AEROQUEST INTERNATIONAL

December 11, 2009

AQL – TSX $0.75

Rating:	STRONG BUY
Target Price:	$1.00
Market Capitalization:	$27.6 million

DIVERSIFIED INDUSTRIES
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Share Information Summary	
Recent Price (C$)	$0.75
12 mo. Price Target	$1.00
52 week Range	$0.27- 0.85
Average Daily Volume (3 mo.)	102,238
Shares Out – Basic (M)	33.6
Shares Out – Diluted (M)	35.8
Market Cap (C$M)	$27.6
Annual Dividend & Yield	N/A
FY End	September 30th

Estimates Summary

FY (Y/E Sep 30)	08A	09A	10E	11E
Rev ($M)	55.0	28.0	48.5	61.0
EPS ($/fd shr)	0.09	(0.32)	(0.10)	0.05
P/E	8.8x	NMF	NMF	15.0x
EBITDA ($M)	11.3	(4.4)	2.0	10.2
EV/EBITDA	0.8x	NMF	12.8x	1.8x

Source: Fraser Mackenzie Limited

Company Profile

Aeroquest is a Canadian provider of airborne geophysical surveys, using electromagnetic, magnetic, gravity and radiometric techniques. The company operates worldwide, using a mix of helicopter and fixed wing aircraft, running surveys for mineral and oil and gas exploration. Following a combination of organic and acquisition-driven growth the company is now one of the world's top three providers of these services.

AQL Announces Q4 and FY2009 Financial Results

No Change to our Target and Rating

- On December 9, 2009 Aeroquest International released its Q4 and FY2009 financial results. The highlight of the fourth quarter was a 38% increase in revenue over the extraordinarily weak third quarter results. Revenue at $5.1 million (versus $3.7 million in Q3FY2009) included $0.8 million from helicopter operations and $4.1million from fixed wing operations. However, these results are down nearly 70% from the fourth quarter of last year. A decline in helicopter revenue accounted for the significant decline in revenues year-over-year.

- The company is cautiously optimistic that the contraction in the industry has ended and that expansion will progress into FY2010. At year-end, the backlog for the company was $10.9 million and has since increased to $12.9 million. In Q1FY2010, the company has received contracts for a number of helicopter surveys in Canada totalling in excess of $1 million in addition to the $1 million of helicopter survey backlog at September 30. The company also believes that it will shortly be awarded several large fixed wing surveys in North Africa, principally in Egypt and Libya. These surveys, which could total in excess of $5 million, would be flown in the second and third quarters of fiscal 2010.

- We believe that Aeroquest's revenue base and profit picture has now bottomed and should see meaningful improvement in FY2010. While growth in geophysics survey revenue during Q1FY2010 is uncertain, consolidated revenue will most certainly grow as a result of the Optimal Geomatics acquisition. We believe the acquisition is significantly accretive as it offers immediate cost-saving opportunities as well as the prospect of cross-selling products and services. We expect that the combination will assist the company in returning to cash flow break-even in early FY2010.

- We maintain our STRONG BUY rating and $1.00 target price. We believe Aeroquest shares represent compelling value with the shares trading at a substantial discount to net book value of $1.37/share. Furthermore, we believe that considerable downside support is offered with a tangible book value of $0.55/share. The company maintains a respectable balance sheet with $0.18/share of cash and virtually no long-term debt. Aeroquest is well positioned to demonstrate strong operational improvement with the stabilization of the global economy.

See back page for analyst certification and disclosures

Discussion

Aeroquest's Q4FY2009 results reveal both challenges inherent with servicing the mining industry versus last year but also provides reasons for optimism as we look forward into FY2010. While revenue was down 69% year-over-year, the company did realize a 38% increase compared to an extraordinarily weak Q3FY2009. Revenue at $5.1 million (versus $3.7 million in Q3FY2009) included $0.8 million from helicopter operations and $4.1million from fixed wing operations. A drop in helicopter surveys primarily accounted for the significant decline in revenue year-over-year.

Gross margins similarly declined to 20.7% versus 31.8% a year ago while showing improvement against an 11.9% margin in Q3FY2009. This illustrates the degree of fixed costs embedded within cost of sales and the extent to which operating leverage can assist the company as revenue grows. EBITDA at ($1.5) million was down from the $3.6 million a year ago and was better than the ($2.7) million in Q3FY2009. EPS was ($0.14) versus $0.05 in Q4FY2009 and ($0.10) in Q3FY2009. Earnings would have shown an improvement over the third quarter if it were not for a $2.9 million ($0.09/share) impairment charge.

Exhibit 1 – Results and Forecasts ($ Millions)

FYE September 30	Q1FY08A	Q2FY08A	Q3FY08A	Q4FY08A	FY2008	Q1FY09A	Q2FY09A	Q3FY09A	Q4FY09A	FY2009A	FY2010E	FY2011E
Revenue	11,197	13,294	14,537	16,018	55,046	11,298	7,963	3,651	5,100	28,012	48,500	61,000
Cost of sales	7,279	7,221	8,933	10,917	34,351	8,370	4,710	3,217	4,042	20,339	35,300	39,600
Gross margin	3,917	6,073	5,604	5,101	20,695	2,928	3,253	434	1,058	7,673	13,200	21,400
	35.0%	*45.7%*	*38.5%*	*31.8%*	*37.6%*	*25.9%*	*40.9%*	*11.9%*	*20.7%*	*27.4%*	*27.2%*	*35.1%*
Expenses												
G&A expenses	1,881	2,331	2,524	2,707	9,442	4,351	3,083	2,295	2,116	11,845	10,800	10,800
Development expenses	111	98	117	(247)	80	–	–	–	–	–	–	–
Foreign Exchange Loss	(56)	24	136	(1,162)	(1,059)	(1,206)	(25)	691	308	(232)	–	–
Stock option expense	383	173	173	231	960	104	135	108	108	456	450	450
EBITDA	1,599	3,446	2,653	3,573	11,272	(322)	60	(2,660)	(1,475)	(4,396)	1,950	10,150
Capital asset depreciation	512	655	908	739	2,814	802	1,011	1,155	932	3,900	3,800	3,800
Impairment charges	–	–	–	–	–	–	–	–	2,880	2,880	–	–
Intangibles amortization	893	1,178	1,156	809	4,035	885	747	785	1,075	3,493	3,600	3,600
EBIT	195	1,613	590	2,024	4,423	(2,008)	(1,698)	(4,601)	(6,362)	(14,669)	(5,450)	2,750
Other costs/(income)	12	(23)	(111)	(102)	(224)	(56)	(85)	(5)	19	(127)	(28)	(67)
EBT	183	1,636	701	2,126	4,647	(1,952)	(1,613)	(4,596)	(6,381)	(14,542)	(5,422)	2,817
Total Taxes	63	821	397	523	1,804	(438)	(659)	(1,097)	(1,725)	(3,920)	(1,789)	930
Net Income	121	816	304	1,603	2,843	(1,514)	(953)	(3,499)	(4,657)	(10,622)	(3,633)	1,887
Earnings per unit												
Basic	$ 0.00	$ 0.03	$ 0.01	$ 0.05	$ 0.09	$ (0.05)	$ (0.03)	$ (0.10)	$ (0.14)	$ (0.32)	$ (0.10)	$ 0.05
Diluted	$ 0.00	$ 0.02	$ 0.01	$ 0.04	$ 0.09	$ (0.05)	$ (0.03)	$ (0.10)	$ (0.14)	$ (0.32)	$ (0.10)	$ 0.05

Source: Company filings, Fraser Mackenzie estimates

The company's cash position declined to $6.1M ($0.18/share) which essentially traced the EBITDA deficit for the period. As at September 30, 2009, Aeroquest had virtually no long-term debt as well as a portion of unused credit facilities. We expect that Aeroquest's cash position will stabilize early in FY2010 as the company returns to cash flow break-even.

Looking ahead, we believe that the company's revenue base and profit picture has bottomed and we expect a meaningful improvement this fiscal year. While growth in geophysical survey revenue during Q1FY2010 is uncertain, consolidated revenue will most certainly grow as a result of the Optimal Geomatics acquisition. We forecast 73% year-over-year revenue

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growth for FY2010 which is roughly two-thirds driven by the acquisition and one-third via growth in geophysical survey sales.

The growth we foresee for the company across FY2010 and FY2011 is supported by several factors as summarized below:

- Recent evidence that the global economy has begun to stabilize
- A surge in commodity prices over the last several months (i.e. gold at historic highs)
- Senior and intermediate mining companies have been successful in raising capital within 2009
- Equity financings for junior mining companies increased to ~$1.6 billion in Q2FY2009 (third highest in 12 quarters)
- With greater cash and financial flexibility among these companies, demand for airborne geophysical surveys should increase significantly
- An increased level of quote activity across Aeroquest's customer base

Longer term trends which support our favourable view on Aeroquest include:

- A decrease in major mineral discoveries over the past couple of decades while many of the larger operating mines/fields are nearing end of life. Hence, there is an accelerating need to find new discoveries in underexplored regions of the world thereby necessitating the need for the Aeroquest services.

Valuation

In our view, Aeroquest shares represent compelling value with the shares trading at a substantial discount to net book value of $1.37/share. Investors also enjoy considerable downside based on the company's tangible book value of $0.55/share. Aeroquest has a strong balance sheet with $0.18/share of cash and virtually no long-term debt. Our $1.00/share target values Aeroquest at 20x next year's earnings (FY2011) and 3x EBITDA.

Conclusions and Recommendation

Aeroquest has a committed management team that has faced up to this year's difficult operating environment. They have cut costs, reduced headcount and acted to conserve cash to allow the business to survive the economic downturn. The current set of results suggests that business has seen a bottom – past actions have positioned the company to weather drops in demand thus providing investors with an opportunity to take a position ahead of any pick-up in activity.

We maintain our STRONG BUY rating and our $1.00 target price.

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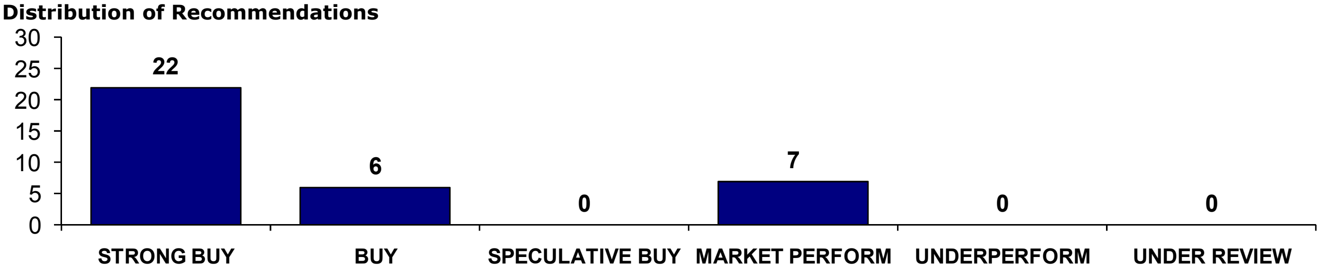

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