Consolidated Financial Statements of

DISCOVERY AIR INC.

Years ended January 31, 2014 and 2013

KPMG LLP
Bay Adelaide Centre
333 Bay Street Suite 4600
Toronto ON M5H 2S5

Telephone (416) 777-8500
Fax (416) 777-8818
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Discovery Air Inc.

We have audited the accompanying consolidated financial statements of Discovery Air Inc., which comprise the consolidated statements of financial position as at January 31, 2014 and January 31, 2013, the consolidated statements of profit (loss), comprehensive income (loss), shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Discovery Air Inc. as at January 31, 2014 and January 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards**.**

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
Toronto, Canada
May 1, 2014

DISCOVERY AIR INC.

Consolidated Statements of Financial Position

As at January 31, 2014 and 2013 (thousands of Canadian dollars)	Note	January 31, 2014	January 31, 2013
Assets			
Current assets:			
Cash		$ -	$ 5,806
Restricted cash	24	-	543
Trade and other receivables	22	24,040	26,417
Income taxes receivable		3,931	2,283
Inventory	5	23,553	20,927
Prepaid expenses and other		8,162	5,537
		59,686	61,513
Property and equipment	6	187,852	188,141
Long term receivables	10	3,430	2,061
Goodwill	4,8	37,861	40,722
Intangible assets	9	6,389	10,313
Investments in Equity accounted investees	10	4,937	3,474
		$ 300,155	$ 306,224
Liabilities and Shareholders' equity			
Current liabilities:			
Operating line of credit	12	$ 11,307	$ -
Trade and other payables		27,817	23,283
Current portion of contingent consideration for business acquisition	4	750	750
Current portion of loans and borrowings	11	7,669	7,057
		47,543	31,090
Contingent consideration for business acquisition	4	-	1,881
Loans and borrowings	11	153,612	153,927
Deferred income taxes	14	22,146	24,698
		175,758	180,506
Shareholders' equity:			
Share capital	15	68,469	68,469
Contributed surplus		11,353	11,078
Retained earnings (deficit)		(2,946)	15,009
Accumulated other comprehensive Income (loss)		(22)	64
Equity attributable to shareholders of Discovery Air Inc.		76,854	94,620
Equity attributable to non-controlling interest		-	8
Total equity		76,854	94,628
		$ 300,155	$ 306,224

See accompanying notes to the consolidated financial statements.

On behalf of the Board

"Brian Semkowski" (signed)	**"James L. Goodfellow" (signed)**
Director	Director

DISCOVERY AIR INC.

Consolidated Statements of Profit (Loss)

Years ended January 31, 2014 and 2013

(thousands of Canadian dollars, except per share amounts)	Note	**January 31, 2014**	January 31, 2013
Revenue		**$ 213,526**	$ 229,353
Expenses	16	**190,572**	188,657
Depreciation of property, equipment and intangible assets		**22,985**	22,860
		(31)	17,836
Finance costs	17	**17,561**	17,378
Share of profit of Equity accounted investees (net of income tax)	10	**(1,804)**	(665)
Other (gains) and losses	19	**7,830**	78
		23,587	16,791
Profit (loss) before income taxes		**(23,618)**	1,045
Income tax provision (recovery):			
Current	14	**(3,427)**	(1,025)
Deferred	14	**(2,236)**	1,572
		(5,663)	547
Profit (loss)		**$ (17,955)**	$ 498
Profit (loss) attributable to:			
Non-controlling interest		**-**	(98)
Shareholders' of Discovery Air Inc.		**(17,955)**	596
		$ (17,955)	$ 498
Basic earnings (loss) per share	18	**$ (1.21)**	$ 0.04
Diluted earnings (loss) per share	18	**$ (1.21)**	$ 0.04

Consolidated Statements of Comprehensive Income (Loss)

Years ended January 31, 2014 and 2013

(thousands of Canadian dollars)	Note	**January 31, 2014**	January 31, 2013
Profit (loss)		**$ (17,955)**	$ 498
Other comprehensive income (loss):			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operation	4	**(86)**	64
Total comprehensive income (loss)		**$ (18,041)**	$ 562
Total comprehensive income (loss) attributable to:			
Non-controlling interest		**-**	(98)
Shareholders' of Discovery Air Inc.		**(18,041)**	660
		$ (18,041)	$ 562

See accompanying notes to the consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity

Years ended January 31, 2014 and 2013

(thousands of Canadian dollars)

	Note	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive Income (loss)	Non-controlling interest	Total equity
Balance at January 31, 2013		**$ 68,469**	**$ 11,078**	**$ 15,009**	**$ 64**	**$ 8**	**$ 94,628**
Loss		**-**	**-**	**(17,955)**	**-**	**-**	**(17,955)**
Acquisition of non-controlling interest		**-**	**-**	**-**	**-**	**(8)**	**(8)**
Other comprehensive loss		**-**	**-**	**-**	**(86)**	**-**	**(86)**
Share-based compensation	15(c)	**-**	**275**	**-**	**-**	**-**	**275**
Balance at January 31, 2014		**$ 68,469**	**$ 11,353**	**$ (2,946)**	**$ (22)**	**$ -**	**$ 76,854**
Balance at January 31, 2012		$ 68,469	$ 9,727	$ 14,413	$ -	$ 89	$ 92,698
Profit (loss)		-	-	596	-	(98)	498
Other comprehensive income		-	-	-	64	-	64
Amendment of convertible debentures	11(a)	-	1,217	-	-	-	1,217
Share-based compensation	15(c)	-	134	-	-	-	134
Acquisition		-	-	-	-	17	17
Balance at January 31, 2013		$ 68,469	$ 11,078	$ 15,009	$ 64	$ 8	$ 94,628

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows

Years ended January 31, 2014 and 2013

(thousands of Canadian dollars)	Note	**January 31, 2014**	January 31, 2013
Cash Provided by (used in)			
Operating activities:			
Profit (loss)		**$ (17,955)**	$ 498
Adjustments for:			
Current tax expense	14	**(3,427)**	(1,025)
Deferred tax expense (recovery)	14	**(2,236)**	1,572
Finance costs	17	**17,561**	17,378
Share-based compensation	15	**307**	385
Depreciation of property, equipment and intangible assets		**22,985**	22,860
Share of profit of Equity accounted investees (net of income tax)	10	**(1,804)**	(665)
Other (gains) and losses	19	**7,830**	78
		23,261	41,081
Change in non-cash operating working capital	20	**(713)**	(1,592)
Interest paid		**(6,574)**	(7,601)
Net income taxes paid (received)		**1,905**	(4,277)
Net cash provided by operating activities		**17,879**	27,611
Investing activities:			
Distributions from equity accounted investees	10	**341**	98
Acquisition of property and equipment		**(21,515)**	(38,537)
Acquisition of subsidiaries, net of cash acquired	4	**(7,222)**	(11,702)
Long term receivables collections		**263**	350
Proceeds on disposal of property and equipment		**2,210**	369
Proceeds on disposal of subsidiary	7	**1,216**	-
Net cash used in investing activities		**(24,707)**	(49,422)
Financing activities:			
Proceeds from operating line of credit	12	**11,307**	-
Loans and borrowings transaction costs		**(53)**	(1,297)
Proceeds from loans and borrowings		**-**	57,256
Repayment of contingent consideration for business acquisition		**(750)**	-
Repayment of loans, borrowings and finance leases		**(9,482)**	(41,438)
Net cash provided by financing activities		**1,022**	14,521
Decrease in cash		**(5,806)**	(7,290)
Cash, balance beginning of period		**5,806**	13,096
Cash, balance end of period		**$ -**	$ 5,806

See accompanying notes to the consolidated financial statements.

1. Reporting entity:

Discovery Air Inc. (the "**Corporation**") was incorporated on November 12, 2004 under the Ontario *Business Corporations Act* and on March 27, 2006 was continued under the *Canada Business Corporations Act*. The Corporation's Class A common voting shares (the "**Class A Shares**") are traded on the Toronto Stock Exchange ("**TSX**") under the symbol "DA.A". The Corporation also has Class B common variable voting shares (the "**Class B Shares**"), which are not listed for trading on any exchange (the Class B Shares and the Class A Shares are collectively referred to as the "**Shares**"). The address of the registered office was changed on June 11, 2013 to 170 Attwell Drive, Suite 370, Etobicoke, Ontario. The Corporation operates through two business segments, "Aviation" and "Corporate Support and Other". The consolidated financial statements of the Corporation as at and for the year ended January 31, 2014 comprise the Corporation and its subsidiaries and their interest in associates. Through direct and indirect subsidiaries, the Corporation operates over 160 aircraft with approximately 850 employees.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board, and were authorized for issue by the Corporation's board of directors on April 30, 2014.

(b) Basis of presentation:

These consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency.

These consolidated financial statements have been prepared on the historical cost basis, except for liabilities for cash-settled share-based payment arrangements and embedded derivatives in the Corporation's 10.00% secured convertible debentures (the "**Secured Debentures**") (see note 11(a)), which were measured at fair value. Beginning March 26, 2012, the Corporation ceased fair valuing the Secured Debentures as the original embedded derivatives in this instrument giving rise to fair valuing was no longer present as a result of amendments made to the Secured Debentures effective at this date.

(c) Foreign operations:

The functional and presentation currency of the Corporation is the Canadian dollar. Each of the Company's subsidiaries determines its functional currency and items included in the financial statements of each subsidiary are measured using that functional currency. The Corporation has a Chilean subsidiary whose functional currency is the Chilean Peso and a US subsidiary whose functional currency is the U.S. dollar (see note 4). The consolidated financial results may vary between periods due to the effect of foreign exchange fluctuations in translating the revenues and expenses of the Corporation's operations in Chilean pesos and U.S. dollars to Canadian dollars. The assets and liabilities of the Corporation's foreign subsidiaries are translated to Canadian dollars at exchange rates applicable at each reporting date. Income and expenses are translated to Canadian dollars at exchange rates applicable at the dates of the transactions. Foreign currency translation differences relating to the impact of changes in exchange rates on the net assets of the foreign subsidiaries are recognized in other comprehensive income ("**OCI**"). The Corporation's other subsidiaries have a Canadian dollar functional currency.

Transactions in foreign currencies are translated to the respective functional currencies at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting dates are translated to the functional currency at the exchange rates at that date. The resulting foreign exchange gains and losses are recognized in profit or loss in the Consolidated Statements of Profit (Loss). Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rates.

When a foreign operation is disposed of, the relevant amount in accumulated OCI is transferred to the Consolidated Statement of Profit (Loss) as part of the gain or loss on disposal. On the partial disposal of a subsidiary that includes a foreign operation, the relevant proportion of such cumulative amount is reattributed to non-controlling interest. In any other partial disposal, when control is lost, of a foreign operation, the relevant proportion is reclassified to the Consolidated Statement of Profit (Loss).

(d) Use of estimates and judgments:

i) Property and equipment:

Depreciation methods require management's judgment in selecting the most appropriate method that reflects the pattern in which its future economic benefit is expected to be consumed over the useful life of the asset. These judgments are based on industry standards and the Corporation's specific history and experience.

Depreciation also requires management's judgment on the componentization of the Corporation's assets, as each part of an item in property and equipment should be depreciated separately. Judgment is required in determining which components constitute a significant cost in relation to the total cost of the asset.

Management must estimate the economic useful life, and the residual value in determining the periodic depreciation charge.

The impairment of property and equipment requires management's judgment in determining if an indicator for impairment exists, which is based on management's assessment of internal and external sources of information. If an indicator does exist and it is not possible to estimate the recoverable amount of the individual asset, then the Corporation should determine the recoverable amount of the cash-generating unit ("**CGU"**) to which the asset belongs. Determining the CGU's requires management's judgment in identifying the smallest group of assets that includes the asset in question and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In determining the classification of a lease as either finance or an operating lease, judgment is required in assessing whether substantially all of the risks and rewards incidental to ownership are transferred.

ii) Intangible assets and goodwill:

In determining if an intangible asset should be recognized, management must use judgment to assess the probability that future economic benefits will flow to the Corporation, if the costs are measurable, and whether the life of the intangible asset is finite or indefinite.

If the intangible asset is determined to have an indefinite useful life it should be reviewed annually to determine, if in management's judgment, events or circumstances continue to support an indefinite useful life assessment.

The fair value of the intangible assets purchased in a business combination requires management to use judgment and estimates when no market exists for the intangible assets. Judgment is required in selecting valuation techniques, and in applying the techniques judgments and estimates are required when determining various inputs, such as future cash flows, attrition rates for customer relationships, royalty rates for trade names, discount rates in calculating present values, and growth rates expected by the Corporation.

Amortization methods for intangible assets require management's judgment and estimates, as described in property and equipment.

The impairment of goodwill and intangible assets requires management's judgment in determining if an indicator for impairment exists, which is based on management's assessment of internal and external sources of information. Irrespective of indicators, goodwill and indefinite life intangible assets are also tested annually. In determining if impairment exists, the carrying amount of the asset is compared to the recoverable amount. The recoverable amount is defined as the higher of the assets or CGU's fair value less costs to sell and its value in use. In calculating the value in use, judgment is required in determining future operating plans, discount rates and future growth rates. If it is not possible to estimate the recoverable amount of the individual intangible asset, then the Corporation determines the recoverable amount of the CGU to which the asset belongs. Determining the assets of the CGU requires management's judgment in identifying the smallest group of assets that includes the asset in question and generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. In conducting impairment tests, estimates are required by management to determine fair values, selling costs, future cash flows, discount and interest rates.

iii) Business combinations:

The Corporation's acquisitions are accounted for using the acquisition method. In identifying and measuring the assets acquired, management is required to make judgments, in particular in the identification and measurement of intangible assets and goodwill. See above for judgments and estimates required in the recognition and measurement of intangible assets and goodwill.

Significant judgments and estimates were made in determining the contingent purchase price for Helicopters.cl SpA (formerly, Servicios Aereos Helicopters.cl Ltda) ("**Helicopters Chile**") and the purchase of Advanced Training Systems International, Inc. ("**ATSI**") (see note 4), including what management expects to be the final purchase price, and the present values of the expected future cash flows.

iv) Stage of completion of long-term contracts:

In recording long-term service contract revenue, the Corporation makes estimates of the stage of completion of each long-term contract by comparing the actual costs incurred to the total estimated costs of the contract. These estimates are subject to change which would impact the timing of revenue recognition.

v) Fair value of share based payments:

In determining the fair value of share-based payments, the Corporation uses judgement in selecting an appropriate option valuation model. Within the pricing model various judgments and estimates are required, including, estimates about volatility, interest rates, and expected life of the share-based payment awarded.

vi) Income tax:

In determining deferred tax assets and liabilities, management is required to make judgments and estimates about the nature and timing of future permanent and temporary differences as well as the future tax rates that will apply to those differences. Changes in tax laws and rates as well as changes to the expected timing of reversals may have a significant impact on the amounts recorded for deferred tax assets and liabilities.

3. Significant accounting policies:

The significant accounting principles used in the preparation of these consolidated financial statements, and applied consistently to all periods presented, are summarized below:

(a) Consolidation:

i) Subsidiaries:

Subsidiaries are entities over which the Corporation has control. Control is determined to exist when the Corporation has power over the investee, exposure to variable returns and has the ability to use its power to affect the Corporations returns. All significant intercompany balances, transactions, and unrealized gains and losses on transactions have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Corporation.

ii) Associates ("**Equity accounted investees**"):

Equity accounted investees are those entities in which the Corporation has significant influence, which is defined as the power to participate in financial and operating policy decisions but does not have control or joint control of those policies.

Equity accounted investees are accounted for using the equity method and are recognized initially at cost, including transaction costs incurred. The consolidated financial statements include the Corporation's share of the income and expenses and equity movements of Equity accounted investees, after adjustments to align the accounting policies with those of the Corporation, from the date that significant influence commences until the date that significant influence ceases. When the Corporation's share of losses exceeds its interest in an Equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Corporation has an obligation to fund the Equity accounted investee's operations or has made payments on behalf of the Equity accounted investee.

Unrealized gains on transactions between the Corporation and its Equity accounted investees are eliminated to the extent of the Corporation's interest in the Equity accounted investees. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising on investments in Equity accounted investees are recognised in profit or loss.

(b) Inventory:

Inventory, consisting of aircraft parts and supplies, is stated at the lower of cost and net realizable value (where replacement cost may be used as an indicator). Cost is determined on a first-in, first-out basis and a specific item basis depending on the nature of the inventory. The cost of all inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing the inventories to their existing location and condition. Net realizable value is the estimated selling price of the parts or supplies in the ordinary course of business, less estimated costs to make the sale.

(c) Property and equipment:

Property and equipment is measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that the future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. In particular, aircraft airframes, engines and components are inspected, repaired and overhauled at pre-specified intervals. These subsequent costs are capitalized, as incurred, when the above criteria are met and amortized over their useful life based on hours flown. The carrying amount of a major inspection is derecognized if a new major inspection is completed.

When major parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of that property and equipment.

The cost of day-to-day servicing of property and equipment is recognized in profit and loss when incurred.

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of property and equipment, and are recognized in profit or loss.

Depreciation is calculated using the "depreciable amount", which is the cost of an asset, or other amount substituted for cost, less its residual value, on either a straight line basis, or flight hours. If the useful lives of significant components of individual assets have a useful life that is different from the remainder of that asset, that component is depreciated separately. Depreciation is recognized in profit or loss over the estimated useful lives of each part of an item of property and equipment.

The method and rates used in calculating depreciation are as follows:

Asset	Basis	Rate
Buildings	Straight-line	20-25 years
Aircraft frames	Straight-line	20 years
Major aircraft components, overhauls and major inspections	Straight-line	Hours flown
Vehicles	Straight-line	3 years
Furniture and equipment	Straight-line	3-10 years
Leasehold improvements	Straight-line	Lesser of: the lease term or 5 years

The assets' residual values, useful lives and depreciation methods are reviewed annually and adjusted if appropriate.

(d) Leases:

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. These leased assets are not recognized on the Corporation's Consolidated Statement of Financial Position. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line or hours flown basis over the period of the lease.

(e) Goodwill and business combinations:

Goodwill represents the excess of the fair value of the consideration transferred by the Corporation, including the recognized amount of any non-controlling interest in the acquiree, over the Corporation's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative, it is recognized immediately in profit or loss.

The Corporation elects on a transaction-by-transaction basis whether to measure a non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Corporation incurs in connection with a business combination are expensed as incurred.

(f) Intangible assets:

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of trade names and customer relationships. Customer relationships are amortized on a straight-line basis over eight years. Trade names held by Discovery Air Defence Services Inc. ("**Defence Services**") and Helicopters Chile have an indefinite life and, therefore, are not amortized.

The assessment of a trade name as having an indefinite useful life is based on the prospects for long-term profitability and the overall positioning of the trade name in the market in terms of notoriety and volume.

(g) Impairment:

(i) Financial Assets:

The Corporation assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, or indications that a debtor or issuer will enter bankruptcy.

The amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced through an allowance account and the amount of the loss is recognized in profit or loss.

If the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in profit or loss.

(ii) Non-financial assets:

Assets that have an indefinite useful life (goodwill and trade names) are not subject to amortization and are tested for impairment annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Assets that are subject to depreciation and amortization, such as property and equipment and intangible assets with finite lives are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purposes of assessing impairment, assets that cannot be tested individually are grouped into CGUs.

For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized in profit or loss for the amount by which the asset or CGU's carrying amount exceeds its recoverable amount.

Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Previously impaired assets other than goodwill are reviewed for possible reversal of the impairment at each reporting date. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(h) Revenue recognition:

Revenue is recognized at the fair value of the consideration received or receivable, net of trade discounts and rebates. Revenue from providing aviation and aviation-related services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown or services provided at contract rates or fixed monthly charges or a combination of both.

Revenue generated from long-term service contracts is recognized using the stage of completion method. The stage of completion is determined by costs incurred to date compared to total estimated contract costs. The percentage completed is then applied to the total anticipated contract revenues to determine the revenue to be recognized in the reporting period. Changes in total estimated costs or changes in total anticipated contract revenue are reflected in the period that the facts, resulting in the change, become known. Progress billings in excess of revenue recognized are recorded in deferred revenue. An expected loss on a long-term contract is recognized immediately in the Consolidated Statement of Profit (Loss).

Revenue is recognized when recovery of the consideration is probable, the associated costs and costs to complete can be estimated reliably, and the amount of revenue can be measured reliably.

(i) Income taxes:

Income tax expense for the year comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized in OCI or directly in equity.

Current income tax is the expected tax payable calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax assets are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred 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.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the Corporation intends to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(j) Stock-based compensation:

Equity-settled transactions:

The grant date fair value of share based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. An option valuation model is used to fair value the stock options on the grant date. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Cash-settled transactions:

The Corporation has a deferred share unit ("**DSU**") plan for directors (see note 15(d)). These DSUs are recognized at their fair value as compensation expense with a corresponding liability as they are granted. The DSUs are re-measured at the end of each reporting period using the closing market price of the Class A Shares and any changes in the fair value of the liability are recognized in profit or loss.

(k) Finance costs:

Finance costs comprise interest expense on loans and borrowings, net foreign exchange gains and losses, impairment loss (recovery) on trade receivables, the amortization of the deferred transaction costs and financing costs related to loans and borrowings, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

(l) Earnings per share:

The Corporation presents basic and diluted earnings per share ("**EPS**") data for its Shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Corporation by the weighted average number of Shares outstanding during the period, adjusted for Shares held but not cancelled. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of Shares outstanding, adjusted for Shares held but not cancelled, and for the effects of all dilutive potential Shares. Convertible debentures and Share options granted to employees are included in the determination of dilutive potential Shares.

(m) Cash:

Cash includes cash on hand, balances with financial institutions and short-term investments with an initial term to maturity of three months or less.

(n) Financial instruments:

i) Classification, recognition and measurement:

At initial recognition, the Corporation's financial assets and liabilities are classified into the following categories:

Cash	Loans and receivables
Trade and other receivables	Loans and receivables
Operating line of credit	Financial liabilities at amortized cost
Trade and other payables	Financial liabilities at amortized cost
Loans and borrowings	Financial liabilities at amortized cost
Contingent consideration for business acquisition	Fair value through profit and loss

The Corporation initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets and liabilities are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs. Loans and receivables are subsequently carried at amortized cost using the effective interest method, less a provision for impairment, if any.

Financial liabilities at amortized cost are recognized initially at fair value, net of transaction costs and financing costs related to credit facilities, and subsequently measured at amortized cost using the effective interest method. Financial liabilities at amortized cost are classified as current liabilities if payment is due within 12 months or less; otherwise, they are presented as non-current liabilities. Borrowings are classified as current liabilities unless the Corporation has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

The Corporation has reviewed its contractual arrangements and, where appropriate, has designated purchase contracts entered into for the purpose of receiving non-financial items for its normal usage requirements as executory contracts.

Financial assets and liabilities are offset (and the net amount is reported in the balance sheet) only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

ii) Compound financial instruments:

Compound financial instruments issued by the Corporation comprise convertible debentures that can be converted to Shares at the option of the holder, and the number of Shares to be issued does not vary with changes in their fair value. The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts. Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition except on conversion or expiry.

(iii) Share capital:

Shares are classified as equity. Incremental costs directly attributable to the issuance of Shares and Share options are recognized as a deduction from equity, net of any tax effects.

(o) Segment reporting:

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Corporation's other components. All operating segment results for which discrete financial information is available are reviewed regularly by the Corporation's Chief Executive Officer ("**CEO**") to make decisions about resources to be allocated to the segment and to assess its performance.

Operating segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Segment capital expenditure is the total cost incurred during the period to acquire property and equipment and intangible assets other than goodwill. Unallocated items comprise mainly corporate assets, head office expenses, finance costs and income tax assets and liabilities.

(p) Provisions:

Provisions are recognized when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can been reliably estimated. Provisions are not recognized for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

Provisions are measured at management's best estimate of the expenditures expected to be required to settle the obligation at the balance sheet date. Where material, provisions are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. An increase in a provision due to passage of time is recognized as finance cost.

(q) Employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employees and the obligation can be estimated reliably.

(r) Recently issued standards:

Unless otherwise noted, the following revised standards and amendments are effective for the Corporation on or after February 1, 2013.

(i) IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss.

IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through OCI. Where equity instruments are measured at fair value through OCI, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to an entity's own credit risk for liabilities designated at fair value through profit and loss are generally recorded in OCI. The effective date for implementation for this standard has been delayed and is now expected in fiscal 2019, however early application is permitted.

(ii) IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12, Consolidation—Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

(iii) IFRS 11, Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

(iv) IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with, an entity's interests in other entities.

(v) IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date.

(vi) IAS 36, Impairment of Assets, was amended to clarify the disclosure requirements for the recoverable amount for an individual asset (including goodwill) or CGU when an impairment loss has been recognized or reversed. The amendment is effective for annual periods beginning on or after January 1, 2014.

Effective February 1, 2013, the Corporation adopted IFRS 10, Consolidated Financial Statements (see note 3(a)(i)), amended IAS 28, Investment in Associates and Joint Ventures (see note 3(a)(ii)), IFRS 11, Joint Arrangements, IFRS 12, Disclosure of Interests in Other Entities, and IFRS 13, Fair Value Measurement. The adoption of these standards had no material impact on the financial statements of the Corporation. For the standards not yet adopted the Corporation does not expect that these standards will have a significant impact on the Corporation's consolidated financial statements.

4. Business combinations:

(a) On December 17, 2013, the Corporation, through a subsidiary of Defence Services, acquired Advanced Training Systems International, Inc. by way of a merger of that entity with and into Advanced Training Systems International Corp. ("ATSI") for $7.2 million (U.S. $6.6 million plus adjustments of U.S. $0.2 million). ATSI is a U.S. airborne training services company based in Mesa, Arizona. It owns a fleet of ten Douglas A-4 Skyhawk aircraft and offers airborne training services, including, among other services, tactical "Red Air" services, fighter lead-in training, electronic warfare, radar theory and other combat tactics. ATSI was acquired in order to facilitate the expansion of Defence Services' airborne training services into the U.S. and other international markets. At the time of acquisition ATSI's predecessor entity had minimal operations and revenues, however it previously provided airborne training services to the U.S. Navy, U.S. Air Force and the Canadian Armed Forces, and has also provided advanced operational test and evaluation services such as air-to-air refueling trials. The estimated fair values of the ATSI assets acquired approximate the purchase price. The measurements used in determing the fair values have been based on inputs that are not observable in the market due to the unique nature of the assets being acquired and therefore reflect a level 3 fair value measurement. The Corporation considered similar aircraft in its current fleet as well as assessments from third party experts with military asset procurement backgrounds. The Corporation expects to finalize the preliminary purchase price allocation before the end of fiscal 2015. Foreign exchange gains and losses arising from translating ATSI's results and financial position into Canadian dollars are recorded in OCI. Since the date of acquisition an after tax loss of $0.1 million is included in the Corporation's Consolidated Statements of Profit (Loss) reflecting the minimal operations at this time.

(b) On May 4, 2012, the Corporation, through a subsidiary of Great Slave Helicopters Ltd. ("**GSH**"), completed the purchase of the assets of Northern Air Support Ltd. ("**NAS**") for $9.3 million. NAS is a helicopter charter company that serves the western Canadian mining, forestry and oil and gas seismic sectors with bases in Kelowna, British Columbia and Rocky Mountain House, Alberta. The acquisition of NAS supports the Corporation's growth into the British Columbia market and is a good strategic fit with GSH's operations. The fair value of the NAS assets acquired exceeded the purchase price and accordingly, the Corporation recorded a gain of $0.4 million (see note 19).

(c) On February 2, 2012, the Corporation, through a subsidiary of GSH, acquired 100% of Helicopters Chile and its subsidiaries. Helicopters Chile was acquired due to its good strategic fit with GSH's South American operations, providing helicopter services to domestic and multinational customers in Chile's mining, power construction and forestry sectors. Helicopters Chile has two main operating bases in central and southern Chile, and currently operates a fleet of approximately fourteen intermediate and medium sized helicopters. The Chilean Peso is Helicopters Chile's functional currency. Foreign exchange gains and losses arising from translating Helicopters Chile's results and financial position into Canadian dollars are recorded in OCI.

The purchase price included contingent consideration with a present value of $3.7 million at the time of acquisition. As the contingent consideration was based on a multiple of expected profit before income tax, the amount was subsequently written down, due to lower than expected profit. The total payment for the contingent consideration portion of the acquisition price was $1.5 million. For the year ended January 31, 2014 the contingent consideration payable is $0.8 million (January 31, 2013 - $2.6 million).

The purchase price allocation was completed in the first quarter of fiscal 2014, which resulted in the reallocation of the goodwill recorded to trademarks and customer relationships (see note 8).

A summary of net assets acquired in the business combinations is as follows:

(thousands of Canadian dollars)

Net assets acquired	Helicopters Chile	NAS	ATSI (preliminary)
Cash	$ 104	$ -	$ 14
Other current assets	3,017	155	2,030
Property and equipment	4,474	9,579	5,320
Intangibles assets	1,000	-	-
Goodwill	1,860	-	-
Deferred income tax	120	-	-
Current liabilities	(1,706)	(72)	(128)
Long term debt	(2,752)	-	-
	$ 6,117	$ 9,662	$ 7,236
Cash payments	$ 2,395	$ 9,307	$ 7,236
Contingent consideration	3,722	-	-
	$ 6,117	$ 9,307	$ 7,236

5. Inventory:

The Corporation's inventory is substantially comprised of consumable spare aircraft parts and supplies. Inventory expensed in operating expenses during the year ended January 31, 2014 was $16.1 million (January 31, 2013 - $17.1 million). During the years ended January 31, 2014 and 2013, there were no inventory write-downs to net realizable value and no reversals of previously recorded write-downs.

The Corporation has provided a first charge over certain assets (including inventory), under a general security agreement, as security for the Corporation's operating line of credit (see note 12). That first charge does not extend to inventory of Defence Services, which has been pledged to the holders of the Secured Debentures (see note 11(a)), or the assets of Helicopters Chile.

6. Property and equipment:

(thousands of Canadian dollars)

Cost	Land and Buildings	Furniture, Equipment and Leaseholds	Aircraft and Components	Vehicles	Total
Balance January 31, 2013	$ 27,495	$ 18,580	$ 225,647	$ 2,419	$ 274,141
Additions	168	5,590	15,733	216	21,707
Acquired in business combination	-	16	5,304	-	5,320
Disposals	-	(332)	(5,382)	(104)	(5,818)
Disposal of subsidiary	(182)	(202)	(1,633)	(53)	(2,070)
Reclassification	31	44	1,529	65	1,669
Balance January 31, 2014	$ 27,512	$ 23,696	$ 241,198	$ 2,543	$ 294,949
Depreciation and Impairment					
Balance January 31, 2013	$ (6,170)	$ (10,578)	$ (67,260)	$ (1,992)	$ (86,000)
Depreciation	(1,126)	(2,702)	(14,335)	(273)	(18,436)
Disposals	-	277	3,096	93	3,466
Disposal of subsidiary	82	186	712	53	1,033
Impairment	-	(127)	(7,033)	-	(7,160)
Reclassification	(3)	32	-	(29)	-
Balance, January 31, 2014	(7,217)	(12,912)	(84,820)	(2,148)	(107,097)
Net book value - January 31, 2014	$ 20,295	$ 10,784	$ 156,378	$ 395	$ 187,852

Cost	Land and Buildings	Furniture, Equipment and Leaseholds	Aircraft and Components	Vehicles	Total
Balance January 31, 2012	$ 24,841	$ 13,084	$ 185,210	$ 1,829	$ 224,964
Additions	1,613	5,183	31,672	422	38,890
Disposals	(53)	(197)	(3,472)	(44)	(3,766)
Acquired in business combinations	1,094	510	12,237	212	14,053
Balance January 31, 2013	$ 27,495	$ 18,580	$ 225,647	$ 2,419	$ 274,141
Depreciation and Impairment					
Balance January 31, 2012	$ (4,834)	$ (7,886)	$ (52,620)	$ (1,630)	$ (66,970)
Depreciation	(1,112)	(2,382)	(14,559)	(384)	(18,437)
Disposals	-	136	2,945	42	3,123
Impairment	(224)	(446)	(3,026)	(20)	(3,716)
Balance, January 31, 2013	(6,170)	(10,578)	(67,260)	(1,992)	(86,000)
Net book value - January 31, 2013	$ 21,325	$ 8,002	$ 158,387	$ 427	$ 188,141

Included in property and equipment are assets capitalized under finance lease arrangements. During the year, less than $0.1 million (January 31, 2013 - $2.2 million) of total additions were acquired under these arrangements. At January 31, 2014, the net book values of the total assets under finance lease arrangements were $2.5 million (January 31, 2013 - $2.6 million) of land and buildings, $1.7 million (January 31, 2013 – 1.7 million) of aircraft and components, $0.3 million (January 31, 2013 - $0.4 million) of vehicles and $0.1 million (January 31, 2013 - $0.2 million) of furniture, equipment and leaseholds. Total net book value of property and equipment under finance lease, for the year ended January 31, 2014, was $4.5 million (January 31, 2013 - $4.8 million).

The Corporation has assigned $149.3 million of aircraft and components as security in debt arrangements, and has floating charges over the Corporation's other classes of assets through general security agreements in favour of the debts identified in notes 11 and 12.

In the course of fiscal 2014, the Corporation recognized an impairment charge of $0.8 million primarily related to two fixed wing aircraft based on a determination that these aircraft had an estimated recoverable amount that was less than their carrying value. The recoverable amount was determined by reference to their fair value less costs of disposal based a non-binding offer to purchase these aircraft. The Corporation further identified underutilized aircraft stemming from the Corporation's decision to curtail its executive jet services in late January 2014. An impairment charge of $1.0 million was recognized on a fixed wing aircraft. The estimated recoverable amount for this aircraft was determined by way of an independent market appraisal. The Corporation recognized an additional impairment charge of $5.2 million related to five fixed wing aircraft (601 Challenger jets) based on a non-binding offer to purchase these aircraft that was received in April 2014. This impairment charge reflects the estimated amount of the carrying value net of proceeds and disposal costs (see note 26). The aggregate impairment loss for the year ended January 31, 2014 was $7.0 million ($2.9 million in the Aviation segment and $4.1 million in the Corporate Support and Other segment) has been reflected in "Other (gains) and losses" (see note 19).

The Corporation committed to vacating a hangar facility in Calgary in conjunction with ceasing executive jet services resulting in an impairment of leasehold improvements attributable to this facility of $0.1 million.

7. Sale of Subsidiary:

In fiscal 2014, GSH sold one of its wholly-owned subsidiaries, Hudson Bay Helicopters Ltd. ("HBH"). HBH is a helicopter company based in Churchill, Manitoba, with a primary business related to tourism based activities. The Corporation received cash proceeds of $1.2 million on the sale of HBH and recorded a gain of $0.4 million (see note 19). Included in the sale was a nominal amount of working capital, aircraft of $1.0 million, and deferred income tax liabilities of $0.3 million. HBH's profit from operations was close to break-even at the date of disposal, including revenues of $0.1 million and expenses and depreciation of property and equipment of $0.1 million.

8. Goodwill:

For the purposes of testing the impairment of goodwill, the aggregate amount of goodwill arising on acquisition has been assigned to the CGU of Defence Services and GSH. The recoverable amount of the Defence Services and GSH CGUs are based on a "value in use" determined using a discounted cash flow model based on management's assessment of future cash flows from continued use of the CGU. Management assessments are based on industry trends in which the CGUs operate, and other external and internal sources, including historical trend data. The analysis reflected recoverable amounts in excess of carrying values in the Defence Services CGU and the Corporation believes that reasonable changes in key assumptions used in the analysis would not cause the recoverable amount of goodwill to fall below the carrying value. The Corporation's analysis identified an impairment in the GSH CGU's goodwill due to its carrying value exceeding the recoverable amount. The goodwill impairment of $1.8 million was attributed to GSH's Chilean operation, which was negatively impacted by lower resource based activity, and is recorded in "Other (gains) and losses" (see note 19).

Goodwill comprises of the following:

(thousands of Canadian dollars)	Note		
Balance January 31, 2013, representing goodwill on acquisition of Defence Services & Helicopters Chile		$	40,722
Purchase price adjustment Helicopters Chile	9		(1,000)
Foreign exchange translation adjustments			(102)
Impairment on Helicopters Chile			(1,759)
Balance January 31, 2014		$	37,861

9. Intangible assets:

(thousands of Canadian dollars)

Cost	Customer Relationships	Trade Names	Other	Total
Balance, January 31, 2013	$ 35,385	$ 845	$ 263	$ 36,493
Reallocation of Helicopters Chile goodwill	500	500	-	1,000
Impairment	(500)	-		(500)
Balance, January 31, 2014	$ 35,385	$ 1,345	$ 263	$ 36,993
Amortization and Impairment				
Balance, January 31, 2013	$ 25,917	$ -	$ 263	$ 26,180
Depreciation	4,549	-	-	4,549
Impairment	(125)	-	-	(125)
Balance, January 31, 2014	$ 30,341	$ -	$ 263	$ 30,604
Net book value, January 31, 2014	$ 5,044	$ 1,345	$ -	$ 6,389

Cost	Customer Relationships	Trade Names	Other	Total
Balance, January 31, 2012 and 2013	$ 35,385	$ 845	$ 263	$ 36,493
Amortization and Impairment				
Balance, January 31, 2012	$ 21,494	$ -	$ 210	$ 21,704
Depreciation	4,423	-	-	4,423
Impairment	-	-	53	53
Balance, January 31, 2013	$ 25,917	$ -	$ 263	$ 26,180
Net book value, January 31, 2013	$ 9,468	$ 845	$ -	$ 10,313

The Corporation tested indefinite life intangible assets related to Defence Services and GSH CGUs for impairment as at January 31, 2014 in conjunction with its test for impairment of goodwill, using the same method and assumptions as disclosed in note 8. No impairment loss was realized or reversed in the current year related to the Defence Services CGU. The Corporation recognized an impairment loss of $0.4 million related to the GSH CGU customer relationships due to its carrying value exceeding the recoverable amount. The impairment loss was attributable to GSH's Chilean operation, which was negatively impacted by lower resource based activity. The customer relationship impairment loss is reflected in "Other (gains) and losses" (see note 19).

10. Investments in Equity accounted investees:

The Corporation has the following investments in Equity accounted investees:

i) 49% interest in Gwich'in Helicopters Limited ("**Gwich'in**"), a corporate venture incorporated in Canada; Gwich'in contracts helicopter aviation services to the government and corporate sectors within the Gwich'in settlement area of the Northwest Territories;

ii) 49% interest in Denendeh Helicopters Ltd. ("**Denendeh**"), a corporate venture incorporated in Canada; Denendeh provides helicopter charter services to the government and corporate sectors within the South Mackenzie District of the Northwest Territories;

iii) 49% interest in 3542564 Canada Inc., operating as Sahtu Helicopters ("**Sahtu**"), a corporate venture incorporated in Canada; Sahtu provides helicopter charter services to the government and corporate sectors within the Tulita district within the Sahtu settlement area of the Northwest Territories;

iv) 35% interest in K'Ahsho Got'ine Helicopters Ltd. ("**K'Ahsho Got'ine**"), a corporate venture incorporated in Canada; K'Ahsho Got'ine provides helicopter charter services to the government and corporate sectors within the Kitikmeot region of Nunavut;

v) 48% interest in Tli Cho Air Inc. ("**Tli Cho**"), a corporate venture incorporated in Canada; Tli Cho provides fixed wing charter services to the mining, corporate and government sectors within the Tli Cho region of the Northwest Territories. In January 2012, the Corporation sold an aircraft to Tli Cho for $5.3 million, of which $2.5 million will be repaid over 8 years. The long term portion of this receivable is reflected in long term notes receivable. For the year ended January 31, 2014 the long term note receivable balance was $2.0 million (January 31, 2013 - $2.3 million). The note bears interest at a rate of 7%. The Corporation has entered into a leaseback arrangement for this aircraft;

vi) 49% interest in Aqsaqniq Airways Ltd. ("**Aqsaqniq**"), a corporate venture incorporated in Canada; Aqsaqniq provides fixed wing charter services to the mining, corporate and government sectors within the Kitikmeot region of Nunavut; and

vii) 49% interest in Global Aviation Tools and Equipment (GATE) Inc. ("**GATE**"), a corporate venture incorporated in Canada; GATE provides supplies and repairs aircraft parts.

viii) 49% interest in Nunavut Expediting Services Ltd. ("**NES**"), a corporate venture incorporated in Canada; NES provides expediting services in Nunavut.

(thousands of Canadian dollars)		
Investment balance, January 31, 2012	$	2,907
Distribution		(98)
Share of profit		665
Investment balance, January 31, 2013	$	3,474
Distribution		(341)
Share of profit		1,804
Investment balance, January 31, 2014	$	4,937

11. Loans and borrowings:

(thousands of Canadian dollars)

	Note	**January 31, 2014**	January 31, 2013
10.00% secured convertible debentures, maturing March 22, 2017	11(a)	**$ 84,204**	$ 75,352
Long-term unsecured debt bearing a fixed interest rate of 9.00%, maturing April 22, 2015	11(b)	**1,701**	3,416
Long-term secured debt bearing interest of lenders base rate plus 1.50%, maturing February 15, 2016	11(c)	**12,730**	13,734
Long-term secured debt bearing interest of lenders base rate plus 3.00%, maturing March 15, 2017	11(d)	**15,812**	18,309
Long-term secured debt bearing interest of BA rate plus 4.55%, maturing March 26, 2017	11(e)	**9,631**	12,992
8.375% unsecured convertible debentures, maturing June 30, 2016	11(f)	**32,348**	31,579
Long-term secured debt incurred by subsidiary companies bearing fixed and floating interest rates at a weighted average of 4.4% (January 31, 2013 - 4.9%), maturing fiscal 2015 through fiscal 2016		**780**	1,031
Finance Leases	13	**4,075**	4,571
Loans and borrowings		**$ 161,281**	$ 160,984
Less current portion of loans and borrowings		**7,669**	7,057
		$ 153,612	$ 153,927

(a) On September 23, 2011, the Corporation closed the private placement of $70,000,005 principal amount of Secured Debentures. Transaction costs of $2.0 million and the $3.3 million fair value of the conversion feature at inception are netted against the carrying value of the Secured Debentures and are being accreted to its face value based on the effective interest rate of 11.61% per annum. The Secured Debentures mature on March 22, 2017, subject to adjustment by the holders of the Secured Debentures in the event that certain milestones are not achieved by the Corporation. The Corporation may redeem the Secured Debentures on or after September 23, 2014, provided the weighted average trading price of Class A Shares exceeds 116% of the then-applicable conversion price of the Secured Debentures over a specified trading period prior to issuance of the redemption notice. The Corporation may also redeem the Secured Debentures before September 23, 2014 if, upon the occurrence or failure to occur of certain milestone events and the giving of a prescribed amount of notice by the Corporation, the security agent of the holders for the Secured Debentures fails to subordinate the Secured Debentures holders' security interest in the assets of the Corporation. Further, if the Corporation undergoes a change of control (as defined in the Secured Debentures), the Corporation is required to offer to purchase all of the Secured Debentures. Interest on the Secured Debentures accrues at a rate of 10% per annum and is added to the adjusted principle amount of Secured Debentures on March 22 of each year commencing on March 22, 2012. The original conversion price of the Secured Debentures of $7.50 per Share will also increase at 10% per annum, and as a result, the original face amount of the Secured Debentures plus all accrued interest will continue to be convertible into 9,333,334 Shares (subject to customary anti-dilution adjustments). The Secured Debentures have a first-lien security interest in all assets of the Corporation and its subsidiaries, except with respect to accounts receivable, certain inventory, and certain equipment. The Corporation has the right to require full subordination of the Secured Debentures' security interest in respect of new indebtedness upon the achievement of certain milestone events by the Corporation. Prior to any of the milestone events being achieved, the Corporation can require subordination of the Secured Debentures' security interest in yet-to-be acquired assets in an amount up to $50 million.

On March 22, 2013, $7.3 million of accrued interest that is payable-in-kind was added to the adjusted principal amount of the Secured Debentures. As at January 31, 2014, the loan balance included accrued interest of $7.0 million (January 31, 2013 - $6.3 million).

On March 26, 2012, the Secured Debentures were amended to, among other things, facilitate the early repayment of an existing debt. The amendments included, but were not limited to, revised language as to when and in what circumstances the existing maturity date (currently set at March 22, 2017) of the Secured Debentures can be changed; revised language as to when and in what circumstances the Corporation (as borrower) can early redeem the Secured Debentures; and new language requiring the consent of the holders of the Secured Debentures in the event that the Corporation issues equity securities or securities convertible into equity securities at a price less than the current conversion price of the Secured Debentures. As a result of these amendments, the conversion feature in the Secured Debentures is no longer classified as a liability that is recorded at fair value each reporting period, and instead is classified as equity and included in contributed surplus. The amendment of the terms was not considered a significant modification of the Secured Debentures. However, the fair value of the liability related to the conversion feature was considered extinguished upon the amendment of the Secured Debentures. Accordingly, prior to extinguishment of the liability, a final mark-to-market adjustment of $0.2 million was recorded in profit, and the remaining $1.2 million was classified as contributed surplus.

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

On October 25, 2012, the Secured Debentures were amended to, among other things, afford the Corporation greater flexibility with respect to the deployment of certain aircraft to international locations.

(b) On June 22, 2012, the Corporation entered into a $4.5 million term loan agreement to refinance a maturing debt. The loan matures on April 22, 2015 and is repayable in scheduled installments made during September, December, March and June. Four scheduled payments of $500,000 are due during the first year of the loan, four scheduled payments of $375,000 are due in the second year of loan, and three scheduled payments of $250,000 during the final year of the loan, with a final payment of $250,000 due at maturity. The loan bears a fixed interest rate of 9.00% and is payable monthly. The loan is secured by a subordinated general security agreement with the Corporation and certain of its subsidiaries. Transaction costs of $104,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 10.22% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage.

(c) On May 2, 2012, the Corporation entered into a $15.0 million term loan agreement to fund the purchase of additional aircraft. $13.8 million was drawn on May 4, 2012 to purchase NAS's assets and two additional aircraft. The loan matures on February 15, 2016 and is repayable through an annual curtailment each February equal to 1/10th of the original amounts drawn and monthly payments of interest. The loan bears an interest rate equal to the greater of: (i) 4.50%, and (ii) the lender's floating base rate plus 1.50% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $139,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on the loan's effective interest rate of 5.00% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

(d) On March 26, 2012, the Corporation entered into a $20.0 million term loan agreement to refinance a portion an existing debt. The loan matures on March 15, 2017 and is repayable in monthly instalments of $167,000 plus interest, with the balance due at maturity. The loan bears an interest rate equal to the lender's floating base rate plus 3.00% per annum. The loan is secured by a charge on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $222,000 are netted against the carrying value of the loan and are being accreted to the loan's face value based on an effective interest rate of 4.99% per annum. The agreement requires that the Corporation observe a variety of non-financial covenants and maintain a minimum fixed charge coverage.

On July 31, 2012, the $20.0 million term loan was amended to facilitate the new committed operating facility that was secured on August 1, 2012. The $20.0 million term loan was amended to confirm the lender's priority over its priority collateral. (See "Operating line of credit" (see note 12) for further details concerning the new committed operating facility).

(e) On March 26, 2012, the Corporation entered into four term loan agreements for an aggregate principal amount of $14.2 million to refinance an existing debt. The loans mature on March 26, 2017 and are repayable in aggregate monthly instalments of $185,000, with the balance due at maturity. The loans bear interest at a rate equal to the one-month Canadian dollar banker's acceptance rate ("**BA rate**") plus 4.55% per annum. The loans are secured by charges on specific aircraft, as well as certain subsidiary guarantees and general security agreements. Transaction costs of $168,000 are netted against the carrying value of the loan and are being accreted to the loans' face value based on the loans' effective interest rate of 5.97% per annum. The agreements require that the Corporation observe a variety of non-financial covenants, maintain a minimum fixed charge coverage and not exceed a specified level of leverage.

(f) In May, 2011, the Corporation raised $34.5 million through the issuance of 8.375% convertible unsecured subordinated debentures at a price of $1,000 per debenture (the "**Unsecured Debentures**"). The Unsecured Debentures accrue interest at the rate of 8.375% per annum payable semi-annually and the principal balance is due at maturity on June 30, 2016. At the holders' option, the Unsecured Debentures may be converted into Shares at any time prior to the maturity date at a conversion price of $7.30 per Share, subject to standard anti-dilution and adjustment provisions. The Unsecured Debentures are not redeemable before June 30, 2014. From June 30, 2014 to the maturity date, the Corporation may, at its option and subject to notice period requirements, redeem the Unsecured Debentures, in whole or in part, at par plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares on the TSX during a specified period prior to redemption is not less than 125% of the conversion price. Further, if the Corporation undergoes a change of control (as defined in the Trust Indenture for the Unsecured Debentures), the Corporation is required to offer to purchase all of the Unsecured Debentures. At inception, the fair value of the future payments of principal and interest under the Unsecured Debentures was $32.7 million and the fair value of the holders' conversion option (the "**Equity Component**") was determined to be $1.4 million ($1.8 million pre-tax) and recorded in contributed surplus. The Equity Component and transaction costs of $2.2 million are netted against the carrying value of the Unsecured Debentures and are being accreted to its face value based on an effective interest rate of 11.86% per annum.

The Corporation is required to comply with several financial covenants in its debt agreements, including: a debt leverage covenant, which requires the Corporation to maintain a total debt to EBITDA (as specifically defined in the Secured Debentures) ratio of not more than 6.00:1.00 (the "**Debt Leverage Covenant**"), and a pledged asset ratio covenant, which requires the Corporation to provide the holders of the Secured Debentures with a first-lien security interest over assets having an appraised value equal to a prescribed ratio of the adjusted principal amount of the Secured Debentures (the "**PAR Covenant**"); a trailing four quarter consolidated EBITDAR to fixed charge ratio; a debt service coverage ratio; a total liabilities to tangible net worth ratio; and a total funded debt to EBITDAR ratio. The Corporation's ability to remain in compliance with its financial covenants is dependent on a number of factors, including (i) the profitability of its operations, (ii) its ability to generate cash flows, and (iii) the adequacy of the security pledged to its lenders in relation to its debt levels. Since interest on the Secured Debentures is paid in kind (i.e., accrues and is added to the principal amount of the Secured Debentures), the aggregate value of the assets that must be pledged to remain in compliance with the PAR Covenant increases over time.

The Corporation required and received prior to the end of the quarter ended January 31, 2014 a waiver of the Debt Leverage Covenant for that quarter. The Corporation was in compliance with all other financial covenants in its debt agreements for the quarter ended January 31, 2014. As announced on February 24, 2014, the Corporation received irrevocable waivers from the Debt Leverage Covenant and the PAR Covenant for the quarters ending April 30, 2014 and July 31, 2014. The security agent for and on behalf of the Secured Debenture holders is expected to grant further waivers for the Debt Leverage Covenant and the PAR Covenant for the quarters ending October 31, 2014 and January 31, 2015 upon the closing of the issuance of Shares contemplated by the standby purchase agreement between Clairvest Group Inc. ("**Clairvest**") and the Corporation, dated February 24, 2014 ("**Standby Purchase Agreement**") which is expected to occur on or before May 5, 2014 (see "Subsequent events"). There is no assurance that following the periods covered by these waivers that the Corporation will be able to remain in compliance with the Debt Leverage Covenant or the PAR Covenant.

There is no assurance that after January 31, 2015, the Corporation will be able to remain in compliance with the PAR Covenant and the Corporation may need to take other measures to remain in compliance, or seek a waiver of or an amendment to, the PAR Covenant (none of which is assured) unless the Secured Debentures are subordinated as a result of a satisfactory award of contracted airborne training services ("**CATS**") to Defence Services or otherwise in accordance with their terms.

In addition, lenders' consent is required, among other things, to incur additional indebtedness beyond a defined amount, pay dividends or make other distributions or repurchase or redeem its capital stock, prepay, redeem or repurchase certain debt, sell assets, and move aircraft internationally.

Repayments on or in respect of the above-listed outstanding loans and borrowings as at January 31, 2014 for each of the next five years and thereafter are as follows:

(thousands of Canadian dollars)		
Within 1 year	$	7,669
Within 2 years		6,362
Within 3 years		46,596
Within 4 years		98,198
Within 5 years		309
Thereafter		2,147
Total	$	161,281

Interest expense on or in respect of loans and borrowings for the year ended January 31, 2014, was $15.4 million (January 31, 2013 - $15.6 million).

12. Operating line of credit:

On August 1, 2012, the Corporation entered into a committed operating line of credit (“**Operating Line**”) that matures on April 9, 2015 and which bears interest at the lender’s prime rate plus 2% with an option to use bankers’ acceptance rates upon payment of a 3% stamping fee. The Operating Line has a maximum borrowing limit of $15.0 million, increasing up to $25.0 million during the Corporation’s peak operating period of March 1 through October 31. Aggregate borrowings are also limited to eligible accounts receivable and inventory, subject to an allowance for specific reserves. The Operating Line, which may be used by the Corporation for working capital and general corporate purposes, is secured by a first charge on the receivables and inventory of the Corporation and certain of its subsidiaries, general security agreements and other customary security agreements. In addition to financial covenants, every November through February the Corporation is required to have no advances outstanding under the line of credit for 30 consecutive days. This requirement was last satisfied in December 2012 and waived for fiscal 2014.

As at January 31, 2014, the Corporation had available a borrowing capacity of $15.0 million, against which $0.8 million was applied to issue letters of credit and $11.3 million was drawn (January 31, 2013 - nil). In addition, the Corporation was in compliance with all applicable covenants.

13. Finance leases:

The Corporation has leases of various facilities, equipment and vehicles, which are classified as finance leases. The interest rates on these leases range from 4.5% to 11% per annum and remaining lease terms range from 1 to 21 years. The obligations under these leases are secured by the related assets associated with the leases.

(thousands of Canadian dollars)

Minimum lease payment due		Within one year		One to five years		After five years		**Total**
January 31, 2014:								
Future minimum lease payments	$	887	$	2,256	$	3,162	**$**	**6,305**
Interest		(246)		(776)		(1,208)		**(2,230)**
Present value of minimum payments	$	641	$	1,480	$	1,954	**$**	**4,075**

The present value of finance lease obligations, in total, for the year ended January 31, 2013 was $4.6 million.

14. Income taxes:

Income tax expense (recovery) is comprised of:

(thousands of Canadian dollars)		**January 31, 2014**		January 31, 2013
Current income tax expense (recovery):				
Current period	$	(3,794)	$	(885)
Change in prior period estimates		367		(140)
	$	(3,427)	$	(1,025)
Deferred Income tax expense (recovery):				
Origination and reversal of temporary differences		(2,219)		1,219
Change in income tax rates		-		130
Change in prior period estimates		(17)		223
		(2,236)		1,572
Total income tax expense	$	(5,663)	$	547

Reconcilation of effective tax rate:

Income tax expense (recovery) differs from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 27% (January 31, 2013 – 27%) to profit (loss) before income tax. The reasons for the differences are as follows:

(thousands of Canadian dollars)		**January 31, 2014**		January 31, 2013
Profit (loss) before income taxes	**$**	**(23,618)**	$	1,045
Federal and provincial statutory income tax rate		**27%**		27%
Expected tax expense (recovery)	**$**	**(6,377)**	$	282
Increase (decrease) resulting from:				
Change in fair value of financial liabilities		**-**		(53)
Non-taxable portion of extinguishment of debt		**-**		(295)
Non-taxable gain on contingent liability		**-**		(278)
Other permanent differences		**605**		473
Differences in tax rates in foreign jurisdictions		**58**		440
Differences in expected effective tax rates		**51**		(22)
	$	**(5,663)**	$	547

The significant components of deferred income tax assets/liabilities are as follows:

(thousands of Canadian dollars)

	January 31, 2013	Recognized in loss	Recognized from business disposition	January 31, 2014
Deferred tax liabilities:				
Property and equipment	$ 25,954	$ 663	$ (316)	$ 26,301
Intangible assets	1,974	(1,350)	-	624
Conversion feature on Unsecured Debentures	351	(68)	-	283
Deferred tax assets:				
Non-capital loss carryforwards	(2,817)	(908)	-	(3,725)
Other	(764)	(573)	-	(1,337)
	$ 24,698	$ (2,236)	$ (316)	$ 22,146

(thousands of Canadian dollars)

	January 31, 2012	Recognized in profit	Recognized from business combination	January 31, 2013
Deferred tax liabilities:				
Property and equipment	$ 24,943	$ 1,062	$ (51)	$ 25,954
Intangible assets	3,104	(1,130)	-	1,974
Conversion feature on Unsecured Debentures	392	(41)	-	351
Deferred tax assets:				
Non-capital loss carryforwards	(4,976)	2,176	(17)	(2,817)
Other	(217)	(495)	(52)	(764)
	$ 23,246	$ 1,572	$ (120)	$ 24,698

As at January 31, 2014, the Corporation has accumulated approximately $14.6 million (January 31, 2013 - $11.0 million) in non-capital losses that are available to reduce taxable income in future years and these losses have been recognized for accounting purposes. If unused these losses will expire as follows:

(thousands of Canadian dollars)

Year of expiry	Canada	USA	Chile	Taxable losses
2031	$ 1,081	$ -	$ -	$ 1,081
2032	1,260	-	-	1,260
2033	1,654	-	-	1,654
2034	9,727	270	-	9,997
No expiry	-	-	603	603
	$ 13,722	$ 270	$ 603	$ 14,595

As at January 31, 2014, the Corporation had estimated capital losses for Canadian income tax purposes of $0.4 million. These losses do not expire and may be utilized to reduce future capital gains. No deferred tax assets were recognized in respect of these capital losses.

15. Share capital and share-based compensation:

(a) Authorized:

The Corporation is authorized to issue an unlimited number of Class A Shares and an unlimited number of Class B Shares.

The Canada Transportation Act (the "**CTA**") requires that holders of licences to operate a domestic air service be "Canadian" within the meaning of the CTA. Class A Shares may be beneficially owned and controlled, directly or indirectly, only by persons who are Canadians, and Class B Shares may be beneficially owned or controlled, directly or indirectly, only by persons who are not Canadians. The CTA defines a "Canadian", among other criteria, as a corporation or other entity that is incorporated or formed under the laws of Canada or a province, that is controlled in fact by Canadians citizens or a permanent resident and of which at least 75% (or such lesser percentage as the Governor in Council may by regulation specify) of the voting interests are owned and controlled by Canadians.

The holders of both Class A Shares and Class B Shares are entitled to receive dividends, as declared from time-to-time, and are entitled to one vote per share at meetings of the shareholders of the Corporation provided that the Class B Shares as a class are entitled to exercise no greater than 25% (or such higher percentage as the Governor in Council may by regulation specify) of all votes attached to the Shares. All Shares rank equally with regard to the Corporation's residual assets.

(b) Issued and outstanding:

(thousands of Canadian dollars, except for shares)

	January 31, 2014		January 31, 2013	
	Shares	**Amount**	Shares	Amount
Class A Shares				
Outstanding, beginning of year	**14,510,855**	**$67,431**	14,510,855	$ 67,431
Outstanding, end of year	**14,510,855**	**$67,431**	14,510,855	$ 67,431
Class B Shares				
Outstanding, beginning of year	**44,760**	**$ 1,038**	44,760	$ 1,038
Outstanding, end of year	**44,760**	**$ 1,038**	44,760	$ 1,038
	14,555,615	**$68,469**	14,555,615	$ 68,469

(c) Share-based compensation:

Employee Stock Options (equity settled):

As at January 31, 2014, the Corporation had stock options outstanding that were granted to the officers and employees of the Corporation under two different employee stock option plans. The employee stock option plan created in January 2006 (the "**2006 plan**") was terminated in June 2008, terminating any additional grants under this plan. All outstanding stock options granted under the January 2006 plan are fully vested.

In June 2010, a new employee stock plan (the "**2010 plan**") was approved by the shareholders. Stock options granted under the 2010 plan have an exercise price equal to or greater than the closing market price of the Class A Shares on the day preceding the date of grant. All options granted under the 2010 plan are exercisable for up to 10 years, and fully vest between three and five years from the date of grant, as determined by the Corporation's board of directors.

At January 31, 2014, 1,089,350 Class A Shares have been reserved for stock options as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
$2.55 - $4.99	84,500	3.81	$ 3.09	-	$ -
$5.00 - $10.00	803,100	8.82	$ 6.00	7,000	$ 5.64
$10.01 - $15.00	22,905	4.05	$ 12.35	22,905	$ 12.35
$15.01 - $17.50	146,685	3.26	$ 15.89	146,685	$ 15.89
$17.51 - $18.50	32,160	3.05	$ 18.50	32,160	$ 18.50
	1,089,350			208,750	

Stock option transactions for the periods ended January 31, 2014 and January 31, 2013 are as follows:

	January 31, 2014		**January 31, 2013**	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Class A Shares				
Outstanding, beginning of year	**1,204,555**	**$ 7.75**	417,165	$ 11.26
Granted	**-**	**-**	796,100	6.00
Expired	**(115,205)**	**0.87**	(8,710)	15.62
Outstanding, end of year	**1,089,350**	**$ 8.67**	1,204,555	$ 7.75

The Corporation recognized a net compensation expense of $0.3 million for the year ending January 31, 2014 (January 31, 2013 - $0.1 million) relating to the estimated fair value of vesting employee stock options.

Expected volatility is measured at the standard deviation of continuous compounded share returns and is based on statistical analysis of the Corporation's historical weekly share prices.

(d) Deferred share units (cash settled):

At January 31, 2014, there were 529,496 (January 31, 2013 – 307,555) DSUs held by the directors of the Corporation. Each DSU entitles a director, upon ceasing to be a director or (in the case of U.S. resident directors) upon a separation from service, to a cash distribution equal to the market value of the Class A Shares. During the year ended January 31, 2014, the Corporation granted 221,937 (January 31, 2013 – 78,806) DSUs, and no cancellations (January 31, 2013 – 45,572). The Corporation recognized less than $0.1 million (January 31, 2013 - $0.3 million) of net compensation expense related to DSUs.

The carrying amount of the liability at January 31, 2014 in respect of the DSUs was $0.8 million (January 31, 2013 - $0.8 million).

16. Expenses:

(thousands of Canadian dollars)

		January 31, 2014		January 31, 2013
Wages and related benefits	$	**85,353**	$	86,907
Crew related expenses including travel		**11,786**		13,107
Repairs and maintenance		**26,362**		24,522
Fuel		**16,365**		14,831
Aircraft lease expense		**14,353**		16,289
Facility and related support costs		**14,834**		14,768
Other expenses		**21,519**		18,233
	$	**190,572**	$	188,657

17. Finance costs:

(thousands of Canadian dollars)

	Note		January 31, 2014		January 31, 2013
Interest and fees payable in cash		$	**6,248**	$	7,401
Interest payable in kind	11(a)		**7,983**		7,320
Accretion of discounts on loans and borrowings			**2,141**		2,281
Net foreign exchange loss			**153**		211
Impairment loss on trade receivables	22(b)		**1,036**		165
		$	**17,561**	$	17,378

18. Earnings per share:

(thousands of Canadian dollars, except per share amounts)

	For the year ended			
		January 31, 2014		January 31, 2013
Basic and diluted earnings (loss) per share:				
Profit (loss) attributable to holders of Common Shares	$	**(17,955)**	$	596
Weighted average number of Common Shares outstanding		**14,867**		14,867
Basic and diluted earnings (loss) per share	$	**(1.21)**	$	0.04

The weighted average number of shares has been retrospectively adjusted for the bonus element of the rights issued pursuant to the rights offering, which allows shareholders of record on April 1, 2014 to purchase up to an additional 17,441,860 Shares in the aggregate at $0.86 per Share. The Shares attributable to the bonus element of the rights issued was 310,983 (see note 26 – Subsequent events).

Despite the Corporation's Class A Share price as at January 31, 2014 and 2013 being below the conversion price of the Unsecured Debentures and Secured Debentures, IAS 33 considers these debentures dilutive if the interest savings per share (net of tax) is less than the basic earnings per share.

19. Other (gains) losses:

(thousands of Canadian dollars)	Note	For the year ended January 31, 2014	January 31, 2013
Loss on disposal of property and equipment		**$ 19**	$ 386
Gain on sale of subsidiary	7	**(414)**	-
Change in fair value of financial liabilities at fair value		**-**	(201)
Gain on extinguishment of contingent liability	4	**(1,248)**	(1,297)
Gain on extinguishment of debt		**-**	(2,224)
Gain on business acquisition	4	**-**	(355)
Impairment loss	6, 8, 9	**9,169**	3,769
Restructuring costs		**304**	-
		$ 7,830	$ 78

20. Change in non-cash operating working capital:

(thousands of Canadian dollars)	For the year ended January 31, 2014	January 31, 2013
Restricted cash	**$ 543**	$ 95
Trade and other receivables	**20**	(861)
Inventory	**(2,435)**	(2,221)
Prepaid expenses	**(2,942)**	(1,790)
Trade and other payables	**4,101**	3,185
	$ (713)	$ (1,592)

21. Capital disclosures:

The Corporation's capital structure consists of long-term debt (see note 11) and shareholders' equity (see note 15). Management's primary objective of capital structure management is to maintain a strong financial profile for investor, creditor, and customer confidence, and to support the growth of the Corporation's businesses. Management seeks to maintain a capital structure that will allow the Corporation to cover its funding requirements through the capital markets and asset-backed lending markets at reasonable conditions, and in so doing, ensure an adequate level of financial flexibility.

Capital is managed in accordance with polices and financial plans that are approved and regularly reviewed by senior management and the Corporation's board of directors and take into account forecasted capital needs, actual performance and market conditions. The reviews take into consideration many factors including:

1) the growth of the Corporation;
2) current and anticipated capital market conditions;
3) a general desire to reduce complexity;
4) reduction of costs of capital; and
5) return of capital targets across all asset groups.

The Corporation's board of directors also reviews and approves any material transactions outside the ordinary course of business.

Certain of the Corporation's debt agreements include affirmative and negative covenants which restrict the Corporation's ability to deal with its assets and operations in the normal course of business including, but not limited to, issuing equity securities borrowing money or issuing guarantees, incurring liens to secure indebtedness, undertaking investments or disposing of assets, paying dividends, redeeming capital stock, or making other restricted payments, and merging with another company or selling substantially all of its assets. Certain of the Corporation's debt agreements also require that the Corporation maintain specified financial ratios and satisfy specified financial tests. The Corporation monitors these covenants regularly (see note 11). Other than covenants in its credit facilities or shareholders' agreement (which was entered into in connection with the Secured Debentures) and CTA restrictions related to Canadian ownership (see note 15), the Corporation is not subject to any other externally-imposed capital restrictions.

22. Financial instruments - Disclosure and Presentation:

(a) Fair value estimation:

The Corporation classifies its fair value measurements by reference to the following fair value measurement hierarchy:

1. Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
2. Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
3. Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

Carrying values for assets and liabilities classified as loans and receivables and financial liabilities at amortized cost (excluding loans and borrowings) approximate their fair value due to their short-term nature.

The fair value of the Secured Debentures and Unsecured Debentures as at January 31, 2014 was $95.0 million (January 31, 2013 - $104.0 million) as compared to a carrying value of $116.6 million (January 31, 2013 - $106.9 million). At January 31, 2014 and 2013 the fair value of the Unsecured Debentures was based on the closing trade price on the TSX (level 1) and the fair value for the Secured Debentures was based on management's estimates using observable market inputs (level 2).

The fair value of the Corporation's variable rate loans and borrowings approximates their carrying value, as the applicable interest rate is at a floating market rate.

(b) Financial risk management:

The Corporation is exposed to a number of different financial risks arising from normal business operations as well as through the Corporation's financial instruments comprised of cash, trade accounts receivable, trade accounts payable, accrued liabilities, operating loan indebtedness and long-term debt. These risk factors 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. The Corporation's management and the board of directors, review the principal business risks of the Corporation discussed in the Corporation's Annual Information Form and Management's Discussion and Analysis. The Corporation's board of directors expects management to develop a formal, disciplined and integrated enterprise risk management process that enables management to identify, assess, monitor, and manage the Corporation's strategic, operational, reporting and compliance risks. Such a process is intended to provide reasonable assurance that the Corporation's principal risks are managed having regard to the Corporation's business objectives and risk tolerance. Certain risks by their nature do not lend themselves to mitigation over a reasonable time frame and/or at an appropriate cost. The Corporation's focus with respect to such risks is to ensure that they are properly identified and assessed, and that the Corporation earns a reasonable risk-adjusted return for bearing such risks. The Corporation's primary financial risk management objective is to achieve an optimal balance between maximizing return for its shareholders and minimizing the volatility of its cash flows.

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

i) 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. The Corporation's management is responsible for determining the acceptable level of risk and may 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.

ii) Currency Risk:

The Corporation's revenues and expenses are primarily in Canadian dollars; however, the Corporation's growing foreign operations (whose expenses and revenues are primarily incurred in U.S. dollars and Chilean Pesos, therefore creating a natural hedge on changes in the U.S. dollar and Chilean Peso) and revenues from Discovery Air Technical Services Inc. ("**Technical Services**") (which are partially received in U.S. dollars) increase its exposure to foreign currency risk. Changes in exchange rates will result in fluctuations in the Corporation's operating results; the impact on the Corporation's earnings for the year ended January 31, 2014 was $0.2 million (January 31, 2013 - $0.2 million).

As at January 31, 2014, the Corporation evaluated the currency risk on unhedged foreign currency liabilities by assessing the impact of a 5.00% rise or fall in the Canadian dollar against the foreign currencies, with all other variables unchanged. Such an exchange rate change would have a $0.2 million impact on the Corporation's profit or loss and equity for the year ended January 31, 2014 (January 31, 2013 - $0.1 million). This impact would be offset by the change in foreign currency accounts receivables, netting to an immaterial impact in current and prior years profit or loss and equity.

iii) Interest rate risk:

The Corporation's cash flow and net earnings are exposed to interest rate fluctuations due to the Corporation's variable interest rate long term instruments.

As at January 31, 2014, the Corporation had $38.5 million in loans and borrowings subject to variable interest rates and as a result may be exposed to future financial risk from fluctuations in interest rates and the resulting interest expense associated with its short-term and long-term debt. A 25 basis point increase or decrease in interest rates on such obligations will increase or decrease the Corporation's annual interest expense by $0.1 million.

iv) Credit risk:

Some of the Aviation segment's revenues are derived from services provided to mining and oil & gas exploration companies. These customers are exposed to changes in the related commodities market. The customers' ability to pay for the services provided could deteriorate if commodity prices decline. In addition, the Aviation segment provides some services akin to a subcontractor. The Corporation may be delayed in receiving payment if the ultimate customer delays paying the Corporation's customer.

Payment terms are generally net 30 days. As at January 31, 2014, and 2013 the gross aging of trade and other receivables was as follows:

(thousands of Canadian dollars)	**January 31, 2014**	January 31, 2013
Current	**$ 15,341**	$ 19,836
31-60 days	**3,645**	3,880
61-90 days	**3,128**	1,577
> 90 days	**2,945**	1,438
	$ 25,059	$ 26,731

Changes in the Corporation's provision for impairment of trade and other receivables are as follows:

(thousands of Canadian dollars)	
Balance, January 31, 2012	$ (250)
Provision for receivables impairment	(165)
Receivables written off as uncollectible	101
Balance, January 31, 2013	$ (314)
Provision for receivables impairment	**(1,036)**
Receivables written off as uncollectible	**331**
Balance, January 31, 2014	**$ (1,019)**

The carrying amount of the Corporation's trade and other receivables are denominated in the following currencies:

(thousands of Canadian dollars)	**January 31, 2014**	January 31, 2013
Canadian dollars	**$ 19,561**	$ 23,530
United States dollars	**2,485**	2,202
Chilean Pesos	**3,013**	998
Euros	**-**	1
	$ 25,059	$ 26,731

The maximum exposure to credit risk at each reporting date is the carrying amount of trade and other receivables.

v) 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 through a daily assessment of both a detailed four-week forward cash forecast of cash balances and non-cash working capital, and the use of annual budgets with updated projections during the fiscal year. Such projections identify cash funding requirements for operating and capital investment purposes and also provide advance visibility of potential covenant violations.

The Corporation has financial covenants that it is required by its lenders to meet on a quarterly and annual basis. These covenants require that the Corporation maintain specified financial ratios and satisfy specified financial tests. As well, there are other non-financial covenants that could affect the Corporation's ability to grow organically and by acquisition or to make distributions. The Corporation required and received prior to the end of the quarter ended January 31, 2014 a waiver of the Debt Leverage Covenant for that quarter. The Corporation was in compliance with all other financial covenants in its debt agreements for the quarter ended January 31, 2014 (see note 11).

The Corporation requires working capital to fund its operations generally and, in particular, to meet increased cash flow requirements associated with seasonal operations. The Corporation has a committed Operating Line of Credit (see note 12) to finance its working capital requirements with a borrowing limit of up to $15.0 million and increased availability of up to $25.0 million during the Corporation's peak operating period of March through October. The Corporation expects that its cash from operations, together with its existing operating loan, will be sufficient to meet its anticipated working capital requirements.

In addition, the Secured Debentures mature on March 22, 2017. However, if the Corporation is unable to achieve certain key milestones set out in the terms of the Secured Debentures, the holders of the Secured Debentures may elect to accelerate the maturity date to a date that could be as early as April 23, 2015. Upon the maturity of the Secured Debentures, the Corporation is required to repay the principal amount of such Secured Debentures together with all accrued and unpaid interest and any other amounts owing pursuant to the terms of the Secured Debentures.

The expected contractual principal repayments of trade and other payables, contingent consideration, and loans and borrowings are below. The contractual principal repayment amount for loans and borrowings assumes the Corporation makes scheduled repayments to maturity and in the case of the Secured Debentures includes the future accrued payment in kind interest that would be added to the principal balance throughout the term of this facility. The payments for the Unsecured Debentures and Secured Debentures assume there is no early redemption or conversion to equity.

(thousands of Canadian dollars)

January 31, 2014	**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**
Trade and other payables	$ 27,817	$ -	$ -	$ -	$ -	$ -	**$ 27,817**
Contingent consideration	750	-	-	-	-	-	**750**
Loans and borrowings	7,146	5,935	48,520	132,102	-	195	**193,898**
	$ 35,713	$ 5,935	$ 48,520	$ 132,102	$ -	$ 195	**$ 222,465**

23. Related party transactions:

(a) Loans and borrowings:

Clairvest and its affiliates' have the ability to exercise control or direction over the rights attaching to the Secured Debentures and have certain director nomination rights in relation to the Corporation. The Secured Debentures would represent, on a post-conversion basis, more than 10% of the issued and outstanding Shares of the Corporation. The interest on the Secured Debentures for the year ended January 31, 2014 was $8.0 million, (January 31, 2013 - $7.3 million). In addition, the Corporation also incurs a merchant bank fee of $250,000 per annum, payable to Clairvest on a monthly basis.

(b) Key management compensation:

Key management includes members of the executive management team. The compensation paid or payable to key management for employee services is shown below:

(thousands of Canadian dollars)		January 31, 2014		January 31, 2013
Salaries and other short-term employee benefits	**$**	**2,272**	$	2,216
Pension adjustment		**108**		93
Share based compensation		**239**		47
	$	**2,619**	$	2,356

(c) Transactions with Equity accounted investees:

The Corporation's revenues reflect $28.4 million (January 31, 2013 - $29.8 million) and expenses of $2.3 million (January 31, 2013 - $2.0 million) from the Corporation's Equity accounted investees. As at January 31, 2014, $1.6 million (January 31, 2013 - $4.1 million) of the Corporation's accounts receivable were due from Equity accounted investees and $0.7 million (January 31, 2013 - $0.1 million) of the Corporation's accounts payable were due to Equity accounted investees.

24. Commitments and contingencies:

The Corporation has annual lease obligations for aircraft and premises. During the year, the Corporation incurred $15.4 million (January 31, 2013 - $16.5 million) in operating lease expense. Future minimum lease payments under non-cancellable leases are due as follows:

(thousands of Canadian dollars)		
Within 1 year	$	5,830
Within 2 years		3,203
Within 3 years		2,600
Within 4 years		2,118
Within 5 years		1,425
Thereafter		8,002
	$	23,178

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

As at January 31, 2014, the Corporation had no restricted cash (January 31, 2013 - $0.5 million). In prior years restricted cash was required to collateralize contingent exposures and letters of credit as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

25. Segmented information:

The Corporation's reportable segments are "**Aviation**", which includes GSH, Defence Services, Air Tindi Ltd ("**Air Tindi**"), and Discovery Air Fire Services Inc. ("**Fire Services**") and "**Corporate Support and Other**", which includes Technical Services, Discovery Mining Services Ltd. ("**Mining Services**"), Discovery Air Innovations Inc. ("**Innovations**"), and Corporate. In assessing the reportable segments, the Corporation considered the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

The Aviation segment aggregates operating units by operations that have substantially the same basis of deriving revenues, infrastructure to conduct operations and regulatory environment.

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

The revenues disclosed in the tables are from external customers. There are inter-segment revenues, however they are eliminated on consolidation. For the year ended January 31, 2014, Corporate Support and Other segment inter-segment revenue was $0.9 million (January 31, 2013 - $2.0 million).

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

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

The Aviation segment includes business entities that are economically reliant upon a single customer. Defence Services revenue is primarily derived from Standing Offer Agreements ("**SOAs**") to provide airborne training services to the Department of National Defence and the Canadian Armed Forces ("**DND**"). The SOAs are in effect to June 2016. The SOAs do not commit the DND to use Defence Services exclusively or to any minimum volume of work or revenue. The Corporation anticipates that Public Works Government Services Canada will release a request for proposals for CATS during fiscal 2015, which, upon award to the successful bidder, would replace the SOAs.

Fire Services' revenue from aerial fire management services is derived from three five-year contracts, entered into in 2010, with the Government of Ontario. The continuation of each contract for each new fiscal year is conditional upon a sufficient appropriation of funds by the Government of Ontario. Given the nature of the services being provided, management believes that it is unlikely that the appropriation of funds for these contracts will be discontinued. Any one of the contracts may be terminated by the Government of Ontario (i) upon occurrence of certain events of default, including Fire Services insolvency or its breach of specified material terms or conditions of the contract, and (ii) without cause by giving 30 days prior written notice to Fire Services.

(thousands of Canadian dollars)	For the year ended January 31, 2014			For the year ended January 31, 2013		
	Aviation	**Corporate Support and Other**	**Total**	Aviation	Corporate Support and Other	Total
Revenue	**$ 182,351**	**$ 31,175**	**$ 213,526**	$ 200,229	$ 29,124	$ 229,353
Expenses	**147,757**	**42,815**	**190,572**	150,540	38,117	188,657
Depreciation of property and equipment and intangible assets	**21,262**	**1,723**	**22,985**	21,516	1,344	22,860
	13,332	**(13,363)**	**(31)**	28,173	(10,337)	17,836
Share of (profit) loss of equity accounted investees (net of income tax)	(390)	(1,414)	**(1,804)**	(78)	(587)	(665)
	13,722	**(11,949)**	**1,773**	28,251	(9,750)	18,501
Finance costs			**17,561**			17,378
Other (gains) and losses			**7,830**			78
Profit before income tax			**(23,618)**			1,045
Income tax provision (recovery)						
Current			**(3,427)**			(1,025)
Deferred			**(2,236)**			1,572
Profit			**$ (17,955)**			$ 498
Loss attributable to non-controlling interest			**-**			(98)
Profit attributable to shareholders of Discovery Air Inc.			**$ (17,955)**			$ 596
Segment assets	**$ 274,319**	**$ 25,836**	**$ 300,155**	$ 273,226	$ 32,998	$ 306,224
Capital expenditures	**$ 23,331**	**$ 3,504**	**$ 26,835**	$ 49,907	$ 5,896	$ 55,803
Investment in equity accounted investees	**$ 3,234**	**$ 1,703**	**$ 4,937**	$ 2,847	$ 627	$ 3,474

26. Subsequent events:

On February 24, 2014, the Corporation announced its intent to complete a rights offering (the "**Offering**") in order to raise up to $15.0 million of equity capital through the sale of Shares. Under the Offering, the Corporation distributed a total of 14,555,661 rights to its shareholders of record on April 1, 2014 entitling them to subscribe for up to an aggregate of 17,441,860 Shares at a price of $0.86 per Share. Clairvest agreed, in accordance with the terms of the Standby Purchase Agreement, to purchase from the Corporation such number of Shares that were available to be purchased, but not otherwise subscribed for under the Offering, up to a predetermined cap. Clairvest also agreed to provide the Corporation with a subordinated, secured loan in the event that Clairvest was unable (due to the cap) to backstop the entire Offering and the Corporation was unable to raise gross proceeds from the Offering in an amount of $15.0 million. With the Standby Purchase Agreement in place, the Corporation was able to use the anticipated proceeds from the Offering (including the standby commitment and the secured, subordinated loan from Clairvest) to obtain from its operating lender an immediate $10.0 million increase in the Operating Line within the existing credit limit of its operating facility (by way of an increase in the Corporation's borrowing base), and (ii) a commitment to increase the overall limit of the operating facility by $10.0 million, in each case until May 24, 2014 or the completion of the Offering (whichever is earlier).

The Offering was completed on April 28, 2014. The Corporation raised approximately $1.7 million in gross proceeds from the issuance of 1,952,009 Shares. The Corporation expects to issue a further 15,489,851 Shares (at $0.86 per Share) to Clairvest and/or certain of its funds and co-investors (the "Standby Shares") on or before May 5, 2014 pursuant to the Standby Purchase Agreement. As a result of the Offering and the issuance of the Standby Shares, the Unsecured Debentures conversion price is expected to change to $6.53 per Share (formerly $7.30 per Share).

On March 31, 2014, the Corporation entered into a loan agreement with Element Financial Corporation in the principal amount of $21.5 million. The proceeds from the loan were used to refinance approximately $20.5 million in existing term indebtedness of the

Corporation and provided the Corporation with approximately $0.9 million in cash (net of loan agreement fees but before transaction costs). In connection with this refinancing, the Corporation's obligation to restore the airworthiness of two aircraft or pay down $4.0 million in indebtedness was eliminated.

In April, 2014, the Corporation accepted an offer to purchase five 601 Challenger jets for proceeds, that equal the Corporations net book value, of approximately US $2.5 million ($1.7 million in the Aviation Segment and $0.8 million in the Corporate Support and Other segment). The transaction is expected to close during the second quarter of fiscal 2015.