

Aeroquest International

Management's Discussion & Analysis

For the period ending September 30, 2007



Issued on December 6, 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 two months ended September 30, 2007 compared with our operating results for the corresponding period three months ended October 31, 2006. It also compares our balance sheet as at September 30, 2007 to our balance sheet as at April 30, 2007. This MD&A should be read in conjunction with our annual consolidated financial statements for September 30, 2007.

On October 23, 2007, we announced that we had received approval from Canada Revenue Agency to change our financial year end to September 30th beginning with September 30, 2007. As a result of this change, the quarterly reporting period at September 30, 2007 will contain two months of financial results and the year to date will contain five months of financial results. Comparative periods shown represent the nearest quarterly filing in the prior year to September 30th, which would be for the three and six months ending October 31, 2006.

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, electro-magnetic (M/EM) surveys, as well as gravity and radiometric 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.

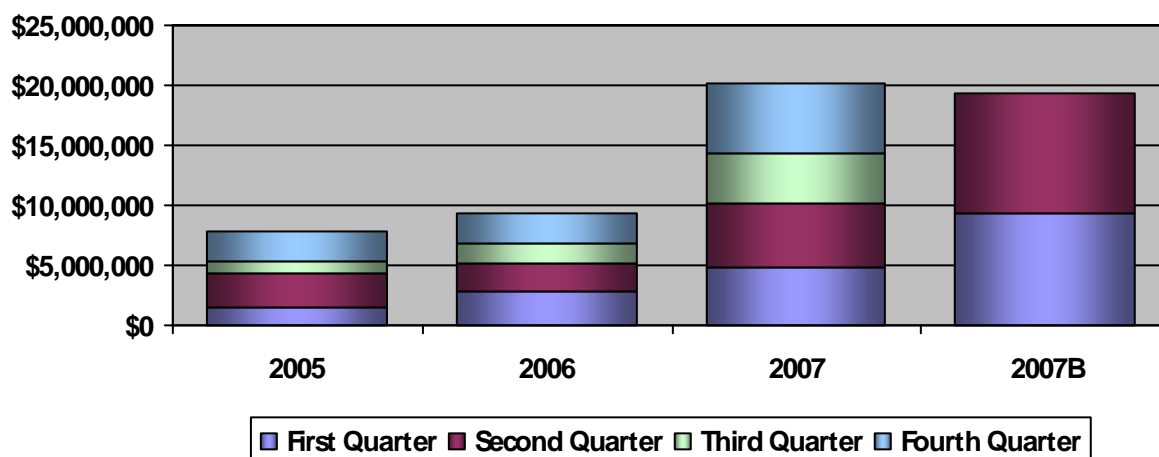
In July 2007, we completed the purchase of UTS Geophysics. UTS offers ultra high resolution airborne magnetic and radiometric surveys as well as traditional regional magnetic and gravimetric surveys.

Further details on the transaction are presented in our first quarter report and in the Notes to the Consolidated Financial Statements of this report. 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. This report includes the results of UTS from the date of acquisition, or two of the two months in the second quarter report and approximately three of the five months of the year to date report.

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.

The current period was a good one for the Aeroquest Group. Revenue growth continues at a very healthy rate for both Aeroquest and its sister company, UTS Geophysics. For example, Aeroquest generated the same level of revenue (\$5.4 million) in the two months represented in the most recent period than it did in the three months reflected in the most comparable quarter from last year – the quarter that ended October 31, 2006 (\$5.4 million). In the Aeroquest Group as a whole, revenue grew by 85 per cent over the second quarter of last year. We expect that both Aeroquest and UTS will continue to experience very healthy rates of growth in the next year. For the 2007B period, the first quarter represents the 3 months ending July 31, 2007 and the second quarter represents the 2 months ending September 30, 2007.

THREE YEAR GROWTH SUMMARY



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 and environmental services, 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)

	(2mo) Q2-Sep 07	(3Mo) Q1-Jul 07	(3Mo) Q4-07	(3Mo) Q3-07	(3Mo) Q2-07	(3Mo) Q1-07	(3Mo) Q4-06	(3Mo) Q3-06
Revenue	\$ 9,944	\$ 9,355	\$ 5,937	\$ 4,098	\$ 5,387	\$ 4,765	\$ 2,434	\$ 1,794
Operating profit	\$ 1,444	\$ 1,658	\$ 782	\$ 412	\$ 1,581	\$ 719	\$ (331)	\$ (56)
Net income	\$ 1,046	\$ 938	\$ 321	\$ 210	\$ 945	\$ 564	\$ (399)	\$ (35)
Weighted average common shares	22,702	21,538	15,787	15,838	15,838	15,840	15,840	15,840
Earnings per share (basic)	\$ 0.05	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.04	\$ (0.03)	\$ (0.00)
Systems available for use at period end*	21	20	9	9	9	8	7	7
Fixed-wing systems	10	10						
Helicopter systems	11	10	9	9	9	8	7	7
AeroTEM systems included in above	8	7	6	6	6	5	4	4
Line kilometres flown during period								
Helicopter systems	38,000	51,100	44,800	25,600	45,500	49,000	16,900	12,950
Fixed-wing systems	351,000	158,000						
Contract back-log (CAD\$ thousands)								
Helicopter systems	\$ 8,400	\$ 12,000	\$ 8,300	\$ 3,500	\$ 3,500	\$ 4,700	\$ 2,600	
Fixed-wing systems	\$ 7,900	\$ 11,000						

* excluding gamma ray spectrometers

Current Period Operating Results

OVERVIEW AND HIGHLIGHTS

Strong revenue growth in the period, up 85% over the comparable period last year. Gross profit for both companies is in the range of that anticipated, given each company's sales level and the specific factors in the period. Increases in general and administrative expenses were more than offset by increases in revenue and gross profit. As a result, the Aeroquest Group earned \$1.0 million, or \$0.05 per share, in the short period.

REVENUE BY GEOGRAPHY

Two Months Ended September 30, 2007

(thousands of Canadian dollars)

Aeroquest (helicopter-based)
UTS (fixed wing)
Total Revenue - Aeroquest Group

	Canada	Australia	RoW	Total	
\$	4,061	\$ -	\$ 1,310	\$ 5,371	54%
	112	2,026	2,435	4,573	46%
\$	4,173	\$ 2,026	\$ 3,745	\$ 9,944	100%
	42%	20%	38%	100%	

Five Months Ended September 30, 2007

(thousands of Canadian dollars)

Aeroquest (helicopter-based)
UTS (fixed wing)
Total Revenue - Aeroquest Group

	Canada	Australia	RoW	Total	
\$	9,939	\$ -	\$ 2,764	\$ 12,703	66%
	564	3,090	2,943	6,597	34%
\$	10,503	\$ 3,090	\$ 5,707	\$ 19,300	100%
	54%	16%	30%	100%	

On November 6, 2007, we announced that we had entered into a Letter of Intent to acquire Geophex, Ltd. of Raleigh, N. Carolina. Geophex is a leading research company specializing in the design and construction of geophysical instruments with a particular focus on the utilization of electromagnetic technology.

Geophex manufactures and sells primarily ground-based geophysical instruments, and also supplies institutions and private entities with specialized survey equipment on a contract-to-build basis. Geophex has established a particular expertise in special and customized geophysical investigations, especially as it relates to environmental projects.

The purchase price is expected to be US\$6 million and will be funded with a combination of cash and shares of Aeroquest. The Letter of Intent is still subject to confirmatory due diligence, execution of definitive legal documentation and other customary conditions. The companies are negotiating the terms of a Definitive Agreement of Purchase and Sale, but there is no assurance that these negotiations will result in a completed transaction.

CONSOLIDATED RESULTS

In the current period, Aeroquest Group revenue was \$9.9 million, up \$4.6 million or 85 per cent, compared to the comparable quarter last year. Revenue growth for helicopter services is up significantly compared to prior year as the period contains only two months of revenue compared to prior year of three months. Helicopter revenue growth was consistent with expectations, given some challenges faced by our company in the form of sustained inclement weather on several of our Canadian surveys. Organic revenue growth came from a combination of changes in the mix of systems flying, with more AeroTEM surveys being completed this year as compared to the same period last year, an increase in the average per line kilometer rate charged on surveys, and increased mobilization and standby charges. Fixed wing revenue originating from the acquisition of UTS was \$4.6 million for the two months ending September 30, 2007 and \$6.6 million from the date of acquisition, July 3, 2007. On a year to date basis, consolidated revenue for the five months ending September 30, 2007 was \$19.3 million, up \$9.0 million or 90% over the six month period ending October 31, 2006.

REVENUE & GROSS PROFIT

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
Revenue								
Helicopter	5,372	5,387	12,703	10,152	(15)	(0%)	2,551	25%
Fixed wing	4,572	-	6,597	-	4,572		6,597	
	9,944	5,387	19,300	10,152	4,557	85%	9,148	90%
Cost of sales								
Helicopter	3,562	2,388	7,608	5,188	1,174	49%	2,420	47%
Fixed wing	2,516	-	3,966	-	2,516		3,966	
	6,078	2,388	11,574	5,188	3,690	155%	6,386	123%
Gross profit	3,866	2,999	7,726	4,964	867	29%	2,762	56%
Gross profit margin %	38.9%	55.7%	40.0%	48.9%			(16.8%)	(8.9%)

Cost of sales was \$6.1 million in the period, or approximately 61 per cent of revenue. This compares to \$2.4 million in the comparable quarter last year representing 44 per cent of revenue in that quarter. Cost of sales as a percentage of revenue increased during the period in helicopter operations primarily due to unusually bad weather in several areas of Canada, most notably Northern Saskatchewan, Northern Quebec, and the province of Newfoundland and Labrador. When bad weather grounds our systems, we generally charge our clients a daily standby charge sufficient to cover the minimum costs of the field crews and the equipment; however, since we are not flying during these 'weather days', we are not earning survey revenue. During the five month period ending September 30, 2007, in our helicopter operations we spent a total of 261 days on the ground due to weather. This compares to 164 days of weather-related downtime in the six month period ended October 31, 2006.

We also made further modifications to our recognition of surveys costs in helicopter operations in the quarter that affected the allocation of some costs in our cost of sales. In the period, we changed the way we account for in-progress survey costs to recognize them on an “as incurred” basis rather than accruing them on a proportionate completion basis. As a result of this change, an additional \$0.4 million in survey costs were recognized in the period that was attributable to activity in the first quarter of the year.

Primarily as a result of the weather delays and the effect of this accounting change, gross margin in helicopter operations was 34 per cent of revenue in the period, well below our target level. After taking into account the change in the recognition of costs, normalized gross margin for helicopter surveys conducted in the period totaled 40 per cent of revenue. As the average weather in the areas in which we survey returns to normal, we expect gross margin in helicopters operations to improve again.

Cost of sales in fixed wing operations was \$2.6 million, or 55 per cent of fixed wing revenue, yielding a gross margin of 45 per cent of revenue. This was a very strong result in fixed wing and contributed meaningfully to the fact that, on a consolidated basis, year to date cost of sales was \$11.6 million or 60 per cent of revenue resulting in an overall gross margin for the Aeroquest Group of 40 per cent of revenue.

CASH OPERATING COSTS

Cash operating costs for the Aeroquest Group totaled \$1.5 million in the period, up from \$1.1 million in the comparable quarter last year, an increase of \$0.41 million, or 37 per cent. This increase is attributed to an increase in general and administrative costs which were up by \$0.2 million over the same quarter last year and a loss on foreign currency exchange of \$0.2 million. The increase in general and administrative costs includes administrative costs at UTS of \$0.36 million. The loss on foreign exchange arose primarily as a result of holding US dollar denominated accounts receivable as the Canadian and Australian dollars continued to strengthen against the US dollar during the period.

In the period, research and development expenditures were \$0.1 million down by 23 per cent from the comparable quarter last year primarily a result of the fact that this quarter includes only two months of spending while the comparable quarter includes three months. On a year to date basis, research and development expenditures were down slightly by 8 per cent and reflected a consistent application of resources in this area.

CASH OPERATING COSTS

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
General & administrative expense	1,157	953	2,353	1,721	204	21%	632	37%
Foreign exchange (gain)/loss	240	4	384	(5)	236	5900%	389	(7780%)
Research & development expense	115	150	288	314	(35)	(23%)	(26)	(8%)
Total cash operating costs	1,512	1,107	3,025	2,030	405	37%	995	49%
%of revenue	15.2%	20.5%	15.7%	20.0%	(5.3%)		(4.3%)	

OPERATING PROFIT

Operating profit for the period ending September 30, 2007 was \$1.4 million, a decline of \$0.2 million or 9 per cent from the operating profit of \$1.6 million in the comparable period last year. The decline in the operating profit was primarily attributable to the additional depreciation and amortization expense resulting from the UTS acquisition. In addition, the current period represents only two months of activity compared to the three months of activity for the comparable period.

OPERATING PROFIT

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
Gross profit	3,866	2,999	7,726	4,964	867	29%	2,762	56%
Cash operating costs	1,512	1,107	3,025	2,030	405	37%	995	49%
Stock-based compensation expense	5	21	11	145	(16)	(76%)	(134)	(92%)
Depreciation of capital assets	371	259	695	427	112	43%	268	63%
Amortization of intangible assets	534	31	893	62	503	1623%	831	1340%
Operating profit	1,444	1,581	3,102	2,300	(137)	(9%)	802	35%
as a % of revenue	15%	29%	16%	23%			49%	71%

Depreciation and amortization charges totaled \$0.9 million in the period, a 212 per cent increase from the comparable quarter last year. The increase in depreciation of \$0.1 million in the period and \$0.3 million year to date is a result of the addition of over \$3.0 million of equipment from the acquisition of UTS and a higher level of depreciation related to a larger fleet of AeroTEM systems. The increase in amortization of \$0.5 million in the period and \$0.8 million year to date relates to the amortization of intangible assets acquired in the UTS acquisition.

Stock-based compensation expense for the period 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 period ending September 30, 2007, other costs/(income) totaled \$0.04 million, a change of \$0.06 million over the same quarter last year. This change is a result of interest expense of \$0.08 million on the promissory notes for the period. On a year to date basis, other income was down \$0.04 or 99 per cent. The decrease in the period and year to date was due to interest expense on the promissory notes payable from the purchase of UTS.

Our provision for income taxes in the period was \$0.4 million compared to \$0.7 million in the comparable quarter last year. The decrease was result of lower net income before taxes in current period due, in turn,

to the fact that this was a two month quarter, and an income tax refund of \$0.1 million as a result of utilizing prior year tax losses.

As a result of all of the above factors, we recorded a net income in the two-month period ending September 30, 2007 of \$1.05 million, or \$0.05 per share compared to net income of \$0.94 million, or \$0.06 per share in the three-month comparable quarter last year.

NET INCOME

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
Operating profit	1,444	1,581	3,102	2,300	(137)	(9%)	802	35%
Other costs (income)	38	(24)	(0)	(35)	62	(258%)	35	(99%)
Provision for income taxes	360	660	1,119	826	(300)	(45%)	293	35%
Net income	1,046	945	1,983	1,509	101	11%	474	31%
Earnings per share - basic	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.10	\$ (0.01)	(23%)	\$ (0.01)	(9%)
Apparent tax rate			36.1%	35.4%				

Cash Flow

CASH FLOW FROM OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided \$1.8 million in the current period, an increase of \$0.5 million from the comparable quarter last year. On a year to date basis, operating cash flow was \$3.4 million, up \$1.2 million or 57 percent over the comparable period last year. Operating cash flow is tracking higher as a result of the higher sales activity and lower fixed costs as a percentage of sales.

CASH FLOW FROM OPERATING ACTIVITIES

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
Net income	1,046	945	1,983	1,509	101	11%	474	31%
Depreciation & amortization	905	291	1,588	489	614	211%	1,099	225%
Translation of self-sustaining foreign operation	24	-	26	-	24		26	
Stock based compensation expense	5	21	11	145	(16)	(76%)	(134)	(92%)
Interest accretion on promissory notes	76	-	76	-	76		76	
Future income taxes	(290)	23	(290)	23	(313)	(1361%)	(313)	(1361%)
Operating cash flow	1,766	1,280	3,394	2,166	486	38%	1,228	57%
Change in non-cash working capital	(1,728)	(607)	(714)	(490)	(1,121)	(185%)	(224)	(46%)
Cash flow from operating activities	38	673	2,680	1,676	(635)	(94%)	1,004	60%

Changes in non-cash working capital consumed \$1.7 million in the current period, as compared to a \$0.6 million in the same quarter last year. On a year to date basis, non-cash working capital consumed \$0.7

million in the current year, an increase of \$0.2 million over the previous year of \$0.5 million. The change in non-cash working capital is primarily a result of income tax payments in the period and reduction of customer deposits as we continue to fly surveys and reduce the backlog of line kilometers.

CASH FLOW FROM INVESTING ACTIVITIES

Investment activities in the period used \$0.6 million of cash compared to \$0.3 million in the same quarter last year. For the year, investment activities are up significantly at \$8.9 million, due primarily to the acquisition of UTS in July 2007. The total cash consideration for the acquisition of UTS was \$7.0 million plus we incurred \$0.3 million in acquisition costs.

CASH FLOW FROM INVESTING ACTIVITIES

(in thousands of Canadian dollars)	Two/ Three Months Endec		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
Acquisition of capital assets	(574)	(318)	(1,554)	(783)	(256)	(81%)	(771)	(98%)
Acquisition of UTS	(19)	-	(7,321)	-	(19)		(7,321)	
Loan receivable	-	16	-	16	(16)	(100%)	(16)	(100%)
Cash flow from investing activities	(593)	(302)	(8,875)	(767)	(291)	96%	(8,108)	(1057%)
Capital expenditures as a % of revenue	6%	6%	8%	8%				

In the current period, capital expenditures, as a percentage of revenue, were unchanged at 6 per cent, and unchanged on a year to date basis at 8 percent. Acquisition of capital assets consumed \$0.6 million, as compared to \$0.3 million, in the comparable 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 current period, financing activities consisted of lease payments of \$0.09 million and proceeds from issuance of common shares related to employee stock options of \$0.07 million. For the year, financing activities consisted of lease payments of \$ 0.1 million and net proceeds from issuance of common shares of \$7.0 million, of which \$ 6.9 million related to the acquisition and \$0.1 million related to employee stock options.

CASH FLOW FROM FINANCING ACTIVITIES

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Sep-07	31-Oct-06	30-Sep-07	31-Oct-06				
Capital lease payments	(87)	-	(111)	-	(87)		(111)	
Proceeds from issuance of common shares	66	1	6,998	1	65	6500%	6,997	699700%
Aeroquest shares redeemed	-	(3)	-	(3)	3	(100%)	3	(100%)
Cash flow from financing activities	(21)	(2)	6,887	(2)	(19)	(950%)	6,889	344450%

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity, as measured by cash balances, has increased by \$0.7 million from the start of the fiscal year and \$2.0 million from the previous year. This improvement in liquidity is a result of the generation of profitable sales and management of working capital and 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 September 30, 2007, we had current assets of \$16.2 million and current liabilities of \$12.2 million. Net working capital was \$4.0 million, a decrease of \$0.2 million from April 30, 2007. This \$0.2 million change from the year-end April 30, 2007 is primarily due to the acquisition of UTS in July 2007, but was also influenced by rising current liabilities from the change of revenue recognition policy in the first quarter, and a higher number of contracts in process within Aeroquest.

CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	Two/Three Months Ended		Year-to-Date		Change from prior year		Changes on year end	
	30-Sep-07	31-Oct-06	30-Sep-07	30-Apr-07				
Cash	\$5,399	\$3,418	\$5,399	\$4,706	\$1,981	58%	\$ 693	15%
Non-cash current assets	10,789	3,430	10,789	4,387	7,359	215%	6,402	146%
Current assets	16,188	6,848	16,188	9,093	9,340	136%	7,095	78%
Less: Current liabilities	12,232	2,574	12,232	4,891	9,658	375%	7,341	150%
Net working capital	\$3,956	\$4,274	\$3,956	\$4,202	(\$318)	(7%)	(246)	(6%)
Current ratio	1.3	2.7	1.3	1.9	(1.3)	(50%)	(1)	(29%)

TRANSACTIONS WITH RELATED PARTIES

For the five months ending September 30, 2007 the company paid \$0.09 million (\$0.09 million for the six months ending October 31, 2006) to companies owned by certain directors for management consulting

services. These transactions were 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.

In the year, the company entered into promissory notes with certain directors as part of the financing of the UTS acquisition on July 3, 2007. The amount of the promissory notes to these two directors is \$2,663,806.

SHARE CAPITAL

At September 30, 2007, we had 27,310,273 Common Shares issued and outstanding.

At September 30, 2007, 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,	32,500	\$ 0.50	October 28, 2009
officers, employees and consultants under the	40,000	\$ 2.00	October 28, 2009
Company's Stock Option Plan	5,000	\$ 0.50	March 1, 2010
	15,000	\$ 2.00	June 30, 2010
	27,500	\$ 0.50	June 30, 2010
	250,000	\$ 0.50	February 9, 2011
	50,000	\$ 0.50	March 28, 2011
	480,000	\$ 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	975,000	\$ 0.65	

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 of which 110,000 are outstanding. There were no grants of stock options or restricted stock units in the five months ending September 30, 2007.

In the second quarter of fiscal year ending April 30, 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 September 30, 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 September 30, 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 match more accurately 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 September 30, 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

Financial Instruments:

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. However, the new policy is required to be implemented on a retroactive basis with any adjustments pertaining to prior periods reflected in retained earnings or other comprehensive income.

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 amortized 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 as other financial liabilities and long term investments as available for sale financial assets. Promissory notes are designated as other financial liabilities.

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 Canadian generally accepted accounting principles until such time as it is considered appropriate to recognize them in net income. Aeroquest had \$24,793 in “other comprehensive income” transactions during the five months ended September 30, 2007 and had an opening transitional adjustment to accumulated other comprehensive income of \$48,000 at May 1, 2007.

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

Liabilities incurred or other compensation arrangements that are based on the price of common stock, are 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.