

FOR THE PERIOD ENDING APRIL 30, 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 quarter and year-to-date ended April 30, 2007 compared with our operating results for the corresponding periods ended April 30, 2006. It also compares our balance sheet as at April 30, 2007 to our balance sheet as at April 30, 2006. This MD&A should be read in conjunction with our audited consolidated financial statements for April 30, 2007.

The consolidated financial statements presented here are those of Aeroquest International Limited and its wholly owned subsidiaries Aeroquest Limited 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 the 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.

1. 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, oil & gas and environmental industries. We operate a number of proprietary time-domain, sometimes called transient electromagnetic (TEM) systems on platforms ranging from five meters to 12 meters in diameter, delivered under the trade-name AeroTEM™. We also supply geophysical surveying platforms based on frequency domain electromagnetics (trade-name Impulse™), total field magnetics, magnetic gradient and radiometrics.

BUSINESS STRATEGY

Our strategy is to be a world leader in the development and application of innovative and proprietary geophysical technologies, with a particular focus on airborne geophysical survey technology.

In order to deliver on this strategy, we have identified five areas of focus:

1. Expand the number of helicopter-based survey systems in the fleet
2. Expand internationally
3. Expand our capabilities in other geophysical survey technologies, such as FDEM, and fixed wing magnetics, radiometrics and gravimetrics
4. Find new applications for our AeroTEM technology, such as oil & gas and environmental engineering, and
5. Explore other uses of EM technology in general

KEY PERFORMANCE DRIVERS

Our business success and financial performance will be driven principally by our success at identifying and managing the following performance drivers in our industry.

Industry Pricing

We use the particular circumstances of a specific survey to establish an expected cost for that survey. We track our success in quoting on surveys based on these cost projections, and use the feedback from that process to adjust, as necessary, our pricing. In general we have been successful at maintaining pricing at a level that provides us adequate returns for our services.

Operational Efficiency

While our industry is highly profitable at this time, we work to ensure that we make the most of the current situation by striving to continually improve our operational efficiency. We define and track a measure of operational efficiency that we call asset efficiency. Asset efficiency measures the percentage of time that an average system of ours is airborne and surveying.

Total Production

We track the total number of line kilometers flown each day by each system in our fleet. Since we price on a per line kilometer basis, maximizing the number of line kilometers flown is a high priority for us. Subject to ensuring that we are, at all times, following the highest standards of safety for our crews, we are constantly working on ways to improve the number of kilometers we can fly in a given period.

Contracted Backlog

We attempt to maintain a backlog of business that allows us to organize surveys in advance and minimize the amount of time we spend on the ground. We track and manage our backlog of contracted surveys on a weekly basis to give us visibility into the level of activity we expect in the coming months and to allow us to optimize our logistics. Generally, we would like to have two to four months of contracted work in the queue at any given time.

FINANCIAL AND OPERATING SUMMARY

	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06
REVENUE (000's)	\$5,446	\$4,425	\$5,778	\$4,227	\$2,683	\$1,764	\$1,867	\$2,798
OPERATING PROFIT (000's)	\$592	\$567	\$1,736	\$451	\$(183)	\$(99)	\$(474)	\$(493)
NET INCOME (000's)	\$131	\$365	\$1,101	\$296	\$(252)	\$(78)	\$(524)	\$(329)
WTD. AVG. COMMON SHARES (000's)	15,787	15,838	15,838	15,840	15,840	15,840	15,840	15,840
EARNINGS PER SHARE (BASIC)	\$0.01	\$0.02	\$0.07	\$0.02	\$(0.02)	\$(0.00)	\$(0.03)	\$(0.02)
SYSTEMS AVAILABLE FOR USE AT PERIOD END*	9	9	9	8	7	7	7	6
AEROTEM SYSTEMS	6	6	6	5	5	5	5	5
LINE KILOMETERS FLOWN DURING PERIOD	44,800	25,600	45,500	49,000	16,900	12,950	18,700	16,800
CONTRACTS COMPLETED	23	18	21	46	24	15	15	9
CONTRACTS IN BACKLOG AT PERIOD END	23	12	11	22	22	7	6	-
CONTRACT BACK-LOG (000's)	\$8,300	\$3,500	\$3,500	\$4,700	\$2,600			

* excluding gamma ray spectrometers

SYSTEMS

At year-end 2007, we operated nine systems on three different platforms, and also owned a number of gamma ray spectrometers. Our most popular and innovative platform is AeroTEM and accounted for six of our nine systems at year end.

AeroTEM

AeroTEM is based on time-domain electromagnetics (TEM). TEM systems are referred to as active systems because we energize the earth (using pulsed electric fields) and then measure the earth's response to that energy stimulus. TEM systems are used to identify bodies that are capable of conducting electricity as they measure a property of the earth called conductance. The term "time-domain" distinguishes it from "frequency-domain" and refers to the fact that we measure the response of the earth at various points in time both while we are stimulating the earth (the "on-time") and when our transmitter is shut off (the "off-time").

All the AeroTEM systems are based on rigid airframe designs. These rigid systems are the foundation that allows us to take reliable measurements of three different components of the earth's response. We measure the vertical component of the earth's response during the on-time and we can measure both the vertical and horizontal components of the off-time response. We refer to these as Z-on, Z-off, and X-off, respectively.

The unique features of our systems allow us to produce very high resolution data with a high signal-to-noise ratio, to do conductance discrimination and to retrieve information on position, orientation, depth, and thickness of conductors.

We currently offer three types of AeroTEM systems that we designate II, III and IV.

AeroTEM II

The AeroTEM II system is based on a platform that is approximately five meters in diameter. This system (with a peak dipole moment of approximately 40,000 Amp m²) is typically used in the search for targets that are up to 250 meters in depth. The AeroTEM II system, because of its size and base frequency (150 Hz) has been shown to be quite useful in the search for gold and platinum group elements (PGEs), as well as for kimberlites, the host rock of diamonds. The AeroTEM II system is particularly adept at surveying in rugged or mountainous terrain where its smaller diameter and modest weight allow it to be quite maneuverable and in situations where it is particularly important to resolve information in the first 250 meters of the subsurface.

AeroTEM III

The AeroTEM III systems are based on platforms that are approximately nine to ten meters in diameter. The power level of these systems is higher - from 170,000 to approximately 230,000 Amp m². The AeroTEM III systems have been used to search for targets at mid-level depths - up to 400 meters, and are also well suited to work in the oil & gas sector where near surface rocks are often conductive. The range of base frequencies of these systems (90 Hz and 150 Hz) also makes them suitable for base metal exploration, including nickel, and for oil & gas exploration, especially in the Oil Sands area of the Western Canadian Sedimentary Basin.

AeroTEM IV

The AeroTEM IV system is based on a platform that is approximately 12 meters in diameter. The power level of this system can range from 230,000 up to 380,000 Amp m². The AeroTEM IV system is well suited to the search for deeper targets, up to 600 meters, and in areas where the rocks are more conductive.

Each of our AeroTEM systems is flown together with one or more magnetometers attached to the AeroTEM 'bird', and at least one magnetometer located on the ground (called a 'base station' magnetometer). The airborne magnetometers effectively allow us to do two surveys simultaneously - a magnetic survey and an electromagnetic survey - and this, in turn, allows us to combine electro-magnetic and magnetic data into one data set. The presence of a base station magnetometer also allows us to correct for certain diurnal (or time-varying) effects that sometimes crop up in surveys. Sometimes, we also include a radiometric unit, called a gamma ray spectrometer, into our airborne surveys, giving us the ability to do three surveys simultaneously. The gamma ray spectrometers are discussed later in this report.

Impulse™

We own and operate a frequency-domain EM system known as the Impulse system. It works by transmitting a primary electromagnetic field at discrete frequencies and then measuring the secondary electromagnetic response from the subsurface at the same frequencies. By transmitting discrete frequencies at two different orientations (one vertical and one horizontal), it is possible to estimate the orientation, position and conductance of the body creating the response.

Heli-TAG™ Magnetic Gradiometer

We own and operate two tri-directional magnetic gradiometers. These are passive systems, as opposed to both AeroTEM and Impulse, which are active systems. Our gradiometers take four measurements of the earth's magnetic field every 0.1 seconds from sensors that are spatially separated by three meters. These four measurements can be used to calculate the rate of change of the earth's magnetic field in three orthogonal directions. Because we fly these systems from a helicopter, which can generally fly at lower altitudes and slower speeds, these gradiometers produce very high resolution data when compared to traditional fixed wing applications.

Radiometrics

We also own and operate a number of gamma ray spectrometers. These passive systems measure the rate of spontaneous radiological decay from rocks up to 60 cm below the earth's surface. In most survey applications, the spectrometer is combined with another of our systems to produce several measurements simultaneously. The most popular combination is gradiometer and spectrometer, although we also fly spectrometer with AeroTEM and Impulse.

Our goal is to increase the utilization rate of the existing fleet and to continue to add systems as appropriate and as demand dictates, focusing on incorporating our latest advances in electronics and in platform design into each new system. We expect to commission new systems at a rate dictated by the demand for geophysical surveys. These systems will vary from six meters to approximately 15 meters in diameter and will be capable of operating at a range of base frequencies from 25 to 150 Hz.

2. FOURTH QUARTER AND FULL YEAR 2007 OPERATING RESULTS

OVERVIEW

In the fourth quarter of 2007, we continued to see strong growth in both domestic and international markets with our quarterly revenue and net earnings up substantially over the same period last year. We completed 23 contracts in the fourth quarter and flew almost 45,000 line kilometers. During the quarter we completed surveys in Canada, Mexico, Sweden and Albania with revenue from international sources accounting for 44 per cent. We saw some improvement in gross margin over the previous quarter as start-up issues related to Mexico were resolved. In the fourth quarter, we flew 12,000 line kilometers in Mexico. We recorded positive cash flow for both the quarter and the full year.

We are quite pleased with the growth in revenue and profits for 2007; however, we are not yet satisfied. Our growth in 2007 was limited by our internal capabilities and demand for our services consistently exceeded our ability to supply these services. Going forward we will continue to focus on expanding to meet the demand from our customers for high quality surveys flown and delivered on a timely basis. Our current activity level remains good. Going into the first quarter of F2008, our contracted backlog stands at \$8 million or 67,000 line kilometers.

REVENUE

In the fourth quarter of 2007 our revenue was \$5.45 million, up \$2.76 million or 103 per cent compared to the same quarter last year. Revenue in our business is a function of the number of systems we have available to fly and the average utilization of those systems. In the fourth quarter we had nine systems (excluding spectrometers) available for at least a portion of the quarter, of which six were AeroTEM.

For the full year, revenue was \$19.88 million, a \$10.76 million or 118 per cent improvement over the prior year. The increase in revenue is attributable to an increased focus on effective fleet utilization as well as an increase in the number of systems in our fleet.

Our revenue is characterized by a relatively small number of large contracts, so the presence or absence of one or two contracts can have a meaningful impact on our sales level in a given quarter. In addition, the amount we charge for a survey is a function of the type of survey performed, and this amount can vary significantly. In particular, we charge more for surveys using the AeroTEM platforms than we do for surveys on other platforms.

Cost of sales was \$3.00 million in the fourth quarter of 2007 or approximately 55 per cent of revenue. This compares to \$1.73 million in the same quarter last year representing 64 per cent of revenue in that quarter. For the full year cost of sales was \$10.84 million, or approximately 55 per cent of revenue compared to \$5.76 million or 63 per cent of revenue last year.

Cost of sales as a percentage of revenue has declined both in the fourth quarter and the full year as a result economies of scale coming from higher revenue. Flying more line kilometers allows us to spread the fixed cost of production, operations, processing and interpretation over a larger revenue base. In addition, longer surveys generally have lower fixed costs as a percentage of revenue. In the quarter, the average length of our surveys was approximately 2,000 line kilometers, up significantly from the average survey length in fiscal 2006. On average our cost of sales per line kilometer of survey flown decreased by approximately 26 per cent between fiscal 2006 and 2007.

The decrease in cost of sales as a percentage of revenue translated into a higher gross profit and a higher gross profit margin percentage in the quarter. Gross profit was \$2.44 million or 45 per cent of revenue in the fourth quarter compared to \$0.95 million or 36 per cent in the same quarter last year. For the full year gross profit of \$9.03 million, or 45 per cent of revenue, was a 170 per cent improvement over last year to date of \$3.35 million, or 37 per cent of revenue.

REVENUE & GROSS PROFIT

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06				
REVENUE	5,446	2,683	19,876	9,112	2,763	103%	10,764	118%
COST OF SALES	3,004	1,731	10,843	5,764	1,273	74%	5,079	88%
GROSS PROFIT	2,442	952	9,033	3,348	1,490	157%	5,685	170%
GROSS PROFIT MARGIN %	44.8%	35.5%	45.4%	36.7%		9.4%		8.7%

CASH OPERATING COSTS

Fourth quarter cash operating costs were \$1.48 million, up from \$0.83 million in the same quarter last year, an increase of \$0.65 million or 78 per cent. This increase is primarily attributed to an increase in general and administrative costs which were up by \$0.57 million over the same quarter last year. This increase in general and administrative expenses in the fourth quarter was unusually high as a result some non-recurring expenses. These non-recurring expenses included the costs of relocating our head office in February 2007 (involving \$0.05 million in moving expenses) and an unusually high loss resulting from changes in foreign exchange rates, totaling over \$0.15 million in the quarter. The loss on foreign exchange arose as we held most of our US dollar receipts in US dollar bank accounts and, in the quarter, these U.S. dollar balances became significant as a result of our successful international expansion. This, combined with a sharp increase in the Canadian dollar, relative to the U.S. dollar over the period, resulted in the loss. The remaining increase in general and administrative expense is attributable to the significant growth we have experienced over the past year.

In the quarter, research and development expenditures are up \$0.07 million or 168 per cent over the same quarter last year. For the full year, research and development spending totaled \$0.53 million, as compared to \$0.79 million in the prior year. Research and development spending levels have fluctuated as we first constrained our R&D program to match our revenue performance, and then saw a significant increase in revenue, which allowed us to increase R&D spending later in the year. Research and development expense is focused on improving the design and performance of our airborne survey systems.

CASH OPERATING COSTS

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year	Change from prior YTD		
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06				
GENERAL & ADMINISTRATIVE EXPENSE	1,363	789	3,884	2,788	574	73%	1,096	39%
RESEARCH & DEVELOPMENT EXPENSE	118	44	531	793	74	168%	(262)	(33%)
TOTAL CASH OPERATING COSTS	1,481	833	4,415	3,581	648	78%	834	23%
% OF REVENUE	27.2%	31.0%	22.2%	39.3%		(3.9%)		(17.1%)

OPERATING PROFIT (LOSS)

Our operating profit was \$0.59 million in the fourth quarter, an improvement of \$0.74 million or 500 per cent from the operating loss of \$0.15 million in the same quarter last year. For the full year, operating profit was \$3.35 million, an increase of \$4.60 million or 368 per cent from the prior year. Operating profit improved as the increased sales and gross profit more than offset the increase in total operating costs in the periods.

Depreciation and amortization charges totaled \$0.28 million in the quarter, a 15 per cent increase from the same quarter last year. For the full year depreciation and amortization totaled \$1.04 million, a 9 per cent increase over the prior year. Depreciation and amortization has generally been rising as we build and deploy more AeroTEM systems. We expect this growth to continue into the next fiscal year.

OPERATING PROFIT (LOSS)

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year	Change from prior YTD		
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06				
GROSS PROFIT	2,442	952	9,033	3,348	1,490	157%	5,685	170%
CASH OPERATING COSTS	1,481	833	4,415	3,581	648	78%	834	23%
STOCK BASED COMPENSATION EXPENSE	92	25	236	62	67	268%	174	281%
DEPRECIATION & AMORTIZATION	277	242	1,036	954	35	15%	82	9%
OPERATING PROFIT (LOSS)	592	(147)	3,346	(1,249)	739	502%	4,595	368%
% OF REVENUE	11%	(5%)	17%	(14%)		198%		123%

Stock based compensation includes stock options granted and restricted stock units issued. Stock based compensation expense for the quarter and the full year increased as the number of stock options granted and restricted stock units issued increased and the fair value of options granted increased. The change in fair value of options granted was as a result of different exercise prices between the periods and an increase in the volatility assumption used in determining the fair value of the options.

NET INCOME (LOSS)

We incurred contract cancellation costs in the fourth quarter of \$0.20 million, and for the full year of \$0.27 million related to the restructuring of the consulting contracts of certain key employees. This compares to total contract cancellation costs of \$0.27 million in fiscal 2006. We do not expect that there will be any future charges of a similar nature.

We recorded other income of \$0.25 million in fiscal 2007. Included in this total in the quarter and full year are \$0.16 million of Scientific Research and Education Development (SR&ED) refunds related to spending in prior periods. The remaining balance for fiscal 2007 is made up of interest income earned on cash balances of \$0.10 million and other expenses of \$0.01 million.

Our provision for income taxes in the quarter was \$0.45 million and for the full year was \$1.44 million. Included in both amounts is approximately \$0.16 million of adjustments related to prior years.

As a result of all of the above factors, we recorded a net profit in the quarter of \$0.01 million, or \$0.01 per share, and a net profit of \$1.89 million, or \$0.12 per share for the full year. This compares with a net loss of \$0.03 million or \$(0.02) per share in the same quarter last year and a loss of \$1.18 million, or \$(0.07) per share last year.

NET INCOME (LOSS)

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06				
OPERATING PROFIT (LOSS)	592	(147)	3,346	(1,249)	739	503%	4,595	368%
OTHER COSTS (INCOME)	(188)	(11)	(255)	(47)	(177)	(1609%)	(208)	(443%)
CONTRACT CANCELLATION COSTS	203	-	270	268	203		2	1%
WRITE DOWN OF DISCONTINUED PROJECT	-	69	-	142	(69)	(100%)	(142)	(100%)
PROVISION FOR INCOME TAXES (RECOVERY)	446	48	1,438	(429)	398	829%	1,867	435%
NET INCOME (LOSS)	131	(253)	1,893	(1,183)	384	152%	3,076	260%
EARNINGS PER SHARE - BASIC	\$0.01	\$(0.02)	\$0.12	\$(0.07)	\$0.03	141%	\$0.19	271%

3. CASH FLOW

CASH FLOW FROM OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided \$0.65 million in the fourth quarter of 2007, an improvement of \$0.60 million from the fourth quarter of 2006. For the full year, operating cash flow provided \$3.34 million and changes in non-cash working capital a further \$0.97 million.

Operating cash flow improved because of the increased sales activity and the Company's efforts to reduce development activity to a level that is supported by the current business.

Changes in non-cash working capital generated \$1.29 million increasing cash flow from operating activities to \$1.94 million in the quarter, as compared to a usage of cash of \$0.02 million in the same quarter last year. The change in non-cash working capital is primarily a result of a significant increase in sales and backlog in the quarter.

CASH FLOW FROM OPERATING ACTIVITIES

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06				
NET INCOME (LOSS)	131	(253)	1,893	(1,183)	384	152%	3,076	260%
DEPRECIATION & AMORTIZATION	277	242	1,036	954	35	14%	82	9%
STOCK BASED COMPENSATION EXPENSE	92	25	236	62	67	268%	174	281%
FUTURE INCOME TAXES	38	47	62	47	(9)	(19%)	15	32%
WRITE DOWN OF LONG TERM INVESTMENT	110	-	110	-	110		110	
LOSS (GAIN) ON DISPOSAL OF FIXED ASSETS	7	(5)	7	(5)	12	240%	12	240%
OPERATING CASH FLOW	655	56	3,344	(125)	599	1070%	3,469	2775%
CHANGE IN NON-CASH WORKING CAPITAL	1,288	(75)	973	295	1,363	1817%	678	230%
CASH FLOW FROM OPERATING ACTIVITIES	1,943	(19)	4,317	170	1,962	10326%	4,147	2439%

CASH FLOW FROM INVESTING ACTIVITIES

Overall, investment activities in the fourth quarter used \$0.91 million of cash. This compares to the fourth quarter of last year when investing activities used net cash of \$0.00 million. For the full year, investment activities used \$1.93 million as compared to \$0.69 million in the prior year.

In the fourth quarter, capital expenditures, as a percentage of revenue, were slightly higher, at 17 per cent of revenue, than in historical periods. Acquisition of capital assets consumed \$0.95 million, as compared to \$0.38 million, or 14 per cent of revenue in the same quarter last year. However, this is mostly a timing effect; as capital spending for the year, at \$1.99 million, was in line with our target for the year, as measured by percentage of revenue. The bulk of capital was spent on building and maintaining our fleet of systems.

CASH FLOW FROM INVESTING ACTIVITIES

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06				
ACQUISITION OF CAPITAL ASSETS	(952)	(382)	(1,992)	(1,074)	(570)	(149%)	(918)	(85%)
CHANGE IN LOAN RECEIVABLE	42	-	61	3	42		58	1933%
INSURANCE PROCEEDS ON CAPITAL ASSETS	-	383	-	383	(383)	(100%)	(383)	(100%)
CASH FLOW FROM INVESTING ACTIVITIES	(910)	1	(1,931)	(688)	(911)	(91100%)	(1,243)	(181%)
CAPITAL EXPENDITURES AS A % OF REVENUE	17%	14%	10%	12%				

CASH FLOW FROM FINANCING ACTIVITIES

In the quarter, financing activities consisted of proceeds from the exercise of employee stock options \$0.14 million and shares redeemed as part of the Normal Course Issuer Bid amounting to \$0.33 million. There was no activity in these categories in prior periods.

CASH FLOW FROM FINANCING ACTIVITIES

(IN THOUSANDS OF CANADIAN DOLLARS)	Three Months Ended		Year-to-Date		Change from prior year	Change from prior YTD
	30-Apr-07	30-Apr-06	30-Apr-07	30-Apr-06		
REPAYMENT OF LONG TERM DEBT	-	-	-	(6)	-	6 100%
PROCEEDS ON EXERCISE OF STOCK OPTIONS	139	-	140	-	139	140
AEROQUEST SHARES REDEEMED	(327)	-	(330)	-	(327)	(330)
CASH FLOW FROM FINANCING ACTIVITIES	(188)	-	(190)	(6)	(188)	(184)

4. LIQUIDITY AND CAPITAL RESOURCES

Our liquidity, as measured by cash balances, has increased by \$2.19 million from the start of the fiscal year. This improvement in liquidity is a result of several factors, namely a significant increase in sales level, a reduction in discretionary spending and improvements in the management of working capital.

Cash and short-term investments are generally invested in liquid Canadian dollar or U.S. dollar denominated securities with maturities no greater than ninety days.

FINANCIAL POSITION

At April 30, 2007, we had current assets of \$9.38 million and current liabilities of \$5.42 million. Net working capital was \$3.96 million, an increase from the \$2.80 million at April 30, 2006. This \$1.16 million change from the year-end is primarily due to increased business activity and management efforts to improve working capital. Net working capital declined in the fourth quarter compared to the previous quarter by \$0.48 million as a result of the investment in projects.

CASH & WORKING CAPITAL CHANGES

(IN THOUSANDS OF CANADIAN DOLLARS)	30-Apr-07	30-Apr-06	Change from year end	
CASH	\$4,706	\$2,511	\$2,195	87%
NON-CASH CURRENT ASSETS	4,675	2,672	2,003	75%
CURRENT ASSETS	9,381	5,183	4,198	81%
CURRENT LIABILITIES	5,423	2,387	3,036	127%
NET WORKING CAPITAL	\$3,958	\$2,796	\$1,162	42%
CURRENT RATIO	1.7	2.2	(0.4)	(20%)

TRANSACTIONS WITH RELATED PARTIES

During the quarter, we paid \$0.10 million to companies owned by certain directors for management consulting services. For the full year these amounts totalled \$0.37 million. In addition, during the year we paid \$0.27 million to companies owned by certain directors related to the restructuring of their contracts. 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.

SHARE CAPITAL

As at the date of this report we had 15,857,773 common shares issued and outstanding. As at the date of this report, common share stock options held by directors, officers, employees, consultants, and brokers are as indicated in the chart below.

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. In October 2006, 120,000 units were granted to employees at an average price of \$0.75 per unit and 672,888 units remain outstanding at April 30, 2007.

In the second quarter of 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 April 30, 2007, we had purchased a total of 237,500 of our common shares for cancellation for total consideration of \$330,000. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

FULLY VESTED & EXERCISABLE OPTIONS

	Number of options	Exercise price	Expiry date
HELD BY DIRECTORS, OFFICERS, EMPLOYEES AND CONSULTANTS UNDER THE COMPANY'S STOCK OPTION PLAN	77,500	\$0.50	October 28, 2009
	40,000	\$2.00	October 28, 2009
	22,500	\$0.50	March 1, 2010
	15,000	\$2.00	June 30, 2010
	27,500	\$0.50	June 30, 2010
	265,000	\$0.50	February 9, 2011
	50,000	\$0.50	March 28, 2011
	555,000	\$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	1,127,500	\$0.64	

SUBSEQUENT EVENT

On July 3, 2007 we completed the purchase of 100 per cent of the shares of Universal Tracking Systems Pty Ltd, of Australia, operating under the name UTS Geophysics. Our intention to acquire UTS was first announced in a press release dated May 1, 2007. The purchase price was comprised of 6.8 million common shares of Aeroquest, the payment to the vendors of \$8.7 million in cash, and the assumption by the vendors of a promissory note in the amount of \$3.35 million. The common shares issued to the vendors have a statutory hold period that expires on November 4, 2007.

The cash portion of the purchase price was funded, in part, from the proceeds of a brokered private placement offering of subscription receipts issued through a syndicate led by J.F. Mackie & Company Ltd. and including Becher McMahon Capital Markets Inc. On May 29, 2007, we issued 4,500,000 subscription receipts at a price of \$1.70 per subscription receipt for aggregate gross proceeds of \$7,650,000. On July 3, 2007, in connection with the closing of the acquisition of UTS, each subscription receipt was exchanged for one common share and one-half of one non-transferable share purchase warrant, with each whole warrant exercisable for an additional common share at a price of \$2.45 for two years. The common shares issued in connection with the financing have a statutory hold period that expires on September 29, 2007.

Additional information on UTS Geophysics is provided in the Notes to the Consolidated Financial Statements and elsewhere in this Annual Report.

BUSINESS OUTLOOK

With the combined operations of Aeroquest and UTS, we are in a position to go anywhere in the world with almost any geophysical survey technique we wish to utilize. We expect that the mineral exploration market will remain strong for the foreseeable future. The market remains very strong in Canada in virtually every region we fly and we expect this to continue. We expect that the core operating areas of UTS, Australia and Africa, will also continue to be strong over the next 12 months and that in addition to a large volume of fixed-wing work, we will also be active in helicopter-based surveys there. Our operations in Mexico and Europe should also experience growth over the next 12 months and account for an increasing percentage of our overall activity. Finally, we expect to be flying surveys in South America and in China before the year is out. This means that, by year-end, we should be active on every continent in the world, with the exception of Antarctica.

We also expect to continue to develop our oil & gas and environmental engineering strategies and should get revenue contribution from both of these areas in fiscal 2008. We are looking to continue to build the fleet of systems, both helicopter-based and fixed-wing. We should bring into production no fewer than five new AeroTEM, one new Impulse, and at least two new fixed-wing aircraft over the next year. Most of these systems will be deployed to support the Company's ongoing international expansion efforts.

BUSINESS RISKS AND UNCERTAINTIES

MINERAL EXPLORATION SPENDING

The demand for our services is linked quite closely to the level of worldwide mineral exploration spending. Over the past several years, worldwide exploration spending has generally been increasing, driven by strong demand and higher prices for most mineral commodities. While this growth in exploration spending has benefitted us enormously, we must be careful to ensure that we size our business at a level that allows us to sustain profitable operation in reaction to exploration cycle ebbs and flows. In addition, we must continually seek to diversify our revenue stream, so that we are less reliant on any given commodity or any given market.

INDUSTRY COMPETITION

The level of competition in our industry is heavily influenced by changes in supply or demand. Changes in supply can occur as existing competitors expand (or contract) their fleets of airborne survey systems. As these fleets expand they may be deployed in areas where we are active. If the demand for services is not high enough in these areas to support the additional systems, we would expect to see increased competition and an adverse effect on pricing. To counter this risk, we are working continually developing improvements to our systems to make them lighter and more economical to fly, allowing us to maintain profitability in the face of any price decreases, and we are working on expanding into areas that provide us with competitive advantages; areas where our systems are particularly well suited to either the geography or the geology.

THREAT OF NEW ENTRANTS

The barriers to entry into the helicopter-based EM survey market are not insignificant. However, over the past several years a number of new EM systems have entered the market, most of which offer many similarities to our EM systems. It is possible that new entrants will continue to appear. To mitigate this risk we focus on both maintaining our competitive edge technologically, so that new entrant systems are not better systems, and on building long term client relationships based on the provision of a wide variety of high quality geophysical survey systems in a wide variety of geographies, all backed by a high service level.

The barriers to entry in the fixed-wing market are generally less than those in the helicopter-based EM market. Consequently, there are a larger number of smaller firms in this market. Our ability to distinguish ourselves in this market segment will come from the fact that we offer higher resolution surveys, and a better service experience.

TECHNOLOGICAL OBSOLESCENCE

It is possible that new technologies will emerge that replace our current EM technology. Although, at this point we do not see many, we maintain an active Research and Development function that, as time advances, will expand the range of research activities to include potentially new survey methods. With this ongoing commitment to R&D, we hope to maintain and expand any technological advantage we currently have.

FINANCIAL RISKS

We are highly cash flow positive and our business is one with a higher proportion of variable costs than fixed. This means that we should be able to respond to changes in demand in a reasonably balanced manner. However, we charge for surveys on a per line kilometer basis and pay helicopter costs (for example) on a per hour basis. It is possible that in particularly competitive situations industry pricing could fall to a level that makes it difficult to adequately cover per-hour costs with per line kilometer revenue. On each survey, we project the anticipated helicopter costs, taking into account such factors as the hourly charge of the helicopter, the current price of fuel, the expected production rate in the survey area, and the risk of adverse weather. We then establish pricing at a level that should ensure that we can cover our costs and earn an adequate return.

CURRENCY RISKS

We offer services on almost every continent in the world and have significant inflows (and outflows) in currencies other than the Canadian dollar. Currently, our largest exposures are to the Australian dollar and the U.S. dollar. We actively monitor our foreign exchange exposure and will use financial instruments and other techniques to hedge risk when we deem it appropriate.

WEATHER RISKS

Because we offer airborne serves, we can only survey in conditions that allow for flying. Precipitation, wind, low visibility, and excessively high, or low, temperatures can all affect our ability to fly. In some areas, at some times of the year, the weather can be highly unpredictable, or sometimes predictably bad. Bad weather can and does affect our productivity and can adversely affect our profitability if we have not correctly anticipated it, or if we are subject to an unusually long string of unusually bad weather. We attempt to mitigate this risk by flying in many different areas of the world at the same time, believing that the average weather over the globe is likely more stable than the average weather in any given survey area.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND 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 oversight with respect to all public disclosure and reviews 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 April 30, 2007, our Chief Executive Officer and the 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

There were no changes in the accounting policies for fiscal year 2007. The financial statements for 2007 have been prepared using the same accounting policies used in the 2006 annual report.

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. Our wholly owned subsidiary, Aeroquest Limited is incorporated under the laws of Ontario. Our wholly owned subsidiary, Aeroquest (UK) Limited is incorporated under the laws of England and Wales. Both are engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aeroquest Limited and Aeroquest (UK) Limited. All significant inter company transactions and balances have been eliminated on consolidation.

USE OF ESTIMATES

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates as additional information becomes available in the future. The financial statements have, in our opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

REVENUE RECOGNITION

Revenue is recognized when fieldwork is substantially complete, the contract revenue is fixed and determinable and we can be reasonably assured of collection. Contracts are usually completed in less than one year. Costs related to contracts for which field work is incomplete at year end are classified as contracts in process while customer deposits received in advance for these contracts in process are classified as deferred revenue.

Revenue on sale of equipment is recognized when the equipment is delivered to the customer, the amount is fixed and determinable, and we can be reasonably assured of collection. The related cost of the equipment is recognized in cost of sales.

FINANCIAL INSTRUMENTS

Generally, our Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. In cases where we believe that there may be significant risk, we have disclosed such risks. The fair value of financial instruments approximates their carrying values, unless otherwise noted.

The Canadian dollar equivalents of amounts included in the balance sheet, which are denominated in U.S. dollars, are as follows:

Cash	\$2,441,607
Accounts receivable	548,579
Accounts payable	10,642
Deferred revenue	451,929

FOREIGN CURRENCY TRANSLATION

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 exchange rate in effect at that date.
- 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.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and short term investments readily convertible to cash with original maturities of 90 days or less.

LONG TERM INVESTMENTS

Long term investments are carried at cost unless an impairment in value exists that is other than temporary, in which case the long term investment is written down to fair market value.

CAPITAL ASSETS

Capital assets are stated at cost less accumulated amortization. Cost is net of related investment tax credits and government grants. Amortization based on the estimated useful life of the asset is calculated as follows:

- Airborne and geophysical equipment - 30% diminishing balance
- Automotive equipment - 30% diminishing balance
- Data processing equipment - 30% diminishing balance
- Office equipment - 20% diminishing balance
- Leasehold improvements - shorter of estimated economic life or lease term

INTELLECTUAL PROPERTY

Intellectual property is recorded at cost and amortized on a straight line basis over three years. The value of the intellectual property is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment of permanent nature in the value of the intellectual property is written off against earnings.

LONG LIVED ASSETS

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

RESEARCH AND DEVELOPMENT

All research costs are charged to operations in the year of expenditure. Development costs are only capitalized if they meet the criteria for capitalization and are amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits. Any investment tax credits received for these costs are allocated to other income and recognized when there is reasonable assurance that the credits will be realized.

INCOME TAXES

We follow the liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are realized.

STOCK BASED COMPENSATION

We have adopted the recommendations of the CICA with respect to stock based compensation and other stock based payments. These standards require that direct awards of stock, liabilities incurred or other compensation arrangements that are based on the price of common stock, be measured at fair value at each reporting date, with the change in fair value reported in the statement of operations. We use the fair value based method of accounting for all our stock based compensation including restricted stock units. Accordingly, the fair value method of accounting is applied for stock options and restricted stock units granted to directors, officers, employees, and consultants whereby the fair value of options granted is recognized on a straight line basis over the vesting period. When the awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to contributed surplus.