent Events below).

The Corporation requires working capital to fund its operations generally and, in particular, to meet increased cash flow requirements associated with seasonal operations. The Corporation has a secured demand operating loan to finance its working capital requirements, with a borrowing limit of $15.0 million and increased availability of up to $25.0 million during the Corporation's peak operating period of April through November. As at January 31, 2011, the Corporation also had a $3.8 million demand loan balance with its operating lender to provide interim financing for the purchase of additional aircraft and supporting equipment for one of its subsidiaries. The principal amount of both the operating line of credit and the equipment loan are due in full on June 9, 2011 and the Corporation is discussing renewals for both loans. Should the Corporation be unsuccessful in renewing the loans on acceptable terms, its ability to fund its working capital requirements would be adversely affected. Assuming the loans are renewed on comparable terms, management expects that the Corporation's cash flow from operations, together with its renewed operating line of credit, will be sufficient to meet its anticipated working capital requirements.

In September 2010, the Corporation's five year revolving long-term debt agreement entered into in 2008 was converted to an 11-year term loan facility (see Debt financing). The renewal agreement calls for blended monthly principal and interest payments over the term of the loan. The outstanding loan balance will be assessed against an annual reset of the facility borrowing base which is based on the appraised U.S. dollar value of aircraft pledged to the lender. The Corporation is at risk of a reduction of the borrowing limit by the lender as a result of either or both of:

(i) a reduction in the appraised value of the aircraft included in the borrowing base; and/or
(ii) an increase in the value of the Canadian dollar against the U.S. dollar, which would on translation reduce the U.S. dollar-denominated value of the aircraft included in the borrowing base.

The renewal borrowing base of $49.2 million was based on an exchange rate of $1.05 Canadian dollars for each US dollar, and compares to an outstanding loan balance as at January 31, 2011 of $47.1 million. A 5.00% rise or fall in the Canadian dollar against the U.S. dollar, with all other variables unchanged, would result in a decrease/increase, respectively, in the borrowing base value of $2.5 million. Should the facility limit be reduced as a result of one or more of the above factors, the Corporation's liquidity could be adversely affected if the lender requires the Corporation to fund a non-scheduled repayment of the principal balance owing on the facility.

### *Limitations Due to Restrictive Covenants*
Certain of the Corporation's debt agreements include affirmative and negative covenants which restrict the Corporation's ability to deal with its assets or operations in the normal course of business, including with respect to:

- borrowing money or issuing guarantees
- the incurring of liens to secure indebtedness
- undertaking investments or disposing of assets
- paying dividends, redeeming capital stock, or making other restricted payments
- merging with another person or selling substantially all of its assets

These covenants may have the effect of limiting the Corporation's ability to respond to changes in business and economic conditions or to undertake transactions relating to the assets or operations of the Corporation that it views as desirable. Certain of the Corporation's debt agreements also require that the Corporation maintain specified financial ratios and satisfy specified financial tests. A failure to observe the stipulated covenants or to meet the required financial tests could result in a default under one or more of the Corporation's debt agreements, and upon such default, the Corporation's lenders could elect to declare all principal and interest owing under such debt agreements to be immediately due and payable. The Corporation's lending agreements typically contain cross-default provisions whereby a default under one agreement would lead to a default under the other agreements.

### *Interest Rates*
The Corporation is exposed to financial risk from fluctuations in interest rate levels and the resulting interest expense associated with its short-term and long-term debt. The Corporation's capital structure includes a mix of variable rate debt on certain long term aircraft finance facilities, together with fixed rate debt borrowed primarily to finance acquisitions. Changes in interest rates will result in fluctuations in the Corporation's operating results. A 25 basis point decrease or increase in interest rates, with all other variables unchanged, would have resulted in an increase or decrease of $127,000 in the Corporation's earnings for Fiscal 2011.

### *Foreign Currency*
The Corporation's revenues are primarily in Canadian dollars. As disclosed above under "Liquidity", the maximum borrowing limit available to the Corporation under its long-term fleet finance facility is subject to annual reset by the lender based in part upon a borrowing base calculated with reference to the updated appraised U.S. dollar value of aircraft pledged to the lender. The Corporation is at risk of a reduction of the maximum borrowing limit as a result of, among other factors, an increase in the value of the Canadian dollar against the U.S. dollar, which would on translation reduce the U.S. dollar-denominated value of aircraft included in the borrowing base. The Corporation is also exposed to risk from fluctuations in the Canada/US and Canada/Euro exchange rates associated with payment obligations on the purchase of aircraft, maintenance expenditures related to overhauls and spare parts procurement, and margin requirements on certain of its long-term aircraft finance debt. Changes in exchange rates will result in fluctuations in the Corporation's operating results, however, they are not expected to have a significant impact on the Corporation's earnings in Fiscal 2012.

### *Holding Company Structure*
Substantially all of the Corporation's operating activities are undertaken by its operating subsidiaries and the Corporation is dependent upon the cash flow generated by those subsidiaries. To the extent that restrictions were placed in the future on the flow of funds between the Corporation and its subsidiaries, the Corporation's liquidity and ability to meet its obligations could be affected.

## *BUSINESS AND OPERATIONAL RISKS*

### *RISK MANAGEMENT STRATEGY*
The Corporation's risk management strategy is based on providing a high level of service to the specialty markets in which it operates. The Corporation is committed to servicing its existing customers while seeking to source new opportunities outside its current markets to diversify its customer base. When entering new markets, the Corporation relies on its strong reputation for safety, its asset mix and the quality of its people. Key aspects of the Corporation's strategic plan include ensuring its Safety Management Systems ("SMS") programs are well maintained, developing recruiting and retention plans to ensure it has the skilled personnel required to operate successfully in existing and new markets and actively monitoring fleet optimization. The Corporation has conducted a return on capital assessment by aircraft fleet, and continues to modify its fleet composition based on the assets required to best service its current and future markets and customers.

### *Dependence on Key Customers*

Top Aces' revenue is derived from Standing Offer Agreements to provide airborne training services to the Canadian Department of National Defence and Canadian Forces ("DND"). Top Aces is currently the only supplier with approved airworthiness clearances under these Standing Offer Agreements, and is currently the only supplier to have operated under the Memorandum of Understanding between Transport Canada and DND for the provision of airborne training services. DND is not obligated to utilize any minimum level of Top Aces' services under the current Standing Offer Agreements. Due to the essential nature of this military training, management does not believe it likely that there will be any substantial reduction in service required by DND over the balance of Fiscal 2012, or that the Standing Offer Agreements will be terminated. However, beyond this period, there is potential risk of a reduction in DND's training requirements and the commensurate level of service purchased from Top Aces if budget constraints develop as a result of the federal government's fiscal position and its potential impact on new or renewal program spending. The current Standing Offer Agreements extend to June 2012, with an option to extend another twelve months thereafter, but can be cancelled at any time. In October 2010, DND issued a Request for Proposals for a 10-year contract, with options for two additional 5-year extensions, to support the continuation of airborne training services. In March 2011, this solicitation was cancelled and the Corporation has been advised that the Government intends to re-tender the solicitation. The bid process is competitive, and as a result, there is a risk that Top Aces may not be the successful bidder under the re-tender. The Corporation is economically reliant upon this business.

Hicks' revenue from airborne fire management services is based upon a contract with the Ontario Ministry of Natural Resources. This contract expires at the end of the fire season in 2014, with funding under the contract contingent upon an annual appropriation of funds by the Ontario Government. Given the nature of the services provided under the contract, management believes that it is unlikely that the funding will be substantially reduced or cancelled. The contract may be immediately terminated by the government agency upon 30 days prior written notice or immediately upon the occurrence of certain events of default, including a breach of specified material terms of the contract, or an event of the insolvency of Hicks.

### *Dependence on Safe Operations*

The operations of the Corporation's aviation subsidiaries are subject to risks inherent in the air service industry in which they operate, including risks arising from accidents or incidents involving aircraft operated by these subsidiaries. The involvement of a subsidiary in an accident or incident could result in a negative effect on the Corporation's reputation for safety, in liability resulting from personal injury to its customers or personnel, in repair or replacement costs for damaged aircraft and in a disruption in service and revenue levels.

### *Strategic Initiatives*

The Corporation's strategic plan entails implementing a variety of business initiatives designed to achieve substantial revenue growth and enhance its competitiveness. Such initiatives may be influenced by a variety of factors beyond the Corporation's control, including the acceptance of such initiatives by the Corporation's customers, suppliers and personnel and the performance of third parties. The Corporation's ability to implement such initiatives may also be influenced by the level of working capital available to the Corporation. A delay or failure to implement such initiatives may adversely affect the Corporation's ability to operate its business efficiently, achieve its goals and remain competitive. Similarly, there can be no assurance that any or all of these initiatives will result in the intended improvement in the Corporation's financial position or achieve the results anticipated in the Corporation's business plan.

### *Dependence on Personnel, Labour Costs and Labour Relations*

The executive team of the Corporation and the management team of each of the Corporation's operating units include a number of highly qualified and experienced individuals, many of whom have held various operational positions at all levels of the aviation industry and, in the case of Discovery Mining, the exploration support services industry. The ability of the Corporation to successfully implement its strategic plan is highly dependent on the skills, talents and efforts of these individuals.

There is significant competition in the current market for qualified pilots, mechanics and other highly-trained personnel with the skills required by the Corporation. Moreover, some of the Corporation's customers stipulate high minimum levels of flight hour experience for air crew deployed in support of their operations. Qualified personnel are in great demand and are likely to remain a scarce resource for the foreseeable future. The scarcity of skilled personnel could limit the Corporation's ability to expand operations as well as cause it to incur higher operating costs to attract and retain such personnel.

The Corporation is required to employ personnel in various offices and facilities, some of which are in remote locations. Sourcing and retaining qualified personnel in such locations are frequently difficult. It is likely that the Corporation will incur increased hiring and retention costs and will experience higher levels of turnover in such locations than if its operations were located in major markets. The inability to source and retain qualified personnel in remote locations could have an impact on the Corporation's ability to report on a timely and accurate basis. This could also impact the effectiveness of internal controls over financial reporting in future periods.

The employees of the Corporation and its subsidiaries are not currently represented under collective bargaining agreements, but the Corporation cannot ensure that it will maintain a non-unionized workforce in the future. If its employees elect to unionize, there is potential for negotiation of agreements containing terms that are unfavourable to the Corporation and for labour disputes.

### *Fleet Management and Repair*

Great Slave, Air Tindi, Top Aces and Hicks manage their fleet expansion and renewal requirements primarily by dealing in the pre-owned aircraft market. There is no assurance that in the future they will be able to source aircraft of the type required at acceptable price levels, delivery dates and commercial terms.

The majority of spare parts and aircraft system components required for aircraft repair and maintenance are purchased from third party suppliers located throughout Canada, the United States and Europe. Certain items are available only through purchase directly from an original equipment manufacturer. Other parts can be difficult to source because of the age of some of the aircraft in the Corporation's fleet. Contingent suppliers have been identified for a number of parts and components; however, any sustained inability of suppliers to provide the Corporation's aviation subsidiaries with the required parts and systems in a timely manner could result in the subsidiaries' inability to maintain flight operations at full capacity. A failure to source required parts and systems at acceptable pricing could negatively impact operating margins. Additionally, certain scheduled and nonscheduled maintenance and repair work entails contracting with third parties for the supply and overhaul of certain major aircraft components. Such suppliers may experience backlogs in their manufacturing or production schedules which may result in parts being in limited supply or in delays in completion of contracted overhaul and repair work. Suppliers who specialize in the maintenance and repair of components necessary for the operation of the Corporation's aircraft may choose to discontinue provision of such services, which would require the Corporation to source new suppliers whose costs could be higher or whose delivery schedules might not meet the Corporation's requirements. Replacement suppliers might also require the Corporation to contribute to certain costs required to develop the capability to maintain and repair components on behalf of the Corporation. Supplier cost increases on critical components may result in increased maintenance and repair expense. Finally, the operating companies may face a need for unscheduled repairs or an inability to perform timely maintenance and repairs, which could result in aircraft being underutilized.

### *Fuel Supply and Costs*

Fuel supply and prices are susceptible to a variety of influences beyond the Corporation's control, including supply and demand expectations and conditions, general economic conditions, government policies and regulation, the price and availability of alternative fuels, weather conditions, political and terrorist events and refinery capacity. While the majority of fuel costs are paid by Great Slave's, Air Tindi's, Top Aces' and Hicks' customers, a significant change in the availability or price of fuel could negatively affect demand for the Corporation's services.

### *Aboriginal Relationships*

A key element of the Corporation's Northern Services business strategy is developing and maintaining positive relationships with Aboriginal communities. These relationships are important to the Northern Services segment's operations and to customers who desire to work in the north. An inability to develop and maintain such relationships and to comply with local requirements could adversely affect the Corporation's business strategy, growth and profitability.

### *Customers and Contracts*

The business operations of the Corporation involve successfully executing performance-based contracts. The key factors which determine whether customers will continue to use the Corporation's services are its reputation for safety, dispatch reliability, service quality and availability, operational experience and proficiency, competitive pricing and its professional reputation. There can be no assurance that the Corporation's relationships with its customers will be maintained and a significant reduction in or loss of business from certain of these customers would need to be offset by sales to new customers and/or increased sales to other existing customers.

### *Operating in Foreign Markets*
The Corporation began helicopter service in Peru during fiscal 2011 and is actively seeking additional opportunities to expand its international business into jurisdictions where there is a demand for its services, where appropriate risk-adjusted returns can be earned and where the Corporation is able to maintain the same flight safety standards that it employs in its Canadian operations. There can be no assurance that changing political and economic conditions in any international locations in which the Corporation decides to operate will not result in foreign governments adopting different policies governing aviation operations. Such changes in policy may result in changes in laws affecting ownership of assets, taxation, rates of exchange, safety standards, environmental protection, labour relations or repatriation of income and return of capital, which may make it unfeasible for the Corporation to continue to conduct business in such locations.

### *Counterparty Risk*
The Corporation's customers are typically invoiced in arrears for services provided. As a result, the Corporation is subject to its customers delaying payment of, or failing to pay, invoices. During times of weak economic conditions, the risk of payment delays or outright default in payment may increase due to a reduction in customers' cash flow and challenges related to their ability to access debt and equity markets, among other factors.

### *Insurance*
The Corporation's aviation subsidiaries

(i) may not be able to obtain insurance covering all hazards associated with the commercial air services that they provide,
(ii) may become subject to liability for hazards which they cannot or may elect not to insure because of high premium costs or other reasons, or
(iii) may become subject to liability for occurrences which exceed maximum coverage under their policies.

These subsidiaries cannot ensure that insurance coverage will be sufficient to cover large claims or losses or that the insurer will be solvent when claims are made.

If the Corporation or its subsidiaries are held liable for uninsured hazards, the payment of such liabilities could impact the Corporation's liquidity. The loss of insurance coverage or the inability to collect on insurance coverage in the event of a loss, expropriation or confiscation of, or severe damage to, a large number of aircraft in the operating companies' fleets could adversely affect the Corporation's business, results of operations and financial condition.

## *INDUSTRY AND COMPETITIVE CONDITIONS*

## RISK MANAGEMENT STRATEGY
A significant portion of the Corporation's businesses are exposed to seasonal operations in the Canadian North, where operations are exposed to unfavourable weather conditions, and include specialized flight services which (in some cases) are subject to volatile demand. While these risk factors are not likely to change materially in the near future, the Corporation has actively sought to minimize the impact of the seasonal swings and unpredictable weather conditions on the Corporation's revenues and earnings. Initiatives undertaken over the last year to mitigate such exposures include

- the establishment by Hicks of a new 5 year contract that calculates a larger portion of revenues on basing fees; this is intended to mitigate the impact on Hicks' revenues of poor forest fire conditions of the type noted over the last few years,
- the establishment by the Corporation of an MRO subsidiary which will be less affected by the seasonal and weather constraints experienced by the Corporation's other businesses, and
- the Corporation's Peruvian operations, which will generate revenues during the Corporation's low season in the North.

As part of the Corporation's strategic plan to grow its business, efforts will be made to find further opportunities to mitigate the seasonal and weather-dependent nature of its existing businesses. The Corporation will also continue to attempt to identify new customers and markets which appropriately align with the Corporation's specialized capabilities.

### *Seasonality and Dependence on the Natural Environment*

Each of the Corporation's businesses is subject to seasonal demand, which affects the number of flight hours booked in a given reporting period. Businesses within the Northern Services segment normally experience increased demand for their services from the spring through to the end of the summer. Top Aces' revenues tend to be significantly higher in the months of February to June and September to November, and while its revenues are relatively predictable over a twelve month period, they may fluctuate from month to month depending on the training requirements of its primary customers. A significant portion of Hicks' revenues is dependent on the level of forest fire activity in Ontario and is earned between May and September. In addition to seasonal influences, revenues are affected by weather conditions, which can influence the number of flight hours in a given period. Additionally, each of the businesses schedules major repair and refurbishment work in periods when flying activity is seasonally lower, resulting in increased maintenance expense in periods when revenues are reduced. Accordingly, operating results may vary substantially from quarter to quarter and results in one quarter may not be indicative of results that may be achieved in another quarter or over a full year.

### *Business Cyclicality*

Changes in commodity prices and capital availability can result in significant fluctuations in demand for aviation and related services, particularly in the Corporation's Northern Services segment. During periods of low commodity pricing, some of the Corporation's customers may experience diminished cash flows and reduced access to capital, and their demand for flight and related services may be reduced. Periods of lower demand may intensify price competition in the industry and may result in a reduction in flight hours and/or revenues per flight hour. Conversely, during periods of high commodity pricing when the Corporation's customers enjoy improved cash flows and enhanced access to capital, their demand for flight and related services may increase.

### *Industry Regulation*

The air transport industry is subject to a number of aviation, transportation, environmental, labour, employment and other laws and regulations relating to many aspects of the business, including security, safety, personnel, aircraft, ground facilities, privacy, licensing, competition and environmental protection. These laws and regulations generally require aircraft operators to maintain and comply with the terms of a variety of certificates, permits, licenses and other regulatory approvals. As a commercial air operator, Top Aces is subject to the same regulatory provisions as the Corporation's other subsidiaries; however, the military nature of its operations and equipment subject Top Aces to regulatory approval under the DND's Airworthiness rules and to additional government regulations including Canadian controlled goods regulations, U.S. International Traffic in Arms Regulations and similar foreign regulations. The ability of Great Slave, Air Tindi, Top Aces and Hicks to conduct business depends on their ability to comply with applicable regulatory requirements. There is no assurance that these operating companies will, for a reasonable cost, be able to remain in compliance with future amendments to applicable industry laws and regulations.

The Corporation's aviation subsidiaries are subject to routine audit by Transport Canada to ensure compliance with all flight operation and aircraft maintenance requirements. In addition, Top Aces undergoes regular audits by DND Operational and Technical Airworthiness authorities. Failure to pass such audits could result in fines or grounding of aircraft. As of the date hereof, these operating companies comply with all applicable regulatory requirements; however, there can be no assurance that they will pass all required audits in the future. Additionally, and as of the date hereof, Top Aces complies with all of DND's Technical and Operational Airworthiness requirements, but there can be no assurance that Top Aces will pass all associated audits in the future.

The Corporation's subsidiaries are also subject to a variety of federal, provincial and local laws and regulations relating to environmental protection, including those governing past or current releases of hazardous materials. Certain of these laws and regulations may impose liability, fines or penalties for the costs of investigation or remediation of contamination, regardless of fault or the legality of the original disposal. As a result, these subsidiaries may incur costs to clean up contamination present on, at or under their facilities, even if such contamination was present prior to the commencement of their operations at the facilities and was not caused by their activities.

### *Competitive Conditions*

Specialty aviation services are typically purchased on the basis of competitive bidding among operators who compete on the basis of reputation for safety, dispatch reliability, service quality, aircraft specifications and availability, operational experience and proficiency, competitive pricing and professional reputation. Operators may elect to compete in non-local markets, as their equipment and operational skills qualify them to enter new geographic markets with relative ease. Operators are also at risk of customers electing to in-source air transport capabilities by setting up their own flight operations.

Great Slave and Air Tindi compete with a variety of larger national air carriers as well as mid-sized and smaller regional operators. Certain services may require access to aircraft types not currently operated by Great Slave or Air Tindi, which increases the risk of new entrants and/or in-sourcing of flight operations. Discovery Mining competes with other camp supply and logistics management firms and is also at risk of its customers electing to supply and service their own remote locations.

Top Aces is the only Canadian-based aviation services company currently qualified to supply airborne training services to DND; however, there is no assurance that competitors for this service will not arise in the future. Hicks is believed to be the only Ontario-based company currently equipped and qualified to provide primary airborne fire management services to the Ontario government; however, future Ontario-based or current or future out-of-province operators may elect to compete against Hicks to provide these services.

Technical Services began operations in Fiscal 2011. The MRO industry is a highly competitive market in Canada and internationally. Technical Services' critical success factors include its ability to provide competitive pricing and to maximize the range of MRO services it provides, both in terms of the types of aircraft it can service and in terms of its ability to differentiate itself and enhance its revenues and margins by offering specialized services in addition to traditional MRO work, including aircraft modifications, engineering and certification services.

### *Industry Cost Structure*

The aviation industry in general is characterized by significant investment in specialized fixed assets, a high fixed cost structure, cyclically volatile profit margins and limited barriers to entry. As a result, a relatively small change in revenues, traffic mix, or direct or indirect costs may have a significant impact on the Corporation's profitability. In the short term, fixed costs will not fluctuate in any meaningful way with revenues. Should the Corporation be required to reduce capacity or the number of aircraft it operates, margins may be compressed and/or potentially significant restructuring or termination costs may be incurred.

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The Fiscal 2011 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Management is often required to make judgments, assumptions and estimates in the application of Canadian generally accepted accounting principles that affect the carrying amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. The Corporation's management bases its estimates on historical experience and various other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about accounting policies and the carrying value of assets and liabilities. Significant items subject to such estimates, assumptions and judgments include the carrying amount of land, buildings and equipment, intangibles and goodwill, valuation allowances for receivables, inventories, future income taxes, stock-based compensation and contingent liabilities related to lawsuits. Actual results could differ from estimates under different assumptions and conditions.

The significant accounting policies used in the preparation of the consolidated financial statements are summarized in Note 1 to the Consolidated Financial Statements for Fiscal 2011 and Fiscal 2010. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the Consolidated Financial Statements.

### *Land, buildings and equipment*

Land, buildings and equipment are stated at cost and amortized over their expected useful lives. Rotable and overhauled aircraft components that improve or extend the useful lives of aircraft are capitalized and amortized over their lives based on the number of hours flown. Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred under the direct expensing method and as such may vary from one period and one year to another. The recoverability of the book value of aircraft is, in part, dependent on the estimates used in determining the expected period of future benefits over which to amortize the aircraft, which estimates take into consideration the overhaul and maintenance of the aircraft. In addition, such recoverability is dependent upon market conditions, including demand for certain types of aircraft, and changes in technology arising from the introduction of newer, more efficient aircraft.

### *Goodwill*

Goodwill is the amount by which the purchase price of an acquired business (including liabilities assumed) exceeds the sum of the fair values of the other assets acquired. Goodwill is not amortized.

The Corporation tests goodwill for impairment annually at the end of its fourth quarter, and at any other time when circumstances or events have occurred that would more likely than not reduce the long-term fair value of a reporting unit below the carrying value of that reporting unit. The goodwill impairment test is a two-step process. In the first step, the Corporation compares the fair value of each reporting unit to that reporting unit's carrying value, which includes the goodwill allocated to that reporting unit. In determining the fair value of a reporting unit, the Corporation considers both the discounted cash flow method as well as valuations based on a market approach. If the carrying value of the reporting unit exceeds its fair value, then step two requires the fair value of that reporting unit to be allocated to its underlying assets and liabilities. The remaining fair value of the reporting unit (if any) is the fair value of the goodwill of that reporting unit.

When the carrying value of a reporting unit's goodwill exceeds the fair value of that goodwill, an impairment loss equal to the excess is recorded on the Consolidated Balance Sheet and recognized as a non-cash impairment charge in the Consolidated Statements of Net Earnings (Loss) and Comprehensive Income (Loss). The assessment of goodwill impairment is not a mechanical exercise and requires the use of considerable management judgment. Changes in expected financial results or other underlying assumptions may have a significant impact on either the fair value of a reporting unit or the amount of any goodwill impairment charged.

### *Impairment of long-lived assets*

Each long-lived asset, including land, building and equipment, and an intangible subject to amortization, is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of that 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 or group of assets to estimated undiscounted future cash flows expected to be generated by the asset or group of assets. If such an asset or group of assets is considered to be impaired, the impairment charge to be recognized is measured by the amount by which the carrying amount of the asset or group of assets exceeds the fair value of the asset or group of assets and is charged to income in the period in which the loss is incurred.

### *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 of the change in tax rates.

### *Stock-based compensation*

The Corporation has stock-based compensation plans and accounts for employee stock options using the fair value method which requires a number of assumptions in the determination of the option value calculated using the Black-Scholes option pricing model.

### *Litigation*

The Corporation is subject to legal proceedings that arise in the ordinary course of business. The final outcome with respect to actions outstanding or pending cannot be predicted with certainty and, therefore, requires the exercise of management's judgment as to whether their resolution will have a material adverse effect on the consolidated financial position, results of operation or cash flows of the Corporation.

## *RECENTLY ISSUED STANDARDS*

#### *International Financial Reporting Standards*

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 beginning February 1, 2011 (the "changeover date") and ending January 31, 2012 and will include the comparative period of fiscal 2011, which began on February 1, 2010 (the "transition date").

The Corporation commenced its IFRS conversion project during Fiscal 2009, at which time it established three main phases in the conversion to IFRS:

Phase 1: Scoping and Diagnostic Phase

- conducting a Phase 1 high level review and impact assessment of IFRS to determine the degree of potential impact on the Corporation, and,
- assessing the various options available to the Corporation at the transition date as well as ongoing IFRS policy choices that could be applied after the transition date.

Phase 2: Detailed Evaluation Phase

- a further detailed analysis on the highest potential implementation impact on the Corporation; this involves detailed gap analysis of accounting and disclosure differences between Canadian GAAP and IFRS,
- determining accounting choices, including those under IFRS 1,
- assessing the impact of implementing IFRS on the Corporation's accounting policy, financial reporting processes, information systems, business processes, and the control environment and external disclosures, and
- developing proposed IFRS financial statements.

Phase 3: Implementation and Review Phase

- implementation of the changes to accounting policies, ensuring the financial reporting processes, information systems, business processes and control environment have been established and reviewed by April 30, 2012, the Corporation's first reporting period under IFRS.

Current status of the Corporation's IFRS changeover plan

Phase 1 has been completed, with a summary of the high impact standards provided below. The Corporation has also completed the second phase of the conversion process. The Corporation is currently in Phase 3 and it will be completed before the required filing of the Corporation's first interim consolidated financial statements under IFRS for Q1/12.

As a result of Phase 1, the Corporation has identified that the following IFRS standards have the highest potential implementation impact:

- first-time adoption of IFRS;
- business combinations;
- financial instruments;
- property, plant & equipment;
- consolidated financial statements, and
- impairment of assets

The above list of IFRS standards indicates the Corporation's assessment of items with the highest potential implementation impact, should not be considered to be exhaustive and 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 IFRS standards so that it could more clearly identify the impacts and judgments entailed in implementing the new standards. The impact of those standards is as follows:

<u>First-time adoption of IFRS</u>
IFRS 1 *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") provides mandatory guidance for first-time adopters and a common starting point for all future financial reporting under IFRS. The objective of adopting IFRS is to provide transparent and comparable information for users.

The basic principle of IFRS 1 is a retrospective application of the IFRS standards; however, the International Accounting Standards Board ("IASB") has adopted a transitional standard that provides for mandatory exceptions and elective exemptions from retrospective application of the new standards upon first time adoption.

The Corporation has assessed the exemptions and elections under IFRS 1 in conjunction with the underlying IFRS standards to which they relate.

<u>Business Combinations</u>
IFRS 1 allows a first-time adopter of IFRS not to apply IFRS 3 *Business Combinations* ("IFRS 3") retrospectively to business combinations that occurred before the transition date to IFRS, if the adopter so chooses. The adopter could account for those business combinations as it had under its previous accounting principles (Canadian GAAP).

IFRS 1 also allows the first time adopter to select a date after which all business combinations will be accounted for under IFRS 3. However, if a first-time adopter restates any business combination to comply with IFRS 3, it must restate all later business combinations and must also apply IAS 27 *Consolidated and Separate Financial Statements* from that same date.

Management has not identified any material benefits arising from the retrospective adoption of IFRS 3 for any of its acquisitions. The Corporation has therefore elected to not apply IFRS 3 retroactively as allowed under the IFRS 1 exemptions.

<u>Financial Instruments</u>
In general, there are many similarities between IFRS and Canadian GAAP for the recognition and measurement of financial instruments. A convergence project is underway with the United States Financial Accounting Standards Board (FASB) to replace *IAS 39, Financial Instruments: Recognition and Measurement*. This project is divided into three phases: (1) classification and measurement; (2) amortized cost and impairment; and (3) hedging. As each phase is completed, the IASB will delete the relevant portions of IAS 39 and create a standard that will eventually replace IAS 39.

A key difference between the two standards is the treatment of transaction costs on instruments not classified and measured at fair value. Transaction costs are defined in IAS 39 as incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability. Under IFRS, these costs are to be added to the initial measurement and recognition of the instrument.

<u>Property, Plant and Equipment ("PP&E")</u>
*Current accounting policy*
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.

Aircraft airframes, engines and components are inspected, repaired and overhauled at pre-specified intervals. Overhaul and maintenance costs that extend the useful lives of the aircraft are capitalized as incurred and amortized over their useful lives based on hours flown.

Property under capital leases and the related obligation for future lease payments are initially recorded at an amount equal to the lesser of fair value of the property or equipment and the present value of those lease payments.

*IFRS accounting policy*
*Componentization*
Component accounting, although not typically practiced under Canadian GAAP, is required under IFRS. The requirements under IFRS are more explicit than those in CICA Handbook Section 3061. Under IFRS, each significant component of an item of property, plant and equipment is to be depreciated separately. IFRS requires separation based on a component's useful life and its cost relative to the total cost of the asset.

Based on management's review of the Corporation's current PP&E reporting and that of industry peers who have already adopted IFRS, management is grouping the major asset classes of PP&E as follows:

- land, buildings and leasehold improvements;
- aircraft; and
- equipment

Management has determined that "land, buildings and leasehold improvements" and "equipment" do not require further sub-classification.

Management has also determined that aircraft will be further componentized for accounting purposes and for assessing depreciation in the following manner:

- airframes (including major inspections of airframes);
- engines and power trains (including overhauls and major inspections) and major spare parts related thereto;
- propellers (including propeller blades and hub, for certain of its fleet); and
- other major components.

The estimated impact of componentization under IFRS on the Corporation's Fiscal 2011 statement of earnings and comprehensive income is an increase in earnings before income taxes in the range of $1.0 million to $2.0 million. The expected reduction in the net book value of the Corporation's fixed assets on transition (January 31, 2010) is in the range of $4.0 million to $5.0 million. These figures are preliminary and unaudited.

*Deemed Cost at Transition*
IFRS 1 First-time Adoption of International Financial Reporting Standards permits an entity to measure any item or groups of items in property, plant and equipment at the date of its transition to IFRS at its fair value and use that fair value as its deemed cost at the transition date. Otherwise, the entity should account for those items of property, plant and equipment at their original cost, less accumulated depreciation at the transition date.

The Corporation has determined the transition date balances of its aircraft components as described above. Management has decided to use the original cost of aircraft as a basis to determine the transition date component costs and has not elected to use fair value as deemed cost as at that date.

*Depreciation*
The Corporation reviewed its depreciation policies for property, plant and equipment in conjunction with the componentization decisions referred to above

Aircraft were amortized on a straight-line basis under Canadian GAAP, whereas overhaul and maintenance costs that extended the useful lives of the aircraft were capitalized as incurred and amortized over the aircrafts' useful lives based on hours flown. Under IFRS, the Corporation has decided to use the straight-line basis on airframes and any other components that have an economic life which is measured in units of time. For engines and other components which have regulatory inspection requirements based on flight hours, management has decided to amortize on a units-of-production basis over the estimated useful lives (in hours) less their residual values. Component overhaul and maintenance costs that extend the useful life of a component will be capitalized as incurred and amortized over the component's life based on the hours flown.

<u>Leases</u>
Under IAS 17 *Leases*, a lease is classified as either a finance lease or an operating lease. Lease classification depends on whether substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred from the lessor to the lessee, and is made at the inception of the lease (finance lease). A number of indicators are used to assist in lease classification; however, quantitative thresholds are not offered as an indicator (as under current Canadian GAAP).

<u>Consolidated Financial Statements and Investments in Associates and Joint Ventures</u>
The Corporation has an ownership interest in certain corporate entities along with Aboriginal ownership groups. The Corporation accounts for these arrangements as variable interest entities under Canadian GAAP and, therefore, includes the financial position and results of these entities in the consolidated financial statements of the Corporation. The interests of the Aboriginal partners in these entities are reflected as non-controlling interests in the consolidated financial statements, as prescribed under Canadian GAAP.

IFRS does not have the concept of variable interest entities. The accounting treatment for an investment under IFRS is based on control, which is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Corporation has completed an assessment under IFRS of whether it exercises control over, has significant influence over or is in joint control of the assets and operations of the investee companies to determine the appropriate accounting treatment for its investments. The accounting treatment for entities under significant influence or joint control under IFRS requires that the Corporation account for those investments using the equity method. Under the equity method, each investment is stated as a one line item at cost plus the investor's share of retained post-acquisition profits and other changes in net assets, with any distributions reducing the carrying amount in the statement of financial position.

This change in accounting treatment for the variable interest entities will result in a transition date (January 31, 2010) decrease in total assets of approximately $9.9 million and decrease in total liabilities of approximately $4.9 million. The change in accounting treatment for the variable interest entities will result in a Fiscal 2011 decrease in revenue of approximately $1.5 million and a decrease in expenses in Fiscal 2011 of approximately $1.3 million. These figures are preliminary and unaudited.

Impairment of Assets

IFRS differs from Canadian GAAP (see Significant Accounting Policies and Estimates above) in that IFRS has a single comprehensive impairment standard that deals with the impairment of a variety of non-financial assets. Similar to Canadian GAAP, impairment testing is required when there is an indication of impairment and annual impairment testing is required for goodwill and intangible assets that have an indefinite useful life. Other than indefinite-lived intangible assets, impairment may be tested at the cash generating unit level. An impairment loss is recognized if an asset or cash generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of (i) its fair value less costs to sell, and (ii) its value in use, which is based on the net present value of future cash flows. The impairment loss equals the amount by which the carrying amount of the asset exceeds the recoverable amount of the asset. An impairment loss for a cash generating unit ("CGU") is allocated first to any goodwill and pro-rata to other assets in the CGU that fall within the scope of the standard. Reversals of impairment are recognized, other than for impairments of goodwill (which are not allowed under current Canadian GAAP).

The Corporation will adopt this revised accounting standard on transition to IFRS. Adoption will not result in impairment conclusions that are different from those reached under Canadian GAAP.

Income Taxes

IAS 12, Income Taxes, prescribes that an entity account for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Therefore, where transactions and other events are recognized in earnings, the recognition of deferred tax assets or liabilities which arise from those transactions must also be recorded in earnings. For transactions that are recognized outside the statement of earnings, either in other comprehensive income or directly in equity, any related tax effects must also be recognized outside the statement of earnings.

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 of the changed tax rates. The Corporation operates in a number of different jurisdictions throughout Canada that have different statutory tax rates. As a result, the determination of the future income tax assets and liabilities is also subject to estimates by the Corporation as to any future changes in the proportion of its business derived from the different jurisdictions in which it operates.

Other Standards

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 has carefully assessed all accounting policy options and IFRS 1 exemptions and exceptions as part of its Detailed Evaluation phase.

Management has also assessed 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. The Corporation continues to monitor standards developed and issued by the IASB and the CICA 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.

## *NON-GAAP MEASURES*

References to "EBITDA" are to earnings before interest and 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 charges and non-controlling interest. References to "EBITDAR" is EBITDA before aircraft lease cost. The EBITDA margin and EBITDAR margin are EBITDA and EBITDAR as a percentage of revenue. 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 Q1/10. 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 net earnings (loss):

| (thousands of dollars) | Fiscal 2011 | Fiscal 2010 | Q4/11 | Q4/10 |
|---|---|---|---|---|
| | | | (unaudited) | (unaudited) |
| Earnings (Loss) | $ 5,466 | $ (286) | $ (6,437) | $ (4,837) |
| Income tax provision (recovery) | 2,438 | (2,317) | (2,746) | (4,937) |
| Interest and financing charges | 15,298 | 15,410 | 3,687 | 3,672 |
| Amortization | 13,874 | 14,078 | 3,484 | 3,774 |
| Non-controlling interest | 319 | 248 | (85) | 32 |
| EBITDA | $ 37,395 | $ 27,133 | $ (2,097) | $ (2,296) |
| Aircraft lease expenses | 9,106 | 6,477 | 1,151 | 534 |
| EBITDAR | $ 46,501 | $ 33,610 | $ (946) | $ (1,762) |
| EBITDA | $ 37,395 | $ 27,133 | $ (2,097) | $ (2,296) |
| Corporate relocation costs | 158 | 1,678 | - | 67 |
| Adjusted EBITDA | $ 37,553 | $ 28,811 | $ (2,097) | $ (2,229) |
| Aircraft lease expenses | 9,106 | 6,477 | 1,151 | 534 |
| Adjusted EBITDAR | $ 46,659 | $ 35,288 | $ (946) | $ (1,695) |

References to "after-tax operating cash flow" are to net earnings (loss) adjusted for amortization, future income tax and other non-cash charges (but not adjusted for changes in non-cash working capital). Management believes after-tax operating cash flow is a strong supplemental financial measure of the Corporation's ability to generate cash flow from its operations. While the non-cash working capital position is monitored by management, it is excluded in the after-tax operating cash flow calculation due to the high variability of the working capital components attributable to the high seasonality and the high rate of growth of the Corporation's operations from prior years.

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

The following is a reconciliation of the net earnings (loss) to after-tax operating cash flow:

| (thousands of dollars) | Fiscal 2011 | Fiscal 2010 | Q4/11 | Q4/10 |
|---|---|---|---|---|
| | | | (unaudited) | (unaudited) |
| Net earnings (loss) | $ 5,466 | $ (286) | $ (6,438) | $ (4,837) |
| Income tax recovery | (327) | (3,462) | (320) | 2,220 |
| Deferred share-unit compensation | 215 | 241 | 215 | 241 |
| Stock-based compensation | 29 | 129 | 14 | 8 |
| Amortization of buildings and equipment and intangible assets | 13,874 | 14,078 | 3,484 | 3,774 |
| Amortization of rotable and overhauled components | 5,899 | 4,823 | 1,268 | 637 |
| Amortization of discount of long-term debt | 1,670 | 1,470 | 361 | 424 |
| Loss (gain) on sale of long-lived assets | (629) | 421 | (165) | 193 |
| Non-controlling interest | 319 | 248 | (86) | 32 |
| After-tax operating cash flow | $ 26,516 | $ 17,662 | $ (1,667) | $ (1,748) |

References to "adjusted earnings" are to net earnings (loss) adjusted for corporate office relocation charges and related income tax provision (recovery). Management believes adjusted earnings is a meaningful supplemental financial measure as corporate office relocation charges are considered non-recurring and non-operational and their exclusion provides a more relevant comparison of year-over-year net earnings (loss).

The following is a reconciliation of adjusted earnings:

| (thousands of dollars) | Fiscal 2011 | Fiscal 2010 | Q4/11 | Q4/10 |
|---|---|---|---|---|
| | | | (unaudited) | (unaudited) |
| Net Earnings (Loss) | $ 5,466 | $ (286) | $ (6,437) | $ (4,837) |
| Corporate office relocation charge | 158 | 1,678 | - | 67 |
| Income tax recovery related to relocation of corporate office | (43) | (493) | - | (20) |
| Adjusted earnings (loss) | $ 5,581 | $ 899 | $ (6,437) | $ (4,790) |

## ***SEGMENTED INFORMATION***

Through its six operating subsidiaries, Discovery Air offers fixed-wing and rotary-wing capabilities, logistics and remote operations management services and aircraft maintenance and repair and overhaul services. Discovery Air has two reportable business segments: Government Services and Northern Services.

The Corporation's Government Services segment includes three subsidiaries. Top Aces delivers airborne training and special mission services to the Canadian military. Top Aces provides close air support training to the Canadian Army, including to troops destined for Afghanistan, as well as maritime support, electronic warfare training and target tow services to the Canadian Navy. Top Aces also delivers adversary fighter support, target tow and electronic warfare training support to the Canadian Air Force. Most electronic warfare training is accomplished with military personnel on board Top Aces' aircraft. 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. Technical Services provides a range of aircraft maintenance, repair and overhaul, modification, engineering and certification services from its Quebec City location.

Discovery Air's Northern Services segment includes three subsidiaries. Great Slave, the second-largest VFR helicopter operator in Canada, has bases throughout northern Canada from which it operates support flights for mining and oil and gas seismic and exploration work, forest fire suppression, aerial construction and precision external load applications and environmental impact surveys. 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 constructs and rents all-weather exploration camps and provides expediting and logistical support services.

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

## *Segmented breakdown of EBITDA and EBITDAR*

| (thousands of dollars) | *Fiscal 2011* | | | | *Fiscal 2010* | | |
|---|---|---|---|---|---|---|---|
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support |
| Revenue | $ 90,383 | $ 62,029 | $ 6 | $ 152,418 | $ 70,761 | $ 52,378 | $ 34 |
| Operating expenses | 71,514 | 36,859 | 6,492 | 114,865 | 57,980 | 30,896 | 5,486 |
| Relocation of corporate office costs | - | - | 158 | 158 | - | - | 1,678 |
| **EBITDA** | **$ 18,869** | **$ 25,170** | **$ (6,644)** | **$ 37,395** | **$ 12,781** | **$ 21,482** | **$ (7,130)** |
| Aircraft lease expenses | 7,971 | 1,135 | - | 9,106 | 5,308 | 1,169 | - |
| **EBITDAR** | **$ 26,840** | **$ 26,305** | **$ (6,644)** | **$ 46,501** | **$ 18,089** | **$ 22,651** | **$ (7,130)** |
| **Adjusted EBITDA** | **$ 18,869** | **$ 25,170** | **$ (6,486)** | **$ 37,553** | **$ 12,781** | **$ 21,482** | **$ (5,452)** |
| **Adjusted EBITDAR** | **$ 26,840** | **$ 26,305** | **$ (6,486)** | **$ 46,659** | **$ 18,089** | **$ 22,651** | **$ (5,452)** |

| (thousands of dollars) | *Q4/11* | | | | *Q4/10* | | |
|---|---|---|---|---|---|---|---|
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support |
| Revenue | $ 11,453 | $ 12,270 | $ 2 | $ 23,725 | $ 8,361 | $ 9,386 | $ 2 |
| Operating expenses | 14,634 | 9,522 | 1,666 | 25,822 | 11,802 | 6,657 | 1,519 |
| Relocation of corporate office costs | - | - | - | - | - | - | 67 |
| **EBITDA** | **$ (3,181)** | **$ 2,748** | **$ (1,664)** | **$ (2,097)** | **$ (3,441)** | **$ 2,729** | **$ (1,584)** |
| Aircraft lease expenses | 842 | 309 | - | 1,151 | 282 | 252 | - |
| **EBITDAR** | **$ (2,339)** | **$ 3,057** | **$ (1,664)** | **$ (946)** | **$ (3,159)** | **$ 2,981** | **$ (1,584)** |

## *OTHER SELECTED YEARLY FINANCIAL INFORMATION*

| (thousands of dollars, except per share amounts) | **Fiscal 2011** (audited) | **Fiscal 2010** (audited) | **Fiscal 2009** (audited) |
|---|---|---|---|
| Revenue | $ 152,418 | $ 123,173 | $ 151,930 |
| Operating expenses | $ 114,865 | $ 94,362 | $ 123,488 |
| Adjusted EBITDA * | $ 37,553 | $ 28,811 | $ 28,442 |
| Interest and financing charges | $ 15,298 | $ 15,410 | $ 12,306 |
| Amortization | $ 13,874 | $ 14,078 | $ 12,965 |
| Goodwill & intangible assets impairment charge | $ - | $ - | $ 133,579 |
| Relocation of corporate office | $ 158 | $ 1,678 | $ - |
| Net earnings (loss) | $ 5,466 | $ (286) | $ (130,325) |
| Basic and diluted earnings (loss) per common share: | $ 0.04 | $ (0.00) | $ (0.96) |
| EBITDA * | $ 37,395 | $ 27,133 | $ 28,442 |
| Total assets | $ 258,986 | $ 256,310 | $ 260,026 |
| Total long-term debt | $ 140,213 | $ 146,107 | $ 145,726 |
| Cash provided by operations | $ 21,984 | $ 21,438 | $ 25,536 |

* see non-GAAP measures

## SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share amounts)

| | 2011 (unaudited) | | | | 2011 (unaudited) | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 Apr 30 | Q4 | Q3 | Q2 | Q1 Apr 30 |
| **Results of operations:** | | | | | | | | |
| Total revenue | $ 23,725 | $ 44,389 | $ 58,390 | $ 25,914 | $ 17,749 | $ 34,125 | $ 45,733 | $ 25,566 |
| Operating expenses | 25,822 | 31,221 | 33,420 | 24,401 | 19,978 | 24,072 | 26,584 | 23,728 |
| Relocation of corporate office | - | - | 107 | 51 | 67 | 120 | 318 | 1,173 |
| EBITDA | (2,097) | 13,168 | 24,863 | 1,462 | (2,296) | 9,933 | 18,831 | 665 |
| Amortization | 3,484 | 3,587 | 3,435 | 3,370 | 3,774 | 3,501 | 3,405 | 3,398 |
| Interest and financing charges | 3,687 | 3,638 | 4,314 | 3,655 | 3,672 | 3,585 | 3,824 | 4,329 |
| Earnings (loss) before income taxes and non-controlling interest | (9,268) | 5,943 | 17,114 | (5,563) | (9,742) | 2,847 | 11,602 | (7,062) |
| Income tax provision (recovery) | (2,746) | 1,863 | 5,042 | (1,721) | (4,937) | 1,116 | 3,342 | (1,838) |
| Non-controlling interest | (85) | 62 | 262 | 82 | 32 | 63 | 256 | (103) |
| Net earnings (loss) | $ (6,437) | $ 4,018 | $ 11,810 | $ (3,924) | $ (4,837) | $ 1,668 | $ 8,004 | $ (5,121) |
| Basic and diluted earnings (loss) per share | $ (0.05) | $ 0.03 | $ 0.09 | $ (0.03) | $ (0.04) | $ 0.01 | $ 0.06 | $ (0.04) |

The business of the Corporation follows a seasonal pattern with the lowest revenue 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 results that may be expected for a full year.

## SUBSEQUENT EVENTS

a) On April 21, 2011, the Corporation entered into an agreement to sell to a syndicate of underwriters $30.0 million principal amount of new convertible unsecured subordinated debentures (the "New Debentures") at a price of $1,000 per debenture. The Corporation also granted the underwriting syndicate an over-allotment option to purchase up to an additional $4.5 million aggregate principal amount of New Debentures for a period of up to 30 days following closing to cover over-allotments at closing and for market stabilization purposes. The net proceeds of the offering will be used by the Corporation to fully repay the Corporation's existing 8.75% Convertible Unsecured Subordinated Debentures due December 31, 2011 and accrued interest payable thereon, and the balance, if any, will be used for working capital and general corporate purposes.

   The New Debentures will mature on June 30, 2016 and will accrue interest at the rate of 8.375% per annum payable semi-annually. At the holders' option, the New Debentures may be converted into the Corporation's Class A common voting or Class B variable voting shares at any time prior to the maturity date at a conversion price of $0.73 for each such common share, subject to standard anti-dilution provisions.

   The New Debentures will not be redeemable before June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option and subject to notice period requirements, redeem the New Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the common shares on the Toronto Stock Exchange during a specified period prior to redemption is not less than 125% of the conversion price.

   Subject to specified conditions, the Corporation will have the right to repay the outstanding principal amount of the New Debentures on maturity or redemption by delivering Class A common shares of the Corporation. The Corporation also has the option to pay interest in cash and/or through the issue and sale of additional Class A common shares of the Corporation. Additionally, the Corporation has the option, subject to prior agreement of the holders, to settle its obligations on conversion by way of a cash payment of equal value.

The issue of New Debentures is scheduled to close on or about May 12, 2011 and is subject to certain conditions including, but not limited to, the receipt of all necessary approvals including the approval of the Toronto Stock Exchange.

b) Subsequent to Fiscal 2011, the Corporation entered an agreement to repay related party debts aggregating $13.2 million (see note 5 and note 13) through a cash payment of $3.2 million and the issuance of 10,352,000 Class A common shares. Based on the market value of the Class A common shares at the date of settlement ($0.43 per share), the Corporation expects to record a gain on the extinguishment of the related party debts of approximately $5.5 million. The closing date of this transaction is expected to be sometime at the end of Q1/12 or at the beginning of Q2/12.

c) During Q1/12, the Corporation committed to purchasing two aircraft. One aircraft will be acquired directly by the Corporation for approximately $1.8 million. The second aircraft will be acquired through an Aboriginal partnership for $1.2 million, of which the Corporation will contribute 49% of the total purchase price, consistent with its ownership interest in the Aboriginal partnership. These transactions are expected to be completed at the end of Q1/12 or at the beginning of Q2/12.

## *DISCLOSURE CONTROLS*

Disclosure controls and procedures have been designed to provide reasonable assurance that information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management, including the Chief Executive Officer and the Chief Financial Officer, in order to allow timely decisions regarding required disclosure.

The Corporation's Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as at January 31, 2011, that the Corporation's disclosure controls and procedures are effective and provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, required to be disclosed in reports that the Corporation files or submits under Canadian securities legislation is recorded, processed, summarized and reported within the time periods specified therein.

## *INTERNAL CONTROLS OVER FINANCIAL REPORTING ("ICFR")*

Management is responsible for and has designed ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. The Chief Executive Officer and the Chief Financial Officer evaluated the design and effectiveness of the Corporation's ICFR based on the Internal Control – Integrated Framework (COSO Framework) published by the Committee of Sponsoring Organizations of the Treadway Commission.

As at January 31, 2011, management assessed the effectiveness of the Corporation's ICFR and concluded that the Corporation's ICFR were effective. There have been no changes to the Corporation's ICFR during the interim quarter ended January 31, 2011 that have materially affected, or are reasonably likely to materially affect, its ICFR

Due to its inherent limitations, ICFR can provide only a reasonable level of assurance and they may not prevent all errors and fraud or detect misstatements. Furthermore, projections of an evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies and procedures may deteriorate. 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 and the impacts of the planned implementation of IFRS.

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. 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 and decisions; 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.

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

**Dated: April 21, 2011**