Consolidated Financial Statements of

DISCOVERY AIR INC.

Years ended January 31, 2010 and 2009

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AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Discovery Air Inc. as at January 31, 2010 and 2009 and the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 Company as at January 31, 2010 and 2009 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

Edmonton, Canada

April 28, 2010

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DISCOVERY AIR INC.

Consolidated Balance Sheets
January 31, 2010 and 2009

(thousands of dollars)

	2010	2009
Assets		
Current assets:		
Cash	$ 9,237	$ 6,865
Restricted cash (note 17)	1,330	–
Accounts receivable	9,501	14,433
Income taxes recoverable	–	798
Inventory	13,902	13,554
Prepaid expenses and other	2,935	3,567
	36,905	39,217
Land, buildings and equipment (note 5)	157,944	154,884
Goodwill (note 6)	37,862	37,862
Intangible assets (note 7)	23,599	28,063
	$ 256,310	$ 260,026
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,444	$ 11,928
Income taxes payable	817	–
Current portion of long-term debt (note 8)	10,330	10,383
	21,591	22,311
Long-term debt (note 8 and 16)	135,777	135,343
Future income taxes (note 10)	24,531	27,993
Non-controlling interest	2,136	1,947
Shareholders' equity:		
Share capital (note 11)	184,535	184,535
Contributed surplus	7,141	7,012
Deficit	(119,401)	(119,115)
	72,275	72,432
	$ 256,310	$ 260,026

Commitments and Contingencies (note 17)

Subsequent events (note 22)

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 Loss and Comprehensive Loss
Years ended January 31, 2010 and 2009

(thousands of dollars, except per share amounts)

	2010	2009
Revenue	$ 123,173	$ 151,930
Operating expenses	94,362	123,488
Earnings before undernoted items	28,811	28,442
Interest expense	14,343	12,306
Amortization of buildings and equipment	9,614	8,498
Amortization of intangible assets	4,464	4,467
Corporate office relocation charge (note 19)	1,678	–
Financing transaction charges (note 20)	1,067	–
Goodwill impairment charge	–	121,581
Intangible assets impairment charge	–	11,998
	31,166	158,850
Loss before income taxes and non-controlling interest	(2,355)	(130,408)
Income tax recovery (note 10)		
Current	1,145	256
Future	(3,462)	(676)
	(2,317)	(420)
Loss before non-controlling interest	(38)	(129,988)
Non-controlling interest	248	337
Loss and comprehensive loss	$ (286)	$ (130,325)
Basic and diluted loss per share (note 12)	$ (0.00)	$ (0.96)

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity
Years ended January 31, 2010 and 2009

(thousands of dollars)

	2010	2009
Share capital (note 11):		
Balance, beginning of year	$ 184,535	$ 184,968
Expiry of warrants	–	(433)
Balance, end of year	$ 184,535	$ 184,535
Contributed surplus:		
Balance, beginning of year	$ 7,012	$ 5,689
Fair value of options granted	129	890
Expiry of warrants	–	433
Balance, end of year	$ 7,141	$ 7,012
Retained earnings (deficit):		
Balance, beginning of year	$ (119,115)	$ 11,210
Loss and comprehensive loss	(286)	(130,325)
Balance, end of year	$ (119,401)	$ (119,115)

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows
Years ended January 31, 2010 and 2009

(thousands of dollars)

		2010		2009
Cash provided by (used in):				
Operating activities:				
Loss and comprehensive loss	$	(286)	$	(130,325)
Items not involving cash:				
Future income tax recovery		(3,462)		(676)
Stock-based compensation (note 11)		129		890
Amortization of buildings and equipment and intangible assets		14,078		12,965
Amortization of rotable and overhauled components		4,823		5,525
Accretion of discount on long-term debt		1,470		1,301
Loss (gain) on disposal of equipment		421		(277)
Goodwill impairment charge		–		121,581
Intangible assets impairment charge		–		11,998
Non-controlling interest		248		337
Change in non-cash operating working capital (note 13)		4,017		2,217
	$	21,438	$	25,536
Investing activities:				
Purchases of land, buildings and equipment	$	(22,691)	$	(34,462)
Proceeds on disposal of equipment		4,773		1,738
	$	(17,918)	$	(32,724)
Financing activities:				
Proceeds from long-term debt	$	44,159	$	16,790
Financing costs		(1,698)		(267)
Repayment of long-term debt		(43,550)		(6,167)
Distributions to non-controlling interest		(59)		(59)
	$	(1,148)	$	10,297
Increase in cash		2,372		3,109
Cash, beginning of period		6,865		3,756
Cash, end of period	$	9,237	$	6,865
Supplementary cash flow information:				
Interest paid	$	12,458	$	10,571
Income taxes paid (recovered)		(470)		1,585

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 56 helicopters and provides services throughout northern Canada, several of the Canadian provinces, and select international locations 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 22 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 20 aircraft, operating primarily throughout Canada as well as the United States.

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 27 aircraft and flight operation and aircraft maintenance bases throughout northern Ontario. Hicks also provides air charter services using 3 aircraft to the provincial government and various other corporate entities which conduct business in northern Ontario.

1. Nature of operations

The Corporation recorded a loss of $0.3 million for the year ended January 31, 2010 and has a cumulative deficit of $119.4 million as at January 31, 2010. The Corporation's results in the current fiscal year were impacted by weak conditions in the resource sector that resulted in significantly reduced demand for aviation and aviation-related services from customers operating in that sector. The Corporation's results were also impacted by weak forest fire conditions in most of the geographic markets the Corporation serves. These adverse factors were partially offset by strong positive results in some of the Corporation's other lines of business. The Corporation managed the uncertainties related to the reduced level of business activity and the seasonality of its business by actively managing working capital, reducing non-essential operating expenses and limiting non-critical capital expenditures. There can be no assurance that the tactics discussed above will continue to be successful in managing the uncertainties the Corporation continues to face. The Corporation recognizes that should factors that are beyond its control continue to adversely affect its level of business activity in the current markets in which it operates, continued weakness in future earnings and cash flow generated by operations could result, reducing the Corporation's available working capital and liquidity.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting principles used in the preparation of these consolidated financial statements are summarized below:

(a) Investments in subsidiaries:

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) Use of estimates

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 reporting periods. Significant items subject to such estimates and assumptions include determining the useful lives of land, buildings and equipment and intangible assets with finite useful lives, the recoverability or impairment of long-lived assets, intangible assets and goodwill, valuation allowances for receivables, inventory, future income taxes, and contingent liabilities related to lawsuits. Actual results could differ from those estimates and assumptions.

2. Significant accounting policies (continued):

(c) Variable interest entities:

The Corporation is the primary beneficiary of variable interest entities and consolidates these entities in its consolidated 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 (i) which does not have sufficient equity at risk to finance its activities without additional subordinated financial support or (ii) in which 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.

(d) Cash:

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

(e) 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 (where replacement cost may be used as an indicator).

(f) 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.

Amortization is provided using the following methods and annual rates:

Asset	Basis	Rate
Buildings	Straight-line	5%
	Diminishing Balance	4%
Furniture and equipment	Diminishing balance	10 - 30%
	Straight-line	20-30%
Aircraft	Straight-line	5%
Leasehold improvements	Straight-line	20%
Vehicles	Diminishing balance	30%
Rotable and overhauled components	Flight hours	hours flown

(g) 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 lives of the aircraft are capitalized as incurred and amortized over their useful lives based on hours flown.

2. Significant accounting policies (continued):

(h) 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 other 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 its 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 the Consolidated Statements of Loss and Comprehensive Loss. The assessment of goodwill impairment is not a mechanical exercise and requires the use of considerable management judgment. Changes in expected financial results or other underlying assumptions would have a significant impact on either the fair value of the reporting units or the amount of the goodwill impairment charged.

(i) 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 with an indefinite life are tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. The impairment test consists of a comparison of the fair value of the intangible assets with their carrying amount. Any impairment loss in the carrying amount compared with the fair value is charged to income in the period in which the loss is incurred.

2. Significant accounting policies (continued):

(j) 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 or group of assets to estimated undiscounted future cash flows expected to be generated by the asset or group of assets. If such assets are considered to be impaired, the impairment charge to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value and is charged to income in the period in which the loss is incurred.

(k) Financing costs:

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

(l) 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.

(m) 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.

(n) 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.

2. Significant accounting policies (continued):

(o) 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 issued are re-measured at the end of each reporting period using the closing market price of the Corporation's common shares.

(p) Earnings per share:

Basic earnings per share is calculated by dividing net earnings (loss) 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 using the treasury stock method. The treasury stock method increases the diluted weighted average shares outstanding to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming outstanding in-the-money stock options were exercised and the proceeds of such exercises, including any unamortized stock-based compensation cost, were used to acquire shares of common stock at the average market price during the year.

(q) Financial instruments:

Financial assets and financial liabilities, including derivative financial instruments, are initially measured at fair value. Subsequent to initial recognition, financial assets and financial liabilities are measured based on their classification: held-for-trading, loans and receivables or other financial liabilities.

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

Assets held for trading are measured at fair value and the gains and losses arising from the remeasurement at the end of each reporting period are recorded in earnings. Loans and receivables are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to the cost. Other financial liabilities are initially measured at

2. Significant accounting policies (continued):

(q) Financial instruments (continued):

fair value. Subsequent valuations are recorded at amortized cost using the effective interest rate method. For the Corporation, the measured amount generally corresponds to the cost.

Transaction costs related to held for trading financial assets and financial liabilities are expensed as incurred. Transaction costs related to financial assets classified as loans and receivables or to financial liabilities classified as other financial liabilities are reflected in the carrying amount of the financial asset or financial liability and are then amortized over the estimated useful life of the instrument using the effective interest rate method.

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.

Management has determined that the only material embedded derivative in the Corporation's financial instruments that requires separate recognition and measurement is the conversion feature contained in the unsecured convertible debentures (see notes 8 and 11). At the date of issue, the fair value of the liability and equity components are measured separately, and to the extent necessary, are adjusted on a pro-rata basis so that the sum of the components equals the amount of the instrument as a whole. The liability component is subsequently recognized on an amortized cost basis using the effective interest rate method until extinguished on conversion or at the instrument's maturity date. The equity component is recognized and included in equity, and is not subsequently remeasured.

3. Recently adopted standards:

(a) Financial instruments

Handbook section 3862, *Financial Instruments – Disclosures* was amended in June 2009 to improve disclosure requirements around fair value measurement for financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments to Section 3862 apply for annual financial statements for fiscal years ending after September 30, 2009 and have been adopted by the Corporation. Upon adoption of the standard the Corporation added the required disclosures to note 15.

(b) Goodwill and intangible assets

Effective February 1, 2009, the Corporation adopted the new Canadian standard, Handbook Section 3064, *Goodwill and Intangible Assets*, which replaced Handbook Section 3062, *Goodwill and Other Intangible Assets* and Section 3450, *Research and Development Costs.* The new standard introduces guidance for the recognition, measurement and disclosure of goodwill and intangible assets, including internally generated intangible assets. The implementation of this standard had no material impact on the Corporation's financial results or condition for the year ended January 31, 2010.

4. Recently issued standards:

(a) 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. 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 standard in order to minimize the amount of retroactive application when the Corporation adopts IFRS.

(b) 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 standards for the preparation of consolidated financial statements and a new method of accounting for a non-controlling interest. 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 4(a)) and is currently assessing the impact that the adoption of these standards will have on its consolidated financial statements.

(c) Multiple deliverable revenue arrangements

In December 2009, the CICA issued Emerging Issues Committee EIC-175, *Multiple Deliverable Revenue Arrangements.* This new standard is applied to revenue arrangements with multiple deliverables entered into or materially modified in the first annual fiscal period beginning on or after January 1, 2011 but with earlier adoption permitted. The new standard requires a vendor to allocate arrangement consideration at the inception of an arrangement to all deliverables using the relative selling price method. It also changes the level of evidence of the standalone selling price required to separate deliverables when more objective evidence of the selling price is not available. The standard has been reviewed and the Corporation has determined the new standard would not have a material impact on its financial statements.

5. Land, buildings and equipment:

(thousands of dollars)

January 31, 2010	Cost	Accumulated amortization	Net book value
Land	$ 637	$ –	$ 637
Buildings	17,960	3,293	14,667
Furniture and equipment	8,979	4,473	4,506
Aircraft	140,939	22,698	118,241
Rotable and overhauled components	32,694	13,767	18,927
Vehicles	1,827	1,287	540
Leasehold improvements	1,104	678	426
	$ 204,140	$ 46,196	$ 157,944

January 31, 2009	Cost	Accumulated amortization	Net book value
Land	$ 637	$ –	$ 637
Buildings	17,577	2,610	14,967
Furniture and equipment	8,670	3,318	5,352
Aircraft	131,181	15,765	115,416
Rotable and overhauled components	27,993	10,772	17,221
Vehicles	2,364	1,644	720
Leasehold improvements	1,116	545	571
	$ 189,538	$ 34,654	$ 154,884

During the year ended January 31, 2010, $4.8 million (2009 - $5.5 million) relating to the amortization of rotable and overhauled components was included in operating expenses in the Consolidated Statements of Loss.

6. Goodwill:

(thousands of dollars)

	2010	2009
Balance, beginning of the year	$ 37,862	$ 159,443
Goodwill impairment charge	-	(121,581)
Balance, end of the year	$ 37,862	$ 37,862

On January 31, 2009, the Corporation completed its step 1 goodwill impairment analysis using the market approach and a market capitalization approach. 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. This step 1 analysis concluded that goodwill was potentially impaired for all of the Corporation's reporting units, except Top Aces and therefore a step 2 analysis was not performed for Top Aces. The step 2 analysis for the remaining

6. Goodwill (continued):

reporting units concluded that goodwill attributable to these reporting units was fully impaired. Accordingly, the Corporation wrote down the full carrying value of goodwill recorded for all reporting units, except Top Aces, with a corresponding impairment charge to net earnings of $121.6 million. The write down of goodwill was non-cash in nature and did not adversely affect the Corporation's liquidity or cash flow from operations, and will not have an impact on future operations.

7. Intangible assets:

(thousands of dollars)

January 31, 2010	Cost	Accumulated amortization and impairment charge	Net book value
Customer relationships	$ 35,385	$ 12,649	$ 22,736
Tradenames	845	–	845
Other	210	192	18
	$ 36,440	$ 12,841	$ 23,599

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

The Corporation tested 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. The impairment test determined those reporting units that had realized an impairment in goodwill had also realized an impairment in their respective tradenames. As a result the Corporation wrote down the full carrying value of the tradenames associated with these reporting units with a corresponding impairment charge to net earnings of $12.0 million. The write down of indefinite-lived intangible assets was non-cash in nature and did not adversely affect the Corporation's liquidity or cash flow from operations, and will not have an impact on future operations.

8. Long-term debt:

(thousands of dollars)

		2010		2009
8.75% unsecured convertible debentures, maturing December 31, 2011 (see note 8(a))	$	27,349	$	26,740
Revolving long-term secured debt bearing a floating interest rate of 90 day BA yield (with a minimum base of 0.25%) plus 8.25%, maturing January 23, 2013 (see note 8(b))		48,027		51,637
Long-term secured debt bearing a fixed rate of 9.25%, maturing February 1, 2009		–		33,000
Long-term secured debt bearing a fixed rate of 10.00%, maturing February 1, 2013 (see note 8(c))		33,156		–
Long-term secured debt incurred by a subsidiary bearing an interest rate of floating base bank rate plus 5.00%, maturing January 15, 2015 (see note 8(d))		15,188		12,741
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 7.21%, maturing fiscal 2012 through fiscal 2014		1,359		1,652
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 4.72%, maturing fiscal 2013 through fiscal 2017		1,244		1,463
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1.25%, maturing fiscal 2015 through fiscal 2016 (note 16)		14,277		15,108
Unsecured notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing fiscal 2010 (note 16)		752		3,081
Conditional sales contracts with varying terms and maturities		122		304
Secured demand loan bearing an interest rate of 18% per annum, maturing June 9, 2010 (see note 8(e))		4,633		–
Total long-term debt		146,107		145,726
Less current portion of long-term debt		10,330		10,383
	$	135,777	$	135,343

a) The 8.75% convertible debentures are convertible at any time into common shares at $2.05 per share. The convertible debentures were 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

8. Long-term debt (continued):

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 were netted against the carrying value of the liability component. As interest expense and financing costs are recognized they increase the recorded carrying value of the liability component until such time as the liability component is accreted to the debentures' face value of $28.75 million, calculated based on the Corporation's effective interest rate of 11.70%. As at January 31, 2010, the Corporation was in compliance with all covenants related to this debt.

b) 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, 2010, the Corporation had approximately $49.0 million available to it and drawn on this facility. The loan bears an interest rate equal to the greater of the applicable 90 days Bankers Acceptance yield and 0.25%, plus 8.25%. The debt currently requires a principal payment of US$ 83,000 per month up to and including June 2010 after which time it reverts to an interest-only debt. On July 24th of each year 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 102 month period on a blended repayment basis, at which time the revolving feature of the debt would be terminated. The maximum borrowing limit is reset by the lender annually in July based on the lesser of (1) $50.0 million and (2) the borrowing base, which is determined by applying an agreed upon lending margin to the annual updated appraised value of the aircraft included in the lender's borrowing base.

The loan is secured by (i) a general security agreement over the assets of Discovery Air Inc. and its wholly-owned subsidiaries Great Slave, Air Tindi, Discovery Mining and Hicks, (ii) an unsecured guarantee of the indebtedness by Top Aces, and (iii) a mortgage over certain real estate owned by the Corporation which is subordinated to the interest of other term lenders. The security structure provides a first charge over specific aircraft owned by the above-named subsidiaries and a secondary floating charge over all their other assets, subject to permitted encumbrances in favour of other term debt lenders and the Corporation's operating lender. Related financing costs of $1.8 million were netted against the carrying value of the long-term debt and are being expensed over the related term of the loan on an effective interest basis. The loan has an effective interest rate of 9.43%. The Corporation has covenants related to this debt that require the Corporation to maintain specified financial ratios related to balance sheet leverage, cash flow leverage and fixed charge coverage as well as a minimum level of tangible net worth. As at January 31, 2010, the Corporation was in compliance with all covenants related to this debt.

c) In February 2009, the Corporation entered into a $34.0 million term loan agreement to refinance a maturing term loan. The new term loan has an effective interest rate of 10.98% per annum and the principal balance is due on February 1, 2013. The loan is secured by a general security agreement over the assets of the Corporation and its wholly-owned subsidiaries Great Slave, Air Tindi, Discovery Mining and Hicks, a pledge of the shares of Top Aces, an unsecured guarantee of the indebtedness by Top Aces and a second mortgage over certain real estate assets owned by the Corporation. The security structure provides a first charge over specific aircraft and a secondary floating charge over all other assets of the

8. Long-term debt (continued):

above-named subsidiaries, subject to permitted encumbrances in favour of other term lenders and the operating lender. The Corporation incurred $1.1 million in transaction costs related to the new term loan, which are netted against the debt and are being expensed over the term of the loan on an effective interest basis. As at January 31, 2010, the Corporation was in compliance with all covenants related to this debt.

d) In February 2008 the Corporation entered into a $21.5 million term loan agreement to refinance its existing term debt and to fund 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 debt bears an interest rate of the lender's floating base rate plus 5.00% per annum and has an effective interest rate of 6.32% 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, 2010, $15.4 million was outstanding under this term facility. Related financing costs of $226,000 were netted against the loan and will be amortized over the term of the loan on an effective interest basis. The Corporation has covenants related to this debt that require the Corporation to maintain specified financial ratios related to balance sheet leverage, cash flow leverage and fixed charge coverage as well as a minimum level of tangible net worth. As at January 31, 2010, the Corporation was in compliance with all covenants related to this debt.

e) In December 2009 the Corporation entered into a $6.2 million demand loan agreement with its operating lender (see note 9) to provide interim financing for the purchase of additional aircraft and supporting equipment for one of its subsidiaries. The principal amount of the loan is repayable in monthly instalments of $100,000 commencing in May 2010 and ending on June 9, 2010, at which time the principal balance is due in full. The demand loan bears an interest rate of 18.00% per annum payable monthly and is secured by a specific charge on the purchased aircraft. As at January 31, 2010, $4.6 million was outstanding under this demand credit facility. Additional advances up to $1.1 million are available for the purchase of spare components and support equipment. Financing costs of $112,000 were incurred in obtaining the loan and have been expensed in the current year as financing transaction charges (note 20). This demand facility is provided by the lender in conjunction with the operating line of credit and shares the same general terms including covenant requirements.

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

(thousands of dollars)	
2011	$ 10,330
2012	31,754
2013	52,081
2014	45,504
2015	6,296
Thereafter	142

Interest on long-term debt for the year ended January 31, 2010 was $12.2 million (2009 - $10.6 million).

9. Operating line of credit:

The Corporation has a secured demand operating loan to finance its working capital requirements. The credit facility has a maximum borrowing limit of $15.0 million with increased availability of up to $25.0 million during the Corporation's peak operating period of April through November. There were no amounts drawn under the credit facility as at January 31, 2010. The maximum borrowing limit availability can be constrained by a lending margin which is applied to eligible accounts receivable and inventory and is subject to an allowance for specific reserves. The credit facility bears an interest rate of 18.00% per annum based on the amount drawn and matures on June 9, 2010. The credit 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. As at January 31, 2010, the Corporation was in compliance with all covenants related to this debt.

10. Income taxes:

Income tax recovery differs from the amounts that would be computed by applying the federal and provincial statutory income tax rates of 31.00% (2009 – 31.50%) to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

(thousands of dollars)

	2010	2009
Computed tax recovery	$ (730)	$ (41,052)
Increase (decrease) resulting from:		
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(1,731)	(1,427)
Valuation allowance	(127)	-
Permanent differences arising from the write-down of goodwill	-	41,573
Other permanent differences	271	486
	$ (2,317)	$ (420)

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)

	2010	2009
Future tax assets:		
Loss carry-forwards	$ 4,747	$ 1,373
Tax basis recorded in subsidiary investment	1,817	1,944
Valuation allowance	(1,817)	(1,944)
	4,747	1,373
Future tax liabilities:		
Land, buildings and equipment	(29,278)	(29,366)
	(29,278)	(29,366)
Net future income tax liability	$ (24,531)	$ (27,993)

10. Income taxes (continued):

The Corporation has $16.4 million available to reduce future years' income for tax purposes, $4.4 million of which expires on January 31, 2029 and the balance of which expires on January 31, 2030. The potential tax benefit of these non-capital losses has been recorded in the accounts.

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)

		2010		2009
	Shares	Amount	Shares	Amount
Class A common shares:				
Outstanding, beginning of year	134,461,555	$ 182,244	134,519,805	$ 182,333
Class A common shares converted to Class B common shares	–	–	(58,250)	(89)
Outstanding, end of year	134,461,555	182,244	134,461,555	182,244
Class B common shares:				
Outstanding, beginning of year	742,604	1,175	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	742,604	1,175
Warrants and other equity:				
Common share purchase warrants		–		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	$ 184,535

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 options are 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, 2010, 3,129,900 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	110,000	7.11	$ 0.64	93,335	$ 0.61
$1.01 - $1.50	363,050	8.09	1.23	291,174	1.25
$1.51 - $1.75	1,990,200	7.28	1.58	1,990,200	1.58
$1.76 - $1.85	666,650	7.05	1.85	666,650	1.85
	3,129,900			3,041,359	

Stock option transactions for the periods ended January 31, 2010 and 2009 are as follows:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	7,447,450	$ 1.21	7,113,200	$ 1.22
Granted	-	-	431,350	1.10
Exercised	-	-	–	–
Forfeited	(79,015)	1.18	(41,945)	1.67
Expired	(4,238,535)	0.95	(55,155)	1.77
Outstanding, end of year	3,129,900	$ 1.57	7,447,450	$ 1.21

The fair value of the options granted during the year ended January 31, 2009 was determined using the Black-Scholes option pricing model with the following weighted average assumptions:

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

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

During the year ended January 31, 2010, the Corporation recognized compensation expense of $129,000 (2009 - $890,000) relating to the estimated fair value of vesting stock options.

(d) Deferred share units

At January 31, 2010, there were 1,308,779 (2009 – 247,655) deferred share units ("DSU") held by the directors of the Corporation. Each DSU entitles a retiring director to a cash distribution equal to the closing market price of the Corporation's common shares on a date selected by the retiring director, which date may not be later than December 31 of the year following the year of the director's retirement. During the year ended January 31, 2010, the Corporation granted 1,061,124 (2009 – 259,280) DSUs. No payments (2009 - $18,000) were made to retire DSUs (2009 – 23,589) during the year ended January 31, 2010. The Corporation recognized $241,000 (2009 - $23,000) of compensation expense related to DSUs during the year ended January 31, 2010.

12. Per share amounts:

Basic loss per share:

(thousands except per share amounts)

	2010	2009
Loss	$ (286)	$ (130,325)
Weighted average number of common shares outstanding	135,204	135,204
Basic loss per share	$ (0.00)	$ (0.96)

Diluted loss per share:

(thousands except per share amounts)

	2010	2009
Loss	$ (286)	$(130,325)
Weighted average number of common shares outstanding	135,204	135,204
Dilutive adjustments	–	–
Weighted average number of common shares outstanding assuming dilution	135,204	135,204
Diluted loss per share	$ (0.00)	$ (0.96)

As at January 31, 2010 and 2009, all employee stock options and the conversion feature on the convertible debentures were anti-dilutive.

13. Change in non-cash operating working capital:

(thousands of dollars)	2010	2009
Restricted cash	$ (1,330)	$ –
Accounts receivable	4,932	779
Income taxes recoverable	–	(798)
Inventory	(348)	1,177
Prepaid expenses and other	632	(244)
Accounts payable and accrued liabilities	(1,484)	1,834
Income taxes payable	1,615	(531)
	$ 4,017	$ 2,217

14. Capital disclosures:

In the management of capital, the Corporation considers its capital structure to consist of long-term debt and shareholders' equity. With substantially reduced access to capital resulting from current capital market conditions, 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 the ordinary course of business. In light of the impact the economic downturn has had on the Corporation's level of business activity, the capital management objectives and strategies have not changed from the prior year.

Certain of the Corporation's debt agreements include affirmative and negative covenants which restrict the Corporation's ability to deal with its assets and operations in the normal course of business including, but not limited to: borrowing money or issuing guarantees; providing liens to secure indebtedness; undertaking investments or disposing of assets; paying dividends, redeeming capital stock, or making other restricted payments; and changing control or merging with another person or selling substantially all of its assets. Certain of the Corporation's debt agreements also require that the Corporation maintain specified financial ratios and satisfy specified financial tests. The Corporation monitors 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 from the Corporation's financial instruments comprised of cash, trade accounts receivable, trade accounts payable and 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, where appropriate, 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 ways in which such risk exposures are managed are described below.

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 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 on its periodic purchases and financing of aircraft. As at January 31, 2010, the Corporation did not hold any material net unhedged foreign exchange exposures.

Aircraft are valued and traded in U.S. dollars. The Corporation's revolving long-term secured debt (see note 8(b)) is denominated in Canadian dollars. Under the terms of this credit facility, the borrowing base is recalculated in July of each year based on an updated appraisal of the aircraft that are included in the borrowing base. The maximum borrowing limit is reset annually based on the lesser of (1) $50.0 million and (2) the borrowing base, which is determined by applying an agreed upon lending margin to the annual appraised amount of the aircraft included in the lender's borrowing base. The borrowing base available to the Corporation based on the appraisals completed for the July 2009 reset is $49.6 million. The appraisals to determine the July 2010 reset have not been commenced. The Corporation's borrowing base currently exceeds the amount available and drawn under the loan agreement by $0.6 million. The borrowing base was established in July 2009 based on an exchange rate of $1.09 Canadian dollars for each US dollar. A 5.00% rise or fall in the Canadian

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

dollar against the U.S. dollar, with all other variables unchanged, would result in an increase or decrease in the estimated borrowing base of $2.5 million.

ii) Interest rate risk

The Corporation's cash flow and net earnings are exposed to interest rate fluctuations due to its variable interest rate long term debt instruments. As at January 31, 2010, the Corporation's earnings exposure to a change in interest rates, with all other variables unchanged, was not material.

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 where potential exists for credit losses.

As at January 31, 2010, 48% 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 has placed higher importance on monitoring aged accounts receivable balances. The diverse distribution of accounts receivable and management's diligence in monitoring the credit quality of its customers serve as mitigating factors for the credit risk that exists. As at January 31, 2010 accounts receivable outstanding for more than 90 days, net of allowances for doubtful accounts, represented 5% of reported accounts receivable.

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 on reasonable terms. The Corporation's management is responsible for ensuring there is sufficient capital to meet short-term and medium-term business requirements, after taking into account expected 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 by 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, forestry and oil and gas 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 adverse factors are not offset by strong performance in the Corporation's other businesses, weaker future earnings and cash flow from 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, with compliance tested on a quarterly and annual basis. These covenants place minimum and maximum requirements, as applicable, on leverage, fixed charge coverage and tangible net worth. As well, there are other non-financial covenants that could affect the Corporation's ability to deal with its assets and operations in the ordinary course of business, complete acquisitions or make distributions. As at January 31, 2010, the Corporation was in compliance with all of the covenants established by its lenders.

In order to ensure adequate financing is in place to meet its ongoing working capital requirements, the Corporation arranged a demand operating line of credit (note 9). The operating line of credit is an important aspect of ensuring an adequate level of liquidity exists, especially given the seasonal nature of the Corporation's business and its impact on cash flow available from operations. This line of credit and a non-revolving demand loan used to provide interim funding for aircraft purchases provided by the same lender mature on June 9, 2010. The failure to renew or refinance these credit facilities would have a material adverse impact on the Corporation's liquidity.

Two factors related to the $50.0 million revolving term loan could impact the Corporation's liquidity, both of which will be determined by the lender in July 2010: (1) the lender's ability to convert the loan to an amortizing loan, and, (2) the reset of the maximum borrowing limit for the next twelve months. There are two important variables that impact the calculation of the maximum borrowing limit: (1) the Canadian dollar has strengthened against the US dollar since the last reset, and (2) the appraised value of aircraft may have diminished as a result of depressed market conditions. The Corporation does not have the ability to influence these variables. Should the borrowing limit be reduced as a result of one or more of the above factors, the Corporation's liquidity could be adversely affected as a result of being required to fund a non-scheduled repayment of the principal balance owing on the facility.

The Corporation is not aware of any current balance sheet conditions, income statement 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	$ 10,444	$ -	$ -	$ -	$ -	$ -	**$ 10,444**
Long-term debt (note 8)	10,330	31,754	52,081	45,504	6,296	142	**146,107**
	$ 20,774	$ 31,754	$ 52,081	$ 45,504	$ 6,296	$ 142	**$ 156,551**

Fair value

Carrying values for financial assets and liabilities classified as held for trading, loans and receivables and other financial liabilities (excluding long-term debt) approximate their fair value as such instruments are short-term in nature. The fair value of long-term debt as at January 31, 2010 was $137.9 million as compared to $146.1million in carrying value.

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

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, 2010. The fair value of the Corporation's variable rate long-term debt approximates its carrying value as it bears a floating market rate of interest. A large portion of the Corporation's long term debt was repriced by its lenders during the last twelve months.

Fair value hierarchy

Financial instruments recorded at fair value on the balance sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the fair value measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices observed in active markets for identical assets or liabilities.
Level 2 – valuation techniques based on inputs that are quoted prices of similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices used in a valuation model that are observable for that instrument; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
Level 3 – valuation techniques with significant unobservable market inputs.

A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and restricted cash were recorded at fair value in the consolidated balance sheet as at January 31, 2010, using the Level 1 fair value criteria described above.

16. Related party transactions:

At January 31, 2010, the Corporation had long-term debt including accrued interest totalling $15.0 million (January 31, 2009 - $18.3 million) owing to current and former officers and directors of the Corporation or its subsidiaries and who were former owners of the subsidiaries. Interest expense on this debt for the year ended January 31, 2010 was $0.5 million (January 31, 2009 - $1.0 million).

During the year ended January 31, 2009, the Corporation was made aware of potential liabilities of one of its subsidiaries that related to periods prior to the Corporation's acquisition of that subsidiary. The Corporation believes the amount of these potential liabilities could exceed the principal amount of the unsecured note principal, which was a liability of the subsidiary at the time it was acquired by the Corporation. The Corporation is of the opinion that the original purchase agreement provides it with the right of set-off for these potential liabilities. The face value of the promissory note is $1.1 million and a quantified claim in the amount of $0.4 million has been offset against the face amount owing as at January 31, 2010. Since the settlement date of these liabilities has not been established, the Corporation has

16. Related party transactions (continued):

classified the net principal balance of the promissory note as a current liability. Further disclosure is provided in subsequent events note 22.

17. Commitments, restricted cash and contingencies:

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)	
2011	$ 4,277
2012	1,852
2013	1,357
2014	596
2015 and thereafter	630

As at January 31, 2010, the Corporation had $1.3 million in restricted cash (January 31, 2009 - $nil) which is required to collateralize contingent exposures. The requirement to cash collateralize contingent exposures has arisen as the Corporation's operating lender is in a position to provide only direct loan advances. $0.5 million of this restricted cash is used as collateral for letters of credit the Corporation has obtained through other lenders and $0.8 million relates to other contingent exposures. The letters of credit serve as collateral for customer contracts and certain contractual obligations of the Corporation's subsidiaries.

As an alternative to letters of credit, the Corporation may place deposits with its customers to secure contractual obligations and at January 31, 2010 these deposits totalled $0.3 million.

The Corporation is subject to legal proceedings that arise in the ordinary course of business. While the final outcome with respect to actions outstanding or pending as at January 31, 2010 cannot be predicted with certainty, it is management's opinion that their resolution will not have a material adverse effect on the consolidated financial position, results of operation or cash flows of the Corporation. Legal costs are expensed as incurred on these matters.

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.

18. Segmented information (continued):

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

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

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

(thousands of dollars)

	2010			
	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 70,761	$ 52,378	$ 34	$ 123,173
Operating expenses	57,980	30,896	5,486	94,362
Income (loss) from operations before undernoted items	12,781	21,482	(5,452)	28,811
Relocation of corporate office	–	–	1,678	1,678
Amortization	9,281	4,743	54	14,078
Goodwill impairment charge	–	–	–	–
Intangible assets impairment charge	–	–	–	–
Income (loss) before undernoted items	$ 3,500	$ 16,739	$ (7,184)	$ 13,055
Interest expense				14,343
Financing transaction costs				1,067
Income taxes recovery				(2,317)
Non-controlling interest				248
Loss				$ (286)

18. Segmented information (continued):

(thousands of dollars)

2010	Northern Services	Government Services	Corporate Support	Total
Total assets	$ 135,272	$ 113,401	$ 7,637	$ 256,310
Goodwill	$ –	$ 37,862	$ –	$ 37,862
Intangible assets	$ 10,077	$ 13,522	$ –	$ 23,599
Capital expenditures	$ 10,019	$ 12,644	$ 28	$ 22,691

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 (loss) from operations before undernoted items	15,738	18,125	(5,421)	28,442
Relocation of corporate office	–	–	–	–
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) from operations before undernoted items	$ (125,518)	$ 12,904	$ (5,488)	$ (118,102)
Interest expense				12,306
Financing transaction costs				–
Income taxes recovery				(420)
Non-controlling interest				337
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	$ 19,216	$ 15,196	$ 50	$ 34,462

Each of the business entities in the Government Services segment is economically reliant upon a single 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 were scheduled to expire in March 2010 but have been extended for a further one year period. 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 the military training services provided by Top Aces, 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

18. Segmented information (continued):

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 2011.

Substantially all of Hicks' revenue from aerial forest fire services is derived from two contracts with the Ontario Government. These contracts expired at the end of the fire season in 2009 and Hicks has recently entered into new contracts for a five-year term. Notwithstanding the five-year term, the continuation of each contract for each new fiscal year is 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. Also, either contract may be immediately terminated by the Ontario Government by giving notice to Hicks upon occurrence of certain events of default, including Hicks' insolvency or breaches of certain specified material terms or conditions of the contract, and may be terminated without cause by giving Hicks 30 days prior written notice.

19. Relocation of corporate office:

Under the $34.0 million term loan agreement (note 8), the Corporation was obligated to re-locate its corporate office to Yellowknife, NWT from its current location in London, Ontario during the first quarter of fiscal 2011. The relocation of the corporate office has resulted and will result in additional costs for the Corporation, including transition costs and termination benefits related to the employees who perform affected job functions at the Corporation's current corporate office. The Corporation has expensed $1.5 million to date related to severance and termination benefits and currently estimates an additional liability of less than $100,000 will be incurred in fiscal 2011. Other expenses related to the relocation of the corporate office are logistical costs of transferring physical assets and recruiting costs. The Corporation opened its new corporate head office in Yellowknife on March 2, 2010. It is still in the process of completing hiring for some of the positions that will be located at its new office. The Corporation is assessing the expected additional costs not related to severance and termination benefits and they remain indeterminable as at January 31, 2010. For the year ended January 31, 2010, the Corporation has recorded an expense of $1.7 million related to the relocation of its corporate office, which includes the $1.5 million severance and termination benefits expense referred to above.

20. Financing transaction charges:

For the year ended January 31, 2010 the Corporation incurred financing transaction charges totalling $1.1 million. These are non-recurring costs associated with its financing activities and a large portion of these costs were incurred to arrange the new demand operating line of credit and the $4.6 million secured demand loan.

21. Comparative figures:

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

22. Subsequent events:

(a) Subsequent to January 31, 2010, the Corporation was served with a Statement of Claim by two former officers of one of the Corporation's subsidiaries whose employment was terminated in February 2009. The Statement of Claim alleges wrongful dismissal and makes a claim for damages totalling $1.8 million plus costs and pre-judgment interest. Additionally, the claim alleges that the balance outstanding on the promissory notes payable by the Corporation's subsidiary to the claimants is due in its entirety. The face value of these notes as at January 31, 2010 was $1.1 million (see note 16). Although it is not possible as at the date of these financial statements to determine with a reasonable degree of certainty the outcome of this legal proceeding, management believes the claims are without merit and intends to defend its position.

(b) Subsequent to January 31, 2010, Top Aces' major customer confirmed the extension of its existing agreements for a further twelve month period and Hicks finalized the terms of a new five year agreement for fire suppression services with its major customer (see note 18).