

Management's Discussion & Analysis For the year ending September 30, 2009

Issued on December 9, 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 year ended September 30, 2009 ("Q4-F09" and "F2009" respectively) compared with our operating results for the three months and year ended September 30, 2008 ("Q4-F08" and "F2008" respectively). It also compares our balance sheet as at September 30, 2009 to our balance sheet as at September 30, 2008.

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., Optimal Geomatics Inc., Aeroquest (UK) Limited and AeroKaz LLP (collectively, "the Company"), with all material 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. 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 the Company or persons acting on behalf of the Company 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 year.

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 survey platforms serving the mineral and petroleum exploration industries, and the environmental and infrastructure industries. We operate a large fleet of airborne geophysical and geomatic survey systems utilizing two separate delivery platforms; helicopters and fixed wing aircraft. Our geophysical survey technologies include time-domain and frequency-domain electro-magnetics (including our proprietary AeroTEM, time-domain electromagnetic technology), gravity, magnetic, and radiometric systems. Our geomatic survey technologies include LiDAR and ortho-rectified digital photography. Our combination of geoscience technologies and airborne platforms give us one of the broadest arrays of product and service offerings in our industry in the world today. We are active on virtually all continents assisting our clients in investigating features at or near the earth's surface and to depths of several kilometers beneath the earth's surface.

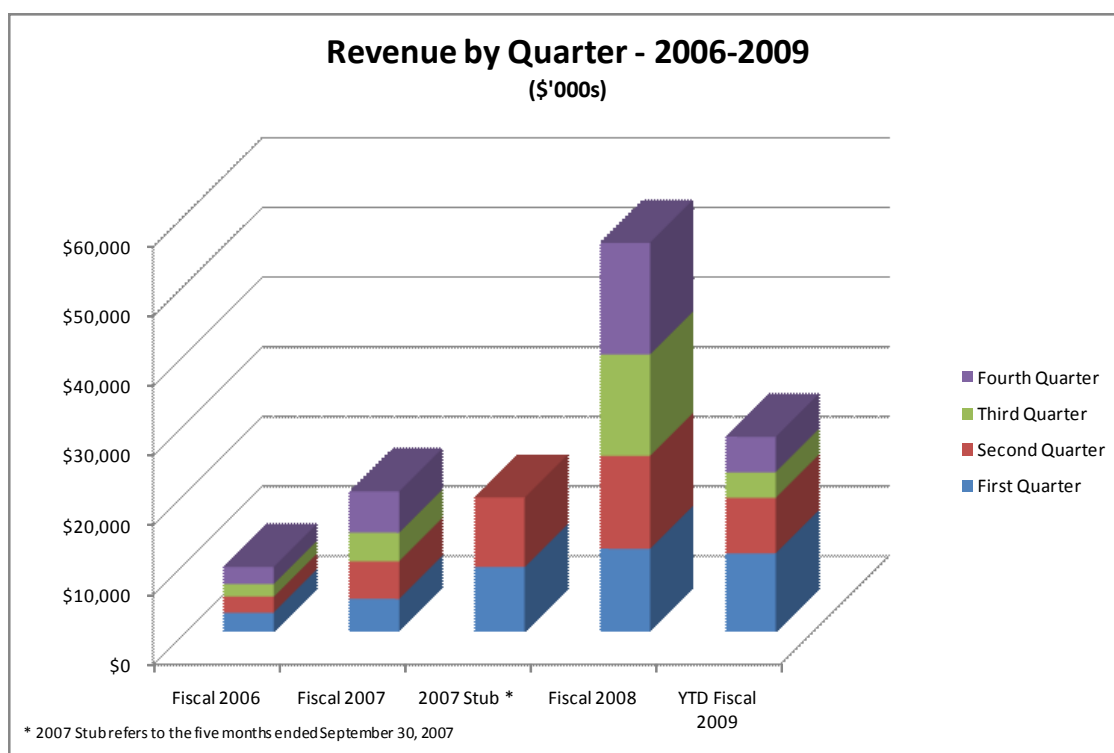
2.2 SELECTED COMPARATIVE QUARTERLY FINANCIAL INFORMATION

| (Financials in 000's except /share data) | | | | | | | | | |
|---|------------|------------|------------|------------|-----------|-----------|-----------|-----------|--|
| | Q4-Sep 09 | Q3-Jun 09 | Q2-Mar 09 | Q1-Dec 08 | Q4-Sep 08 | Q3-Jun 08 | Q2-Mar 08 | Q1-Dec 07 | |
| Revenue | \$ 5,099 | \$ 3,651 | \$ 7,963 | \$ 11,298 | \$ 16,017 | \$ 14,537 | \$ 13,295 | \$ 11,197 | |
| Operating profit | \$ (6,362) | \$ (4,601) | \$ (1,698) | \$ (2,008) | \$ 2,024 | \$ 590 | \$ 1,613 | \$ 195 | |
| Net income | \$ (4,657) | \$ (3,498) | \$ (953) | \$ (1,514) | \$ 1,603 | \$ 304 | \$ 815 | \$ 121 | |
| Weighted average common shares | 33,725 | 33,627 | 33,613 | 33,597 | 33,785 | 34,662 | 32,553 | 27,603 | |
| Earnings per share (basic) | \$ (0.14) | \$ (0.11) | \$ (0.03) | \$ (0.04) | \$ 0.05 | \$ 0.01 | \$ 0.03 | \$ 0.00 | |
| Earnings per share (diluted) | \$ (0.13) | \$ (0.11) | \$ (0.03) | \$ (0.04) | \$ 0.05 | \$ 0.01 | \$ 0.03 | \$ 0.00 | |
| Operating cash flow/share | \$ (0.05) | \$ (0.06) | \$ 0.02 | \$ 0.03 | \$ 0.05 | \$ 0.06 | \$ 0.09 | \$ 0.06 | |
| Total assets | \$ 57,740 | \$ 60,240 | \$ 64,624 | \$ 68,660 | \$ 69,540 | \$ 71,537 | \$ 72,053 | \$ 59,331 | |
| Long term liabilities | \$ 224 | \$ 252 | \$ 316 | \$ 486 | \$ 470 | \$ 502 | \$ 562 | \$ 3,126 | |
| Systems available for use at period end * | 29 | 27 | 28 | 27 | 28 | 27 | 23 | 19 | |
| Fixed-wing systems | 10 | 10 | 11 | 10 | 11 | 11 | 9 | 8 | |
| Helicopter systems | 17 | 17 | 17 | 17 | 17 | 16 | 14 | 11 | |
| AeroTEM systems included in above | 13 | 13 | 13 | 13 | 13 | 11 | 8 | 8 | |
| Geomatics systems | 2 | - | - | - | - | - | - | - | |
| Line kilometres flown during period | | | | | | | | | |
| Helicopter systems | 5,400 | 2,700 | 11,400 | 59,150 | 74,100 | 73,200 | 59,000 | 47,700 | |
| Fixed-wing systems | 351,000 | 144,000 | 189,000 | 316,000 | 520,000 | 457,700 | 362,000 | 408,900 | |
| Contract back-log (CAD\$ thousands) | | | | | | | | | |
| Helicopter systems | \$ 1,082 | \$ 100 | \$ 1,000 | \$ 2,700 | \$ 6,900 | \$ 5,100 | \$ 5,900 | \$ 8,000 | |
| Fixed-wing systems | \$ 2,726 | \$ 5,600 | \$ 5,600 | \$ 9,700 | \$ 9,200 | \$ 11,900 | \$ 11,400 | \$ 11,000 | |
| Geomatics | \$ 6,704 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| Other | \$ 370 | \$ 900 | \$ 1,400 | \$ 1,600 | \$ 1,900 | \$ - | \$ - | \$ - | |

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 Q4-F09 revenue declined by \$10.9 million to

\$5.1 million from \$16.0 million in Q4-F08. Gross profit in Q4-F09 was \$3.9 million, a decline of \$6.0 million from the \$10.9 million reported in Q4-F08. Q4-F09 net loss was \$4.7 million compared with Q4-F08 profit of \$1.6 million. The decline in profitability is due to several factors working 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. As well, Q4-F09 reflected an impairment charge of \$2.9 million for goodwill and intangible asset write-down to fair value.

We embarked on a significant cost reduction program beginning in Q2 and continuing through Q4 of fiscal 2009 and the restructuring costs associated with these efforts are also reflected in our results. These issues are discussed in more detail throughout this MD&A.



2.3 BUSINESS STRATEGY

Our strategy is 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 opportunities; if we want to be the one that people turn to in order to get help in capitalizing on these opportunities, then we have to be ready and able to go anywhere. To date, we have successfully surveyed in well over 40

countries around the globe and have completed surveys and positioned systems on every continent but Antarctica.

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. Aerial remote sensing technologies are examples of such complimentary technologies. Aerial remote sensing is similar to geophysical surveying except that the objects of interest in remote sensing are at the earth's surface, whereas the objects of interest in geophysics are usually buried beneath the earth's surface. During F2009 we negotiated and closed the purchase of Optimal Geomatics Inc., giving us capabilities in two important remote sensing technologies; LiDAR and aerial photography.

2.4 OUTLOOK

Global spending in both mineral and petroleum exploration has slowed and we expect it to remain below the levels of 2007 and 2008 for the balance of 2009 and 2010. Commodity prices are generally at levels that would normally stimulate exploration so we remain optimistic about the medium and long terms, but in the short term, the nervousness that has characterized the past 12 months continues and is reflected in lower than normal spending on projects of higher risk or projects with longer paybacks – like Greenfield exploration. We have downsized our business to reflect this reality and are working to maintain breakeven or better positions in each of our regional offices.

We have implemented new field procedures in helicopter operations to address historical field inefficiencies. These include updates to our Safety Management Systems and Standard Operating Procedures in the field, with a focus on placing Safety ahead of all other considerations, and comprehensive training 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 global workforce reductions of approximately 70 persons, or approximately 50% of our geophysical survey staff, and the closure of one regional office in F2009. 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 as economic conditions improve.

We have been successful at maintaining a critical mass of survey revenue in the petroleum sector; this business continues to account for a large share of our geophysical survey revenue. 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. To strengthen this business, in F2009 we acquired Optimal Geomatics Inc. The transaction closed on September 30, 2009 and will begin to be reflected in the Company's operating result in the first quarter of fiscal 2010. Optimal is a specialist in remote sensing, specifically LiDAR and aerial photography. The acquisition brings with it new opportunities in the Infrastructure and Environmental Industries as most of Optimal's clients are from these industries.

We have also been actively looking for other 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 takes hold. 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 Fourth Quarter Operating Results

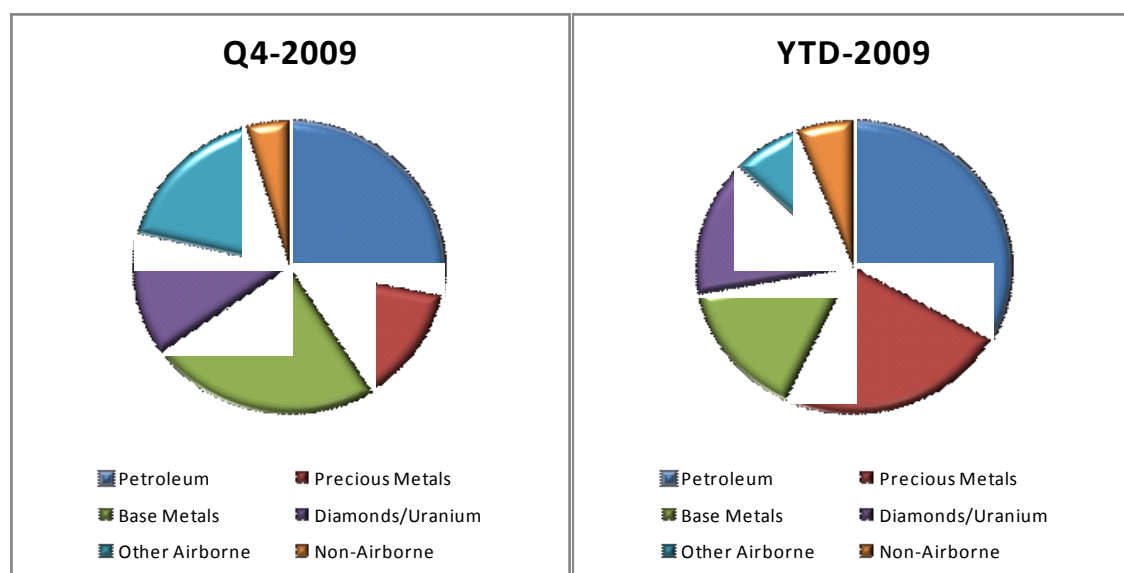
3.1 OVERVIEW AND HIGHLIGHTS

The global economic recession and the resulting impact on mineral and petroleum exploration continued to negatively impact our revenue and backlog in the fourth quarter. In Q4-F09, we recorded a decline in consolidated revenue of 68 per cent over Q4-F08. Helicopter services declined by 89 per cent to \$0.8 million and fixed wing services declined by 51 per cent to \$4.1 million from their levels in Q4-F08. Other services (principally revenue from Geophex) contributed \$0.2 million in revenue for the quarter compared with \$0.7 million in Q4-F08. These are all very significant declines on a year over year basis, but are consistent with, and in some cases higher than, the levels in earlier quarters. A more detailed discussion on these variances is provided below.

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 \$2.1 million of fixed wing revenue in Q4-F09 (and slightly over \$7.8 million F2009).

Revenue has also diversified from traditional base metal exploration. In Q4-F09, petroleum exploration comprised a healthy percentage our overall revenue base and we expect to generate continued healthy contributions from the petroleum sector going forward.

Revenue Breakdown by Commodity



Over the past several quarters, we have been aggressive in reducing our cost structure. Headcount reductions totaling 60 per cent of our staff took place in January, March and July that will result in an annualized \$3.5 million reduction to our payroll burden. Other reductions to senior management salaries will also help to reduce our run rate operating costs. Finally, 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 \$6.1 million at the end of Q4-F09 from \$8.0 million at the end of Q3-F09 and \$15.4 million at the end of September, 2008. Cash flow from operations in Q4-F09 was negative using \$1.7 million of cash. As discussed below, \$1.3 million of this balance related to cash flow from operations before changes in working capital and \$0.4 million relates to changes in non-cash working capital in the quarter. Capital expenditures for the quarter were less than \$0.1 million, reflecting our efforts to minimize cash outflows going into fiscal 2010.

3.2 AIRBORNE FLEET SUMMARY

Beginning in the fall of 2008, we slowed the pace of expansion in anticipation of the slowing economy. In this most recent quarter, there were no new changes to the geophysical survey fleet. Our active fleet is now comprised of 30 systems; 17 helicopter based and 13 fixed wing based. With the acquisition of Optimal Geomatics, we have now added two new LiDAR and orthophotogrammetry systems.

AIRBORNE FLEET SUMMARY

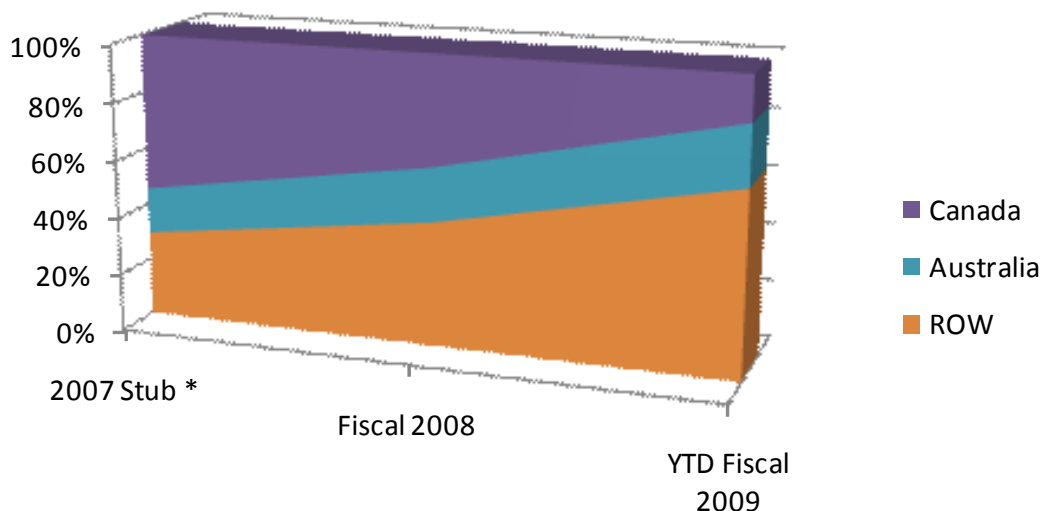
| | Helicopter | Fixed wing | Total |
|-----------------------------|------------|------------|-------|
| AeroTEM | 13 | | 13 |
| Impulse/GEM-2A | 2 | | 2 |
| Magnetics | | | |
| single sensor | 1 | 6 | 7 |
| multi-sensor | 1 | 3 | 4 |
| Gravity | | | |
| (+ multi-sensor mag) | | 2 | 2 |
| Optimal Geomatics | | 2 | 2 |
| Total | 17 | 13 | 30 |

3.3 REVENUE BY GEOGRAPHIC SEGMENT

While the economic slowdown has impacted our volume of business, we continue to be active around the globe. As of September 30, 2009, we had positioned helicopter systems in North and South America, Europe, Africa and Australasia. During the same period, we operated fixed wing units in Australia & the South Pacific, Africa and North America.

Since the acquisition of UTS Geophysics Pty Ltd. and Geophex Ltd., in July and December of 2007 respectively, our revenue outside of Canada has grown significantly. However, our Canadian based revenue has declined in F2009 due to the economic slowdown. The result is that revenue outside of Canada in Q4-F09 represented over 76 per cent of our total revenue with revenue from contracts flown in Australia being the largest portion of our business at 25 percent. Of the 51 percent of revenue outside of Canada and Australia, approximately \$0.6 million, or 12 per cent was derived in the United States. No other country represented more than 10 percent of our revenue.

Revenue by Geographic Segment 2007 - 2009



REVENUE BY GEOGRAPHIC SEGMENT

Three Months Ended Sept 30, 2009

(thousands of Canadian dollars)

Helicopter services
Fixed wing services
Other services
Total Revenue - Aeroquest Group

| | Canada | Australia | RoW | Total | |
|--|-----------------|-----------------|-----------------|-----------------|-------------|
| Helicopter services | \$ 739 | \$ - | \$ 18 | \$ 757 | 15% |
| Fixed wing services | 502 | 1,254 | 2,360 | 4,116 | 81% |
| Other services | - | - | 227 | 227 | 4% |
| Total Revenue - Aeroquest Group | \$ 1,241 | \$ 1,254 | \$ 2,605 | \$ 5,100 | 100% |
| | 24.3% | 24.6% | 51.1% | 100% | |

Year Ended September 30, 2009

(thousands of Canadian dollars)

Helicopter services
Fixed wing services
Other services
Total Revenue - Aeroquest Group

| | Canada | Australia | RoW | Total | |
|--|-----------------|-----------------|------------------|------------------|-------------|
| Helicopter services | \$ 3,328 | \$ 296 | \$ 5,934 | \$ 9,558 | 34% |
| Fixed wing services | 946 | 4,453 | 11,424 | 16,823 | 60% |
| Other services | - | - | 1,631 | 1,631 | 6% |
| Total Revenue - Aeroquest Group | \$ 4,274 | \$ 4,749 | \$ 18,989 | \$ 28,012 | 100% |
| | 15.3% | 17.0% | 67.8% | 100% | |

3.4 CONSOLIDATED RESULTS

OPERATING STATEMENTS

(in thousands of Canadian dollars)

| | Q4-F09 | Q4-F08 | Change | YTD-F09 | YTD-F08 | Change |
|--------------------------------------|-------------------|-----------------|-------------------|--------------------|-----------------|-----------------|
| Revenue | | | | | | |
| Helicopter services | 757 | 7,047 | (6,290) | 9,558 | 27,674 | (18,116) |
| Fixed wing services | 4,116 | 8,268 | (4,152) | 16,823 | 26,088 | (9,265) |
| Other services | 227 | 702 | (475) | 1,631 | 1,284 | 347 |
| | 5,100 | 16,017 | (10,917) | 28,012 | 55,046 | (27,034) |
| Cost of sales | | | | | | |
| Helicopter services | 860 | 5,564 | (4,704) | 7,952 | 18,340 | (10,388) |
| Fixed wing services | 3,072 | 5,214 | (2,142) | 11,730 | 15,603 | (3,873) |
| Other services | 110 | 156 | (46) | 657 | 408 | 249 |
| | 4,042 | 10,934 | (6,892) | 20,339 | 34,351 | (14,012) |
| Gross profit | 1,058 | 5,083 | (4,025) | 7,673 | 20,695 | (13,022) |
| Gross margin | | | | | | |
| Helicopter services | -13.6% | 21.0% | | 16.8% | 33.7% | |
| Fixed wing services | 25.4% | 36.9% | | 30.3% | 40.2% | |
| Other services | 51.5% | 77.8% | | 59.7% | 68.2% | |
| Gross profit margin % | 20.7% | 31.7% | | 27.4% | 37.6% | |
| General & administrative expense | 2,116 | 2,459 | (343) | 11,845 | 9,522 | 2,323 |
| Foreign exchange (gain) loss | 308 | (1,162) | 1,470 | (232) | (1,059) | 827 |
| Total cash operating costs | 2,424 | 1,297 | 1,127 | 11,613 | 8,463 | 3,150 |
| <i>% of revenue</i> | 21.5% | 11.6% | | 102.8% | 75.6% | |
| Stock-based compensation expense | 108 | 231 | (123) | 456 | 960 | (504) |
| EBITDA | (1,474) | 3,555 | (5,029) | (4,396) | 11,272 | (15,668) |
| <i>EBITDA as a % of revenue</i> | -2.7% | 26.7% | | -8.0% | 46.0% | |
| Depreciation of capital assets | 932 | 739 | 193 | 3,900 | 2,814 | 1,086 |
| Amortization of intangible assets | 1,075 | 809 | 266 | 3,493 | 4,035 | (542) |
| Impairment of goodwill & intangibles | 2,880 | - | 2,880 | 2,880 | - | 2,880 |
| Operating profit/(loss) | (6,361) | 2,007 | (8,368) | (14,669) | 4,423 | (19,092) |
| Operating profit as a % of revenue | -56.3% | 14.9% | | -129.8% | 18.1% | |
| Interest and other expense (income) | 20 | (102) | 122 | (127) | (224) | 97 |
| Provision for income taxes | (1,725) | 523 | (2,248) | (3,920) | 1,804 | (5,724) |
| Net income | \$ (4,656) | \$ 1,586 | \$ (6,242) | \$ (10,622) | \$ 2,843 | (13,465) |
| Earnings per share - basic | \$ (0.14) | \$ 0.05 | \$ (0.19) | \$ (0.32) | \$ 0.09 | \$ (0.41) |

In Q4-F09, consolidated revenue was \$5.1 million, down \$10.9 million or 68 per cent over Q4-F08. Revenue from helicopter services was \$0.8 million, down \$6.3 million or 89 per cent over Q4-F08 while revenue from fixed wing services was \$4.1 million, down \$4.2 million or 50 per cent over Q4-F08. Other services revenue (Geophex Ltd.) was \$0.2 million in Q4-F09, down \$0.5 million or 71 per cent over Q4-F08. Revenue from helicopter services showed a marked decline due to the impact of the current economic downturn. Our traditional customers in mineral exploration have delayed or cancelled many of their surveys due to a combination of the current economic slump and tight capital markets hindering their ability to raise necessary exploration capital. Fixed wing services also experienced a similar decline but not to the extent of helicopter services – which are more expensive on a per line kilometer basis and thus tend to be the survey method most at risk in times of tight exploration spending.

Total F2009 revenue was \$28.0 million, a decline of \$27.0 million or 49 per cent over F2008. Revenue from fixed wing services was \$16.8 million, down \$9.3 million or 35 per cent over F2008, while F2009 revenue

from helicopter services was \$9.6 million, a decline of \$18.1 million or 65 per cent over the F2008. Other services revenue was \$1.6 million F2009, an increase of \$0.3 million over F2008. 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 and thus contributed to revenue for only three of the four quarters in that year.

Cost of sales was \$4.0 million in Q4-F09, or 76.5 per cent of revenue, compared to \$10.9 million or 69.3 per cent of consolidated revenue in Q4-F08. Gross margin in Q4-F09 declined by 11 percentage points to 21 per cent, compared with 32 per cent in Q4-F08. F2009 cost of sales was \$20.3 million or 72.6 per cent of consolidated revenue compared to \$34.3 million or 62.4 per cent of revenue in F2008. F2009 gross margin declined by 11 percentage points to 27 per cent compared to 38 per cent in F2008.

Gross margin in helicopter services was negative 14 per cent in Q4-F09, as compared to 21 per cent in the Q4-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. The negative margin is an improvement over the third quarter of F09 as revenue levels improve. As previously indicated, we have continued to reduce operational headcount that will mitigate this margin pressure somewhat in future quarters.

Gross margin in fixed wing services was \$1.0 million, or 25 per cent of revenue in the current quarter as compared to 37 per cent in Q4-F08. This decrease is also due to the impact of lower revenue against the fixed cost component of cost of sales. This decline in revenue results from both a decline in volume and decline in pricing with pricing accounting for approximately one-third of the total change.

F2009 gross margins in helicopter surveys was 17 per cent compared to 31 per cent in F2008 reflecting the marked decline in margins in Q3 and Q4-F08. F2009 gross margins in fixed wing surveys was 30 per cent compared to 40 per cent in F2008 also reflecting the decline in margins in the second half of F09 as well as costs related to the start-up of the two new total field gravity systems in the first quarter of fiscal 2009.

3.5 CASH OPERATING COSTS

Cash operating costs in Q4-F09 totaled \$2.4 million, an increase of \$1.1 million, or 84 per cent from the \$1.3 million reported in Q4-F08. This increase is primarily due to an increase in the foreign exchange expense of \$1.5 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 and an increase in bad debt expense of \$0.4 million, offset by a reduction in other general and administrative expense of \$0.7 million as the impact of the workforce reductions undertaken in the last half of the year begins to reflect in reduced general and administrative expense.

F2009 cash operating costs totaled \$11.6 million, an increase of \$3.1 million, or 36 per cent from the \$8.5 million reported in Q4-F08. This increase is primarily due to a) the provision for collectability of two large receivables in the year totaling \$1.8 million over amounts provided for in F08; b) net decrease in foreign currency gain of \$0.8 million in F09 over F08; and c) increased staffing levels in the first six months of F09 compared with the first six months of F08 combined with severance costs and other obligations related to the downsizing that took place in the second half of F09 comprising much of the remainder of the difference in annual cash operating costs.

3.6 OPERATING PROFIT AND EBITDA

EBITDA in Q4-F09 was negative \$1.5 million, a decline of \$5.1 million over the positive EBITDA of \$3.6 million reported in Q4-F08. F2009 EBITDA is negative \$4.4 million, a decline of \$15.6 million over F2008. 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 Q4-F09 declined by \$0.1 million compared to Q4-F08 (see note 9 below).

Depreciation and amortization charges totaled \$2.0 million in Q4-F09, an increase of \$0.5 million from Q4-F08. The increase in depreciation & amortization in the quarter is due to increased depreciation of airborne systems acquired in the last fiscal year and a decision by management to begin phasing out the UTS Geophysics brand name, which resulted in increase in amortization of intangible assets. This is somewhat offset by reduced amortization charges related to the acquisition of Geophex on December 31, 2008. F2009 depreciation and amortization was \$7.4 million, an increase of \$0.5 million from F2008.

Under Canadian GAAP, we test our goodwill and intangible assets for impairment on an annual basis. In Q4-F09, we determine that the value of the Geophex goodwill was impaired. As well, in Q4-F09, we decided to phase out the UTS brand name and rebrand our airborne services group simply as Aeroquest. This decision also necessitated an assessment of the fair value of the trade name. These assessments resulted in an impairment adjustment to goodwill and intangible assets totaling \$2.9 million. This non-cash expense was booked in Q4-F09.

Operating loss in Q4-F09 was \$6.4 million compared with an operating profit of \$2.0 million in Q4-F08. F2009 operating loss was \$14.7 million compared with an operating profit of \$4.4 million in F2008.

3.7 NET INCOME

Net loss for Q4-F09 was \$4.7 million, or \$0.14 per share compared to net income of \$1.6 million, or \$0.05 per share in Q4-F08. F2009 net loss was \$10.6 million or \$0.32 per share compared to net income of \$2.8 million or \$0.09 per share.

Our provision for recovery of income taxes for Q4-F09 was \$1.7 million generating an apparent tax rate of 27 per cent in the quarter a slight increase over the 26 per cent apparent tax rate reported in Q4-F08.

4 Liquidity and Capital Resources

Our cash balances declined by \$1.9 million from \$8.0 million at June 30, 2009 to 6.1 million at September 30, 2009. Most of this change in liquidity was the result of cash flow from operations consuming \$1.7 million of cash.

CASH & WORKING CAPITAL CHANGES

| (in thousands of Canadian dollars) | Three Months | | | Year | | |
|---|-----------------|------------------|-------------------|-----------------|------------------|-------------------|
| | Q4-F09 | Q4-F08 | Change | 2009 | 2008 | Change |
| Operating activities | | | | | | |
| Net Income/(Loss) | \$ (4,657) | \$ 1,603 | \$ (6,260) | \$ (10,622) | \$ 2,843 | \$ (13,465) |
| Non-cash operating items | | | | | | |
| Depreciation/Amortization | 2,007 | 1,548 | 459 | 7,393 | 6,849 | 544 |
| Impairment charges | 2,880 | - | 2,880 | 2,880 | - | 2,880 |
| Future taxes | (1,657) | (299) | (1,358) | (2,432) | (1,370) | (1,062) |
| Stock based compensation | 108 | 231 | (123) | 456 | 960 | (504) |
| Other | - | (76) | 76 | - | 272 | (272) |
| Operating cash before change in non-cash working capital | (1,319) | 3,007 | (4,326) | (2,325) | 9,554 | (11,879) |
| Change in non-cash working capital | (360) | (831) | 471 | (2,349) | (1,649) | (700) |
| Cash flow from operations | (1,679) | 2,176 | (3,855) | (4,674) | 7,905 | (12,579) |
| Investing activities | | | | | | |
| Capital asset purchases | (9) | (2,016) | 2,007 | (4,150) | (7,073) | 2,923 |
| Cash cost of acquisitions | (65) | (7) | (58) | (65) | (2,158) | 2,093 |
| Other | (18) | 168 | (186) | (54) | 589 | (643) |
| Cash flow from investing | (92) | (1,855) | 1,763 | (4,269) | (8,642) | 4,373 |
| Financing Activities | | | | | | |
| Capital lease payments | (85) | (28) | (57) | (270) | (301) | 31 |
| Promissory note payments | - | - | - | - | (5,338) | 5,338 |
| Redemption of shares | - | (1,871) | 1,871 | (57) | (3,298) | 3,241 |
| Proceeds from issuance of shares | - | - | - | 42 | 19,648 | (19,606) |
| Cash flow from financing | (85) | (1,899) | 1,814 | (285) | 10,711 | (10,996) |
| Net change in cash for the period | (1,856) | (1,578) | (278) | (9,228) | 9,974 | (19,202) |
| Cash - beginning of period | 8,001 | 16,951 | (8,950) | 15,373 | 5,399 | 9,974 |
| Cash - end of period | \$ 6,145 | \$ 15,373 | \$ (9,228) | \$ 6,145 | \$ 15,373 | \$ (9,228) |

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 three months.

4.1 OPERATING ACTIVITIES

Operating activities consumed approximately \$1.3 million of cash in the quarter, while changes in working capital consumed \$0.4 million of cash, and capital expenditures used less than \$0.1 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 \$2.0 million in current liabilities, from \$6.3 million to \$4.2 million, a \$4.1 million increase in non-cash current assets, from \$6.5 million to \$10.6 million offset by working capital acquired through the Optimal Geomatics acquisition of \$0.8 million. Net cash expended on the Optimal Geomatics acquisition was \$0.1 million (reflecting deal costs less cash acquired).

Our cash balances declined in Q4-F09 by \$1.9 million compared with an increase in cash of \$0.7 million in Q4-F08. This change is primarily as a result of the change in operating cash flow between the two periods. In Q4-F08 we had positive cash flow from operations of \$2.8 million while in Q3-2009 we had negative cash flow from operations of \$1.7 million. This \$4.5 million swing was mitigated by a \$1.9 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 and fuel providers, 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 Q4-F09 and Q4-F08 is primarily a result of receivable balances and accounts payable decreasing by \$2.9 million and \$1.1 million respectively in Q4-F09 compared with an increase in accounts receivable and accounts payable of \$0.6 million and \$0.6 million in accounts payable in Q4-F08.

4.2 INVESTING ACTIVITIES

Investment activities in Q4-F09 consumed \$0.1 million of cash held, the majority of which related to the cash cost related to the acquisition of Optimal Geomatics on September 30, 2009 of \$65,207 (see Section 8 below). Capital asset expenditures in the quarter were minor and generally consisted of improvements to the airborne fleet. F2009 capital expenditures were \$4.1 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 F2008 and took delivery of one in each of the first and second quarters of this fiscal year. 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 \$8.0 million of revenue in F2009.

4.3 FINANCING ACTIVITIES

The bulk of the financing activities in Q4-F09 were the payments under our capital leases of \$0.1 million.

F09 financing activities included \$0.1 million of cash consumed in the purchase of our shares under our Normal Course Issuer Bid which was in place for most of the first quarter of fiscal 2009 (see Section 9 below). There was no share buyback activity in the most recent quarter and there has been none since the first quarter of F2009.

4.4 CAPITAL RESOURCES

We have separate credit facilities and in place for our Canadian and Australian operations. At September 30, 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 September 30, 2009, we had current assets of \$16.8 million and current liabilities of \$6.2 million. Net working capital was \$10.6 million, a decrease of \$5.7 million from September 30, 2008 and an increase of \$0.2 million from June 30, 2009.

SUMMARY CASH FLOW

| (in thousands of Canadian dollars) | 30-Sep-09 | 30-Jun-09 | 30-Sep-08 | Change from June 30, 2009 | | Change from prior year-end | |
|------------------------------------|-----------------|-----------|-----------|---------------------------|-------|----------------------------|-------|
| Cash | \$6,146 | \$8,001 | \$15,373 | (\$1,855) | (23%) | (\$9,227) | (60%) |
| Non-cash current assets | 10,696 | 6,574 | 11,584 | 4,122 | 63% | (888) | (8%) |
| Current assets | 16,842 | 14,575 | 26,957 | 2,267 | 16% | (10,115) | (38%) |
| Less: Current liabilities | 6,238 | 4,198 | 10,626 | 2,040 | 49% | (4,388) | (41%) |
| Net working capital | \$10,604 | \$10,377 | \$16,331 | \$227 | 2% | (\$5,727) | (35%) |
| Current ratio | 2.7 | 3.5 | 2.5 | | (22%) | | 6% |

5 Risks and Uncertainties

5.1 Foreign Currency Exchange Risk

We record transactions and prepare our financial statements in Canadian dollars. For Q4-F09, we maintained operations in Canada, Australia, and the United States with business conducted in other countries as well. International operations are considered financially and operationally self-sustaining. Accordingly, the 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 of our contract survey expenditures are denominated in the same currency as our revenue on these contract surveys 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 or the year. As a result, we do not employ any financial derivative products.

5.2 INTEREST RATE RISK

We did not have any interest bearing debt in either F2009 or F2008 and had positive cash balances during these periods. Interest rate volatility had minimal impact on our operations only to the extent that the interest rate received on our cash balances was negatively affected by the overall decline in interest rates in the Canada, Australia and the United States.

5.3 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 related 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 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 twelve months ended September 30, 2009 and 2008, we did not make any payments to companies or any other parties related to our officers or directors.

8 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 would be acquired by Aeroquest. Under the terms of the Arrangement Agreement, the proposed transaction would be effected by way of a Plan of Arrangement completed under the Canada Business Corporations Act. Optimal shareholders would receive 1 common share of Aeroquest for each 21 common shares of Optimal owned and would result in Aeroquest issuing approximately 2.9 million common shares to Optimal shareholders.

Closing of the transaction was conditional on the approval of Optimal shareholders and satisfaction of other customary conditions including stock exchange and court approvals which were satisfied in late September, 2009 with the closing occurring on September 30, 2009.

The acquisition has been accounted for under the purchase method of accounting and has been included in the balance sheet of the Company on September 30, 2009. The details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values ('000s):

| | |
|---|-----------------|
| Cash | \$ 529 |
| Accounts receivable | 2,269 |
| Inventory | 7 |
| Work in progress | 48 |
| Prepays | 267 |
| Capital assets | 400 |
| Other assets | 254 |
| Accounts payable and accrued liabilities | (1,484) |
| Capital lease obligations | (247) |
| Deferred revenue | (192) |
| Total net assets acquired, net of cash | \$ 1,322 |

Consideration provided was a combination of shares of the Company along with cash expended in deal costs as follows:

| | |
|---|-----------------|
| Acquisition costs | \$ 594 |
| Less: Cash acquired | (529) |
| Cash cost of acquisition | 65 |
| Shares of Aeroquest International (2,923,130 shares @ \$0.43) | 1,257 |
| Total Purchase Price | \$ 1,322 |

9 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.

10 Share Capital

10.1 Stock Option Plan

At September 30, 2009, we had 36,616,440 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 |
| | 165,000 | \$ 2.34 | September 30, 2012 |
| | 50,000 | \$ 1.70 | July 16, 2013 |
| | 417,333 | \$ 0.42 | January 18, 2014 |
| | 65,000 | \$ 0.38 | February 26, 2014 |
| | 628,000 | \$ 0.45 | August 4, 2014 |
| Total outstanding | 2,030,833 | \$ 0.68 | |
| Total exercisable | 1,008,500 | \$ 0.80 | |

10.2 Restricted Stock Unit Plan

At September 30, 2009 there were 539,998 RSU's outstanding. 225,000 RSU's were granted in the second quarter of 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).

10.3 Normal Course Issuer Bid

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.

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 could 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.

11 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.

NI 52-109 also contains the requirements that we, on an annual basis:

- evaluate the effectiveness of Internal Controls over Financial Reporting ('ICFR');
- evaluate the effectiveness of Disclosure Controls & Procedures ('DC&P')
- 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 September 30, 2009.

12 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.

12.1 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.

On October 1, 2008, we adopted new CICA Handbook Section 1000, Financial Statement Concepts which was amended to focus on the capitalization of costs that truly meet the definition of an asset and de-emphasizes the matching principle. The results of operations of the Company were not materially affected by these new pronouncements.

12.2 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.

12.3 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. We use a combination of the discounted cash flow method and the market value 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 until a decision is made to phase out the trade name at which point in time a fair value assessment of the name is performed.

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.

12.4 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 September 30, 2009, we have completed the initial impact assessment and have begun work on the key elements 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.