
AEROQUEST INTERNATIONAL



MANAGEMENT'S DISCUSSION & ANALYSIS

FOR THE PERIOD ENDING JULY 31, 2007

Management's Discussion and Analysis (MD&A) is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. It explains trends in our financial condition and results of our operations for the quarter ended July 31, 2007 compared with our operating results for the corresponding periods ended July 31, 2006. It also compares our balance sheet as at July 31, 2007 to our balance sheet as at April 30, 2007. This MD&A should be read in conjunction with our interim consolidated financial statements for July 31, 2007.

The consolidated financial statements presented here are those of the Aeroquest Group of Companies; Aeroquest International Limited and its wholly owned subsidiaries Aeroquest Limited, Universal Tracking Systems Pty Ltd., and Aeroquest (UK) Limited, with all significant inter-company balances having been eliminated on consolidation.

Additional information relating to our company is available on our website at www.aeroquest.ca and on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of a company's future prospects and make informed investment decisions. Statements that are not historical fact and are based on current expectations, estimates, and assumptions are forward-looking statements.

This MD&A contains forward-looking statements about our business. Inherent in these statements are known and unknown risks, uncertainties, and other factors that may cause the results, performance, or achievements of our company to differ materially from those expressed or implied by such statements. Such factors include, among others, general economic and business conditions, major technology changes, timing of product introductions, competition, and our ability to attract and retain key employees.

OVERVIEW

AEROQUEST'S BUSINESS

We are a world leader in the development and operation of innovative and proprietary airborne geophysical surveying platforms servicing the mineral exploration, petroleum, and

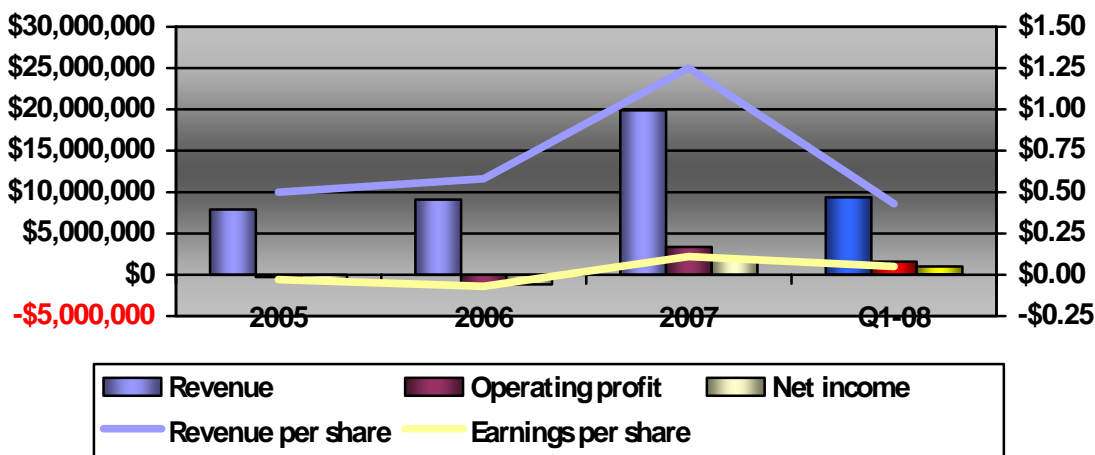
environmental industries. We use two separate delivery platforms, helicopter and fixed wing, and specialize in magnetic, radiometric and electro-magnetic (M/EM) surveys.

We operate a number of helicopter-based, time-domain, sometimes called transient, electromagnetic (TEM) systems on platforms ranging from 5 metres to 12 metres in diameter, delivered under the trade-name AeroTEM™. We also supply helicopter-based geophysical surveying platforms based on frequency domain electromagnetics (trade-name Impulse™), total field magnetics, magnetic gradient, and radiometrics.

We also operate a number of fixed wing systems, through our subsidiary company UTS. UTS offers ultra high resolution airborne magnetic and radiometric surveys as well as traditional regional magnetic and gravimetric surveys.

Over the past three years, we have been steadily building our fleet of airborne surveys and expanding our presence into continents such as Europe, Africa, Asia and Australia.

THREE YEAR GROWTH SUMMARY



We measure and monitor our success in growing revenue and net income on a per share basis, and are committed to try to deliver consistent growth in per share revenue and net income.

BUSINESS STRATEGY

There are five components to our business strategy:

1. Expand the number of systems in our fleet
2. Expand internationally
3. Expand our capabilities in other geophysical survey technologies, such as frequency domain electro-magnetics (FDEM) and fixed wing magnetics, radiometrics and gravity
4. Find new markets and applications of our airborne geophysical technologies, such as petroleum services and environmental engineering, and
5. Use industry-leading research capability to explore other applications of our airborne geophysical technologies.

FINANCIAL AND OPERATING SUMMARY

(Financials in 000's except /share data)

| | Q1-08 | Q4-07 | Q3-07 | Q2-07 | Q1-07 | Q4-06 | Q3-06 | Q2-06 |
|---|-----------|----------|----------|----------|----------|-----------|-----------|-----------|
| Revenue | \$ 9,355 | \$ 5,937 | \$ 4,098 | \$ 5,388 | \$ 4,765 | \$ 2,434 | \$ 1,794 | \$ 2,307 |
| Operating profit | \$ 1,658 | \$ 782 | \$ 412 | \$ 1,580 | \$ 719 | \$ (331) | \$ (56) | \$ (272) |
| Net income | \$ 938 | \$ 321 | \$ 210 | \$ 945 | \$ 564 | \$ (399) | \$ (35) | \$ (322) |
| Weighted average common shares | 21,538 | 15,787 | 15,838 | 15,838 | 15,840 | 15,840 | 15,840 | 15,840 |
| Earnings per share (basic) | \$ 0.04 | \$ 0.02 | \$ 0.01 | \$ 0.06 | \$ 0.04 | \$ (0.03) | \$ (0.00) | \$ (0.02) |
| Systems available for use at period end * | 20 | 9 | 9 | 9 | 8 | 7 | 7 | 7 |
| Fixed-wing systems | 10 | | | | | | | |
| Helicopter systems | 10 | 9 | 9 | 9 | 8 | 7 | 7 | 7 |
| AeroTEM systems included in above | 7 | 6 | 6 | 6 | 5 | 4 | 4 | 4 |
| Line kilometres flown during period | | | | | | | | |
| Helicopter systems | 51,100 | 44,800 | 25,600 | 45,500 | 49,000 | 16,900 | 12,950 | 18,700 |
| Fixed-wing systems | 158,000 | | | | | | | |
| Contract back-log (CAD\$ thousands) | | | | | | | | |
| Helicopter systems | \$ 12,000 | \$ 8,300 | \$ 3,500 | \$ 3,500 | \$ 4,700 | \$ 2,600 | | |
| Fixed-wing systems | \$ 11,000 | | | | | | | |

FIRST QUARTER 2008 OPERATING RESULTS

OVERVIEW AND HIGHLIGHTS

In the first quarter of 2008, we completed a significant step along the road to positioning our company for the long run. On July 3, 2007, we announced that we had closed the purchase of UTS Geophysics, first announced on May 1, 2007. This is a tremendously important step for us. Put simply, the combination of Aeroquest and UTS gives us the capability to offer any commercially established airborne geophysical survey technique to our clients, on any platform they wish to fly; anywhere in the world they want to go.

As consideration, we paid the shareholders of UTS:

- \$7.0 million of cash (net)
- 6.8 million common shares of Aeroquest, and
- \$3.35 million in the form of promissory notes.

Further details on the transaction are presented in the Notes to the Consolidated Financial Statements.

This report includes the results of UTS from the date of acquisition, or approximately one month of the quarter. In this report we have broken out Aeroquest and UTS results to the extent practical so that the activity of each business unit may be analyzed. To assist with clarity, we have chosen to refer to consolidated results as those of the Aeroquest Group of Companies, or simply the Aeroquest Group. Aeroquest on its own will refer to the results of Aeroquest International Limited, prior to the consolidation of UTS, and UTS results will refer to the results of UTS as though it were operating on a stand-alone basis. It is our hope that this will make it easier to see how each business contributes to the consolidated result.

The first quarter was a good one for the Aeroquest Group. Revenue growth continues at a very high rate for both Aeroquest and UTS; for example, Aeroquest's revenue grew by almost 54% over the level of the first quarter of last year and for the Aeroquest Group as a whole, revenue grew by over 96% over the first quarter of last year. We expect that both Aeroquest and UTS will continue to grow at very healthy rates through this year. Gross profit for both companies is in the range of that anticipated, given each company's sales level. And, general and administrative expenses, while up significantly over last year, were more than offset by increases in revenue and gross profit. As a result, the Aeroquest Group earned almost \$1 million, or \$0.04 per share, in the quarter.

REVENUE BY GEOGRAPHY

| (thousands of Canadian dollars) | Canada | Australia | RoW | Total | |
|--|----------|-----------|----------|----------|------|
| Aeroquest (helicopter-based) | \$ 5,877 | \$ - | \$ 1,454 | \$ 7,331 | 78% |
| UTS (fixed wing) | 452 | 1,064 | 508 | 2,024 | 22% |
| Total Revenue - Aeroquest Group | \$ 6,329 | \$ 1,064 | \$ 1,962 | \$ 9,355 | 100% |
| | 68% | 11% | 21% | 100% | |

CONSOLIDATED RESULTS

In the first quarter of 2008, Aeroquest Group revenue was \$9.4 million, up \$4.6 million or 96 per cent, compared to the same quarter last year. Revenue grew both organically (by \$2.6 million, or 54 per cent) and through acquisition (\$2.0 million). Acquisition-based revenue growth is as a result of the inclusion of UTS revenue from date of acquisition, July 3, 2007, a contribution of one month to the quarterly results. Organic revenue growth came from a combination of increased mobilization and standby charges, changes in the mix of systems flying, with more AeroTEM surveys being completed this year as compared to the same period last year, and an increase in the average per line kilometer rate charged on surveys.

REVENUE & GROSS PROFIT

| (in thousands of Canadian dollars) | Three Months Ended | | Change from prior year | |
|------------------------------------|--------------------|-----------|------------------------|------|
| | 31-Jul-07 | 31-Jul-06 | | |
| Revenue | | | | |
| Helicopter | 7,331 | 4,765 | 2,566 | 54% |
| Fixed wing | 2,024 | - | 2,024 | |
| | 9,355 | 4,765 | 4,590 | 96% |
| Cost of sales | | | | |
| Helicopter | 4,103 | 2,800 | 1,303 | 47% |
| Fixed wing | 1,393 | - | 1,393 | |
| | 5,496 | 2,800 | 2,696 | 96% |
| Gross profit | 3,859 | 1,965 | 1,894 | 96% |
| Gross profit margin % | 41.3% | 41.2% | | 0.0% |

Cost of sales was \$5.5 million in the first quarter of 2008, or approximately 58 per cent of revenue. This compares to \$2.8 million in the same quarter last year representing 58 per cent of revenue in that quarter. Cost of sales as a percentage of revenue remained constant from first quarter of 2007 to first quarter of 2008.

The increase in sales and marginal improvement in cost of sales translated into a higher gross profit and a slightly higher gross profit margin percentage in the quarter. Gross profit was \$ 3.9 million or 41 per cent of revenue in the first quarter compared to \$ 2.0 million or 41 per cent in the same quarter last year.

CASH OPERATING COSTS

First quarter cash operating costs for the Aeroquest Group totaled \$1.50 million, up from \$0.92 million in the same quarter last year, an increase of \$0.59 million, or 64 per cent. This increase is primarily attributed to an increase in general and administrative costs which were up by \$ 0.58 million over the same quarter last year. The increase in general and administrative costs includes administrative costs of UTS from the date of purchase (\$0.13 million), a foreign exchange loss (\$0.13 million) and an increase in rent expense (\$0.04 million). The remaining increase reflects primarily an increase in personnel costs required to support the expanding business. The loss on foreign exchange arose primarily as a result of holding US dollar denominated accounts receivable as the Canadian dollar strengthened against the US dollar.

In the quarter, research and development expenditures were up modestly by 5 per cent over the same quarter last year and reflected a consistent application of resources in this area.

CASH OPERATING COSTS

| (in thousands of Canadian dollars) | Three Months Ended | | Change from prior year | |
|------------------------------------|--------------------|------------|------------------------|------------|
| | 31-Jul-07 | 31-Jul-06 | | |
| General & administrative expense | 1,340 | 759 | 581 | 77% |
| Research & development expense | 172 | 164 | 8 | 5% |
| Total cash operating costs | 1,512 | 923 | 589 | 64% |
| % of revenue | 16.2% | 19.4% | | (3.2%) |

OPERATING PROFIT

Our operating profit was \$1.66 million in the first quarter, an improvement of \$0.94 million, or 130 per cent from the operating profit of \$0.72 million in the same quarter last year. The increase in the operating profit was primarily attributable to the increase in sales and gross profit.

OPERATING PROFIT

| (in thousands of Canadian dollars) | Three Months Ended | | Change from | |
|------------------------------------|--------------------|------------|-------------|-------|
| | 31-Jul-07 | 31-Jul-06 | prior year | |
| Gross profit | 3,859 | 1,965 | 1,894 | 96% |
| Cash operating costs | 1,512 | 923 | 589 | 64% |
| Stock-based compensation expense | 7 | 124 | (117) | (94%) |
| Depreciation of capital assets | 324 | 168 | 156 | 93% |
| Amortization of intangible assets | 358 | 31 | 327 | 1055% |
| Operating profit | 1,658 | 719 | 939 | 131% |
| as a % of revenue | 18% | 15% | | 117% |

Depreciation and amortization charges totaled \$0.68 million in the quarter, a 242 per cent increase from the same quarter last year. The increase in depreciation of \$0.2 million is a result of the addition of over \$3.0 million of equipment from the acquisition of UTS. As well, depreciation is on an uptrend as we continue to build and deploy more AeroTEM systems. The increase in amortization of \$0.3 million relates to the acquisition of UTS and the amortization of the intangible assets.

Stock based compensation expense for the quarter decreased as no stock options or restricted stock units were granted in the period. The stock based compensation expense relates entirely to the amortization of previously granted restricted stock units over the three year vesting period.

NET INCOME

For the first quarter of 2008, other income totaled \$0.04 million, up from \$0.01 million in the same quarter last year, an increase of \$0.03 million. Increase was due to higher interest income earned on higher cash balances.

Our provision for income taxes in the quarter of 2008 was \$0.76 million compare to \$0.17 in the same quarter last year. The increase was result of higher income in the first quarter of 2008. Our apparent tax rate (the ratio of Provision for income taxes to the sum of Operating profit and other costs) rose from 23 per cent in the first quarter of last year to 45 per cent in this quarter, and is higher than the Company's blended statutory tax rate of 35 per cent. The high apparent tax rate is due to an increase in amortization expense related to the intangible assets acquired in the UTS transaction, which reduced operating profit. This intangible asset amortization does not give rise to a deduction for tax purposes so while reported operating profit is reduced; the provision for taxes is not. Prior to this effect, our provision for taxes would have yielded an apparent tax rate of 37 per cent, which is close to the Company's blended statutory tax rate.

As a result of all of the above factors, we recorded a net profit in the first quarter of 2008 of \$0.94 million, or \$0.04 per share compared to net profit of \$0.56 million, or \$0.04 per share same quarter last year.

NET INCOME

| | Three Months Ended | | Change from prior year | |
|------------------------------------|--------------------|------------|------------------------|------------|
| | 31-Jul-07 | 31-Jul-06 | | |
| (in thousands of Canadian dollars) | | | | |
| Operating profit | 1,658 | 719 | 939 | 131% |
| Other costs (income) | (39) | (11) | (28) | 255% |
| Provision for income taxes | 759 | 166 | 593 | 357% |
| Net income | 938 | 564 | 374 | 66% |
| Earnings per share - basic | \$ 0.04 | \$ 0.04 | \$ 0.01 | 22% |
| Apparent tax rate | 44.7% | 22.7% | 22.0% | 97% |

CASH FLOW

CASH FLOW FROM OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided \$1.6 million in the first quarter of 2008, an improvement of \$0.7 million from the first quarter of 2007. Operating cash flow improved because of the higher sales activity and a general increase in our operating margins.

CASH FLOW FROM OPERATING ACTIVITIES

| | Three Months Ended | | Change from prior year | |
|--|--------------------|--------------|------------------------|---------------|
| | 31-Jul-07 | 31-Jul-06 | | |
| (in thousands of Canadian dollars) | | | | |
| Net income | 938 | 564 | 374 | (66%) |
| Depreciation & amortization | 682 | 199 | 483 | 243% |
| Stock based compensation expense | 7 | 124 | (117) | (94%) |
| Future income taxes | - | - | - | |
| Operating cash flow | 1,627 | 887 | 740 | 83% |
| Change in non-cash working capital | 1,015 | 116 | 899 | (775%) |
| Cash flow from operating activities | 2,642 | 1,003 | 1,639 | (163%) |

Changes in non-cash working capital generated \$1.0 million in the first quarter, as compared to a \$0.1 million in the same quarter last year. The change in non-cash working capital is primarily a result of a significant increase in contracted work backlog at the end of the quarter, reflected somewhat as an increase in deferred revenue as well as the effects of the consolidation of UTS, which further increased deferred revenue and increased accounts payable and accruals, offset by an increase in accounts receivable.

CASH FLOW FROM INVESTING ACTIVITIES

Investment activities in the first quarter of 2008 used \$27.0 million of cash compare to \$0.46 million in the same quarter last year. The significant increase in the investment activities was due to the acquisition of UTS in the first quarter of 2008. The total consideration for the acquisition of UTS was \$28.1 million which included \$2.1 million of cash in UTS for a net purchase price of \$26 million.

CASH FLOW FROM INVESTING ACTIVITIES

| (in thousands of Canadian dollars) | Three Months Ended | | Change from prior year |
|--|--------------------|--------------|------------------------|
| | 31-Jul-07 | 31-Jul-06 | |
| Acquisition of capital assets | (980) | (465) | (515) (111%) |
| Acquisition, net of cash acquired | (26,013) | - | (26,013) |
| Cash flow from investing activities | (26,993) | (465) | (26,528) 5705% |

In the first quarter of 2008, capital expenditures, as a percentage of revenue, were unchanged at 10 percent. Acquisition of capital assets consumed \$0.98 million, as compared to \$0.46 million, in the same quarter last year. The bulk of capital was spent on manufacturing and maintaining our fleet of survey systems.

CASH FLOW FROM FINANCING ACTIVITIES

In the first quarter of 2008, financing activities consisted of issuing promissory notes for total consideration of \$3.4 million and proceeds from issuance of common shares of \$22.3 million. Each of these transactions was undertaken in connection with the acquisition of UTS. Capital lease payments account for \$0.02 million in the first quarter of 2008 and reflect payments made by UTS for the purchase of survey equipment.

CASH FLOW FROM FINANCING ACTIVITIES

| (in thousands of Canadian dollars) | Three Months Ended | | Change from prior year |
|--|--------------------|-----------|------------------------|
| | 31-Jul-07 | 31-Jul-06 | |
| Promissory notes | 3,355 | - | 3,355 |
| Capital lease payments | (24) | - | (24) |
| Proceeds from issuance of common shares | 22,288 | - | 22,288 |
| Cash flow from financing activities | 25,619 | - | 25,619 |

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity, as measured by cash balances, has increased by \$1.3 million from the start of the fiscal year. This improvement in liquidity is mainly due to increase in the higher sales in the first quarter together with the net effect of cash movements in connection with the UTS acquisition.

Cash and short-term investments are generally invested in liquid Canadian dollar, Australian dollar or U.S. dollar denominated securities with maturities no greater than ninety days.

FINANCIAL POSITION

At July 31, 2007, we had current assets of \$16.6 million and current liabilities of \$14.1 million. Net working capital was \$2.50 million, a decrease of \$1.70 million from April 30, 2007. This \$1.70 million change from the year-end April 30, 2007 is primarily due to the acquisition of UTS in the first quarter, but was also influenced by rising current liabilities from the change of revenue recognition policy in the first quarter and higher number of contracts in process within Aeroquest.

CASH & WORKING CAPITAL CHANGES

| (in thousands of Canadian dollars) | 31-Jul-07 | 30-Apr-07 | Change from year end | |
|------------------------------------|------------------|--------------|----------------------|--------------|
| Cash | \$5,974 | \$4,706 | \$1,268 | 27% |
| Non-cash current assets | 10,635 | 4,387 | 6,248 | 142% |
| Current assets | 16,609 | 9,093 | 7,516 | 83% |
| Less: Current liabilities | 14,116 | 4,891 | 9,225 | 189% |
| Net working capital | \$2,493 | \$4,202 | (\$1,709) | (41%) |
| Current ratio | 1.2 | 1.9 | (0.7) | (37%) |

TRANSACTIONS WITH RELATED PARTIES

During the quarter, we paid \$0.08 million to companies owned by certain directors for management consulting services. These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for services performed.

SHARE CAPITAL

As at the date of this report we had 27,265,273 Common Shares issued and outstanding.

As at the date of this report, Common Share stock options held by directors, officers, employees, consultants, and brokers are as follows:

| | Number of options | Exercise price | Expiry date |
|---|-------------------|----------------|------------------|
| Fully vested & exercisable options held by directors, officers, employees and consultants under the Company's Stock Option Plan | 77,500 | \$ 0.50 | October 28, 2009 |
| | 40,000 | \$ 2.00 | October 28, 2009 |
| | 5,000 | \$ 0.50 | March 1, 2010 |
| | 15,000 | \$ 2.00 | June 30, 2010 |
| | 27,500 | \$ 0.50 | June 30, 2010 |
| | 265,000 | \$ 0.50 | February 9, 2011 |
| | 50,000 | \$ 0.50 | March 28, 2011 |
| | 540,000 | \$ 0.60 | June 30, 2011 |
| | 30,000 | \$ 0.75 | October 3, 2011 |
| | 30,000 | \$ 0.75 | October 13, 2011 |
| | 15,000 | \$ 0.75 | October 16, 2011 |
| Total vested & exercisable under Stock Option Plan | 1,095,000 | \$ 0.64 | |

We have a Restricted Stock Unit (RSU) plan under which the directors of the Company may grant RSU units of the Company to qualified directors, officers, employees, and persons providing ongoing services to the Company. The strike price of these units will not be less than the market price of the common shares at the time of the grant. The units vest over a three year period with one third vesting in each of the three years on the anniversary date of the grant. A total of 120,000 units were granted to employees at an average price of \$0.75 per unit. There were no grants of stock options or restricted stock units in the first quarter of 2008.

In the second quarter of 2007, we received approval from the TSX for a normal course issuer bid whereby the Company was given the right to purchase up to 500,000 of its own common shares on the open market for cancellation. At July 31, 2007, we had purchased a total of 237,500 common shares of Aeroquest International Limited for cancellation with a total consideration of \$330,000. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS & PROCEDURES

We maintain a system of internal controls over financial reporting designed to safeguard assets and ensure that financial information is reliable. We also undertake ongoing evaluations of the effectiveness of our internal controls over financial reporting and, where appropriate, implement enhancements. We also file annual and quarterly certifications in accordance with Multilateral Instrument 52-109 certifying that our CEO and CFO have reviewed our financial statements and MD&A to ensure that they do not contain an untrue fact or omit a material fact, and that they present fairly the financial position, results of operation and cash flows of our company.

We also maintain a system of disclosure controls and procedures designed to ensure the reliability completeness and timeliness of the information we disclose in all of our public disclosure documents, including this MD&A. These controls are designed to ensure that information required to be disclosed by Aeroquest is recorded, processed, summarized and reported on a timely basis, as required by law, and is accumulated and communicated to Aeroquest's senior management and board of directors to allow timely decisions on required disclosure. In addition, our Audit Committee and Board of Directors provide an oversight role

with respect to all public disclosure and review all financial statements, press releases, and MD&A, including this one. Our annual and quarterly certifications also confirm that disclosure controls exist, that we have evaluated their effectiveness, and that we have reported to you our conclusions about their effectiveness, especially during the period covered by this MD&A.

As of July 31, 2007, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, and determined that they were effective.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

NATURE OF BUSINESS

Aeroquest International Limited is incorporated under the Ontario Business Corporations Act. We are a public company trading on the TSX Venture Exchange under the trading symbol AQL-V. We, through our wholly-owned subsidiaries Aeroquest Limited, Aeroquest (UK) Ltd., and Universal Tracking Systems Pty Ltd. are engaged in the operation of providing airborne geophysical services to the mining, petroleum, environmental and geologic engineering industries as well as government agencies worldwide.

Here and in our Consolidated Financial Statements (including the Notes) we have identified the accounting policies and estimates that are critical to the understanding of our business and the results of our operations.

ACCOUNTING POLICY CHANGES

REVENUE RECOGNITION

In order to more accurately match revenues with the costs incurred in the pursuit of such revenue, We changed our revenue recognition policy effective May 1, 2007. All historical periods have been and will be restated to conform to this new revenue recognition policy. As a result, the prior periods reported in this MD&A as well as in our Consolidated Financial Statements, dated July 31, 2007, may not match the results made public in earlier reporting periods. The total amount of revenue and profits over the Company's history has not changed, but the period in which some of those revenues and profits were recorded may have changed by one quarter, earlier or later. We now recognize revenue as follows:

MOBILIZATION CHARGES – Mobilization charges are recognized as revenue at the time we commence mobilization to a new job site. The related costs of mobilization are included in cost of sales.

SURVEY REVENUE – Survey revenue is recognized over the period of the contract at the rate of 95 per cent of the established per kilometer survey rate for every kilometer actually flown and accepted during the survey. The final five percent of survey revenue is recognized upon completion and shipment of the final report to the customer.

STANDBY CHARGES – Standby charges are recognized as revenue as standby days are incurred. The related costs of standby are included in cost of sales.

SALE OF EQUIPMENT - Revenue on sale of equipment is recognized when title transfers to the customer as defined in the sales agreement. The cost of the equipment sold is capitalized to work in process until revenue on the sale of the equipment is recorded and then recognized in cost of sales.

In all cases, revenue is recognized only when the amounts are fixed and determinable and when we can be reasonably assured of collection.

NEW ACCOUNTING STANDARDS

The results of operations of Universal Tracking Systems Pty Ltd. are prepared in accordance with Australian equivalents to International Reporting Standards (AIFRS) and then adjusted to Canadian GAAP standards for consolidation.

USE OF ESTIMATES

In the preparation of our financial statements we are required to make some estimates of the fair value of certain transactions, or the likely impact of certain events on our results of operations. The following is a summary of the areas that require the most significant use of estimates:

CHANGE IN ACCOUNTING POLICIES

Effective May 1, 2007 Aeroquest adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3861, Financial Instruments – Disclosure and Presentation. These new Handbook sections, which are effective for fiscal years commencing on or after October 1, 2006, set out criteria for the recognition, measurement, disclosure and presentation of financial instruments. These new standards do not require policies followed in prior periods to be revised. Thus, the comparative figures have not been restated.

Section 3855 requires all financial assets and liabilities to be classified into one of the following five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

Held-for-trading financial assets: measured at fair value with subsequent changes in fair value recognized in current period net income;

Held-to-maturity assets, loans and receivables and other financial liabilities: initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

Available-for-sale financial assets: measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheets; and

Derivative financial instruments: classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period income.

Upon the adoption of these new standards, Aeroquest designated its cash as held-for-trading, its accounts receivable as loans and receivables, and its accounts payables and accruals, and long-term debt as other financial liabilities. Aeroquest had no held-to maturity or available-for-sale financial assets during the three months ended July 31, 2007.

Comprehensive income represents the changes in the value of the net assets from non-owner sources. Other comprehensive income refers to items that are recognized in the comprehensive income but excluded from net income calculated in accordance with generally accepted accounting principles until such time as it is considered appropriate to recognize them in net

income. Aeroquest had \$1,803 in "other comprehensive income" transactions during the three months ended July 31, 2007 and no opening or balance of accumulated other comprehensive income.

BAD DEBT EXPENSE

We are required, each reporting period, to make an estimate of the likelihood that we will collect all of the accounts receivable owed to us. This requires that we exercise some judgment about the timing and likelihood of payment on accounts that have become past due and record a provision for those accounts where there is significant risk of collection. We review all outstanding accounts receivable on at least a monthly basis to establish whether or not any action is required.

FOREIGN CURRENCY TRANSLATION

We record revenue in Canadian, Australian, and United States dollars, as well as in Euros and, at times, other currencies. Changes in the exchange rates between currencies may create a change in the revenue, or profit on a survey between the time we record revenue and the time we disburse for costs. In addition, we translate all amounts into Canadian dollars for the purposes of financial reporting.

Foreign currency accounts are translated into Canadian dollars as follows:

- At the transaction date, each asset, liability, revenue, and expense is translated into Canadian dollars by the use of the monthly average exchange rate.
- At the period end date, monetary assets, and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date.

The resulting foreign exchange gains and losses are included in income in the current period.

INCENTIVE COMPENSATION

We have an Incentive Plan of which all employees are members. The Incentive Plan establishes Target and Stretch performance levels against which the performance of the Company and its employees and managers are measured. Each quarter we accrue an amount equal to one quarter of the estimated Incentive Plan payout, based on the Company meeting its Target performance levels. The actual amount paid could be different from the amounts estimated in interim periods requiring an adjustment, usually in the fourth quarter of the year.

STOCK-BASED COMPENSATION

We have adopted the recommendations of the CICA with respect to stock-based compensation and other stock-based payments. These standards require that direct awards of stock, liabilities incurred or other compensation arrangements that are based on the price of common stock, be measured at fair value at each reporting date, with the change in fair value reported in the statement of operations.

The fair value of stock-based compensation is estimated using a Black-Scholes option pricing methodology. The principal assumptions required for the Black-Scholes methodology are assumptions about the expected life of the options, and the expected volatility and dividend policy of the underlying stock over the expected life of the options.