



**Interim Consolidated Financial Statements**  
**July 31, 2010**  
**(Unaudited)**

**DISCOVERY AIR INC.**  
**Interim Consolidated Balance Sheets**  
**Unaudited**  
(thousands of dollars)

	<b>July 31</b>	<b>January 31</b>
	<b>2010</b>	<b>2010</b>
	<u>          </u>	<u>          </u>
<b>Assets</b>		
Current assets:		
Cash	\$ 4,378	\$ 9,237
Restricted cash	834	1,330
Accounts receivable	39,923	9,501
Inventory	15,151	13,902
Prepaid expenses and other	4,694	2,935
	<u>64,980</u>	<u>36,905</u>
Land, buildings and equipment	155,301	157,944
Goodwill	37,862	37,862
Intangible assets	21,371	23,599
	<u>\$ 279,514</u>	<u>\$ 256,310</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit (note 3)	\$ 12,115	\$ -
Accounts payable and accrued liabilities	16,563	10,444
Income taxes payable	1,519	817
Current portion of long-term debt (note 2)	9,040	10,330
	<u>39,237</u>	<u>21,591</u>
Long-term debt (note 2)	133,060	135,777
Future income taxes	24,572	24,531
Non-controlling interest	2,479	2,136
Shareholders' equity (note 4):		
Share capital	65,134	184,535
Contributed surplus	7,146	7,141
Retained earnings (deficit)	7,886	(119,401)
	<u>80,166</u>	<u>72,275</u>
	<u>\$ 279,514</u>	<u>\$ 256,310</u>

Contingencies and Commitments (note 8)

See accompanying notes to the interim consolidated financial statements.

## DISCOVERY AIR INC.

### Interim Consolidated Statements of Net Earnings and Comprehensive Income Unaudited

(thousands of dollars, except per share amounts)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2010</b>	<b>July 31 2009</b>	<b>July 31 2010</b>	<b>July 31 2009</b>
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	7,722	7,323
Amortization of buildings and equipment	2,324	2,289	4,575	4,571
Amortization of intangible assets	1,111	1,116	2,228	2,232
Corporate office relocation charge (note 10)	107	318	158	1,491
Earnings before income taxes and non-controlling interest	17,114	11,602	11,550	4,540
Income taxes expense	5,042	3,342	3,321	1,504
Earnings before non-controlling interest	12,072	8,260	8,229	3,036
Non-controlling interest	262	256	343	153
<b>Net earnings and comprehensive income</b>	<b>\$ 11,810</b>	<b>\$ 8,004</b>	<b>\$ 7,886</b>	<b>\$ 2,883</b>
Basic and diluted earnings per share (note 5)	\$ 0.09	\$ 0.06	\$ 0.06	\$ 0.02

See accompanying notes to the interim consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Consolidated Statements of Shareholders' Equity

Unaudited

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2010</b>	<b>July 31 2009</b>	<b>July 31 2010</b>	<b>July 31 2009</b>
Share capital (note 4):				
Balance, beginning of period	\$ 184,535	\$ 184,535	\$ 184,535	\$ 184,535
Reclassification of opening deficit	(119,401)	-	(119,401)	-
Balance, end of period	<u>\$ 65,134</u>	<u>\$ 184,535</u>	<u>\$ 65,134</u>	<u>\$ 184,535</u>
Contributed surplus:				
Balance, beginning of period	\$ 7,146	\$ 7,084	\$ 7,141	\$ 7,012
Fair value of options granted	-	33	5	105
Balance, end of period	<u>\$ 7,146</u>	<u>\$ 7,117</u>	<u>\$ 7,146</u>	<u>\$ 7,117</u>
Retained earnings (deficit):				
Balance, beginning of period	\$ (123,325)	\$ (124,236)	\$ (119,401)	\$ (119,115)
Reclassification of opening deficit	119,401	-	119,401	-
Net earnings and comprehensive income	11,810	8,004	7,886	2,883
Balance, end of period	<u>\$ 7,886</u>	<u>\$ (116,232)</u>	<u>\$ 7,886</u>	<u>\$ (116,232)</u>

See accompanying notes to the interim consolidated financial statements.

# DISCOVERY AIR INC.

## Interim Consolidated Statements of Cash Flows

### Unaudited

(thousands of dollars)

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2010</b>	<b>July 31 2009</b>	<b>July 31 2010</b>	<b>July 31 2009</b>
Cash provided by (used in):				
Operating activities:				
Net earnings and comprehensive income	\$ 11,810	\$ 8,004	\$ 7,886	\$ 2,883
Items not involving cash:				
Future income taxes expense (recovery)	(6)	1,116	41	(722)
Stock-based compensation (note 4)	-	33	5	105
Amortization of buildings and equipment and intangible assets	3,435	3,405	6,803	6,803
Amortization of rotatable and overhauled components	1,974	1,717	3,066	3,153
Accretion of discount on long-term debt	454	307	898	635
Loss (gain) on sale of equipment	(263)	62	(275)	173
Non-controlling interest	262	256	343	153
Change in non-cash operating working capital (note 6)	(15,197)	(5,723)	(26,113)	(15,925)
	<u>\$ 2,469</u>	<u>\$ 9,177</u>	<u>\$ (7,346)</u>	<u>\$ (2,742)</u>
Investing activities:				
Purchases of land, buildings and equipment	\$ (5,418)	\$ (2,848)	\$ (7,335)	\$ (7,395)
Proceeds on disposal of equipment	2,460	1,534	2,661	1,610
	<u>\$ (2,958)</u>	<u>\$ (1,314)</u>	<u>\$ (4,674)</u>	<u>\$ (5,785)</u>
Financing activities:				
Proceeds from (repayment of) operating line of credit	\$ 4,297	\$ (5,749)	\$ 12,115	\$ 8,735
Proceeds from long-term debt	-	-	-	36,261
Financing costs	-	(569)	-	(1,690)
Repayment of long-term debt	(3,645)	(1,629)	(4,954)	(38,686)
	<u>\$ 652</u>	<u>\$ (7,947)</u>	<u>\$ 7,161</u>	<u>\$ 4,620</u>
Increase (decrease) in cash	163	(84)	(4,859)	(3,907)
Cash, beginning of period	4,215	3,042	9,237	6,865
Cash, end of period	<u>\$ 4,378</u>	<u>\$ 2,958</u>	<u>\$ 4,378</u>	<u>\$ 2,958</u>
Supplementary cash flow information:				
Interest paid during the period	\$ 4,441	\$ 4,507	\$ 6,929	\$ 6,652
Income taxes paid during the period	\$ 3,005	\$ 2,151	\$ 2,578	\$ 2,203

See accompanying notes to the interim consolidated financial statements.

## **DISCOVERY AIR INC.**

### **Notes to the interim consolidated financial statements (unaudited) For the three months ended July 31, 2010 and 2009**

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 62 helicopters and provides services throughout northern Canada, several of the Canadian provinces and select international locations. Services are provided 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 21 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, as well as 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, northern Saskatchewan and northern Ontario.

Top Aces is an approved supplier of airborne training services to the Department of National Defence ("DND"). Top Aces provides a variety of military training ranging from simulated combat to target tow with a fleet of 22 aircraft, operating primarily throughout Canada as well as in parts of the United States.

Hicks is an Ontario-based aviation company that operates 32 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, employing 29 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.

The Corporation's businesses are, to varying degrees, seasonal in nature. Seasonality and other factors such as weather conditions can affect the comparability of results from one period to another, particularly from quarter to quarter. Some of the seasonal factors that impact quarterly results are as follows: there is increased demand for the services provided by Great Slave, Hicks, Air Tindi and Discovery Mining normally commencing in the late spring and continuing through to the end of the summer; Top Aces' revenue-generating opportunities are 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 on weather conditions and its customers' priorities; weather conditions can have an impact on flight activity from one period to another, especially in the Corporation's fire suppression activities; the Corporation attempts to perform most major repairs and refurbishment during the slower periods of revenue-generating potential; and repair and maintenance on aircraft do not occur evenly throughout the year and the timing of related expenses within a year may vary from one period to another.

**1. Significant accounting policies:**

The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). The disclosures in these interim financial statements do not meet all disclosure requirements of GAAP for annual financial statements and should be read in conjunction with the Corporation's most recent audited annual consolidated financial statements for the year ended January 31, 2010.

These interim financial statements follow the same accounting policies as the most recent annual consolidated financial statements.

**2. Long-term debt:**

(thousands of dollars)

	July 31 2010	January 31 2010
8.75% unsecured convertible debentures, maturing December 31, 2011	\$ 27,723	\$ 27,349
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 21, 2013 (see note below)	46,557	48,027
Long-term secured debt bearing a fixed rate of 10.00%, maturing February 1, 2013	33,278	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	13,668	15,188
Long-term secured debt incurred by subsidiary companies bearing fixed interest rates at a weighted average of 7.13%, maturing fiscal 2012 through fiscal 2014	1,206	1,359
Long-term secured debt incurred by subsidiary companies bearing floating interest rates at a weighted average of 5.04%, maturing fiscal 2013 through fiscal 2017	1,136	1,244
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 7)	13,862	14,277
Unsecured notes payable to former officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing fiscal 2010 (note 8)	120	752
Conditional sales contracts and capital lease obligations with varying terms and maturities	117	122
Secured demand loan bearing an interest rate of 18.00% per annum, maturing June 9, 2011	4,433	4,633
<b>Total long-term debt</b>	<b>142,100</b>	<b>146,107</b>
<b>Less current portion of long-term debt</b>	<b>9,040</b>	<b>10,330</b>
	<b>\$ 133,060</b>	<b>\$ 135,777</b>

## 2. Long-term debt (continued):

In January 2008, the Corporation entered into a five year revolving long-term debt agreement to finance certain of its fleet assets. As at July 31, 2010, the Corporation had approximately \$48.9 million available on this facility, of which \$47.2 million was drawn. The loan bears an interest rate equal to the greater of the applicable 90 days Bankers Acceptance yield and 0.25%, plus 8.25%. On July 24th of each year, the lender has the option to convert the revolving term facility to a non-revolving amortizing debt with the principal balance at the time amortized over a 102 month period on a blended repayment basis. 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. Prior to the July 24, 2010 annual renewal date, the lender extended the terms and conditions of the current facility until September 24, 2010. In establishing the September 24, 2010 facility renewal, the lender will still retain the right to convert from a revolving term facility to an amortization debt along with other amendments such as interest rate and borrowing base adjustments.

Principal repayments under all of the Corporation's long-term debt for each of the next five years and thereafter are as follows:

(thousands of dollars)	within 1 year	between 1 & 2 years	between 2 & 3 years	between 3 & 4 years	between 4 & 5 years	after 5 years	Total
Long-term debt	\$ 9,040	\$ 32,291	\$ 84,455	\$ 11,616	\$ 4,609	\$ 89	\$ 142,100

Interest on long-term debt for the quarter ended July 31, 2010 and year-to-date totalled \$3.6 million (2010 - \$3.4 million) and \$6.8 million (2010 - \$6.7 million) respectively.

## 3. Operating line of credit:

The Corporation has a secured demand credit facility 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. As at July 31, 2010, the Corporation had available a borrowing capacity of \$23.1 million and \$12.1 million drawn. The maximum borrowing limit availability is subject to 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. On June 9, 2010, the Corporation renewed the operating line of credit for a further twelve month term, maturing on June 9, 2011. Conditions set under the renewal are 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. The Corporation incurred \$250,000 in financing fees related to the renewal of this credit facility. 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 July 31, 2010, the Corporation was in compliance with all covenants related to this facility.

## 4. Share capital and stock based compensation:

### (a) Authorized and outstanding:

The Corporation is authorized to issue an unlimited number of Class A common voting shares and an unlimited number of Class B common variable voting shares. As at July 31, 2010, there were 134,461,555 (January 31, 2010 - 134,461,555) Class A common voting shares issued and outstanding and 742,604 (January 31, 2010 - 742,604) Class B common variable voting shares issued and outstanding.

At the Corporation's annual general shareholders meeting held on June 3, 2010, the shareholders approved the reclassification of the Corporation's deficit of \$119.4 million as at January 31, 2010 to share capital. A deficit arose primarily during the year ended January 31, 2009 when the Corporation recorded a goodwill and intangible assets impairment charge of approximately \$133.6 million.



#### 4. Share capital and stock based compensation (continued):

##### (b) Stock-based compensation:

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2010</b>	<b>July 31 2009</b>	<b>July 31 2010</b>	<b>July 31 2009</b>
	Number of options	Number of options	Number of options	Number of options
Outstanding, beginning of period	3,079,650	6,622,450	3,129,900	7,447,450
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	(3,475)	-	(3,475)
Expired	(138,600)	(24,875)	(188,850)	(849,875)
Outstanding, end of period	2,941,050	6,594,100	2,941,050	6,594,100

The Corporation terminated the existing stock option plan in June 2008. As at July 31, 2010, there were 2,932,718 (January 31, 2010 – 3,041,359) outstanding stock options exercisable with a weighted-average exercise price of \$1.57 (January 31, 2010 - \$1.57). The Corporation had no compensation expense for the quarter (July 31, 2009 - \$33,000) and \$5,000 year-to-date (July 31, 2009 - \$105,000) related to the estimated fair value of vesting stock options.

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 had been granted under the new plan as the terms and conditions for the new plan have not yet been finalized.

##### (c) Deferred share units

At July 31, 2010, there were 1,766,520 (January 31, 2010 – 1,308,779) deferred share units (“DSUs”) held by the directors of the Corporation. Each DSU entitles a retiring director to a cash payment 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. The Corporation granted 266,250 (July 31, 2009 – 227,923) DSUs during the quarter and 457,741 (July 31, 2009 – 603,909) DSUs year-to-date. The Corporation recognized \$56,000 (July 31, 2009 - \$71,000) of compensation expense related to DSUs during the current quarter and \$106,000 (July 31, 2009 - \$183,000) year-to-date. The outstanding DSUs were marked to market at July 31, 2010 which resulted in a \$91,000 recovery (July 31, 2009 - \$21,000 charge) to earnings in the quarter and a \$14,000 charge (July 31, 2009 - \$57,000) to earnings year-to-date. No payment was made to retire DSUs in the current or comparative quarters ended July 31.

#### 5. Per share amounts:

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2010</b>	<b>July 31 2009</b>	<b>July 31 2010</b>	<b>July 31 2009</b>
(thousands except per share amounts)				
<b>Basic earnings per share:</b>				
Earnings	\$ 11,810	\$ 8,004	\$ 7,886	\$ 2,883
Weighted average number of common shares outstanding	135,204	135,204	135,204	135,204
Basic earnings per share	\$ 0.09	\$ 0.06	\$ 0.06	\$ 0.02
<b>Diluted earnings per share:</b>				
Earnings	\$ 11,810	\$ 8,004	\$ 7,886	\$ 2,883
Weighted average number of common shares outstanding	135,204	135,204	135,204	135,204
Dilutive adjustments	-	-	-	-
Weighted average number of common shares outstanding assuming dilution	135,204	135,204	135,204	135,204
Diluted earnings per share	\$ 0.09	\$ 0.06	\$ 0.06	\$ 0.02

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

**6. Change in non-cash operating working capital:**

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2010</b>	<b>July 31 2009</b>	<b>July 31 2010</b>	<b>July 31 2009</b>
Restricted cash	\$ 50	\$ 1,404	\$ 496	\$ (1,457)
Accounts receivable	(19,780)	(8,546)	(30,422)	(14,843)
Income taxes recoverable	524	75	-	23
Inventory	(98)	630	(1,249)	670
Prepaid expenses and other	1,486	1,744	(1,759)	(1,690)
Accounts payable and accrued liabilities	1,102	(1,030)	6,119	1,372
Income taxes payable	1,519	-	702	-
	<b>\$ (15,197)</b>	<b>\$ (5,723)</b>	<b>\$ (26,113)</b>	<b>\$ (15,925)</b>

**7. Related party transactions:**

At July 31, 2010, the Corporation had long-term debt including accrued interest totaling \$13.9 million (January 31, 2010 - \$15.0 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 quarter ended July 31, 2010 was \$81,000 (July 31, 2009 - \$90,000) and \$165,000 (July 31, 2009 - \$219,000) year-to-date.

During the year ended January 31, 2009, the Corporation was made aware of potential liabilities that related to periods prior to the acquisition of one of its subsidiaries. The Corporation believes the amount of these liabilities could exceed the \$1.1 million owing to the former shareholders of this subsidiary. 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 amount owing is \$1.1 million and a quantified claim in the amount of \$1.0 million has been offset against the face value of the amount owing as at July 31, 2010. Since the settlement date of these liabilities has not been established, the Corporation has classified the net principal balance of this debt as a current liability. Further disclosure is provided in note 8 below.

**8. Contingencies and commitments:**

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 July 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.

During the quarter ended April 30, 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 for \$1.1 million by the Corporation's subsidiary to the claimants is due in its entirety. The face value of these notes as at April 30, 2010 was \$1.1 million. 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.

During the quarter the Corporation committed to purchase an aircraft for approximately USD \$2.8 million in the fourth quarter of this fiscal year. The Corporation provided a non-refundable \$400,000 deposit which will be applied to the final purchase price of the aircraft.

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)	<b>Due within 1 year</b>	<b>Due between 1 &amp; 2 years</b>	<b>Due between 2 &amp; 3 years</b>	<b>Due between 3 &amp; 4 years</b>	<b>Due between 4 &amp; 5 years</b>	<b>Due after 5 years</b>	<b>Total</b>
Operating leases	\$ 6,201	\$ 1,703	\$ 1,154	\$ 245	\$ 212	\$ 336	\$ 9,851

## 9. 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.

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

(thousands of dollars)	<i>for the three months ended July 31, 2010</i>				<i>for the three months ended July 31, 2009</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
<b>Revenue</b>	<b>\$ 36,529</b>	<b>\$ 21,856</b>	<b>\$ 5</b>	<b>\$ 58,390</b>	<b>\$ 26,375</b>	<b>\$ 19,330</b>	<b>\$ 28</b>	<b>\$ 45,733</b>
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 taxes				5,042				3,342
Minority interest				262				256
<b>Earnings and comprehensive income</b>				<b>\$ 11,810</b>				<b>\$ 8,004</b>
<b>Capital expenditures</b>	<b>\$ 1,910</b>	<b>\$ 3,501</b>	<b>\$ 7</b>	<b>\$ 5,418</b>	<b>\$ 1,481</b>	<b>\$ 1,360</b>	<b>\$ 7</b>	<b>\$ 2,848</b>

(thousands of dollars)	<i>for the six months ended July 31, 2010</i>				<i>for the six months ended July 31, 2009</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
<b>Revenue</b>	<b>\$ 52,010</b>	<b>\$ 32,289</b>	<b>\$ 5</b>	<b>\$ 84,304</b>	<b>\$ 38,042</b>	<b>\$ 33,227</b>	<b>\$ 30</b>	<b>\$ 71,299</b>
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 taxes				3,321				1,504
Minority interest				343				153
<b>Earnings and comprehensive income</b>				<b>\$ 7,886</b>				<b>\$ 2,883</b>
	<i>As at July 31, 2010</i>				<i>As at January 31, 2010</i>			
<b>Total assets</b>	<b>\$ 152,585</b>	<b>\$ 125,607</b>	<b>\$ 1,322</b>	<b>\$ 279,514</b>	<b>\$ 135,272</b>	<b>\$ 113,401</b>	<b>\$ 7,637</b>	<b>\$ 256,310</b>
<b>Goodwill</b>	<b>\$ -</b>	<b>\$ 37,862</b>	<b>\$ -</b>	<b>\$ 37,862</b>	<b>\$ -</b>	<b>\$ 37,862</b>	<b>\$ -</b>	<b>\$ 37,862</b>
<b>Intangible assets</b>	<b>\$ 9,004</b>	<b>\$ 12,367</b>	<b>\$ -</b>	<b>\$ 21,371</b>	<b>\$ 10,077</b>	<b>\$ 13,522</b>	<b>\$ -</b>	<b>\$ 23,599</b>
<b>Capital expenditures</b>	<b>\$ 3,303</b>	<b>\$ 4,044</b>	<b>\$ 37</b>	<b>\$ 7,384</b>	<b>\$ 4,017</b>	<b>\$ 3,371</b>	<b>\$ 7</b>	<b>\$ 7,395</b>

**9. Segmented information (continued):**

Each of the business entities in the Government Services segment is economically reliant upon a single customer.

Top Aces' revenue is primarily derived from Standing Offer Agreements to provide airborne training services to the DND. These Standing Offer Agreements were scheduled to expire in March 2010 but have been extended for a further one year period. The DND is not obligated to call up any Top Aces services under these Standing Offer Agreements and may cancel them 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 the DND. In addition, Top Aces is currently the only supplier with approved airworthiness clearances under these Standing Offer Agreements. It is anticipated that these services will be put out for tender via a Request for Proposals 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 5 year contracts with the Ontario Government. 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 on 30 days prior written notice to Hicks.

**10. Relocation of corporate office:**

Under the \$34.0 million term loan agreement made between the Corporation, as borrower, and the Northwest Territories Opportunity Fund, as lender, the Corporation was obligated to relocate its corporate office to Yellowknife, NT. The Corporation opened its new corporate head office in Yellowknife on March 2, 2010. The Corporation incurred expenses of \$1.7 million in fiscal 2010 related to relocation of its corporate office. For the quarter ended July 31, 2010, the Corporation has recorded an expense of \$107,000 related to the relocation of its corporate office.

**11. Comparative figures:**

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