

**AEROQUEST INTERNATIONAL LIMITED**  
**(TSXV-AQL C\$2.91)**

**Recommendation: STRONG BUY**  
**12-Month Target: C\$6.50**  
**Risk Rating: ABOVE AVERAGE**

**INITIATING COVERAGE**

- Aeroquest International Limited offers airborne geophysical services to the the mineral exploration, oil and gas and environmental industries. The Company develops and operates proprietary technology using both helicopter-based and fixed wing delivery platforms.
- **The recent acquisition has doubled AQL's system fleet.** The Company recently completed the acquisition of UTS Geophysics, effectively doubling the Company's fleet of geophysical systems and its revenue base. Management now believes it has the capability to offer any commercially established airborne geophysical survey technique on any aircraft platform in any geography.
- **AQL has a strong market position, with potential to significantly expand market size.** The airborne survey industry is a \$300 million/year market, with mineral exploration representing approximately 80% of that. AQL has the second largest airborne geophysical fleet in the industry, with an approximate 15-20% share of the market. Oil and gas exploration and development spending is at least 30 times that of mineral exploration spending, representing a significant market opportunity. Water and unexploded ordnance also represent opportunities to grow AQL's addressable market and diversify the business away from mining.
- **Recent results reflect strong organic revenue growth and backlog.** Aeroquest recently reported Q1/08 (ending April 30) revenue of \$9.4 million and diluted EPS of \$0.04, including organic revenue growth of 54%. These results included only one month of contribution from UTS, and we therefore expect sequential revenue and earnings improvement. At the end of the quarter, AQL had a revenue backlog of \$23.0 million.
- **Strong organic growth outlook as well as acquisition potential.** We expect revenue growth of 134% in FY 2008 and 60% in FY 2009. At current levels, AQL trades at approximately 6x our FY 2009 operating cash flow estimate (after working capital). Moreover, we believe that AQL could use acquisitions to expand its strengths and service offering. Potential catalysts include continued earnings performance and acquisitions.

**Sector: SPECIAL SITUATIONS**  
**Analyst: RUSSELL STANLEY, CFA, MBA**  
**e-mail: russell.stanley@jenningscapital.com**  
**Tel: (416) 304-2178 Fax: (416) 214-0177**

Company Statistics				
52-Week Range	\$3.05 - \$0.65			
Basic Shares O/S (MM)	27.3			
Basic Market Cap (\$MM)	\$79.3			
Fully Diluted O/S (MM)	31.2			
Cash (\$MM)	\$6.0			
Total Debt (\$MM)	\$4.5			
Management & Directors Ownership	29%			
Earnings Summary				
FYE: April	2006A	2007A	2008E	2009E
Sales (\$MM)	\$9.1	\$19.9	\$46.5	\$74.2
EBITDA (\$MM)	(\$0.2)	\$4.6	\$11.7	\$22.7
EBITDA Margin	(2.7%)	23.3%	25.1%	30.6%
Diluted EPS	(\$0.07)	\$0.11	\$0.07	\$0.27
OCF Per Share (diluted)	(\$0.01)	\$0.20	\$0.29	\$0.52
CFO Per Share (diluted)	\$0.01	\$0.25	\$0.23	\$0.50
P/E	nmf	26.1x	40.5x	10.8x
P/OCF	nmf	14.8x	10.0x	5.6x
P/CFO	288.1x	11.4x	12.7x	5.8x
EV/EBITDA	nmf	16.8x	6.7x	3.4x



Aeroquest International Limited is a mining and 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.

## INVESTMENT THESIS:

Aeroquest International Limited offers airborne geophysical services to the the mineral exploration, oil and gas and environmental industries. The Company develops and operates proprietary technology using both helicopter-based and fixed wing delivery platforms. We view AQL as a relatively unknown way to play continued strength in mineral exploration spending while also participating in the Company's growth potential in other markets.

We believe AQL represents an attractive investment at current levels for the following reasons:

**1) AQL has a strong market position and is experiencing high levels of customer demand, particularly from the mining industry.**

Following the acquisition of UTS Geophysics, we estimate that AQL has an approximate 15-20% share of the \$300 million/year airborne geophysical market. The UTS acquisition effectively doubled the size of the Company, and also added complementary fixed wing expertise to AQL's existing strength in helicopter-based systems. Demand from the mining industry continues to be strong, with exploration spending expected to approach US\$9.5 billion in 2007, up 400% from a cyclical low of US\$1.9 billion in 2002. Reflecting strong demand, AQL has a \$23 million backlog with all of its existing systems booked for approximately four months.

**2) AQL's market penetration potential extends beyond the mining industry to include petroleum, water and unexploded ordnance.**

The petroleum industry currently represents approximately 10% of AQL revenue, but represents a significantly larger market opportunity than the mining industry, as petroleum exploration and production spending in 2006 is expected to approach US\$308 billion. Water and unexploded ordnance exploration represent additional growth opportunities for the Company. We therefore believe that the opportunity for AQL to expand its addressable market is significant.

**3) The Company has a strong organic growth plan underway, and acquisitions could also play a role.**

With the current system fleet already operating at practical capacity limits, we expect organic revenue growth to be driven primarily by expansion of the system fleet. As of the end of Q1/08 (ending July 31), AQL had a fleet of 20 systems available for use. We expect the Company to exit FY 2008 with 25 systems, and FY 2009 with 42 systems. This should drive revenue growth of 134% in FY 2008 and 60% in FY 2009. Combined with improvement in gross margins and operating leverage, this should produce an operating cash flow/share CAGR of 40% over the next two years.

Moreover, acquisitions could continue to play a role in the growth of the Company. AQL's core strengths are its technical geophysical knowledge and its survey planning and execution. We believe that management could look at acquisition opportunities designed to strengthen either or both of those capabilities.

**4) AQL is undervalued at current levels, which we largely attribute to a lack of awareness.**

AQL currently trades at approximately 6x our estimate for operating cash flow per share (diluted, after working capital) despite significant growth potential. We value AQL using a 13x CFOPS multiple and rate AQL a **STRONG BUY** with a 12-month target of \$6.50 per share, representing a potential return-to-target of 123%. Potential catalysts include continued earnings improvement as well as possible acquisitions. In particular, the upcoming Q2/08 results (ending October, likely to be released in December) will be the first to fully reflect the combined company following the acquisition of UTS earlier this year. Moreover, as the Company's market capitalization exceeds the \$100 million level, the potential investor audience for AQL should also improve.

## BACKGROUND:

Aeroquest was originally founded in 1988, by Wally Boyko. During the 1990s, the Company operated its own fixed wing aircraft primarily in the Northwest Territories. In 1997, AQL completed development of its own proprietary helicopter-based electromagnetic (EM) system, and also began development of a more sophisticated system called AeroTEM, which was introduced in 1999. The Company has since launched three subsequent generations of this system, and they form the bulk of the Company's current helicopter-based system fleet.

In 2004, the Company completed a reverse takeover of PICorp., a TSX Venture listing and a \$4.0 million equity financing at \$2.00/share. Revenue and earnings growth was slower than anticipated, and in late 2005, Roy Graydon became CEO and a Director of the Company, bringing a service-focus approach to the business. FY 2007 (ended April 30) was a very strong year, as the Company posted revenue growth of 118% (all organic) and diluted EPS of \$0.11/share, up from a loss per share of \$0.04 in the prior year.

Despite the strong results of FY 2007, management determined that its addressable market was somewhat limited by the Company's focus on helicopter-based systems. In May 2007, the Company announced plans to acquire Universal Tracking System of Australia, operating as UTS Geophysics. UTS was approximately the same size as AQL, making this acquisition transformative in its scale. Moreover, UTS's focus is on fixed wing delivery platforms, making it a true complement to Aeroquest's strength in helicopter-based systems. The acquisition was completed for \$26.0 million, including:

- \$7.0 million in cash;
- \$3.4 million in promissory notes;
- \$14.6 million in AQL stock at \$2.15/share; and
- \$1.0 million in acquisition costs.

The cash portion was funded by the proceeds of a \$7.7 million private placement (\$1.70 per unit, share plus ½ warrant, 2 year warrant term with a \$2.45 strike price). The acquisition price valued UTS at approximately 5.5x trailing EBITDA.

As a result of this transaction, management believes it now has the second largest fleet of airborne geophysical survey systems in the world (second to Fugro NV), and now has the capability to deliver service anywhere in the world, using any geophysical method and any platform that customers demand. Moreover, AQL intends to expand on its success in the mining industry to include oil and gas, as well as water and unexploded ordnance.

## BUSINESS OVERVIEW:

Aeroquest International offers airborne geophysical services to the the mineral exploration, oil and gas and environmental industries. The Company develops and operates proprietary technology using both helicopter-based and fixed wing delivery platforms to obtain geophysical data, and also provides data processing and interpretation. These systems include the detection instrumentation, avionics and computer systems for data recording and survey guidance. The Company owns three aircraft, and the remainder are leased.

### Aeroquest: Helicopter-Based Systems

This was the focus of Aeroquest prior to the acquisition of UTS. At the end of Q1/08, the Company had 10 such systems available for use, of which seven were AeroTEM systems.

**Exhibit 1. The AeroTEM System**



Source: Aeroquest International Limited

AeroTEM systems are based on time-domain electromagnetics (TEM). Time-domain systems emit an electrical pulse and measure the earth’s response to that pulse. ‘Time-domain’ refers to the fact that the system measures the response of the earth at various points in time, both while emitting the pulse (the “on-time”) and when the transmitter is shut off (the “off-time”). This can be considered analogous to ‘active’ and ‘passive’ sonar. These systems measure conductance, and can therefore be used to identify bodies capable of conducting electricity (i.e. bodies rich in certain minerals).

The AeroTEM systems are unique in their ability to measure three different components of the earth’s response: the vertical component of the response during the on-time (“Z-on”), as well as both the vertical and horizontal components of the off-time response (“Z-off” and “X-off”, respectively). This allows the AeroTEM system to:

- Produce very high resolution data with a high signal-to-noise ratio;
- Do conductance discrimination; and
- Retrieve information on position, orientation, depth and thickness of conductors.

AQL launched the original AeroTEM system in 1999, and has since launched further generations of the platform. We highlight the key features in Exhibit 2.

**Exhibit 2. AeroTEM System Features**

System	Key Features
AeroTEM II	<ul style="list-style-type: none"> <li>○ 5m diameter platform.</li> <li>○ Typically used for targets up to 250m in depth.</li> <li>○ Size and base frequency make it useful for exploration for gold, platinum group elements and kimberlites (diamonds).</li> <li>○ Small size and weight make it useful in mountainous terrain.</li> </ul>
AeroTEM III	<ul style="list-style-type: none"> <li>○ Platform 9m to 10m in diameter.</li> <li>○ Typically used for targets up to 400m in depth.</li> <li>○ Well suited for nickel exploration, as well as in oil and gas, where near surface rocks are conductive.</li> </ul>
AeroTEM IV	<ul style="list-style-type: none"> <li>○ Platform 12m in diameter.</li> <li>○ Typically used for targets up to 600m in depth, and where rocks are more conductive.</li> </ul>

Source: Aeroquest International Limited

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Each AeroTEM system is flown together with one or more magnetometers attached to the AeroTEM 'bird' as well as one on the ground (a 'base station' magnetometer). This allows AQL to effectively conduct two surveys at once (one magnetic, one electromagnetic) for which the resulting data can be combined into one data set. The Company may also include a radiometric unit (called a gamma ray spectrometer), to allow for a third survey to be completed.

Other systems owned by Aeroquest include:

- **Impulse** – this is a frequency-domain electromagnetic system that transmits an electromagnetic field at discrete frequencies and measures the response. These systems can estimate orientation, position and conductance of the body creating the response.
- **Heli-TAG™ Magnetic Gradiometer** – this is a passive system (AeroTEM and Impulse are both active systems). AQL owns and operates two of these.
- **Radiometrics** – AQL owns and operates a number of gamma ray spectrometers, which are passive systems. These systems measure the rate of spontaneous radiological decay from rocks up to 60 cm below the earth's surface.

### UTS: Fixed Wing Systems

This is the focus of UTS, now a subsidiary of Aeroquest. UTS operates four multi-sensor magnetic gradiometers and six single-sensor magnetometer aircraft (see Exhibit 3 for examples). For single-sensor aircraft, the sensor is installed in the tail boom. For multi-sensor craft, additional sensors are installed in the wing-tips. The Company also offers gravitometric survey services. Gamma ray spectrometers are also installed in seven of the aircraft.

#### Exhibit 3. Fixed Wing Aircraft



Source: Aeroquest International Limited

UTS' ultra-high resolution surveys are designed to acquire data with better structural resolution relative to traditional aircraft. This is accomplished through system configurations that allow low-level flying at 30 metres, compared to the traditional 70m to 80m levels flown by competitors. Management believes it is the only company with this capability in fixed wing surveys.

### Fixed wing v. Helicopter-Based

Helicopter-based systems allow for flying at lower altitudes and slower speeds relative to fixed wing systems. This allows helicopter-based systems to collect data with relatively higher levels of resolution and accuracy, although UTS's fixed wing surveys obtain high resolution data because their configuration allows for low level flying (30m). Resolution is particularly important in areas with complex geology as well as in the search for discrete conductors.

In electromagnetic applications, fixed wing systems are generally capable of better depth penetration, although AQL and others have expanded the depth penetration to up to 600m (AeroTEM IV).

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Fixed wing surveys are often conducted early on in the exploration process, with helicopter-based surveys used to focus on areas identified by the fixed wing survey. The acquisition of UTS and its fixed wing capability effectively represents vertical integration.

## Customers

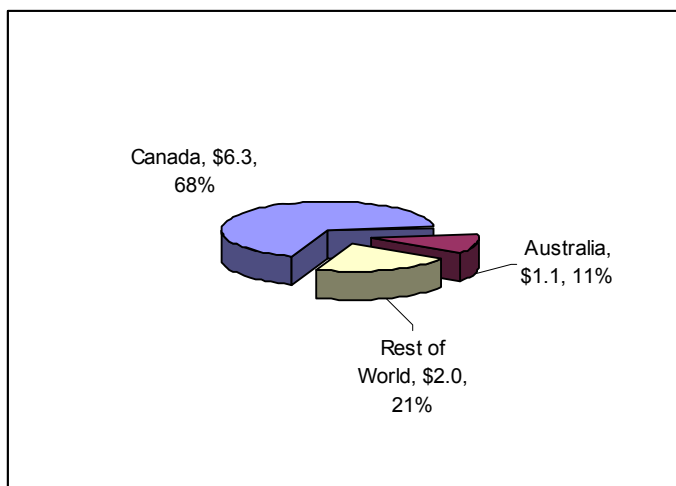
AQL generates approximately 70% of its revenue from junior mining companies, with approximately 30% coming from intermediates and majors. No single customer represents more than 5% of revenue, giving AQL a relatively diversified revenue base for a company of this size.

Amongst major mining companies, customers include DeBeers, Kennecott, Rio Tinto and Teck Cominco. Amongst juniors, the Company has completed (or is completing) work for Inspiration Mining, Benton Resources, Hawthorne Gold, Rockgate Capital, El Nino Ventures, and Acrex Ventures.

AQL typically charges customers on a per-line-kilometre basis, while also incorporating fixed mobilization and standby charges. Customers typically make an initial deposit of 30% of the estimated cost of the survey, making the Company's working capital requirements very manageable.

On a geographic basis, Aeroquest has traditionally focused on the Canadian marketplace (see Exhibit 4). As the Q1/08 results included only one month of the UTS results, we do not view this revenue distribution as truly representative and over time, we expect this distribution to become more global.

### Exhibit 4. Q1/08 Revenue by Geography



Source: Aeroquest International Limited, Jennings Estimates

Based on AQL's FY 2007 results, the average survey length was approximately 1,500 line km and generated approximately \$184k in revenue for AQL, with some quarter-to-quarter variation in these numbers. These data represent what is now the Aeroquest subsidiary. Similar data for UTS was not available.

## Growth Strategy

Aeroquest's vision is to be a global leader in proprietary geophysical technologies, with a focus on airborne survey technology. In support of that objective, management plans to:

- 1) Expand its helicopter-based fleet – management eventually wants to be able to add a new AeroTEM system each month.

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- 2) Expand its international presence – including additional work in South America, Northern Europe and Asia.
- 3) Strengthen its capabilities in other geophysical survey technologies, such as frequency-domain EM systems, fixed wing magnetics, radiometrics and gravimetrics.
- 4) Develop new markets for the AeroTEM technology, including oil and gas, water and unexploded ordnance.
- 5) Explore other uses of EM technology.

We believe the Company can significantly expand its fleet organically, and it will be working to establish a more meaningful international presence as well as exposure to other sectors. Acquisitions could play a role in strengthening the Company's technology portfolio.

### Management Ownership

Management owns a significant stake in AQL. Management and directors own a combined 7.9 million shares or approximately 29% of the basic share count outstanding. Roy Graydon (the CEO) owns approximately 5% of the basic amount outstanding, and the co-founders of UTS, Neil Goodey (now the COO) and Nino Tufilli, own approximately 10% each.

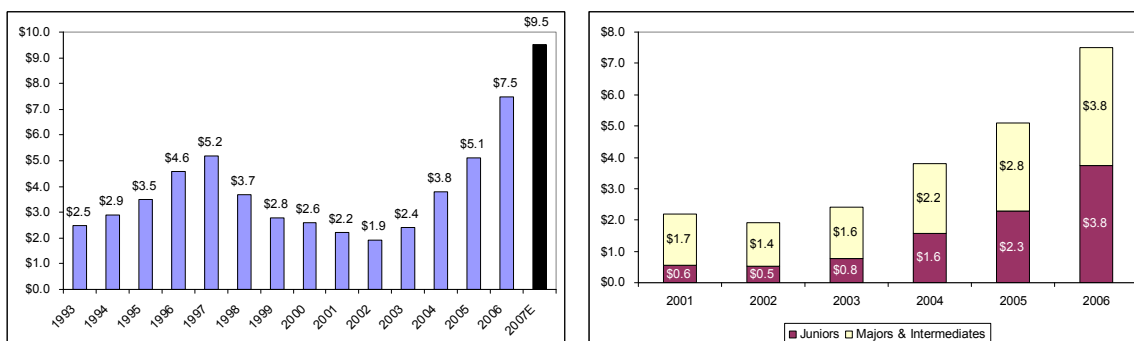
### INDUSTRY & COMPETITION:

Management estimates that the current market for geophysical airborne survey services is \$300 million/year (based on 2006 data), with approximately 80% of that revenue coming from the mining industry. While exploration spending in the mining industry has grown considerably, the longer-term growth opportunities for the Company include the petroleum industry (significantly larger than mining), water exploration and unexploded ordnance.

### The Mining Industry

According to Metals Economics Group, global mineral exploration spending (including uranium spending) is expected to exceed US\$10 billion in 2007. Excluding uranium spending (making it equivalent to prior year measures), spending is expected to be in the US\$9.3 billion to US\$9.7 billion range (mid-point US\$9.5 billion), representing 400% growth from a cyclical low level of US\$1.9 billion in 2002 (see Exhibit 5).

**Exhibit 5. Global Mineral Exploration Spending**

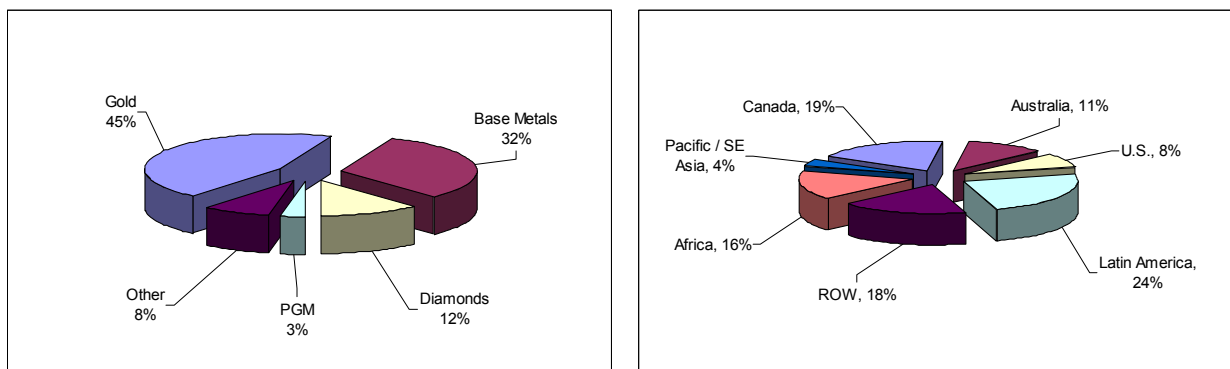


Source: Metals Economics Group

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As reflected, industry spending can vary significantly from year-to-year with commodity prices. Moreover, spending by junior exploration companies is typically more volatile than spending by intermediates and majors. Spending on gold exploration represented 45% of total spending in FY 2006, with Canada and Australia alone representing 30% of spending (see Exhibit 6).

**Exhibit 6. Exploration Spending by Target & Geography**



Source: Metals Economics Group (data for 2006)

Ultimately, geophysical surveying is intended to enable more cost-effective drilling. At approximately \$240 million/year (80% of \$300 million), airborne geophysical spending represents approximately 3% of total exploration spending, while drilling represents 40% to 50%. Mining companies use airborne survey services where they want to cover large land areas or properties. Traditionally, this has been done using fixed wing craft flying at 80 metre altitudes. The resulting data can be used to map trends with modest levels of resolution, and allows the mining company to start developing a geological model that it can then use to focus exploration on more specific areas. The next step may then be helicopter-based or ground-based surveys of smaller sections of the same area, following which exploration drilling may begin if deemed worthwhile. Ground-based surveys have often been held to be more accurate than airborne surveys, although AQL management contends that this gap narrows considerably using its technology and low-level surveying.

While exploration spending has traditionally been volatile, we expect continued strength ultimately due to the fact that this cycle of exploration has been generally unsuccessful. Mining companies will be challenged to replace (much less expand) reserves, and until major discoveries are made and developed, the industry will have to continue to invest in exploration.

We therefore believe industry spending will remain strong, and that Aeroquest's global survey capability and technology breadth make it well positioned to benefit.

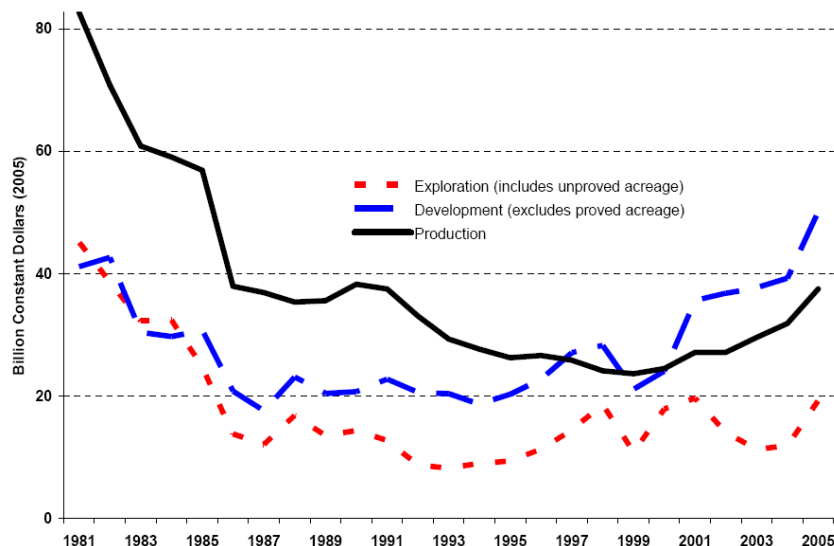
**Market Opportunity - The Petroleum Industry**

While the business has already grown rapidly by serving the mining industry, management envisions expanding its reach into the petroleum exploration market.

Global spending on exploration and production is expected to approach US\$308 billion in 2007, up 13% from 2006 (per Petroleum News, original source Lehman Brothers). The composition between exploration, development and production can vary significantly over time, as reflected in Exhibit 7. Based on 2005 data for this subset of companies, we estimate that exploration represents approximately 20% of total spending, or over US\$60 billion/year. Seismic imaging in the global oil service market is a \$7 billion/year industry.

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### Exhibit 7. Global Exploration Spending (by FRS Companies)



Source: Energy Information Agency

Airborne geophysical is currently little used in the petroleum industry. AQL management believes it can position its airborne geophysical services as a cost effective complement to seismic, rather than as a competing technology, given airborne's relative strength in shallower depths (500 metres or less) and seismic's strengths beyond that. 3D seismic surveys for an equivalent property can cost well over 20x that of an airborne survey. It is unclear what the market potential is for airborne geophysical surveys in this industry, but as an example, if airborne geophysical could obtain a 1% share of exploration spending (well below the 3% share it has of the mining industry), that implies a market opportunity of US\$600 million/year. This is clearly a significant market opportunity that management intends to penetrate.

### Additional Market Opportunities

In addition to mining and petroleum, management intends to target two other markets:

- 1) **Water** – airborne electromagnetic surveys can be used for mapping purposes (measuring the salt content of water) as well as for direct detection of potential aquifers. According to a World Bank report, approximately \$100 billion will be spent through to 2015 on improving the water supply for 1.5 billion people. While developing markets such as Africa are seen as high growth areas, even some developed countries face challenges. For example, average water use in Australia has increased by 65% since the 1980s, and approximately 55% of the country's water is supplied by areas that are now considered overdeveloped (per that country's National Land & Water Resources Audit). With the recent acquisition of UTS (an Australian-based company), we believe AQL is well positioned to participate in growth there.
- 2) **Unexploded Ordnance (UXO)** – management views this as a smaller market opportunity that would require additional system development. Management estimates that the vast majority of the U.S. government's US\$200 million/year remediation budget is spent investigating anomalies identified by ground-based magnetics with a very low (1-2%) success rate, with approximately \$10 to \$20 million/year spent on airborne geophysical surveys. Targeting this market would require the development of a smaller-yet-more sophisticated EM system that could provide high levels of accuracy at very shallow (2 to 3 metre) depths. This is a smaller market opportunity that we view as less of a priority.

## Competition

AQL's most direct competitor is Fugro NV (Amsterdam – FUR). Fugro is a more diversified business, offering data collection and interpretation to the petroleum, mining and construction industries. Fugro was founded in 1962, and now employs over 11,000 people in 50 countries. The segment that competes with AQL is the Airborne Survey business within the Geosciences division, which contributed approximately \$125 million in revenue (representing 40% of the current market), or 5% of Fugro's trailing 12-month revenue of \$2.3 billion. While this is a smaller business within the entire company, it is one of only two business lines that Fugro considers to be market leaders (the other being Offshore Survey). Fugro has a fleet of approximately 40 aircraft and helicopters (v. AQL's 20), and reported a revenue backlog of approximately \$60 million at the end of June 2007. Overall, Fugro has completed 18 acquisitions since January 2006, spending approximately \$200 million to acquire businesses generating \$220 million in annual revenue. AQL management believes it has a technological advantage over Fugro (a stronger front end), but that Fugro is relatively strong in terms of scale and its data processing capacity (a stronger back end). Management has highlighted this as a key area it wants to address.

AQL also competes with GeoTech, a private Canadian company. GeoTech's technology (Versatile Time Domain EM or VTEM) is believed to be relatively strong (compared to AQL's AeroTEM system) in terms of depth penetration, while the AeroTEM system provides better resolution at shallower depths. GeoTech has at least 16 systems, although financial information is not disclosed.

Sander Geophysics Limited (SGL) is another significant industry player based in Canada. SGL has a fleet of 14 fixed wing aircraft as well as one helicopter, and conducts magnetic, gravimetric and radiometric surveys.

This is otherwise a highly fragmented industry, with a number of small companies offering specialized technology platforms, and few (if any) offering the breadth of platform and geographic footprint of either AQL or Fugro.

Given the Company's intent to expand into the petroleum industry, AQL may face resistance from customers that have traditionally relied on seismic data over geophysical data. AQL management intends to position airborne geophysical surveys as a complement to traditional seismic rather than a direct competitor, but will still have to compete for share of wallet.

## AQL's Advantages

We believe AQL now has a number of advantages over competitors:

- 1) **System Breadth** – following the UTS acquisition, Aeroquest can now offer a broad array of technology platforms (time/frequency domain electromagnetics, radiometrics, gradiometers), delivery platforms (helicopter-based and fixed wing) and a global survey capability. We believe that only Fugro can match this breadth.
- 2) **Technology** - Aeroquest's AeroTEM system has a number of technological advantages over competing systems, including:
  - **Spatial Resolution** – the AeroTEM system is purposefully designed to have a smaller footprint. While this may seem counter-intuitive, a smaller footprint allows for better detection of discrete conductors.
  - **Conductance Discrimination** – the system's rigid geometry makes it relatively more effective in detection and discrimination of high-conductance targets because it produces a high signal-to-noise-ratio.
  - **Easy Data Interpretation** – using a combination of receiver coils provides information on the position, orientation, depth and thickness of a conductor.

This high level of resolution and high signal-to-noise ratio enables AQL to operate in well-developed areas that produce strong levels of electromagnetic noise. For example, in 2002 the Company flew surveys in the Sudbury Basin for FNX Mining. One property in particular contained three major power line corridors. The AeroTEM system was still able to identify an area of favourable geology, and the mineralization was subsequently named the Powerline Deposit.

Relative to Fugro, AQL management believes that the AeroTEM system gives AQL an edge in helicopter time-domain EM technology, while Fugro may have stronger frequency-domain technology relative to AQL's Impulse system.

## FINANCIAL PERFORMANCE:

### Q1/08 Results

AQL recently reported Q1/08 (ending July 31, 2007) revenue of \$9.4 million, and diluted EPS of \$0.04. This represented year-year revenue growth of 96% from \$4.8 million, and included organic revenue growth of 54%. These results included those of UTS from the closing date of the acquisition (July 3), or approximately one month of the quarter. While these were strong results, we believe that Q2/08 results will be a far more accurate representation of what the combined business is capable of.

The highlights of the Aeroquest (helicopter-based) business results are reflected in Exhibit 8. Full financial statements (historic and projected) are shown in Appendix A.

#### Exhibit 8. Aeroquest (helicopter-based) Q1/08 Results

	Q 1/08A	Q 1/07A	Growth
Revenue (\$mm)	\$7.3	\$4.8	53.9%
Gross Margin	44.0%	41.2%	280 bps
Line km Flown	51,100	49,000	4.3%
Revenue/Line km Flown	\$143.46	\$97.24	47.5%

Source: Aeroquest International Limited

As shown, year-year revenue growth and gross margin improvement were driven primarily by stronger unit revenue, attributable to increased mobilization and standby charges (reflecting strong pricing power owing to market demand) as well as stronger business mix (relatively more AeroTEM surveys flown, which produce higher prices and margins).

The highlights of the UTS contribution are reflected in Exhibit 9.

#### Exhibit 9. UTS (fixed wing) Q1/08 Results

	Q 1/08A	Q 1/07A	Growth
Revenue (\$mm)	\$2.0	n/a	n/a
Gross Margin	31.2%	n/a	n/a
Line km Flown	158,000	n/a	n/a
Revenue/Line km Flown	\$12.81	n/a	n/a

Source: Aeroquest International Limited (n/a = not available)

As the UTS results were included for approximately one month of the quarter, these results are not representative of a full quarter performance nor can they be compared to prior quarters. Management commented that, while margins were in line with expectations, they should improve from Q1/08 levels.

The consolidated results are reflected in Exhibit 10.

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**Exhibit 10. Consolidated Q1/08 Results**

	Q 1/08A	Q 1/07A	Growth
Revenue (\$mm)	\$9.4	\$4.8	96.3%
Gross Margin	41.3%	41.2%	2 bps
EBITDA (\$mm)	\$2.4	\$0.9	155.9%
EBITDA Margin	25.4%	19.5%	592 bps
Net Earnings (\$mm)	\$0.9	\$0.6	66.3%
Diluted EPS	\$0.04	\$0.03	33.3%
OCF PS (before working capital)	\$0.07	\$0.05	40.0%
<b>CFO PS (after working capital)</b>	<b>\$0.11</b>	<b>\$0.06</b>	<b>83.3%</b>

Source: Aeroquest International Limited

On a consolidated basis, AQL delivered revenue growth of 96% with stable blended gross margins. Cash operating costs as a percentage of revenue declined from 19% to 16%, demonstrating improved operating leverage that resulted in net earnings growth of 66%. Diluted EPS growth was slightly lower at 33%, owing to the dilutive impact of shares issued as part of the UTS acquisition and the related financing. Operating cash flow per share – both before and after working capital – demonstrated strong growth as well.

**FY 2007 Results**

FY 2007 was a very strong year for AQL, as reflected in Exhibit 11.

**Exhibit 11. FY 2007 Results**

	2007A	2006A	Growth
Line km Flown	164,900	65,350	152.3%
Revenue/Line km Flown	\$120.53	\$139.44	(13.6%)
Revenue (\$mm)	\$19.9	\$9.1	118.1%
Gross Margin	45.4%	36.7%	871 bps
EBITDA (\$mm)	\$4.6	(\$0.2)	nmf
EBITDA Margin	23.3%	(2.7%)	2604 bps
Net Earnings (\$mm)	\$1.9	(\$1.2)	nmf
Diluted EPS	\$0.11	(\$0.07)	nmf
OCF PS (before working capital)	\$0.20	(\$0.01)	nmf
<b>CFO PS (after working capital)</b>	<b>\$0.25</b>	<b>\$0.01</b>	<b>2416.7%</b>

Source: Aeroquest International Limited (nmf = not meaningful)

Revenue growth – purely organic – was 118%, and the Company also demonstrated significant margin improvement (gross and EBITDA). Revenue growth was driven primarily by a 152% increase in line km flown, offset by a 14% decline in unit revenue. Growth in line km flown was driven by a combination of increased utilization of systems as well as an expansion of the system fleet. Gross margin improvement was driven primarily by scale economies with the significant increase in business volume. Cash operating costs also declined from 39% of revenue to 22%, demonstrating very strong operating leverage despite increasing in dollar terms. Strong revenue growth and margin improvement produced diluted EPS of \$0.11, much improved from a \$0.07 loss in FY 2006. As in Q1/08, operating cash flow per share was also very strong. AQL generated approximately \$2.2 million (or \$0.13 per share, diluted) of free cash flow in FY 2008.

We believe the strong results of FY 2007 demonstrate that the AQL business (pre-UTS acquisition) was already performing very well, particularly on a cash flow basis, and that the UTS acquisition should serve to expand what was already a rapidly growing company.

### The Balance Sheet

At the end of Q1/08, AQL reported cash and equivalents of \$6.0 million, and total debt of \$4.5 million comprised of capital lease obligations and promissory notes issued as part of the UTS acquisition. AQL also has almost \$2.4 million in unused credit facilities.

We believe that AQL's balance sheet and internal cash flow generation is sufficient to finance strong system fleet expansion and organic revenue growth without additional financing.

### FINANCIAL PROJECTIONS:

Management has indicated expansion of the system fleet as its top priority in driving organic revenue growth. The key assumptions in our model are as follows:

- **System Fleet Expansion** – AQL has a current fleet of 20 systems. We expect the Company to exit FY 2008 with 25 systems, and FY 2009 with 42 systems. Our model assumes that the Company continues to make capital investments approximating 10% of revenue. This is the primary driver of revenue, as we expect system utilization and revenue/line km flown (unit pricing) levels to remain stable.
- **Gross Margins** – we expect slight improvement in both business lines over the next few years relative to the Q1/08 results, with annualized margins for helicopter-based surveys to be approximately 45%, and fixed wing surveys to be approximately 40%. The addition of the fixed wing business will therefore reduce blended gross margins for the forecast period relative to pre-acquisition periods.
- **Effective Tax Rate** – we assume high effective tax rates during our forecast period. As part of the UTS acquisition, AQL acquired \$21.0 million in intangible assets (including customer relationships, technology and sales backlog) that will be amortized over the next 5-7 years. This amortization inflates the Company's effective tax rate.

The highlights of our model are presented in Exhibit 12. There is seasonality in the revenue base, as H1 (the April to October time frame) is expected to represent 55% of annual revenue. There has traditionally been variability from quarter-to-quarter in utilization rates and revenue/line km flown, with revenue/line km flown actually higher in some lower utilization quarters as the fixed mobilization and standby charges represented a larger portion of revenue. Given this volatility, we do not project quarterly estimates for AQL.

**Exhibit 12. Highlights of Forecast**

	2008E	2009E	Growth (y-y)
Aeroquest	\$27.5	\$42.9	55.9%
UTS	\$19.0	\$31.3	65.0%
<b>Overall Revenue</b>	<b>\$46.5</b>	<b>\$74.2</b>	<b>59.6%</b>
Gross Margin	42.2%	42.7%	48 bps
EBITDA	\$11.7	\$22.3	91.1%
EBITDA Margin	25.1%	30.1%	497 bps
Net Earnings (\$mm)	\$2.0	\$8.4	315.7%
Diluted EPS	\$0.07	\$0.27	285.7%
OCF PS (before working capital)	\$0.29	\$0.52	79.3%
<b>CFO PS (after working capital)</b>	<b>\$0.23</b>	<b>\$0.50</b>	<b>117.4%</b>

Source: Jennings Estimates

The amortization of intangible assets has a significant effect on AQL's apparent effective income tax rate and its net earnings. Given their non-cash nature, we believe that cash flow measures are more relevant to evaluating AQL's performance. AQL's customers typically pay a 30% deposit once the work is scheduled, which helps keep working capital requirements very manageable. As demonstrated in Exhibit 13, we expect significant cash flow generation from AQL relative to earnings, and strong growth across all three metrics.

**Exhibit 13. Cash Flow Outlook**

Per Share, Diluted	2006A	2007A	2008E	2009E	'07-'09 CAGR
Earnings	(\$0.07)	\$0.11	\$0.07	\$0.27	55%
Operating CF (before working cap.)	(\$0.01)	\$0.20	\$0.29	\$0.52	63%
Cash From Oper. (after working cap.)	\$0.01	\$0.25	\$0.23	\$0.50	40%

Source: Aeroquest International Limited, Jennings Estimates

**VALUATION & RECOMMENDATION:**

We believe that per share operating cash flow after working capital (CFOPS) is the most appropriate valuation metric, as net earnings strength is somewhat obscured by the amortization of intangibles.

Our comparables group includes geophysical companies as well as contract drilling companies. The geophysical companies generally focus on oil and gas, and we therefore believe that the contract drilling group is a more relevant group of comparables given that they share mineral exploration spending strength as a common driver. As shown in Appendix B, only Major Drilling (MDI-TSX), Foraco (FAR-TSX) and Boart Longyear (BLY-AU) have published CFOPS estimates for FY 2008, with a range of multiples from 8x to 12x. The expected growth rates for these two companies are also far more modest than our outlook for AQL.

Applying a 13x multiple to FY 2009 CFOPS of \$0.50 implies a per share value of \$6.50.

We are initiating coverage on Aeroquest International Limited with a **STRONG BUY** recommendation and **12-month target price of \$6.50 per share.**

## **KEY RISKS:**

While not an exhaustive list, we believe the following are the more important risks faced by Aeroquest.

### **Industry Risk - Mineral Exploration Activity**

Demand for AQL's services is currently vulnerable to mineral exploration spending, which can vary significantly year-over-year. A significant decline in commodity prices that materially reduces exploration activity would negatively impact AQL. Over time, we expect this risk to be reduced as the Company diversifies revenue away from the mineral exploration business, although the same risk applies to petroleum exploration

### **Competition**

#### **Need to Expand Beyond Mining**

In the near-term, we believe AQL is well positioned to continue growing rapidly owing to strong demand from the mineral exploration sector. However, the total size of this market is estimated to be only \$240 million/year (80% of total airborne geophysical spending of \$300 million/year). We therefore believe the long-term key for AQL is to expand its services to other industries, which will bring it into competition with the incumbent technology platforms in those areas. Demonstrating true value-add to overcome initial resistance will be the key hurdle, although we believe that the cost-effectiveness of AQL's services and relative technical strength at shallower depths will make it compelling.

#### **Staffing**

Management has indicated that it wants to strengthen its data processing capabilities. Despite nearly doubling its headcount in this area, AQL still has a shortage of geophysicists as demand growth (and therefore sales growth) has outstripped the supply of experienced people. This is an industry wide problem, owing to underinvestment in this field during leaner times.

**APPENDIX A – FINANCIAL STATEMENTS:**

**Income Statements**

C\$ mm, Fiscal Y/E April 30th	2005A	2006A	2007A	2008E	2009E
Aeroquest (helicopter-based)	7.9	9.1	19.9	27.5	42.9
UTS (fixed-wing)	n/a	n/a	n/a	19.0	31.3
<b>Sales</b>	<b>7.9</b>	<b>9.1</b>	<b>19.9</b>	<b>46.5</b>	<b>74.2</b>
Cost of Sales	4.5	5.8	10.8	26.8	42.5
<b>Gross Profit</b>	<b>3.4</b>	<b>3.3</b>	<b>9.0</b>	<b>19.6</b>	<b>31.7</b>
General & Administrative Expenses	0.6	2.8	3.9	6.6	7.4
Research & Development	1.7	0.8	0.5	1.1	1.9
Depreciation of Capital Assets	0.6	1.0	1.0	2.5	3.7
Amortization of Intangible Assets	-	-	-	3.8	3.8
Stock Option Expense	0.8	0.1	0.2	0.2	0.4
Restricted Stock Unit Expense	-	-	0.0	-	-
Operating Expenses	3.7	4.6	5.7	14.3	17.2
<b>Operating Income (Loss)</b>	<b>(0.3)</b>	<b>(1.2)</b>	<b>3.3</b>	<b>5.3</b>	<b>14.5</b>
Other Items	(0.1)	0.4	0.0	(0.0)	(0.4)
<b>Earnings (Loss) Before Taxes</b>	<b>(0.3)</b>	<b>(1.6)</b>	<b>3.3</b>	<b>5.4</b>	<b>14.9</b>
Income Taxes	0.3	(0.4)	1.4	3.4	6.5
<b>Net Earnings (Loss)</b>	<b>(0.5)</b>	<b>(1.2)</b>	<b>1.9</b>	<b>2.0</b>	<b>8.4</b>
Basic WASO	13.1	15.8	15.8	25.8	27.3
Diluted WASO	13.9	16.8	17.0	29.3	31.2
Basic EPS	(\$0.04)	(\$0.07)	\$0.12	\$0.08	\$0.31
<b>Diluted EPS</b>	<b>(\$0.04)</b>	<b>(\$0.07)</b>	<b>\$0.11</b>	<b>\$0.07</b>	<b>\$0.27</b>
<b>Other Metrics</b>					
Per Share Impact of Amortization of Intangibles	\$0.00	\$0.00	\$0.00	\$0.13	\$0.12
<u>End of Period System Fleet</u>					
Aeroquest / Helicopter-Based Systems	7	7	9	12	23
UTS / Fixed-Wing Systems	n/a	n/a	10	13	19
<b>Overall</b>	<b>7</b>	<b>7</b>	<b>19</b>	<b>25</b>	<b>42</b>
<u>Revenue Growth (y-y)</u>					
Aeroquest	95.2%	15.2%	118.1%	38.4%	55.9%
UTS	n/a	n/a	n/a	n/a	65.0%
<b>Overall</b>	<b>95.2%</b>	<b>15.2%</b>	<b>118.1%</b>	<b>133.9%</b>	<b>59.6%</b>
Gross Margin	42.6%	36.7%	45.4%	42.2%	42.7%
Cash Operating Cost Margin	29.2%	39.3%	22.2%	16.8%	12.6%
Operating Profit	(0.3)	(1.2)	3.4	9.2	18.3
Operating Margin	(4.1%)	(13.7%)	16.9%	19.7%	24.6%
EBITDA	0.4	(0.2)	4.6	11.7	22.7
EBITDA Margin	4.5%	(2.7%)	23.3%	25.1%	30.6%
Net Earnings	(0.5)	(1.2)	1.9	2.0	8.4
Earnings Margin	(6.9%)	(13.0%)	9.5%	4.3%	11.3%
Diluted EPS Growth	nmf	nmf	nmf	(35.5%)	273.7%

Source: Aeroquest International Limited, Jennings Estimates

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**Balance Sheets**

<b>C\$ mm, Fiscal Y/E April 30th</b>	<b>2005A</b>	<b>2006A</b>	<b>2007A</b>	<b>2008E</b>	<b>2009E</b>
Cash & Equivalents	3.0	2.5	4.7	6.3	13.7
Accounts Receivable	1.9	1.9	3.8	12.3	20.2
Income Taxes Receivable	-	0.5	-	-	-
Prepaid Expenses & Deposits	-	0.1	0.6	1.1	1.8
Contracts In Process	0.5	0.2	0.3	0.8	1.4
Loan Receivable	0.1	0.1	-	-	-
<b>Current Assets</b>	<b>5.6</b>	<b>5.2</b>	<b>9.4</b>	<b>20.6</b>	<b>37.1</b>
Long-Term Investments	0.0	0.1	0.0	0.0	0.0
Capital Assets	2.7	2.6	3.6	9.0	12.7
Intellectual Property	0.2	0.1	-	-	-
Intangible Assets	-	-	-	17.5	13.7
Goodwill	-	-	-	11.2	11.2
Future Income Taxes	0.1	0.1	0.0	0.2	0.2
<b>Total Assets</b>	<b>8.6</b>	<b>8.1</b>	<b>13.0</b>	<b>58.4</b>	<b>74.9</b>
Accounts Payable & Accrued Liabilities	1.0	1.6	2.1	5.7	9.1
Income Taxes Payable	0.1	-	1.0	1.9	3.2
Deferred Revenue	0.7	0.8	2.3	6.1	10.0
Promissory Notes	-	-	-	0.8	0.8
Capital Lease Obligations	-	-	-	0.3	0.3
Current Portion of Long-Term Debt	0.0	-	-	-	-
<b>Current Liabilities</b>	<b>1.8</b>	<b>2.4</b>	<b>5.4</b>	<b>14.9</b>	<b>23.4</b>
Promissory Notes	-	-	-	2.5	1.7
Capital Lease Obligations	-	-	-	0.8	0.8
<b>Total Liabilities</b>	<b>1.8</b>	<b>2.4</b>	<b>5.4</b>	<b>18.2</b>	<b>25.9</b>
Future Income Taxes	-	-	-	7.8	7.8
Share Capital	5.8	5.8	6.0	28.3	28.3
Contributed Surplus	0.9	1.0	1.1	1.3	1.7
Other Comprehensive Income	-	-	-	0.0	0.0
Retained Earnings (Deficit)	0.0	(1.1)	0.5	2.8	11.2
<b>Shareholders' Equity</b>	<b>6.8</b>	<b>5.7</b>	<b>7.6</b>	<b>32.4</b>	<b>41.1</b>
<b>Liabilities &amp; Shareholders' Equity</b>	<b>8.6</b>	<b>8.1</b>	<b>13.0</b>	<b>58.4</b>	<b>74.9</b>
Total Debt	0.0	-	-	4.5	3.6
Net Cash (Debt)	3.0	2.5	4.7	1.9	10.1

Source: Aeroquest International Limited, Jennings Estimates

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**Cash Flow Statements**

<b>C\$ mm, Fiscal Y/E April 30th</b>	<b>2005A</b>	<b>2006A</b>	<b>2007A</b>	<b>2008E</b>	<b>2009E</b>
Net Earnings (Loss)	(0.5)	(1.2)	1.9	2.0	8.4
<b>Non-Cash Items:</b>					
Depreciation of Capital Assets	0.6	1.0	1.0	2.5	3.7
Amortization of Intangible Assets	-	-	-	3.8	3.8
Write-down of Long-Term Investment	0.0	-	0.1	-	-
Stock Option Expense	0.8	0.1	0.2	0.2	0.4
Restricted Stock Unit Expense	-	-	0.0	-	-
Future Income Taxes	(0.0)	0.0	0.1	0.0	-
Loss (Gain) On Disposal of Capital Assets	-	(0.0)	0.0	-	-
<b>Operating Cash Flow (before Working Capital)</b>	<b>0.8</b>	<b>(0.1)</b>	<b>3.3</b>	<b>8.5</b>	<b>16.2</b>
Accounts Receivable	(1.5)	(0.1)	(1.9)	(5.5)	(7.9)
Prepaid Expenses & Deposits	0.1	(0.1)	(0.5)	(0.5)	(0.7)
Contracts In Process	(0.3)	0.3	(0.1)	0.6	(0.5)
Accounts Payable & Accrued Liabilities	0.3	0.6	0.6	(0.3)	3.4
Income Taxes Payable	(0.1)	(0.6)	1.5	(0.4)	1.2
Deferred Revenue	0.4	0.1	1.5	4.3	3.9
<b>Net Investment in Non-Cash Working Capital</b>	<b>(1.1)</b>	<b>0.3</b>	<b>1.0</b>	<b>(1.8)</b>	<b>(0.6)</b>
<b>Cash From (Used In) Operating Activities</b>	<b>(0.3)</b>	<b>0.2</b>	<b>4.3</b>	<b>6.7</b>	<b>15.6</b>
Loan Receivable	(0.0)	0.0	0.1	-	-
Purchase of Capital Assets	(2.4)	(1.1)	(2.0)	(4.7)	(7.4)
Acquisition (net cash acquired)	-	-	-	(26.0)	-
Sale of Marketable Securities	2.0	-	-	-	-
Insurance Proceeds on Capital Assets	-	0.4	-	-	-
<b>Cash From (Used In) Investing Activities</b>	<b>(0.5)</b>	<b>(0.7)</b>	<b>(1.9)</b>	<b>(30.7)</b>	<b>(7.4)</b>
Repayment of Long-Term Debt	(0.0)	(0.0)	-	-	-
Capital Lease Obligations	-	-	-	(0.0)	-
Promissory Notes	-	-	-	3.4	(0.8)
Proceeds of Exercise of Stock Options	-	-	0.1	-	-
Net Proceeds from Common Share Issue	3.3	-	-	22.3	-
Aeroquest Shares Redeemed	-	-	(0.3)	-	-
<b>Cash From (Used In) Financing Activities</b>	<b>3.3</b>	<b>(0.0)</b>	<b>(0.2)</b>	<b>25.6</b>	<b>(0.8)</b>
Net Change in Cash & Equivalents	2.5	(0.5)	2.2	1.6	7.4
Beginning Cash	0.5	3.0	2.5	4.7	6.3
<b>Ending Cash</b>	<b>3.0</b>	<b>2.5</b>	<b>4.7</b>	<b>6.3</b>	<b>13.7</b>
Operating CF Per Share (before working capital)	\$0.06	(\$0.01)	\$0.20	\$0.29	\$0.52
Cash From Operations Per Share (after working capital)	(\$0.02)	\$0.01	\$0.25	\$0.23	\$0.50
EBIT	(0.3)	(1.2)	3.6	5.4	15.2
Current Taxes	(0.3)	0.5	(1.4)	(3.4)	(6.5)
Amortization	0.6	1.0	1.0	6.3	7.5
CAPEX	(2.4)	(1.1)	(2.0)	(4.7)	(7.4)
Working Capital Investment	(1.1)	0.3	1.0	(1.8)	(0.6)
<b>Free Cash Flow</b>	<b>(3.5)</b>	<b>(0.5)</b>	<b>2.2</b>	<b>1.8</b>	<b>8.2</b>
Free Cash Flow Per Share	(\$0.25)	(\$0.03)	\$0.13	\$0.06	\$0.26

Source: Aeroquest International Limited, Jennings Estimates

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**APPENDIX B – COMPARABLE COMPANIES TABLE:**

Company	Ticker	Last Close (Local Currency)	Market Cap. (\$mm)	Net Debt (\$mm)	TTM Revenue (\$mm)	EV/EBITDA		P/E		P/CFO	
						2007E	2008E	2007E	2008E	2007E	2008E
<b>Geophysical Companies</b>											
Fugro NV	FUGRC-AS	€ 57.06	\$5,562	\$655	\$2,226	15.0x	12.5x	19.0x	15.5x	13.0x	10.7x
Geokinetics	GOK-AMEX	\$23.33	\$237	\$7	\$79	4.5x	3.1x	113.8x	14.9x	5.8x	4.7x
TGC Industries	TGE-AMEX	\$11.15	\$184	\$2	\$20	6.6x	5.4x	23.4x	17.0x	8.3x	7.2x
Pulse Data	PSD-TSX	\$3.00	\$144	\$27	\$9	4.9x	5.1x	69.8x	54.5x	4.3x	4.7x
Divestco	DVT-TSX	\$2.80	\$115	\$50	\$24	2.0x	1.7x	4.4x	3.6x	1.7x	1.8x
Norex Exploration Services	NRX-TSX	\$0.98	\$38	\$5	\$40	3.4x	2.3x	10.3x	5.8x	n/a	n/a
FirstGrowth	FGC-TSX.V	\$0.78	\$26	\$6	\$7	13.3x	4.2x	nmf	20.5x	n/a	n/a
<b>Sub-Group Average</b>						<b>7.1x</b>	<b>4.9x</b>	<b>40.1x</b>	<b>18.8x</b>	<b>6.6x</b>	<b>5.8x</b>
<b>Contract Drilling Companies</b>											
Major Drilling	MDI-TSX	\$55.75	\$1,313	\$29	\$464	10.2x	8.6x	17.4x	15.2x	12.1x	11.1x
Layne Christensen	LAYN-NASDAQ	\$55.38	\$838	\$139	\$749	n/a	n/a	28.1x	27.1x	n/a	n/a
Boart Longyear	BLY-AU	\$2.41	\$3,491	\$641	\$1,443	11.0x	9.1x	20.1x	16.1x	15.4x	12.5x
Foraco	FAR-TSX	\$3.40	\$271	\$21	\$85	n/a	n/a	28.3x	14.2x	11.3x	8.7x
Cabo Drilling	CBET-TSX.V	\$0.74	\$30	\$1	\$34	n/a	n/a	n/a	n/a	n/a	n/a
Landrill International	LDI-TSX.V	\$0.32	\$12	\$3	\$10	n/a	n/a	n/a	n/a	n/a	n/a
<b>Sub-Group Average</b>						<b>10.6x</b>	<b>8.9x</b>	<b>23.5x</b>	<b>18.1x</b>	<b>12.9x</b>	<b>10.8x</b>
Overall Average						7.9x	5.8x	33.4x	18.6x	9.0x	7.7x
High						15.0x	12.5x	113.8x	54.5x	15.4x	12.5x
Low						2.0x	1.7x	4.4x	3.6x	1.7x	1.8x
<b>Adjusted Average</b>						<b>7.7x</b>	<b>5.4x</b>	<b>27.0x</b>	<b>16.3x</b>	<b>9.1x</b>	<b>7.9x</b>
<b>Aeroquest International</b>	<b>AQL-TSX.V</b>	<b>\$2.91</b>	<b>\$79</b>	<b>(\$2)</b>	<b>\$24</b>	<b>6.7x</b>	<b>3.4x</b>	<b>40.5x</b>	<b>10.8x</b>	<b>12.7x</b>	<b>5.8x</b>

**Notes:**

(1) AQL and MDI have April fiscal year ends. LAYN has a January fiscal year end. We present their FY 2008 and FY 2009 estimates as 2007E and 2008E estimates for comparability.

(2) FUGRC and FAR report in euros. FGC, GOK, TGE, LAYNE and BLY report in US\$. Market Cap., Net Debt and TTM Revenue are presented in C\$ using following exchange rates

Euros \$1.3843

US\$ \$0.9754

(3) nmf = not meaningful; n/a = not available.

## **APPENDIX C – SENIOR MANAGEMENT:**

### **Roy Graydon, CEO**

Mr. Graydon, a geophysicist by training, brings over 20 years of business and financial experience to Aeroquest. Most recently, Mr. Graydon was Executive Vice President and Chief Financial Officer of Call-Net Enterprises Inc., a TSX-listed company, and prior to that had been involved in the investment industry for 15 years in mergers and acquisitions for a leading Canadian investment bank, and in public and private equities for one of the country's largest investment institutions.

### **Neil Goodey, COO**

Mr. Goodey has over 20 years of management and directorship experience in technology-driven, high growth companies. A co-founder of international airborne geophysics group, UTS Geophysics, Neil was CEO from 1992 through 2001 and Executive Chairman from 2001. Neil also co-founded Australian public company DTI Group Ltd, a leading mass transit surveillance provider, and was CEO from 2001 through 2006 and Executive Director from 2006. Neil sits on an advisory board to Curtin University overseeing technology commercialization opportunities, and is a director of Virtual Observer Pty Ltd, a start-up company spun-out from the University.

### **Wilfred Edge, CFO**

Mr. Edge is a Certified General Accountant and an MBA with over 20 years of progressively senior experience in finance and accounting. Prior to joining Aeroquest, Mr. Edge spent the last ten years in the automotive industry, and prior to that, in various finance roles with GE Canada and its subsidiary company Camco Inc., a TSX listed company at the time.

## Appendix D – Board of Directors:

### Keith Morrison (Chairman)

Mr. Morrison is a geophysicist with more than 25 years of experience in international exploration. Co-founder of Quantec Geoscience Limited in 1986, he served as CEO from 1989 to 2005 and led the development of the Titan24 technology. He also is a co-founder of TSE-listed QGX Limited, a company that pioneered exploration in Mongolia. Keith is currently a co-founder, Director and CEO of Vismand Exploration Inc., which is a privately held global exploration company and he still serves as a Director of Quantec.

### Roy Graydon (CEO)

Mr. Graydon, a geophysicist by training, brings over 20 years of business and financial experience to Aeroquest. Most recently, Mr. Graydon was Executive Vice President and Chief Financial Officer of Call-Net Enterprises Inc., a TSX-listed company, and prior to that had been involved in the investment industry for 15 years in mergers and acquisitions for a leading Canadian investment bank, and in public and private equities for one of the country's largest investment institutions.

### John Barker

Mr. Barker was Senior Vice President and Chief Financial Officer of Zenon Environmental Inc., a Toronto Stock Exchange listed company from 2000 to 2006. The company manufactured low pressure membrane ultra filtration water purification systems servicing the world market in the municipal, industrial and land development areas. Previously, John was SVP and CFO of Glegg Waterconditioning, Inc. and has also held senior financial and administrative positions with Quebecor Printing Inc. and Bonar Inc.

### Neil Goodey

Mr. Goodey has over 20 years of management and directorship experience in technology-driven, high growth companies. A co-founder of international airborne geophysics group, UTS Geophysics, Neil was CEO from 1992 through 2001 and Executive Chairman from 2001. Neil also co-founded Australian public company DTI Group Ltd, a leading mass transit surveillance provider, and was CEO from 2001 through 2006 and Executive Director from 2006. Neil sits on an advisory board to Curtin University overseeing technology commercialization opportunities, and is a director of Virtual Observer Pty Ltd, a start-up company spun-out from the University.

### Nino Tufilli

Mr. Tufilli was co-founder and Technical Director of UTS Geophysics from 1992 through 2001 and Managing Director from 2001 through to June 2007. He is currently Operations Director and oversees both the operational and technical activities of UTS Geophysics. In 1995 he co-founded UTS Navigation Systems Pty LTD, which now trades as Digital Technology International (DTI), a leading mass transit surveillance provider. Nino has over 20 years' experience in the computer science, geophysical and electronics industries and in 2000, was joint recipient of the "Graham Sands Award" for his work in introducing new technologies to the geophysical industry.

**Dr. Gordon West**

Dr. West is an Emeritus Professor of the Geophysics group in University of Toronto's Department of Physics. He graduated in 1955 from the Engineering Physics program at U of T, and returned to obtain M.A. and Ph.D. degrees in 1956 and 1960. Subsequently, he was invited to join the faculty, becoming a full professor in 1972 and professor emeritus in July 1998. He has specialized in applied geophysics, both in developing the various methodologies and in exploiting them to study Precambrian geology, and has mentored a large number of graduate students. He has also served as a consultant to several geophysical and mineral exploration companies. In 1990, he received the J. Tuzo Wilson Medal of the Canadian Geophysical Union for distinguished contributions to geophysics in Canada. In 2002, he was awarded the Maurice Ewing Medal of the Society of Exploration Geophysicists (its highest honour) for career contributions to applied geophysics. In 2003, he was made a Fellow of the Royal Society of Canada.

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Companies	Ticker
Aeroquest International Limited	TSXV-AQL

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Head Office-2600, 520 - 5th Avenue S.W., Calgary AB T2P 3R7  
 33 Yonge St., Suite 320, Toronto, ON M5E 1G4  
 1225, Two Bentall Centre, 555 Burrard St., Vancouver, BC V7X 1M9  
 Private Client Services-430, 520 - 5th Avenue S.W., Calgary, AB T2P 3R7  
 Private Client Services-33 Yonge St., Suite 320, Toronto, ON M5E 1G4  
 Private Client Services-313, 1 St. W. PO Box 5519, High River, AB T1V 1M6

T: 403.292.0970 F: 403.292.0979 Toll free: 1.888.292.0980  
 T: 416.214.0600 F: 416.214.0177 Toll free: 1.877.214.3303  
 T: 604.648.3250 F: 604.687.6678 Toll free: 1.877.648.3250  
 T: 403.292.9328 F: 403.292.9329 Toll free: 1.877.292.0970  
 T: 416.304.2190 F: 416.304.2195 Toll free: 1.866.319.2573  
 T: 403.652.2224 F: 403.652.2697

## INSTITUTIONAL

### Sales

**G. Peter Taylor, President** 416.214.0600  
 peter.t@jenningscapital.com  
**Rick Betts** 416.214.0600  
 rick.betts@jenningscapital.com  
**Diane Braxatoris, B. Math** 416.214.0600  
 diane.braxatoris@jenningscapital.com  
**Robert Carmosino** 416.304.2184  
 robert.carmosino@jenningscapital.com  
**Denny Creighton** 416.214.0600  
 d.creighton@jenningscapital.com  
**Gordon Fernandes** 416.214.0600  
 gordon.fernandes@jenningscapital.com  
**John Henderson, M.Sc., MBA** 604.648.3272  
 john.henderson@jenningscapital.com  
**Eva Koci, MBA, CFA** 416.214.0600  
 eva.koci@jenningscapital.com  
**Peter Robinson, CFA** 416.214.0600  
 peter.robinson@jenningscapital.com

### Sales Support

**Lisa Fidale** 416.214.0600  
 lisa.fidale@jenningscapital.com

### Trading

**David Lawson, Branch Manager** 416.214.0600  
 david.lawson@jenningscapital.com  
**Kate Branscombe** 416.214.0600  
 kate.branscombe@jenningscapital.com  
**Larry Farrell, Head of Sales & Trading** 416.214.0600  
 larry.farrell@jenningscapital.com  
**Tim Fisher** 416.214.0600  
 tim.fisher@jenningscapital.com  
**James McKnight** 416.214.0600  
 jim.mcknight@jenningscapital.com  
**Bill Sellon** 416.214.0600  
 bill.sellon@jenningscapital.com  
**Trading Support**  
**Craig Swaby** 416.214.0600  
 craig.swaby@jenningscapital.com

## PRIVATE CLIENT SERVICES

**James H. Ross, Branch Manager** 403.292.9328  
 jim.ross@jenningscapital.com

## RESEARCH

### Gold/Base Metals

**Ron Coll, Head of Research** 416.304.2171  
 ron.coll@jenningscapital.com

**Stuart McDougall, B.Sc.** 416.304.2170  
 stuart.mcdougall@jenningscapital.com

### Healthcare/Biotechnology

**Shameze Rampertab, B.Sc., MBA, CA** 416.304.2176  
 shameze.rampertab@jenningscapital.com

### Oil & Gas

**Gregory Chornoboy, B.Sc., P.Eng, MBA** 403.292.9485  
 greg.chornoboy@jenningscapital.com

**Christopher Brown, B.Sc., P. Eng.** 403.262.0906  
 christopher.brown@jenningscapital.com

### Technology

**Ron Shuttleworth** 416.304.2192  
 ron.shuttleworth@jenningscapital.com

### Special Situations

**Russell Stanley, MBA, CFA** 416.304.2178  
 russell.stanley@jenningscapital.com

### Industrial Products/Special Situations

**Linda Lebrun, CFA** 416.304.2193  
 linda.lebrun@jenningscapital.com

### Research Associates

**Lai Chen, CFA** 403.262.0902  
 lai.chen@jenningscapital.com

### Marc Charbin

marc.charbin@jenningscapital.com 416.304.2191

### Research Coordinator

**P. Lorelei Reid** 416.304.2175  
 lorelei.reid@jenningscapital.com

## CORPORATE FINANCE

**Robert G. Jennings, CFA, Chairman & CEO** 403.292.0971

**Daryl Hodges, M.Sc.,** 416.304.2174

**Sr. Managing Director-Head of Corporate Finance**

dhodges@jenningscapital.com

**David McGorman** 403.262.0900

**Sr. Managing Director - Corporate Finance**

david.mcgorman@jenningscapital.com

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