

**AEROQUEST INTERNATIONAL LIMITED**  
**Management's Discussion and Analysis**  
**for the twelve (12) month period ended April 30, 2005**

**Dated: July 6, 2005**

The following is a discussion of the financial condition and consolidated results of operations of Aeroquest International Limited (the "**Company**") for the fiscal year ended April 30, 2005. This discussion should be read in conjunction with the Audited Consolidated Financial Statements of the Company and notes thereto.

Certain information in this "Management's Discussion and Analysis" contains forward-looking statements based on the Company's estimates and assumptions, which are subject to risks and uncertainties. This could cause the Company's actual results to differ materially from the forward-looking statements contained in the discussion.

The Company completed the proposed qualifying transaction with PiCorp. Capital Ltd. on October 28, 2004. Therefore, the consolidated financial statements presented are a combination of the results, assets, and liabilities of Aeroquest Limited and Aeroquest International Limited (formerly PiCorp. Capital Ltd.). The majority of operating results is supplied through Aeroquest Limited.

**Selected Annual Information**

|   | <b>2005</b>  | <b>2004</b>  | <b>2003</b>  |
|---|--------------|--------------|--------------|
| <b>Sales</b>  | \$ 7,974,180 | \$ 4,051,670 | \$ 2,979,537 |
| <b>Net (loss) income</b>  | (477,726)    | 406,307      | 69,962       |
| <b>Net (loss) income per share on a basic and fully diluted basis</b> | (0.04)       | 0.04         | 699.62       |
| <b>Total assets</b>   | 8,773,201    | 4,569,962    | 967,518      |
| <b>Total long-term financial liabilities</b>                          | 5,580        | 2,286,433    | 54,829       |
| <b>Cash dividends declared</b>  | N/A          | 5            | N/A          |

The Company's sales have increased over the past three fiscal years due to increased demand in the mineral exploration sector and the introduction of new AeroTEM II systems in 2005. Net (loss) income decreased from 2004 to 2005 due to increased investment in the infrastructure of the Company for a larger increase in sales in the future. The Company has seen its number of shares outstanding increase from 10 in 2003 to 10,400,000 in 2004 to 15,840,273 in 2005. The increase in shares outstanding (due to the public offering and qualifying transaction) coupled with a decrease in net income has led to the decline in earnings per share on a basic and fully diluted basis. Total long-term financial liabilities have almost been completely extinguished due to the conversion of

\$2,256,250 in convertible debentures that were automatically converted to shares upon the qualifying transaction in October 2004.

### **Overall Performance, Results of Operations, and Summary of the Fiscal Year**

Aeroquest International Limited posted sales figures of \$7.9 million for the fiscal year compared to \$4.1 million in 2004, an increase of 97%. Gross margin for the year was \$3.4 million or 43% of sales compared to \$2.2 million or 53% last year. Net (loss) income after tax was \$(477,726) compared to \$406,307 in 2004. Included in 2005 income is a non-cash stock-option adjustment amount of \$925,950 which significantly impacted the reported net income for the Company.

Working capital increased from \$2.0 million in 2004 to \$3.9 million in 2005. The majority of this increase is a result of financing through the public offering combined with increased sales.

Sales for 2005 were generated with the use of multiple AeroTEM II systems ranging from one for the first quarter, two systems in the second quarter, one for the third quarter, to up to four in the fourth quarter. The variability in equipment usage during the last three quarters was due to seasonality in the Canadian survey industry. Aeroquest plans to mitigate the effect of the seasonality by performing surveys internationally next year. The increase in sales compared to the same period last year is attributed to higher utilization rates and the introduction of several units during the year. The Company expects to have five AeroTEM II systems, two 10 metre diameter AeroTEM X systems, and two 12 metre diameter AeroTEM XII systems available for fiscal 2006 to increase sales substantially in future periods.

Gross margin of 43% of sales is lower than the previous year level of 53%. The decrease is due to increased production costs and the poorer weather compared to the same period last year.

To comply with current regulatory requirements and accounting standards with respect to stock-based compensation and other stock-based payments, Aeroquest expensed all the options granted upon going public using a Black-Scholes valuation model. The total expense amount totaled \$925,950 and adversely affected the reported net income in 2005. It is important to note that this total is a non-cash item and excluding this item, Aeroquest has a net income after tax of \$448,224.

General and administrative expenses accounted for \$1.7 million or 21% of revenue for the year ended April 30, 2005. The costs are considered normal for the company and should not increase proportionally with any increase in Sales.

Amortization expense for the year was \$610,704 or 8% of revenue. This increase over the same period last year is a result of the increased investment in capital assets and the amortization of intellectual property and deferred costs.

Net (loss) income for the year was (\$477,726) compared to \$406,307 last year. (Loss) Earnings per share for the period was (\$0.04) on a basic and fully diluted basis compared to \$0.04 on a basic and fully diluted basis in 2004. The full benefit of the increased revenue wasn't realized during the year due to the expensing of the stock options, increased general and administrative expenses and a lower gross margin.

The Company had net proceeds of \$3,321,219 from the common share issue in October 2004. From this amount \$3,032,618 remained available at year end. The Company has not yet expended a significant portion of the proceeds however the amount spent has been invested in capital assets – more specifically the additional AeroTEM systems.

### Summary of Quarterly Results

|                                       | <b>October 31, 2004</b> | <b>January 31, 2005</b> | <b>April 30, 2005</b> |
|---------------------------------------|-------------------------|-------------------------|-----------------------|
| <b>Sales</b>                          | 2,842,379               | 972,909                 | 2,604,975             |
| <b>Net income</b>                     | 565,380                 | (337,483)               | (731,590)*            |
| <b>Net income per share</b>           | \$0.04                  | (\$0.02)                | (\$0.05)              |
| <b>Net income per share – diluted</b> | \$0.03                  | (\$0.02)                | (\$0.04)              |

\* net income for the quarter was \$194,360, excluding expensing of the stock options (see below)

Sales dipped in the quarter ended January 31, 2005 due to the seasonality in the Canadian exploration industry. This is considered normal and to mitigate against this seasonality, the Company plans to pursue more international contracts in the forthcoming year.

Net income for the quarter ended January 31, 2005 decreased mostly due to seasonality. The net income for the quarter ended April 30, 2005 was decreased by the recognition of the stock option expense of \$925,950 during the quarter. This item is a non-cash expense. The operational net income of the Company outside of this expense was \$194,360.

### Liquidity and Capital Resources

Working capital increased from \$2 million at April 30, 2004 to \$3.9 million at April 30, 2005. This increase can be attributed to the following:

1. \$3,321,219 in net proceeds from the public offering during the year comprised of 2 million shares which were sold at \$2.00 per share. Increased sales during the fiscal year to date also helped improve working capital.
2. The Company has \$1.9 million in accounts receivable, an increase of \$1.5 million since the April 30, 2004 . \$985,000 was outstanding greater than 90 days but Aeroquest has subsequently received \$839,000, written off \$39,000, and

management has had assurances from its clients that the outstanding balance is collectible.

3. The Company invested over \$2.4 million dollars in capital assets during the current fiscal year primarily in the construction of four new AeroTEM II units. All of the units are in operation. The Company is also nearing completion on the next generation of larger AeroTEM X and AeroTEM XII systems.

The liquidity position is expected to remain strong throughout the next fiscal year. Aeroquest International Limited expects to be able to fund all anticipated capital projects out of working capital.

The contractual obligations to be incurred by Aeroquest International are summarized as follows:

| <b>Contractual Obligations</b>       | <b>Total</b>      | <b>Less than 1 year</b> | <b>1-3 years</b>  | <b>4-5 years</b> | <b>After 5 years</b> |
|--------------------------------------|-------------------|-------------------------|-------------------|------------------|----------------------|
| Long term debt                       | \$ 5,580          | \$ 5,580                | Nil               | Nil              | Nil                  |
| Operating Leases                     | \$ 262,500        | \$ 86,000               | \$ 111,500        | \$ 65,000        | Nil                  |
| <b>Total contractual obligations</b> | <b>\$ 268,080</b> | <b>\$ 91,580</b>        | <b>\$ 111,500</b> | <b>\$ 65,000</b> | <b>nil</b>           |

### **Transactions With Related Parties**

During the period, the Company paid \$460,000 to companies owned by certain directors for management consulting services. These transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for services performed.

### **Accounting Policies**

The Financial Statements for the fiscal year ended April 30, 2005 have been prepared using the same accounting policies as described in the Company's 2004 audited Financial Statements.

### **Share Capital**

As at the date of this report the number of Common Shares of the Company issued and outstanding is 15,840,273.

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

|   | <b>Number of Options</b> | <b>Exercise Price</b> | <b>Expiry Date</b> |
|---|--------------------------|-----------------------|--------------------|
| Held by brokers to Company  | 300,000                  | \$2.00                | October 28, 2006   |
| Held by directors, officers, employees, and consultants under the Company's stock option plan | 975,000                  | \$2.00                | October 31, 2009   |
|   | 200,000                  | \$2.00                | October 28, 2009   |
| Held by employees and consultants under the Company's stock option plan                       | 60,000                   | \$2.00                | February 28, 2010  |
|   | 25,000                   | \$2.00                | January 31, 2010   |
| Total   | 1,560,000                |                       |                    |

Therefore on a fully diluted basis the Common Shares of the Company would be 17,400,273.