Second Quarter Report
July 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations of Discovery Air Inc. ("Discovery Air" or the "Corporation") for the second quarter of fiscal 2011 should be read in conjunction with the unaudited consolidated financial statements and related notes of the Corporation for the six months ended July 31, 2010 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2010, which are available on SEDAR at www.sedar.com.

Business Profile

Discovery Air, founded in 2004, is a specialty aviation services company operating across Canada and in select markets internationally. With over 130 aircraft, it is one of the largest aircraft operators in Canada, employing during its peak periods over 600 flight crew, maintainers and support staff working to deliver a variety of air transport and logistics solutions to a wide range of government and business customers. Through its operating subsidiaries, Discovery Air offers fixed-wing and rotary-wing capabilities and aircraft maintenance services, as well as logistics and remote operations management services. These operations are conducted in the following business segments:

The Government Services segment includes two subsidiaries. Top Aces Inc. ("Top Aces") delivers airborne training and special mission services to the Canadian military and select NATO allies. Hicks & Lawrence Limited ("Hicks") is a primary supplier of airborne fire management services to the Ontario government and also provides charter service to government agencies and corporate customers throughout northern Ontario and eastern Manitoba.

The Northern Services segment includes three subsidiaries. Great Slave Helicopters Ltd. ("Great Slave"), the second-largest VFR helicopter operator in the country, has bases throughout northern Canada from which it operates support flights for mining and oil/gas seismic and exploration work, forest fire suppression, aerial construction and precision external load applications and environmental impact surveys. Air Tindi Ltd. ("Air Tindi") utilizes a varied fleet of fixed-wing aircraft to provide vital air ambulance services and to operate both scheduled and charter cargo and passenger flights to remote areas of northern Canada. Discovery Mining Services Ltd. ("Discovery Mining") constructs and rents all-weather exploration camps and provides expediting and logistical support services.

All other operating activities are classified as Corporate Support.

Overarching Objective

Discovery Air's Five Year Overarching Objective ("Objective") is to significantly increase annual earnings per share and to position its businesses for long-term, profitable growth thereafter. The Objective is a constant consideration in management's decision making and the Corporation's progress is measured against management's internally established milestones to ensure the Objective is ultimately achieved. The Corporation will have a continued focus on specialty aviation services in current and new markets that provide appropriate pricing and returns on investments and position the Corporation for sustainable and profitable growth. Management seeks to increase the Corporation's profitability by increasing the range of services offered and by optimizing fleet variety and capacity for its customers. Maintaining key relationships and developing new partnerships is important to the Corporation as is the continual development of highly qualified staff. Safety remains a paramount consideration in all of the Corporation's service offerings.

In the first year of the Corporation's five year Objective, there have been a number of significant new initiatives underway with varied time lines in terms of expected contribution to the Corporation's consolidated revenues and earnings, including expanding the Corporation's helicopter operations into South America and the start-up of a technical services operation.

These initiatives made significant strides in the second quarter. The Corporation's helicopter operations entered the Peruvian resource sector market in the first quarter and in the second quarter generated $1.5 million in revenues. The Corporation's Discovery Air Technical Services Ltd. operation continued to develop its capabilities and market to provide maintenance, repair and overhaul ("MRO") services in the second quarter and is poised to contribute to the Corporation's consolidated revenues in the latter half of the current fiscal year.

Selected Financial Information

(thousands of dollars, except per share amounts)		3 months ended July 31, 2010 "Q2 2011"		3 months ended July 31, 2009 "Q2 2010"		6 months ended July 31, 2010 "Year-to-date 2011"		6 months ended July 31, 2009 "Year-to-date 2010"
		(unaudited)		(unaudited)		(unaudited)		(unaudited)
Results of operations								
Revenue	$	58,390	$	45,733	$	84,304	$	71,299
Operating expenses	$	33,420	$	26,584	$	57,821	$	50,312
Earnings before undernoted items	$	24,970	$	19,149	$	26,483	$	20,987
Interest and financing charges	$	4,314	$	3,824	$	7,972	$	8,153
Amortization	$	3,435	$	3,405	$	6,803	$	6,803
Relocation of corporate office	$	107	$	318	$	158	$	1,491
Net earnings and comprehensive income	$	11,810	$	8,004	$	7,886	$	2,883
Basic and diluted earnings per share	$	0.09	$	0.06	$	0.06	$	0.02
Financial position and liquidity								
Total assets					$	279,514	$	269,072
Total long-term debt					$	142,100	$	142,246
Cash provided by (used in) operations	$	2,469	$	9,177	$	(7,346)	$	(2,742)
Working capital					$	25,743	$	23,946
Key non-GAAP performance measures*								
EBITDAR	$	28,523	$	21,229	$	31,531	$	23,247
EBITDA	$	24,863	$	18,831	$	26,325	$	19,496
EBITDA Margin		43%		41%		31%		27%

* See Non-GAAP measures

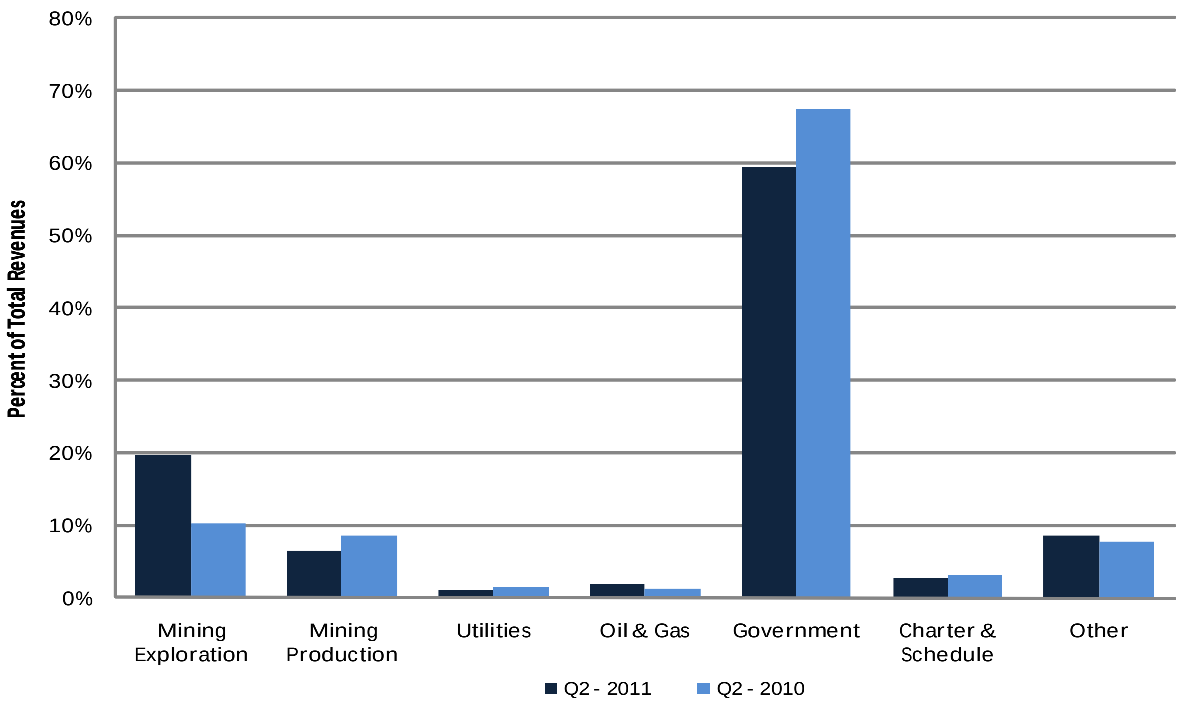
Seasonality and quarterly fluctuations

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

- In Canada, there is normally increased demand for the services provided by the Northern Services segment and Hicks commencing in the spring and continuing through to the end of the summer.
- Top Aces' revenue-generating opportunities are usually significantly higher in the February to June and September to November time periods. Though Top Aces' revenues are relatively predictable over a twelve month period, they can vary substantially from month to month depending largely on its customers' priorities and, on occasion, due to weather conditions.
- The Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential. As well, repair and maintenance on aircraft are not required evenly throughout the year and the timing of related expenses within a year may vary from one period to another.
- Weather conditions can have an impact on available flight activity from one period to another, especially in the forest fire suppression businesses.

Overview

The Corporation's consolidated revenue for the current quarter ("Q2 2011") ending July 31, 2011 was $58.4 million bringing the July 31, 2010 year-to-date ("year-to-date 2011") revenues to $84.3 million. This represents an increase of 28% and 18%, respectively, over prior period comparatives ("Q2 2010" and "year-to-date 2010"). The year over year increase in the Corporation's Q2 2011 revenue was largely attributable to a significant increase in demand for resource and forest fire-based services. Increased activities in these sectors resulted in the Corporation's Northern Services segment recording a 38% increase in revenues for Q2 2011 and a 37% increase in revenues for year-to-date 2011 over prior period comparatives. The comparative composition of revenue by industry sector graph below illustrates the notable resurgence in revenue from the Corporation's mining exploration-based sector, which was severely and negatively affected by the economic downturn in fiscal 2010. The Corporation's collective resource-based revenue has increased by 55% for Q2 2011 and 64% for year-to-date 2011 over prior period comparatives. The Corporation's Government Services segment recorded a 13% increase in revenues in Q2 2011, while year-to-date 2011 revenue was lower by 3% compared to the prior period comparative. The Government Services segment benefited from increased forest fire management activity in the quarter compared to the prior period comparative, which brought the segment's year-to-date revenue closer to the results from a year ago. The segment's revenue in the quarter from the Department of National Defence and Canadian Forces ("DND") were in line with prior period comparatives, recording a slight year over year increase. Revenue from the DND is subject to month to month variability due to short-term shifts in priorities within a year and the flight hour demand in a quarter is not necessarily indicative of flight hour demand over the full year.



The Corporation reported EBITDA of $24.9 million for Q2 2011 and $26.3 million for year-to-date 2011, representing a year over year increase of 32% and 35%. While the increase in earnings from operations is largely attributed to increased revenue, the Corporation also benefited from lower incremental operating costs in relation to the increase in revenue. The strong cost management discipline seen in the past year continued to be maintained in the current year to date, contributing to increased margins.

The Corporation generated net earnings of $11.8 million and $7.9 million for Q2 2011 and year-to-date 2011, respectively, a year over year increase of 48% and 174%. The Corporation incurred a financing charge of $0.3 million in the current quarter for the renewal of its operating line of credit compared to $0.8 million incurred in Q1 2010 for the setup of an operating line of credit and other related finance fees. With Q2 2011 and year-to-date 2011 amortization expense largely unchanged and an interest expense increase of approximately 6% compared to the prior period comparatives, the higher incremental earnings from operations resulted in higher net earnings.

The Corporation continues to closely monitor its costs and working capital to ensure liquidity is maintained at a level sufficient to fund operations and capital expenditures. As at July 31, 2010, working capital of $25.7 million increased from July 31, 2009's working capital balance of $23.9 million due to the increase in business activity.

On June 9, 2010, the Corporation renewed its operating line of credit for a twelve month term. Conditions were substantially consistent with those previously applicable, except for an amendment to include a stand-by fee of 75 basis points per annum on amounts authorized but not drawn and an amendment to include a prepayment fee of $156,000 payable if the facility is paid in full and cancelled on or before December 9, 2010.

Results of operations for the three months ended July 31, 2010 ("Q2 2011") and July 31, 2009 ("Q2 2010")

(thousands of dollars)	for the three months ended July 31, 2010				for the three months ended July 31, 2009			
	Northern Services	**Government Services**	**Corporate Support**	**Total**	**Northern Services**	**Government Services**	**Corporate Support**	**Total**
Revenue	**$ 36,529**	**$ 21,856**	**$ 5**	**$ 58,390**	**$ 26,375**	**$ 19,330**	**$ 28**	**$ 45,733**
Operating expenses	21,609	10,033	1,778	33,420	16,267	9,111	1,206	26,584
Relocation of corporate office	-	-	107	107	-	-	318	318
Amortization	2,125	1,299	11	3,435	2,250	1,142	13	3,405
Earnings (loss) from operations before undernoted items	12,795	10,524	(1,891)	21,428	7,858	9,077	(1,509)	15,426
Interest and financing charges				4,314				3,824
Income tax provision				5,042				3,342
Non-controlling interest				262				256
Net earnings and comprehensive income				**11,810**				**8,004**
Capital expenditures	**$ 1,910**	**$ 3,501**	**$ 7**	**$ 5,418**	**$ 1,481**	**$ 1,360**	**$ 7**	**$ 2,848**

Consolidated results

The Corporation's revenue is primarily generated from helicopter and airplane transportation services that are delivered through its subsidiaries and is largely driven by flight hours. Revenue from non-hourly sources includes revenue of Discovery Mining, the scheduled services to remote communities provided by Air Tindi and the basing, standby and minimum fees that are typical of government contracts, such as those held by Top Aces, Hicks, and to a lesser extent, Great Slave. Revenue was $58.4 million for Q2 2011 compared to $45.7 million for Q2 2010, which represents a 28% increase. Hours flown for Q2 2011 were 22,986 compared to 16,963 for Q2 2010, a 36% increase. The flight hour increase was higher than the related revenue increase due to a flight hour composition in Q2 2011 that reflected higher contribution from the Corporation's lower rate aircraft compared to Q2 2010. Revenue generated from flight hours in Q2 2011 was $50.8 million representing 87% of total revenue compared to $38.7 million in Q2 2010 representing 85% of total revenue.

Operating expenses consist of fixed and variable expenses including crew and fleet costs and general and administrative expenses. Operating expenses were $33.4 million for Q2 2011, compared to $26.6 million for Q2 2010, representing a 26% increase. The increase in operating expenses was in large part attributable to direct costs associated with higher revenues. Crew and fleet costs are the largest expense categories. Crew costs include wages, benefits, travel and training for pilots and maintenance engineers, and totaled $11.4 million in Q2 2011 compared to $9.0 million in Q2 2010, representing a 27% increase. Fleet costs include aircraft lease costs and amortization of engine and rotable component overhauls and maintenance costs, the latter consisting of the purchase, repair and overhaul of parts and major components and accessories. Fleet costs in Q2 2011 were $8.2 million compared to $6.5 million in Q2 2010, representing a 26% increase. The increase in both the crew and fleet costs was attributed to increased flight hours flown. Fuel costs represent a significant component of the Corporation's operating expenses; however, a significant portion of these and other costs are recoverable from customers, and these recoveries are classified as revenue. General and administrative expenses are mainly wages and benefits of administrative personnel, facility costs, travel costs, insurance costs and other overhead expenses. For Q2 2011, these costs were $7.4 million compared to $5.8 million for Q2 2010. The 28% increase was largely attributable to staff hiring and increased infrastructure costs in support of increased operating activities.

EBITDA was $24.9 million for Q2 2011 or 43% of revenue, compared to $18.8 million or 41% of revenue for Q2 2010. The year over year increase of $6.1 million in EBITDA was attributable to a combination of increased revenue from the resource and forest fire sectors and lower incremental operating costs in relation to revenue. EBITDAR was $28.5 million for Q2 2011, compared to $21.2 million for Q2 2010. The increase was attributable to the Northern Services segment's increased utilization of leased aircraft to support increased flight hour demands in the current quarter.

The Corporation recorded net earnings of $11.8 million in Q2 2011, compared to $8.0 million in Q2 2010. In addition to the strong revenues and continued cost management, the following items account for the year over year change in earnings:

- In Q2 2011, the Corporation incurred $0.1 million of costs related to corporate office relocation, compared to $0.3 million in Q2 2010.
- Interest and financing charges were $4.3 million for Q2 2011, compared to $3.8 million for Q2 2010. The year over year increase was largely attributable to higher accretion of the discount on long-term debt and financing charges incurred in the current quarter related to the renewal of the operating line of credit.
- The Corporation had an income tax provision of $5.0 million for Q2 2011, compared to a provision of $3.3 million for Q2 2010. The Corporation's statutory rate for Q2 2011 was approximately 30% compared to approximately 31% for Q2 2010. Adjustments to the statutory rate relate to timing differences and permanent tax differences.

Northern Services

The Northern Services segment generated revenue of $36.5 million on 18,338 flight hours in Q2 2011, compared to revenue of $26.4 million on 13,125 flight hours for Q2 2010, representing a 38% increase in revenue on a flight hour increase of 40%. The increase in the segment's flight and non-flight generated revenue in the quarter was primarily attributable to increased demand from the segment's resource and forest fire suppression-based activity. In addition to an overall increase in flight activity in the Canadian markets, the segment also benefited from revenue generated to support seismic work for an oil and gas exploration program in Peru.

The segment incurred operating expenses totaling $21.6 million for Q2 2011, compared to $16.3 million for Q2 2010. The 33% increase in operating expense is largely consistent with the increase in flight hours.

The segment generated EBITDA of $14.9 million for Q2 2011, compared to $10.1 million for Q2 2010. EBITDAR for Q2 2011 was $18.3 million, compared to $12.2 million for Q2 2010. The favourable EBITDA and EBITDAR variance was attributable to increased revenue and to a lower incremental increase in operating costs relative to revenue.

Government Services

The Government Services segment generated revenue of $21.9 million on 4,648 flight hours for Q2 2011, compared to revenue of $19.3 million on 3,838 flight hours for Q2 2010. The 13% increase in revenue and 21% increase in total flight hours were largely attributable to an increase in forest fire management activity in Ontario. The segment's revenue from this activity in Q2 2011 increased by 52% from Q2 2010, while revenues from the DND in Q2 2011 were by and large the same as in Q2 2010, with a 4% year over year increase in revenue.

The segment incurred operating expenses totaling $10.0 million for Q2 2011, compared to $9.1 million for Q2 2010. The 10% year over year increase in operating costs is consistent with the segment's increased flight hours.

The segment generated EBITDA of $11.8 million for Q2 2011, compared to $10.2 million for Q2 2010. EBITDAR for Q2 2011 was $12.1 million, compared to $10.5 million for Q2 2010. The segment was able to generate a favourable EBITDA and EBTIDAR variance due to strong revenue contribution from the forest fire management operations, with the military based revenue largely consistent with Q2 2010.

Results of operations for the six months ended July 31, 2010 ("Year-To-Date 2011") and July 31, 2009 ("Year-To-Date 2010")

(thousands of dollars)	for the six months ended July 31, 2010				for the six months ended July 31, 2009			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	**$ 52,010**	**$ 32,289**	**$ 5**	**$ 84,304**	**$ 38,042**	**$ 33,227**	**$ 30**	**$ 71,299**
Operating expenses	37,056	17,392	3,373	57,821	30,216	17,525	2,571	50,312
Relocation of corporate office	-	-	158	158	-	-	1,491	1,491
Amortization	4,237	2,543	23	6,803	4,522	2,255	26	6,803
Earnings (loss) from operations before undernoted items	10,717	12,354	(3,549)	19,522	3,304	13,447	(4,058)	12,693
Interest and financing charges				7,972				8,153
Income tax provision				3,321				1,504
Non-controlling interest				343				153
Net earnings and comprehensive income				**7,886**				**2,883**
Capital expenditures	**$ 3,303**	**$ 4,044**	**$ 37**	**$ 7,384**	**$ 4,017**	**$ 3,371**	**$ 7**	**$ 7,395**
	As at July 31, 2010				*As at January 31, 2010*			
Total assets	**$ 152,585**	**$ 125,607**	**$ 1,322**	**$ 279,514**	**$ 135,272**	**$ 113,401**	**$ 7,637**	**$ 256,310**
Goodwill	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**	**$ -**	**$ 37,862**
Intangible assets	**$ 9,004**	**$ 12,367**	**$ -**	**$ 21,371**	**$ 10,077**	**$ 13,522**	**$ -**	**$ 23,599**

Consolidated results

Revenue was $84.3 million for year-to-date 2011 compared to $71.3 million for year-to-date 2010, an 18% increase. Hours flown were 31,704 for year-to-date 2011 compared to 24,490 for year-to-date 2010, a 29% increase. Year-to-date 2011 revenue generated from flight hours was $71.8 million representing 85% of total revenue compared to year-to-date 2010 of $60.6 million, representing 85% of total revenue. The increased activity in the resource and forest fire suppression sectors noted in Q1 2011 continued into Q2 2011.

Operating expenses for year-to-date 2011 were $57.8 million, compared to $50.3 million for year-to-date 2010, representing a 15% increase. Crew costs for year-to-date 2011 were $19.2 million compared to year-to-date 2010 of $15.9 million, an increase of 21%. In addition to the seasonal variable cost increase attributable to increased flight revenue, the Corporation also incurred incremental costs associated with crew hiring and travel to support the new contract work in Peru. Fleet costs for year-to-date 2011 were $13.6 million compared to $12.6 million for year-to-date 2010, representing an increase of 8%. As noted in the quarterly results discussion, fuel costs represent a significant component of the Corporation's operating expenses; however, a significant portion of these and other costs are recoverable from customers and these recoveries are classified as revenue. General and administrative expenses for year-to-date 2011 were $14.6 million compared to $12.6 million for year-to-date 2010, representing an increase of 16%.

EBITDA for year-to-date 2011 was $26.3 million or 31% of revenue, compared to $19.5 million or 27% of revenue for year-to-date 2010. EBITDAR for year-to-date 2011 was $31.5 million, compared to $23.2 million for year-to-date 2010.

The Corporation recorded net earnings of $7.9 million for year-to-date 2011, compared to $2.9 million for year-to-date 2010. In addition to the above noted items, the following items account for the year over year change in earnings:

- The Corporation incurred $0.2 million of costs related to corporate office relocation in year-to-date 2011, compared to $1.5 million for year-to-date 2010. A significant portion of the comparative period cost related to severance pay as a result of relocating the Corporation's head office.
- Interest and finance charges were $8.0 million for year-to-date 2011, compared to $8.2 million for year-to-date 2010. The Corporation's interest expense was higher in the current period due largely to higher accretion of the discount on long-term debt however it incurred significantly less financing charges. The Corporation incurred $0.3 million in financing charges for year-to-date 2011 compared to $0.8 million for year-to-date 2010.
- The Corporation had an income tax provision of $3.3 million for year-to-date 2011, compared to a provision of $1.5 million for year-to-date 2010. The Corporation's statutory rate for year-to-date 2011 was approximately 30% compared to approximately 31% for year-to-date 2010, with provisions adjusted for permanent tax differences.

Northern Services

The Northern Services segment generated revenue of $52.0 million on 25,516 flight hours for year-to-date 2011, compared to revenue of $38.0 million on 18,858 flight hours for year-to-date 2010, representing a 37% increase in flight generated revenue on a flight hour increase of 35%. As noted in the quarterly results, the increase in the segment's flight and non-flight revenue was directly attributable to increased demand from the segment's resource and forest fire based activity. The year over year increase in demand from these sectors noted in the first quarter was maintained in the second quarter.

The segment incurred operating expenses totaling $37.1 million for year-to-date 2011, compared to $30.2 million for year-to-date 2010. The 23% increase in operating expenses is consistent with increased flight activity in the segment.

The segment generated EBITDA of $15.0 million for year-to-date 2011, compared to $7.8 million for year-to-date 2010. EBITDAR for year-to-date 2011 was $19.7 million, compared to $11.0 million for year-to-date 2010. The favourable EBITDA and EBITDAR variance was attributable to increased revenues, with the increase in operating costs being proportionally lower than the revenue increase.

Government Services

The Government Services segment generated revenue of $32.3 million on 6,188 flight hours for year-to-date 2011, compared to revenue of $33.2 million on 5,632 flight hours for year-to-date 2010. This represented a 3% decrease in revenue despite a 10% increase in total flight hours. The inverse result between revenue and flight hours reflects a shift in composition of flight hours, under which the increase in flight hours was generated from the segment's lower rate aircraft. As noted in the segment's quarterly results, revenue for Q2 2011 was higher compared to the prior comparative period and brought the segment's year-to-date 2011 revenue largely in line with the prior comparative period. The segment's Q1 2011 results were negatively impacted by lower flight hour demand from the DND.

The segment incurred operating expenses totaling $17.4 million for year-to-date 2011, compared to $17.5 million for year-to-date 2010. The slight decline in year over year operating costs is consistent with the segment's decreased revenues. The cost reduction did not match the revenue reduction due to the fixed costs component that is included in operating costs.

The segment generated EBITDA of $14.9 million for year-to-date 2011, compared to $15.7 million for year-to-date 2010. EBITDAR was $15.4 million for year-to-date 2011, compared with $16.3 million for year-to-date 2010. The negative year over year variance was attributable to lower flight hour demands for Top Aces' services in Q1 2011.

Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components for Q2 2011 and Q2 2010 and year-to-date:

	for the three months ended		*for the six months ended*	
(thousands of dollars)	**July 31 2010**	**July 31 2009**	**July 31 2010**	**July 31 2009**
Cash provided by (used in):				
Operating activities	$ 2,469	$ 9,177	$ (7,346)	$ (2,742)
Investing acitivities	(2,958)	(1,314)	(4,674)	(5,785)
Financing activities	652	(7,947)	7,161	4,620
Increase (decrease) in cash for the period	$ 163	$ (84)	$ (4,859)	$ (3,907)

The cash position as at July 31, 2010 decreased by $4.9 million from January 31, 2010. This is consistent with the seasonal pattern of the Corporation's operations where working capital demands are at their peak during the second and third quarters.

Operating activities

Operating activities for Q2 2011 generated a net cash inflow of $2.5 million, compared to net cash inflow of $9.2 million for Q2 2010. As noted above, the increased business activity in the second quarter places significant demands on working capital to fund increased activity during this time of year. The change in non-cash operating working capital for Q2 2011 was an outflow of $15.2 million, compared to an outflow of $5.7 million for Q2 2010. Operating activities for year-to-date 2011 recorded a net cash outflow of $7.3 million compared to year-to-date 2010 net cash outflow of $2.7 million, for the same reasons noted in the quarterly results.

Investing activities
The net cash outlay from investing activities in Q2 2011 was $3.0 million, compared to $1.3 million for Q2 2010. The current quarter investing activities included the purchase of an aircraft for $2.7 million along with another $2.7 million for scheduled sustaining capital expenditures and capitalized aircraft overhaul costs. Offsetting the current quarter's capital expenditure was proceeds of $2.5 million from the sale of an aircraft. The net cash outlay for year-to-date 2011 was $4.7 million compared to $5.8 million for year-to-date 2010. The current year-to-date expenditures include an aircraft purchased in the quarter and a $4.7 million outlay related to sustaining capital expenditures and capitalized aircraft overhaul costs. Prior year comparatives reflect expenditures in Q1 2010 for the completion of the Top Aces fleet expansion program initiated in fiscal 2009 and the purchase of a helicopter in Q2 2010, as well as sustaining capital expenditures and capitalized aircraft overhaul costs. Offsetting the capital expenditures in the prior period comparatives was proceeds from sale of a helicopter in Q2 2010 for $1.5 million.

In addition to aircraft overhaul costs related to its existing fleet, the Corporation has committed to the purchase of a fixed wing aircraft for approximately $2.9 million in Q4 2011. The Corporation has provided a $0.4 million non-refundable deposit to be applied to the final purchase price of the aircraft.

Financing activities
The Corporation had an outstanding balance of $12.1 million on its operating line of credit as at July 31, 2010 compared to an outstanding balance of $8.7 million for the same period last year. Netting cash and restricted cash against the operating line of credit balance results in a net line of credit balance of $6.9 million as at July 31, 2010 compared to $4.3 million for the same period last year. Consistent with the seasonal nature of the Corporation's overall business cycle, the Corporation draws on its operating line of credit in the first and second quarters to fund start up costs associated with seasonal increases in business volumes as well as to fund an increased investment in accounts receivable. The increase in draws in the current year to date compared to prior year is directly attributable to higher business volume.

The Corporation has not undertaken any significant new long-term financing for year-to-date 2011. It made scheduled repayments of $3.6 million as well as a $1.4 million repayment to the revolving long-term debt holder from proceeds on a sale of an aircraft in Q2 2011. For year-to-date 2010, the Corporation obtained new long-term loans totaling $36.3 million, which was comprised of a $34.0 million term loan to replace a $33.0 million term loan which matured in February 2009, and $2.3 million of financing related to the Alpha jet program. The principal repayments totaling $38.7 million during year-to-date 2010 related to the $33.0 million repayment of the term loan noted, and a $2.6 million repayment related to a one-time reduction in fleet term debt, with the remaining balance of $3.1 million repayments related to scheduled term loan repayments.

Working capital and cash position
At July 31, 2010, the Corporation had a working capital position of $25.7 million and a current ratio of 1.7 compared to a working capital position of $15.3 million and a current ratio of 1.7 as at January 31, 2010. Given the seasonal nature of the Corporation's businesses, a more meaningful comparison would be of the working capital positions as at July 31, 2010 and July 31, 2009. As at July 31, 2009, the working capital position was $23.9 million with a current ratio of 1.8. The year over year increase in working capital balance is largely attributable to an increased level of business activity and continued close monitoring of non-cash working balances. The current ratio decline compared to prior year is in part due to a $4.4 million demand loan that was set up in December 2009 and recently renewed in June 2010 for another one year term.

The Corporation is aware of the following balance sheet conditions, income items or cash flow items that could materially impact liquidity in the upcoming year:

- A reversal in the recovery in the resource sector resulting in a return to low business activity levels in the Corporation's Northern Services segment;
- The Corporation's Government Services segment not securing a new long-term contract with the DND; and
- Potential fleet maintenance capital expenditures that are higher than expected.

While the Corporation currently believes it will have sufficient liquidity to meet its current and future operating requirements based on its existing working capital position, cash generated from operations and the operating credit facilities it currently has in place, this could change depending on whether some or all of the above factors materialize.

The Corporation's management continues to monitor factors that could adversely impact the Corporation's working capital and cash position.

The Corporation renewed its operating line of credit on June 9, 2010 for another one year term. The operating line of credit facility will be used to fund any short-term financing requirements which arise as a result of the seasonality of the Corporation's revenue and cash flow patterns. Except as noted above, the Corporation has not committed to any expenditures that would significantly change its working capital requirements for the upcoming year. The Corporation's commitment to acquire an aircraft in Q4 2011 is not expected to materially impact the Corporation's working capital requirements as it will be funded in part through long-term debt. Each significant, non-maintenance related capital expenditure is assessed to gain reasonable assurance that the capital expenditure will be matched by projected revenues or cost savings generated from the transaction. The Corporation also continues to look for ways to conduct its businesses more efficiently and reduce costs.

Debt financing

The Corporation has a five-year revolving long-term debt facility to finance certain of its fleet assets which has an outstanding balance of $46.6 million as at July 31, 2010. This facility is subject to an annual reset (on July 24 of each year) of the borrowing base determined by the valuation of the assets secured against the debt. The lender also has the option to convert the revolving facility to an amortizing loan at the reset date. This annual assessment was not concluded by July 31, 2010 and the lender has agreed to extend the terms and conditions of this facility to September 24, 2010. While the renewal has not been finalized, the lender has indicated that it intends to convert the current revolving term facility to an amortizing debt. The Corporation believes that the expected change in repayment terms will not adversely impact either the Corporation's ability to fund its existing operations or its ability to fund growth opportunities.

Shareholders' Equity and Updated Share Information

Shareholders' Equity increased by the Corporation's 2011 year-to-date net earnings. Share capital was reduced by the reclassification of the January 31, 2010 deficit of $119.4 million to share capital. The deficit balance arose primarily during the year ended January 31, 2009 when the Corporation recorded a $133.6 million goodwill and intangible assets impairment charge. The reclassification was approved by the shareholders at the Corporation's annual general meeting held on June 3, 2010. Total shareholders' equity was unaffected by this reclassification.

At July 31, 2010, there were 134,461,555 Class A common shares and 742,604 Class B common shares outstanding. At the same date, there were 2,941,050 common share options outstanding and no common share purchase warrants outstanding. At the annual general shareholders meeting held on June 3, 2010, the shareholders approved the creation of a new employee stock option plan. As at July 31, 2010, no options have been granted under the new plan as the terms and conditions for the new plan have not yet been finalized. Additional information with respect to shareholders' equity is contained in the consolidated financial statements for the years ended January 31, 2010 and 2009.

Critical Accounting Estimates

The management's discussion and analysis for the year ended January 31, 2010 includes a description of critical accounting estimates on page 21. As at July 31, 2010, critical accounting estimates have not changed significantly from the description provided in the year end management's discussion and analysis.

RECENTLY ISSUED STANDARDS

Business combinations

Handbook Section 1582, *Business Combinations* replaced the former Handbook Section 1581, *Business Combinations*. This section will be equivalent to International Financial Reporting Standards ("IFRS") 3 - *Business Combinations*. See *"International Financial Reporting Standards*" below for further discussion on IFRS. Section 1582 will require additional use of fair value measurements, recognition of additional assets and liabilities, including contingent consideration and contingencies, the expensing of transaction costs and increased financial statement disclosures. 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.

Consolidated financial statements and non-controlling interest

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

Multiple deliverable revenue arrangements

In December 2009, the Canadian Institute of Charted Accountants ("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. It is the Company's intention to not early adopt the standard and it is in the process of assessing the impact the standard may have on the Company's financial statements.

International Financial Reporting Standards ("IFRS")

In February 2008, the CICA Accounting Standards Board announced that all Canadian publicly accountable enterprises will be required to adopt IFRS for fiscal years beginning on or after January 1, 2011. The Corporation's first annual IFRS consolidated financial statements will be for the year ending January 31, 2012 and will include the comparative period of fiscal 2011.

The Corporation commenced its IFRS conversion project during fiscal 2009, at which time it completed a high level review and impact assessment of the new Standards to assess the degree of potential impact each Standard would have on the Corporation. The Corporation took into consideration the impact that implementing each Standard would have on its accounting policies, financial reporting processes, information systems, business processes, control environment and external disclosures.

As a result of the Phase 1 Review, the Corporation has identified that the following new Standards are likely to have the highest potential implementation impact on the Corporation.

- First-time Adoption of IFRS
- Business Combinations
- Property, Plant & Equipment
- Consolidated Financial Statements
- Impairment of Assets

The list of Standards indicates the Corporation's assessment of items with the highest potential implementation impact on the Corporation and should not be considered to be exhaustive. The list is subject to change with changes to the Standards as well as changes to the Corporation within its normal business environment.

The Corporation conducted a more detailed assessment of IFRS so that it could more clearly identify the impacts and judgments entailed in implementing the new Standards. The impact of these Standards is detailed in the Corporation's January 31, 2010 Management Discussion & Analysis. The Corporation has not made any material changes in that assessment.

The transition from Canadian GAAP to IFRS is a significant task for the Corporation to undertake. There will be various choices of elections and exemptions within the new Standards as well as the requirement to exercise a considerable level of judgment in adopting the new Standards. The choices made and the judgments exercised during IFRS implementation may materially alter the Corporation's financial position and results of operations as currently reported under Canadian GAAP. The Corporation is carefully assessing all accounting policy options and IFRS 1 exemptions and exceptions as part of its Assessment and Documentation phase.

Management is also assessing possible changes that may need to be implemented to ensure that adequate internal controls over financial reporting and disclosure controls and procedures will remain in place once IFRS is implemented. Once the assessment is completed, the Corporation intends to disclose the potential material impacts in its future consolidated financial statements and management's discussion and analysis.

The Corporation continues to monitor standards developed and issued by the IASB and the Canadian Accounting Standards Board, as well as any regulatory developments produced by the Canadian Securities Administrators, which may affect the Corporation's timing, nature and extent of disclosures as they relate to the implementation of IFRS. Further changes to standards, regulations or economic conditions prior to the date of changeover could result in changes to the timing, nature and extent of disclosures as indicated above.

At this time, the full impact of the implementation of IFRS on the Corporation's future financial position and results of operations is not reasonably determinable or estimated.

NON-GAAP MEASURES

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

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

	for the three months ended		for the six months ended	
	July 31	July 31	July 31	July 31
(thousands of dollars)	2010	2009	2010	2009
Earnings	$ 11,810	$ 8,004	$ 7,886	$ 2,883
Income tax provision	5,042	3,342	3,321	1,504
Interest and financing charges	4,314	3,824	7,972	8,153
Amortization	3,435	3,405	6,803	6,803
Non-controlling interest	262	256	343	153
EBITDA	$ 24,863	$ 18,831	$ 26,325	$ 19,496
Aircraft lease expenses	3,660	2,398	5,206	3,751
EBITDAR	$ 28,523	$ 21,229	$ 31,531	$ 23,247

Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	for the three months ended July 31, 2010				for the three months ended July 31, 2009			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 36,529	$ 21,856	$ 5	$ 58,390	$ 26,375	$ 19,330	$ 28	$ 45,733
Operating expenses	21,609	10,033	1,778	33,420	16,267	9,111	1,206	26,584
Relocation of corporate office costs	-	-	107	107	-	-	318	318
EBITDA	**$ 14,920**	**$ 11,823**	**$ (1,880)**	**$ 24,863**	**$ 10,108**	**$ 10,219**	**$ (1,496)**	**$ 18,831**
Aircraft lease expenses	3,377	283	-	3,660	2,109	289	-	2,398
EBITDAR	**$ 18,297**	**$ 12,106**	**$ (1,880)**	**$ 28,523**	**$ 12,217**	**$ 10,508**	**$ (1,496)**	**$ 21,229**

(thousands of dollars)	for the six months ended July 31, 2010				for the six months ended July 31, 2009			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	$ 52,010	$ 32,289	$ 5	$ 84,304	$ 38,042	$ 33,227	$ 30	$ 71,299
Operating expenses	37,056	17,392	3,373	57,821	30,216	17,525	2,571	50,312
Relocation of corporate office costs	-	-	158	158	-	-	1,491	1,491
EBITDA	**$ 14,954**	**$ 14,897**	**$ (3,526)**	**$ 26,325**	**$ 7,826**	**$ 15,702**	**$ (4,032)**	**$ 19,496**
Aircraft lease expenses	4,733	473	-	5,206	3,144	607	-	3,751
EBITDAR	**$ 19,687**	**$ 15,370**	**$ (3,526)**	**$ 31,531**	**$ 10,970**	**$ 16,309**	**$ (4,032)**	**$ 23,247**

SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share amounts)	2011		2010				2009	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Results of operations:								
Total revenue	$ 58,390	$ 25,914	$ 17,749	$ 34,125	$ 45,733	$ 25,566	$ 19,590	$ 42,536
Operating expenses	33,420	24,401	19,978	24,072	26,584	23,728	23,578	32,042
Relocation of corporate office	107	51	67	120	318	1,173	-	-
EBITDA	24,863	1,462	(2,296)	9,933	18,831	665	(3,988)	10,494
Amortization	3,435	3,368	3,774	3,501	3,405	3,398	3,325	3,309
Interest and financing charges	4,314	3,658	3,672	3,585	3,824	4,329	2,944	3,151
Goodwill and intangible assets impairment charge	-	-	-	-	-	-	133,579	-
Earnings (loss) before income taxes and non-controlling interest	17,114	(5,564)	(9,742)	2,847	11,602	(7,062)	(143,836)	4,034
Income tax provision (recovery)	5,042	(1,721)	(4,937)	1,116	3,342	(1,838)	(4,714)	1,322
Non-controlling interest	262	81	32	63	256	(103)	17	67
Net earnings (loss)	$ 11,810	$ (3,924)	$ (4,837)	$ 1,668	$ 8,004	$ (5,121)	$ (139,139)	$ 2,645
Basic and diluted earnings (loss) per share	$ 0.09	$ (0.03)	$ (0.04)	$ 0.01	$ 0.06	$ (0.04)	$ (1.03)	$ 0.02

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 results that may be expected for a full year.

RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside the control of its management. Details are provided in the "Risk Factors" section of the Corporation's management's discussion and analysis for the year ended January 31, 2010, which can be found on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for designing disclosure controls and procedures which provide reasonable assurance that material information required to be disclosed by the Corporation is accumulated and communicated to the Corporation's management in order to allow timely decisions regarding required disclosure. The Corporation's management, including the CEO and CFO, have evaluated the effectiveness of the Corporation's disclosure controls and procedures as at July 31, 2010 and have concluded that those disclosure controls and procedures were effective.

There were no control deficiencies identified or changes made to the Corporation's internal controls over financial reporting ("ICFR") during the current quarter that have materially affected, or are likely to materially affect, the Corporation's ICFR.

Because of their inherent limitations, disclosure controls and procedures and ICFR may not prevent or detect misstatements, errors or fraud. The inherent limitations include the realities that judgments in decision-making can be faulty, controls can be circumvented by individual acts of some persons or by collusion of two or more people or management can override the controls. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

FORWARD-LOOKING STATEMENTS

Forward-looking information and statements are included in this management's discussion and analysis. Forward-looking information and statements include, but are not limited to, statements concerning possible or assumed future financial and operating results set out in this document, the Corporation's strengths, strategies and priorities and the Corporation's assessment of the economic and business outlook for the Corporation and the Corporation's industry. Generally, but not always, forward-looking information can be identified by the use of forward-looking terminology such as "may", "could", "should", "would", "expect", "believe", "plan", "estimate", "outlook", "forecast", "anticipate", "foresee", "continue" or the negative of these terms or variations of them or similar terminology. More particularly, and without limitation, this management's discussion and analysis contains forward-looking statements relating to: the seasonality of the Corporation's business; its Objective and business development; the impact of the current economic conditions on the results of its operations and/or financial condition; management's outlook for the future; management's ability to reduce costs and/or contain them at the existing levels; management's ability to continue to manage working capital effectively; the impact of weather conditions on the results of the Corporation's operations and/or financial condition; the cost of relocating its corporate office; its ability to utilize planned and/or existing fleet capacity; its ability to continue to meet lender covenants and other terms and conditions of its credit agreements; plans and/or requirements to make new capital investments; and, its plans, decisions and capacity to implement the new IFRS reporting standards in the timelines required.

All forward-looking information and statements presented in this document are based on reasonable assumptions, estimates and analysis that take into account management's experience and perception of trends and interpretation of external factors, such as economic conditions, to the Corporation's future results. By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Readers are cautioned not to place undue reliance on these forward-looking statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to: the Corporation's ability to secure operating contracts; the strength of the Canadian economy in general and the strength of the local economies within Canada in which the Corporation conducts operations; the effects of changes in interest rates; the effects of competition in the markets in which the Corporation operates; inflation; capital market fluctuations, including the availability of equity and/or debt capital to the Corporation; the impact of changes in the laws and regulations regulating aviation services; changes in tax laws; technological changes; unexpected judicial or regulatory proceedings; weather conditions in the geographical regions in which the Corporation operates; and the Corporation's anticipation of and success in managing the risks implied by the foregoing.

The foregoing list of important factors is not exhaustive. When relying on forward-looking information and 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.

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

Dated: September 13, 2010