

## Management's Discussion & Analysis For the period ending June 30, 2009

*Issued on August 5, 2009*

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 three and nine months ended June 30, 2009 ("Q3-F09" and "YTD-F09" respectively) compared with our operating results for the three and nine months ended June 30, 2008 ("Q3-F08" and "YTD-F08" respectively). It also compares our balance sheet as at June 30, 2009 to our September 30, 2008 fiscal year-end balance sheet.

The consolidated financial statements presented here are those of the Aeroquest Group of Companies; Aeroquest International Limited and its wholly owned subsidiaries Aeroquest Limited, UTS Geophysics Pty Ltd, Geophex Ltd., Aeroquest (UK) Limited and AeroKaz LLP (collectively, "the Company"), 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](http://www.aeroquest.ca) and on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, all amounts noted in this MD&A are in Canadian dollars.

### **1.1 FORWARD-LOOKING STATEMENTS**

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of a company's future prospects and make informed investment decisions. Certain statements in this MD&A are forward-looking statements or information, collectively "forward-looking statements". We are hereby providing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to", "will continue", "is anticipated", "estimated", "intend", "plan", "projection", "could", "may", "believes", "feel", "targeting", "look forward", "goals", "objective", "outlook" and similar expressions) are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Without limitation, information regarding the volatility of the market for our services, worldwide political stability, factors that could result in significant or prolonged disruption to mining and oil & gas exploration worldwide, domestic and international economic conditions, other political and economic situations and uncertainties, changes in foreign currency exchange rates, the impacts of changes in industry priorities and spending on exploration activities related to our services, major technology changes, timing of product introductions, competition, our ability to replace lost revenue of a customer significant to an operating division, our ability to attract and retain key employees, and the possibility

that such efforts will not have as great an impact on our operating results as is currently anticipated, is forward-looking information.

Readers should also refer to our continuous disclosure materials filed with Canadian Securities Regulatory Authorities for additional information with respect to certain of these risk factors, including our most recent Annual Information Form.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations (“**Cautionary Statements**”), including changes in general economic, market and business conditions, fluctuations in the cost of borrowing, political and economic development, our ability to receive timely regulatory approvals, competitive actions of other companies, the occurrence of unexpected events such as equipment failures and other similar events affecting us or other parties whose operation or assets directly or indirectly affect us, and those risks set forth under the heading “Risks & Uncertainties” below.

All subsequent written and oral forward-looking statements attributable to Aeroquest or persons acting on behalf of Aeroquest are expressly qualified in their entirety by the Cautionary Statements. The forward-looking information contained herein is current only as of the date of this document. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. We disclaim any intention or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise unless such disclosure is required by law.

## **1.2 NON GAAP FINANCIAL MEASURES**

Certain financial measures used in this MD&A do not have any standardized meaning under Canadian generally accepted accounting principles (GAAP). Below is a definition of each of the non-GAAP financial measures used in this MD&A. At the point where each non-GAAP financial measure is first discussed, a table has been provided to reconcile that financial information to the most directly comparable GAAP measure.

### **EBITDA**

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a financial metric used to analyze operating results. We define EBITDA as revenue less cost of sales, cash operating costs, and stock-based compensation expense, and we use it as a benchmark of operating performance. We caution you that EBITDA as calculated by us may not be comparable to similarly titled amounts reported by other companies.

### **APPARENT TAX RATE**

We define apparent tax rate as the total income tax expense (current and future) as a percentage of income before taxes. More information on our income tax expense and the reconciliation between income tax expense and our statutory tax rate is contained in Note 10 to the consolidated financial statements for the period.

## CASH OPERATING COSTS

We define cash operating costs to be those operating expenses in our income statement that involve, or will involve, an inflow or outflow of cash. At present, cash operating costs are the sum of general and administrative expenses, and gain or loss on foreign exchange.

## 2 Our Business, Strategy & Outlook

### 2.1 AEROQUEST'S BUSINESS

We are a world leader in the development and operation of innovative and proprietary airborne geoscience surveying platforms servicing the mineral exploration, petroleum, and environmental industries. We operate a large fleet of airborne geophysical survey systems utilizing two separate delivery platforms; helicopters and fixed wing aircraft. Our geoscience survey technologies include both time-domain and frequency-domain electro-magnetics (including our proprietary AeroTEM, time-domain, electromagnetic technology), gravity, magnetic, and radiometric systems. Our combination of geoscience technologies and airborne platforms give us one of the broadest array of product and service offerings in our industry in the world today.

In this report we will provide to the extent practical, results for each survey platform, namely, helicopter services, fixed wing services and other services.

### 2.2 SELECTED COMPARATIVE QUARTERLY FINANCIAL INFORMATION

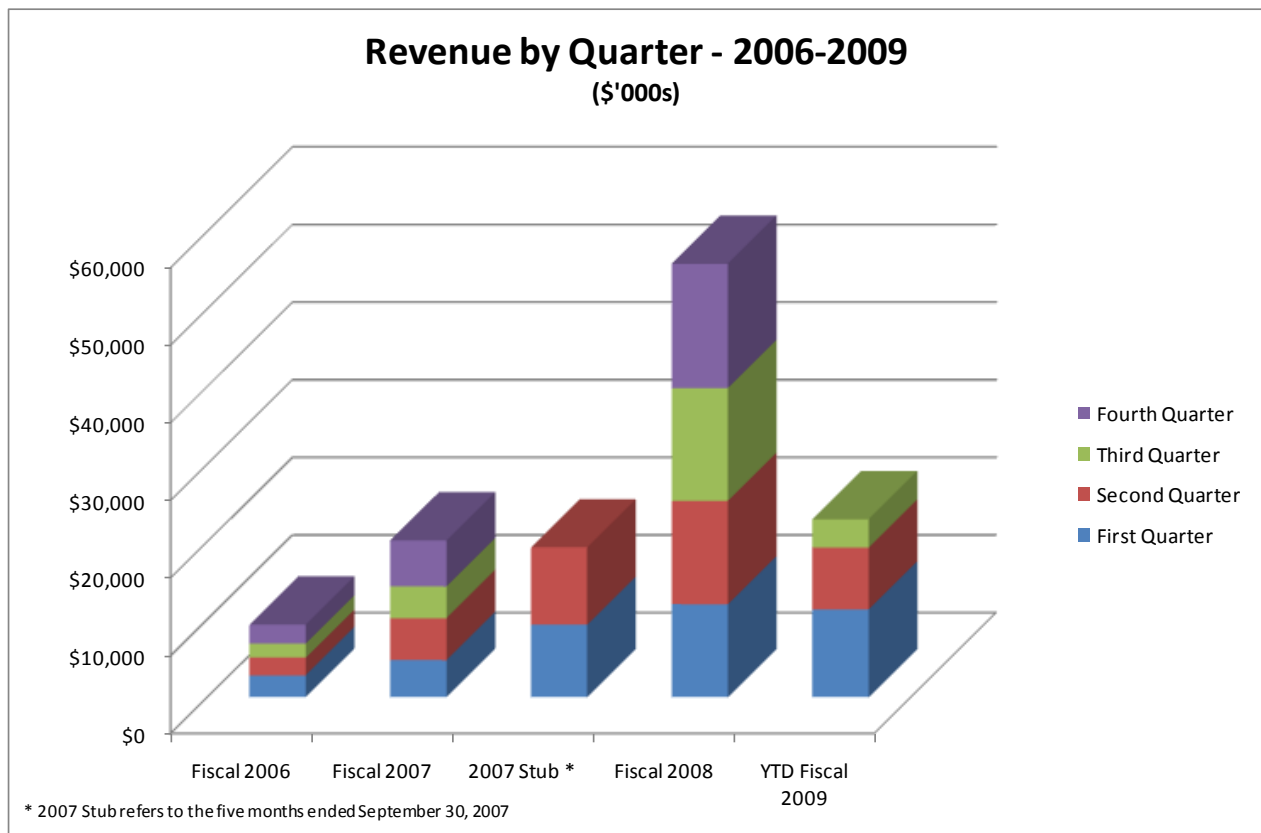
(Financials in 000's except /share data)	(3Mo)			(3Mo)			(3Mo)			(2Mo)		(3 Mo)
	Q3-Jun 09	Q2-Mar 09	Q1-Dec 08	Q4-Sep 08	Q3-Jun 08	Q2-Mar 08	Q1-Dec 07	Q2-Sep 07	Q1-Jul 07			
Revenue	\$ 3,651	\$ 7,963	\$ 11,298	\$ 16,017	\$ 14,537	\$ 13,295	\$ 11,197	\$ 9,944	\$ 9,355			
Operating profit	\$ (4,601)	\$ (1,698)	\$ (2,008)	\$ 2,024	\$ 590	\$ 1,613	\$ 195	\$ 1,444	\$ 1,658			
Net income	\$ (3,498)	\$ (659)	\$ (1,514)	\$ 1,603	\$ 304	\$ 815	\$ 121	\$ 1,046	\$ 938			
Weighted average common shares	33,627	33,613	33,597	33,785	34,662	32,553	27,603	22,702	21,538			
Earnings per share (basic)	\$ (0.10)	\$ (0.03)	\$ (0.04)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.05	\$ 0.04			
Earnings per share (diluted)	\$ (0.10)	\$ (0.03)	\$ (0.04)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.04	\$ 0.04			
Operating cash flow/share	\$ (0.06)	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.06	\$ 0.08	\$ 0.08			
Total assets	\$ 60,240	\$ 64,624	\$ 68,660	\$ 69,540	\$ 71,537	\$ 72,053	\$ 59,331	\$ 53,671	\$ 56,347			
Long term liabilities	\$ 252	\$ 316	\$ 486	\$ 470	\$ 502	\$ 562	\$ 3,126	\$ 3,317	\$ 3,316			
Systems available for use at period end *	27	28	27	28	27	23	19	21	20			
Fixed-wing systems	10	11	10	11	11	9	8	10	10			
Helicopter systems	17	17	17	17	16	14	11	11	10			
AeroTEM systems included in above	13	13	13	13	11	8	8	8	7			
Line kilometres flown during period												
Helicopter systems	2,700	11,400	59,150	74,100	73,200	59,000	47,700	38,000	51,100			
Fixed-wing systems	144,000	189,000	316,000	520,000	457,700	362,000	408,900	351,000	158,000			
Contract back-log (CAD\$ thousands)												
Helicopter systems	\$ 100	\$ 1,000	\$ 2,700	\$ 6,900	\$ 5,100	\$ 5,900	\$ 8,000	\$ 8,400	\$ 12,000			
Fixed-wing systems	\$ 5,600	\$ 5,600	\$ 9,700	\$ 9,200	\$ 11,900	\$ 11,400	\$ 11,000	\$ 7,900	\$ 11,000			
Other	\$ 900	\$ 1,400	\$ 1,600	\$ 1,900	\$ -	\$ -	\$ -	\$ -	\$ -			
Total Backlog	\$ 6,600	\$ 8,000	\$ 14,000	\$ 18,000	\$ 17,000	\$ 17,300	\$ 19,000	\$ 16,300	\$ 23,000			

\* excluding gamma ray spectrometers

The effect of the current economic recession and resulting uncertainty continues to negatively affect exploration spending –in particular on helicopter based surveys as they are more expensive on a per line kilometer basis than fixed wing surveys. As a result, our Q3-F09 revenue declined by \$10.8 million to

\$3.7 million from \$14.5 million in Q3-F08. Gross profit in Q3-F09 was \$0.4 million, a decline of \$4.2 million over the \$5.6 million reported in Q3-F08. Q3-F09 net loss was \$3.5 million compared with Q3-F08 profit of \$0.3 million. The decline in profitability is due to several factors operating at once, including reduced revenue – especially in helicopter based surveys, reduced gross margin due to the fixed cost component of cost of sales applied to a lower revenue base, foreign currency losses, and other general and administrative expenses that, while lower on a run-rate basis from the prior quarter, are now spread over a smaller base of revenue.

In response, we embarked on a significant cost reduction program beginning in Q2 and continuing through Q3 of fiscal 2009 and the restructuring costs are also reflected in the results. These issues are discussed in more detail throughout this MD&A.



### 2.3 BUSINESS STRATEGY

Our strategy has not changed materially over the past several years; we want to become the preferred supplier of airborne geoscience survey technologies and services in the world. Our strategy has three components:

1. **Establish ourselves internationally** – Ours is a global industry with global problems; if we want to be the one that people turn to in order to get help solving them, then we have to be ready and able to go anywhere..
2. **Find new applications for our technologies** – We will continue to develop various new markets where we can take advantage of the technologies we understand like in the Energy and Environmental Services industries.
3. **Explore other, complimentary, technologies** – Specifically, we are looking for new technologies that are either complimentary with our existing technologies, or complimentary with our existing service delivery model.

## 2.4 OUTLOOK

We continue to believe that the economic slowdown that has led to depressed exploration expenditures will affect our financial and operating results in the short-term. Global exploration spending in both mineral and petroleum exploration has slowed and we expect it to remain well below last year's levels throughout the balance of this calendar year.

To address this slowdown, we established the following five priorities for the balance of the 2009 fiscal year and into the first half of 2010:

1. Improve efficiencies in our field operations;
2. Reduce overhead costs;
3. Target select commodities, including gold, uranium and petroleum services;
4. Make meaningful and demonstrable progress in establishing new markets; and
5. Remain opportunistic.

We have implemented new field procedure in helicopter operations to address historical field inefficiencies. These include establish more clearly our expectation for Stand Operating Procedures in the field, with a focus on placing Safety ahead of all other considerations, and then delivering comprehensive training to all of our field staff. We are happy to date with our progress on this front and look forward to the opportunity to put these new procedures into effect as business volumes recover.

We have taken measures to reduce our cost structure including decisions to reduce our global workforce by 45% in the second quarter of fiscal 2009. Given the ongoing slowdown into Q3-09 and the marked reduction in spending on helicopter exploration, we decided to take additional actions in July, 2009 with an additional reduction including further headcount reductions combined with selective salary reductions (including the decision to a one-time 10% salary reduction for all senior management in exchange for the equivalent value in stock options). These decisions were not made lightly but were required to properly size our operations to the forecasted business in the near future. We will continue to focus on operational efficiencies and carefully managing our cash until economic conditions improve.

We have been successful at maintaining a critical mass of survey revenue in the petroleum sector; this business accounted for 50 per cent or more of revenue in each of the last two quarters. At this point, the Environmental industry remains quiet for Aeroquest, but we have been looking for opportunities to bolster this area, in particular on the infrastructure side.

We have also been actively looking for businesses that may be combined with our own to enhance our product offerings, geographical presence and range of technologies. We continue to believe that this market will present us with corporate acquisition opportunities that allow us to compress our strategic plan; allowing us to accomplish more in a shorter time frame.

Looking forward beyond one year, our objective is to use our short term tactics to position ourselves to react quickly once the recovery in our core markets occurs. Currently, we do not see any impediments to achieving this goal and we believe we have the financial resources to ride out the current economic storm. We believe that the current market pressures that exist in the minerals and oil & gas markets are short term and ongoing depressed exploration expenditures are not realistic in the medium or long term.

### **3 Second Quarter Operating Results**

#### **3.1 OVERVIEW AND HIGHLIGHTS**

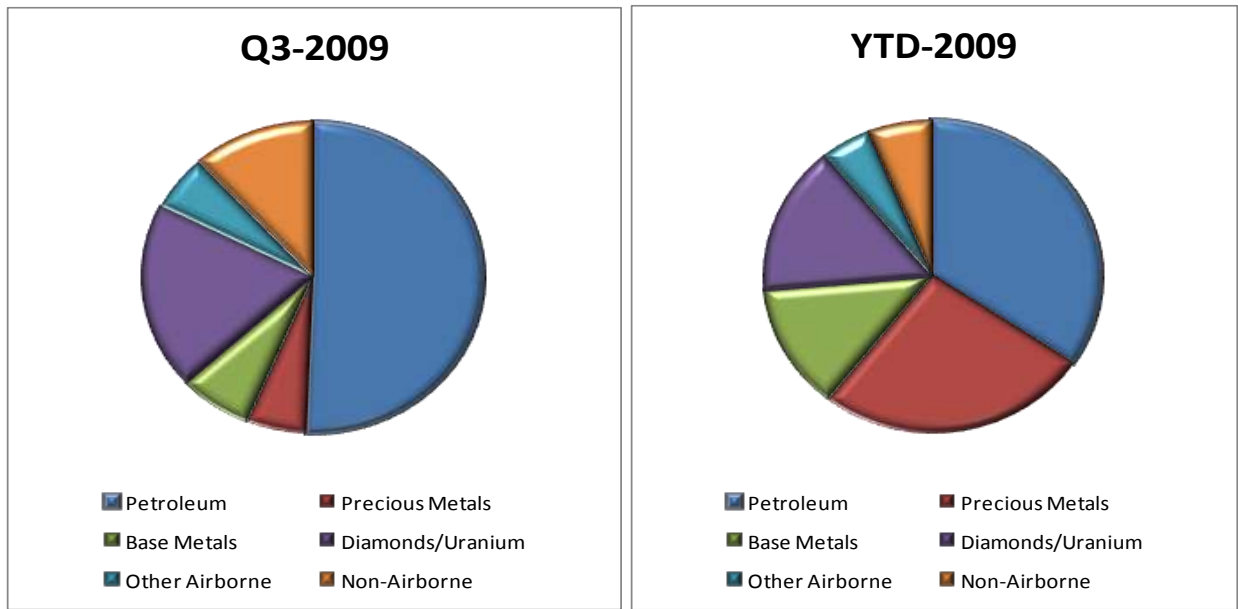
The global economic recession and the resulting impact on mineral and petroleum exploration have continued to negatively impact our revenue and backlog in the second quarter. In Q3-F09, we recorded a decline in consolidated revenue of 75 per cent over Q3-F08. Helicopter services declined by 95 per cent to \$0.3 million and fixed wing services declined by 58 per cent to \$2.9 million from their levels in Q3-F08. Other services (principally revenue from Geophex) contributed \$0.4 million in revenue for the quarter compared with \$0.4 million in Q3-F08. A more detailed discussion on these variances is provided below.

In the quarter, the effect of the economic slowdown started to impact our operations with average revenue per line kilometer declining significantly in our fixed wing business and our helicopter backlog showing a 90% decline to \$0.1 million at June 30, 2009

We have taken steps over the course of the current fiscal year to both diversify our business offerings and reduce our cost structure to address the economic slowdown. The addition of two new total field gravity systems has had an immediate impact on revenue as these two new units resulted in an additional \$1.7 million of fixed wing revenue in Q3-F09 (and slightly over \$5.7 million YTD-F09).

Revenue has also diversified from traditional base metal exploration. In Q3-F09, petroleum exploration comprised greater than 50% of our overall revenue base.

## Revenue Breakdown by Commodity



As well, we have been aggressive in reducing our cost structure. Headcount reductions totaling 60% of our staff took place in January, March and July that will result in an annualized \$3.5 million reduction to our payroll burden. As well, all members of senior management have accepted a 10% salary reduction in exchange for the equivalent value in employee stock options. This salary reduction will be in place for one year. We are also taking steps with our suppliers to reduce other costs, both direct costs such as helicopter and aircraft rentals, as well as indirect costs such as facility leases and other selling, general and administrative costs.

Our cash balances declined to \$8.0 million at the end of Q3 from \$10.4 million at the end of Q2 and \$15.4 million at the end of September, 2008. Cash flow from operations was negative using \$1.9 million of cash. Capital expenditures were \$0.5 million, primarily related to improvements to the AeroTEM technology and additional costs related to the total gravity fixed wing systems acquired earlier in the year.

### 3.2 FLEET EXPANSION

Beginning in the fall of 2008, we slowed the pace of expansion in anticipation of the slowing economy. In this most recent quarter, no new systems were added to our fleet and one fixed wing system was retired. Our active fleet is now comprised of 27 systems; 17 helicopter based and 10 fixed wing based.

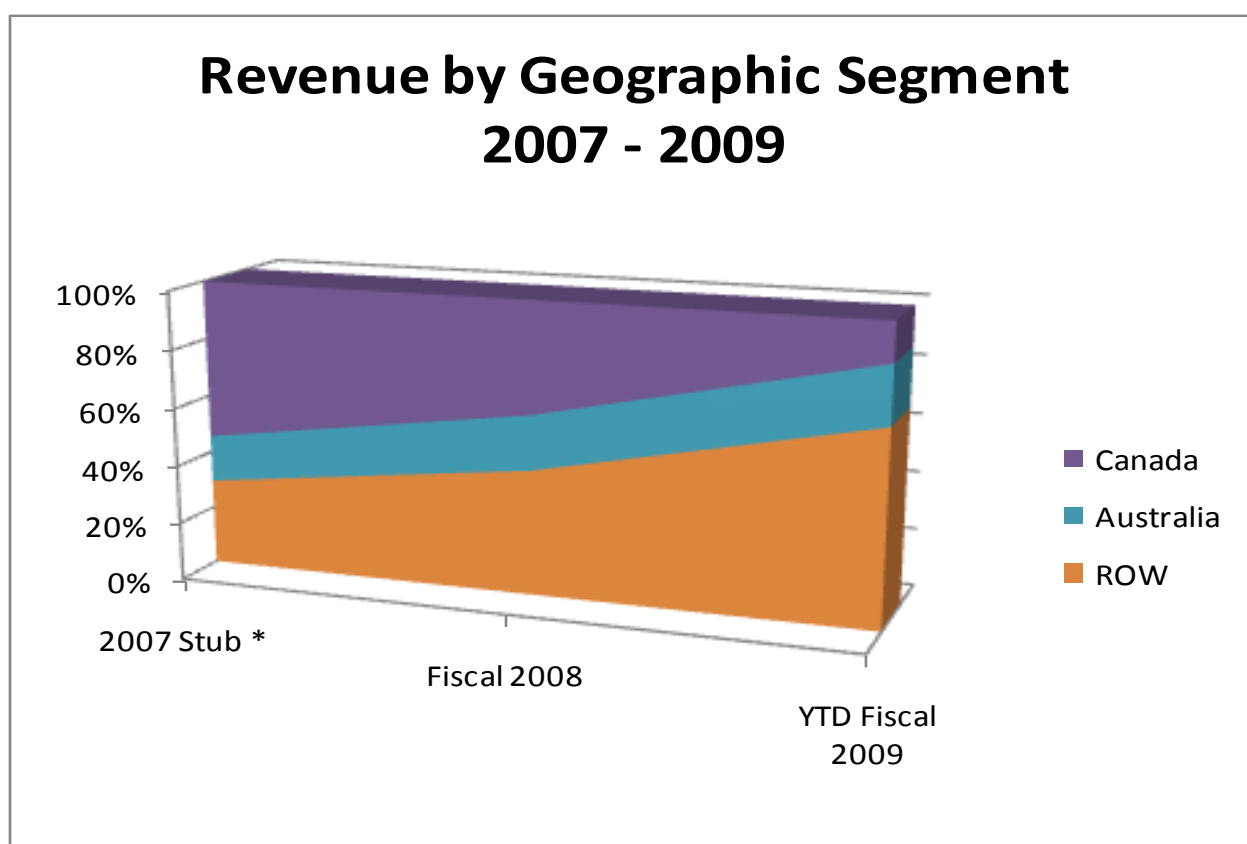
#### AIRBORNE FLEET SUMMARY

	Helicopter	Fixed wing	Total
<b>AeroTEM</b>	13		13
<b>Impulse/GEM-2A</b>	2		2
<b>Magnetics</b>			
<b>single sensor</b>	1	5	6
<b>multi-sensor</b>	1	3	4
<b>Gravity</b>			
<b>(+ multi-sensor mag)</b>		2	2
<b>Total</b>	17	10	27

### 3.3 REVENUE BY GEOGRAPHIC SEGMENT

While the economic slowdown has impacted our volume of business, we continue to position equipment around the globe. As of June 30, 2009, we had positioned helicopter systems in North and South America, Europe, Africa and Asia. During the same period, we continued to operate fixed wing units in Australia & the South Pacific, Africa and North America.

Since the acquisition of UTS Geophysics and Geophex Ltd., in July and December 2007 respectively, our revenue outside of Canada has grown significantly. However, our Canadian based revenue has declined in 2009 due to the economic slowdown. The result is that revenue outside of Canada in Q3-F09 represented over 93 per cent of our total revenue with revenue from contracts flown in Australia being the largest portion of our business at 27 percent. Of the 66 percent of revenue outside of Canada and Australia, approximately \$0.6 million, or 18 per cent was derived in the United States. No other country represented more than 10 percent of our revenue.



#### REVENUE BY GEOGRAPHIC SEGMENT

Three Months Ended June 30, 2009

(thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 234	\$ -	\$ 90	\$ 324	9%
Fixed wing services	-	1,024	1,877	2,901	79%
Other services	-	-	426	426	12%
<b>Total Revenue - Aeroquest Group</b>	<b>\$ 234</b>	<b>\$ 1,024</b>	<b>\$ 2,393</b>	<b>\$ 3,651</b>	<b>100%</b>
	6.4%	28.0%	65.5%	100%	

## Nine Months Ended June 30, 2009

(thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 2,589	\$ 296	\$ 5,912	\$ 8,797	38%
Fixed wing services	444	4,278	7,990	12,712	55%
Other services	-	-	1,404	1,404	6%
<b>Total Revenue - Aeroquest Group</b>	<b>\$ 3,033</b>	<b>\$ 4,574</b>	<b>\$ 15,306</b>	<b>\$ 22,913</b>	<b>100%</b>
	13.2%	20.0%	66.8%	100%	

## 3.4 CONSOLIDATED RESULTS

### OPERATING STATEMENTS

(in thousands of Canadian dollars)	Three Months			Nine Months		
	Q3-F09	Q3-F08	Change	YTD-F09	YTD-F08	Change
<b>Revenue</b>						
Helicopter services	324	7,188	(6,864)	8,797	20,922	(12,125)
Fixed wing services	2,901	6,989	(4,088)	12,712	17,520	(4,808)
Other services	426	360	66	1,404	586	818
	<b>3,651</b>	<b>14,537</b>	<b>(10,886)</b>	<b>22,913</b>	<b>39,028</b>	<b>(16,115)</b>
<b>Cost of sales</b>						
Helicopter services	680	4,708	(4,028)	7,093	12,896	(5,803)
Fixed wing services	2,354	4,043	(1,689)	8,658	10,287	(1,629)
Other services	183	182	1	547	251	296
	<b>3,217</b>	<b>8,933</b>	<b>(5,716)</b>	<b>16,298</b>	<b>23,434</b>	<b>(7,136)</b>
<b>Gross profit</b>	<b>434</b>	<b>5,604</b>	<b>(5,170)</b>	<b>6,615</b>	<b>15,594</b>	<b>(8,979)</b>
<b>Gross margin</b>						
Helicopter services	(109.9%)	34.5%		19.4%	38.4%	
Fixed wing services	18.9%	42.2%		31.9%	41.3%	
Other services	57.0%	49.4%		61.0%	57.2%	
<b>Gross profit margin %</b>	<b>11.9%</b>	<b>38.5%</b>		<b>28.9%</b>	<b>40.0%</b>	
General & administrative expense	2,295	2,641	(346)	9,728	7,062	2,666
Foreign exchange (gain) loss	690	136	554	(540)	104	(644)
<b>Total cash operating costs</b>	<b>2,985</b>	<b>2,777</b>	<b>208</b>	<b>9,188</b>	<b>7,166</b>	<b>2,022</b>
<i>% of revenue</i>	<i>26.4%</i>	<i>24.8%</i>		<i>81.3%</i>	<i>64.0%</i>	
Stock-based compensation expense	108	173	(65)	348	729	(381)
EBITDA	(2,659)	2,654	(5,313)	(2,921)	7,699	(10,620)
<i>EBITDA as a % of revenue</i>	<i>-4.8%</i>	<i>20.0%</i>		<i>-5.3%</i>	<i>31.4%</i>	
Depreciation of capital assets	1,155	908	247	2,968	2,074	894
Amortization of intangible assets	785	1,156	(371)	2,418	3,227	(809)
<b>Operating profit/(loss)</b>	<b>(4,599)</b>	<b>590</b>	<b>(5,189)</b>	<b>(8,307)</b>	<b>2,398</b>	<b>(10,705)</b>
<b>Operating profit as a % of revenue</b>	<b>-40.7%</b>	<b>4.4%</b>		<b>-73.5%</b>	<b>9.8%</b>	
Interest expense (income)	(4)	(111)	107	(146)	(122)	(24)
Provision for income taxes	(1,097)	397	(1,494)	(2,195)	1,280	(3,475)
<b>Net income</b>	<b>\$ (3,498)</b>	<b>\$ 304</b>	<b>\$ (3,802)</b>	<b>\$ (5,966)</b>	<b>\$ 1,240</b>	<b>\$ (7,206)</b>
Earnings per share - basic	\$ (0.10)	\$ 0.01	\$ (0.11)	\$ (0.17)	\$ 0.04	\$ (0.21)

In Q3-F09, consolidated revenue was \$3.6 million, down \$10.9 million or 75 per cent over Q3-F08. Revenue from helicopter services was \$0.3 million, down \$6.8 million or 95 per cent over Q3-F08. Revenue from fixed wing services was \$2.9 million, down \$4.1 million or 58 per cent over Q3-F08. Other services revenue (Geophex Ltd.) was \$0.4 million in Q3-F09, approximately equal to Q3-F08. Revenue from helicopter services showed a marked decline due to the impact of the current economic recession.

Our traditional customers in mineral exploration have delayed or cancelled many of their surveys due to a combination of the current recession and tight capital markets hindering their ability to raise necessary exploration capital. Fixed wing services revenue has been bolstered by the introduction of our first total field gravity system at the end of the first quarter. A second system was delivered and accepted at the end of the second quarter.

YTD-F09 revenue was \$22.9 million, a decline of \$16.1 million or 41 per cent over YTD-F08. Revenue from fixed wing services was \$12.7 million, down \$4.8 million or 27 per cent over YTD-F08. YTD-F09 revenue from helicopter services was \$8.8 million, a decline of \$12.1 million or 58 per cent over the YTD-F08. Other services revenue was \$1.4 million YTD-F09, an increase of \$0.6 million over YTD-F08. The increase in other services revenue primarily reflects the fact that the Geophex acquisition took place at the end of the first quarter of fiscal 2008.

Consolidated cost of sales was \$3.2 million in Q3-F09, or 88 per cent of consolidated revenue, compared to \$8.9 million or 61.5 per cent of consolidated revenue in Q3-F08. Gross margin in Q3-F09 declined by 26 percentage points to 12 per cent, compared with 39 per cent in Q3-F08. YTD-F09 consolidated cost of sales was \$16.3 million or 71 per cent of consolidated revenue compared to \$23.4 million or 60 per cent of consolidated revenue in YTD-F08. YTD-F09 gross margin declined by 11 percentage points to 29 per cent compared to 40 per cent in YTD-F08.

Gross margin in helicopter services was negative 110 per cent in Q3-F09, as compared to 38 per cent in the Q3-F08. This margin decline is primarily attributable to the significant decline in helicopter survey revenue without a comparable decline in the fixed cost component of operations staff, which forms part of cost of sales. As previously indicated, we have continued to reduce operational headcount that will mitigate this reduction in margins in future quarters.

Gross margin in fixed wing services was \$0.5 million, or 19 per cent of revenue in the current quarter as compared to 42 per cent in Q3-F08. This decrease is also due to the impact of lower revenue against the fixed cost component of cost of sales.

YTD-F09 gross margins in helicopter surveys was 19 per cent compared to 38 per cent in YTD-F08 reflecting the marked decline in margins in Q3-F08. YTD-F09 gross margins in fixed wing surveys was 32 per cent compared to 41 per cent in YTD-F08 reflecting the marked decline in margins in Q3-F09 as well as costs related to the start-up of the two new total field gravity fixed wing systems in the first quarter of fiscal 2009.

### **3.5 CASH OPERATING COSTS**

Cash operating costs in Q3-F09 totaled \$3.0 million, an increase of \$0.2 million, or 7.5 per cent from the \$2.8 million reported in Q3-F08. This increase is primarily due to the following: 1) An increase in the foreign exchange expense of \$0.5 million primarily due to the depreciation in the United States dollar in the quarter as much of our revenue is denominated in United States dollars. This increase is offset by 2) a reduction in other general and administrative expense of \$0.3 million as the impact of the workforce reductions undertaken in Q2-F09 begins to reflect in reduced general and administrative expense.

YTD-F09 cash operating costs totaled \$9.2 million, an increase of \$2.0 million, or 41 per cent from the \$7.2 million reported in Q3-F08. This increase is primarily due to the increased staffing levels over the last 12 months and a provision for collectability of a large receivable taken in the first quarter of fiscal 2009 of \$1.3 million. Offsetting the increase in general and administrative expense was a net change in foreign exchange gain of \$0.6 million YTD-F08 (due to the appreciation in the United States dollar in the first and second quarters of fiscal 2009).

### **3.6 OPERATING PROFIT AND EBITDA**

EBITDA in Q3-F09 was negative \$2.7 million, a decline of \$5.3 million over the positive EBITDA of \$2.7 million reported in Q3-F08. YTD-F09 EBITDA is negative \$2.9 million, a decline of \$10.6 million over YTD-F08. EBITDA is down primarily due to the gross margin compression quarter over quarter combined with the increase in cash operating costs discussed previously. Stock-based compensation expense in Q3-F09 declined only slightly compared to Q3-F08 (see note 9 below).

Depreciation and amortization charges totaled \$1.9 million in Q3-F09, a decline of \$0.2 million from Q3-F08. The decline in depreciation & amortization in the quarter is due to reduced amortization charges related to the acquisition of Geophex offset by increased depreciation related to airborne systems acquired in the last fiscal year. YTD-F09 depreciation and amortization was \$5.4 million, an increase of \$0.1 million from YTD-F08.

Operating loss in Q3-F09 was \$4.6 million compared with an operating profit of \$0.6 million in Q3-F08. YTD-F09 operating loss was \$8.3 million compared with an operating profit of \$2.4 million in YTD-F08.

### **3.7 NET INCOME**

Net loss for Q3-F09 was \$3.5 million, or \$0.10 per share compared to net income of \$0.3 million, or \$0.01 per share in Q3-F08. YTD-F09 net loss was \$5.9 million or \$0.17 per share compared to net income of \$1.3 million or \$0.04 per share.

Our provision for recovery of income taxes for Q3-F09 was \$1.0 million generating an apparent tax rate of 24 per cent in the quarter. While this rate is a decline from the 67 per cent in Q3-F08, it represents a reflection of the blend of statutory tax rates in Canada, Australia and USA, the recognition of future income taxes on or acquisitions and the fact that most of our amortization expense is not deductible for tax purposes.

YTD-F09 net loss after taxes was \$6.0 million or \$0.17 per share compared to net income of \$1.2 million or \$0.03 per share for YTD-F08.

## 4 Liquidity and Capital Resources

Our cash balances declined by \$2.4 million from \$10.4 million at March 31, 2008 to 8.0 million at June 30, 2009. Most of this change in liquidity was the result of cash flow from operations consuming \$1.9 million of cash.

### CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	Three Months			Nine Months		
	Q3-F09	Q3-F08	Change	YTD-F09	YTD-F08	Change
<b>Operating activities</b>						
Net Income/(Loss)	\$ (3,498)	\$ 304	\$ (3,802)	\$ (5,965)	\$ 1,240	\$ (7,205)
<b>Non-cash operating items</b>						
Depreciation/Amortization	1,940	2,064	(124)	5,385	5,301	84
Future taxes	(247)	(355)	108	(775)	(1,070)	295
Stock based compensation	108	173	(65)	348	729	(381)
Other	-	(86)	86	-	86	
<b>Operating cash before change in non-cash working capital</b>	<b>(1,697)</b>	<b>2,100</b>	<b>(3,797)</b>	<b>(1,007)</b>	<b>6,286</b>	<b>(7,293)</b>
Change in non-cash working capital	(188)	677	(865)	(1,451)	(556)	(895)
<b>Cash flow from operations</b>	<b>(1,885)</b>	<b>2,777</b>	<b>(4,662)</b>	<b>(2,458)</b>	<b>5,730</b>	<b>(8,188)</b>
<b>Investing activities</b>						
Capital asset purchases	(551)	(1,883)	1,332	(4,678)	(5,057)	379
Cash cost of acquisitions	-	(34)	34	-	(2,151)	2,151
Other	-	187	(187)	(36)	421	(457)
<b>Cash flow from investing</b>	<b>(551)</b>	<b>(1,730)</b>	<b>1,179</b>	<b>(4,714)</b>	<b>(6,787)</b>	<b>2,073</b>
<b>Financing Activities</b>						
Capital lease payments	(42)	(45)	3	(185)	(274)	89
Promissory note payments	-	-	-	-	(5,338)	5,338
Redemption of shares	-	(611)	611	(57)	(1,426)	1,369
Proceeds from issuance of shares	42	335	(293)	42	19,648	(19,606)
<b>Cash flow from financing</b>	<b>-</b>	<b>(321)</b>	<b>321</b>	<b>(200)</b>	<b>12,610</b>	<b>(12,810)</b>
Net change in cash for the period	(2,436)	726	(3,162)	(7,372)	11,553	(18,925)
Cash - beginning of period	10,437	16,225	(5,788)	15,373	5,399	9,974
<b>Cash - end of period</b>	<b>\$ 8,001</b>	<b>\$ 16,951</b>	<b>\$ (8,950)</b>	<b>\$ 8,001</b>	<b>\$ 16,952</b>	<b>\$ (8,951)</b>

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

#### 4.1 OPERATING ACTIVITIES

Operating activities consumed approximately \$1.7 million of cash in the quarter, while changes in working capital consumed \$0.2 million of cash, and capital expenditures used a further \$0.5 million. Operating cash flow is tracking lower as a result of the reduced revenue, net income and lower non-cash operating expenses. The net change in working capital is composed of a decline of \$2.1 million in current liabilities, from \$6.3 million to \$4.2 million offset by a \$1.9 million decline in non-cash current assets, from \$8.5 million to \$6.6 million

On a year over year basis, cash balances declined in Q3-F09 by \$2.4 million compared with cash generated of \$0.7 million in Q3-F08. This change is primarily as a result of the change in operating cash flow between the two periods. In Q3-F08 we had positive cash flow from operations of \$2.8 million while in Q3-2009 we had negative cash flow from operations of \$1.9 million. This \$4.7 million swing was mitigated by a \$1.3 million reduction in capital expenditures between the two periods.

As business volumes slowed in the quarter, we experienced a lengthening in payment terms with our customers. However, our principal suppliers, notably helicopter and aircraft operators, still required timely payment of their invoices. This change, combined with the reduction in deferred revenue resulting from business that was pre-paid and flown in the quarter comprised the majority of the changes in our non-cash working capital position.

The difference in the changes in non-cash working capital between Q3-F09 and Q3-F08 is primarily a result of receivable balances and accounts payable decreasing by \$3.3 million and \$1.6 million respectively in Q3-F09 compared with a decrease in accounts receivable and accounts payable of \$1.7 million and \$0.3 million in accounts payable in Q3-F08.

#### **4.2 INVESTING ACTIVITIES**

Investment activities in Q3-F09 consumed \$0.6 million of cash, all of which was for the acquisition of capital assets. The majority of the capital spent in Q3-F09 was for technology upgrades on the AeroTEM systems. YTD-F09 capital expenditures were \$4.7 million. In the first and second quarters we took delivery of two total field gravity systems for our fixed wing fleet. The total cost of these systems, including all acceptance testing was \$3.2 million. We committed to these systems in mid F08 and took delivery of one in each of the first and second quarters. These systems are quite important to our operating and strategic plans and our entry into gravity surveying has been immediately productive, as is evidenced by the fact that gravity surveys have accounted for approximately \$5.7 million of revenue year-to-date.

In Q3-F08, investment activities consumed \$1.7 million of cash, \$1.9 million for capital assets and \$0.2 million of proceeds from the sale of capital assets in that quarter.

#### **4.3 FINANCING ACTIVITIES**

Included in financing activities in Q3-F09 is the payment under our capital leases consumed \$0.1 million the same as in Q3-F08.

Included in the financing activities in Q3-F08 was \$0.6 million of cash consumed in the purchase of our shares under our Normal Course Issuer Bid which was in place for most of calendar 2008 (see Note 9 below). There was no share buyback activity in the most recent quarter.

#### **4.4 CAPITAL RESOURCES**

We have separate credit facilities and associated financial covenants in place for our Canadian and Australian operations. At March 31, 2009, no amounts had been drawn on either facility.

We believe that cash, cash flow from operations and unused operating facilities will be sufficient to fund our working capital, capital expenditure requirements and debt service costs (if applicable) for the near future.

#### 4.5 SUMMARY FINANCIAL POSITION

As of June 30, 2009, we had current assets of \$14.6 million and current liabilities of \$4.2 million. Net working capital was \$10.4 million, a decrease of \$6.0 million from September 30, 2008 and a decrease of \$6.7 million from June 30, 2008.

#### SUMMARY CASH FLOW

(in thousands of Canadian dollars)	30-Jun-09	30-Sep-08	30-Jun-08	Change from year-end		Change from 31-Mar-08	
<b>Cash</b>	<b>\$8,001</b>	\$15,373	\$16,951	(\$7,372)	(48%)	(\$8,950)	(53%)
Non-cash current assets	<b>6,574</b>	11,584	10,199	(5,010)	(43%)	(3,625)	(36%)
<b>Current assets</b>	<b>14,575</b>	26,957	27,150	(12,382)	(46%)	(12,575)	(46%)
Less: Current liabilities	<b>4,198</b>	10,626	10,059	(6,428)	(60%)	(5,861)	(58%)
<b>Net working capital</b>	<b>\$10,377</b>	\$16,331	\$17,091	(\$5,954)	(36%)	(\$6,714)	(39%)
Current ratio	<b>3.5</b>	2.5	2.7		37%		29%

## 5 Risks and Uncertainties

### 5.1 Foreign currency exchange risk

We record transactions and prepare our financial statements in Canadian dollars. For Q3-F09, we maintained operations in Canada, Australia, and the United States with business conducted in other countries. International operations are considered financially and operationally self-sustaining. Accordingly, our assets and liabilities of our foreign subsidiaries are translated into Canadian dollars at period end exchange rates. Revenue and expense items of our foreign subsidiaries are translated into Canadian dollars at monthly exchange rates.

Significant portions our expenditures are denominated in these currencies and therefore, a natural hedge exists for much of this exposure. However, a net exposure exists for Australian and United States dollars cash flows that can affect earnings as the Canadian dollar exchange rate changes in relation to these currencies.

Other comprehensive income includes a currency translation adjustment related to our net investment in self-sustaining subsidiaries.

While our foreign exchange policy does permit active hedging of any portion of our net foreign currency cash flow beyond the natural hedges identified and discussed above, no active hedges were employed in the quarter. As a result, we do not employ any derivative products.

## **5.2 INTEREST RATE RISK**

Since we did not have any interest bearing debt in either YTD-F09 or YTD-F08, interest rate volatility did not have a direct impact on our operations.

## **5.3 OTHER LITIGATION**

On August 19, 2008 we announced that we had been served with a Statement of Claim by Geotech Ltd., Geotech Airborne Limited and Geo Equipment Manufacturing Ltd. (the "Geotech Claim") filed in the Ontario Superior Court of Justice. The Geotech Claim includes \$50 million in general damages and \$1 million in punitive damages from Aeroquest, three of its subsidiaries and another party for an alleged breach of contractual undertakings and misappropriation of certain confidential information. The claim relates to the activities of a former employee of Geotech Ltd. during the course of his employment with Aeroquest and certain undertakings given by the employee and Aeroquest in connection therewith. On September 22, 2008, we filed a Statement of Defence and Counterclaim indicating, among other things, that the Claim was completely without merit and Geotech's sole reason for filing the claim was to damage the business, operations and reputation of Aeroquest. Our counterclaim totaled \$21 million.

On March 3, 2009, we announced that we had entered into an agreement with Geotech to settle the claim filed against us by Geotech, and to settle the counterclaim filed against Geotech by us. As part of the settlement, Geotech has acknowledged that our helicopter-borne time domain electromagnetic systems (AeroTEM systems) do not use any confidential information of Geotech or any of their subsidiary companies. The settlement does not compromise any patent rights of Aeroquest or Geotech in any manner. We did not pay any sum of money to Geotech, nor did we agree to any restrictions on its operations as part of the settlement. The remaining terms of the settlement between the parties remain confidential.

In addition to the above, we are involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in our favour, we do not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to those or other matters or amount which may be required to pay by reason thereof would have a material adverse impact on our financial position, results of operations or liquidity.

## **6 Off-Balance Sheet Arrangements**

We have not entered into any off balance sheet arrangements, other than previously disclosed, that have, or are reasonably likely to have, an impact on the current or future results of operations or the financial condition of our company.

## **7 Transactions with Related Parties**

For the three and nine months ended June 30, 2009 and 2008, we did not make any payments to companies or any other parties related to our officers or directors.

## 8 Cancellation of Proposed Spectrem Air Transaction

On September 24, 2008 we announced that we had signed a non-binding letter of intent with Spectrem Air Limited (“Spectrem”) a member of the Anglo American group of companies, one of the world’s largest mining and natural resource groups, to create a long-term outsourcing arrangement whereby Spectrem would outsource substantially all of its current airborne geophysical surveying business to Aeroquest. Details of the letter of intent were outlined in the press release dated that same day, and in our year-end MD&A and audited financial statements.

Due to the extraordinary market conditions that have prevailed since the signing of the letter of intent, including reductions in commodity prices and corresponding reductions in exploration spending, both parties have agreed that the economic assumptions driving the transaction have fundamentally changed. As a result, we announced on February 4, 2009 that the parties mutually agreed to terminate the letter of intent. However, our relationship with Spectrem remains strong and we will continue to cooperate on business initiatives going forward as well as ongoing technology development around our AeroTEM™ technology.

## 9 Share Capital

At June 30, 2009, we had 33,693,310 Common Shares issued and outstanding and as at the same date the Common Share stock options held by directors, officers, employees, consultants, and brokers were as follows:

	Number of options	Exercise price	Expiry date
Issued options held by directors, officers and consultants under the Company Stock Option Plan	32,500	\$ 0.50	October 28, 2009
	10,000	\$ 2.00	October 28, 2009
	5,000	\$ 0.50	March 1, 2010
	15,000	\$ 2.00	June 30, 2010
	7,500	\$ 0.50	June 30, 2010
	250,000	\$ 0.50	February 9, 2011
	367,500	\$ 0.60	June 30, 2011
	3,000	\$ 0.75	October 3, 2011
	15,000	\$ 0.75	October 13, 2011
	167,000	\$ 2.34	September 30, 2012
	50,000	\$ 1.70	July 16, 2013
	421,333	\$ 0.42	January 18, 2014
	65,000	\$ 0.38	February 26, 2014
	Total outstanding	1,408,833	\$ 0.77
Total exercisable	1,011,167	\$ 0.80	

We have a Restricted Stock Unit (RSU) plan under which the Board of Directors of our Company may grant RSU units of our Company to qualified directors, officers, employees, and persons providing ongoing services to our 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. At March 31, 2009 there were 548,332 RSU's outstanding. 225,000 RSU's were granted in Q2-2009. No RSU's were converted to Common Shares in the quarter. However, 173,335 previously granted RSU's vested in the first quarter of 2009 and were converted to Common Shares (representing one third of the existing RSU's granted in 2006 and 2007).

On December 13, 2007, we received approval from the TSX Venture Exchange for a normal course issuer bid whereby we were given the right to purchase up to 1,374,660 of our common shares on the open market for cancellation terminating on December 16, 2008.

On July 24, 2008, we delisted from the TSX-Venture Exchange and commenced trading on the Toronto Stock Exchange (TSX). Concurrent with the graduation to the TSX, the TSX approved an amendment to the Normal Course Issuer Bid of December 13, 2007 which increased the number of shares that can be acquired pursuant to the bid to 1,653,336 common shares (an increase of 278,676 common shares).

In the first quarter of fiscal 2009, we purchased 75,000 shares for cancellation for a total consideration of \$0.1 million. The share capital value and outstanding shares have been adjusted to reflect this cancellation. The Normal Course Issuer Bid expired in December, 2008 and was not renewed.

## **10 Internal Controls and Disclosure Controls & 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 National (formerly 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 an oversight role with respect to all public disclosure and review 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.

In 2008, the Canadian Securities Authorities announced changes to NI 52-109 that will impact our reporting effective for fiscal quarters ending after December 15, 2008. Changes that have an impact include the following new requirements that we:

- evaluate the effectiveness of Internal Controls over Financial Reporting ("ICFR");
- use a control framework in the design of their ICFR and such framework must be disclosed; and

- disclose all material weaknesses, their financial impact (actual or potential), and plans or actions to remediate such weaknesses.

In the first quarter of fiscal 2009, we engaged external advisors to assess the impact of these changes on our current evaluation of ICFR and disclosure control and procedures. As a result, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures and internal control over financial reporting, and determined that they were effective as of June 30, 2009.

## **11 Critical Accounting Policies and Estimates**

Here and in our Consolidated Financial Statements (including the Notes) we have identified the accounting policies and estimates that are critical to the understanding of our business and the results of our operations.

### **11.1 ACCOUNTING POLICY CHANGES**

On October 1, 2008, we adopted new Canadian accounting recommendations for goodwill and intangible assets. The new recommendations provide guidance on when expenditures qualify for recognition as intangible assets. Our results of operations were not materially affected by the new recommendations.

On October 1, 2007, we adopted new Canadian accounting standards for financial instruments disclosures and presentation, sections 3862 and 3863, which require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks.

Also on October 1, 2007, we adopted new Canadian accounting standards for capital management that specifies the disclosure of an entity's objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements and the consequences of non-compliance.

### **11.2 FOREIGN ACCOUNTING STANDARDS**

The results of operations of our subsidiary UTS Geophysics Pty Ltd. are prepared in accordance with Australian equivalents to International Reporting Standards (AIFRS) and then adjusted to Canadian GAAP standards for consolidation. Our Geophex Ltd. subsidiary results are reported under United States GAAP and are adjusted to Canadian GAAP standards for consolidation.

### **11.3 USE OF ESTIMATES**

In the preparation of our financial statements we are required to make some estimates of the fair value of certain transactions, or the likely impact of certain events on our results of operations. The following is a summary of the areas that require the most significant use of estimates:

#### ***BAD DEBT EXPENSE***

We are required, each reporting period, to make an estimate of the likelihood that we will collect all of the accounts receivable owed to us. This requires that we exercise some judgment about the timing and likelihood of payment on accounts that have become past due and record a provision for those accounts

where there is significant risk of collection. We review all outstanding accounts receivable on at least a monthly basis to establish whether or not any action is required.

### *FOREIGN CURRENCY TRANSLATION*

We record revenue in Canadian, Australian, and United States dollars, as well as in Euros and, at times, other currencies. Changes in the exchange rates between currencies may create a change in the revenue, or profit on a survey between the time we record revenue and the time we disburse for costs. In addition, we translate all amounts into Canadian dollars for the purposes of financial reporting.

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 monthly average exchange rate.
- 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.

### *GOODWILL AND INTANGIBLE ASSETS*

Goodwill represents the difference between the price paid and the fair value attributed to tangible and intangible assets upon the acquisition of businesses. Goodwill is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. The impairment test first consists of a comparison of the fair value of the reporting unit to which goodwill is assigned with its carrying amount. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. Any impairment loss is charged to earnings in the period in which the loss is incurred. The Corporation uses the discounted cash flow method to determine the fair value of reporting units.

Intangible assets are amortized over the useful life of the underlying asset. No amortization is recorded where the asset has an infinite life or is not determinable. Any intangible assets not subject to amortization are tested annually for any impairment. 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 undiscounted 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.

Amortization is recorded on a straight line basis over the estimated useful life of the assets. Customer relationships and technology are amortized over seven years, sales backlog is amortized over one year and any trade names are not amortized.

### *INCENTIVE COMPENSATION*

We have Incentive Plans of which all employees are members. One such Incentive Plan establishes Target and Stretch performance levels against which the performance of the Company and its senior

managers are measured. Each quarter we accrue an amount equal to one quarter of the estimated Incentive Plan payout, based on the Company meeting its Target performance levels. The actual amount paid could be different from the amounts estimated in interim periods requiring an adjustment, usually in the fourth quarter of the year.

The fair value of stock-based compensation is estimated using a Black-Scholes option pricing methodology. The principal assumptions required for the Black-Scholes methodology are assumptions about the expected life of the options, and the expected volatility and dividend policy of the underlying stock over the expected life of the options.

#### **11.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')**

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian public and publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year period ended in 2011. On May 9, 2008, the Canadian Securities Administrators issued CSA Staff Notice 52-320 which provided guidance on disclosure related to each financial reporting period in the three years before the first year for which a public company prepares its financial statements in accordance with IFRS. As we will begin reporting our financials under IFRS in our September 30, 2012 fiscal year, the staff notice requires disclosure on the key elements and timing of our IFRS changeover plan beginning in this interim MD&A.

There are several phases to that we will have to complete on the path to implementing IFRS:

- The initial impact assessment and scoping phase including the identification of significant differences between existing Canadian GAAP and IFRS as relevant to the Company's specific instance;
- The key elements phase including the identification, evaluation and selection of accounting policies necessary for the changeover to IFRS. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training;
- Finally, the embedding phase that will integrate the solutions into our underlying financial systems and processes that are necessary for the Company to changeover to IFRS.

We have engaged third party consultants to assist in this process. As of June 30, 2009, we are nearing completion of the initial impact assessment phase. However, we are not yet in a position to quantify the result (if any) of this study but will continue to report on this process in subsequent MD&A.

#### **12 Subsequent Event – Acquisition of Optimal Geomatics Inc.**

On July 29, 2009, we announced that we had entered into an Arrangement Agreement with Optimal Geomatics Inc. (TSX-V:OPG) whereby Optimal will be acquired by Aeroquest. Under the terms of the Arrangement Agreement, the proposed transaction will be effected by way of a Plan of Arrangement completed under the Canada Business Corporations Act. Optimal shareholders will receive 1 common share of Aeroquest for each 21 common shares of Optimal owned and will result in Aeroquest issuing approximately 3.0 million common shares to Optimal shareholders.

Completion of the transaction is conditional on the approval of Optimal shareholders and satisfaction of other customary conditions including stock exchange and court approvals. The required shareholder approval will be two-thirds of the votes cast by holders of common shares at a meeting of Optimal shareholders held to consider the proposed transaction. The optimal shareholders meeting, to approve the Arrangement, will be held in mid-September, 2009 with closing expected by the end of September, 2009.

Our Board of Directors as well as the Board of Directors of Optimal have determined that the proposed transaction is in the best interest of their respective companies and have unanimously recommended that Optimal shareholders vote in favour of the Arrangement.