Consolidated Financial Statements of

DISCOVERY AIR INC.

Periods ended January 31, 2008, January 31, 2007
and October 31, 2006

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the integrity and objectivity of the financial information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principals generally accepted in Canada. The financial information presented elsewhere in this report is consistent with that shown in the accompanying consolidated financial statements.

Management is also responsible for developing and maintaining the necessary systems of internal controls to provide reasonable assurance that transactions are authorized, assets safeguarded and the financial records form a reliable base for the preparation of accurate and timely financial information.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally though its Audit Committee. The Audit Committee of the Board of Directors, which consists solely of non-management directors, reviews the consolidated financial statement and recommends them to the Board for approval. The shareholder's auditors have full and unrestricted access to the Board of Directors and the Audit Committee and meet periodically with them to discuss audit, financial reporting and related matters.

David Taylor
Chief Executive Officer

Richard Jankura, CA
Chief Financial Officer

London, Ontario, Canada
April 25, 2008

KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
Saskatoon SK S7K 1M8

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

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Discovery Air Inc. as at January 31, 2008, January 31, 2007 and October 31, 2006 and the consolidated statements of earnings (loss), shareholders' equity and cash flows for the year ended January 31, 2008, the period November 1, 2006 to January 31, 2007, and the year ended October 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at January 31, 2008, January 31, 2007 and October 31, 2006 and the results of its operations and its cash flows for the year ended January 31, 2008, the period November 1, 2006 to January 31, 2007, and the year ended October 31, 2006 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
April 25, 2008

DISCOVERY AIR INC.
Consolidated Balance Sheets

(thousands of dollars)

	January 31, 2008	January 31, 2007	October 31, 2006
Assets			
Current assets:			
Cash	$ 3,756	$ 17,634	$ 7,497
Accounts receivable	15,212	12,028	14,950
Inventory	14,731	9,532	7,018
Prepaid expenses and other	3,323	1,817	1,521
	37,022	41,011	30,986
Land, buildings and equipment (note 4)	135,906	97,123	49,887
Intangible assets (note 5)	44,528	26,754	19,497
Goodwill	159,443	114,755	83,178
	$ 376,899	$ 279,643	$ 183,548
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	$ 10,094	$ 7,842	$ 4,713
Income taxes payable	531	2,435	5,259
Current portion of long-term debt (note 6)	10,168	14,218	11,195
	20,793	24,495	21,167
Long-term debt (note 6)	123,901	74,729	33,221
Future income taxes (note 8)	28,669	22,716	11,740
Non-controlling interest	1,669	1,633	1,646
Shareholders' equity:			
Share capital (note 9)	184,968	151,137	106,750
Contributed surplus	5,689	1,222	802
Retained earnings	11,210	3,711	8,222
	201,867	156,070	115,774
	$ 376,899	$ 279,643	$ 183,548

Commitments (note 14)

Subsequent event (note 17)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

____________________ Director ____________________ Director

DISCOVERY AIR INC.

Consolidated Statements of Earnings (Loss)

(thousands of dollars)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Revenue	$ 120,936	$ 7,114	$ 40,350
Operating expenses	92,484	12,412	24,688
Earnings (loss) before undernoted items	28,452	(5,298)	15,662
Financing charges	10,291	1,366	1,553
Amortization of buildings and equipment	6,379	1,115	1,416
Amortization of intangible assets	3,018	395	483
	19,688	2,876	3,452
Earnings (loss) before income taxes and non-controlling interest	8,764	(8,174)	12,210
Income taxes (recovery) (note 8)	977	(3,616)	4,288
Earnings (loss) before non-controlling interest	7,787	(4,558)	7,922
Non-controlling interest	288	(47)	232
Net earnings (loss)	$ 7,499	$ (4,511)	$ 7,690
Basic earnings (loss) per share (note 10)	$ 0.06	$ (0.05)	$ 0.15
Diluted earnings (loss) per share (note 10)	$ 0.06	$ (0.05)	$ 0.14

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Shareholders' Equity

(thousands of dollars)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Share capital (note 9):			
Balance, beginning of period	$ 151,137	$ 106,750	$ 1,241
Shares issued on acquisitions of subsidiaries	35,563	43,250	81,900
Shares issued for cash	–	–	19,938
Warrants issued for cash	–	–	2,732
Fair value of conversion feature on convertible debt	–	1,116	–
Fair value of warrants granted	433	–	100
Exercise of options and warrants	277	21	1,602
Expiry of warrants	(2,442)	–	–
Less share issue costs, net of tax	–	–	(763)
Balance, end of period	$ 184,968	$ 151,137	$ 106,750
Contributed surplus:			
Balance, beginning of period	$ 1,222	$ 802	$ –
Fair value of options granted	2,030	420	802
Options exercised	(5)	–	–
Expiry of warrants	2,442	–	–
Balance, end of period	$ 5,689	$ 1,222	$ 802
Retained earnings:			
Balance, beginning of period	$ 3,711	$ 8,222	$ 532
Net earnings (loss)	7,499	(4,511)	7,690
Balance, end of period	$ 11,210	$ 3,711	$ 8,222

See accompanying notes to consolidated financial statements.

DISCOVERY AIR INC.

Consolidated Statements of Cash Flows

(thousands of dollars)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Cash provided by (used in):			
Operations:			
Net earnings (loss)	$ 7,499	$ (4,511)	$ 7,690
Items not involving cash:			
Future income tax recovery	(1,427)	(391)	(1,351)
Stock-based compensation	2,030	420	802
Amortization of buildings and equipment and intangible assets	9,397	1,510	1,899
Amortization of rotable and overhauled components	3,280	280	768
Amortization of discount of long-term debt	819	15	–
Loss on sale of asset	7	–	–
Non-controlling interest	288	(47)	232
Change in non-cash operating working capital (note 11)	(5,405)	5,719	(690)
	16,488	2,995	9,350
Investing:			
Land, buildings and equipment	(28,060)	(672)	(1,398)
Proceeds on sale of asset	372	–	–
Acquisition of subsidiary operations (note 3)	(44,000)	(20,466)	(20,591)
Cash acquired on acquisition of subsidiary operations (note 3)	5,314	2,846	961
	(66,374)	(18,292)	(21,028)
Financing:			
Proceeds from long-term debt	95,498	28,760	2,348
Financing costs	(1,482)	(1,943)	–
Repayment of long-term debt	(58,028)	(1,404)	(6,835)
Net proceeds from issue of common shares	272	21	23,353
Distributions of non-controlling interest	(252)	–	–
	36,008	25,434	18,866
(Decrease) increase in cash position	(13,878)	10,137	7,188
Cash, beginning of period	17,634	7,497	309
Cash, end of period	$ 3,756	$ 17,634	$ 7,497
Supplementary cash flow information:			
Interest paid during the period	$ 9,446	$ 927	$ 1,553
Income taxes paid during the period	6,026	66	1,316

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. (“GSHL”), Air Tindi Ltd. (“ATL”), Top Aces Inc. (“TAI”), Hicks & Lawrence Limited (“H&L”) and Discovery Mining Services Ltd. (“DMS”).

The business of the Corporation follows a seasonal pattern with the lowest revenues occurring from November to April. Therefore the Corporation’s results for the January 31, 2007 comparative period are not necessarily indicative of the results that may be expected for a full year. In addition, repair and maintenance on aircraft are not incurred evenly throughout the year and the timing of such expenses within a year may vary from one year to another.

GSHL is a helicopter company that, in partnership with aboriginal groups, operates a fleet of over 70 helicopters and provides services throughout Northern Canada and several of the Canadian Provinces to governments and private sector companies in areas such as resource and base mineral exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys, tourism and flight training. GSHL’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.

ATL operates a diversified fleet of 24 fixed wing aircraft offering scheduled and chartered passenger and cargo services, as well as air ambulance services, in Northern Canada. It has a diversified customer base that includes major diamond and mineral exploration and mining companies and the Governments of Canada and the Northwest Territories.

TAI is an approved supplier of airborne training services to the Department of National Defence. TAI provides a variety of military training ranging from simulated combat to target tow with a fleet of 12 aircraft located throughout Canada,

H&L is an Ontario-based aviation company that operates 30 aircraft focused on providing air services to niche markets in the Province of Ontario. H&L provides aerial forest fire services to the Province of Ontario with its fleet of 27 aircraft and flight operations support and aircraft maintenance bases throughout Northern Ontario. H&L also provides air charter services using 3 turbine aircraft to the provincial government and various other corporate entities which conduct business in Northern Ontario.

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

1. Significant accounting policies:

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

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

(a) Investments:

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

(b) Variable interest entities:

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

(c) Cash and cash equivalents:

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

(d) Inventory:

Inventory, consisting of aircraft parts and supplies, is stated at the lower of cost, on a first-in, first-out basis, and replacement cost.

(e) Land, buildings and equipment:

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

1. Significant accounting policies (continued):

Amortization is provided using the following methods and annual rates:

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

(f) Aircraft overhaul and maintenance costs:

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

(g) Goodwill:

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

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired.

When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the Consolidated Statements of Earnings (Loss). The Corporation uses the discounted cash flow method to determine the fair value of its subsidiary operations.

(h) Intangible assets:

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

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

1. Significant accounting policies (continued):

(i) Impairment of long-lived assets:

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

(j) Financing costs:

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

(k) Revenue recognition:

Revenue from providing aviation services is recognized based on the terms of customer contracts that generally provide for revenue on the basis of hours flown or services provided at contract rates or fixed monthly charges or a combination of both. Revenue is recorded if amounts are fixed or determinable and collection is reasonably assured.

(l) Income taxes:

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

(m) Foreign currency:

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

1. Significant accounting policies (continued):

(n) Stock-based compensation:

The Corporation has a stock-based compensation plan which is described in Note 9. 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 also accounts for grants of warrants to non-employees in accordance with the fair value method.

(o) Earnings per share:

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

(p) Financial instruments:

The Corporation has designated its financial assets and liabilities as follows:

- Cash and cash equivalents as held for trading instruments which are measured at fair value
- Accounts receivable as loans and receivables which are measured at amortized cost
- Accounts payable and accrued liabilities and long-term debt as other financial liabilities which are measured at amortized cost

The Corporation has reviewed its contractual arrangements and, where appropriate has designated purchase contracts entered into for the purpose of receiving non-financial items for its normal usage requirements as executory contracts.

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

2. Recently issued standards:

(a) Financial instruments – presentation and disclosure

CICA 3862, *Financial Instruments – Disclosure, and* CICA 3863*, Financial Instruments Presentation,* both issued in December 2006 and effective for the Corporation on February 1, 2008, revise the current standards on financial instrument disclosure and presentation, and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed. CICA 3863 also establishes standards for presentation of financial instruments and non-financial derivatives and provides additional guidance on classification of financial instruments, from the perspective of the issuer, between liabilities and equity.

2. Recently issued standards - continued:

(b) Capital disclosures

CICA 1535, *Capital Disclosures*, issued in December 2006 and effective for the Corporation on February 1, 2008, establishes guidelines for the disclosure of information regarding an entity's capital and how it is managed including enhanced disclosure requirements with respect to the objectives, policies and processes for managing capital.

The Corporation is currently assessing the impact of the recently issued presentation and disclosure standards noted above.

(c) Inventories

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

3. Business acquisitions:

(a) Discovery Mining Services Ltd.

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

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

3. Business acquisitions - continued:

The Corporation has completed its initial valuation of certain acquired assets and liabilities however the allocation of the purchase price has not been finalized and may change.

(b) Top Aces Inc.

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

(thousands of dollars)		
Net assets acquired		
Cash	$	3,946
Other current assets		7,616
Land, buildings and equipment		15,858
Intangible assets		19,044
Goodwill		37,861
Current liabilities		(3,958)
Long-term debt		(6,844)
Future income tax liability		(7,347)
	$	66,176

The Corporation has completed its initial valuation of certain acquired assets and liabilities however the allocation of the purchase price has not been finalized and may change.

(c) Walsten Air Service (1986) Ltd.

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

(thousands of dollars)		
Net assets acquired		
Other current assets	$	441
Land, buildings and equipment		4,403
Goodwill		438
	$	5,282

3. Business acquisitions (continued):

(d) Air Tindi Ltd.

On December 19, 2006, the Corporation acquired 100% of the outstanding shares of ATL for cash consideration of $20.4 million including costs of acquisition, and 20 million common shares which were recorded for accounting purposes at $43.3 million. The results of ATL's operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)		
Net assets acquired		
Cash	$	2,846
Other current assets		10,288
Land, buildings and equipment		47,956
Intangible assets		7,652
Goodwill		31,577
Current liabilities		(4,987)
Long-term debt		(20,215)
Future income tax liability		(11,367)
Non-controlling interest		(34)
	$	63,716

(e) Great Slave Helicopters Ltd.

On June 20, 2006, the Corporation acquired 100% of the outstanding shares of GSHL for cash consideration of $20.6 million including costs of acquisition, and 40 million common shares which were recorded for accounting purposes at $81.9 million. The results of its operations have been included in the Corporation's consolidated financial statements since the date of acquisition. The estimated fair value of the assets acquired and liabilities assumed are summarized in the table below:

(thousands of dollars)		
Net assets acquired		
Cash	$	961
Other current assets		18,876
Land, buildings and equipment		44,296
Intangible assets		19,784
Goodwill		82,530
Current liabilities		(8,780)
Long-term debt		(41,973)
Future income tax liability		(11,789)
Non-controlling interest		(1,414)
	$	102,491

4. Land, buildings and equipment:

(thousands of dollars)

			January 31, 2008	January 31, 2007	October 31, 2006
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
Land	$ 637	$ –	$ 637	$ 637	$ 159
Buildings	16,785	1,911	14,874	16,144	7,723
Furniture and equipment	6,370	2,058	4,312	1,074	575
Aircraft	112,128	9,796	102,332	72,249	37,431
Rotable and overhauled components	18,327	6,060	12,267	5,740	2,953
Vehicles	2,311	1,358	953	884	726
Leasehold improvements	860	329	531	395	320
	$ 157,418	$ 21,512	$ 135,906	$ 97,123	$ 49,887

During the period ended January 31, 2008, $3,280,000 (2007 - $280,000, 2006 - $768,000) relating to the amortization of rotable and overhauled components was included in operating expenses in the Consolidated Statements of Earnings (Loss).

5. Intangible assets:

(thousands of dollars)

			January 31, 2008	January 31, 2007	October 31, 2006
	Cost	Accumulated amortization	Net book value	Net book value	Net book value
Customer relationships	$ 35,385	$ 3,802	$ 31,583	$ 14,937	$ 10,151
Tradenames	12,843	–	12,843	11,673	9,192
Other	210	108	102	144	154
	$ 48,438	$ 3,910	$ 44,528	$ 26,754	$ 19,497

6. Long-term debt:

(thousands of dollars)

	January 31, 2008	January 31, 2007	October 31, 2006
8.75% unsecured convertible debentures, maturing December 31, 2011 (described below)	$ 26,194	$ 25,706	$ –
Revolving long-term secured debt bearing a floating interest rate of 30 day BA plus 2.50%, maturing 2013 (described below)	45,624	–	–
Long-term secured debt bearing a fixed rate of 9.25%, maturing February 1, 2009 (described below)	32,447	–	–
Long-term secured debt incurred by the subsidiary companies bearing fixed interest rates at a weighted average of 7.58%, maturing at various dates through 2016, secured by specific assets of the subsidiary companies	2,914	34,406	19,838
Long-term secured debt incurred by the subsidiary companies bearing floating interest rates at a weighted average of 9.26%, maturing 2008 through 2012, secured by specific assets of the subsidiary companies	6,048	–	–
Non-revolving demand debt incurred by the subsidiary companies bearing floating interest rates at a weighted average of prime plus 0.93%, maturing at various dates through 2009 secured by specific assets of the subsidiary companies	–	9,956	7,974
Secured subordinated notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime plus 1%, maturing 2014 through 2015, secured by a subordinate charge over the assets of GSHL	15,938	16,604	16,604
Unsecured notes payable to officers and directors of the Corporation and its subsidiaries bearing interest at prime, maturing 2008 through 2010	4,161	2,097	–
Conditional sales contracts	743	178	–
	134,069	88,947	44,416
Less current portion of long-term debt	10,168	14,218	11,195
	$ 123,901	$ 74,729	$ 33,221

6. Long-term debt (continued):

The 8.75% convertible debentures are convertible at any time into common shares at $2.05 per share. The convertible debentures are not redeemable before December 31, 2009. Between December 31, 2009 and December 31, 2010, the convertible debentures are redeemable by the Corporation at the principal amount outstanding plus accrued and unpaid interest, provided that the weighted average trading price of the Class A Shares of the Corporation's shares is greater than 125% of the conversion price. On or after December 31, 2010, the convertible debentures are redeemable by the Corporation at their principal amount plus accrued interest.

The debentures were issued in December, 2006 at which time the fair value of the Corporation's obligation to make future payments of principal and interest was $27,634,000 and the fair value of the holders' conversion option was determined to be $1,116,000. Financing costs of $1,943,000, included in long-term debt, represent the unamortized cost of the issue of the convertible debentures. Interest expense and financing cost are recognized to accrete the liability component to the debenture's face value of $28,750,000, calculated based on the Corporation's effective interest rate of 11.70%.

During the current year, the Corporation entered into a revolving long-term debt agreement to finance certain of its fleet assets. As at January 31, 2008, the Corporation had $50,000,000 available to it under this credit facility. However subject to certain conditions being met, the loan limit could increase to $75,000,000. The initial advance was used to retire lending arrangements acquired by the Corporation through various business combinations totalling $46,151,000. The loan bears an interest rate of 30 days BA plus 2.50% and has a 5 year term. The debt is an evergreen facility which only requires the repayment of interest over the term of the debt. On each anniversary date the lender has the option to convert the evergreen facility to an amortizing debt with the principal balance at the time amortized over a 10 year period. The loan is secured by a general security agreement over the assets of Discovery Air Inc., GSHL and its wholly-owned subsidiaries, ATL and H&L. The security structure provides a first charge over the aircraft owned by these subsidiaries and a secondary floating charge over all their other assets except real estate, subject to permitted encumbrances. Financing costs of $1,132,000, included in long-term debt, represent the unamortized cost of obtaining the term loan.

The Corporation entered into a $33,000,000 term loan agreement with a syndicate of lenders to finance a portion of the TAI business combination. The term loan has an effective rate of 11.07% per annum and the principal balance is due on February 1, 2009. The term loan is secured by the shares of TAI and a second charge over all of TAI's fixed assets. As part of the term loan agreement the Corporation issued 1,178,568 warrants to the syndicate with a subscription price of $2.00 per share, expiring in July 2008. The warrants were determined to have a value of $433,000.

The Corporation also assumed two term debt instruments in the acquisition of TAI that totalled approximately $6.6 million, bearing interest ranging from the lender's floating rate plus 4.00% to the lender's floating rate plus 5.50%. Both term debts mature on April 15, 2008 and are secured by a general security agreement that provides a first charge over TAI's aircraft and engines. In February 2008 these instruments which had an outstanding balance of $5,257,000 on January 31, 2008 and which were classified as a current portion of long term debt, were refinanced as part of the new $21,500,000 debt financing obtained by TAI (note 17).

6. Long-term debt (continued):

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

(thousands of dollars)	
2009	$ 10,168
2010	35,103
2011	1,479
2012	28,239
2013	46,869
Thereafter	12,211

Interest on long-term debt for the current period ended was $9,384,000 (2007 - $1,265,000, 2006 - $1,517,000).

7. Operating lines of credit:

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

(a) On January 21, 2008, the Corporation obtained a 364-day committed revolving banking facility which consists of an operating line of credit to a maximum of $15 million with an option to increase the maximum by an additional $10 million during the Corporation's peak operating season, from April 1 to November 30. The banking facility bears an interest rate of prime plus 0.50% and is secured by a general security agreement over the assets of Discovery Air Inc., GSHL and its wholly owned subsidiaries, ATL and H&L. The security structure provides a first charge over accounts receivable and inventory for these entities, subject to the priority over certain H&L receivable outlined in 7 c), as well as a second floating charge over all other assets subject to specific permitted encumbrances. The banking facility replaces banking facilities inherited by the Corporation upon acquisition of these subsidiaries. As at January 31, 2008, there was no amount outstanding under this banking facility.

(b) TAI has a banking facility which consists of an operating line of credit to a maximum of $2.75 million, bearing interest at prime plus 0.50%. This facility is secured by a general security agreement. The general security agreement provides a first charge over accounts receivable and inventory and a floating charge over all other assets subject to permitted encumbrances. At January 31, 2008, there was no amount outstanding under this banking facility.

(c) H&L has an available revolving banking facility to a maximum of $1.5 million, bearing interest at prime plus 0.25%, whereby it pledges eligible accounts receivable at face value. The facility is secured by specific government receivables. At January 31, 2008, January 31, 2007 and October 31, 2006 there were no amounts outstanding under the revolving bank loan.

8. Income taxes:

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 34% (2007 - 34%, 2006 – 34%) to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

(thousands of dollars)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Computed tax expense (recovery)	$ 3,012	$ (2,779)	$ 4,151
Increase (decrease) resulting from:			
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	(2,954)	(1,012)	157
Permanent differences	919	175	(20)
	$ 977	$ (3,616)	$ 4,288

The income tax provision (recovery) is comprised of:

(thousands of dollars)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Current income tax provision (recovery)	$ 2,404	$ (3,225)	$ 5,639
Future income tax recovery	(1,427)	(391)	(1,351)
	$ 977	$ (3,616)	$ 4,288

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)

	January 31, 2008	January 31, 2007	October 31, 2006
Future tax assets:			
Loss carry-forwards	$ –	$ 614	$ –
	–	614	–
Future tax liabilities:			
Land, buildings and equipment	(28,669)	(23,330)	(11,740)
	(28,669)	(23,330)	(11,740)
Net future income tax liability	$ (28,669)	$ (22,716)	$ (11,740)

9. 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)

	January 31, 2008		January 31, 2007		October 31, 2006	
	Shares	Amount	Shares	Amount	Shares	Amount
Class A common shares:						
Outstanding, beginning of period	108,526,516	$147,579	88,339,397	$104,308	26,277,271	$ 1,241
Issued for cash	–	–	–	–	19,841,840	19,938
Issued on acquisition of subsidiaries	23,599,786	34,477	20,000,000	43,250	40,000,000	81,900
Issued on exercise of options	20,000	15	–	–	–	–
Issued on exercise of warrants	2,373,503	262	187,119	21	2,220,286	1,992
Less share issue costs, net of tax		–		–		(763)
Outstanding, end of period	134,519,805	182,333	108,526,516	147,579	88,339,397	104,308
Class B common shares:						
Outstanding, beginning of period	–	–	–	–	–	–
Issued on acquisition of subsidiary	684,354	1,086	–	–	–	–
Outstanding, end of period	684,354	1,086	–	–	–	–
Warrants and other equity:						
Common share purchase warrants		433		2,442		2,442
Conversion feature on convertible debt		1,116		1,116		–
Total share capital end of period	135,204,159	$184,968	108,526,516	$151,137	88,339,397	$106,750

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

(c) Stock-based compensation:

(i) Employee Stock Options

The Corporation has a stock option plan for its directors, officers and employees. Options are granted at an exercise price set at the closing market price of the Corporation's common shares on the day preceding the date on which the option is granted and are exercisable within ten years of issue. The options typically vest over a two year period.

At January 31, 2008, 7,113,200 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	2,605,000	7.97	$ 0.50	2,605,000	$ 0.50
$1.21 - $1.52	650,850	9.44	1.45	300,278	1.46
$1.56 - $1.70	2,618,350	9.00	1.60	1,254,439	1.61
$1.75 - $1.85	1,239,000	9.06	1.84	412,959	1.84
	7,113,200			4,572,676	

Stock option transactions for the periods ended 2008, 2007 and 2006 are as follows:

	January 31, 2008		January 31, 2007		October 31, 2006	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of period	4,020,000	$ 0.88	3,335,000	$ 0.74	–	$ –
Granted	3,190,250	1.66	685,000	1.57	3,335,000	0.74
Exercised	(20,000)	0.50	–	–	–	–
Forfeited	(74,816)	1.85	–	–	–	–
Expired	(2,234)	1.85	–	–	–	–
Outstanding, end of period	7,113,200	$ 1.22	4,020,000	$ 0.88	3,335,000	$ 0.74

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

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

	January 31, 2008	January 31, 2007	October 31, 2006
Options granted	3,190,250	685,000	3,335,000
Exercise price per share	$1.66	$1.57	$0.74
Risk-free interest rate	4.33%	3.94%	3.95%
Dividend yield	0%	0%	0%
Expected volatility	50%	63%	63%
Expected option life	4.5 years	4.5 years	4.5 years
Expected forfeiture rate	5%	5%	5%
Fair value per option	$0.79	$0.85	$0.40

During the period ended January 31, 2008, the Corporation recognized compensation expense of $2,030,000 (2007 - $420,000, 2006 - $802,000) relating to the estimated fair value of stock options granted by the Corporation.

(ii) Warrants

At January 31, 2008, the Corporation had 1,178,568 (2007 – 7,799,423, 2006 – 7,986,542) common share purchase warrants issued and outstanding.

During the year ended January 31, 2008, the Corporation issued 1,178,568 common share purchase warrants as part of the $33.0M financing arrangement for the acquisition of TAI. The holders of the warrants are entitled to subscribe for 1 Class A common shares for every 1 warrant held for a subscription price of $2.00 per share and expire in July 2008. The value attributed to the warrants was estimated at $433,000 using the residual valuation method which assigns the residual value of the proceeds of the debt less the fair value of the debt.

During the year ended October 31, 2006, the Corporation issued 6,070,920 common share purchase warrants with a subscription price of $1.75 per share as part of the private placement of units comprised of one common share and one half share purchase warrant. The value attributed to the warrants was estimated at $0.45 per warrant ($2,732,000) using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 4.40%; (ii) expected option life of 18 months; (iii) expected volatility of 63%, and (iv) expected forfeiture rate of 0%. In the same year of issue, 645,000 of these warrants were exercised for cash consideration of $1,128,750 and $290,000 was transferred from warrants to common shares. The remaining 5,425,920 warrants outstanding expired in December 2007 and $2,442,000 was transferred from warrants to contributed surplus.

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

During the year ended October 31, 2006, 770,000 broker warrants with a subscription price of $0.50 per share were issued as part of the initial public offering. The fair value of these warrants was estimated at $0.13 per warrant ($100,100) using the Black-Scholes option pricing model based on the following assumptions: (i) risk-free interest rate of 4.06%; (ii) expected option life of 1 year; (iii) expected volatility of 63%, and (iv) expected forfeiture rate of 0%. During 2006, these warrants were exercised for cash consideration of $385,000 and $100,100 was transferred from warrants to common shares.

During the year ended October 31, 2005, the Corporation issued 3,365,908 common share purchase warrants. The holders of warrants were entitled to subscribe for 1 share for every 1 warrant held for a subscription price of $0.11 per share. The value attributed to the warrants was determined to be nominal. During the period current period 2,373,503 (2007 - 187,119, 2006 - 805,286) of these warrants were exercised for cash consideration of $262,000 (2007 - $21,000, 2006 - $88,000).

(d) Deferred share units

At January 31, 2008, there were 9,214 (2007 – 9,000, 2006 - nil) deferred shares unit ("DSU") held by the directors of the Corporation. Each DSU entitles the holder to a cash distribution equal to the closing market price of the Corporation's common shares upon the director's retirement. During the period ended January 31, 2008, the Corporation granted 1,214 (2007 – 9,000, 2006 - nil) DSUs and a payment of $1,650 was made to retire 1,000 (2007 – nil) DSUs. The Corporation recognized $918 (2007 - $1,400, 2006 – nil)) of compensation expense related to DSUs.

10. Per share amounts:

Basic earnings (loss) per share:

(thousands except per share amounts)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Net earnings (loss)	$ 7,499	$ (4,511)	$ 7,690
Average number of common shares outstanding	119,313	97,750	50,372
Basic earnings (loss) per share	$ 0.06	$ (0.05)	$ 0.15

10. Per share amounts (continued):

Diluted earnings (loss) per share:

(thousands except per share amounts)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Net earnings (loss)	$ 7,499	$ (4,511)	$ 7,690
Average number of common shares outstanding	119,313	97,750	50,372
Dilutive adjustments	1,796	-	4,289
Average number of common shares outstanding assuming dilution	121,109	97,750	54,661
Diluted earnings (loss) per share	$ 0.06	$ (0.05)	$ 0.14

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

For the period November 1, 2006 to January 31, 2007, all employee stock options, warrants outstanding and the conversion feature on the convertible debenture were anti-dilutive.

For the year ended October 31, 2006, 5,425,920 warrants outstanding were anti-dilutive.

11. Change in non-cash operating working capital:

(thousands of dollars)

	February 1, 2007 to January 31, 2008	November 1, 2006 to January 31, 2007	November 1, 2005 to October 31, 2006
Accounts receivable	$ 714	$ 10,044	$ (1,951)
Inventory	(2,675)	(131)	(947)
Prepaid expenses and other	708	487	(578)
Accounts payable and accrued liabilities	(966)	(1,139)	(1,893)
Income taxes payable	(3,186)	(3,542)	4,679
	$ (5,405)	$ 5,719	$ (690)

12. Financial instruments:

The carrying values of cash, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity of the instruments.

The carrying amount of long-term debt approximates the fair value. Fair value was determined at the present value of contractual future payments of principal and interest, discounted at the current market rates of interest available to the Corporation for the same or similar debt instruments.

The Corporation is exposed to the following financial risks:

Credit risk:

The Corporation is exposed to financial risk arising from the credit quality of the entities to which it provides aviation services. Revenue is generated under customer contracts with both governments and private sector entities. During the year ended January 31, 2008, approximately 35% of revenue was generated from government entities. Credit risk to private sector customers is managed by making appropriate credit assessments of potential customers. At January 31, 2008, the Corporation had no significant concentrations of credit risk with any one customer.

Interest rate risk:

The Corporation is exposed to financial risk that arises from fluctuations in interest rates and the interest cost associated with its long term debt. The Corporation holds a mix of fixed debt, primarily to finance acquisitions, and variable rate debt on its long term revolving credit facility. Changes in interest rates could cause fluctuations in the Corporation's operating results.

Liquidity risk:

The Corporation requires working capital to fund its seasonal operating activities. Management expects that the Corporation's operating cash flow, along with existing working capital will be sufficient to meet these requirements. The Corporation also has uncommitted operating lines of credit as disclosed in note 7 to meet fluctuations in working capital requirements.

Foreign currency risk:

The Corporation is exposed to fluctuations in the Canada / US and Canada / Euro exchange rates due to payment obligations associated with the purchase of aircraft, margin requirements related to its aircraft financing and maintenance expenditures such as spare parts. The Corporation does not hedge its foreign currency exposure. A significant change in these exchange rates could cause fluctuations in the Corporation's operating results.

13. Related party transactions:

At January 31, 2008, the Corporation had long-term debt including accrued interest totalling $20,307,000 (January 31, 2007 - $18,701,000, October 31, 2006 - $18,217,000) owing primarily to officers and directors of the Corporation or its subsidiaries and who were former owners of the subsidiaries. For the period, interest expense on this debt totalled $1,171,000 (January 31, 2007 - $277,000, October 31, 2006 - $574,000).

14. Commitments:

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

(thousands of dollars)		
2009	$	2,609
2010		1,413
2011		971
2012		903
2013 and thereafter		1,253

The Corporation is committed to purchase additional aircraft, related inventory and service contracts for total cost of $18.1 million.

The Corporation was required to obtain letters of credit with its lenders totalling $764,000 (2007 - $714,000, 2006 – $464,000). The letters of credit serves as collateral with suppliers used by the Corporation's subsidiaries.

15. Segmented information:

The Corporation has two reportable business segments: rotary wing and fixed wing. These segments are differentiated by the nature of the aircraft used to provide aviation services. The rotary wing segment is represented by helicopter charter services as provided by GSHL and the fixed wing segment is represented by airplane and other services as provided by ATL, TAI, H&L and DMS. While DMS contracts a considerable level of rotary and fixed wing aviation services in the conduct of its business, it contracts a much higher level of fixed wing services than rotary wing services and therefore its results have been included in the fixed wing segment. Customers serviced by both segments consist of governments and private sector companies in resource and mineral exploration and production, wildlife services, forest fire suppression, oil and gas exploration, power line construction and maintenance, aerial surveys exploration, tourism and flight training industries. For the year ended October 31, 2006, the revenue from the fixed wing segment was derived from two government contracts expiring in 2007 and 2009.

15. Segmented information (continued):

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

(thousands of dollars)	February 1, 2007 to January 31, 2008			
	Rotary Wing	Fixed Wing	Corporate Support	Total
Revenue	$ 67,426	$ 53,379	$ 131	$ 120,936
Operating expenses	46,930	39,750	5,804	92,484
Amortization expense	3,886	5,474	37	9,397
Earnings (loss) from operations before undernoted items	16,610	8,155	(5,710)	19,055
Financing charges				10,291
Income taxes				977
Minority interest				288
Net earnings (loss)				7,499
Total assets	$ 170,756	$ 206,014	$ 129	$ 376,899
Goodwill	$ 82,530	$ 76,913	$ –	$ 159,443
Intangible assets	$ 17,688	$ 26,840	$ –	$ 44,528
Capital expenditures for the year	$ 14,668	$ 13,153	$ 239	$ 28,060

(thousands of dollars)	November 1, 2006 to January 31, 2007			
	Rotary Wing	Fixed Wing	Corporate Support	Total
Revenue	$ 4,368	$ 2,718	$ 28	$ 7,114
Operating expenses	7,748	3,472	1,192	12,412
Amortization expense	1,069	441	–	1,510
Earnings (loss) from operations before undernoted items	(4,449)	(1,195)	(1,164)	(6,808)
Financing charges				1,366
Income taxes				(3,616)
Minority interest				(47)
Net earnings (loss)				(4,511)
Total assets	$ 164,892	$ 108,162	$ 6,589	$ 279,643
Goodwill	$ 82,530	$ 332,225	$ –	$ 114,755
Intangible assets	$ 19,012	$ 7,742	$ –	$ 26,754
Capital expenditures for the period	$ 435	$ 158	$ 79	$ 672

15. Segmented information (continued):

(thousands of dollars)	November 1, 2005 to October 31, 2006			
	Rotary Wing	Fixed Wing	Corporate Support	Total
Revenue	$ 34,533	$ 5,787	$ 30	$ 40,350
Operating expenses	19,566	3,821	1,301	24,688
Amortization expense	1,555	344	–	1,899
Earnings (loss) from operations before undernoted items	13,412	1,622	(1,271)	13,763
Financing charges				1,553
Income taxes				4,288
Minority interest				(232)
Net earnings (loss)				7,690
Total assets	$ 172,222	$ 9,410	$ 1,916	$ 183,548
Goodwill	$ 82,530	$ 648	$ –	$ 83,178
Intangible assets	$ 19,343	$ 154	$ –	$ 19,497
Capital expenditures for the year	$ 983	$ 415	$ –	$ 1,398

16. Comparative figures:

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

17. Subsequent event:

On February 4, 2008, the Corporation, through its TAI subsidiary, obtained financing for $21.5 million to fund the purchase of eight new aircraft and related engine, hull and parts inventory and to refinance existing term loans. The loan is for a 7 year term with a tiered interest rate range starting at the lender's base rate plus 3.25% and reducing to the lender's base rate plus 2.75%, subject to certain conditions being met. The loan is secured by a general security agreement providing a first charge over the aircraft and other assets being financed and a floating charge over all other assets subject to permitted encumbrances.