



**AEROQUEST INTERNATIONAL LIMITED
MANAGEMENT'S DISCUSSION & ANALYSIS (MD&A)**

For the three months ended December 31, 2010.

AEROQUEST INTERNATIONAL LIMITED



MANAGEMENT'S DISCUSSION & ANALYSIS FOR THE THREE MONTHS ENDING DECEMBER 31, 2010

Issued on February 10, 2011

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 months ended December 31, 2010 ("Q1-F2011") compared with our operating results for the three months ended December 31, 2009 ("Q1-F2010" and "F2009"). It also compares our balance sheet as at December 31, 2010 to our September 30, 2009 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 (collectively doing business as Aeroquest Airborne in Canada and Australia respectively), Geophex Ltd. (also doing business as Aeroquest Sensortech), Aeroquest Optimal 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 9 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

Aeroquest collects and interprets data that reveals information about what is at and beneath the earth's surface. We apply the best available technology in the world-wide search for economic concentrations of mineral and petroleum resources and in the precision-mapping of the earth's surface and objects upon it.

We offer airborne geophysics surveys through Aeroquest Airborne, aerial geomatics surveys through Aeroquest Optimal, and the custom design and construction of geophysical sensors and instruments through Aeroquest Sensortech. With over 150 employees and contractors, and a fleet of over two dozen helicopter and fixed wing survey systems worldwide, we are or are capable of surveying on every continent in the world where exploration activity is underway. Over our history, we have logged over 10 million line kilometers of fixed wing surveys and over 1 million line kilometers of helicopter surveys – enough to circle the globe over 300 times.

2.2 SELECTED COMPARATIVE QUARTERLY FINANCIAL INFORMATION

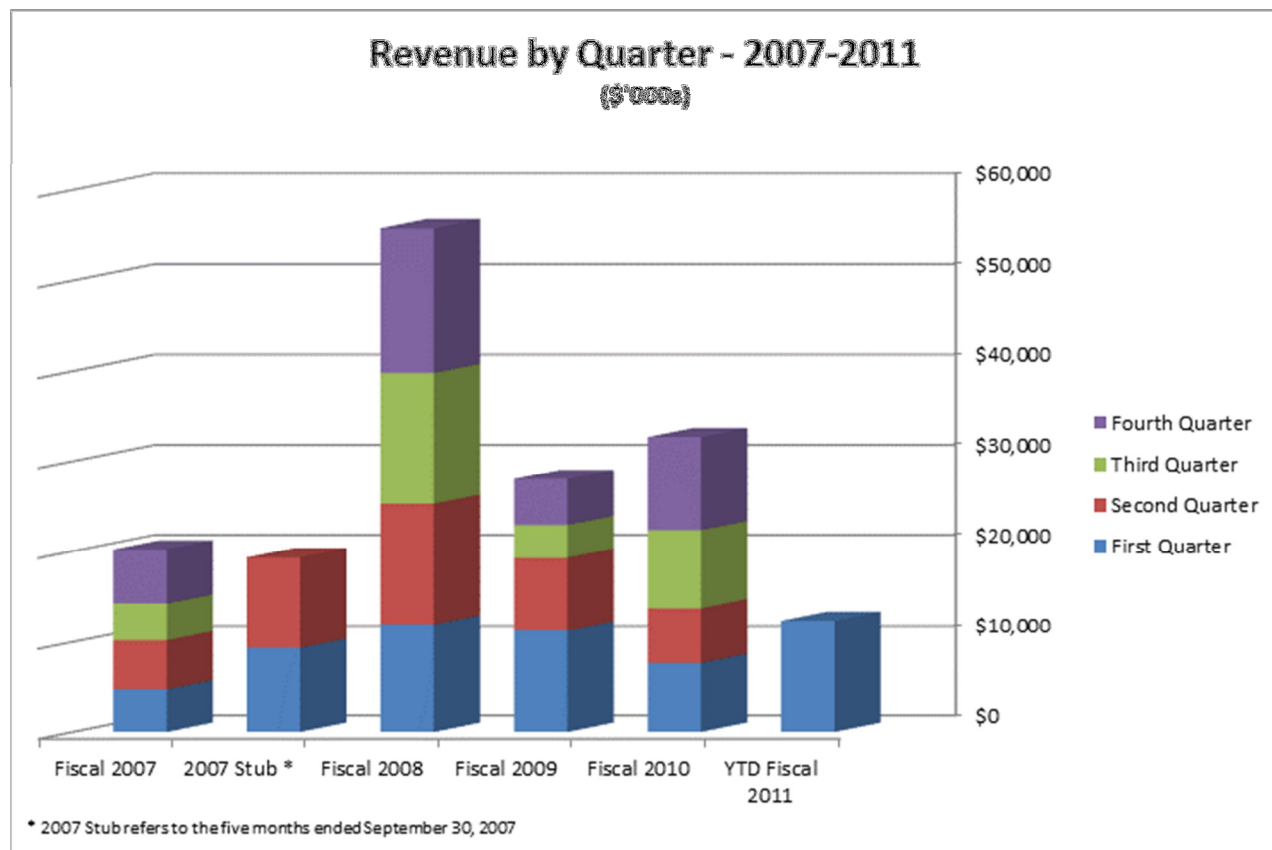
| (Financials in 000's except /share data) | Fiscal 2011 | Fiscal 2010 | | | | Fiscal 2009 | | |
|---|-------------|-------------|------------|------------|------------|-------------|------------|------------|
| | Q1-Dec 10 | Q4-Sep 10 | Q3-Jun 10 | Q2-Mar 10 | Q1-Dec 09 | Q4-Sep 09 | Q3-Jun 09 | Q2-Mar 09 |
| Revenue | \$ 12,352 | \$ 10,318 | \$ 8,632 | \$ 6,049 | \$ 7,497 | \$ 5,099 | \$ 3,651 | \$ 7,963 |
| Operating profit/(loss) | \$ (1,144) | \$ (2,619) | \$ (2,415) | \$ (3,217) | \$ (3,031) | \$ (6,362) | \$ (4,601) | \$ (1,698) |
| Net income | \$ (976) | \$ (2,259) | \$ (1,794) | \$ (2,268) | \$ (2,266) | \$ (4,657) | \$ (3,498) | \$ (953) |
| Weighted average common shares | 37085 | 36,986 | 36,986 | 36,944 | 36,776 | 33,725 | 33,627 | 33,613 |
| Earnings per share (basic) | \$ (0.03) | \$ (0.06) | \$ (0.05) | \$ (0.06) | \$ (0.06) | \$ (0.14) | \$ (0.11) | \$ (0.03) |
| Earnings per share (diluted) | \$ (0.03) | \$ (0.06) | \$ (0.05) | \$ (0.06) | \$ (0.06) | \$ (0.13) | \$ (0.11) | \$ (0.03) |
| Operating cash flow/share | \$ 0.05 | \$ (0.02) | \$ 0.07 | \$ (0.02) | \$ (0.04) | \$ (0.05) | \$ (0.06) | \$ 0.02 |
| Total assets | 47602 | \$ 50,563 | \$ 49,040 | \$ 50,971 | \$ 56,162 | \$ 57,740 | \$ 60,240 | \$ 64,624 |
| Long term liabilities | \$ 5 | \$ 9 | \$ 19 | \$ 54 | \$ 136 | \$ 224 | \$ 252 | \$ 316 |
| Systems available for use at period end * | 26 | 26 | 26 | 28 | 28 | 29 | 27 | 28 |
| Fixed-wing systems | 9 | 9 | 9 | 9 | 9 | 10 | 10 | 11 |
| Helicopter systems | 15 | 15 | 15 | 17 | 17 | 17 | 17 | 17 |
| AeroTEM systems included in above | 11 | 11 | 11 | 13 | 13 | 13 | 13 | 13 |
| Geomatics systems | 2 | 2 | 2 | 2 | 2 | 2 | - | - |
| Line kilometres flown during period | | | | | | | | |
| Helicopter systems | 20,100 | 26,300 | 27,500 | 20,100 | 22,700 | 5,400 | 2,700 | 11,400 |
| Fixed-wing systems | 405,000 | 389,000 | 286,000 | 88,000 | 267,000 | 351,000 | 144,000 | 189,000 |
| Contract back-log (CAD\$ thousands) | | | | | | | | |
| Helicopter systems | \$ 1,500 | \$ 2,700 | \$ 2,700 | \$ 1,700 | \$ 2,000 | \$ 1,100 | \$ 100 | \$ 1,000 |
| Fixed-wing systems | \$ 5,900 | \$ 8,000 | \$ 8,200 | \$ 3,800 | \$ 1,600 | \$ 2,700 | \$ 5,600 | \$ 5,600 |
| Geomatics | \$ 3,500 | \$ 3,900 | \$ 3,600 | \$ 4,700 | \$ 7,400 | \$ 6,700 | \$ - | \$ - |
| Other | \$ 300 | \$ 100 | \$ 300 | \$ 340 | \$ 400 | \$ 400 | \$ 900 | \$ 1,400 |
| Total Backlog | \$ 11,200 | \$ 14,700 | \$ 14,800 | \$ 10,540 | \$ 11,400 | \$ 10,900 | \$ 6,600 | \$ 8,000 |

* excluding gamma ray spectrometers

Note: Fiscal 2010 Q1 to Q3 revenue and operating loss figures have been restated to reflect the disposal of a component of the Geomatics business that is now disclosed in aggregate as discontinued operations in the financial statements.

Grassroots exploration activity has begun to improve, notably in Africa and South East Asia. As a result, our Q1-F2011 revenue increased by \$4.9 million to \$12.4 million from \$7.5 million in Q1-F2010. Gross profit in Q1-F2011 was \$3.7 million, an increase of \$2.4 million from the \$1.3 million reported in Q1-F2010 but we still recognize that geophysics margins have not yet returned to historical levels realized in 2007 and 2008. In addition, geomatics margins remain below our expectations. The Q1-F2011 net loss was \$1.0 million compared with Q1-F2010 loss of \$2.3 million. The reduction in net loss is due to several factors working at once, including improved year-over-year revenue in airborne geophysics, the margin impact of the sale of an airborne system, and improved gross margin when compared to Q1-F2010.

Selling general and administrative (“SG&A”) expenses increased by \$0.6 million or 28 per cent from Q1-F2010 when SG&A was at its lowest level due to the economic downturn. However, SG&A is comparable to levels reported in the fourth quarter of fiscal 2010 as we ramped up our business to address the improved business volumes. Our helicopter business has not yet recovered to the same level, primarily due to the fact that helicopter surveys on a per kilometer basis are more expensive than fixed wing surveys and as such are the last mode of exploration to recover out of a recession. Therefore the cost mitigation activities that took place in F2009 remain in place in helicopter operations until recovery returns. These issues are discussed in more detail throughout this MD&A.



2.3 BUSINESS STRATEGY

We refined our strategy somewhat in the fourth quarter of 2010. Below is our new strategy statement:

| OBJECTIVE | |
|---|--|
| to be the most sought after provider of innovative geoscience solutions in our markets | |
| Strategy | Intent |
| Invest in innovation | <ul style="list-style-type: none">• Establish market leading positions in all of our core technologies• Continuously invest in training to develop the experience and expertise of our people |
| Expand international operations | <ul style="list-style-type: none">• Open up markets in Latin America, MENA, and Eurasia, in particular• Allocate labour to take advantage of non-domestic expertise |
| Broaden technologies and markets | <ul style="list-style-type: none">• Identify new technologies that are complementary with our existing technologies or complementary with our service delivery model• Develop new applications and open new markets for our products and services |

We made changes to our strategy to reflect the fact that our success going forward will depend more on how we deploy all of our assets than it will how many new assets we deploy. We will continue to invest in adding new systems and embracing new technologies, but those additions relative to the size of the base are likely to be smaller. We are already well established around the world. We will continue to work to develop our expertise in operating in new parts of the world, and we will also seek to establish more dominant positions in some key markets.

2.4 OUTLOOK

Global spending in both mineral and petroleum exploration continues to improve, as it has each quarter from the lows that occurred in early 2009. However, spending still remains below the levels we experienced in 2007 and 2008 – especially in grassroots exploration. Commodity prices are at levels that would normally stimulate ongoing exploration so we remain optimistic for all modes of airborne exploration for the medium and long term. In the short term, the exploration opportunities are focused on fixed wing activity as the average cost per kilometer to survey using fixed wing technology is far lower than that of helicopter based technology and, as such, is the first mode of airborne exploration to recover. While we expect helicopter operations to experience a return to growth in order backlog in fiscal 2011, we have kept our helicopter business at a downsized level to reflect this reality and are working to maintain breakeven or better positions in each of our regional offices.

The outlook for the aerial geomatics segment remains positive in the long run as government organizations (especially in the United States) are required to replace aging and develop new

infrastructure. The pace of new contract awards slowed somewhat in third and fourth quarters, a function of the existing uncertainties in general, but we expect that this is only temporary.

Notwithstanding the optimism for the future, we remain focused on closely managing our costs. With the acquisition of Aeroquest Optimal, we have now integrated a large portion of our United States back office operations, eliminated one set of public company costs and rationalized the cost structures between the geophysics and geomatics operations. We will continue to focus on operational efficiencies and carefully managing our cash as economic conditions improve.

We continue to look 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 continue to 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 First Quarter Operating Results

3.1 OVERVIEW AND HIGHLIGHTS

We report our revenues, cost of sales and margins in the following three business segments:

- Airborne Geophysics – comprising Aeroquest Airborne (Aeroquest Surveys and UTS/Aeroquest, the former UTS Geophysics business);
- Aerial Geomatics – comprising Aeroquest Optimal; and
- Instruments & Sensors – Aeroquest Sensortech (the former Geophex business).

The Airborne Geophysics segment is further divided into fixed wing and helicopter services to distinguish between these two modes of airborne exploration.

In the first quarter, we continued to see signs of economic recovery trickling down to grassroots exploration activities, especially in fixed wing activities in the emerging markets of Africa and South-East Asia. In Q1-F2011, we recorded an increase in consolidated revenue of 65 per cent over Q1-F2010. In the Airborne Geophysics segment, helicopter services increased by 29 per cent to \$2.8 million and fixed wing services increased by 70 per cent to \$6.1 million from their respective levels in Q1-F2010. In addition, this group built and sold one AeroTEM IV helicopter system to a Geophysics Research arm of the Chinese Government. The Instruments & Sensors segment contributed \$0.4 million in revenue for the quarter, an increase of 60 per cent to the level reported in Q1-F2010. The Aerial Geomatics segment contributed \$1.6 million in Q1-F2011 in this its first year as a part of our company. A more detailed discussion of these variances is provided below.

Our cash balances increased to \$6.0 million at the end of Q1-F2011 from \$4.8 million at the end of fiscal 2010. Cash flow from operations in Q1-F2011 was positive \$1.7 million. As discussed below, cash flow

from operations before changes in working capital was \$0.1 million and changes in non-cash working capital generated \$1.6 million of cash in the quarter. Capital expenditures for the quarter were \$0.4 million compared to less than \$0.2 million in Q1-F2010, reflecting the ramp up in our fixed wing operations.

3.2 AIRBORNE FLEET SUMMARY

In this most recent quarter, there were no new permanent additions to the geophysics survey fleet. Our active fleet is comprised of 26 systems; 15 helicopter based and 11 fixed wing based. This includes two systems acquired in connection with the acquisition of Aeroquest Optimal, one LiDAR system and an aerial digital camera.

AIRBORNE FLEET SUMMARY

| | | Helicopter | Fixed wing | Total |
|-------------------|----------------------|------------|------------|-----------|
| Geophysics | | | | |
| AeroTEM | | 11 | | 11 |
| Impulse/GEM-2A | | 2 | | 2 |
| Magnetics | single sensor | 1 | 4 | 5 |
| | multi-sensor | 1 | 3 | 4 |
| Gravity | (+ multi-sensor mag) | | 2 | 2 |
| Geomatics | | | 2 | 2 |
| Total | | 15 | 11 | 26 |

3.3 REVENUE BY GEOGRAPHIC SEGMENT

With the ramp up in the exploration services business that we experienced in the later part of 2010, we continue to be active around the globe. As of December 31, 2010, we had positioned helicopter systems in North and South America, Europe, Africa, the Middle East and Australasia. During the same period, we operated fixed wing units in Australia & the South Pacific, Africa and North America.

Changes in the revenue mix between Canada, Australia and the United States reflect normal variations in quarterly activity as we commence and then complete various survey projects around the world. In the quarter, one other country represented 13 per cent of revenue (Libya). No other country (other than those listed below) represented more than 10 per cent of revenue.

REVENUE BY GEOGRAPHIC SEGMENT

Three Months Ended December 31, 2010

| (thousands of Canadian dollars) | Canada | Australia | USA | RoW | Total | |
|--|-----------------|-----------------|-----------------|-----------------|------------------|-------------|
| Airborne Geophysics | | | | | | |
| Fixed Wing services | \$ 397 | \$ 2,843 | \$ 143 | \$ 2,700 | \$ 6,083 | 49% |
| Helicopter services | 934 | - | 337 | 1,509 | 2,780 | 23% |
| System sales | - | - | - | 1,636 | 1,636 | 13% |
| Total Geophysics | 1,331 | 2,843 | 480 | 5,845 | 10,499 | 85% |
| Aerial Geomatics | - | - | 1,573 | - | 1,573 | 13% |
| Instruments & Sensors | - | - | 280 | - | 280 | 2% |
| Total Revenue - Aeroquest Group | \$ 1,331 | \$ 2,843 | \$ 2,333 | \$ 5,845 | \$ 12,352 | 100% |
| | 10.8% | 23.0% | 18.9% | 47.3% | 100% | |

3.4 CONSOLIDATED RESULTS

| (in thousands of Canadian dollars) | Three Months | | Change | |
|------------------------------------|--------------|--------|--------|------|
| | Q1-F11 | Q1-F10 | \$ | % |
| Revenue | | | | |
| Airborne Geophysics | | | | |
| Fixed Wing | 6,083 | 3,584 | 2,499 | 70% |
| Helicopter | 2,780 | 2,155 | 625 | 29% |
| System Sales | 1,636 | - | 1,636 | N/A |
| Total Airborne Geophysics | 10,499 | 5,739 | 4,760 | 83% |
| Aerial Geomatics | 1,573 | 1,540 | 33 | N/A |
| Instruments & Sensors | 280 | 218 | 62 | 28% |
| | 12,352 | 7,497 | 4,855 | 65% |
| Cost of sales | | | | |
| Airborne Geophysics | | | | |
| Fixed Wing | 4,287 | 2,985 | 1,302 | 44% |
| Helicopter | 2,170 | 1,824 | 346 | 19% |
| System Sales | 613 | - | 613 | N/A |
| Total Airborne Geophysics | 7,070 | 4,809 | 1,648 | 47% |
| Aerial Geomatics | 1,461 | 1,328 | 133 | N/A |
| Instruments & Sensors | 102 | 74 | 28 | 38% |
| | 8,633 | 6,211 | 2,422 | 39% |
| Gross profit | 3,719 | 1,286 | 2,433 | 189% |

| | | |
|------------------------------|-------|-------|
| Gross margin | | |
| <i>Airborne Geophysics</i> | | |
| Fixed Wing | 29.5% | 16.7% |
| Helicopter | 21.9% | 15.4% |
| System Sales | 62.5% | N/A |
| Total Airborne Geophysics | 32.7% | 16.2% |
| Aerial Geomatics | 7.1% | 13.8% |
| Instruments & Sensors | 63.6% | 66.1% |
| Gross profit margin % | 30.1% | 17.2% |

| (in thousands of Canadian dollars) | Three Months | | Change | |
|-------------------------------------|--------------|------------|----------|--------|
| | Q4-F10 | Q4-F09 | \$ | % |
| General & administrative expense | 3,080 | 2,397 | 683 | 28% |
| Foreign exchange (gain) loss | 215 | 81 | 134 | 165% |
| Total cash operating costs | 3,295 | 2,478 | 817 | 33% |
| % of revenue | 29.2% | 22.1% | | |
| Stock-based compensation expense | 28 | 85 | (57) | (67%) |
| EBITDA | 396 | (1,277) | 1,673 | (131%) |
| EBITDA as a % of revenue | 0.7% | (9.6%) | | |
| Depreciation of capital assets | 690 | 880 | (190) | (22%) |
| Amortization of intangible assets | 850 | 874 | (24) | (3%) |
| Operating profit/(loss) | (1,144) | (3,031) | 1,887 | (62%) |
| Operating profit as a % of revenue | (17.6%) | (38.1%) | | |
| Interest and other expense (income) | - | (104) | 104 | (100%) |
| Provision for income taxes | (168) | (824) | 656 | (80%) |
| Loss from discontinued operations | - | 163 | (163) | N/A |
| Net income | \$ (976) | \$ (2,266) | \$ 1,290 | (57%) |
| Earnings per share - basic | \$ (0.03) | \$ (0.06) | \$ 0.03 | |

In Q1-F2011, consolidated revenue was \$12.4 million, up \$4.9 million or 65 per cent over Q1-F2010. In Airborne Geophysics, revenue from helicopter services was \$2.8 million, up \$0.6 million or 29 per cent over Q1-F2010 while revenue from fixed wing services was \$6.1 million, up \$2.5 million or 70 per cent

over Q1-F2010. Revenue from helicopter services improved due to increased helicopter survey work in Canada as well as the execution and subsequent completion of several large helicopter surveys in Southeast Asia, Yemen and Mexico. Fixed wing survey services showed a marked improvement – especially in our Australian operations, which recorded record levels of new fixed wing contracts in the last half of 2010. In particular, a large petroleum based survey was completed in Q1 in Libya.

Revenue from Aerial Geomatics was \$1.5 million and revenue from Instruments & Sensors was \$0.3 million in Q1-F2011, a combined increase of \$0.1 million over the revenue reported in Q1-F2010.

Cost of sales was \$8.6 million in Q1-F2011, or 69 per cent of revenue, compared to \$6.2 million or 83 per cent of consolidated revenue in Q1-F2010. Gross margin in Q1-F2011 increased by 13 percentage points to 30 per cent, compared with 17 per cent in Q1-F2010, primarily the result of the much lower business volumes in the prior year impacting the fixed cost component of cost of sales and thus reducing margins.

Aerial Geomatics gross profit in the quarter was 7 per cent, which remains well below our expectations. A large part of the lower margin was due to a higher than normal percentage of revenue that was subcontracted to third parties. In these cases, no markup is permitted on this revenue when it is part of a contract with the United States government or its agencies. As well, processing costs of sales are higher than forecasted. The processing component of cost of sales of geomatics is much higher than that of geophysics. With the acquisition after quarter end of Mapcon Mapping, we have another avenue to address processing costs through offshore third party processing centres. We expect this acquisition to improve future geomatics margins by optimizing processing between US domestic and offshore processing centres.

In Airborne Geophysics, gross margin in helicopter services was 22 per cent in Q1-F2011, as compared to 15 per cent in the Q1-F2010. This margin improvement is primarily attributable to the performance in Q1-F2010 where negative margins resulted from fixed costs in helicopter cost of sales allocated to lower revenues. However, these margin levels are still well below our expectations and the levels we experienced during the peak exploration years in 2007 and 2008. In particular, several projects in South-East Asia negatively impacted helicopter margins due to difficulties in mobilizing to site and obtaining fuel and helicopters on a cost efficient basis. We expect margins to improve in future quarters.

Gross margin in Airborne Geophysics fixed wing services was \$1.8 million, or 30 per cent of revenue in the current quarter as compared to 17 per cent in Q1-F2010. This improvement reflects the increased business volumes in the quarter and the inherent ability to efficiently mobilize equipment between job sites. However, we are still not yet operating at levels seen in 2007 and 2008 and as such we expect margins to continue to improve in subsequent quarters (assuming that that fixed wing business volumes continue to improve).

3.5 CASH OPERATING COSTS

Cash operating costs in Q1-F2011 totaled \$3.3 million, an increase of \$0.8 million, or 28 per cent from the \$2.5 million reported in Q1-F2010. This increase is primarily due to increased costs in Airborne Geophysics as Q1-F2010 represented the nadir of the business cycle. As we have indicated in prior MD&A, we had downsized our operations to address the economic slowdown. We have now taken measures to increase staffing to reflect current volumes of business, hence the improved volumes. As

well, our foreign exchange loss was \$0.2 million compared with \$0.1 million in Q1-F2010, primarily due to weakness in the United States dollar when compared to the Canadian and Australian dollars.

3.6 OPERATING PROFIT AND EBITDA

EBITDA in Q1-F2011 was \$0.4 million, an improvement of \$1.7 million over the negative EBITDA of \$1.3 million reported in Q1-F2010.

Depreciation and amortization charges totaled \$1.5 million in Q1-F2011 compared with depreciation, amortization and impairment charges of \$1.7 million reported in Q1-F2010.

As a result, operating loss before discontinued operations in Q1-F2011 was \$1.1 million compared with an operating loss of \$3.0 million in Q1-F2010.

During the second quarter of F2010, we sold a division of our Aerial Geomatics segment based in Vancouver, BC to a third party. As a result, results of these operations have been separated out and disclosed as a loss from discontinued operations in Q1-F2011. Loss from discontinued operations during this period was \$0.2 million.

3.7 NET LOSS

Net loss for Q1-F2011 was \$1.0 million, or \$0.03 per share compared to net loss of \$2.3 million, or \$0.06 per share in Q1-F2010.

Our provision for recovery of income taxes for Q1-F2011 was \$0.2 million generating an apparent tax rate of 15 per cent in the quarter, a decrease over the 27 per cent apparent tax rate reported in Q1-F2010. This decline is primarily due to different tax rates in foreign jurisdictions combined with several jurisdictions reporting taxable income and others still reporting losses for tax purposes.

4 Liquidity and Capital Resources

Our cash balances improved by \$1.3 million from \$4.8 million at September 30, 2010 to \$6.0 million at December 31, 2010. Much of this improvement is due to net change in non-cash working capital, which generated \$1.6 million of cash in the year. Cash flow from operating activities before changes in working capital generated \$0.1 million in cash resulting in total cash flow from operations of \$1.7 million.

CASH & WORKING CAPITAL CHANGES

| (in thousands of Canadian dollars) | Three Months | | |
|---|-----------------|-----------------|-----------------|
| | Q1-F11 | Q1-F10 | Change |
| Operating activities | | | |
| Net Income/(Loss) | \$ (976) | \$ (2,266) | \$ 1,290 |
| Non-cash operating items | | | |
| Depreciation/Amortization | 1,540 | 1,754 | (214) |
| Future taxes | (480) | (386) | (94) |
| Loss/(Gain) on disposal of capital assets | 6 | - | 6 |
| Stock based compensation | 28 | 85 | (57) |
| Operating cash before change in non-cash working capital | 118 | (813) | 931 |
| Change in non-cash working capital | 1,558 | (601) | 2,159 |
| Cash flow from operations | 1,676 | (1,414) | 3,090 |
| Investing activities | | | |
| Capital asset purchases | (387) | (163) | (224) |
| Proceeds from disposal of capital assets | - | 330 | (330) |
| Long term investments acquired | - | (90) | 90 |
| Cash flow from investing | (387) | 77 | (464) |
| Financing Activities | | | |
| Capital lease payments | (52) | (142) | 90 |
| Proceeds from issuance of shares | 1 | 5 | (4) |
| Cash flow from financing | (51) | (137) | 86 |
| Net change in cash for the period | 1,238 | (1,474) | 2,712 |
| Cash - beginning of period | 4,757 | 6,145 | (1,388) |
| Cash - end of period | \$ 5,995 | \$ 4,671 | \$ 1,324 |

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 generated approximately \$0.1 million of cash in the quarter, while changes in working capital generated \$1.6 million of cash. The net change in working capital in Q1-F2011 is primarily due to a decline in accounts receivable of \$1.3 million and an increase in deferred revenue of \$0.5 million, both changes resulting in cash generation.

In Q1-F2010, operating cash flow before changes in working capital consumed \$0.8 million of cash and net changes in non-cash working capital also consumed \$0.6 million in cash.

4.2 INVESTING ACTIVITIES

Investment activities in Q1-F2011 consumed \$0.4 million of cash representing capital expenditures made in the quarter.

Q1-F2010's capital expenditures were \$0.2 million. However, we also received \$0.3 million of cash in Q1-F2010 from the disposition of a fixed wing aircraft.

4.3 FINANCING ACTIVITIES

The financing activities in Q1-F2011 were payments under our capital lease of less than \$0.1 million compared to payments of \$0.14 million in Q1-F2010.

4.4 CASH

Our cash balances increased in Q1-F2011 by \$1.2 million from the end of fiscal 2010 compared with a decline in cash of \$1.5 million in Q1-F2010. This \$2.7 million improvement is primarily the result of cash flow from operations of positive \$1.7 million in Q1-F2011 compared to negative \$1.4 million in Q1-F2010.

We are continuing to actively manage our working capital wherever possible to ensure that cash is appropriately invested in our business operations.

4.5 CAPITAL RESOURCES

We have a credit facility in place for our Canadian operations. At September 30, 2010, \$0.1 million was drawn on this facility representing an overdraft in our United States dollar balances in Canada. This amount was repaid in early October, 2010 and remains undrawn as of the end of Q1-F2011.

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

4.6 SUMMARY FINANCIAL POSITION

As of December 31, 2010, we had current assets of \$13.3 million and current liabilities of \$7.4 million. Net working capital was \$5.8 million, a decrease of \$0.2 million from September 30, 2010.

SUMMARY CASH & WORKING CAPITAL

| (in thousands of Canadian dollars) | 31-Dec-10 | 30-Sep-10 | Change from prior year-end | |
|------------------------------------|----------------|-----------|----------------------------|--------|
| Cash | \$5,995 | \$4,757 | \$1,238 | 26.0% |
| Non-cash current assets | 7,274 | 8,454 | (1,180) | -14.0% |
| Current assets | 13,269 | 13,211 | 58 | 0.4% |
| Less: Current liabilities | 7,442 | 7,139 | 303 | 4.2% |
| Net working capital | \$5,827 | \$6,072 | (\$245) | -4.0% |
| Current ratio | 1.8 | 1.9 | | -3.7% |

4.7 SUBSEQUENT EVENT – ACQUISITION OF MAPCON MAPPING

On January 31, 2011, we announced that we had acquired Mapcon Mapping group of companies from OSI Geospatial Inc. Mapcon provides LiDAR, photogrammetry and related geomatic services to customers in the North American marketplace. Mapcon consists of two entities: a Canadian sales, operations and project management team located in Burnaby, BC; and a United States sales team located in Salt Lake City, Utah. Mapcon generated approximately \$4 million of revenue in its last fiscal year.

Total purchase price is \$1.15 million subject to an adjustment to reflect the difference between estimated and actual net working capital at closing. Of the \$1.15 million, \$0.9 million represents net working capital and the balance in other assets.

We believe that the acquisition is positive to the Company as Mapcon's customers do not overlap with that of Aeroquest Optimal (Mapcon is primarily Canada and Western USA whereas Optimal is Eastern USA and

government). As well, Mapcon provides a unique opportunity to integrate processing operations as their processing is primarily done overseas.

5 Risks and Uncertainties

5.1 Foreign Currency Exchange Risk

We record transactions and prepare our financial statements in Canadian dollars. For Q1-F2011, 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 results 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 did not employ any financial derivative products.

5.2 INTEREST RATE RISK

We did not have any interest bearing debt in Q1-F2011 or Q1-F2010 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

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 Share Capital

7.1 Stock Option Plan

At December 31, 2010, we had 37,105,606 Common Shares issued and outstanding and as at the same date the Common Share stock options held by directors, officers, and employees were as follows:

| | Number of options | Exercise price | Expiry date |
|--|-------------------|----------------|--------------------|
| Issued options held by directors, officers and employees under the Company Stock Option Plan | 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 |
| | 81,000 | \$ 2.34 | September 30, 2012 |
| | 50,000 | \$ 1.70 | July 16, 2013 |
| | 312,665 | \$ 0.42 | January 18, 2014 |
| | 65,000 | \$ 0.38 | February 26, 2014 |
| | 480,000 | \$ 0.45 | August 4, 2014 |
| | 120,000 | \$ 0.55 | October 20, 2014 |
| | 515,000 | \$ 0.63 | May 11, 2015 |
| | 25,000 | \$ 0.62 | September 27, 2015 |
| | 50,000 | \$ 0.85 | December 14, 2015 |
| Total outstanding | 2,334,165 | \$ 0.62 | |
| Total exercisable | 1,412,833 | \$ 0.68 | |

7.2 Restricted Stock Unit Plan

At December 31, 2010 there were 126,665 RSU's outstanding. No RSU's were granted, vested or converted into Common Shares in either Q1-F2011, Q1-F2010, or F2010.

8 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 our 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.

During the 2010 fiscal year, we engaged external advisors to assess the impact of these changes on our current evaluation of ICFR and disclosure control and procedures. 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, 2010 and December 31, 2010.

9 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.

9.1 ACCOUNTING POLICY CHANGES

There are no new accounting policy changes (other than IFRS noted at 10.4 below) that impact our financial statements in the year.

9.2 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.

9.3 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 most 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.

9.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

Background, project structure and project progress

In March 2006, the CICA released its plan to adopt International Financial Reporting Standards. ("IFRS") After a five year transitional period, at the end of 2011, Canadian GAAP will cease to exist as a separate basis of financial reporting for public companies.

The Company will issue consolidated financial statements in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") for the year ended September 30, 2012, with comparative information.

Preliminary Impact Assessment

The Company has completed a diagnostic study of the conversion of its consolidated financial statements to IFRS, with the assistance of external consultants. The study identified the principal differences between the Company's records using existing Canadian GAAP and IFRS standards, and evaluated the impact on the business processes information systems, developing an implementation program determine the full impact on the business.

The results of this assessment identified:

- Preliminary analysis of all existing Canadian GAAP to IFRS differences and IFRS 1 First time adoption elections and resulting prioritization of high, medium and low impact areas of focus for the Company based on potential impact;
- Preliminary resource requirements;
- Preliminary training requirements; and
- A preliminary IFRS Transition Plan (details outlined below).

IFRS Transition Plan

The Company is in the process of formalizing its IFRS Transition Plan. The following are elements of the plan that are under construction or currently in place:

- An established project structure and governance practices;
- Detailed timetable with milestones and deliverables;

- Identification and allocation of resources (combination of internal and external);
- Development and execution of a training program;
- Detailed analysis of all existing Canadian GAAP to IFRS differences;
- Detailed analysis and selection of all IFRS 1 elections; and
- Assessment of impact on data systems, internal controls over financial reporting, and business activities, such as financing and compensation arrangements.

The Company is scheduled to complete the detailed assessment phase for all standards that affect the transition in the next two quarters. The Company expects to enter the solutions development and the implementation phase on many of the IFRS issues for the third and fourth quarter including construction of full financial statements.

Potential accounting changes as a result of transition to IFRS

The Company has implemented a detailed review of the potential impact of International Financial Reporting Standards, IFRS, on our accounting policies, knowledge of staff and computerized system requirements. Outlined below is a very brief summary of select IFRS that may impact the Company, their differences from existing Canadian Generally Accepted Accounting Principles (“GAAP”) and their potential impact. The list is not comprehensive and does not include all of the differences from existing Canadian GAAP for the standards noted. Also, the list does not include all the standards that may require changes for the transition to IFRS. Some of the standards not presented in the table could have a significant impact on the Company’s consolidated financial statements.

Property Plant & Equipment (‘PP&E’) – IAS 16 Property Plant and Equipment requires that each part of PP&E that has a cost significant in relation to the overall cost of the item should be depreciated separately. The Company is reviewing componentization of PP&E.

Share Based Payments – Under IFRS 2 Share-based payments, stock options with graded vesting must be accounted for as separate awards. In addition, forfeitures must be estimated when the stock options are issued. The company is reviewing their stock options.

The Company is considering the IFRS 1 election available, meaning only equity instruments in respect of share-based payment transactions that are outstanding at transition date will be accounted for under IFRS 2.

Foreign Exchange Translation - The Company sells products to customers in foreign currencies and purchases services and raw materials from suppliers invoiced in foreign currencies. An analysis must be undertaken to determine what the functional currency is under IFRS for each subsidiary; this could potentially result in the functional currency changing, although further work is required to conclude on the criteria outlined in IAS 21 The Effects of Changes in Foreign Exchange Rates.

Revenue - IFRS 1 does not contain any special exemptions for revenue for first-time adoption. All accounting policies related to revenue will be assessed against the appropriate standard including IAS 18, Revenue for compliance.

Business Combinations – the Company is considering the election not to restate business combinations, as permitted under IFRS 1. An exercise is currently in progress to determine the ongoing reporting requirements under IFRS 3 Business Combinations (Revised).

Presentation & Disclosure - IFRS requires significantly more disclosure than existing Canadian GAAP for certain standards. In some cases, IFRS also requires different presentation on the balance sheet and income statement.

At this time, the Company cannot quantify the impact of IFRS to its financial statements. The Company is working to finalize preliminary conclusions and accounting policy choices on the standards noted above. Those conclusions and accounting policy choices will be reported on when finalized.

The Company is currently completing its analysis of IFRS issues including evaluation of any IFRS 1 exemptions. Finalization of this analysis is expected in Q2 and the project will shift focus in the last two quarters to documenting accounting policies under IFRS, creation of additional note disclosures and development of a full set of IFRS statements.

The IASB has several projects slated for completion in 2010 and 2011 that may significantly impact the transition to IFRS and the financial statements of the Company. The Company continues to monitor the IASB's progress on these projects and their impact on the Company's transition to IFRS.

Impact on Information Systems and Technology

It is anticipated that the adoption of IFRS will have some impact on information systems requirements. The Company is assessing, through discussion with external consultants, the need for systems upgrades or modifications to ensure an efficient conversion to IFRS. The main drivers for systems changes include:

- Additional information required as a result of enhanced note disclosures;
- Tracking of IFRS to existing Canadian GAAP differences during the transition; and
- Tracking sufficient level of details within the accounting records to allow management to maintain adherence with IFRS going forward.

The impact and changes to systems are on-going and will be prioritized as part of the project.

Impact on Reporting and Internal Controls

In accordance with the Company's approach to certification of internal controls required under Canadian Securities Administrators' National Instrument 52-109, all entity-level, information technology, disclosure and business process controls will require updating and testing to reflect changes arising from the conversion to IFRS. Where material changes are identified, these changes will be mapped and tested to ensure that no material control deficiencies exist as a result of the Corporation's conversion to IFRS.

Impact on Business

The Company anticipates the transition to IFRS to have an impact on business practices. A project is scheduled for Q3 2011 to determine the contractual implications of IFRS on any financing relationships and other arrangements.