MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations for the three month period ended January 31, 2007 of Discovery Air Inc. (the "Corporation") should be read in conjunction with the audited consolidated financial statements and related notes of the Corporation for the three month period ended January 31, 2007.

The business of the Corporation follows a seasonal pattern with the lowest revenues generally taking place from November to April. The Corporation's results for the three months ended January 31 are at the lowest point in the seasonal cycle and are not indicative of the results that may be expected for a full year.

The Corporation has changed its year end from October 31 to January 31 in order to align its year end with that of other companies within the aviation industry. Therefore, these financial statements are for a three month period ending January 31, 2007.

Selected Financial Information

	for the three months ended	
($ thousands, except per share amounts)	**January 2007**	**January 2006** (unaudited)
Results of operations		
Revenue	$ 7,114	$ 22
Operating expenses	12,412	596
EBITDA*	(5,298)	(574)
Net earnings (loss)	(4,511)	(537)
Earnings (loss) per common share:		
Basic	$ (0.05)	$ (0.02)
Diluted	$ (0.05)	$ (0.02)
Cash dividends declared per common share	$ -	$ -
Total assets	$ 279,764	$ 8,677
Total long-term debt	$ 88,947	$ 5,190

* See Non-GAAP measures

Business Profile

The Corporation is a holding company which invests in companies engaged in niche aviation activities, and was incorporated on November 12, 2004. On December 21, 2004, the Corporation acquired 50% of the outstanding shares of Hicks & Lawrence Limited (H&L) and acquired the remaining 50% of the outstanding shares on August 16, 2005. On June 20, 2006, the Corporation acquired 100% of the outstanding shares of Great Slave Helicopters Ltd. and its subsidiaries and partners (GSHL) and on December 19, 2006, the Corporation acquired 100% of the outstanding shares of Air Tindi Ltd. and its partners (ATL).

For management purposes, the operations of the Corporation are segregated into two operating segments: rotary wing, being the operations of GSHL, and fixed wing, being the operations of H&L and ATL. GSHL is a helicopter company that provides charter services throughout Northern Canada and several of the Canadian provinces to government and private sector companies 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. ATL is a Yellowknife-based airplane aviation company that provides scheduled and chartered passenger and air cargo service to government, individuals and private sector companies in such areas as resource and base mineral exploration, oil and gas exploration, scheduled routes and tourism. As well, ATL provides air ambulance services throughout the Northwest Territories. H&L is an Ontario-based airplane aviation company focused on providing contracted air-based fire suppression services to the government in the province. Non-segmented activities are classified as Corporate Support.

Due to the nature of the operations of these two operating segments, demand for their aviation services normally commences in spring, continuing through to the end of summer. As a result, the operations of the Corporation are subject to seasonal variations.

Strategy and Strengths

The Corporation's mission is to build shareholder value by creating an alliance of profitable aviation businesses that can realize synergies, take advantage of economies of scale and deliver safe, professional air service to clients in selected niche markets.

The Corporation will continue to utilize its resources to develop core competencies in the area of safety, customer service, flight operations and aircraft maintenance services. In order to ensure that air services provided to customers are safe and reliable, the Corporation adheres to Transport Canada approved operational standards, policies and procedures.

Growth will be achieved by the Corporation from increasing the market share held by existing subsidiaries through fleet expansion and the introduction of new services and by acquiring complimentary niche aviation companies.

Aviation services are delivered by the Corporation's wholly-owned subsidiaries. Discovery Air as a corporation has no day to day operational responsibilities. It provides its wholly-owned subsidiaries with access to capital, which includes managing investor relations, group accounting and corporate legal services, and the development of group-wide human resource policies. It also provides a forum through which its subsidiaries can benefit from synergies and economies of scale as well as sharing of best operating practices.

The Corporation has a strong business platform in place which is based upon outstanding service, a reputation for quality and safety, a loyal customer base, a dominant position in the Northwest Territories, a minimum 20 year successful track record amongst its operating subsidiaries, a management team with a successful track record, and expanding market opportunities. GSHL and ATL provide an essential service for many of its customers as access to, and movement at the majority of its customers' locations is only possible via the assistance of aircraft. This includes the movement of people and required supplies and equipment.

Non-GAAP Measures

References to "EBITDA" are to earnings before interest, income taxes, depreciation and amortization (except for amortization of rotable and overhauled components which are considered operating expenses), gain on disposal of land, buildings and equipment, and non-controlling interest. As is common in the industry, the Corporation uses EBITDA as a supplemental financial measure of its operational performance. Management believes EBITDA to be an important measure as it excludes the effects of items which primarily reflect the impact of long-term investment decisions rather than the performance of the Corporation's day-to-day operations. Management believes this measurement is useful to measure a company's ability to service debt and to meet other payment obligations or as a valuation measurement.

Significant Accounting Policies and Estimates

The 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 years. 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, future income taxes and stock-based compensation. Actual results could differ from those estimates.

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

Investments

The consolidated financial statements include the accounts of the Corporation's 100%-owned subsidiaries GSHL, ATL and H&L. All significant intercompany balances and transactions have been eliminated on consolidation.

Variable interest entities

The Corporation is the primary beneficiary of variable interest entities and consolidates these 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. 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.

Inventory

Inventory, consisting of parts and supplies, is stated at the lower of cost, on a first-in, first-out basis, and replacement cost. The Corporation regularly assesses the level of slow moving and obsolete parts and estimates any provision required based on several factors, including technology factors, the anticipated needs and the passage of time. These estimates could therefore vary materially from actual experience.

Land, buildings and equipment

Land, buildings and equipment are stated at cost and amortized over their expected useful lives. Rotable and overhauled aircraft components that improve or extend the useful life of an aircraft are amortized over their life based on the number of hours flown. The recoverability of the book value of aircraft is, in part, dependent on the estimates used in determining the expected period of future benefits over which to amortize the aircraft. This takes into consideration the overhaul and maintenance of the aircraft. In addition, such recoverability is dependent upon market conditions, including demand for certain types of aircraft, and changes in technology arising from the introduction of newer, more efficient aircraft. These estimates could therefore vary from actual experience.

Aircraft maintenance costs

Maintenance and repair expenditures which do not improve or extend productive life are expensed as incurred under the direct expensing method and as such may vary from one period and one year to another.

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 is tested for impairment using several factors including projected earnings, cash flow and discount rates. The Corporation tests for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Consolidated Statement of Earnings (Loss).

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 are not amortized because they have an indefinite life.

Revenue recognition

Revenue from aviation services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown at contract rates.

Revenue from aerial forest fire services is derived from government contracts and is recognized as follows: (i) revenue from the use of aircraft for forest fire services is recognized as hours are flown, (ii) basing fees for having aircraft available for the exclusive use of the government are recognized over the period of availability and (iii) fees from positioning and depositioning aircraft at government bases are recognized at the time aircraft are located to and from the bases at the beginning and end of the forest fire season.

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.

Stock-based compensation

The Corporation has a stock-based compensation plan which is described in Note 8 to the consolidated financial statements for the period ended January 31, 2007. 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. Any consideration paid by employees on exercise of these stock options is credited to common shares.

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

Recently Issued Standards

New accounting standards have been established for the recognition and measurement of financial instruments. The new standards also provide a characteristics-based definition of a derivative instrument, criteria to be used to determine when a financial instrument should be recognized, and criteria to be used to determine when a financial liability is considered to be extinguished. This new standard, along with new standards on equity, comprehensive income and hedges are effective for the Corporation's interim and annual periods beginning November 1, 2006. The Corporation has determined that these new standards did not have a material impact on the results for the period ended January 31, 2007.

Business Acquisitions

On December 19, 2006, the Corporation acquired 100% of the issued and outstanding shares of ATL for $63.7 million, including costs of acquisition. The consideration consisted of $20 million cash and 20 million Class A common shares of the Corporation which were recorded for accounting purposes at $2.16 per share. ATL 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. Its customers include, among others, major diamond and base metal exploration and mining companies and the Governments of Canada and the Northwest Territories. It typically employs over 180 people during the peak summer season. The results of the operations of ATL included in the audited consolidated financial statements are from the date of acquisition, December 19, 2006 to January 31, 2007. See Note 3 a) of the consolidated financial statements for the three month period ended January 31, 2007 for further information on this acquisition.

On June 20, 2006, the Corporation acquired 100% of the issued and outstanding shares of GSHL for $102.5 million, including costs of acquisition. The consideration consisted of $20.6 million cash and 40 million Class A common shares of the Corporation which were recorded for accounting purposes at $2.05 per share. See Note 3 b) to the audited consolidated financial statements for the three month period ended January 31, 2007 for further information on this acquisition.

On March 14, 2007, the Corporation's subsidiary, H&L, purchased the wheel division and related assets of Walsten Air Service (1986) Ltd, including four Beech King Air aircraft, its hangar facility, equipment and inventory located in Kenora, Ontario and intangible assets related to the business for a total cash consideration of $5.2 million cash.

OVERVIEW

Net loss for the three month period ended January 31, 2007 was $4.5 million or a loss of $0.05 per share (loss of $0.05 diluted) compared to a loss of $537,000 or $0.02 per share (loss of $0.02 diluted) for the three month period ended January 31, 2006. Revenues for the three month period ended January 31, 2007, were $7.1 million compared to $22,000 for the comparable period in the prior year. EBITDA for the three month period ended January 31, 2007, was a loss of $5.3 million compared to a loss of $574,000 for the comparable period in the prior year.

The primary reason for the increase in revenues for the three months ended January 31, 2007 was the inclusion of the results of GSHL for the full quarter, whose acquisition closed on June 20, 2006, as well as the inclusion of the results of ATL from the date of acquisition, December 19, 2006, to January 31, 2007. The reason for increase in the net loss and EBITDA loss is that the business follows a seasonal pattern. Many of the costs are of a fixed nature and continue to be incurred during this period. The losses are more pronounced year over year due to the increase in the size of the Corporation's business platform arising from the acquisition of GSHL and ATL.

Revenue

Revenue for the three month period ended January 31, 2007 was $7.1 million compared to $22,000 for the comparable period last year and $40.4 million for the year ended October 31, 2006. Total hours flown for the three month period were 4,772 hours compared to nil hours for the comparable period in the prior year and 32,435 hours for the year ended October 31, 2006. The increases in revenue and hours flown for the period were due primarily to the acquisition of GSHL and ATL.

Revenues for the year ending January 31, 2008 are expected to be significantly higher than those for the year ended October 31, 2006 as the revenues of GSHL will be for the full 12 month period instead of the period from June 20, 2006, to October 31, 2006 and as a result of the inclusion of the operating results of ATL, whose acquisition was completed during the fiscal period ended January 31, 2007. Revenues from H&L will be dependent upon forest fire conditions in Northern Ontario in calendar 2007.

Operating Expenses

Operating expenses consist of fixed and variable expenses incurred to deliver aviation services, including crew and maintenance costs and general and administrative expenses incurred to support the corporate entities.

Crew and maintenance costs are the largest expense categories. Crew costs are comprised of wages, benefits and training for pilots and maintenance engineers. Maintenance costs consist of the purchase, repair and overhaul of parts, major components and accessories. As the Corporation attempts to perform most major repairs and refurbishment during the slower fall and winter seasons, maintenance costs from quarter to quarter may vary. During the operating season, routine maintenance of aircraft is carried out as required based on the number of hours flown.

General and administrative expenses are mainly comprised of wages and benefits of administrative personnel, base costs, insurance costs and other overhead expenses. Base costs, which include facility costs and travel costs, contain a fixed and variable portion while administrative salaries and insurance costs do not vary directly with hours flown.

Operating expenses for the three month period ended January 31, 2007 totalled $12.4 million compared to $596,000 for the same period in the prior year, with the increase primarily as a result of the inclusion of the operating expenses of GSHL for the full quarter, ATL for a partial quarter, as well as increased expenses of H&L and the Corporate Support segment. Operating expenses for the year ended October 31, 2006 totalled $24.7 million. The Corporate Support segment staffing has grown to support a larger base of operations. As well, certain costs such as audit fees incurred for the period ended January 31, 2007 and charges for stock-based compensation have affected quarter over comparable quarter comparisons.

Operating expenses for the year ended January 31, 2008 are expected to be significantly higher than those recorded in the year ended October 31, 2006 as expenses of GSHL and ATL will be for the full 12 month period. Operating expenses that are of a variable nature will be dependent upon GSHL's and ATL's flight hours for the year ended January 31, 2008. Operating expenses of H&L will be dependent upon forest fire conditions in Northern Ontario in the 2007 fire season.

Finance Charges and Amortization Expenses

Financing charges and amortization expenses were $2.9 million in the three month period ended January 31, 2007 compared to $139,000 for the same period in the prior year and $3.5 million for the year ended October 31, 2006. The increase in financing charges and amortization expenses was due primarily to the addition of the full quarter results of GSHL for the period ended January 31, 2007, the addition of the results of ATL from December 19, 2006 to January 31, 2007, interest expense incurred on the convertible debentures issued during the 3 month period ended January 31, 2007, and the cost of additional debt incurred by H&L to finance enhancements to its aircraft and facilities.

Financing charges and amortization expense for the year ending January 31, 2008 are expected to be higher than those recorded in the year ended October 31, 2006 due to the inclusion of expenses of GSHL and ATL which will be for the full 12 month period. As well, financing charges will increase in the year ending January 31, 2008 due to interest charges arising from the convertible debentures that were issued during the three month period ended January 31, 2007 and the cost of additional debt incurred to finance the planned increase in the aircraft fleet of the operating companies.

Income Taxes

For the three month period ending January 31, 2007, the income tax recovery was $3.6 million compared to a $176,000 recovery for the quarter ended January 31, 2006, with the difference due to an increase in the net loss incurred by the Corporation as well as a $1 million adjustment to future tax assets and liabilities in the three months ended January 31, 2007. The income tax provision for the year ended October 31, 2006 was $4.3 million. The income tax recovery for the three months ended January 31, 2007 was increased by $1.0 million for declining enacted tax rates. The Corporation's statutory rate for the three month ended January 31, 2007 and the year ended October 31, 2006 approximates 34% with the effective rate slightly in excess of this due to the non-deductibility of certain expenses such as stock-based compensation expense.

The Corporation's statutory income tax rate for the year ending January 31, 2008 is expected to approximate 34%.

EBITDA

EBITDA for the three month period ended January 31, 2007 was a loss of $5.3 million compared to a loss of $574,000 for the same period in the prior year and EBITDA of $15.7 million for the year ended October 31, 2006. The primary reason for the increase in the EBITDA loss was the acquisition of GSHL in the year ended October 31, 2006 and the acquisition of ATL in the three month period ended January 31, 2007. The businesses follow a seasonal pattern with the lowest revenues generally taking place from November to April. Many of the costs are of a fixed nature and continue to be incurred during this period. The losses are more pronounced year over year due to the increase in the size of the Corporation's business platform arising from the acquisition of GSHL and ATL. The following is a reconciliation of EBITDA to net earnings:

	for the three months ended		*for the year ended*
(thousands of dollars)	**January 31 2007**	**January 31 2006**	**October 31 2006**
		(unaudited)	
Net earnings (loss) before non-controlling interest	$ (4,558)	$ (537)	$ 7,922
Income taxes (recovery)	(3,616)	(176)	4,288
Financing charges	1,366	98	1,553
Amortization	1,510	41	1,899
EBITDA	$ (5,298)	$ (574)	$ 15,662

EBITDA for the year ending January 31, 2008 is expected to be significantly higher than that recorded in the year ended October 31, 2006 due to the inclusion of GSHL for the full 12 month period instead of the period from June 20, 2006 to October 31, 2006, as well as the inclusion of the results of ATL for a 12 month period.

SEGMENTED INFORMATION

The Corporation has two reportable business segments: rotary wing and fixed wing. These segments are differentiated by the nature of the aircraft used to provide aviation services. The rotary wing segment is represented by helicopter charter services as provided by GSHL and the fixed wing segment is represented by airplane services as provided by H&L and, in the most recent three month period, ATL. Customers serviced by both segments consist of governments and private sector companies in the business of resource and base mineral exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys exploration, tourism and flight training. All other activities that are not allocated to these two business segments are reported under Corporate Support.

(thousands of dollars)	November 1, 2006 to January 31, 2007				November 1, 2005 to October 31, 2006			
	Rotary Wing	Fixed Wing	Corporate Support	Total	Rotary Wing	Fixed Wing	Corporate Support	Total
Revenue	**$ 4,368**	**$ 2,718**	**$ 28**	**$ 7,114**	**$ 34,533**	**$ 5,787**	**$ 30**	**$ 40,350**
Operating expenses	7,748	3,472	1,192	12,412	19,566	3,821	1,301	24,688
Amortization	1,069	441	-	1,510	1,555	344	-	1,899
Financing costs	724	302	340	1,366	1,163	390	-	1,553
Income taxes	(2,622)	(625)	(369)	(3,616)	4,145	366	(223)	4,288
Net earnings (loss)	**(2,496)**	**(880)**	**(1,135)**	**(4,511)**	**7,872**	**866**	**(1,048)**	**7,690**
Total assets	**$ 165,013**	**$ 108,162**	**$ 6,589**	**$ 279,764**	**$ 172,343**	**$ 9,410**	**$ 1,916**	**$ 183,669**

Rotary Wing Segment

GSHL was acquired by the Corporation on June 20, 2006. The rotary wing segment results for the period from November 1, 2005 to October 31, 2006 only include the results of GSHL for the period from June 20, 2006 to October 31, 2006.

Revenue

Revenue of GSHL, the rotary wing segment, was $4.4 million for the three month period ended January 31, 2007 and total hours flown were 3,176. For the period June 20, 2006 to October 31, 2006 revenue was $34.5 million and total hours flown were 23,970.

Operating and other expenses

Operating expenses of the rotary wing segment for the three month period ended January 31, 2007 were $7.7 million while for the period June 20, 2006 to October 31, 2006, operating expenses were $19.6 million. Total financing charges and amortization expense for the three month period ended January 31, 2007 was $1.8 million while for the period from June 20, 2006, to October 31, 2006, these costs were $2.7 million.

EBITDA

EBITDA for the three month period ended January 31, 2007 was a loss of $3.4 million versus $15.0 million of EBITDA recorded for the period June 20, 2006 to October 31, 2006.

Revenue, operating and other expenses and EBITDA from GSHL in the year ending January 31, 2008 will be somewhat dependent upon weather conditions but are expected to be higher than in the year ended October 31, 2006 due to the inclusion of results which will be for the full 12 month period instead of for the period from June 20, 2006, to October 31, 2006.

Fixed Wing Segment

The results for the period November 1, 2005 to October 31, 2006 reflect the full year results for H&L. ATL was acquired by the Corporation on December 19, 2006. The fixed wing segment results for the period from November 1, 2006 to January 31, 2007 only reflect the results of ATL for the period from December 19, 2006 to January 31, 2007.

Revenue

Revenue of the fixed wing segment for the three month period ended January 31, 2007, which was comprised of H&L for the full three month period and ATL for the period from December 19, 2006 to January 31, 2007, was $2.7 million compared to $22,000 for the three month period ended January 31, 2006 and $5.8 million for the year ended October 31, 2006. H&L recorded only nominal revenue in the three month period ended January 31, 2007 due to the very seasonal nature of its business and the revenue recorded is largely attributable to ATL. Total hours flown during this three month period by the fixed wing segment was 1,596 compared to nil hours for the three month period ended January 31, 2006. The revenue for the year ended October 31, 2006 of $5.8 million was solely attributable to H&L who flew a total of 8,465 hours during that period.

Operating and other expenses

Operating expenses of our fixed wing segment were $3.5 million for the three month period compared to $3.8 million attributable to the full year ended October 31, 2006. The increased rate of expense for the recent three month period is due to the acquisition of ATL and the inclusion of its operating expenses for the period from December 19, 2006 to January 31, 2007.

EBITDA
EBITDA of the fixed wing segment for the three month period ended January 31, 2007 was a loss of $754,000 compared to EBITDA of $2.0 million for the year ended October 31, 2006. H&L typically generates nominal revenues during the quarter ended January 31 and therefore records an EBITDA loss. In the quarter ended January 31, 2006 this loss was $297,000. The loss for the recent three month period was increased by the inclusion of the results of ATL for the period December 19, 2006 to January 31, 2007.

Revenues, operating and other expenses and EBITDA attributed to ATL in the year ending January 31, 2008 are dependent upon weather conditions but are expected to be higher than in the year ended October 31, 2006 as ATL was acquired after October 31, 2006. Revenues, operating and other expenses and EBITDA of H&L in 2007 are dependent upon forest fire conditions in Northern Ontario in 2007.

Corporate Support
Corporate Support includes expenses that relate to activities required to support the operation of a publicly traded company such as staff, administration and premises costs, stock-based compensation, professional fees, and costs and charges related to the convertible debentures issue.

LIQUIDITY AND FINANCING

Liquidity
During the three month period ended January 31, 2007 cash increased to $17.6 million from $7.5 million as at October 31, 2006 with the increase due primarily to $6.4 million in residual cash raised for working capital purposes from the convertible debenture issue, $2.8 million of cash acquired on the purchase of ATL and $3.0 million of cash flow generated from operations, which primarily related to the collection of accounts receivable.

Cash flow used in investing activities during the three month period totalled $18.3 million, of which $672,000 was used to purchase land, buildings and equipment with the balance used to acquire ATL.

Cash flow from financing activities during the three month period ended January 31, 2007 totalled $25.4 million with $26.8 million representing net proceeds from the issue of convertible debentures. In addition, cash flows of $1.4 million were used for repayment of long-term debt during this period.

The Corporation's working capital position at January 31, 2007 was $16.5 million compared to a working capital of $9.8 million as at October 31, 2006 and a working capital deficit of $494,000 as at January 31, 2006. The improvement in working capital between January 31, 2007 and October 31, 2006 was due primarily to the residual funds raised from the convertible debenture issue and the inclusion of working capital for ATL. The improvement in working capital between October 31, 2006 and January 31, 2006 was due primarily to the acquisition and inclusion of GSHL, the restructuring of the debt of H&L, and a busier forest fire season in 2006 which generated additional cash from operations.

Accounts receivable at January 31, 2007 totalled $12.0 million compared to $15.0 million as at October 31, 2006, and inventory consisting of parts and supplies was $9.5 million at January 31, 2007 compared to $7.0 as at October 31, 2006. Accounts payable and accrued liabilities, including income taxes payable, totalled $10.3 million at January 31, 2007 compared to $10.0 million as at October 31, 2006. Some of these changes are due to the cyclical nature of the Corporation's business as well as the inclusion of ATL in the consolidated balance sheet at January 31, 2007.

Financing and Working Capital Requirements
Debt at January 31, 2007, totalled $88.9 million compared to $44.4 million at October 31, 2006. The increase in indebtedness from October 31, 2006 was a result of the inclusion of the debt of ATL which totalled $19.9 million as at January 31, 2007 and the issue of convertible debentures with a notional value of $25.7 million, less payments on other long-term debt of $1.1 million.

GSHL has banking facilities which consist of an operating line to a maximum of $6 million bearing interest at prime plus 0.50% and term loans bearing interest at prime plus 0.75%. These facilities are secured by a first charge over specific assets of GSHL, including real estate and a second charge relating to assets that have not already been specifically pledged. At January 31, 2007 there was no amount outstanding under the operating line facility.

ATL has banking facilities which consist of an operating line to a maximum of $1.5 million bearing interest at prime plus 1.00% and term loans bearing interest at prime plus 1.50%. These facilities are secured by a first charge over specific assets of ATL, including real estate and a second charge relating to assets that have not already been specifically pledged. At January 31, 2007 there was no amount outstanding under the operating line facility.

H&L has available to it a revolving bank loan to a maximum of $1 million, bearing interest at prime plus 1%, whereby it pledges eligible accounts receivable at face value. At January 31, 2007, there was no amount outstanding under this facility.

The above lines, in addition to its working capital position at January 31, 2007, ensure that the Corporation has sufficient working capital to meet its financial obligations during the spring and the following winter months when cash from operations is at a minimum. In the summer and fall when the Corporation's operations are most active, it is anticipated that the increased cash from operations will be sufficient to meet its working capital requirements for the balance of the fiscal year ended January 31, 2008.

Contractual Obligations

The following chart outlines the Corporation's contractual obligations as at January 31, 2007:

(thousands of dollars)	Total	Less than 1 Year	1-3 Years	4-5 Years	Over 5 Years
Long-term debt	$ 88,947	$ 14,218	$ 28,021	$ 33,623	$ 13,085
Operating leases	10,594	3,658	4,720	2,216	-
Capital purchase obligations	14,300	14,300	-	-	-
	$ 113,841	$ 32,176	$ 32,741	$ 35,839	$ 13,085

Shareholders' Equity

Shareholder's equity at January 31, 2007 totalled $156.0 million compared to $115.8 million as at October 31, 2006 with the increase primarily due to the issue of Class A common shares for the acquisition of ATL as well as the fair value attributable to the conversion feature on the convertible debentures, the fair value of options granted and the exercise of warrants. At January 31, 2007, the Corporation had 108,526,516 Class A common shares compared to 88,339,397 Class A common shares outstanding as at October 31, 2006.

In addition, at January 31, 2007, there were 7,799,423 (October 31, 2006 – 7,986,542) common share purchase warrants issued and outstanding, entitling the holders of 2,373,503 (October 31, 2006 - 2,560,622) warrants to subscribe for one Class A common share for every one warrant held for a subscription price of $0.11 per share and holders of 5,425,920 (October 31, 2006 – 5,425,920) common share purchase warrants to subscribe for one Class A common share for every one warrant held at a subscription price of $1.75 per share.

There were 4,020,000 (October 31, 2006 - 3,335,000) common share options outstanding at January 31, 2007, 685,000 of which were granted during the three month period ended January 31, 2007. For the three month period ended January 31, 2007, salary expense and an addition to contributed surplus of $420,000 has been recognized in the consolidated financial statements relating to these options.

Additional information with respect to share capital is contained in Note 8 to the consolidated financial statements.

Updated Share Information

At April 30, 2007, there were 110,900,019 Class A common shares and 5,425,920 warrants outstanding. The increase in the Class A common shares was due to the exercise of warrants. At the same date, there were 5,346,050 common share options outstanding.

Related Party Transactions
At January 31, 2007, the Corporation had long-term debt including accrued interest totalling $18,701,000 (October 31, 2006 - $18,217,000) owing primarily to directors and officers of the Corporation or its subsidiaries and who were former owners of the subsidiaries. For the period, interest expense on this debt totaled $277,000 (year ended October 31, 2006 - $574,000).

RISK FACTORS

If any of the following risks actually materialize, the business, financial condition, liquidity or results of operations of the Corporation could be materially affected. These risks and uncertainties are not the only ones facing the Corporation. Additional risks and uncertainties not presently known to the Corporation, or that the Corporation currently deems immaterial, may also impair the operations of the Corporation.

Industry Risk

Seasonality of Business
Due to the highly focused nature of the fixed wing and rotary wing services provided by GSHL, ATL and H&L, respectively, revenue generation opportunities are significantly higher in the late spring, summer and early fall seasons. Reduced demand for GSHL's, ATL's charter and H&L's aircraft services during the months of November through April are generally due to adverse weather conditions and fewer daylight hours. As a result, the operations of the Corporation are subject to seasonal variations. Operating results therefore vary from quarter to quarter, and results from one quarter may not be indicative of results that may be achieved for another quarter or the full year.

Industry and Government Regulations
The aircraft industry, both fixed wing and rotary wing, is subject to complex aviation, transportation, environmental, labour, employment and other laws and regulations. These laws and regulations generally require aircraft operators to maintain and comply with a variety of certificates, permits, licenses and other approvals. The ability of GSHL, ATL and H&L to conduct business is dependent on their ability to maintain these licences and certificates. Neither GSHL, ATL nor H&L can ensure that, for a reasonable cost, they will be able to remain in compliance with all applicable industry standards and regulations applicable to them in the future.

GSHL, ATL and H&L are routinely audited by Transport Canada to ensure compliance with all flight operation and aircraft maintenance requirements. As of the date hereof, GSHL, ATL and H&L are in compliance with all flight operation and aircraft maintenance requirements, however, there can be no assurance that they will pass all audits in the future. Failure to pass such audits could result in fines or grounding of the aircraft which could have a material adverse effect on the Corporation's business, results of operations or financial condition.

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

Competition
GSHL and ATL face competition from larger national competitors as well as other regional competitors. Some of GSHL's and ATL's customers may also elect to perform their own aviation operations. Certain services may also be able to be provided by other types of aircraft not currently owned by GSHL or ATL.

To the knowledge of the Corporation, no other Ontario-based aviation company currently possesses the necessary resources to support the provision of the services provided by H&L. However, future Ontario-based or current or future out-of-province operators may be more suitably equipped to compete against H&L for the provision of these services.
There can be no assurance that GSHL, ATL and H&L will be able to compete successfully against their current or future competitors or that such competition will not have a material adverse effect on the Corporation's business, results of operations or financial condition.

Insurance

ATL's, GSHL's and H&L's operations are subject to risks normally inherent in the air services industry in which they operate, including potential liability which could result from, among other circumstances, personal injury or property damage arising from disasters, accidents or incidents involving aircraft operated by ATL's, GHSL, H&L or their agents. The Corporation may not be able to obtain insurance against all hazards associated with the air services that ATL, GSHL and H&L provide. The availability of, and the ability to collect on, insurance coverage may be beyond the control of the Corporation. The Corporation cannot guarantee that insurance coverage will be sufficient to cover large claims or losses or that the insurer will be solvent when claims are made. There can be no assurance that the Corporation will be able to obtain insurance at acceptable levels and costs in the future.

The Corporation may become subject to liability for hazards which it cannot or may not elect to insure because of high premium costs or other reasons or for occurrences which exceed maximum coverage under its policies. The occurrence of an aircraft-related accident or mishap involving the Corporation could have a material adverse effect on the Corporation's business, results of operations or financial condition. If the Corporation is held liable for uninsured hazards, the payment of those liabilities would reduce the potential for expansion, development and marketing of the Corporation. The loss of insurance coverage or the inability to collect on insurance coverage in the event of a loss, expropriation or confiscation of, or severe damage to, a large number of aircraft in ATL's, GHSL's or H&L's fleet could adversely affect the Corporation's business, results of operations or financial condition.

Foreign Currency Risk

The Corporation's revenues are primarily in Canadian dollars. The Corporation is exposed to fluctuations in the Canada/US exchange rate due to US dollar payment obligations associated with aircraft purchase obligations, maintenance expenditures such as spare parts and fuel costs. As a result, a significant change in the Canada/US exchange rate could have a material adverse effect on the Corporation's business, results of operations or financial condition.

Reliance On A Single Customer

H&L's 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 2007 and 2009 respectively, with the continuation of each contract for each new fiscal year being conditional upon a sufficient appropriation of funds by the Ontario Government so that payments under the contract may be satisfied. Given the nature of the services being provided, management believes that it is unlikely that the Ontario Government will discontinue appropriation of funds for these contracts. Either contract may be immediately terminated by the government agency by giving notice to H&L upon occurrence of certain events of default including if H&L becomes insolvent or breaches certain specified material terms or conditions of the contract, and may be terminated without cause by giving H&L 30 days prior written notice.

Business Risk

Dependence on the Natural Environment

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

Dependence on Key Personnel

The management teams responsible for the operations of ATL, GSHL and H&L are comprised of a number of highly experienced individuals, many of whom have held various operational positions at all levels of the aviation industry. The continued development and success of the Corporation is highly dependent on the skills, talents, and efforts of these individuals. The loss of the services of one or any of these individuals could have an adverse effect on the Corporation's business performance and resulting financial condition.

Replacement and Maintenance of Aircraft

ATL, GSHL and H&L need aircraft to continue to conduct business as air operators. Neither company can guarantee that it will be able to purchase aircraft in the future on acceptable terms. As well, the companies may face unexpected repairs to their aircraft that are beyond their control and that adversely affect their business. ATL, GSHL and H&L cannot guarantee that they will be able to obtain equipment or replacement parts on satisfactory terms when required.

Dependence on Third Party Suppliers

The majority of spare parts and aircraft system components of ATL, GSHL and H&L are purchased from third party suppliers. These suppliers are located throughout Canada and the United States, and in many cases have established long standing relationships with ATL, GSHL and H&L, as the case may be. Contingent suppliers have been identified for a number of parts and components, however, as some items are of a highly specialized nature, they can only be purchased directly from an original equipment manufacturer. The inability of suppliers to provide ATL, GSHL or H&L with the required parts and systems in a timely manner could result in ATL, GHSL or H&L being unable to maintain flight operations at full capacity.

Need to Hire New Personnel

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

Labour Relations

None of ATL’s, GHSL's nor H&L's employees are unionized, but the Corporation cannot ensure that it will maintain a non-unionized workforce. If unionization occurs, the potential for labour disputes, such as strikes, may be increased. Any significant disputes could adversely affect the Corporation's business or financial condition.

Need for Additional Financing

The Corporation may require additional financing in the future. The ability of the Corporation to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of GSHL, ATL and H&L. There can be no assurance that the Corporation will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Corporation or at all. Where additional financing is attained by way of issuance of treasury shares, control of the Corporation may change and shareholders may suffer additional dilution to their investment.

Fuel Costs

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

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except per share amounts)	2007	2006				2005		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Results of operations:								
Total revenue	$ 7,114	$ 22,133	$ 18,111	$ 84	$ 22	$ 1,525	$ 3,471	$ 63
Total expenses	15,288	15,627	11,026	752	735	1,395	1,469	397
Income (loss) before income taxes	(8,174)	6,506	7,085	(668)	(713)	130	2,002	(334)
Income tax provision (recovery)	(3,616)	2,041	2,643	(220)	(176)	41	722	(120)
Non-controlling interest	(47)	200	32	-	-	72	643	(107)
Net earnings (loss)	(4,511)	4,265	4,410	(448)	(537)	17	637	(107)
Earnings (loss) per share								
-basic	$ (0.05)	$ 0.05	$ 0.08	$ (0.02)	$ (0.02)	$ -	$ 0.04	$ (0.01)
-diluted	$ (0.05)	$ 0.05	$ 0.07	$ (0.02)	$ (0.02)	$ -	$ 0.04	$ (0.01)

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

CONTROLS AND PROCEDURES

The Corporation acquired ATL on December 19, 2006 and the financial statements for the three month period ended January 31, 2007 include the results of ATL for the period from December 19, 2006 to January 31, 2007. As of January 31, 2007, an evaluation was carried out of the effectiveness of the Corporation's disclosure controls and procedures and the design of internal controls over financial reporting for preparation of financial statements in accordance with generally accepted accounting principles, as defined in *Multilateral Instrument 52-109*. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of those disclosure controls and procedures were effective and the design of internal controls over financial reporting was appropriate.

As a result of the acquisition of ATL during the three month period ended January 31, 2007, changes were made to that entity's controls over financial reporting to conform with the existing policies of the Corporation. There were no other significant changes to the Corporation's internal controls over financial reporting during the period.

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

Dated: April 30, 2007

Forward-Looking Statements

The statements in this management's discussion and analysis which relate to the future are forward-looking statements. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, our ability to secure operating contracts; the strength of the Canadian economy in general and the strength of the local economies within Canada in which we conduct operations; the effects of changes in interest rates; the effects of competition in the markets in which we operate; inflation; capital market fluctuations; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; weather conditions in the geographical regions in which we operate; and our anticipation of and success in managing the risks implicated by the foregoing.

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