



## Second Quarter Report July 31, 2009

### MANAGEMENT'S DISCUSSION AND ANALYSIS

The following management's discussion and analysis of the financial condition and results of operations of Discovery Air Inc. (the "Corporation" or "Discovery Air") for the second quarter of fiscal 2010 should be read in conjunction with the unaudited interim consolidated financial statements and related notes of the Corporation for the six months ended July 31, 2009 and the annual audited consolidated financial statements and related notes for the year ended January 31, 2009, which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

The Corporation highly encourages readers to review and consider the Corporation's risk factors and cautions relating to forward-looking statements disclosed in these documents and in the annual Management's Discussion and Analysis (see Risk Factors, page 15). While these disclosures should always be considered when assessing the results of the Corporation, they are especially important given the current uncertain economic conditions.

#### **Business Profile**

##### *Mission*

The Corporation's mission is to create shareholder value by building an alliance of profitable aviation businesses that can realize synergies and economies of scale and deliver safe, professional air services to clients in selected niche markets. While the mission has not changed, the Corporation has adjusted its focus to ensure the Corporation's businesses are soundly positioned to withstand the negative effects of the global economic downturn experienced in the latter part of the prior fiscal year and continuing into the current year. The Corporation's strategy in addressing the recent economic downturn is discussed in greater detail in the "*Strategy and Strengths*" section of this document.

##### *Organization structure*

Discovery Air is incorporated under the Canada Business Corporations Act. It was established in November 2004 to acquire aviation and aviation related businesses that provide services to clients in niche markets. Since its inception, the Corporation has completed the acquisition of six businesses whose services are delivered through five wholly-owned subsidiaries. These wholly-owned subsidiaries are segregated into two operating segments:

1. Northern Services, being the operations of Great Slave Helicopters Ltd. ("Great Slave"), Air Tindi Ltd. ("Air Tindi") and Discovery Mining Services Ltd. ("Discovery Mining"); and
  2. Government Services, being the operations of Top Aces Inc. ("Top Aces") and Hicks & Lawrence Limited ("Hicks").
- All other operating activities are classified as Corporate Support.

##### *Northern Services Segment*

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.

Great Slave is a Northwest Territories-based helicopter company that provides chartered air transport services throughout Northern Canada and several of the Canadian provinces. It provides, on its own and in partnership with northern Aboriginal groups, aviation services to private sector companies and governments in areas such as mineral, base and precious metal 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 was founded in 1984.

Air Tindi is a Northwest Territories-based fixed wing aviation company that provides scheduled and chartered passenger and air cargo services to private sector companies, governments and individuals in such areas as mineral, base and precious metal exploration, oil and gas exploration and tourism. Air Tindi also provides air ambulance services throughout the Northwest Territories. Air Tindi was founded in 1988.

Discovery Mining is a Northwest Territories-based company that provides remote exploration camps, expediting, logistics and staking services to primarily diamond and mineral exploration companies. Discovery Mining was founded in 1991.

#### *Government Services Segment*

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

Top Aces is a Quebec-based fixed wing aviation company that provides highly specialized airborne training services to the Department of National Defence ("DND"). Top Aces was founded in 2000.

Hicks is an Ontario-based fixed wing aviation company that provides air services to niche markets in Northwest Ontario, which are primarily fire suppression and other transportation services to the provincial government. Hicks has been in business for over 50 years.

#### *Seasonality and quarterly fluctuations*

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

- 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 customer's priorities.
- 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.
- The timing of an acquisition in relation to the above factors can have an impact on the comparability of results.

#### *Strategy and Strengths*

The Corporation's businesses provide aviation and aviation related services to customers in niche markets. The Corporation's operating subsidiaries provide fixed-wing and rotary-wing aviation services as well as logistics and remote operations management services.

The Corporation acquired companies whose success was fundamentally based upon strong customer service, a reputation for quality and safety, a loyal customer base in a niche market and a dominant position in their markets. Great Slave and Air Tindi provide an essential service to many of their customers as access to, and movement at, the majority of their customers' locations is only possible via aircraft. This includes the movement and transport of people, freight, equipment and essential supplies. Discovery Mining provides its services to many of these customers as well. Top Aces and Hicks also provide essential services to their customers in the form of cost-effective government outsourced aviation service solutions.

The severe global economic downturn and illiquidity in the capital markets have negatively affected certain sectors of the Corporation's customer base, primarily the resource exploration and oil and gas sectors. The Corporation's revenue levels have been and are expected to continue to be adversely impacted in the current fiscal year as a result. The Corporation also had financing challenges in the latter part of fiscal 2009 and the first quarter of 2010 resulting from the rapid deterioration in global financial markets which dramatically curtailed lending activities and access to capital at a time when the Corporation needed to refinance significant maturing debt. Accordingly, the Corporation's priority during the latter part of fiscal 2009 and the current fiscal year shifted away from its previously stated strategy of seeking growth through new acquisition and organic growth from the Corporation's existing operating companies, to focusing on ensuring the Corporation's existing operations are positioned to address the negative impact of the economic slowdown in the current and foreseeable future. The Corporation has remained focused on maximizing and preserving cash flow and has been achieving this by actively managing working capital, reducing non-essential expenses, reducing fleet size in some of

its businesses, and limiting non-critical capital expenditures. A greater focus on managing cash flow will help to ensure the Corporation is able to meet its operating and financing obligations in a very challenging economic environment as well as to fund the capital expenditures required to sustain its fleet and facilities. The Corporation has reduced its operating and capital expenditures in order to align them with expected revenue levels and continues to monitor these expenditures.

## Selected Financial Information

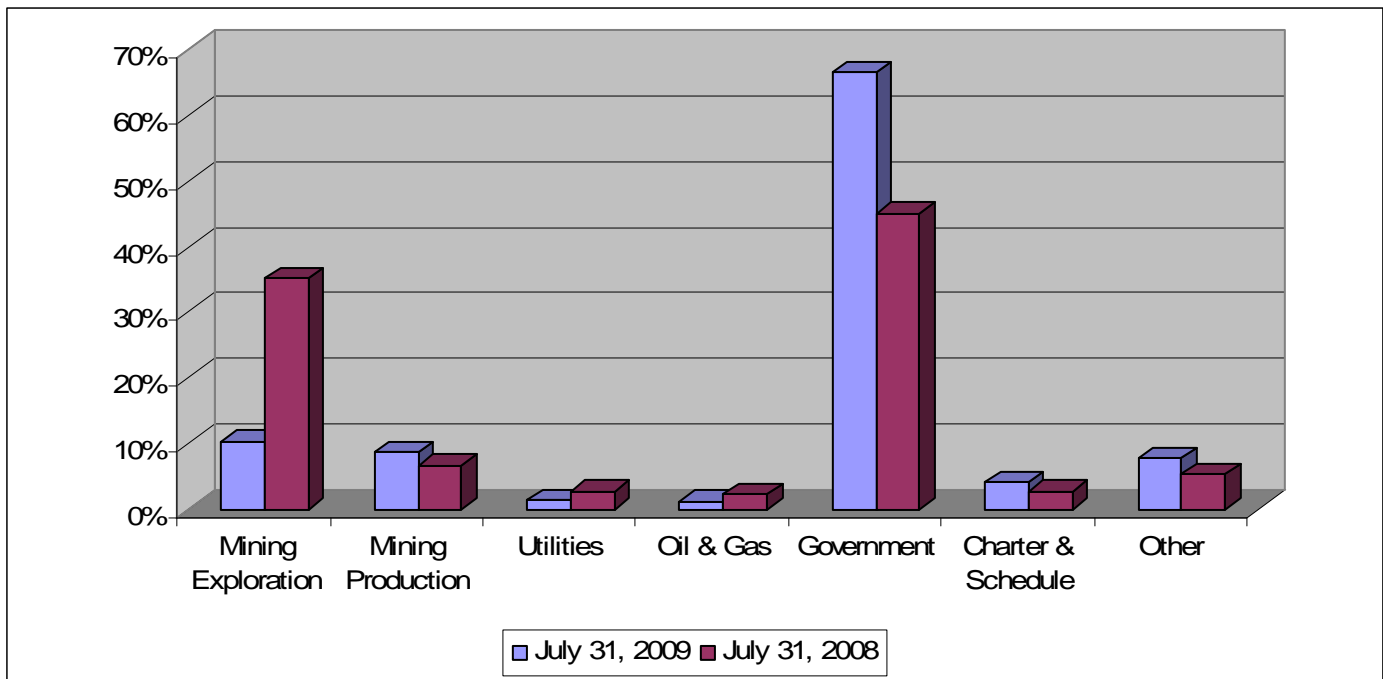
	3 months ended July 31 2009 (unaudited)	3 months ended July 31 2008 (unaudited)	6 months ended July 31 2009 (unaudited)	6 months ended July 31 2008 (unaudited)
<b>Results of operations</b>				
Revenue	\$ 45,733	\$ 59,050	\$ 71,299	\$ 89,804
Operating expenses	\$ 26,584	\$ 39,429	\$ 50,312	\$ 67,868
Earnings before undernoted items	\$ 19,149	\$ 19,621	\$ 20,987	\$ 21,936
Interest expense	\$ 3,824	\$ 3,186	\$ 7,323	\$ 6,211
Amortization	\$ 3,405	\$ 3,214	\$ 6,803	\$ 6,331
Relocation of corporate office	\$ 318	\$ -	\$ 1,491	\$ -
Financing transaction costs	\$ -	\$ -	\$ 830	\$ -
Net earnings and comprehensive income	\$ 8,004	\$ 8,869	\$ 2,883	\$ 6,169
Earnings per common share:				
Basic	\$ 0.06	\$ 0.07	\$ 0.02	\$ 0.05
Diluted	\$ 0.06	\$ 0.07	\$ 0.02	\$ 0.05
<b>Financial position and liquidity</b>				
Total assets			\$ 269,072	\$ 409,279
Total long-term debt			\$ 142,246	\$ 142,121
Cash provided by operations	\$ 9,177	\$ 6,396	\$ (2,742)	\$ (3,286)
Working capital			\$ 23,946	\$ (5,675)
<b>Key non-GAAP performance measures*</b>				
Adjusted earnings	\$ 8,229	\$ 8,869	\$ 3,936	\$ 6,169
EBITDAR	\$ 21,229	\$ 24,422	\$ 23,247	\$ 29,079
Adjusted EBITDAR	\$ 21,547	\$ 24,422	\$ 24,738	\$ 29,079
EBITDA	\$ 18,831	\$ 19,621	\$ 19,496	\$ 21,936
EBITDA Margin	41%	33%	27%	24%
Adjusted EBITDA	\$ 19,149	\$ 19,621	\$ 20,987	\$ 21,936
Adjusted EBITDA Margin	42%	33%	29%	24%

\* See Non-GAAP measures

## Overview

Consolidated revenues continued to be impacted by the dramatic slowdown in resource sector activity. Consolidated revenues in the most recent quarter were also impacted by weak forest fire market conditions that existed during July in some of the major geographic fire markets serviced by the Corporation. July and August are typically the peak periods for forest fire activity. These negative factors were partially offset by higher demand for airborne training services that resulted from the Corporation's investment to increase its Alpha jet fleet. The mix of these factors resulted in consolidated revenues for the quarter and year-to-date being 23% and 21% lower than the comparative period last year.

The following graph demonstrates the impact the current economic downturn has had on the composition of the Corporation's year-to-date revenue by industry sector as a percentage of total revenues. Revenue from the mining exploration, utilities and oil & gas sectors has reduced significantly as a percentage of total revenues while revenue from Government sources has increased significantly.



The Corporation reported EBITDA for the quarter and year-to-date of \$18.8 million and \$19.5 million respectively, representing a year over year decrease of 4% and 11% respectively. The Adjusted EBITDA, which adjusts for the non-recurring corporate office relocation charge, was \$19.1 million and \$21.0 million for the quarter and year-to-date respectively representing a year over year decrease of 2% and 4% respectively. The year-to-date Adjusted EBITDA margin improved from 24% last year to 29% in the current year. Despite the notable decline in the current year's revenues to date, the Corporation was able to minimize the full impact of the lower revenues to earnings by streamlining its operating costs in anticipation of the lower revenues expected in the resource sector base. The overall mix of consolidated revenues by aircraft type also had a favourable impact on the EBITDA margin since there has been a shift in demand to aircraft with higher margins. The Corporation's operating units have a high fixed cost component, largely related to infrastructure required to support operations for the peak business season, which is generally determined early in the year and historically difficult to modify in relation to any significant revenue variances experienced in the peak season. This is especially true of the infrastructure required to support the Corporation's forest fire suppression businesses. To date, the operating units have been able to set appropriate infrastructure levels in addition to minimizing discretionary costs in an environment where it is very challenging to get a highly reliable forward-looking outlook on revenue levels.

Quarterly earnings reduced from \$8.9 million in the prior year to \$8.0 million in the current year. Year-to-date earnings reduced from \$6.2 million in the prior year to \$2.9 million in the current year. Interest expense increased due to an increase in debt levels year over year as well as an increase in interest rates charged by some of the Corporation's lenders. Earnings were also impacted by financing transaction costs and corporate relocation costs. To date, the Corporation has incurred \$0.8 million related to financing transaction costs and \$1.5 million related to corporate relocation costs. A condition of the recent \$34.0 million term loan obligates the Corporation to relocate its corporate office to Yellowknife, Northwest Territories from its current location in London, Ontario by February 1, 2010. The corporate relocation costs are comprised of termination benefits, recruitment costs and the logistical costs of transferring physical assets.

## **Results of operations for the comparative three months ended July 31, 2009 and 2008**

### **Revenue and Hours Flown**

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. The exception to this is the business of Discovery Mining. Revenues were \$45.7 million for the quarter ended July 31, 2009, compared to \$59.1 million for the same period last year, representing a 23% year over year decrease in revenues. Hours flown for the quarter ended July 31, 2009 were 16,963 compared to 27,885 for the same period last year, representing a 39% decrease in year over year flight hours. Revenues

and flight hours in the current year were negatively impacted by reduced resource sector activity, particularly in the mining exploration and oil and gas sectors, as well as by lower than expected forest fire activity in July 2009 due to cool and wet weather conditions in the regions serviced by our operations. The decline in revenues in relation to flight hours was less severe due to increased revenues and flight hours from the Government Services segment, specifically Top Aces' Alpha jet fleet which earns higher revenue per flight hour compared to the Corporation's other aircraft fleet due to the highly specialized nature of the services it delivers and the aircraft fleet type it operates.

The Northern Services segment generated revenues of \$26.4 million on 13,125 flight hours for the quarter ended July 31, 2009, compared to revenues of \$44.6 million on 24,886 flight hours for the same period last year. The \$18.2 million or 41% decline in revenues and the 11,761 or 47% decline in flight hours were attributable to the weak demand for services from the resource industry sector as well as lower demand for forest fire detection and suppression activity, with reduced demand for helicopter services having the largest impact on Segment revenue levels. Revenues declined at a lower rate than flight hours due to a more favourable mix of hours by aircraft type. Segment revenues from the mining exploration and oil & gas sectors in the quarter were lower by 73% and 12%, respectively, while revenues from forest fire activity were lower by 23% compared to the prior period.

The Government Services segment generated revenues of \$19.3 million on 3,838 flight hours for the quarter ended July 31, 2009, compared to revenues of \$14.5 million on 2,999 flight hours for the same period last year. The 33% increase in revenues and 28% increase in flight hours was attributable to Top Aces' ability to produce higher revenues from the increased capacity in its Alpha jet fleet. Top Aces' Alpha jet fleet has increased from a fleet size of eight to fourteen over the last year. Top Aces has added two more Alpha jets to its fleet in the third quarter of the current year. While the level of forest fire activity in the current and last two prior years was weaker than what would be expected in a normal year, Hicks contributed to higher year over year revenues as well. An increase in basing fees and strong forest fire activity in June led to higher year over year revenue at Hicks for the recent quarter. However, very low levels of fire activity in July led to revenue levels for the quarter being much lower than expected for a normal fire season based on historical averages.

### **Operating Expenses**

Operating expenses consist of fixed and variable expenses including crew and fleet costs and general and administrative expenses. Crew and fleet costs are the largest expense categories. Crew costs are comprised of wages, benefits and training for pilots and maintenance engineers. Fleet costs are comprised of aircraft lease costs and maintenance costs, the latter consisting of the purchase, repair and overhaul of parts, major components and accessories. Fuel costs represent a significant component of the Northern Services segment's operating expenses. A significant portion of the fuel costs incurred by the Northern Services segment are recoverable from its customers and these recoveries are classified as revenues. The amortization of engine and rotatable component overhauls, a non-cash expense, is included in maintenance costs and is classified as an operating expense for financial reporting purposes. General and administrative expenses are mainly comprised of wages and benefits of administrative personnel, facility costs, travel costs, non-fleet insurance costs and other overhead expenses. These operating expenses contain both fixed and variable cost components.

Operating expenses were \$26.6 million for the quarter ended July 31, 2009, compared to \$39.4 million for the same period last year, representing a 32% decline in year over year operating expenses. The Corporation's crew costs, maintenance costs, aircraft lease costs and fuel costs combined represented 67% of the current quarter's total operating costs, and were lower by 24%, 42%, 50% and 59% respectively compared to the same period last year. These lower operating costs correspond with the lower levels of flight activity and revenues generated in the quarter. The Corporation's general and administrative expenses represented 22% of the current quarter's total operating expenses and were 26% lower than the same period last year, due in large part to cost reduction efforts in the Northern Services segment business.

The Northern Services segment's operating expenses for the current quarter were \$16.3 million, compared to \$29.5 million for the same period last year, representing a \$13.2 million or 45% decline in year over year operating expenses. While all businesses in the segment reduced their year over year operating costs, the largest reduction in operating costs were associated with the Segment's helicopter operations. The variable cost component of the segment's crew, fleet and fuel costs decreased as a result of lower revenues and improved expense management. The lower cost also reflects a reduction in fixed cost components such as leased aircraft commitments. For example, Great Slave's overall fleet size has reduced from 70 helicopters as at January 31, 2009 to 55 as at July 31, 2009, mostly due to the return of leased aircraft. While there was a notable reduction in fixed costs, these cost reductions did not reduce in line with the reduction in revenue levels, explaining why the reduction in costs is not as high as the reduction in revenues. Some of this would



be attributable to the seasonal nature of the segment's business. The Corporation's management is continuing to review the segment's operating costs to ensure they are appropriately aligned with the expected level of service activity for this current fiscal year.

The Government Services segment's operating expenses for the current quarter were \$9.1 million, compared to \$8.3 million for the same period last year, representing a 10% increase in year over year operating expenses. The increase in operating costs is related to additional costs required to support the increase in revenue at Top Aces. Cost cutting measures at Hicks lowered their year over year operating costs for the quarter.

Excluding corporate office relocation costs, Corporate Services incurred \$1.2 million in operating expenses in the current quarter compared to \$1.6 million for the same period last year. The corporate office relocation costs were \$0.3 million for the current quarter.

### ***EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR (see Non-GAAP Measures)***

EBITDA was \$18.8 million for the quarter compared to \$19.6 million for the same period last year. EBITDA margin for the current quarter was 41% compared to 33% for the same period last year. Adjusted EBITDA, which excludes the non-recurring corporate office relocation costs, was \$19.1 million representing an Adjusted EBITDA margin of 42%. The Corporation was able to increase the year over year margins despite the lower overall revenues due to increased revenues from higher margin aircraft and significant cost reductions in the Northern Services segment.

The current quarter EBITDAR was \$21.2 million and Adjusted EBITDAR was \$21.5 million compared to \$24.4 million for both in the same period last year.

The Northern Services segment's year over year quarterly EBITDA of \$10.1 million was reduced by \$4.9 million due to year over year revenue reductions of \$18.2 million. As previously noted, business activity has dramatically reduced primarily as a result of weak resource sector activity resulting from the current economic downturn and weak forest fire conditions in the regions the segment services. The impact of lower revenues to the segment's EBITDA was less severe due to significant operating costs reductions. The segment's quarterly EBITDAR was more severely impacted with a year over year reduction of \$7.3 million, which was attributed to lower aircraft lease expense in the current quarter compared to the same period last year.

Government Services segment EBITDA of \$10.2 million increased by \$4.1 million year over year largely driven by an increase in revenues arising from the additional capital investment in the Alpha jet fleet over the last year but also due to the higher year over year revenues combined with cost reductions recorded at Hicks. The increased EBITDA attributed to Top Aces' incremental revenues associated with the expansion of the Alpha fleet were offset by increased amortization and interest costs related to the expansion of the fleet size. The segment's EBITDAR increased by \$4.1 million year over year as well.

### ***Interest Expense and Financing Transaction Costs***

Interest expense was \$3.8 million for the current quarter compared to \$3.2 million for the same period last year. The Corporation's interest expense was higher due to higher borrowing costs on its operating line of credit and some of its term debt.

Financing costs of \$0.8 million incurred in the first quarter were related largely to the Corporation's refinancing activities as well as one-time fees charged by its lenders that were transactional in nature.

### ***Amortization Expenses***

#### ***Amortization of buildings and equipment***

Amortization of building and equipment expense was \$2.3 million for the current quarter compared to \$2.1 million for the same period last year. The increase in amortization year over year is primarily attributable to the increase in the Top Aces Alpha jet fleet.

#### ***Amortization of intangible assets***

Amortization of intangible assets expense was \$1.1 million for the current quarter, compared to \$1.1 million for the same period last year. This expense arises from the amortization of certain identifiable intangible assets, such customer relationships, recognized upon the acquisition of a business.

## ***Income Taxes***

Income taxes expense was \$3.3 million for the current quarter compared to income tax expense of \$4.1 million for the same period last year. The Corporation's statutory rate for the quarter was approximately 31%, compared to approximately 31% for the same period last year. The decline in income taxes expense in the current quarter compared to the comparative period last year was largely attributed to lower taxable net earnings.

## ***Results of operations for the comparative six months ended July 31, 2009 and 2008***

### ***Revenue and Hours Flown***

Revenues were \$71.3 million year-to-date, compared to \$89.8 million for the same period last year, representing an \$18.5 million or 21% year over year decrease. Hours flown year-to-date were 24,490 compared to 40,250 for the same period last year, representing a 15,760 hour or 39% decrease in year over year flight hours. As noted in the quarterly results, revenues and flight hours were negatively impacted by reduced resource sector activity, particularly in the mining exploration and oil and gas sectors and from lower overall forest fire activity in the most recent quarter due to cool and wet weather conditions in the regions serviced by the Corporation's operations. This negative variance in hours and revenues were offset by positive variances in some of the Corporation's other businesses. The decline in revenues in relation to flight hours was less severe due to the same factors that affected quarterly results.

The Northern Services segment generated revenues of \$38.0 million on 18,858 flight hours year-to-date, compared to revenues of \$65.1 million on 35,741 flight hours for the same period last year. The \$27.1 million or 42% decline in revenues and 16,883 or 47% decline in flight hours were attributable to the weak demand for services from the resource industry sector and weaker forest fire activity. Revenues declined at a lower rate than flight hours due to a more favourable mix of hours by aircraft type. Year-to-date revenues from the mining exploration and oil & gas sectors were lower by 77% and 55%, respectively, while revenues from forest fire activity were lower by 23% compared to the prior period last year. While all of the businesses in the segment were affected by the downturn, the largest impact was felt in the segment's helicopters operations.

The Government Services segment generated revenues of \$33.2 million on 5,632 flight hours year-to-date compared to revenues of \$24.7 million on 4,509 flight hours for the same period last year. The 34% increase in revenues and 25% increase in flight hours was largely attributable to Top Aces' ability to produce higher revenues from the increased capacity in its Alpha jet fleet. While the level of forest fire activity in the current and prior two years was weaker than what would be expected in a normal year, Hicks contributed to higher year over year revenues as well. An increase in basing fees and strong forest fire activity in the month of June led to higher year over year revenue being booked at Hicks for the recent quarter. However, very low levels of fire activity in the month of July led to revenue levels for the quarter being much lower than expected for a normal fire season based on historical averages.

### ***Operating Expenses***

Operating expenses were \$50.3 million year-to-date, compared to \$67.9 million for the same period last year, representing a \$17.6 million or 26% decline in year over year operating expenses. The Corporation's crew costs, maintenance costs, aircraft lease costs and fuel costs combined represent 64% of year-to-date total operating costs, and were lower by 23%, 38%, 47% and 49% respectively compared to the same period last year. The lower crew, fleet and fuel costs correspond with the lower flight activity and revenues generated year-to-date. The Corporation's general and administrative expenses represented 25% of year-to-date total operating expenses and were 10% lower than the same period last year, due in large part to cost reductions in the Northern Services segment business.

The Northern Services segment's operating expenses year-to-date were \$30.2 million, compared to \$49.9 million for the same period last year, representing a \$19.7 million or 39% decline in year over year operating expenses. As noted in the quarterly results, a portion of the cost reduction would be expected in relation to the lower revenues; however, the segment was able to reduce some of its infrastructure related fixed costs by realigning in anticipation of weaker demand in some of its businesses. The inherent lack of forward visibility on the segment's forest fire suppression activity creates an additional challenge for management in determining the appropriate level of infrastructure required to support the business during the peak season.

The Government Services segment's operating expenses year-to-date were \$17.5 million compared to \$14.9 million for the same period last year, representing a 17% increase in year over year operating expenses. The increase in operating costs resulted from the increase in activity at Top Aces offset by reduced operating cost levels at Hicks.

Corporate Services incurred \$2.6 million in operating expenses year-to-date compared to \$3.0 million for the same period last year. The current year-to-date operating expenses excludes the \$1.5 million relocation cost incurred to date.

### ***EBITDA, EBITDAR, Adjusted EBITDA and Adjusted EBITDAR (see Non-GAAP Measures)***

EBITDA was \$19.5 million and Adjusted EBITDA was \$21.0 million year-to-date, compared to \$21.9 million for the same period last year. EBITDA margin year-to-date was 27% compared to 24% for the same period last year. The Adjusted EBITDA margin was 29% year-to-date compared to 24% for the same period last year. The improvement in the year-to-date margins reflects the improvement in year-to-date performance in the Government Services segment. On a year-to-date basis, EBITDA margins were lower for the Northern Segment as the segment was more severely impacted by the downturn in the first quarter than the second quarter. Since it took time to adjust cost levels, greater benefits from the cost cutting initiatives were realized in the second quarter versus the first quarter. EBITDAR was \$23.2 million and Adjusted EBITDAR was \$24.7 million year-to-date, compared to \$29.1 million for both in the same period last year.

EBITDA of \$7.8 million for the Northern Services segment was reduced by \$7.4 million year over year largely due to a \$27.1 million reduction in revenues. The impact of lower revenues on the year-to-date EBITDA was more pronounced than the quarterly results in part due to the seasonality of the segment's business where the year-to-date result captures the first quarter low revenue and cost to ramp up for the peak season cycle. The contrast in the quarterly and year-to-date EBITDA results also reflect the lag time for adjustments such as cost cutting measures to take hold in relation to the dramatic change in the business climate. The impact of the downturn was more dramatic on first quarter results than second quarter results. The year-to-date EBITDAR had a large unfavourable variance of \$10.7 million versus the previous year. The larger variance in EBITDAR versus EBITDA highlights the benefit of lower lease costs year over year.

Government Services segment EBITDA of \$15.7 million increased by \$5.9 million year over year due to an increase in revenues arising from the additional capital investment in the Alpha jet fleet over the last year, and higher revenues combined with reduced cost levels at Hicks. The segment's EBITDAR increased by \$6.0 million year over year.

The reduced level of operating expense in the Corporate Services segment also contributed to the improvement in the level of Adjusted EBITDA.

### ***Interest Expense and Financing Transaction Costs***

Interest expense was \$7.3 million year-to-date, compared to \$6.2 million for the same period last year. The Corporation's interest expense was higher due to higher borrowing costs on its operating line of credit and some of its term debt as well as expensing a portion of the deferred financing charges related to the term debt repayment of \$2.8 million in the current year related to the revolving term loan. The Corporation uses the effective interest rate method to account for transaction costs on its term loan financings.

The Corporation incurred non-recurring costs associated with its financing activities that it expensed in the first quarter. These financing transaction costs totaled \$0.8 million and were classified as financing transaction costs in the Corporation's statement of loss and comprehensive loss. A large portion of these costs relate to the transaction costs and fees associated with arranging the new operating line of credit.

### ***Amortization Expenses***

#### ***Amortization of buildings and equipment***

Amortization of building and equipment expense was \$4.6 million year-to-date, compared to \$4.1 million for the same period last year. The increase in amortization year over year is primarily attributable to the increase in the Top Aces Alpha jet fleet.

#### ***Amortization of intangible assets***

Amortization of intangible assets expense was \$2.2 million year-to-date, compared to \$2.2 million for the same period last year.

### ***Income Taxes***

Income tax expense was \$1.5 million year-to-date, compared to income tax expense of \$3.0 million for the same period last year. The Corporation's statutory rate year-to-date was approximately 31%, compared to approximately 31% for the same period last year. The decline in income taxes expense in the current year-to-date compared to the comparative period last year was largely attributed to lower taxable net earnings.



## Liquidity and Financial Resources

The following schedule summarizes the movement in cash flow components for the comparative quarters and year-to-date:

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Cash provided by (used in):				
Operating activities	\$ 9,177	\$ 6,396	\$ (2,742)	\$ (3,286)
Investing activities	(1,314)	(5,232)	(5,785)	(14,952)
Financing activities	(7,947)	(3,276)	4,620	12,665
Decrease in cash for the period	\$ (84)	\$ (2,112)	\$ (3,907)	\$ (5,573)

The cash position at July 31, 2009 decreased by \$3.9 million compared to the cash position at January 31, 2009. This is largely due to the seasonal working capital demands of the Corporation's operating companies which are at their highest point during the second and third quarters. The decrease in cash was not as high as the comparative period last year due to factors that are discussed below.

### Operating activities

The current quarter's operating activities generated a net cash inflow of \$9.2 million compared to net cash inflow of \$6.4 million for the same period last year. The improvement largely arose from less investment required in non-cash working capital. Non-cash working capital investment was lower due to the lower level of operating activity and general heightened monitoring of working capital and cash management in response to the weakened economic environment and a higher cost of short term debt. The level of accounts receivable reduced dramatically year over year due to the reduced volume of business. The quarter also benefited from the release of \$1.4 million in restricted cash. Year-to-date operating activities resulted in a net cash outflow of \$2.7 million compared to net cash outflow of \$3.3 million for the same period last year. The reduction in investment in non-cash working capital was more dramatic but this was offset by lower cash generated by earnings year-to-date. Consistent with the quarter's activity, dramatically less cash had to be invested in accounts receivable due to the reduction in activity level as well as improved working capital management. Cash in the six month period was also negatively impacted by the \$1.5 million increase in restricted cash that was required. The restricted cash balance arose as a result of the current operating line of credit which does not provide for the availability of certain contingent exposures such as letters of credit. These contingent exposures must be cash collateralized by the Corporation.

### Investing activities

The net cash outlays from investing activities for the current quarter and year-to-date were \$1.3 million and \$5.8 million respectively compared to \$5.2 million and \$15.0 million respectively for the same period last year. In the prior year, in addition to expenditures to sustain existing capital and capitalized aircraft overhaul costs, the Corporation made growth investments to expand the fleet at Great Slave, Air Tindi and Top Aces. In the current year, the investing activities relate to completion of the Top Aces fleet expansion program that was initiated last year and capitalized aircraft overhaul costs. As at July 31, 2009, the Corporation's remaining fleet purchase commitments related to the Alpha jet program totaled \$1.7 million. Other than aircraft overhaul costs related to the Corporation's existing fleet and completion of the Alpha jet purchase program, the Corporation does not expect any significant expenditures for capital assets in the current year.

### Financing activities

The Corporation obtained new long-term loans totaling \$36.3 million during the first quarter of the current year, which was comprised of a \$34.0 term loan to replace a \$33.0 term loan which matured in February 2009, and \$2.3 million of financing related to the Alpha jet program. No additional long term financing was obtained in the second quarter. The comparative period reflects new debt of \$0.8 million and \$10.7 million for the quarter and year-to-date which related to the financing of new aircraft and capital equipment outlined in the investing activities section above.

The Corporation had an outstanding balance of \$8.7 million on its operating line of credit as at July 31, 2009. 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 quarter to fund the start up costs leading into the summer months as well as to fund the build-up in accounts receivable. In the comparative period the Corporation drew and had an outstanding balance of \$5.3 million. Netting cash and restricted cash against the outstanding operating line of credit results in a net line of credit balance of

\$4.3 million compared to a net line of credit balance of \$7.1 million at the same time last year. The lower net line of credit balance in the current period compared to the prior period is attributed to lower business activity in the current year-to-date and improved working capital management.

The Corporation made principal repayments totaling \$38.7 million year-to-date, of which \$33.0 million related to the repayment of the term loan that matured in February 2009 and \$2.8 million related to one-time reductions in fleet revolving term debt. The balance of the repayments relates to scheduled term loan repayments. In the prior year the Corporation made principal repayments totaling \$3.3 million, all of which were regularly scheduled term debt repayments.

#### *Working capital and cash position*

The Corporation had a positive working capital position of \$23.9 million at July 31, 2009 compared to a positive working capital position of \$18.2 million as at January 31, 2009. Given the seasonal nature of the Corporation's businesses, a more meaningful comparison would be of the working capital positions as at July 31, 2009 and July 31, 2008. The Corporation's \$23.9 million positive working capital position as at July 31, 2009 compared to a negative position of \$5.7 million as at July 31, 2008, which translates into a current ratio of 1.8 as at July 31, 2009 compared to 0.9 as at July 31, 2008. The improved working capital balance and current ratio from July 31, 2008 was due to the refinancing of the \$33.0 million term loan that came due in February 2009, which resulted in a reclassification of the related debt from current as at July 31, 2008 to long term as at July 31, 2009. If the current portion of long-term debt for the quarter ended July 31, 2008 is adjusted to exclude the \$33.0 million maturing debt, the adjusted comparative working capital and current ratio positions are \$27.3 million and 1.8 respectively.

The working capital position of the Corporation, with the prior year adjusted for the impact of the \$33.0 million maturing term debt, has been impacted by a decrease in year-to-date earnings (including the non-recurring corporate office relocation costs), capital expenditures, and the financing of term debt repayments out of working capital. The Corporation is aware of the following balance sheet conditions, income items or cash flow items that could materially impact liquidity in the current year:

- the impact that continuing weak market conditions could have on the business activities of the Corporation's Northern Services segment;
- possible increases in expenditures caused by capital expenditures related to fleet maintenance that are higher than expected; and
- the ability to control operating costs and overheads.

While the Corporation currently believes it has sufficient working capital to meet its current and future operating requirements based on its existing working capital position, cash expected to be generated from future operations, and the operating credit facilities it recently put in place, this could change depending on changes in business, economic or operating conditions that may impact on the Corporation in the future. The Corporation's management continues to actively monitor and manage external factors that could adversely impact the Corporation's working capital.

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 its revenue and cash flow patterns. Except as noted above, the Corporation does not expect any significant changes to its working capital requirements for the remainder of the current fiscal year. Any significant non-maintenance related capital expenditures are assessed to ensure reasonable support exists to match the capital expenditure to projected revenues or cost saving generated from the transaction. Given the current economic outlook, the Corporation intends to focus on ensuring adequate funding exists for its current operations and, unless the underlying economics of a new business opportunity are very compelling, minimize any capital intensive expansion until the economy and capital markets support active growth again. The Corporation also continues to look for ways to conduct its businesses more efficiently and reduce costs.

#### *Debt financing*

On July 24, 2009, as a result of the annual borrowing base reset by the lender, the Corporation's available borrowing base on its five-year revolving long-term debt agreement was adjusted from \$50.0 million, set on April 24, 2009, to \$49.8 million, which is also the balance the Corporation has drawn on this facility as at July 31, 2009. Also effective on this date were the following amendments to the facility:

- A change in the interest rate base to a 90 day Bankers Acceptance yield (subject to a floor rate of 0.25%) plus 8.25% per annum.
- Ten monthly principal repayments of USD \$83 in addition to scheduled monthly interest payments commencing September 2009.

- The agreement allows the lender on each anniversary date (July 24th) the option to convert the revolving term facility to an amortizing debt with the principal balance at the time amortized over a 102 month period on a blended repayment basis at which time the revolving feature of the debt would be terminated. Should the lender choose to exercise its option to convert the revolving term loan to an amortizing loan, the maturity date of the credit facility would remain unchanged.

Provided 90-day Bankers Acceptance yields do not change materially, the change in the interest rate structure will not have a material impact on the Corporation's interest expense. The ten additional principal payments required by the lender have been included in the current portion of long-term debt.

### **Updated Share Information**

At September 9, 2009, there were 134,461,555 Class A common shares outstanding and 742,604 Class B common shares outstanding. At the same date, there were 6,594,100 common share options outstanding.

### **Critical Accounting Estimates**

The management's discussion and analysis for the year ended January 31, 2009 includes a description of critical accounting estimates on page 22. As at July 31, 2009, critical accounting estimates have not changed significantly from the description provided in the year end management's discussion and analysis except for the estimate of cost associated with the relocation of the Corporation's corporate office. The relocation of corporate office costs include estimates related to the accrual of termination benefits.

### **Recently Adopted Standards**

#### **Goodwill and Intangible Assets**

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

### **Future Changes in Accounting Policies**

#### **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 standards 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 and 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.

#### **Financial Instruments**

Handbook Section 3862, *Financial Instruments – Disclosures* was amended in June 2009 to improve disclosure requirements around fair value measurement for financial instruments, including the relative reliability of the inputs used in those measurements, and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments to Section 3862 apply for

annual financial statements for fiscal years ending after September 30, 2009, with early adoption permitted. The Corporation is assessing the potential impact of the amendments to this standard.

### *International Financial Reporting Standards ("IFRS")*

In February 2008, the CICA Accounting Standards Board announced that Canadian publicly accountable enterprises will be required to adopt IFRS effective 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 has commenced the process of assessing the impact of the implementation of IFRS on its accounting policies and financial statements. IFRS allows for different accounting treatments on first implementing IFRS and management will be evaluating its alternatives as part of the implementation process. Management will also be 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.

### *Non-GAAP Measures*

References to "EBITDA" are to earnings before interest, financing transaction costs, income taxes, depreciation and amortization (except for amortization of rotatable and overhauled components which are treated as operating expenses), goodwill and intangible asset impairment charge, and non-controlling interest. As is common in the industry, the Corporation uses EBITDA as a supplemental financial measure of its operational performance. "EBITDAR" is EBITDA before aircraft lease cost. 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 rather than the performance of the Corporation's day-to-day operations. Management believes the measurements are useful to measure a company's ability to service debt and to meet other payment obligations or as valuation measurements. EBITDA margin is the level of EBITDA expressed as a percentage of revenues.

"Adjusted EBITDA" is EBITDA before the relocation of corporate office charge. "Adjusted EBITDAR" is EBITDAR before the relocation of corporate office charge. The relocation of corporate office charge is a financial obligation that arose as a result of a condition of a term loan transaction as completed in the current quarter. Given the non-recurring nature of these costs, the Corporation is of the view that Adjusted EBITDA and Adjusted EBITDAR provide a more meaningful comparison of year over year results. The following is a reconciliation of earnings before non-controlling interest to EBITDA, EBITDAR, Adjusted EBITDA, and Adjusted EBITDAR. Adjusted EBITDA margin is the level of Adjusted EBITDA expressed as a percentage of revenues.

	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>	<b>July 31</b>
(thousands of dollars)	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net earnings and comprehensive income	\$ 8,004	\$ 8,869	\$ 2,883	\$ 6,169
Income taxes provision	3,342	4,136	1,504	2,972
Interest expense	3,824	3,186	7,323	6,211
Amortization	3,405	3,214	6,803	6,331
Financing transaction costs	-	-	830	-
Non-controlling interest	256	216	153	253
<b>EBITDA</b>	<b>\$ 18,831</b>	<b>\$ 19,621</b>	<b>\$ 19,496</b>	<b>\$ 21,936</b>
Aircraft lease expenses	2,398	4,801	3,751	7,143
<b>EBITDAR</b>	<b>\$ 21,229</b>	<b>\$ 24,422</b>	<b>\$ 23,247</b>	<b>\$ 29,079</b>
EBITDA	\$ 18,831	\$ 19,621	\$ 19,496	\$ 21,936
Relocation of Corporate office costs	\$ 318	\$ -	\$ 1,491	\$ -
Adjusted EBITDA	\$ 19,149	\$ 19,621	\$ 20,987	\$ 21,936
Aircraft lease expenses	\$ 2,398	\$ 4,801	\$ 3,751	\$ 7,143
<b>Adjusted EBITDAR</b>	<b>\$ 21,547</b>	<b>\$ 24,422</b>	<b>\$ 24,738</b>	<b>\$ 29,079</b>

“Adjusted earnings” is earnings adjusted for impairment of goodwill and intangible assets, relocation of corporate office charge and related income taxes expense (recovery). Management believes Adjusted earnings is a meaningful supplemental financial measure as these charges are considered non-recurring and their exclusion provides a more relevant comparison of year over year loss. The following is a reconciliation of Adjusted earnings:

(thousands of dollars)	<i>for the three months ended</i>		<i>for the six months ended</i>	
	<b>July 31 2009</b>	<b>July 31 2008</b>	<b>July 31 2009</b>	<b>July 31 2008</b>
Net earnings and comprehensive income	\$ 8,004	\$ 8,869	\$ 2,883	\$ 6,169
Relocation of corporate office	318	-	1,491	-
Income taxes provision related to relocation of corporate office	93	-	438	-
<b>Adjusted earnings</b>	<b>\$ 8,229</b>	<b>\$ 8,869</b>	<b>\$ 3,936</b>	<b>\$ 6,169</b>

## **SEGMENTED INFORMATION**

The Corporation has two reportable business segments: Northern Services and Government Services. These segments are differentiated by the market in which the Corporation’s aviation and related services operate. The Northern Services segment is represented by Great Slave, Air Tindi and Discovery Mining and the Government Services segment is represented by Top Aces and Hicks. The Northern Services segment’s primary market is Northern Canada. This segment has a wide customer base servicing companies 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 niche services primarily aimed at government entities. All other 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, 2009</i>				<i>for the three months ended July 31, 2008</i>			
	<b>Northern Services</b>	<b>Government Services</b>	<b>Corporate Support</b>	<b>Total</b>	<b>Northern Services</b>	<b>Government Services</b>	<b>Corporate Support</b>	<b>Total</b>
<b>Revenue</b>	<b>\$ 26,375</b>	<b>\$ 19,330</b>	<b>\$ 28</b>	<b>\$ 45,733</b>	<b>\$ 44,572</b>	<b>\$ 14,478</b>	<b>\$ -</b>	<b>\$ 59,050</b>
Operating expenses	16,267	9,111	1,206	26,584	29,528	8,346	1,555	39,429
Relocation of corporate office	-	-	318	318	-	-	-	-
Amortization	2,250	1,142	13	3,405	2,188	1,008	18	3,214
Earnings (loss) from operations								
before undernoted items	7,858	9,077	(1,509)	15,426	12,856	5,124	(1,573)	16,407
Interest expense				3,824				3,186
Financing transaction costs				-				-
Income taxes provision				3,342				4,136
Non-controlling interest				256				216
<b>Net earnings and comprehensive income</b>				<b>8,004</b>				<b>8,869</b>
<b>Capital expenditures</b>	<b>\$ 1,481</b>	<b>\$ 1,360</b>	<b>\$ 7</b>	<b>\$ 2,848</b>	<b>\$ 4,107</b>	<b>\$ 1,927</b>	<b>\$ 28</b>	<b>\$ 6,062</b>



(thousands of dollars)	<i>for the six months ended July 31, 2009</i>				<i>for the six months ended July 31, 2008</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
<b>Revenue</b>	\$ 38,042	\$ 33,227	\$ 30	\$ 71,299	\$ 65,113	\$ 24,684	\$ 7	\$ 89,804
Operating expenses	30,216	17,525	2,571	50,312	49,936	14,915	3,017	67,868
Relocation of corporate office	-	-	1,491	1,491	-	-	-	-
Amortization	4,522	2,255	26	6,803	4,274	2,023	34	6,331
Earnings (loss) from operations								
before undernoted items	3,304	13,447	(4,058)	12,693	10,903	7,746	(3,044)	15,605
Interest expense				7,323				6,211
Financing transaction costs				830				-
Income taxes provision				1,504				2,972
Non-controlling interest				153				253
<b>Net earnings and comprehensive income</b>				<b>2,883</b>				<b>6,169</b>
<b>Capital expenditures</b>	\$ 4,017	\$ 3,371	\$ 7	\$ 7,395	\$ 12,200	\$ 3,745	\$ 44	\$ 15,989

	<i>As at July 31, 2009</i>				<i>As at January 31, 2009</i>			
	Total assets	Goodwill	Intangible assets		Total assets	Goodwill	Intangible assets	
<b>Total assets</b>	\$ 153,747	\$ 113,708	\$ 1,617	\$ 269,072	\$ 145,699	\$ 111,960	\$ 2,367	\$ 260,026
<b>Goodwill</b>	\$ -	\$ 37,862	\$ -	\$ 37,862	\$ -	\$ 37,862	\$ -	\$ 37,862
<b>Intangible assets</b>	\$ 11,151	\$ 14,680	\$ -	\$ 25,831	\$ 12,225	\$ 15,838	\$ -	\$ 28,063

## Segmented breakdown of EBITDA and EBITDAR

(thousands of dollars)	<i>for the three months ended July 31, 2009</i>				<i>for the three months ended July 31, 2008</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 26,375	\$ 19,330	\$ 28	\$ 45,733	\$ 44,572	\$ 14,478	\$ -	\$ 59,050
Operating expenses	16,267	9,111	1,206	26,584	29,528	8,346	1,555	39,429
Relocation of corporate office	-	-	318	318	-	-	-	-
<b>EBITDA</b>	\$ 10,108	\$ 10,219	\$ (1,496)	\$ 18,831	\$ 15,044	\$ 6,132	\$ (1,555)	\$ 19,621
Aircraft lease expenses	2,109	289	-	2,398	4,476	325	-	4,801
<b>EBITDAR</b>	\$ 12,217	\$ 10,508	\$ (1,496)	\$ 21,229	\$ 19,520	\$ 6,457	\$ (1,555)	\$ 24,422
Adjusted EBITDA	\$ 10,108	\$ 10,219	\$ (1,178)	\$ 19,149	\$ 15,044	\$ 6,132	\$ (1,555)	\$ 19,621
Adjusted EBITDAR	12,217	10,508	(1,178)	21,547	19,520	6,457	(1,555)	24,422

(thousands of dollars)	<i>for the six months ended July 31, 2009</i>				<i>for the six months ended July 31, 2008</i>			
	Northern Services	Government Services	Corporate Support	Total	Northern Services	Government Services	Corporate Support	Total
Revenue	\$ 38,042	\$ 33,227	\$ 30	\$ 71,299	\$ 65,113	\$ 24,684	\$ 7	\$ 89,804
Operating expenses	30,216	17,525	2,571	50,312	49,936	14,915	3,017	67,868
Relocation of corporate office	-	-	1,491	1,491	-	-	-	-
<b>EBITDA</b>	\$ 7,826	\$ 15,702	\$ (4,032)	\$ 19,496	\$ 15,177	\$ 9,769	\$ (3,010)	\$ 21,936
Aircraft lease expenses	3,144	607	-	3,751	6,568	575	-	7,143
<b>EBITDAR</b>	\$ 10,970	\$ 16,309	\$ (4,032)	\$ 23,247	\$ 21,745	\$ 10,344	\$ (3,010)	\$ 29,079
Adjusted EBITDA	\$ 7,826	\$ 15,702	\$ (2,541)	\$ 20,987	\$ 15,177	\$ 9,769	\$ (3,010)	\$ 21,936
Adjusted EBITDAR	10,970	16,309	(2,541)	24,738	21,745	10,344	(3,010)	29,079

## SUMMARY OF QUARTERLY RESULTS

(thousands of dollars except per share amounts)

	2010		2009				2008		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Results of operations:</b>									
Total revenue	\$ 45,733	\$ 25,566	\$ 19,590	\$ 42,536	\$ 59,050	\$ 30,754	\$ 20,161	\$ 42,789	\$ 44,258
Operating expenses	26,584	23,728	23,578	32,042	39,429	28,439	24,345	28,077	25,530
Relocation of corporate office	318	1,173	-	-	-	-	-	-	-
EBITDA	18,831	665	(3,988)	10,494	19,621	2,315	(4,184)	14,712	18,728
Amortization	3,405	3,398	3,325	3,309	3,214	3,117	3,047	2,590	1,432
Non-amortized finance fees	-	830	-	-	-	-	-	-	-
Interest expense	3,824	3,499	2,944	3,151	3,186	3,025	3,473	2,771	2,127
Goodwill and intangible assets impairment charge	-	-	133,579	-	-	-	-	-	-
Earnings (loss) before income taxes and non-controlling interest	11,602	(7,062)	(143,836)	4,034	13,221	(3,827)	(10,704)	9,351	15,169
Income taxes provision (recovery)	3,342	(1,838)	(4,714)	1,322	4,136	(1,164)	(5,849)	3,327	4,965
Non-controlling interest	256	(103)	17	67	216	37	24	122	147
Net earnings (loss)	<u>\$ 8,004</u>	<u>\$ (5,121)</u>	<u>\$(139,139)</u>	<u>\$ 2,645</u>	<u>\$ 8,869</u>	<u>\$ (2,700)</u>	<u>\$ (4,879)</u>	<u>\$ 5,902</u>	<u>\$ 10,057</u>
Earnings (loss) per share									
-basic	\$ 0.06	\$ (0.04)	\$ (1.03)	\$ 0.02	\$ 0.07	\$ (0.02)	\$ (0.04)	\$ 0.05	\$ 0.09
-diluted	\$ 0.06	\$ (0.04)	\$ (1.03)	\$ 0.02	\$ 0.07	\$ (0.02)	\$ (0.04)	\$ 0.05	\$ 0.09

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

## RISK FACTORS

The Corporation is subject to a number of risks and uncertainties and is affected by a number of factors outside of 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, 2009, which can be found on SEDAR at [www.sedar.com](http://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 to ensure 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, 2009 and have concluded that those disclosure controls and procedures were effective.

The CEO and the CFO are responsible for the design of internal controls over financial reporting ("ICFR"), or causing them to be designed under their supervision, to provide reasonable assurance regarding the reliability of the Corporation's financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with Canadian generally accepted accounting principles. The control framework that has been used is the COSO framework. The Corporation's CEO and CFO have evaluated whether there were changes to the Corporation's ICFR as at July 31, 2009. There were no changes in the Corporation's 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 of 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 its business; its strategy and strengths; the impact of the current economic downturn on the results of its operations and/or financial condition; management's ability to reduce costs and/or contain them at the existing levels; management's ability to continue to manage working capital more effectively; the impact of weather conditions on the results as of its 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, plans and/or requirements to make new capital investments;

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](http://www.sedar.com).

**Dated: September 9, 2009**