Consolidated Financial Statements of

DISCOVERY AIR INC.

Years ended January 31, 2009 and 2008

KPMG LLP
Chartered Accountants
600-128 4th Avenue South
Saskatoon Saskatchewan S7K 1M8
Canada

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

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Discovery Air Inc. as at January 31, 2009 and 2008 and the consolidated statements of earnings (loss), shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended, in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
April 30, 2009

DISCOVERY AIR INC.

Consolidated Balance Sheets
January 31, 2009 and 2008

(thousands of dollars)

	2009	2008
Assets		
Current assets:		
Cash	$ 6,865	$ 3,756
Accounts receivable	14,433	15,212
Income taxes recoverable	798	–
Inventory	14,894	14,731
Prepaid expenses and other	3,567	3,323
	40,557	37,022
Land, buildings and equipment (note 5)	153,544	135,906
Goodwill (note 6)	37,862	159,443
Intangible assets (note 7)	28,063	44,528
	$ 260,026	$ 376,899
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 11,928	$ 10,094
Income taxes payable	–	531
Current portion of long-term debt (note 8)	10,383	10,168
	22,311	20,793
Long-term debt (note 8)	135,343	123,901
Future income taxes (note 10)	27,993	28,669
Non-controlling interest	1,947	1,669
Shareholders' equity:		
Share capital (note 11)	184,535	184,968
Contributed surplus	7,012	5,689
Retained earnings (deficit)	(119,115)	11,210
	72,432	201,867
	$ 260,026	$ 376,899

Commitments (note 17)

Subsequent events (note 20)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Gilbert S. Bennett" (signed)
Director

"James L. Goodfellow" (signed)
Director

DISCOVERY AIR INC.

Consolidated Statements of Earnings (Loss)
Years ended January 31, 2009 and 2008

(thousands of dollars, except per share amounts)

	2009	2008
Revenue	$ 151,930	$ 123,554
Operating expenses	123,488	95,102
Earnings before undernoted items	28,442	28,452
Financing charges	12,306	10,291
Amortization of buildings and equipment	8,498	6,379
Amortization of intangible assets	4,467	3,018
Goodwill impairment charge (note 6)	121,581	–
Intangible assets impairment charge (note 7)	11,998	–
	158,850	19,688
Earnings (loss) before income taxes and non-controlling interest	(130,408)	8,764
Income tax provision (recovery) (note 10)	(420)	977
Earnings (loss) before non-controlling interest	(129,988)	7,787
Non-controlling interest	337	288
Net earnings (loss)	$ (130,325)	$ 7,499
Basic earnings (loss) per share (note 12)	$ (0.96)	$ 0.06
Diluted earnings (loss) per share (note 12)	$ (0.96)	$ 0.06

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity
Years ended January 31, 2009 and 2008

(thousands of dollars)

	2009	2008
Share capital (note 11):		
Balance, beginning of year	$ 184,968	$ 151,137
Shares issued on acquisitions of subsidiaries	–	35,563
Fair value of warrants granted	–	433
Exercise of options and warrants	–	277
Expiry of warrants	(433)	(2,442)
Balance, end of year	$ 184,535	$ 184,968
Contributed surplus:		
Balance, beginning of year	$ 5,689	$ 1,222
Fair value of options granted	890	2,030
Options exercised	–	(5)
Expiry of warrants	433	2,442
Balance, end of year	$ 7,012	$ 5,689
Retained earnings (deficit):		
Balance, beginning of year	$ 11,210	$ 3,711
Net earnings (loss)	(130,325)	7,499
Balance, end of year	$ (119,115)	$ 11,210

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows
Years ended January 31, 2009 and 2008

(thousands of dollars)

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings (loss)	$ (130,325)	$ 7,499
Items not involving cash:		
Future income tax recovery	(676)	(1,427)
Stock-based compensation	890	2,030
Amortization of buildings and equipment and intangible assets	12,965	9,397
Amortization of rotable and overhauled components	5,525	3,280
Amortization of discount on long-term debt	1,301	819
Loss (gain) on sale of long-lived assets	(277)	7
Goodwill impairment charge	121,581	–
Intangible assets impairment charge	11,998	–
Non-controlling interest	337	288
Change in non-cash operating working capital (note 13)	877	(5,405)
	$ 24,196	$ 16,488
Investing:		
Land, buildings and equipment	$ (33,122)	$ (28,060)
Proceeds on sale of long-lived assets	1,738	372
Acquisition of subsidiary operations (note 4)	–	(44,000)
Cash acquired on acquisition of subsidiary operations (note 4)	–	5,314
	$ (31,384)	$ (66,374)
Financing:		
Proceeds from long-term debt	$ 16,790	$ 95,498
Financing costs	(267)	(1,482)
Repayment of long-term debt	(6,167)	(58,028)
Net proceeds from issue of common shares	–	272
Distributions of non-controlling interest	(59)	(252)
	$ 10,297	$ 36,008
Increase (decrease) in cash position	3,109	(13,878)
Cash, beginning of period	3,756	17,634
Cash, end of period	$ 6,865	$ 3,756
Supplementary cash flow information:		
Interest paid during the period	$ 10,571	$ 9,446
Income taxes paid during the period	1,585	6,026

See accompanying notes to consolidated financial statements.

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

The Corporation's business is divided into two segments: the Northern Services segment, which consists of Great Slave, Air Tindi and Discovery Mining; and the Government Services segment, consisting of Top Aces and Hicks.

Great Slave is a helicopter company that directly and in partnership with northern Aboriginal groups, operates a fleet of 70 helicopters and provides services throughout Northern Canada and several of the Canadian provinces to private sector companies and governments in areas such as resource and base mineral exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, tourism and flight training. Great Slave's principal operations are carried out in Yellowknife, Northwest Territories and Calgary, Alberta. It has additional facilities in Fort Simpson, Fort Liard, Norman Wells and Inuvik in the Northwest Territories, Rankin Inlet in Nunavut, Churchill in Manitoba and Dryden in Ontario.

Air Tindi operates a diversified fleet of 23 fixed wing aircraft offering scheduled and chartered passenger and cargo services, as well as air ambulance services, in Northern Canada. Air Tindi both directly and in partnership with northern Aboriginal groups, provides services to a diversified customer base that includes major diamond and mineral exploration and mining companies and the Governments of Canada and the Northwest Territories.

Discovery Mining is a provider of remote exploration camps, expediting, logistics and staking to diamond and mineral exploration companies. Based in the Northwest Territories, Discovery Mining conducts operations in the Northwest Territories, Nunavut, Northern Alberta and Northern Saskatchewan.

Top Aces is an approved supplier of airborne training services to the Department of National Defence. Top Aces provides a variety of military training ranging from simulated combat to target tow with a fleet of 15 aircraft in operation located throughout Canada.

Hicks is an Ontario-based aviation company that operates 30 aircraft focused on providing air services to niche markets in the Province of Ontario. Hicks provides aerial forest fire services to the Province of Ontario with its fleet of 26 aircraft and flight operation and aircraft maintenance bases throughout Northern Ontario. Hicks also provides air charter services using 4 turbine aircraft to the provincial government and various other corporate entities which conduct business in Northern Ontario.

1. Significant accounting policies:

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

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

(a) Investments:

The consolidated financial statements include the accounts of the Corporation's wholly owned subsidiaries Great Slave, Air Tindi, Top Aces, Hicks and Discovery Mining and Great Slave's wholly-owned subsidiaries Superior Helicopters Canada Ltd. and Hudson Bay Helicopters Ltd. All significant intercompany balances and transactions have been eliminated on consolidation.

(b) Variable interest entities:

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

(c) Cash and cash equivalents:

Cash and cash equivalents include balances with financial institutions with an initial term to maturity of three months or less.

(d) Inventory:

Inventory, consisting of aircraft parts and supplies, is stated at the lower of cost (on a first-in, first-out basis) and net realizable value.

1. Significant accounting policies (continued):

(e) Land, buildings and equipment:

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

Amortization is provided using the following methods and annual rates:

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

(f) Aircraft overhaul and maintenance costs:

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

(g) Goodwill:

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

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

When the carrying value of the reporting unit's goodwill exceeds the fair value of that goodwill, an impairment loss equal to the excess is recorded on the Consolidated Balance Sheet and recognized as a non-cash impairment charge in Consolidated Statements of Earnings (Loss). The assessment of goodwill impairment is not a mechanical exercise and requires the use of considerable management

1. Significant accounting policies (continued):

(g) Goodwill – continued:

judgment. Changes in expected financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting units or the amount of the goodwill impairment charged.

(h) Intangible assets:

Intangible assets are assets acquired that lack physical substance and that meet the specified criteria for recognition apart from goodwill. Intangible assets are comprised mainly of tradenames and customer relationships. The customer relationships are amortized on a straight-line basis over eight years, while the tradenames have an indefinite life and, therefore, are not amortized.

Intangible assets are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired.

(i) Impairment of long-lived assets:

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

(j) Financing costs:

Financing costs related to credit facilities are recorded as a reduction of the related debt. Financing costs are amortized using the effective interest rate method.

(k) Revenue recognition:

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 is recorded if amounts are fixed or determinable and collection is reasonably assured.

(l) Income taxes:

The Corporation uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

1. Significant accounting policies (continued):

(m) Foreign currency:

Monetary items denominated in foreign currency are translated to Canadian dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(n) Stock-based compensation:

The Corporation has stock-based compensation plans which are described in note 11. The Corporation accounts for employee stock options using the fair value method. This method recognizes the fair value of the stock option over the applicable vesting period as an increase in compensation expense and contributed surplus. Any consideration paid by employees on exercise of these stock options is credited to common shares along with the amount previously recognized in contributed surplus.

The Corporation awards deferred stock units (“DSUs”) to the directors of the Corporation. These DSUs are recognized as compensation expense and liabilities are accrued as they are awarded. The DSUs are re-measured at each reporting period using the closing market price of the Corporation’s common shares.

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

(o) Earnings per share:

Earnings per share is calculated by dividing net earnings by the weighted average number of shares outstanding during the year. For the purpose of the weighted number of shares outstanding, shares are determined to be outstanding from the date they are issued. Diluted earnings per share is calculated based on the weighted average number of common shares and dilutive common share equivalents.

(p) Financial instruments:

The Corporation’s financial assets and liabilities are classified into the following categories:

Cash	Assets held for trading
Accounts receivable	Loans and receivables
Operating line of credit	Other financial liabilities
Accounts payable and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities

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.

The Corporation has not identified any material embedded derivatives in its financial instruments which require separate recognition and measurement.

2. Recently adopted standards:

(a) Financial instruments – presentation and disclosure

In December 2006, the Accounting Standards Board ("AcSB") issued Handbook Section 3862, *Financial Instruments – Disclosure,* and Section 3863*, Financial Instruments Presentation,* which became effective for the Corporation on February 1, 2008. These standards revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. Section 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance on classification of financial instruments, from the perspective of the issuer, between liabilities and equity. The adoption of these standards resulted in the additional disclosures in note 15.

(b) Capital disclosures

In December 2006, the AcSB issued Handbook Section 1535, *Capital Disclosures*, which became effective for the Corporation on February 1, 2008. The standard establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital. The adoption of this standard resulted in the additional disclosures in note 14.

(c) Inventories

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

3. Recently issued standards:

(a) Goodwill and intangible assets

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

3. Recently issued standards (continued):

(b) Business combinations

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

(c) Consolidated financial statements and non-controlling interest

Handbook Section 1601, *Consolidated Financial Statements*, and Section 1602, *Non-controlling Interests* replaced the former Handbook Section 1600, *Consolidated Financial Statements* and established a new method of accounting for a non-controlling interest and subsidiary. These sections will require a change in the measurement of non-controlling interest and will require the change to be presented as part of shareholders' equity. The Corporation will adopt the new accounting standards concurrently with the adoption of the new Handbook Section 1582 (note 3(b)) and is currently assessing the impact that the adoption of these standards will have on its consolidated financial statements.

(d) International Financial Reporting Standards

In February 2008, the CICA Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective for fiscal years beginning on or after January 1, 2011. The Corporation's first annual IFRS consolidated financial statements will be for the year ending January 31, 2012 and will include the comparative period of fiscal 2011. The Corporation is in the process of completing a preliminary assessment of the accounting and reporting differences under IFRS as compared to Canadian GAAP, including the determination of the impacts of these differences on the consolidated financial statements. As this assessment progresses, the Corporation intends to disclose such impacts in its future consolidated financial statements.

4. Business acquisitions:

(a) Discovery Mining Services Ltd.

On January 4, 2008, the Corporation acquired the operating business of Discovery Mining Services for cash consideration of $3.1 million including costs of acquisition, a $2.0 million note payable to the seller and $5.0 million of common shares (4.3 million shares). The results of Discovery Mining's operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)		
Net assets acquired		
Cash	$	1,368
Other current assets		674
Land, buildings and equipment		500
Intangible assets		1,748
Goodwill		6,389
Current liabilities		(542)
Future income tax liability		(33)
	$	10,104

(b) Top Aces Inc.

On August 24, 2007, the Corporation acquired 100% of the outstanding shares of Top Aces for cash consideration of $35.6 million, including costs of acquisition, and 20 million common shares which for accounting purposes will be recorded at approximately $30.6 million. The results of Top Aces' operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)		
Net assets acquired		
Cash	$	3,946
Other current assets		7,615
Land, buildings and equipment		15,858
Intangible assets		19,044
Goodwill		37,862
Current liabilities		(3,958)
Long-term debt		(6,844)
Future income tax liability		(7,347)
	$	66,176

4. Business acquisitions (continued):

(c) Walsten Air Service (1986) Ltd.

On March 14, 2007, the Corporation purchased the wheel division assets of Walsten Air Service (1986) Ltd., including aircraft, an aircraft facility, associated equipment and inventory, and goodwill related to the business. The purchase price consisted of cash consideration totalling $5.3 million. The estimated fair value of the assets acquired is summarized in the table below:

(thousands of dollars)

Net assets acquired		
Other current assets	$	441
Land, buildings and equipment		4,403
Goodwill		438
	$	5,282

5. Land, buildings and equipment:

(thousands of dollars)

			2009	2008
	Cost	Accumulated amortization	Net book value	Net book value
Land	$ 637	$ –	$ 637	$ 637
Buildings	17,577	2,610	14,967	14,874
Furniture and equipment	8,670	3,318	5,352	4,312
Aircraft	129,841	15,765	114,076	102,332
Rotable and overhauled components	27,993	10,772	17,221	12,267
Vehicles	2,364	1,644	720	953
Leasehold improvements	1,116	545	571	531
	$ 188,198	$ 34,654	$ 153,544	$ 135,906

During the period ended January 31, 2009, $5.5 million (2008 - $3.3 million) relating to the amortization of rotable and overhauled components was included in operating expenses in the Consolidated Statements of Earnings (Loss).

6. Goodwill:

The Corporation conducted its annual goodwill impairment test as at July 31, 2008 using the discounted cash flow method in determining fair value of each of its reporting units and concluded at that time there was no impairment.

At the end of the third quarter and into the fourth quarter of fiscal 2009, the rapid deterioration in the global economic environment had a negative impact on certain of the Corporation's reporting units. This, combined with significantly reduced access to capital in the markets as a whole and the reduction in the Corporation's stock price, were significant triggering events warranting a reassessment of the Corporation's goodwill within each of its reporting units.

On January 31, 2009, the Corporation completed the step 1 analysis using the market approach and a market capitalization approach to determine that all of its reporting units except one had experienced impairment in goodwill. The market approach involves calculating the fair value of the reporting units based on value relationships derived or implied from the analysis of other market transactions that can be applied to the different reporting units. Market value multiples were considered for publicly traded companies and publicly reported transactions and was applied to both historical and projected forward results for the reporting units. The market capitalization approach uses the Corporation's publicly traded stock price to determine whether the fair value conclusions reached in the market approach are reasonable. This step 1 analysis concluded that a full impairment of goodwill should be recognized for all of the Corporation's reporting units except Top Aces and therefore it was decided that the step 2 analysis was not necessary to complete the goodwill impairment assessment. The Corporation concluded in the step 1 analysis that there was no impairment in the carrying value of goodwill recorded for Top Aces. Accordingly, the Corporation wrote down the full carrying value of goodwill recorded for all reporting units except Top Aces on the balance sheet and recorded a corresponding charge to net earnings totaling $121.6 million. The write down of goodwill is non-cash in nature, does not adversely affect the Corporation's liquidity or cash flow from operations and will not have an impact on future operations. The write down of goodwill affected compliance with one of the financial covenants required by two of the Corporation's lenders as disclosed in note 8.

Changes in the carrying value of goodwill are comprised of the following:

(thousands of dollars)

	2009	2008
Balance, beginning of the year	$ 159,443	$ 114,754
Goodwill from acquisitions (note 4)	–	44,689
Goodwill impairment charge	(121,581)	–
Balance, end of the year	$ 37,862	$ 159,443

7. Intangible assets:

(thousands of dollars)

				2009	2008
	Cost		Accumulated amortization and impairment charge	Net book value	Net book value
Customer relationships	$	35,385	$ 8,227	$ 27,158	$ 31,583
Tradenames		12,843	11,998	845	12,843
Other		210	150	60	102
	$	48,438	$ 20,375	$ 28,063	$ 44,528

The Corporation tested the intangible assets for impairment on January 31, 2009 in conjunction with its test for impairment of goodwill. The Corporation's indefinite-lived intangible assets consisting of tradenames was assessed under the same method as the goodwill impairment. It was determined those reporting units that had realized an impairment in goodwill also realized an impairment in their tradenames and as a result the Corporation wrote down the full carrying value of the tradenames in these reporting units on the balance sheet and recorded a corresponding charge to net earnings totaling $12.0 million.

Also at January 31, 2009, the Corporation tested the definite-lived intangible assets using an undiscounted cash flow method and determined that these assets were recoverable.

8. Long-term debt:

(thousands of dollars)

	2009	2008
8.75% unsecured convertible debentures, maturing December 31, 2011 (described below)	$ 26,740	$ 26,194
Revolving long-term secured debt bearing a floating interest rate of 30 day BA (with a minimum base of 2.5%) plus 6.25%, maturing January 21, 2013 (described below)	51,637	45,624
Long-term secured debt bearing a fixed rate of 9.25%, maturing February 1, 2009 (described below)	33,000	32,447
Long-term secured debt incurred by a subsidiary bearing an interest rate of floating base bank rate plus 3.25%, maturing fiscal January 15, 2015 (described below)	12,741	5,257
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 7.24%, maturing fiscal 2012 through fiscal 2014	1,652	2,029
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 4.75%, maturing fiscal 2013 through fiscal 2017	1,463	1,676
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1%, maturing fiscal 2015 through fiscal 2016 (note 16)	15,108	15,938
Unsecured notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing fiscal 2010 through fiscal 2017 (note 16)	3,081	4,161
Conditional sales contracts	304	743
	145,726	134,069
Less current portion of long-term debt	10,383	10,168
	$ 135,343	$ 123,901

The 8.75% convertible debentures are convertible at any time into common shares at $2.05 per share. The convertible debentures are not redeemable before December 31, 2009. Between December 31, 2009 and December 31, 2010, the convertible debentures are redeemable by the Corporation at the principal amount outstanding plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares of the Corporation's shares is greater than 125% of the conversion price. On or after December 31, 2010, the convertible debentures are redeemable by the Corporation at their principal amount plus accrued interest. The debentures were issued in December, 2006 at which time the fair value of the Corporation's obligation to make future payments of principal and interest was $27.6 million and the fair value of the holders' conversion option was determined to be $1.1 million. Financing costs of $1.9 million related to the issue of the convertible debentures have been included in long-term debt. As interest expense and financing costs are recognized they increase the recorded carrying value of the related long-term debt until such time as the liability recorded is equal to the debentures' face value of $28.75 million, calculated based on the Corporation's effective interest rate of 11.70%.

8. Long-term debt (continued):

In January 2008, the Corporation entered into a five year revolving long-term debt agreement to finance certain of its fleet assets. As at January 31, 2009, the Corporation had approximately $52.6 million available to it and drawn from this facility. The loan bears an interest rate of the greater of the applicable 30 days Bankers Acceptance yield and 2.50%, plus 6.25%. On April 24, 2009, the available borrowing base will be reduced to $50.0 million (see Subsequent events note 20). The debt currently requires only the repayment of interest. On July 24, 2009 and each year thereafter the lender has the option to convert the revolving term facility to an amortizing debt with the principal balance at the time amortized over a 10 year period on a blended repayment basis at which time the revolving feature of the debt would be terminated. The loan is secured by a general security agreement over the assets of Discovery Air Inc. and its wholly-owned subsidiaries Great Slave, Air Tindi, Discovery Mining and Hicks. The security structure provides a first charge over the aircraft owned by these subsidiaries and a secondary floating charge over all their other assets, subject to permitted encumbrances. Financing costs of $1.1 million, included in long-term debt, represent the unamortized cost of obtaining the term loan and will be expensed over the term of the loan on an effective interest basis. As at January 31, 2009, the Corporation was in compliance with all covenants related to this debt except for the senior funded debt to total capital covenant. The non-compliance resulted from the $133.6 million goodwill and intangible assets impairment charge recorded in the current year. The Corporation has received a waiver from the lender for this covenant default which is effective to February 1, 2010.

In August 2007, the Corporation entered into a $33.0 million term loan agreement with a syndicate of lenders to finance a portion of the Top Aces business combination. The term loan had an effective interest rate of 11.07% per annum and the principal balance was due on February 1, 2009. On February 4, 2009, the Corporation refinanced this loan, replacing it with a $34.0 million term loan. The $34.0 million term loan has an effective interest rate of 11.10% per annum and the principal balance is due on February 1, 2013. For additional detail see Subsequent events note 20.

In February 2008 the Corporation entered into a $21.5 million term loan agreement to refinance its existing term debt and the purchase of additional aircraft, spare engines and aircraft parts. The principal amount of the loan is repayable in monthly instalments of $256,000 commencing in February 2008 and ending on January 15, 2015. The term debt bears an interest rate of the lender's floating base rate plus 3.25% per annum. The loan is secured by a charge on all the assets of Top Aces, subject to a priority interest provided to an operating lender over Top Aces accounts receivable. As at January 31, 2009, $12.9 million was outstanding under this banking facility. Financing costs of $226,000 were incurred to date in obtaining the loan and will be expensed over the term of the loan on an effective interest basis. As at January 31, 2009, the Corporation was in compliance with all covenants related to this debt except for the senior funded debt to total capital covenant. The non-compliance resulted from the $133.6 million goodwill and intangible assets impairment charge recorded in the current year. The Corporation has received a waiver from the lender for this covenant default effective to February 1, 2010.

8. Long-term debt (continued):

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

(thousands of dollars)	
2009	$ 10,383
2010	4,464
2011	31,110
2012	53,487
2013	42,945
Thereafter	3,337

Interest on long-term debt for the year ended January 31, 2009 was $11.0 million (2008 - $9.4 million).

9. Operating lines of credit:

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

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

(b) As at January 31, 2009, Top Aces had a banking facility which consists of a demand operating line of credit to a maximum of $3.75 million, bearing interest at prime plus 0.50%. The banking facility was a demand facility with no fixed maturity. This facility was secured by a general security agreement which provides a first charge over accounts receivable and inventory and a floating charge over all other assets subject to permitted encumbrances. At January 31, 2009, there was no amount outstanding under this banking facility.

(c) On April 9, 2009 the Corporation replaced both the operating credit facilities held by the Corporation and Top Aces with a new banking facility which consists of a demand operating line of credit to a maximum of $15.0 million with increased availability up to $25.0 million during the Corporation's peak operating period. The banking facility bears an interest rate of 18.00% per annum based on the amount drawn and has a term of 14 months. The banking facility is secured by a first charge over the accounts receivable for all the Corporation's operating entities and over inventories for all the Corporation's operating entities except Top Aces, as well as a second floating charge over all other assets of the Corporation and its subsidiaries, except real estate, subject to specific permitted encumbrances. Further details on this new banking facility are disclosed in Subsequent events note 20.

10. Income taxes:

Income taxes provision (recovery) differs from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 31.50% (2008 – 34.00%) to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

(thousands of dollars)

	2009	2008
Computed tax expense (recovery)	$ (41,052)	$ 3,012
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(1,427)	(2,954)
Permanent differences arising from the write-down of goodwill	41,573	–
Other permanent differences	486	919
	$ (420)	$ 977

Income taxes (recovery) are comprised of:

(thousands of dollars)

	2009	2008
Current income tax provision (recovery)	$ 256	$ 2,404
Future income tax recovery	(676)	(1,427)
	$ (420)	$ 977

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

(thousands of dollars)

	2009	2008
Future tax assets:		
Loss carry-forwards	$ 1,373	$ –
Tax basis recorded in subsidiary investment	1,944	–
Valuation allowance	(1,944)	–
	1,373	–
Future tax liabilities:		
Land, buildings and equipment	(29,366)	(28,669)
	(29,366)	(28,669)
Net future income tax liability	$ (27,993)	$ (28,669)

11. Share capital and stock-based compensation:

(a) Authorized:

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

(b) Issued and outstanding:

(thousands of dollars, except for shares)

	2009 Shares	2009 Amount	2008 Shares	2008 Amount
Class A common shares:				
Outstanding, beginning of year	134,519,805	$ 182,333	108,526,516	$ 147,579
Issued for cash	–	–	–	–
Issued on acquisition of subsidiaries	–	–	23,599,786	34,477
Issued on exercise of options	–	–	20,000	15
Issued on exercise of warrants	–	–	2,373,503	262
Class A common shares converted to Class B common shares	(58,250)	(89)	–	–
Outstanding, end of year	134,461,555	182,244	134,519,805	182,333
Class B common shares:				
Outstanding, beginning of year	684,354	1,086	–	–
Issued on acquisition of subsidiary	–	–	684,354	1,086
Class A common shares converted to Class B common shares	58,250	89	–	–
Outstanding, end of year	742,604	1,175	684,354	1,086
Warrants and other equity:				
Common share purchase warrants		433		433
Expiry of warrants		(433)		–
Conversion feature on convertible debt		1,116		1,116
Total share capital end of year	135,204,159	$ 184,535	135,204,159	$ 184,968

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

(c) Stock-based compensation:

Employee Stock Options

The Corporation has a stock option plan for its directors, officers and employees. Options are granted at an exercise price set at the closing market price of the Corporation's common shares on the day preceding the date on which the option is granted and are exercisable within ten years of issue. The options typically vest over a two year period. The shareholders voted to terminate additional grants under the plan at the Corporation's annual general meeting held in June 2008.

At January 31, 2009, 7,447,450 common 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
$0.50 - $1.00	2,655,000	7.01	$ 0.51	2,621,665	$ 0.50
$1.01 - $1.50	817,150	8.77	1.29	504,327	1.36
$1.51 - $1.75	2,920,250	8.05	1.60	2,326,715	1.60
$1.76 - $1.85	1,055,050	8.06	1.85	703,296	1.85
	7,447,450			6,156,003	

Stock option transactions for the periods ended January 31, 2009 and 2008 are as follows:

	2009		2008	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	7,113,200	$ 1.22	4,020,000	$ 0.88
Granted	431,350	1.10	3,190,250	1.66
Exercised	–	–	(20,000)	0.50
Forfeited	(41,945)	1.67	(74,816)	1.85
Expired	(55,155)	1.77	(2,234)	1.85
Outstanding, end of year	7,447,450	$ 1.21	7,113,200	$ 1.22

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

(c) Stock-based compensation – continued:

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

	2009	2008
Options granted	431,350	3,190,250
Exercise price per share	$1.10	$1.66
Risk-free interest rate	3.14%	4.33%
Dividend yield	0%	0%
Expected volatility	50%	50%
Expected option life	4.5 years	4.5 years
Expected forfeiture rate	5%	5%
Fair value per option	$0.49	$0.79

During the year ended January 31, 2009, the Corporation recognized compensation expense of $890,000 (2008 - $2.0 million) relating to the estimated fair value of vesting stock options.

Warrants

At January 31, 2009, the Corporation had nil (2008 – 1,178,568) common share purchase warrants issued and outstanding.

(d) Deferred share units

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

12. Per share amounts:

Basic earnings (loss) per share:

(thousands except per share amounts)

	2009	2008
Net earnings (loss)	$ (130,325)	$ 7,499
Average number of common shares outstanding	135,204	119,313
Basic earnings (loss) per share	$ (0.96)	$ 0.06

Diluted earnings (loss) per share:

(thousands except per share amounts)

	2009	2008
Net earnings (loss)	$ (130,325)	$ 7,499
Average number of common shares outstanding	135,204	119,313
Dilutive adjustments	–	1,796
Average number of common shares outstanding assuming dilution	135,204	121,109
Diluted earnings (loss) per share	$ (0.96)	$ 0.06

As at January 31, 2009, all employee stock options and the conversion feature on the convertible debentures were anti-dilutive. For the year ended January 31, 2008, the dilutive adjustment related to select employee stock options where the exercise price was greater than the average market price. The dilution adjustment was calculated by assuming select employee stock options were exercised, net of shares assumed acquired under the treasury stock method. As at January 31, 2008, 3,857,350 employee stock options and 1,178,568 warrants outstanding as well as the conversion feature on the convertible debenture were anti-dilutive.

13. Change in non-cash operating working capital:

(thousands of dollars)

	2009	2008
Accounts receivable	$ 779	$ 714
Income taxes recoverable	(798)	–
Inventory	(163)	(2,675)
Prepaid expenses and other	(244)	708
Accounts payable and accrued liabilities	1,834	(966)
Income taxes payable	(531)	(3,186)
	$ 877	$ (5,405)

14. Capital disclosures:

In the management of capital, the Corporation considers its capital structure to consist of long-term debt and shareholders' equity. With the recent rapid deterioration in general economic conditions and substantially reduced access to capital that has arisen from deteriorated capital markets, the Corporation's objective in managing its capital is to ensure sufficient, adequately structured, affordable credit facilities are in place to meet its ongoing operational and capital investment needs and to ensure it has stable relationships with its lenders. Capital is managed in accordance with policies and financial plans that are approved and regularly reviewed by senior management and the Board of Directors and take into account forecasted capital needs, actual performance and market conditions. The Board of Directors reviews and approves any material transactions outside of the ordinary course of business. The capital management objectives and strategies have changed from the comparative prior year period due to structural changes in the credit markets and are being more closely monitored in light of the current economic and capital market environments, which have changed quickly and dramatically over the course of the last two quarters.

The Corporation is subject to certain covenants in its credit facilities. The Corporation monitors the covenants on a regular basis and the Corporation's Board of Directors and its related lenders review the covenants on a quarterly basis. Other than the covenants under its credit facilities, the Corporation is not subject to any externally imposed capital requirements.

15. Financial instruments - Disclosure and Presentation:

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. Management and the Board of Directors, both separately and together, discuss the principal business risks to which the Corporation is exposed. The Board of Directors sets policies for the implementation of systems to manage, monitor and mitigate identifiable risks. Risk management strategies, policies and limits are designed to provide reasonable assurance that the risk exposures are managed within the Corporation's business objectives and risk tolerance. The Corporation's risk management objective is to optimize the balance between maximizing return for its shareholders and protecting and minimizing volatility in cash flow.

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

15. Financial instruments - Disclosure and Presentation (continued):

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.

i) Foreign exchange risk

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

As at January 31, 2009, the Corporation held net unhedged liabilities of US $1.3 million and EUR 672,000. As at January 31, 2009, a 5.00% rise or fall in the Canadian dollar against the U.S. dollar and Euro, with all other variables unchanged, would have resulted in a net increase or decrease of $134,000 in the Corporation's earnings for the year ended January 31, 2009.

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

The Corporation's $6.3 million commitment to purchase aircraft and related inventory (note 17) as at January 31, 2009 includes foreign currency amounts of USD $2.4 million and EUR 711,000. These U.S. dollar and Euro based purchases are scheduled to be completed in the 2010 fiscal year. These forward commitments have not been hedged by the Corporation.

15. Financial instruments - Disclosure and Presentation (continued):

ii) Interest rate risk

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

As at January 31, 2009, a 25 basis point increase or decrease in interest rates, with all other variables unchanged, would have resulted in an increase or decrease of $210,000 in the Corporation's earnings for the year ended January 31, 2009.

Credit risk

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

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

Liquidity risk

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

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

15. Financial instruments - Disclosure and Presentation (continued):

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

In order to ensure adequate financing was in place to meet its ongoing working capital requirements over the next year, the Corporation arranged a new demand operating line of credit (notes 9 and 20).

The Corporation is not aware of any current balance sheet conditions, income items or cash flow items, other than those previously disclosed, that could materially impact liquidity.

The expected repayment of financial liabilities is as follows:

(thousands of dollars)	**Due within 1 year**	**Due between 1 & 2 years**	**Due between 2 & 3 years**	**Due between 3 & 4 years**	**Due between 4 & 5 years**	**Due after 5 years**	**Total**
Accounts payable and accrued liabilities	$ 11,928	$ -	$ -	$ -	$ -	$ -	**$ 11,928**
Operating leases	3,868	1,942	1,388	1,097	407	719	**9,421**
Long-term debt (note 8)	10,383	4,464	31,110	53,487	42,945	3,337	**145,726**
Commitments (note 17)	6,306	-	-	-	-	-	**6,306**
	$ 32,485	$ 6,406	$ 32,498	$ 54,584	$ 43,352	$ 4,056	**$ 173,381**

Fair Value

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

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

16. Related party transactions:

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

On December 19, 2008, a payment for $2.1 million was scheduled to be made by one of the Corporation's subsidiaries in accordance with the terms of an unsecured promissory note entered into with its former owners. Certain of these creditors, with an aggregate principal balance owing of $952,000, extended the repayment date of their promissory notes from December 19, 2008 to February 15, 2009. A further extension has since been provided by these creditors to December 19, 2009 (note 20). During the year, the Corporation was made aware of potential liabilities that related to periods prior to the acquisition of the subsidiary. The Corporation believes the amount of these potential liabilities could exceed the liabilities owing under the unsecured note principal. The Corporation is of the opinion that the original purchase agreement provides it with the right of set-off for these potential liabilities. Since the settlement date of these liabilities has not been established, the Corporation has classified the full principal balance of this debt as a current liability.

17. Commitments:

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

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

The Corporation is committed to purchase additional aircraft, related inventory and service contracts for a total cost of $6.3 million.

The Corporation was required to obtain letters of credit through its lenders totalling $2.0 million (2008 - $764,000). The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

18. Segmented information:

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the markets in which the Corporation's aviation and related services operate. The Northern Services segment is comprised of Great Slave, Air Tindi and Discovery Mining and the Government Services segment is comprised of Top Aces and Hicks. For the comparative prior year period, the Northern Services segment includes only the operations of Great Slave and Air Tindi and

18. Segmented information (continued):

the operations of Discovery Mining from the date of its acquisition on January 4, 2008. For the comparative prior year period the Government Services segment includes only the operation of Hicks and the operations of Top Aces from the date of its acquisition on August 24, 2007. The Northern Services segment's primary market is based on activities in Northern Canada. The segment has a wide customer base servicing companies and government entities in the business of mineral, base and precious metal exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, seismic, air ambulance, scheduled charters and tourism. The Government Services segment provides niche services primarily aimed at government entities. All other operating activities that are not allocated to these two business segments are reported under Corporate Support.

The Corporation re-aligned the segment disclosure of its operations at the start of the current fiscal period with the objectives of providing better insight into the Corporation's performance and its prospects for future net cash flow and ultimately of allowing readers to make a more informed assessment of the Corporation's results.

(thousands of dollars)

	2009			
	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 104,440	$ 47,468	$ 22	$ 151,930
Operating expenses	88,702	29,343	5,443	123,488
Income from operations before undernoted items	15,738	18,125	(5,421)	28,442
Amortization	8,762	4,136	67	12,965
Goodwill impairment charge	120,496	1,085	–	121,581
Intangible assets impairment charge	11,998	–	–	11,998
Income (loss) before undernoted items	$ (125,518)	$ 12,904	$ (5,488)	$ (118,102)
Financing costs				12,306
Income taxes provision (recovery)				(420)
Non-controlling interest				337
Net loss				$ (130,325)
Total assets	$ 145,699	$ 111,960	$ 2,367	$ 260,026
Goodwill	$ –	$ 37,862	$ –	$ 37,862
Intangible assets	$ 12,225	$ 15,838	$ –	$ 28,063
Capital expenditures	$ 17,876	$ 15,196	$ 50	$ 33,122

18. Segmented information (continued):

(thousands of dollars)

	2008			
	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 104,301	$ 19,122	$ 131	$ 123,554
Operating expenses	74,436	14,863	5,803	95,102
Income from operations before undernoted items	29,865	4,259	(5,672)	28,452
Amortization	7,204	2,156	37	9,397
Income (loss) from operations before undernoted items	$ 22,661	$ 2,103	$ (5,709)	$ 19,055
Financing costs				10,291
Income taxes provision (recovery)				977
Non-controlling interest				288
Net Income				$ 7,499
Total assets	$ 278,856	$ 97,914	$ 129	$ 376,899
Goodwill	$ 120,497	$ 38,946	$ –	$ 159,443
Intangible assets	$ 26,374	$ 18,154	$ –	$ 44,528
Capital expenditures	$ 19,952	$ 7,869	$ 239	$ 28,060

The operations in the Government Services segment are economically reliant upon a sole customer. Substantially all of Top Aces' revenue is derived from Standing Offer Agreements to provide airborne training services to the Department of National Defence ("DND"). These Standing Offer Agreements currently expire in March 2010. DND is not obligated to call up any Top Aces services under these Standing Offer Agreements and may cancel these Standing Offer Agreements at its convenience. Due to the essential nature of this military training, management does not believe it likely that these Standing Offer Agreements will be terminated or that there will be any substantial reduction in service required by DND. In addition, Top Aces is currently the only supplier with approved airworthiness clearances under these Standing Offer Agreements. It is anticipated that these services will be put out for tender via a Request for Proposal to ensure continuation of the airborne training services beyond March 2010.

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

19. Comparative figures:

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

20. Subsequent events:

(a) Refinancing of the $33.0 million term loan

On February 1, 2009, the Corporation's $33.0 million term loan related to the acquisition of Top Aces matured and an additional extension of the maturity date was provided by the lender to March 2, 2009. On February 4, 2009 this loan was repaid with from the proceeds of a new $34.0 million term loan. The new loan bears an interest rate of 10.00% and matures on February 1, 2013. The Corporation will make monthly interest only payments until the end of the term, at which time the principal and any outstanding interest accrued is due and payable. To date, the Corporation has incurred $1.1 million in financing costs which will be netted against the debt and will be expensed over the term of the loan on an effective interest basis.

The $34.0 million term loan obligates the Corporation to re-locate its current corporate office to Yellowknife, NWT by February 1, 2010. The relocation of the corporate office will result in additional costs for the Corporation, including transition costs and termination benefits related to the employees who perform the affected job functions at the Corporation's current corporate office. The Corporation is currently negotiating with the affected employees and the full extent of these costs is indeterminable at this time.

(b) Operating lines of credit

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

(c) $52.6 million Revolving Term Loan Amendments

On March 3, 2009 the Corporation agreed to amendments to its long-term secured revolving debt facility that is used to finance certain of its fleet assets. In accordance with the terms of the agreement, the lender adjusted its interest rate at a rate equivalent to the greater of the yield on 30-day Bankers' Acceptances or 2.50% plus a spread of 6.25%, retroactive to January 24, 2009. In addition to the rate, the Corporation agreed to the following substantive amended terms:

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

The amount outstanding was reduced to $50.0 million on April 24, 2009.

20. Subsequent events (continued):

(d) Unsecured Notes Payable to officers of a subsidiary of the Corporation

The Corporation had unsecured notes payable to officers of a subsidiary aggregating $952,000 as at January 31, 2009. These notes were initially due to be repaid on December 19, 2008 but their repayment was extended by the note holders to February 15, 2009. Subsequent to year end, these note holders extended the maturity date of these notes to December 19, 2009. Interest continues to be paid monthly on these notes at the prime lending rate.