JENNINGS CAPITAL INC.

November 17, 2010

Recommendation: BUY
12-Month Target: $1.50
Risk Rating: ABOVE AVERAGE

AEROQUEST INTERNATIONAL LIMITED
(TSX-AQL $0.81)

ESTIMATE REVISIONS

- **Summary – We are maintaining our BUY recommendation and 12-month target on AQL of $1.50.** We have updated our valuation multiples following recent earnings reports and share price performance of a number of drilling stocks in our coverage universe. While our outlook remains optimistic for AQL, we have tempered our estimates for FY 2011 based on more modest assumptions for the helicopter segment. Nonetheless, and in addition to its other business lines, we view AQL as an excellent way to play increased spending on grassroots mineral exploration.
- **Our Rationale –** Helicopter work tends to be an order of magnitude more expensive than fixed wing work on a per line km basis. Therefore, we have reflected a more extended lag in recovery in our model. In general, the airborne geophysical work that AQL conducts for the mining industry is more grassroots in nature, relative to much of the minesite drilling still being conducted by contract drillers. While funding for grassroots work is returning, we believe it to be more gradual than our prior model assumed. On that basis, we have reduced our revenue/line km estimates for FY 2011 from $122 to $106 and our gross margin estimate for this segment from 41% to 30%.
- **Outlook –** Management recently commented that it is seeing some signs of recovery in its mineral exploration business, and we continue to expect improvement on this front in calendar H2/10 and 2011. A substantial portion of the backlog also relates to petroleum work, as well as government projects. On the contract drilling front, which generally leads airborne geophysical demand, a number of drillers are reporting strong utilization levels, improved pricing power in select markets, and that crew availability is once again becoming an industry-wide challenge. We believe this recovery in drilling demand will spill over into the airborne geophysical market.
- **Valuation –** We have made minor revisions to our estimates. We have raised our earnings and EBITDA multiples on AQL to 10x and 5x, respectively (from 7x and 3.5x, previously). This is based on comparable group multiples, which have expanded materially in the last several months. This also represents a 20% multiple discount to the 12x/6x multiples that we apply to Orbit Garant Drilling (TSX-OGD, BUY recommendation, $8.50 target). On that basis, we are maintaining our **BUY** recommendation and our 12-month target of $1.50/share.

Sector: **SPECIAL SITUATIONS**

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Company Statistics	
52-Week Range	$0.92 - $0.425
Basic Shares O/S (MM)	37.0
Basic Market Cap ($MM)	$30.0
Cash ($MM)	$5.7
Total Debt ($MM)	$0.3
Net Cash ($MM)	$5.4

Earnings Summary				
FYE: September	**2008A**	**2009A**	**2010E**	**2011E**
Sales ($MM)	$55.0	$28.0	$33.6	$65.7
EBITDA ($MM)	$11.3	($4.4)	($3.8)	$10.3
EBITDA Margin	20.5%	(15.7%)	(11.4%)	15.7%
Diluted EPS	$0.09	($0.32)	($0.22)	$0.03
Adjusted Diluted EPS*	$0.21	($0.21)	($0.12)	$0.13
P/E	9.5x	nmf	nmf	26.4x
P/Adj. E*	3.9x	nmf	nmf	6.5x
EV/EBITDA	2.2x	nmf	nmf	2.4x

** Adjusted Diluted EPS excludes acquisition-related amortization.*

Aeroquest International Limited is a mining, energy services company providing commercial airborne geophysical surveys for use in mineral and oil and gas exploration. Aeroquest is also developing applications for its proprietary time domain electromagnetic systems in the environmental services and ground water exploration industries.

Jennings Capital Inc. Research Disclosures

Companies	Ticker
Aeroquest International Limited	TSX-AQL

I, **Russell Stanley**, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. I also certify that I have not, am not, and will not receive, directly or indirectly, compensation in exchange for expressing the specific recommendations or views in this report.

Note: *We initiated coverage on* ***Aeroquest International Limited*** *on October 18, 2007 with a STRONG BUY recommendation, an ABOVE AVERAGE risk rating and a C$6.50 target price. Share price at that time was C$2.91. On November 1, 2007 we changed our recommendation to BUY as a result of changes to our internal stock rating system. Share price at that time was C$3.60. On December 10, 2007 we increased our target price to C$7.00. Share price at that time was C$2.99. On February 15, 2008 we decreased our target price to C$6.50. Share price at that time was C$2.75. On July 18, 2008 we decreased our target price to C$5.00. Share price at that time was C$1.95. On October 31, 2008 we decreased our target price to C$2.00. Share price at that time was C$0.60. On February 6, 2009 we downgraded our recommendation to HOLD and reduced our target price to C$0.40. Share price at that time was C$0.36. On May 5, 2009 we upgraded our recommendation to BUY and increased our target price to C$0.90. Share price at that time was C$0.41. On August 4, 2009 we increased our target price to C$1.00. Share price at that time was C$0.38. On February 16, 2010 we increased our target price to $1.20. Share price at that time was C$0.59. On May 14, 2010 we increased our target price to C$1.50. Share price at that time was C$0.60.*

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Buy: The stock is expected to provide a total return in excess of 10% over the current trading price over the next 12 months.

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SPECULATIVE BUY	42%
HOLD	4%
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TENDER TO OFFER	1%
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Revised Monthly

Security Abbreviations: NVS (non-voting shares); RVS (restricted voting shares); RS (restricted shares); SVS (subordinate voting shares); MV (multiple voting shares).

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