# MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations for the year ended January 31, 2009 of Discovery Air Inc. (the "Corporation") should be read in conjunction with the audited consolidated financial statements and related notes of the Corporation for the years ended January 31, 2009 and 2008.

## *Selected Financial Information*

| (thousands of dollars, except per share amounts) | | Year ended January 31 2009 | | Year ended January 31 2008 |
|---|---|---|---|---|
| | | (audited) | | (audited) |
| **Results of operations** | | | | |
| Revenue | $ | 151,930 | $ | 123,554 |
| Operating expenses | $ | 123,488 | $ | 95,102 |
| Earnings before undernoted items | $ | 28,442 | $ | 28,452 |
| | | | | |
| Financing costs | $ | 12,306 | $ | 10,291 |
| Amortization | $ | 12,965 | $ | 9,397 |
| Goodwill & intangible assets impairment charge | $ | 133,579 | $ | - |
| | | | | |
| Net earnings (loss) | $ | (130,325) | $ | 7,499 |
| Earnings (loss) per common share: | | | | |
| Basic | $ | (0.96) | $ | 0.06 |
| Diluted | $ | (0.96) | $ | 0.06 |
| | | | | |
| **Financial position and liquidity** | | | | |
| Total assets | $ | 260,026 | $ | 376,899 |
| Total long-term debt | $ | 145,726 | $ | 134,069 |
| Cash provided by operations | $ | 24,196 | $ | 16,488 |
| | | | | |
| **Key non-GAAP performance measures*** | | | | |
| Adjusted earnings | $ | 2,872 | $ | 7,499 |
| EBITDAR | $ | 40,049 | $ | 40,985 |
| EBITDA | $ | 28,442 | $ | 28,452 |
| After-tax operating cash flow | $ | 23,319 | $ | 21,893 |
| After-tax operating cash flow per common share | $ | 0.17 | $ | 0.18 |

* See Non-GAAP measures

## *Financial Highlights of the Year Ended January 31, 2009*

- While the Corporation's Northern businesses experienced a reduction in flight activity and revenues year over year due to weakened demand brought on by the rapid deterioration in the economy and wet weather conditions that reduced demand for forest fire related aviation services, this loss in revenue was more than offset by the revenues generated by Top Aces, which was acquired in August of 2007, and Discovery Mining Services, which was acquired in January 2008.
- The year over year increase in operating expenses is higher in proportion to the increase in revenues due to weaker than expected market conditions related to the business of the Corporation's Northern Services segment. Infrastructure was put in place and costs were incurred in anticipation of strong market demand for services which did not materialize.
- The level of EBITDA was the same as the prior year and the level of after-tax cash flow increased over the prior year despite challenging business conditions in some of the Corporation's operations that led to reduced levels of business activity and revenues.

- Management's efforts to improve working capital management resulted in a positive position of $18.2 million at January 31, 2009 compared to a positive position of $16.2 million as at January 31, 2008 and a current ratio of 1.82 as at January 31, 2009 compared to 1.78 as at January 31, 2008.
- The Corporation booked a $133.6 million expense for goodwill and intangible assets impairment which resulted in a net loss for the year. The Corporation recorded profitable results for the year if the impact of the impairment charge is excluded. The goodwill and intangible assets impairment charge is a non-cash expense and does not impact the operating profits of the Corporation.

## *Business Profile*

### *Mission*

The Corporation's mission is to create shareholder value by building an alliance of profitable aviation businesses that can realize synergies and economies of scale and deliver safe, professional air services to clients in selected niche markets. While the mission has not changed, the Corporation has adjusted its focus this year to ensure the Corporation's businesses are soundly positioned to withstand the negative effects of the global economic downturn experienced in the latter part of the current year and thus mitigating exposures that would compromise the Corporation's longer-term ability to meet the Corporation's mission. The Corporation's strategy in addressing the recent economic down turn is discussed in greater detail in the "*Strategy and Strengths*" section of this document.

### *Organization structure*

Discovery Air is incorporated under the Canada Business Corporations Act. It was established in November 2004 to acquire aviation and aviation related businesses that provide services to clients in niche markets. Since its inception, the Corporation has completed the acquisition of six businesses whose services are delivered through five wholly-owned subsidiaries. These wholly-owned subsidiaries are segregated into two operating segments:

1. Northern Services, being the operations of Great Slave Helicopters Ltd. ("Great Slave"), Air Tindi Ltd. ("Air Tindi") and Discovery Mining Services Ltd. ("Discovery Mining"); and
2. Government Services, being the operations of Top Aces Inc. ("Top Aces") and Hicks & Lawrence Limited ("Hicks").

All other operating activities are classified as Corporate Support.

### *Northern Services Segment*

The Northern Services segment's primary market is Northern Canada. The segment has a wide customer base servicing companies and government entities in the business of mineral, base and precious metal exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, seismic, air ambulance, scheduled charters and tourism.

Great Slave is a Northwest Territories-based helicopter company that provides chartered air transport services throughout Northern Canada and several of the Canadian provinces. It provides, on its own and in partnership with northern Aboriginal groups, aviation services to private sector companies and governments in areas such as mineral, base and precious metal exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, tourism and flight training. Great Slave was founded in 1984.

Air Tindi is a Northwest Territories-based fixed wing aviation company that provides scheduled and chartered passenger and air cargo services to private sector companies, governments and individuals in such areas as mineral, base and precious metal exploration, oil and gas exploration and tourism. Air Tindi also provides air ambulance services throughout the Northwest Territories. Air Tindi was founded in 1988.

Discovery Mining is a Northwest Territories-based company that provides remote exploration camps, expediting, logistics and staking services to primarily diamond and mineral exploration companies. Discovery Mining was founded in 1991.

### *Government Services Segment*

The Government Services segment provides niche services primarily aimed at government entities.

Top Aces is a Quebec-based fixed wing aviation company that provides highly specialized airborne training services to the Department of National Defence ("DND"). Top Aces was founded in 2000.

Hicks is an Ontario-based fixed wing aviation company that provides air services to niche markets in Northwest Ontario, primarily fire suppression and other transportation services to the provincial government. Hicks has been in business for over 50 years.

*Seasonality and quarterly fluctuations*

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

- There is increased demand for the services provided by Great Slave, Hicks, Air Tindi and Discovery Mining normally commencing in the spring and continuing through to the end of the summer.
- Top Aces' revenue-generating opportunities are significantly higher in the February to June and September to November time periods. Though Top Aces revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending on weather conditions and its customer's priorities.
- The Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential. As well, repair and maintenance on aircraft are not required evenly throughout the year and the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on available flight activity from one period to another.
- The timing of an acquisition in relation to the above factors can have an impact on the comparability of results.

## *Strategy and Strengths*

The Corporation's businesses provide aviation and aviation related services to customers in niche markets. The Corporation's operating subsidiaries provide fixed-wing and rotary-wing aviation services as well as logistics and remote operations management services.

The Corporation acquired companies whose success was fundamentally based upon strong customer service, a reputation for quality and safety, a loyal customer base and a dominant position in their markets. Great Slave and Air Tindi provide an essential service to many of their customers as access to, and movement at, the majority of their customers' locations are only possible via aircraft. This includes the movement and transport of people, freight, equipment and essential supplies. Discovery Mining provides its services to many of these customers as well. Top Aces and Hicks also provide essential services to their customers in the form of cost-effective government outsourced aviation service solutions.

## *Impact of the current global economy and credit markets*

The severe global economic downturn and illiquidity in the capital markets have negatively impacted certain sectors of the Corporation's customer base, primarily the resource exploration and oil and gas sectors. The Corporation has also been challenged from a financing standpoint as the rapid deterioration in global financial markets dramatically curtailed lending activities in the market and access to capital at a time when the Corporation attempted to arrange new financing for debt that matured immediately after year end. Accordingly, the Corporation's priority during the 2009 fiscal year, and particularly the last half of the year, shifted away from its previously stated strategy of seeking growth through new acquisition and organic growth from the Corporation's existing operating companies, to focus on ensuring the Corporation's existing operations are positioned to address the negative impact of the economic slowdown in the current and foreseeable future. In shifting to a more conservative approach towards growth investments for the current year and the foreseeable future, the Corporation looks to focus on generating and preserving positive cash flow. This will ensure the Corporation is able to meet its operating and financing obligations as well as to be in a position to fund the capital expenditures required to sustain its fleet and facilities. The Corporation has heightened its monitoring of both its operating and capital expenditures in order to align them with expected revenue levels where appropriate.

### *Resource exploration and oil and gas activities*

Revenues from the Corporation's customers in the mining exploration and oil and gas sectors were most impacted by the economic down turn. Current year's flight revenues from the mining exploration sector were lower by 17% compared to the same period last year, while current year flight revenues from the oil and gas sector were lower by 58% compared to the same period last year.

### *Impairment of goodwill and intangible assets*

At the end of the third quarter and into the fourth quarter of fiscal 2009, the rapid deterioration in the global economic environment and its negative impact on the Corporation's resource based customers, a rapid deterioration in access to and a dramatic increase in the cost of capital for Canadian companies, and the rapid reduction in the Corporation's stock price, were triggering events warranting a reassessment of the Corporation's goodwill within each of its reporting units.

On January 31, 2009, the Corporation completed the step 1 analysis using the market approach and a market capitalization approach to determine that all of its reporting units except Top Aces had experienced impairment in goodwill. The market approach involves calculating the fair value of the reporting units based on value relationships derived or implied from the analysis of other market transactions that can be applied to the historical and forward-looking EBITDA performance of the different reporting units. The market capitalization approach uses the Corporation's publicly traded stock price to determine whether the fair value conclusions reached are reasonable. For those reporting units indicating goodwill impairment, the analysis in step 1 recognized a full impairment of goodwill in each of these reporting units and therefore a conclusion was reached that the step 2 analysis was not necessary to conduct. As a result of its assessment, the Corporation wrote down the full carrying value of goodwill recorded in these four reporting units on the balance sheet and recorded a corresponding non-cash charge to net earnings totaling $121.6 million. It was concluded that the carrying value of goodwill recorded for Top Aces was not impaired.

The Corporation also tested all of its long-lived assets for impairment on January 31, 2009 in conjunction with its test for impairment of goodwill. The Corporation's indefinite-lived intangible assets, comprised of tradenames, were assessed under the same method as the goodwill impairment. It was determined that those reporting units which had recorded an impairment charge for goodwill also experienced an impairment of tradename values. As a result, the Corporation recorded a charge for the full carrying value of the tradenames in these reporting units on the balance sheet and recorded a corresponding non-cash charge to net earnings totaling $12.0 million. It was concluded that the carrying value of trade names in Top Aces was not impaired.

The Corporation tested the definite-lived intangible assets, comprised primarily of the reporting unit's customer relationships, and other long-lived assets and determined these assets were recoverable.

The combined total goodwill and intangible assets charge of $133.6 million is non-cash in nature and is not expected to adversely affect the Corporation's liquidity or future operations. The impairment charge was largely driven by market factors as opposed to any permanent impairment to the Corporation's ability to generate future revenues and cash flows. The impairment charge did cause the Corporation to be in default of a common senior funded debt/total capital covenant with two of its lenders as at January 31, 2009. These lenders have provided a waiver of that covenant violation which is effective through to February 1, 2010.

## *Impact of wet weather conditions on the forest fire suppression revenues*

The unseasonably cool and wet weather conditions in Ontario and Quebec in the current year resulted in forest fire related revenues in these regions being 60% lower than the comparative period last year. Historically the second and third quarters represent a peak season for the Corporation's fire related operations. The impact of the unseasonably wet weather conditions on the demand for forest fire fighting services (the "Forest Fire Factor") is illustrated by the Natural Resources Canada report on the number of forest fires for the period from January 1 to September 3:

| | 2008 | 10 Year Average[a] |
|---|---|---|
| Ontario | 293 | 1,141 |
| Quebec | 197 | 750 |

## *Results of operations for the comparative years ended January 31, 2009 and January 31, 2008*

### *Overview*

The Corporation generated revenues of $151.9 million for the current year, representing a 23% increase in revenues from the prior year. This was due in large part to the incremental contribution of a full year's revenue from the acquisition of Top Aces, acquired on August 24, 2007, and Discovery Mining, acquired on January 4, 2008. The incremental year over year revenues contributed by these operations were approximately $34.6 million. Higher per unit fuel prices also led to higher levels of fuel recoveries included in revenues year over year. This higher level of revenue was offset by higher fuel costs that are included in operating expenses.

[a] Natural Resources Canada (accessed November 12, 2008); http://fire.cfs.nrcan.gc.ca/firereport/graph-eng.php

Given the highly seasonal nature of some of the Corporation's business operations, some of the Corporation's subsidiaries are required to commit to a level of fixed costs, largely in the form of personnel and fleet lease costs, based on projected levels of demand for the peak seasonal operating period. As a result, a significant shortfall in an operation's revenues from that expected at the beginning of the season adversely affects the level of EBITDA (see non-GAAP measures) and earnings generated. The Northern Services Segment, and in particular Great Slave, committed to higher wage costs and leased aircraft based on early indications of strong market demand and a shortage in the supply of skilled labour and certain types of aircraft. The Corporation did not to address these increased costs until the fourth quarter of the year when it was reasonably assured that the reduction in staff complement would not adversely affect revenue opportunities during the peak season. Both Great Slave and Air Tindi also incurred higher unscheduled maintenance costs during the year. The combination of these costs largely contributed to the overall EBITDA and EBITDAR (see non-GAAP measures) remaining consistent with the prior year's level despite higher overall revenues. As well, there were one-time costs incurred in some of the operations and costs associated with the change in the Board of Directors and CEO of the Corporation. In spite of all these challenges, the Corporation was still able to generate EBITDA of $28.4 million and, excluding the $133.6 million goodwill and intangible assets impairment charge and related income tax impact, adjusted earnings of $2.9 million (see non-GAAP measures). The prior year comparative had EBITDA of $28.5 million and adjusted earnings of $7.5 million.

The Corporation generated after-tax cash flow (see non-GAAP measures) of $23.3 million in the current year compared to $21.9 million for the comparative period last year. The Corporation's ability to generate strong cash flow combined with decisions to defer or forego planned capital expenditures in the latter part of the fiscal year allowed the Corporation to maintain adequate levels of working capital in a very challenging financing environment. As well, the Corporation's subsidiaries addressed expense levels in the fourth quarter in order to preserve cash flow and working capital. Management at all levels throughout the organization will continue to place increased emphasis on cash flow preservation in light of the uncertain economic conditions and the tight credit and equity markets. Cash flow optimization, along with other prudent activities, have included close monitoring of non-cash working capital positions, re-assessing the credit status of the customer base, higher focus on collection activities and a reduction of infrastructure costs to align them with reduced expected revenue streams where warranted, as well as canceling growth capital expenditure plans where appropriate. The Corporation believes that continuing to be vigilant in monitoring cash flow and aligning the infrastructure to the expected revenue base will enhance the Corporation's ability to weather the turbulent market conditions that have placed significant strains on the economy as a whole and which continue to have an adverse affect on some of the Corporation's businesses.

### *Revenue and Hours Flown*

The Corporation's revenue is primarily generated from helicopter and airplane transportation services that are delivered through its subsidiaries and is largely driven by flight hours. The exception to this is the business of its Discovery Mining subsidiary. Revenues were $151.9 million for the year ended January 31, 2009, compared to $123.6 million for the same period last year, representing a 23% year over year increase in revenues. Hours flown for the year ended January 31, 2009 were 65,222 compared to 75,153 for the same period last year, representing a 13% decrease in year over year flight hours. The inverse relationship between increase in revenues and lower flight hours is attributable to the following.

- Incremental revenues from Top Aces and Discovery Mining. Top Aces was acquired on August 24, 2007 and Discovery Mining was acquired on January 4, 2008. Due to the complexity of its operations and the nature of the equipment it operates, Top Aces bills its services at higher rates than the Corporation's other subsidiaries. Additionally, Discovery Mining's revenues are not driven by flight hours.
- A favourable shift in flight hour composition. A significant portion of the lower level of flight hours in the Northern Services segment occurred in the lower rate aircraft fleet, while the higher rate aircraft fleet was able to maintain or increase overall flight hours in relation to the previous year.
- The Corporation's operating units were able to increase flight hour rates.
- Fuel recoverable revenues were $9.8 million compared to $8.4 million for the comparative period last year. The 17% increase in fuel recoverable revenues was due to per unit increases in fuel prices year over year. Fuel recovery revenues relate to the Northern Services segment.

The Northern Services segment generated revenues of $104.4 million on 56,535 flight hours for the year ended January 31, 2009 compared to revenues of $104.3 million on 67,392 flight hours for the same period last year. The 16% reduction in flight hours year over year is largely attributable to Great Slave, where flight hours were down by 21% year over year. Great Slave accounted for 67% of the hours recorded by the segment in the current year and 71% in the prior year. The lower level of flight hours for Great Slave is attributable to weaker demand in the resource exploration and oil and gas sectors and the Forest Fire Factor. The segment was able to maintain the same level of revenues on much lower flight hours, in part, due to a favourable mix in flight hour composition between types of aircraft that resulted in a higher level of revenue per hour flown. Also contributing to this was Air Tindi's higher level of fuel recovery revenue as a percentage of total revenues. Fuel recovery revenues for Air Tindi were 36% higher year over year in the face of lower year over year flight hours largely due to the increase in per unit fuel prices year over year. These increased fuel recovery revenues were offset by increased fuel costs that are included in operating expenses.

The Government Services segment generated revenues of $47.5 million on flight hours of 8,687 for the year ended January 31, 2009 compared to revenues of $19.1 million on flight hours of 7,759 for the same period last year. The 149% increase in revenues and 12% increase in total flight hours were due primarily to the inclusion of Top Aces. Top Aces was acquired on August 24, 2007 and as a result a significant portion of the year over year revenue increase is attributable to the incremental revenues in the current year. Hicks' revenue levels benefited from the acquisition of the Walsten turbine aircraft business in March 2007 and a higher rate per hour in its forest fire suppression business. While the flight hours for Hicks were down 38% due to low levels of forest fire activity in the Ontario market, revenues were down only marginally year over year.

### *Operating Expenses*

Operating expenses consist of fixed and variable expenses including crew and fleet costs and general and administrative expenses. Crew and fleet costs are the largest expense categories. Crew costs are comprised of wages, benefits and training for pilots and maintenance engineers. Fleet costs are comprised of aircraft lease cost and maintenance costs, the latter consisting of the purchase, repair and overhaul of parts, major components and accessories. Fuel costs represent a significant component of the Corporation's operating expenses. The significant portion of these expenses is incurred in the Northern Services segment. A significant portion of the fuel costs incurred by the Northern Services segment are recoverable from its customers and these recoveries are classified as revenues. The amortization of engine and rotable component overhauls is included in maintenance costs and is classified as operating expense for financial reporting purposes. General and administrative expenses are mainly comprised of wages and benefits of administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. These operating expenses contain both a fixed and variable cost component.

Operating expenses were $123.5 million for the year ended January 31, 2009, compared to $95.1 million for the comparative period last year. The 30% year over year increase in operating expenses was largely attributable to the following:

- The incremental effect of a full year of operations for Top Aces and Discovery Mining.
- Higher fuel costs experienced in the year. The increase in fuel costs was largely offset by recoveries included in revenues. Net of fuel recoveries, operating expenses were $113.7 million compared to $86.7 million in the prior year.
- Higher year over year crew and administrative wage related costs in the Northern Services segment.
- Costs related to the change in the Board of Directors and CEO in the year.

The Northern Services segment incurred operating expenses totaling $88.7 million for the year ended January 31, 2009, compared to $74.4 million for the same period last year. While the inclusion of Discovery Mining's operations in the current year's results and the increase in fuel price accounted for a portion of the 19% year over year increase in operating expenses, wage and maintenance costs were a larger contributor to the year over year variance. Eliminating the impact of Discovery Mining, the segment's current year crew and administrative wage costs were 16% higher compared to last year due to a general wage rate increase driven by market factors at the time and the maintenance of a higher staff complement in the current year than in the past year to meet the projected flight hour demands in the segment's peak season. While the segment down-sized its staff complement at the latter end of the peak season, the segment ultimately incurred higher wage cost in relation to revenues due to lower than expected revenues. The segment also incurred maintenance cost in the current year which was 34% higher compared to prior year due primarily to higher year over year unscheduled maintenance costs at Air Tindi. While much of the major overhaul and maintenance work is performed during the low season, these costs can fluctuate from period to period based on the needs of the aircraft. Operating costs as a percentage of revenues were 85% compared to 71% for the same period last year, again primarily due to the increase in wage and maintenance cost in the current year.

The Government Services segment incurred operating expenses totaling $29.3 million for the year ended January 31, 2009, compared to $14.9 million for the same period last year. Consistent with this segment's increased revenue level, the increase in the segment's operating expense year over year was largely attributable to the incremental cost for a full year's operations from Top Aces. Hicks experienced a small reduction in operating expenses year over year.

Corporate support incurred operating expenses of $5.4 million for the year ended January 31, 2009, compared to $5.8 million for the comparative period last year. The Corporation incurred non-cash stock-based compensation expense of $0.9 million in the current year compared to $2.0 million for the comparative period last year. The Corporation also incurred a number of corporate charges related to the change in the Board of Directors and CEO in the year totaling $0.6 million. In the prior year the Corporation incurred a one time charge related to the change in year end from October 31 to January 31 totaling approximately $0.1 million.

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

EBITDA was $28.4 million for the year ended January 31, 2009, compared to $28.5 million for the comparative period last year. EBITDA margin for the current year was 19% compared to 23% for the comparative period last year. The decline in the EBITDA margin in the current year was largely attributable to lower revenues from the Corporation's forest fire suppression and resource exploration and oil and gas customer base and higher operating costs in the Northern Service segment. EBITDAR was $40.0 million for the year ended January 31, 2009, compared to $41.0 million for the same period last year. The overall decline in aircraft lease expense was directly related to the lower flight hours for leased aircraft in the Northern Services segment.

The Northern Services segment had EBITDA of $15.7 million for the year ended January 31, 2009, compared to $29.9 million for the comparative period last year. The EBITDA margin for the current year was 15% compared to 29% in the comparative period last year. The decline in EBITDA and EBITDA margin was largely due to flat revenue levels and higher wage and maintenance cost in the current year compared to the comparative period last year. EBITDAR for the year ended January 31, 2009 was $26.3 million compared to $ 42.0 million for the comparative period last year.

The Government Services segment had EBITDA of $18.1 million for the year ended January 31, 2009, compared to EBITDA of $4.3 million for the comparative period last year. The EBITDA margin for the current year was 38% compared to 23% in the comparative period last year. The EBITDA contribution of Hicks improved marginally year over year. EBITDAR for the year ended January 31, 2009 was $19.2 million compared to EBITDAR of $4.7 million for the comparative period last year. Both EBITDA and EBITDAR were positively impacted by the full year's result of Top Aces. The results for last year included the results of Top Aces from August 24, 2007 to January 31, 2008 and the results of Hicks' Walsten division from March 14, 2007 to January 31, 2008.

## *Financing charges*

Financing charges were $12.3 million for the year ended January 31, 2009, compared to $10.3 million for the comparative period last year. The year over year increase in financing charges was due to the debt incurred in the acquisition of Top Aces and Discovery Mining, the purchase of three new aircraft for the Northern Services segment, and financing of the new Alpha jet purchase program at Top Aces.

## *Amortization Expenses*

*Amortization of buildings and equipment*

Amortization of buildings and equipment expense was $8.5 million for the year ended January 31, 2009, compared to $6.4 million for the comparative period last year. The amortization of buildings and equipment increased in the current year due largely to the full year inclusion of assets acquired in the acquisition of Top Aces and Discovery Mining as well as fleet additions.

*Amortization of intangible assets*

Amortization of intangible assets expense was $4.5 million for the year ended January 31, 2009, compared to $3.0 million for the comparative period last year. The amortization of intangible assets relates to the expensing of a portion of the purchase price for acquired companies attributable to certain identifiable intangible assets such as the estimated fair market value of customer relationships. The increase in the amortization of intangible assets was due to the amortization of the intangible assets recorded on the acquisition of Top Aces and Discovery Mining. The portions of the purchase prices attributed to customer relationships for Top Aces and Discovery Mining were $18.2 million and $1.4 million respectively. On January 31, 2009, an impairment test was conducted on both the indefinite-lived intangible assets and the definite-lived intangibles assets. The impairment test on the definite-lived intangible assets concluded there was no evidence of impairment and therefore the amortization related to these intangible assets remained unchanged. The Corporation recognized an impairment charge totaling $12.0 million related to the indefinite-lived intangible assets carried in the Northern Services segment, which was reflected in the current year's earnings as a loss from impairment of intangible assets.

### *Goodwill and Intangible Assets Impairment Charge*
The Corporation assessed all its long-lived assets as at January 31, 2009 and recorded an impairment charge to goodwill of $121.6 million and an impairment charge to intangible assets of $12.0 million. The goodwill and intangible assets impairment charge of $133.6 million in the year did not impact the current year's nor will it impact the future year's amortization of buildings and equipment and intangible assets as the goodwill and intangibles assets impairment charge related to indefinite-lived assets. No impairment was realized on the Corporation's building and equipment or definite-lived intangible assets.

### *Income Taxes*
The Corporation had income tax recoverable of $0.4 million for the year ended January 31, 2009, compared to $1.0 million income tax provision for the comparative period last year. The Corporation's current year tax provision reflects a $41.6 million adjustment related to the impairment of goodwill. The Corporation's tax provision in the current year, excluding the impact of the impairment of goodwill, had a favourable net future tax recovery of $1.0 million compared to favourable net future tax recovery of $2.0 million for the comparative period last year. Excluding the impact of the impairment of goodwill, the current income tax adjustment was comprised of a $1.4 million favourable adjustment for declining enacted tax rates and net favourable tax timing difference, and a $0.5 million expense relating to permanent differences. The Corporation's statutory rate for the year ended January 31, 2009 approximated 32% (2008 - 34%), with the effective rate slightly higher due to the non-deductibility of certain expenses such as stock-based compensation expense.

### *Liquidity and Financial Resources*
The following schedule summarizes the movement in cash flow components for the comparative year ended January 31.

| | *for the year ended* | |
|---|---|---|
| (thousands of dollars) | **January 31 2009** | **January 31 2008** |
| Operating activities | $ 24,196 | $ 16,488 |
| Investing acitivities | (31,384) | (66,374) |
| Financing activities | 10,297 | 36,008 |
| Net increase (decrease) in cash for the year | $ 3,109 | $ (13,878) |

The cash position for the year ended January 31, 2009 reflected a net cash inflow of $3.1 million compared to a net cash outflow of $13.9 million for the comparative period last year. The positive net cash flow in the current year was primarily attributed to the following:

- The operating contribution from the incremental year over year earnings of Top Aces and Discovery Mining.
- A reduction in acquisition activity.
- The arrangement of the term evergreen facility in January 2008 which reduced principal repayment requirements on long term debt year over year.

*Operating activities*

The current year's operating activities generated net cash inflow of $24.2 million compared to net cash inflow of $16.5 million for the comparative period last year. While the earnings for the current year decreased compared to the same period last year, the current period cash flow from operating activities improved compared to prior year due to a combination of higher non-cash operating adjustments and an improved non-cash operating working capital position. The current year change in non-cash operating working capital was $0.9 million compared to negative change in non-cash operating working capital of $5.4 million for the comparative period last year. After-tax operating cash flow was $23.3 million for the current year or $0.17 per share compared to $21.9 million or $0.18 per share for the same period last year (see Non-GAAP Measures).

*Investing activities*

The net cash outlay from investing activities for the current year was $31.4 million compared to $66.4 million for the comparative period last year. The current year investing activities related to fleet expansion and capitalized aircraft overhaul costs. Fleet expansion included the purchase of two intermediate helicopters, the purchase of a fixed wing, twin-engine turbo-prop airplane, and progress payments related to the purchase of eight Alpha jets and related equipment. The prior year comparative period reflects the acquisition of Walsten assets for $5.3 million, the acquisition of Top Aces for $35.6 million (less the cash acquired from Top Aces), the acquisition of Discovery Mining for $3.1 million (less the cash acquired from Discovery Mining) and $28.1 million in fleet expansion and capitalized overhaul in the Corporation's other businesses. As at January 31, 2009, the Corporation's fleet purchase commitments totaled $6.3 million and are related to the acquisition of remaining Alpha jets and related parts and inventory for Top Aces. Other than aircraft overhaul costs related to the Corporation's existing fleet and completion of the Alpha jet purchase program, the Corporation does not expect any significant expenditures for capital assets in the foreseeable future.

*Financing activities*
The Corporation obtained new debt totaling $16.8 million during the year ended January 31, 2009, compared to $95.5 million for the comparative period last year. The new debt in the current year relates primarily to the financing of new aircraft and capital equipment. The prior year new debt relates to the Corporation's acquisition of Top Aces and Walsten (a division of Hicks), refinancing of existing aircraft debt and financing of new aircraft and capital equipment.

The Corporation made principal repayments totaling $6.2 million during the year ended January 31, 2009. In the prior year the Corporation made principal repayments totaling $58.0 million, which was comprised of $12.7 million related to scheduled debt repayment and $45.3 million representing the refinancing of existing debt, net of transaction costs incurred.

The Corporation did not receive cash related to the issue of common shares in the current year. The Corporation received $0.3 million in cash related to the issue of common shares in the prior year.

*Working capital and cash position*
As at January 31, 2009, the Corporation's working capital balance was in a positive position of $18.2 million compared to a positive position of $16.2 million as at January 31, 2008. The current ratio was 1.82 as at January 31, 2009 compared to 1.78 as at January 31, 2008. The improved working capital balance and current ratio from January 31, 2008 was due to improved working capital management to minimize the Corporation's negative exposure to the current economic down turn and lower principal payments on long-term debt year over year.

Other than the uncertainty associated with the renegotiation of financial covenants for the year ended January 31, 2010 with two of its lenders, the Corporation is not aware of any balance sheet conditions, income items or cash flow items that could materially impact liquidity in the upcoming year. However, should the weakness in economic conditions and the capital and lending markets continue to deteriorate, these variables could adversely impact the liquidity position of the Corporation.

The Corporation believes it has sufficient working capital to meet its current and future operating requirements based on its existing working capital position, cash generated from operations, and the operating credit facilities it recently put in place. The new operating line of credit facility will be used to fund any short-term financing requirements which arise as a result of the seasonality of its revenue and cash flow patterns. The Corporation does not expect any significant changes to its working capital requirements for the upcoming year other than possible changes caused by capital expenditures related to fleet maintenance and expansion. Any significant capital expenditures are assessed to ensure reasonable support exists to match the capital expenditure to projected revenues or cost saving generated from the transaction. Given the current economic outlook, the Corporation intends to focus on ensuring adequate funding exists for its current operations and, unless the underlying economics of a new business opportunity are very compelling, minimize any capital intensive expansion until the economy and capital markets support active growth again.

*Debt financing*
In January 2008, the Corporation entered into a five year revolving long-term debt agreement to finance certain of its fleet assets. As at January 31, 2009, the Corporation had approximately $52.6 million available to it and drawn from this facility. From January 24, 2009, the loan bears an interest rate of the greater of the applicable 30 days Bankers Acceptance yield and 2.50%, plus 6.25%. The loan currently requires only the repayment of interest. In July 2009 and each July thereafter, the lender has the option to convert the revolving term facility to an amortizing debt with the principal balance at the time amortized over a 10 year period on a blended repayment basis, at which time the revolving feature of the debt would be terminated. The loan is secured by a general security agreement over the assets of Discovery Air Inc. and its wholly-owned subsidiaries Great Slave, Air Tindi, Discovery Mining and Hicks. The security structure provides a first charge over the aircraft owned by these subsidiaries that are included in the lender's borrowing base and a secondary floating charge over all their other assets, subject to permitted encumbrances. As at January 31, 2009, the Corporation was in compliance with all financial covenant requirements except the funded debt to capital ratio which was negatively impacted by the impairment charge related to goodwill and intangible assets. The Corporation obtained a waiver from the lender on this covenant calculation which is effective through to February 1, 2010. On March 3, 2009 the Corporation

agreed to amendments to this loan. In accordance with the terms of the agreement, the lender advised the annual reset of its interest rate at a rate equivalent to the greater of the yield on 30-day Bankers' Acceptances or 2.50% plus a spread of 6.25%. In addition to the rate amendment, the Corporation agreed to the following substantive amended terms:

(i) A change in the anniversary date from January 24 to July 24.
(ii) A reduction in the amount outstanding under the facility to $50.0 million by April 24, 2009.

The Corporation made the required repayment on April 24, 2009 to reduce the outstanding balance to $50.0 million.

In August 2007, the Corporation entered into a $33.0 million term loan agreement with a syndicate of lenders to finance a portion of the Top Aces business combination. The term loan had an effective interest rate of 11.07% per annum and the principal balance was due on February 1, 2009. On February 4, 2009 the Corporation refinanced this loan replacing it with a $34.0 million term loan agreement. The $34.0 million term loan has an interest rate of 10% per annum. The Corporation is required to make monthly interest-only payments until the end of the term, February 1, 2013, at which time the principal and any outstanding interest accrued is due and payable. To date, the Corporation has incurred $1.1 million in financing costs which will be offset against the principal balance owing for reporting purposes and will be expensed over the term of the loan on an effective interest basis. The new term loan has an effective interest rate of 11.10% per annum. A condition in the $34.0 million term loan completed on February 4, 2009 obligates the Corporation to re-locate its current corporate office to Yellowknife, NWT by February 1, 2010. The relocation of the corporate office will result in additional costs for the corporation, including transition costs and termination benefits related to the employees who perform the affected job functions at the Corporation's current corporate office. The Corporation is currently negotiating with the affected employees and the full extent of these costs is indeterminable at this time.

In February 2008 the Corporation entered into a $21.5 million term loan agreement to refinance existing Top Aces term debt and the purchase of additional aircraft, spare engines and aircraft parts. The principal amount of the loan is repayable in monthly installments of $0.3 million commencing in February 2008 and ending on January 15, 2015. The term debt bears an interest rate of the lender's floating base rate plus 3.25% per annum. The loan is secured by a charge on all the assets of Top Aces, subject to a priority interest provided to an operating lender over Top Aces' accounts receivable. As at January 31, 2009, $12.9 million was outstanding under this banking facility with the remainder to be available to fund remaining purchase commitments. As at January 31, 2009, the Corporation was in compliance with all financial covenant requirements except the funded debt to capital ratio which was negatively impacted by the impairment charge related to goodwill and intangible assets. The Corporation obtained a waiver from the lender on this covenant calculation which is effective through to February 1, 2010.

The Corporation has also secured demand operating loans to finance working capital requirements. These arrangements can be summarized as follows:

As at January 31, 2009, the Corporation had a revolving banking facility which consisted of an operating line of credit to a maximum of $7.5 million. This credit facility, which had an initial expiry date of January 17, 2009, had been extended to February 20, 2009 at an interest rate of prime plus 2.75% and continued to be secured by a general security agreement over the assets of Discovery Air Inc. and its wholly owned subsidiaries except Top Aces. The security structure provided a first charge over accounts receivable and inventory for these entities as well as a second floating charge over all other assets, subject to specific permitted encumbrances. As at January 31, 2009, there were no direct advances outstanding while $2.0 million in letters of credit were issued under this banking facility.

As at January 31, 2009, Top Aces had a banking facility which consists of a demand operating line of credit to a maximum of $3.8 million, bearing interest at prime plus 0.50%. The banking facility is a demand facility with no fixed maturity. This facility is secured by a general security agreement which provides a first charge over accounts receivable and inventory and a floating charge over all other assets subject to permitted encumbrances. At January 31, 2009, there was no amount outstanding under this banking facility.

On April 9, 2009 the Corporation replaced these operating lines of credit with a demand operating line of credit arranged with a new lender. The new loan facility provides an availability of up to $15.0 million increased by up to a further $10.0 million during the Corporation's seasonably busy period of April through November. The banking facility bears an interest rate of 18.00% per annum and has a term of 14 months. The banking facility is secured by security agreements that provide it with a first charge over the accounts receivable of all the Corporation's operating entities and over inventories of all the Corporation's entities except Top Aces and a secondary floating charge over the other assets of the Corporation and its subsidiaries subject to the prior security interest of permitted encumbrances.

The Corporation had unsecured notes totaling $2.1 million which were due for repayment on December 19, 2008. These notes were due to the former owners of one of the Corporation's subsidiaries. The Corporation did not repay these notes on their due date as it is of the opinion the original purchase agreement provides it with the right of set-off for potential liabilities that related to periods prior to the acquisition of the subsidiary. Interest continues to be paid on these notes at the prime lending rate. The holders of a portion of these notes payable with a balance aggregating $1.0 million as at January 31, 2009 have extended the maturity date of the notes to December 19, 2009.

## *Contractual Obligations*

The following chart outlines the Corporation's contractual obligations as at January 31, 2009.

| (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 | $ 11,928 | $ - | $ - | $ - | $ - | $ - | **$ 11,928** |
| Operating leases | 3,868 | 1,942 | 1,388 | 1,097 | 407 | 719 | **9,421** |
| Long-term debt | 10,383 | 4,464 | 31,110 | 53,487 | 42,945 | 3,337 | **145,726** |
| Commitments | 6,306 | - | - | - | - | - | **6,306** |
| | $ 32,485 | $ 6,406 | $ 32,498 | $ 54,584 | $ 43,352 | $ 4,056 | **$ 173,381** |

The Corporation has unutilized capacity under the $21.5 million term facility to fund the $6.3 million Commitments disclosed above.

## *Off-Balance Sheet Arrangements*

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

| (thousands of dollars) | |
|---|---|
| 2010 | $3,868 |
| 2011 | 1,942 |
| 2012 | 1,388 |
| 2013 | 1,097 |
| 2014 and thereafter | 1,126 |

The Corporation was required to obtain letters of credit issued by its lenders totaling $2.0 million (2008 - $0.8 million). The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

## *Financial instruments*

*Risk management overview*

The Corporation is exposed to a number of different financial risks arising from normal business exposures as well as its use of financial instruments which include market, credit and liquidity risks. The Corporation's overall risk management process is designed to identify, manage and mitigate business risk which includes financial risk, among others. Management and the Board of Directors, both separately and together, discuss the principal business risks to which the Corporation is exposed. The Board of Directors sets policies for the implementation of systems to manage, monitor and mitigate identifiable risks. Risk management strategies, policies and limits are designed to provide reasonable assurance that the risk exposures are managed within the Corporation's business objectives and risk tolerance. The Corporation's risk management objective is to optimize the balance between maximizing return for its shareholders and protecting and minimizing volatility in cash flow.

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

*Market risk*
Market risk is the risk of loss that could result from changes in market factors such as foreign currency exchange rates and interest rates. The level of market risk to which the Corporation is exposed at any point in time varies depending on market conditions, market rate movements and the composition of the Corporation's financial assets and liabilities held, non-trading physical assets and contract portfolios. The Corporation's management is responsible for determining the acceptable level of risk and will utilize hedging instruments to the extent it believes it is prudent to manage existing or anticipated risks, commitments, or obligations based on its past experiences and expectations for the future.

*i) Foreign exchange risk*
The Corporation is exposed to foreign currency exchange risk arising from fluctuations in exchange rates on its U.S. dollar and Euro denominated purchases of aircraft and aircraft inventory parts and financing of aircraft and periodic purchases of aircraft.

As at January 31, 2009, the Corporation held net unhedged liabilities of US $1.3 million and EUR 0.7 million. As at January 31, 2009, a 5.00% rise or fall in the Canadian dollar against the U.S. dollar and Euro, with all other variables unchanged, would have resulted in a net increase or decrease of $0.1 million to the Corporation's earnings for the year ended January 31, 2009.

Aircraft are valued and traded in U.S. dollars. Under the terms and conditions of the Corporation's revolving long-term debt agreement to finance certain fleet assets, the borrowing base is recalculated in July of each year (previously January) based on an appraisal of the aircraft that are included in the borrowing base. The borrowing limit is established annually based on the lesser of $50.0 million and a borrowing base calculation which is determined by an annual appraisal of the aircraft included in the borrowing base. The borrowing base available to the Corporation effective July 2009 is estimated to be $58.6 million based on recent desktop appraisals completed on behalf of the lender and a U.S./Canadian exchange rate of $1.23 Canadian dollars for each US dollar. Under the agreement, physical appraisals are in process for a sample of the aircraft and the final borrowing base calculation in July 2009 could be adjusted up or down depending on the results of these additional appraisals and/or an adjustment in the foreign exchange rate. At this time the Corporation's borrowing base is estimated to exceed the amount available and drawn under the loan agreement by $6.0 million. A 5.00% rise or fall in the Canadian dollar against the U.S. dollar, with all other variables unchanged, would result in an increase or decrease in the estimated borrowing base of $2.9 million.

The Corporation's $6.3 million commitment to purchase aircraft and related inventory as at January 31, 2009 includes foreign currency amounts of USD $2.4 million and EUR 0.7 million. These U.S. dollar and Euro based purchases are scheduled to be completed in the 2010 fiscal year. These forward commitments have not been hedged by the Corporation.

*ii) Interest rate risk*
The Corporation's cash flow and net earnings are exposed to interest rate fluctuations due to its variable interest rate long term debt instruments.

As at January 31, 2009, a 25 basis point increase or decrease in interest rates, with all other variables unchanged, would have resulted in an increase or decrease of $0.2 million in the Corporation's earnings for the year ended January 31, 2009.

*Credit risk*
The Corporation is exposed to credit risk from a diverse range of customers, including mining, oil and gas companies, governments and the general public, related to charters and tourism activities. The Corporation performs on-going credit evaluations of new and existing customers and provisions are set up for potential credit losses.

As at January 31, 2009, 51% of the Corporation's total accounts receivable balance was due from government entities. The Corporation considers the credit risk from government entities to be extremely low. The remaining accounts receivable are distributed throughout a large base of customers. In light of the rapid deterioration in economic conditions, and particularly restricted access to capital, management is placing higher importance on monitoring aged account balances. The diverse distribution of accounts receivable, combined with management's diligence in monitoring the credit quality of its customers, serves as a mitigating factor for the credit risk that exists.

*Liquidity risk*

Liquidity risk is the risk that the Corporation will not be able to satisfactorily meet its financial obligations as they fall due or will not be in a position to refinance maturing obligations at a reasonable price or credit structure. The Corporation's management is responsible for ensuring that there is sufficient capital in order to meet the short-term and medium-term business requirements, after taking into account cash flows from operations and the Corporation's cash position. The Corporation's liquidity is monitored regularly by management and the Board of Directors, factoring in the seasonal cycle of the Corporation's operations, by preparing short-term and long-term cash flow forecasts and also matching the maturity profiles of financial assets and liabilities to identify financing requirements well in advance of their maturity.

In the current year, the Corporation has experienced lower profitability than anticipated in certain of its operations due to the Forest Fire Factor and lower demand for certain services provided to customers in the exploration, mining and tourism markets. These adverse factors have been partially offset by strong results in some of the Corporation's other lines of business. The Corporation recognizes that should the adverse factors noted continue without successful management intervention to address these factors, and especially if the continuing adverse factors were to be unmatched by other strong conditions experienced by the Corporation's other businesses, weaker future earnings and cash flow generated by operations could result, reducing the Corporation's available working capital and liquidity.

The Corporation has financial covenants that it is required by its lenders to meet on a quarterly and annual basis. These covenants place minimum and maximum requirements, as applicable, on certain funded debt and leverage ratios, interest and debt coverage ratios, the current ratio, shareholders' equity, and tangible net worth. As well, there are other non-financial covenants that could affect the Corporation's ability to grow organically and by acquisition or make distributions. As at January 31, 2009, the Corporation was in compliance with all but one financial covenant required by two of its lenders. The non-compliance was directly related to the goodwill impairment charge recorded by the Corporation at January 31, 2009. The Corporation's lenders have provided a waiver of this financial covenant non-compliance which is effective through to February 1, 2010. The Corporation has initiated discussions with its lenders to revise the financial covenant levels established for its year ended January 31, 2010.

*Fair Value*

Carrying values for assets and liabilities classified as held for trading, loans and receivables and other financial liabilities (excluding long-term debt) approximate their carrying value as such instruments are carried at fair value due to their short-term nature. The fair value of long-term debt as at January 31, 2009 was $131.8 million as compared to $145.7 million in carrying value.

The fair value of the Corporation's fixed long-term debt, excluding the convertible debentures, was estimated based on discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. The fair value of the convertible debentures was based on the closing trade price on the Toronto Stock Exchange, as at January 31, 2009. The fair value of the Corporation's variable rate long-term debt approximates its carrying value as it is at a floating market rate of interest.

## ***Shareholders' Equity***

Shareholders' equity at January 31, 2009, was $72.4 million compared to $201.9 million as at January 31, 2008, with the decrease attributable primarily to the $133.6 million non-cash impairment charge in the current year related to goodwill and intangible assets. At January 31, 2009, the Corporation had 134,461,555 Class A common shares and 742,604 Class B common shares outstanding compared to 134,519,805 Class A common shares and 684,354 Class B common shares outstanding as at January 31, 2008. There was no change in the total common shares outstanding, however during fiscal 2009, 58,250 Class A common shares were converted to an equal number of Class B common shares.

There were no common share purchase warrants outstanding at January 31, 2009. There were 1,178,568 common share purchase warrants at the end of January 31, 2008 entitling the holders to subscribe for one Class A share for every warrant held at a subscription price of $2.00 per share. These warrants expired in July 2008.

There were 7,447,450 (2008 – 7,133,200) common share options outstanding at January 31, 2009. For the year ended January 31, 2009, 431,350 (2008 – 3,190,250) common share options were granted, 41,945 (2008 – 74,816) common share options were forfeited, 55,155 (2008 – 2,234) common share options were cancelled and nil (2008 – 20,000) common share options were exercised. For the year ended January 31, 2009, salary expense and an addition to contributed surplus of $0.9 million (2008 - $2.0 million) was recorded relating to these common share options. The shareholders voted to terminate additional grants under the plan at the Corporation's annual general meeting held in June 2008.

At January 31, 2009, there were 247,655 (2008 – 11,964) deferred share units ("DSU") held by the directors of the Corporation. Each DSU entitles a retiring director to a cash distribution equal to the closing market price of the Corporation's common shares on a date selected by the retiring director, which date may not be later than December 31 of the year following the year of the director's retirement. During the year ended January 31, 2009, the Corporation granted 259,280 (2008 – 3,964) DSUs and a payment of $18,000 (2008 - $2,000) was made to retire 23,589 (2008 – 1,000) DSUs. The Corporation recognized $23,000 (2008 - $1,000) of compensation expense related to DSUs.

Additional information with respect to share capital is contained in Note 11 to the consolidated financial statements for the years ended January 31, 2009 and 2008.

### *Normal Course Issuer Bid*

On June 10, 2008, the Corporation filed a notice with the Toronto Stock Exchange ("Exchange") to make a normal course issuer bid ("NCIB") allowing the Corporation to purchase for cancellation up to 5,000,000 of its Class A common voting shares ("common shares") representing 3.72% of the 134,461,555 issued and outstanding common shares as at June 11, 2008. Subject to one block purchase per calendar week allowed pursuant to the rules of the Exchange, the maximum number of common shares to be acquired under the NCIB each day is 11,670 common shares. The Corporation may buy back common shares from time to time during the twelve months commencing June 12, 2008 and ending June 11, 2009, or such earlier date as the Corporation may complete its purchases pursuant to the Notice of Intention. Any purchase made under the NCIB will be effected through the facilities of the Exchange and in accordance with the policies and rules of the Exchange. The Corporation did not make any repurchases under the NCIB since its inception.

### *Updated Share Information*

At April 30, 2009, there were 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding. At the same date, there were 6,622,450 common share options outstanding and no common share purchase warrants outstanding.

### *Related Party Transactions*

At January 31, 2009, the Corporation had long-term debt including accrued interest totaling $18.3 million (2008 - $20.3 million) owing primarily to current and former officers and directors of the Corporation or its subsidiaries and who were former owners of the subsidiaries. For the period, interest expense on this debt totaled $1.0 million (2008 - $1.2 million).

On December 19, 2008, a payment for $2.1 million was scheduled to be made by one of the Corporation's subsidiaries in accordance with the terms of an unsecured promissory note entered into with its former owners. Certain of these creditors, with an aggregate principal balance owing of $1.0 million extended the repayment date of their promissory notes from December 19, 2008 to February 15, 2009. A further extension has since been provided by these creditors to December 19, 2009. The former owners who have not extended the repayment date of their notes are no longer officers or employees of the Corporation. During the year, the Corporation was made aware of potential liabilities that related to periods prior to the acquisition of the subsidiary. The Corporation believes the amount of these potential liabilities could exceed the liabilities owing under the unsecured note principal. The Corporation is of the opinion that the original purchase agreement provides it with the right of set-off for these potential liabilities. Since the settlement date of these liabilities has not been established, the Corporation has classified the full principal balance of this debt as a current liability.

## *Results of operations for the three-month periods ended January 31, 2009 and January 31, 2008*

## *Selected Financial Information*

| (thousands of dollars, except per share amounts) | 3 months ended January 31 2009 (unaudited) | 3 months ended January 31 2008 (unaudited) |
|---|---|---|
| **Results of operations** | | |
| Revenue | $ 19,590 | $ 20,161 |
| Operating expenses | $ 23,578 | $ 24,345 |
| Earnings before undernoted items | $ (3,988) | $ (4,184) |
| Financing costs | $ 2,944 | $ 3,473 |
| Amortization | $ 3,325 | $ 3,047 |
| Goodwill & intangible assets impairment charge | $ 133,579 | $ - |
| Net earnings (loss) | $ (139,139) | $ (4,879) |
| Earnings (loss) per common share: | | |
| Basic | $ (1.03) | $ (0.04) |
| Diluted | $ (1.03) | $ (0.04) |
| **Financial position and liquidity** | | |
| Total assets | $ 260,026 | $ 376,899 |
| Total long-term debt | $ 145,726 | $ 134,069 |
| Cash provided by operations | $ 9,195 | $ 2,335 |
| **Key non-GAAP performance measures*** | | |
| Adjusted earnings (loss) | $ (5,942) | $ (4,879) |
| EBITDAR | $ (3,049) | $ (2,434) |
| EBITDA | $ (3,988) | $ (4,184) |
| After-tax operating cash flow | $ (1,178) | $ (1,953) |
| 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 revenues for the three-month period ended January 31 are at the lowest point in the seasonal cycle. The Corporation expects to incur a loss from operations in the fourth quarter. In addition, repair and maintenance on aircraft are not incurred evenly during the year and the timing of these expenses can vary from year to year. Therefore, the Corporation's results for the quarter are not indicative of the results that may be expected for a full year.

### *Revenue and Hours Flown*

Revenues were $19.6 million for the three-month period ended January 31, 2009, compared to $20.2 million for the comparative period last year. Hours flown for the three-month period ended January 31, 2009 were 5,814 compared to 8,626 for the comparative period last year, representing a 33% decrease in year over year flight hours. The decrease in the year over year flight hours is attributable to the impact of the economic slow down experienced in the Northern Services segment. The reduction in Northern Services segment flight hours was largely offset by an increase in year over year flight hours from the Government Services segment. Revenues decreased by only 3% in spite of a 33% reduction in flight hours due to the strong contribution of the Government Services segment during the quarter.

The Northern Services segment generated revenues of $9.1 million from 4,411 flight hours for the three-month period ended January 31, 2009 compared to revenues of $13.1 million from 7,524 flight hours for the same period last year. The 41% reduction in flight hours was due to a dramatic reduction in demand for services in the fourth quarter, especially in the helicopter service operations. The economic slow down and tight capital and credit markets resulted in the segment's mining exploration and oil and gas sector customers to reducing their purchases of aviation services in the current year.

The Government Services segment generated revenues of $10.4 million for the three-month period ended January 31, 2009 compared to revenues of $7.0 million for the same period last year. The increase in year over year revenues was attributable to increased demand in the current quarter by DND for Top Aces' services compared to the same period last year. Top Aces is subject to quarterly fluctuations in demand for services due to short term priority shifts by DND. Top Aces added additional aircraft to its fleet during the fourth quarter which helped to contribute to higher year over year flight hours and revenue.

### *Operating Expenses*

Operating expenses were $23.6 million for the three-month period ended January 31, 2009, compared to $24.3 million for the comparable period last year. The marginal decrease in operating expense in the current quarter largely matched the decline in revenues due to efforts to curtail costs in light of the lower flight hour demand. A reduction in year over year costs in the Northern Services segment was offset by increased year over year costs in the Government Services segment.

The Northern Services segment incurred operating expenses totaling $14.9 million for the three-month period ended January 31, 2009 compared to $16.2 million for the same period last year. The segment reduced its operating costs during the quarter in response to a lower demand for its services.

The Government Services segment incurred operating expenses totaling $7.4 million for the three-month period ended January 31, 2009 compared to $6.5 million for the same period last year. The year over year increase is related to the segment's increase in revenue for the quarter.

Corporate support incurred operating expenses of $1.2 million for the three-month period ended January 31, 2009, compared to $1.7 million for the comparative period last year. The Corporation incurred non-cash stock-based compensation expense of $0.1 million in the current quarter compared to $0.5 million for the comparative period last year.

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

EBITDA loss was $4.0 million for the three-month period ended January 31, 2009, compared to EBITDA loss of $4.2 million for the comparative period last year. The level of EBITDA loss year over year was consistent despite weaker results from the Northern Services segment due to strong performance for the quarter from the Government Services segment. EBITDAR loss was $3.1 million for the three-month period ended January 31, 2009, compared to $2.4 million for the same period last year. Aircraft lease expense reduced year over year due to the lower flight hours in the Northern Services segment.

The Northern Services segment had EBITDA loss of $5.8 million for the three-month period ended January 31, 2009, compared to EBITDA loss of $3.1 million for the comparative period last year. The increase in year over year EBITDA loss was largely due to lower than expected revenue levels. EBITDAR loss for the three-month period ended January 31, 2009 was $5.1 million compared to EBITDAR loss of $1.7 million for the comparative period last year. Again the year over year EBITDAR was negatively impacted by lower than expected revenue levels.

The Government Services segment had EBITDA of $3.0 million for the three-month period ended January 31, 2009 compared to $0.6 million for the comparative period last year. EBITDAR for the three-month period ended January 31, 2009 was $3.2 million compared to EBITDAR of $0.8 million for the comparative period last year. Both EBITDA and EBITDAR were positively impacted by strong revenue results from Top Aces in the quarter, where additional aircraft were brought on line during the quarter which contributed to higher year over year flight hours being booked by its customer.

### *Finance Charges*

Finance charges were $2.9 million for the three-month period ended January 31, 2009, compared to $3.5 million for the same period last year. The lower finance charges in the current quarter reflect the reduction in interest rate charge on the Corporation's variable rate debt instruments.

### *Amortization Expenses*

*Amortization of buildings and equipment*

Total amortization of building and equipment expense for the current quarter was $2.2 million compared to $1.9 million for the same period last year. The increase in the amortization of buildings and equipment expense is a result of the increase in the Corporation's capital assets in the current year.

*Amortization of intangible assets*

Total amortization of intangible assets expense for the current quarter was $1.1 million compared to $1.2 million for the same period last year. The amortization of intangible assets relates to the periodic expensing of a portion of the purchase price for acquired companies attributable to certain identifiable intangible assets such as the estimated fair market value of customer relationships. The value attributable to customer relationships is amortized over a predetermined period.

### *Goodwill and Intangible Assets Impairment Charge*

The Corporation assessed all its long-lived assets as at January 31, 2009 and determined an impairment charge to goodwill of $121.6 million and an impairment charge to intangibles assets of $12.0 million The goodwill and intangible assets impairment charge of $133.6 million in the year did not impact the current nor will it impact the future year's amortization of buildings and equipment and intangible assets as the goodwill and intangibles assets impairment charge related to indefinite-lived assets. No impairment was realized on the Corporation's building and equipment or definite-lived intangible assets.

### *Income Taxes*

Income tax recovery was $4.7 million for the three-month period ended January 31, 2009, compared to a $5.8 million tax recovery for the same period last year. The prior year tax recovery reflects a significant future income tax adjustment related to a change in the enacted income tax rates in December of 2007. The Corporation's statutory rate for the three months ended January 31, 2009 was approximately 32% compared to 34% for the same period last year, with the effective rate slightly higher due to the non-deductibility of certain expenses such as stock-based compensation expense.

## RISK FACTORS

The activities undertaken by the Corporation involve a number of risks and uncertainties inherent in its industry and business operations, some of which are summarized below. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties not presently known to the Corporation, or that the Corporation currently deems immaterial, may also impair the operations of the Corporation. If any of the following risks actually materialize, the business, financial condition, liquidity or results of operations of the Corporation could be materially affected.

The current global credit crisis and economic recession, which are particularly severe in North America, are meaningfully impacting the Corporation's business. Current conditions are causing tremendous economic uncertainty. It is uncertain when the current recession will end or what the Corporation's prospects will be once the recession has ended and markets return to more normal conditions. The continuation of current economic conditions for an extended period of time could have a material adverse effect on the Corporation's profitability and financial condition. The Corporation has prepared a conservative operating and capital forecast for fiscal 2010 to monitor actual performance against and determine how these factors are affecting the Corporation's business. Management is focused on cost control to ensure that the Corporation's cost structure is effectively managed. Strong management focus on results should allow the Corporation to respond effectively to the current market uncertainty.

## *Industry Risk*

### *Seasonality and Cyclicality of Business*

Each of the Corporation's businesses is, to a degree, seasonal in nature. There is increased demand for the aviation and complementary services of Great Slave, Air Tindi, Hicks and Discovery Mining normally commencing in the spring and continuing through to the end of the summer. Top Aces revenue generating opportunities are significantly higher in the February to June and September to November time periods. The revenues for Top Aces are relatively predictable over a twelve month period but can vary greatly from month to month depending on its customer's priorities. Furthermore, the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue generating potential. As a result, the operations of the Corporation are subject to seasonal variations. Operating results therefore vary from quarter to quarter and results of one quarter may not be indicative of results that may be achieved for another quarter or the full year.

Furthermore, fluctuations in resource and oil and gas prices and access to capital can produce periods of high and low demand for aviation and aviation related services in some of the Corporation's businesses. During periods of low commodity prices, when access to capital and the cash flow of some of the Corporation's customers are restricted, demand for some of the services provided by the Corporation's Northern Services segment businesses may also be reduced. Conversely, during periods of high commodity prices, when capital is readily available and the cash flow of the Corporation's customers increases, the demand for the Corporation's services may increase.

### *Industry and Government Regulations*

The aircraft industry, both fixed wing and rotary wing, is subject to complex aviation, transportation, environmental, labour, employment and other laws and regulations. These laws and regulations generally require aircraft operators to maintain and comply with a variety of certificates, permits, licenses and other approvals. The ability of Great Slave, Air Tindi, Top Aces and Hicks to conduct business is dependent on their ability to maintain these licenses and certificates. There is no assurance that these operating companies will, for a reasonable cost, be able to remain in compliance with all applicable industry standards and regulations applicable to them in the future.

Great Slave, Air Tindi, Top Aces and Hicks are routinely audited by Transport Canada to ensure compliance with all flight operation and aircraft maintenance requirements. As of the date hereof, these operating companies are in compliance with all flight operation and aircraft maintenance requirements; however, there can be no assurance that they will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Corporation's business, results of operations or financial condition. As well, Top Aces is subject to regulation by DND as well as Transport Canada.

Great Slave, Air Tindi, Top Aces, Hicks and Discovery Mining are also subject to certain federal, provincial and local laws and regulations relating to environmental protection, including those governing past or present 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 operating companies 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.

As a commercial air operation, Top Aces is subject to the same level of regulatory scrutiny as the Corporation's other subsidiaries. However, due to the military nature of Top Aces' operation, Top Aces is subject to additional government regulations, such as Canadian controlled goods regulations, United States International Traffic in Arms Regulations, and similar foreign regulations. To date, Top Aces has been in compliance with all such laws and regulations, and has received all necessary permits; however, there can be no assurance that Top Aces will receive all necessary permits and be in compliance with all regulations in the future.

In addition, Top Aces is also subject to an additional level of regulatory approval under the DND's Airworthiness rules. Top Aces is regularly audited by DND Operational and Technical Airworthiness authorities. To date, Top Aces is in compliance with all technical and operational airworthiness requirements, but there can be no assurance that Top Aces will pass all audits in the future.

### *Competition*

Great Slave, Air Tindi and Discovery Mining face competition from larger national competitors as well as other regional competitors. Some of Great Slave's and Air Tindi's customers may also elect to perform their own aviation operations, and in the case of Discovery Mining, customers could elect to supply and service their own remote locations. Certain services may also be able to be provided by other types of aircraft not currently operated by Great Slave or Air Tindi.

To the knowledge of the Corporation, Top Aces is the only Canadian-based aviation company which currently posses the minimum operating requirements and security clearance in order to supply airborne training services to the DND; however, there is no assurance that competitors for this service will not arise in the future.

To the knowledge of the Corporation, no other Ontario-based aviation company currently possesses the necessary resources to support the services provided by Hicks. However, future Ontario-based or current or future out-of-province operators may be more suitably equipped to compete against Hicks for the provision of these services.

There can be no assurance that Great Slave, Air Tindi, Top Aces, Hicks and Discovery Mining will be able to compete successfully against their current or future competitors or that such competition will not have a material adverse effect on the Corporation's business, results of operations or financial condition.

### *Insurance*
The operations of Great Slave, Air Tindi, Top Aces and Hicks are subject to risks inherent in the air services industry in which they operate, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by these operating companies or their agents. The operating companies may not be able to obtain insurance covering all hazards associated with the air services that they provide. The availability of, and the ability to collect on, insurance coverage may be beyond the control of the operating companies. The operating companies 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. There can be no assurance that the Corporation will be able to obtain insurance at acceptable levels and costs in the future.

The operating companies may become subject to liability for hazards which they cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under their policies. The occurrence of an aircraft-related accident or mishap involving the operating companies could have a material adverse effect on their business, results of operations or financial condition. If the Corporation is held liable for uninsured hazards, the payment of those liabilities could reduce the potential for the Corporation’s expansion, development and marketing. 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' fleet could adversely affect the Corporation's business, results of operations or financial condition.

### *Lenders and Insurers*
An increasing number of financial institutions, alternative lenders and insurance companies have reported a significant deterioration in their financial condition. At this time, the Corporation has had no indication that its lenders, insurers and other financial institutions will be unable to fulfill their obligations under credit agreements, insurance policies and contracts. However, if, in the future, any significant lenders or insurers were unable to perform under such arrangements, and if the Corporation were unable to find suitable arrangements at a reasonable cost, our results from operations, liquidity and cash flows could be adversely impacted.

### *Foreign Currency Risk*
The Corporation's revenues are primarily in Canadian dollars. The Corporation is exposed to fluctuations in the Canada/US and Canada/Euro exchange rates due to payment obligations associated with the purchase of aircraft, margin requirements related to its aircraft financing and maintenance expenditures such as spare parts. As a result, a significant change in these exchange rates could have a material adverse effect on the Corporation's business, results of operations or financial condition.

### *Reliance on a Single Customer*
Top Aces’ revenue is derived from Standing Offer Agreements to provide airborne training services to the DND. These Standing Offer Agreements currently expire in March 2010. The government is not obligated to call up any Top Aces services under these Standing Offer Agreements and may cancel these Standing Offer Agreements at their convenience. Due to the essential nature of this military training, management does not believe it likely that these Standing Offer Agreements will be terminated or that there will be any substantial reduction in service required by the DND. In addition, Top Aces is currently the only supplier with approved airworthiness clearances under these Standing Offer Agreements. It is anticipated that these services will be put out for tender via a Request for Proposal to ensure continuation of the airborne training services beyond March 2010.

Hicks’ revenue from aerial forest fire services is derived from two contracts with the Ontario Government. These contracts expire at the end of the fire season in 2009, with the continuation of each contract for each new fiscal year being conditional upon a sufficient appropriation of funds by the Ontario Government so that payments under the contract may be satisfied. Given the nature of the services being provided, management believes that it is unlikely that the Ontario Government will discontinue appropriation of funds for these contracts. Either contract may be immediately terminated by the government agency by giving notice to Hicks upon occurrence of certain events of default, including Hicks becoming insolvent or breaching certain specified material terms or conditions of the contract, and may be terminated without cause by giving Hicks 30 days prior written notice.

## Business Risk

### Dependence on the Natural Environment

Weather conditions, which cannot be predicted, can greatly affect the number of flight hours in the Corporation's business units, and therefore could potentially have a material adverse effect on the Corporation's business, results of operations or financial condition.

### Replacement and Maintenance of Aircraft

Great Slave, Air Tindi, Top Aces and Hicks need aircraft to continue to conduct business as air operators. These companies cannot guarantee that they will be able to purchase aircraft in the future on acceptable terms. As well, the companies may face unexpected repairs to their aircraft that are beyond their control and that adversely affect their business. These companies cannot ensure that they will be able to obtain equipment or replacement parts on satisfactory terms when required.

### Dependence on Third Party Suppliers

The majority of spare parts and aircraft system components of Great Slave, Air Tindi, Top Aces and Hicks are purchased from third party suppliers. These suppliers are located throughout Canada, the United States and Europe, and in many cases have established long standing relationships with these operating companies. Contingent suppliers have been identified for a number of parts and components; however, as some items are of a highly specialized nature, they can only be purchased directly from an original equipment manufacturer. The inability of suppliers to provide Great Slave, Air Tindi, Top Aces or Hicks with the required parts and systems in a timely manner could result in these operating companies being unable to maintain flight operations at full capacity.

### Customers

Customers are typically invoiced for the Corporation's services in arrears. As a result, the Corporation is subject to its customers delaying or failing to pay invoices. During times of weak economic conditions, the risk of increased payment delays and failure to pay increases due to a reduction in customers' cash flow and challenges related to their ability to access debt and equity markets, among other factors.

### Aboriginal Relationships

A key part of the Corporation's Northern Services segment's business strategy is based on developing and maintaining positive relationships with the aboriginal people and communities in the areas where the businesses of the Northern Services segment operate. These relationships are important to the Northern Services segment's operations and customers who desire to work in the north. The inability to develop and maintain relationships and be in compliance with local requirements could adversely affect the Corporation's business strategy, growth and profitability.

### Agreements and Contracts

The business operations of the Corporation depend on successful execution of performance-based contracts. The key factors which will determine whether a customer will continue to use the Corporation's services will be service quality and availability, reliability and performance of aircraft used to perform its services, technical knowledge and experience, reputation for safety, and competitive price. There can be no assurance that the Corporation's relationships with its customers will continue, and a significant reduction or total loss of business from some of these customers, if not offset by sales to new or existing customers, could have a material adverse effect on the Corporation's business, financial condition and results of operations.

### Fuel Supply and Costs

Fuel prices are susceptible to political and terrorist events, weather conditions, refinery capacity and other factors that can affect the supply of fuel. While the majority of fuel costs are paid for by Great Slave's, Air Tindi's, Top Aces' and Hicks' customers, a significant change in the price of fuel or a fuel-supply shortage could have a material adverse effect on the Corporation's business, results of operations or financial condition.

### Fixed Costs

The profitability of the Corporation is directly related to demand for its aviation services. Given that a substantial portion of its operating expenses are fixed, a decrease in the Corporation's revenue could result in a disproportionately higher decrease in earnings because a substantial portion of its operating expenses would remain unchanged.

### Dependence on Key Personnel

The management teams in each of the Corporation's operating units are comprised of a number of highly experienced individuals, many of whom have held various operational positions at all levels of the aviation industry (and mining exploration support services in the case of Discovery Mining). The continued development and success of the Corporation are highly dependent on the skills, talents, and efforts of these individuals. The loss of the services of one or more of these individuals could have an adverse effect on the Corporation's business, results of operations or financial condition.

In conjunction with the completion of the recent $34.0 million term debt financing, the Corporation has agreed to relocate its corporate office functions to the Northwest Territories. The ability of the Corporation to successfully fulfill this obligation is dependent upon the retention of current key corporate staff located in Ontario for a long enough period to transition job functions and knowledge and the ability to hire qualified staff to fill the required job functions in the Northwest Territories.

### Dependence on Skilled Personnel

There is significant competition for employees with the skills required to perform the services provided by the Corporation. Qualified, capable personnel are in great demand and are likely to remain a scarce resource for the foreseeable future. There can be no assurance that the Corporation will be successful in attracting a sufficient number of highly skilled employees in the future, or that it will be successful in training, retaining and motivating the employees it is able to attract, and any inability to do so could impair the Corporation's ability to achieve its business objectives.

### Labour Relations

The employees of the Corporation and its subsidiaries are not unionized, but the Corporation cannot ensure that it will maintain a non-unionized workforce. If unionization occurs, the potential for labour disputes, such as strikes, may be increased. Any significant disputes could adversely affect the Corporation's business, results of operations or financial condition.

### Loan Default

The Corporation's current financing agreements impose certain covenant requirements. These agreements also contain cross default provisions. There is a risk that such loans may go into default if there is a breach in complying with such covenants which would allow the lenders to accelerate the repayment terms of their indebtedness or realize upon their security. The Corporation obtained a waiver until February 1, 2010 from its lenders for a financial covenant default that existed as of January 31, 2009. Additionally, it has entered into discussions with these lenders to establish new covenants for its fiscal year ended January 31, 2010.

### Need for Additional Financing

The Corporation is engaged in capital intensive businesses. In light of the high degree of economic uncertainty and the impact this uncertainty may have on the Corporation's businesses in the future, there is a risk the Corporation's cash flow may not be sufficient to fund its ongoing activities at all times. From time to time, the Corporation may require additional financing. Failure to obtain such financing on a timely basis could cause the Corporation to miss certain new business or acquisition opportunities or to reduce its operations. If the Corporation's revenues decrease, its ability to expend the necessary capital to maintain its operations could be adversely affected. If the Corporation's cash flow from operations is not sufficient to satisfy its capital expenditure requirements, there can be no assurance that additional debt or equity financing to meet these requirements will be available on terms acceptable to the Corporation.

### Interest Rates

The Corporation is exposed to financial risk that arises from fluctuations in interest rates and the interest cost associated with its long term debt. The Corporation holds a mix of fixed rate debt, primarily to finance acquisitions, and variable rate debt on its long term revolving credit facility. As well, the current credit environment is resulting in lenders taking the opportunity to readjust the pricing on their credit facilities to market rates if and when the opportunity presents itself. Changes in interest rates would cause fluctuations in the Corporation's operating results.

### Liquidity

The Corporation requires working capital to fund its seasonal operating activities. Management expects that the Corporation's operating cash flow, along with existing working capital and operating line of credit, will be sufficient to meet these requirements. The Corporation's uncommitted operating lines of credit are disclosed in note 9 to the consolidated financial statements for the years ended January 31, 2009 and 2008, and are available to meet fluctuations in working capital requirements. Lack of access to adequate working capital financing in its seasonally high period would have an adverse impact on the Corporation's operations, liquidity and financial position.

## SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

The 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 reported 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 and stock-based compensation. 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 the years ended January 31, 2009 and 2008. Management believes the following critical accounting estimates reflect the Corporation's more significant judgments used in the preparation of the financial statements.

### *Accounts Receivable*
The Corporation establishes an appropriate provision for non-collectible or doubtful accounts. Estimates of recoverable amounts are based on best estimates of the amount a customer will pay. Actual amounts received may be affected by various factors, including the resolution of disputed amounts and the customer's financial condition.

### *Inventory*
Inventory, consisting of aircraft parts and supplies, is stated at the lower of cost (on a first-in, first-out basis) and net realizable value. The Corporation regularly assesses the level of slow moving and obsolete parts and estimates any provision required based on several factors, including technology factors, the anticipated needs and the passage of time.

### *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 life of aircraft are capitalized and amortized over their life 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.

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

### *Goodwill*
Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is not amortized and the Corporation tests goodwill for impairment on an annual basis during the fourth quarter of each year, and at any other time when circumstances or events have occurred that would more likely than not reduce the long term fair value below the carrying value of its reporting units. The goodwill impairment test is a two-step process. In the first step, the Corporation compares the fair value of its reporting units to their carrying value, which includes the goodwill allocated to each 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 the reporting unit to be allocated to the underlying assets and liabilities of that reporting unit which results in the determination of the fair value of goodwill.
When the carrying value of the 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

Consolidated Statements of Earnings (Loss). The assessment of goodwill impairment is not a mechanical exercise and requires the use of considerable estimates, assumptions and management judgments. The assessment is of goodwill impairment is subject to significant measurement uncertainty and are susceptible to change as management as management is required to make material forward-looking assumptions.

### *Impairment of long-lived assets*
Long-lived assets, including land, building and equipment and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. The assessment of impairment to long-lived assets is not a mechanical exercise and requires the use of considerable estimates, assumptions and management judgments. The assessment is of long-lived asset impairment is subject to significant measurement uncertainty and are susceptible to change as management as management is required to make material forward-looking assumptions.

### *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. 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 it operates in.

### *Stock-based compensation*
The Corporation has a stock-based compensation plan which is described in Note 11 to the consolidated financial statements for the years ended January 31, 2009 and 2008. The Corporation 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.

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

## *Recently Adopted Standards*

*Financial instruments – presentation and disclosure*
In December 2006, the Accounting Standards Board ("AcSB") issued Handbook Section 3862, *Financial Instruments – Disclosure,* and Section 3863*, Financial Instruments Presentation,* which became effective for the Corporation on February 1, 2008. These standards revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance on classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The adoption of these standards resulted in additional disclosures in the consolidated financial statements for the years ended January 31, 2009 and 2008.

*Inventories*
In May 2007, the AcSB issued Handbook Section 3031, *Inventories*, which supersedes Handbook Section 3030 and became effective for the Corporation on February 1, 2008. The standard introduces significant changes to the measurement and disclosure of inventory. The measurement changes include: the elimination of LIFO, the requirement to measure inventories at the lower of cost and net realizable value, the allocation of overhead based on normal capacity, the use of specific cost method for inventories that are not ordinarily interchangeable or goods and services produced for specific purposes, the requirement for an entity to use a consistent cost formula for inventory of a similar nature and use, and the reversal of previous write-downs to net realizable value when there is a subsequent increase in the value of inventories. Disclosures of inventories have also been enhanced. Inventory policies, carrying amounts, amounts recognized as an expense, write-downs and the reversals of write-downs are required to be disclosed. The adoption of

this standard did not have a material impact on the consolidated financial statements for the years ended January 31, 2009 and 2008.

*Capital disclosures*

In December 2006, the AcSB issued Handbook Section 1535, *Capital Disclosures*, which became effective for the Corporation on February 1, 2008. The standard establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital. The adoption of this standard resulted in additional disclosures in the consolidated financial statements for the years ended January 31, 2009 and 2008.

## Recently Issued Standards

*Goodwill and intangible assets*

In February 2008, the AcSB issued Handbook Section 3064, *Goodwill and Other Intangible Assets* replaces Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development*. The section establishes standards for recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets. The Corporation will adopt the new accounting standard on February 1, 2009 and its adoption is not expected to have a material impact on the Corporation's financial statements.

*Business combinations*

In January 2009, the AcSB issued Handbook Section 1582, *Business Combinations* which replaced the former Handbook Section 1581, *Business Combinations.* This new section will be equivalent to International Financial Reporting Standards ("IFRS") 3- *Business Combinations*. See "*International Financial Reporting Standards*" below for further discussion on the impact of IFRS. Section 1582 will require additional use of fair value measurements, recognition of additional assets and liabilities and increased disclosure. This standard will become effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period on or after February 1, 2011. The Corporation is assessing whether it will apply the new accounting standard at the beginning of fiscal 2012 or elect to early adopt the new accounting standards in order to minimize the amount of retroactive application when the Corporation adopts IFRS.

*Consolidated financial statements and non-controlling interest*

In January 2009, the AcSB issued Handbook Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests* which replaced the former Handbook Section 1600, *Consolidated Financial Statements* and establish a new method of accounting for a non-controlling interest and subsidiary. These sections will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity. The Corporation will adopt the new accounting standards concurrently with the adoption of the new Handbook Section 1582 – *Business Combinations* (see above) and is currently assessing the impact that the adoption of these standards will have on its consolidated financial statements.

*International Financial Reporting Standards ("IFRS")*

In February 2008, the CICA Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. The Corporation's first annual IFRS consolidated financial statements will be for the year ending January 31, 2012 and will include the comparative period of fiscal 2011. The Corporation is in the process of completing a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP, including the determination of the impacts of these differences on the consolidated financial statements. As a result, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. As this assessment progresses, the Corporation intends to disclose such impacts in its future consolidated financial statements.

## Non-GAAP Measures

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

The following is a reconciliation of EBITDA and EBITDAR to net earnings:

| | *for the year ended* | | *for the three months ended* | |
|---|---|---|---|---|
| (thousands of dollars) | **January 31 2009** | **January 31 2008** | **January 31 2009** | **January 31 2008** |
| | | | (unaudited) | (unaudited) |
| Net Earnings (Loss) | $ (130,325) | $ 7,499 | $ (139,139) | $ (4,879) |
| Income tax provision (recovery) | (420) | 977 | (4,714) | (5,849) |
| Financing charges | 12,306 | 10,291 | 2,944 | 3,473 |
| Amortization | 12,965 | 9,397 | 3,325 | 3,047 |
| Impairment of goodwill and intangible assets | 133,579 | - | 133,579 | - |
| Non-controlling interest | 337 | 288 | 17 | 24 |
| EBITDA | $ 28,442 | $ 28,452 | $ (3,988) | $ (4,184) |
| Aircraft lease expenses | 11,607 | 12,533 | 939 | 1,750 |
| EBITDAR | $ 40,049 | $ 40,985 | $ (3,049) | $ (2,434) |

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 in prior years.

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

| | *for the year ended* | | *for the three months ended* | |
|---|---|---|---|---|
| (thousands of dollars) | **January 31 2009** | **January 31 2008** | **January 31 2009** | **January 31 2008** |
| | | | (unaudited) | (unaudited) |
| Net earnings | $ (130,325) | $ 7,499 | $ (139,139) | $ (4,879) |
| Future income tax expense (recovery) | (676) | (1,427) | (685) | (1,807) |
| Stock-based compensation | 890 | 2,030 | 128 | 479 |
| Amortization of buildings and equipment and intangible assets | 12,965 | 9,397 | 3,325 | 3,047 |
| Amortization of rotable and overhauled component | 5,525 | 3,280 | 1,030 | 778 |
| Amortization of discount of long-term debt | 1,301 | 819 | 336 | 405 |
| Loss (gain) on sale of long-lived assets | (277) | 7 | 231 | |
| Impairment of goodwill and intangible assets | 133,579 | - | 133,579 | - |
| Non-controlling interest | 337 | 288 | 17 | 24 |
| After-tax cash flow | $ 23,319 | $ 21,893 | $ (1,178) | $ (1,953) |
| After-tax cash flow per share | $ 0.17 | $ 0.18 | $ (0.01) | $ (0.01) |

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

The following is a reconciliation of adjusted earnings:

| (thousands of dollars) | for the year ended January 31 2009 | for the year ended January 31 2008 | for the three months ended January 31 2009 (unaudited) | for the three months ended January 31 2008 (unaudited) |
|---|---|---|---|---|
| Net earnings | $ (130,325) | $ 7,499 | $ (139,139) | $ (4,879) |
| Impairment on goodwill and intangible assets | 133,579 | - | 133,579 | - |
| Income tax provision (recovery) related to impairment of goodwill and intangible assets | (382) | - | (382) | - |
| Adjusted earnings (loss) | $ 2,872 | $ 7,499 | $ (5,942) | $ (4,879) |

## *SEGMENTED INFORMATION*

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the market in which the Corporation's aviation and related service providers operate. The Northern Services segment is comprised of Great Slave, Air Tindi and Discovery Mining and the Government Services segment is comprised of Top Aces and Hicks. The Northern Services segment's primary market is Northern Canada. This segment has a wide customer base servicing companies in the business of mineral, base and precious metal exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, seismic, air ambulance, scheduled charters and tourism. The Government Services segment provides niche services primarily aimed at government entities. All other activities that are not allocated to these two business segments are reported under Corporate Support.

| (thousands of dollars) | for the year ended January 31, 2009 | | | | for the year ended January 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support | Total |
| **Revenue** | **$ 104,440** | **$ 47,468** | **$ 22** | **$ 151,930** | **$ 104,301** | **$ 19,122** | **$ 131** | **$ 123,554** |
| Operating expenses | 88,702 | 29,343 | 5,443 | 123,488 | 74,436 | 14,863 | 5,803 | 95,102 |
| Amortization | 8,762 | 4,136 | 67 | 12,965 | 7,204 | 2,156 | 37 | 9,397 |
| Goodwill impairment charge | 120,496 | 1,085 | - | 121,581 | - | - | - | - |
| Intangible assets impairment charge | 11,998 | - | - | 11,998 | - | - | - | - |
| Income (loss) from operations before undernoted items | (125,518) | 12,904 | (5,488) | (118,102) | 22,661 | 2,103 | (5,709) | 19,055 |
| Financing costs | | | | 12,306 | | | | 10,291 |
| Income tax provision (recovery) | | | | (420) | | | | 977 |
| Non-controlling interest | | | | 337 | | | | 288 |
| **Net income** | | | | **$ (130,325)** | | | | **$ 7,499** |
| **Total assets** | **$ 145,699** | **$ 111,960** | **$ 2,367** | **$ 260,026** | **$ 278,856** | **$ 97,914** | **$ 129** | **$ 376,899** |
| **Goodwill** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** | **$ 120,497** | **$ 38,946** | **$ -** | **$ 159,443** |
| **Intangible assets** | **$ 12,225** | **$ 15,838** | **$ -** | **$ 28,063** | **$ 26,374** | **$ 18,154** | **$ -** | **$ 44,528** |
| **Capital expenditures** | **$ 17,876** | **$ 15,196** | **$ 50** | **$ 33,122** | **$ 19,952** | **$ 7,869** | **$ 239** | **$ 28,060** |

| (thousands of dollars) | for the three months ended January 31, 2009 | | | | for the three months ended January 31, 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support | Total |
| **Revenue** | **$ 9,142** | **$ 10,434** | **$ 14** | **$ 19,590** | **$ 13,091** | **$ 7,038** | **$ 32** | **$ 20,161** |
| Operating expenses | 14,934 | 7,435 | 1,209 | 23,578 | 16,179 | 6,495 | 1,671 | 24,345 |
| Amortization | 2,240 | 1,069 | 16 | 3,325 | 1,921 | 1,110 | 16 | 3,047 |
| Goodwill impairment charge | 120,496 | 1,085 | - | 121,581 | - | - | - | - |
| Intangible assets impairment charge | 11,998 | - | - | 11,998 | - | - | - | - |
| Income (loss) from operations before undernoted items | (140,526) | 845 | (1,211) | (140,892) | (5,009) | (567) | (1,655) | (7,231) |
| Financing costs | | | | 2,944 | | | | 3,473 |
| Income tax provision (recovery) | | | | (4,714) | | | | (5,849) |
| Non-controlling interest | | | | 17 | | | | 24 |
| **Net income** | | | | **$ (139,139)** | | | | **$ (4,879)** |
| **Total assets** | **$ 145,699** | **$ 111,960** | **$ 2,367** | **$ 260,026** | **$ 278,856** | **$ 97,914** | **$ 129** | **$ 376,899** |
| **Goodwill** | **$ -** | **$ 37,862** | **$ -** | **$ 37,862** | **$ 120,497** | **$ 38,946** | **$ -** | **$ 159,443** |
| **Intangible assets** | **$ 12,225** | **$ 15,838** | **$ -** | **$ 28,063** | **$ 26,374** | **$ 18,154** | **$ -** | **$ 44,528** |
| **Capital expenditures** | **$ 2,611** | **$ 4,340** | **$ 3** | **$ 6,954** | **$ 2,434** | **$ 5,778** | **$ 129** | **$ 8,341** |

## *Segmented breakdown of EBITDA and EBITDAR*

| (thousands of dollars) | *for the year ended January 31, 2009* | | | | *for the year ended January 31, 2008* | | | |
|---|---|---|---|---|---|---|---|---|
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support | Total |
| Revenue | $ 104,440 | $ 47,468 | $ 22 | $ 151,930 | $ 104,301 | $ 19,122 | $ 131 | $ 123,554 |
| Operating expenses | 88,702 | 29,343 | 5,443 | 123,488 | 74,436 | 14,863 | 5,803 | 95,102 |
| **EBITDA** | **$ 15,738** | **$ 18,125** | **$ (5,421)** | **$ 28,442** | **$ 29,865** | **$ 4,259** | **$ (5,672)** | **$ 28,452** |
| Aircraft lease expenses | 10,575 | 1,032 | - | 11,607 | 12,146 | 387 | - | 12,533 |
| **EBITDAR** | **$ 26,313** | **$ 19,157** | **$ (5,421)** | **$ 40,049** | **$ 42,011** | **$ 4,646** | **$ (5,672)** | **$ 40,985** |

| (thousands of dollars) | *for the three-month ended January 31, 2009* | | | | *for the three-month ended January 31, 2008* | | | |
|---|---|---|---|---|---|---|---|---|
| | Northern Services | Government Services | Corporate Support | Total | Northern Services | Government Services | Corporate Support | Total |
| Revenue | $ 9,142 | $ 10,434 | $ 14 | $ 19,590 | $ 13,091 | $ 7,038 | $ 32 | $ 20,161 |
| Operating expenses | 14,934 | 7,435 | 1,209 | 23,578 | 16,179 | 6,495 | 1,671 | 24,345 |
| **EBITDA** | **$ (5,792)** | **$ 2,999** | **$ (1,195)** | **$ (3,988)** | **$ (3,088)** | **$ 543** | **$ (1,639)** | **$ (4,184)** |
| Aircraft lease expenses | 724 | 215 | - | 939 | 1,451 | 299 | - | 1,750 |
| **EBITDAR** | **$ (5,068)** | **$ 3,214** | **$ (1,195)** | **$ (3,049)** | **$ (1,637)** | **$ 842** | **$ (1,639)** | **$ (2,434)** |

### *Other Selected Yearly Financial Information*

| (thousands of dollars, except per share amounts) | | Year ended January 31 2009 | | Year ended January 31 2008 | | Year ended January 31 2007* |
|---|---|---|---|---|---|---|
| | | (audited) | | (audited) | | (unaudited) |
| Revenue | $ | 151,930 | $ | 123,554 | $ | 47,442 |
| Operating expenses | $ | 123,488 | $ | 95,102 | $ | 36,503 |
| EBITDA** | $ | 28,442 | $ | 28,452 | $ | 10,939 |
| Financing costs | $ | 12,306 | $ | 10,291 | $ | 2,821 |
| Amortization | $ | 12,965 | $ | 9,397 | $ | 3,369 |
| Goodwill & intangible assets impairment charge | $ | 133,579 | $ | - | $ | - |
| Net earnings (loss) | $ | (130,325) | $ | 7,499 | $ | 3,716 |
| Earnings (loss) per common share: | | | | | | |
| Basic | $ | (0.96) | $ | 0.06 | $ | 0.06 |
| Diluted | $ | (0.96) | $ | 0.06 | $ | 0.05 |
| Total assets | $ | 260,026 | $ | 376,899 | $ | 279,643 |
| Total long-term debt | $ | 145,726 | $ | 134,069 | $ | 88,947 |

* The Corporation changed its fiscal year end from October 31 to January 31 effective for the period ended January 31, 2007. To allow for more meaningful comparison, unaudited 12 months results of operations have been provided for this period. The results of operations are impacted by the Corporation's acquisition of five businesses over the past three years and therefore the year over year comparison of the results of operations will be impacted by the timing of these acquisitions.

** See Non-GAAP measures

## *SUMMARY OF QUARTERLY RESULTS*

| (thousands of dollars except per share amounts) | 2009 | | | | 2008 | | | |
|---|---|---|---|---|---|---|---|---|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Results of operations:** | | | | | | | | |
| Total revenue | $ 19,590 | $ 42,536 | $ 59,050 | $ 30,754 | $ 20,161 | $ 42,789 | $ 44,258 | $ 16,346 |
| Operating expenses | 23,578 | 32,042 | 39,429 | 28,439 | 24,345 | 28,077 | 25,530 | 17,150 |
| EBITDA | (3,988) | 10,494 | 19,621 | 2,315 | (4,184) | 14,712 | 18,728 | (804) |
| Amortization | 3,325 | 3,309 | 3,214 | 3,117 | 3,047 | 2,590 | 1,432 | 2,328 |
| Financing costs | 2,944 | 3,151 | 3,186 | 3,025 | 3,473 | 2,771 | 2,127 | 1,920 |
| Goodwill and intangible assets impairment charge | 133,579 | - | - | - | - | - | - | - |
| Earnings (loss) before income taxes and non-controlling interest | (143,836) | 4,034 | 13,221 | (3,827) | (10,704) | 9,351 | 15,169 | (5,052) |
| Income tax provision (recovery) | (4,714) | 1,322 | 4,136 | (1,164) | (5,849) | 3,327 | 4,965 | (1,466) |
| Non-controlling interest | 17 | 67 | 216 | 37 | 24 | 122 | 147 | (5) |
| Net earnings (loss) | $ (139,139) | $ 2,645 | $ 8,869 | $ (2,700) | $ (4,879) | $ 5,902 | $ 10,057 | $ (3,581) |
| Earnings (loss) per share | | | | | | | | |
| -basic | $ (1.03) | $ 0.02 | $ 0.07 | $ (0.02) | $ (0.04) | $ 0.05 | $ 0.09 | $ (0.03) |
| -diluted | $ (1.03) | $ 0.02 | $ 0.07 | $ (0.02) | $ (0.04) | $ 0.05 | $ 0.09 | $ (0.03) |

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

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Disclosure controls and procedures have been designed to ensure 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 of the end of the period covered by the annual filings, that the Corporation's disclosure controls and procedures, as of the end of such period, are effective and provide reasonable assurance that material information related to the Corporation, including its consolidated subsidiaries, is made known to them by others within those entities.

The Chief Executive Officer and the Chief Financial Officer are responsible for the design of internal controls over financial reporting ("ICFR"), or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The control framework that has been used is the COSO framework. Under the supervision of the Corporation's Chief Executive Officer and Chief Financial Officer, an evaluation was made of the effectiveness of the Corporation's ICFR as at January 31, 2009. The Corporation's certifying officers have concluded they are able to make the certifications as required by applicable Canadian Securities law but management of the Corporation wish to provide additional disclosure in this management's discussion and analysis regarding the operation of the Corporation's internal controls over financial reporting. The Corporation identified a potential material internal control weakness in the operation in one of its subsidiaries that was investigated and remediated prior to the Corporation's fiscal year end. Notwithstanding the potential identified weakness, the Corporation has concluded that the consolidated financial statements fairly present the Corporation's consolidated financial position and consolidated results of operations as at and for the year ended January 31, 2009. Other than the remediation actions taken, there were no other changes in the Corporation's ICFR during the most recent interim period that have materially affected, or are reasonably likely to materially affect, the Corporation's ICFR.

It should be noted that, while the Corporation's Chief Executive Officer and Chief Financial Officer believe that the Corporation's controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the controls and procedures will prevent all errors and fraud. The inherent limitations include the realities that judgments in decision-making can be faulty, controls can be circumvented by individual acts of some persons or by collusion of two or more people or management can override of the controls. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

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

**Dated: April 30, 2009**

## FORWARD-LOOKING STATEMENTS

The statements in this management's discussion and analysis which relate to the future are forward-looking statements. 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; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implicated by the foregoing.

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