Aeroquest International Limited
Management's Discussion & Analysis (MD&A)

For the year ended September 30, 2011.

AEROQUEST INTERNATIONAL LIMITED

MANAGEMENT'S DISCUSSION & ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Issued on December 20, 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 and year ended September 30, 2011 ("Q4-F2011" and "YTD-F2011" respectively) compared with our operating results for the three months and year ended September 30, 2010 ("Q4-F2010" and "YTD-F2010" respectively). It also compares our balance sheet as at September 30, 2011 and 2010 fiscal year-ends.

The consolidated financial statements presented here are those of the Aeroquest Group of Companies: Aeroquest International Limited (collectively, "the Company"), and its wholly owned subsidiaries Aeroquest Limited, Aeroquest (Aust) Pty Ltd. (collectively doing business as Aeroquest Airborne in Canada and Australia, respectively), Geophex Ltd., Aeroquest Optimal Inc., Mapcon Mapping Limited, Mapcon Mapping Inc. (collectively "Mapcon"), Aeroquest (UK) Limited and AeroKaz LLP 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 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 intentions 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.

Cash operating costs

We define cash operating costs to be those operating expenses in our statement of operations 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 Selected Comparative Quarterly Financial Information

(Financials in 000's except /share data)	Fisal 2011				Fiscal 2010			
	Q4-Sep 11	Q3-Jun 11	Q2-Mar 11	Q1-Dec 10	Q4-Sep 10	Q3-Jun 10	Q2-Mar 10	Q1-Dec 09
Revenue	$ 8,181	$ 7,679	$ 8,187	$ 10,779	$ 8,734	$ 6,781	$ 3,782	$ 5,776
Operating profit/(loss)	$ (10,770)	$ (4,236)	$ (2,993)	$ (790)	$ (2,390)	$ (2,607)	$ (2,897)	$ (2,743)
Net income/(loss)	$ (10,604)	$ (3,668)	$ (2,258)	$ (976)	$ (2,259)	$ (1,794)	$ (2,268)	$ (2,266)
Weighted average common shares	37,326	37,326	37,255	37,085	36,986	36,986	36,944	36,776
Earnings per share (basic)	$ (0.28)	$ (0.10)	$ (0.06)	$ (0.03)	$ (0.06)	$ (0.05)	$ (0.06)	$ (0.06)
Earnings per share (diluted)	$ (0.28)	$ (0.10)	$ (0.06)	$ (0.03)	$ (0.06)	$ (0.05)	$ (0.06)	$ (0.06)
Operating cash flow/share	$ (0.02)	$ 0.03	$ (0.05)	$ 0.05	$ (0.02)	$ 0.07	$ (0.02)	$ (0.04)
Total assets	$ 33,154	$ 46,183	$ 48,025	$ 50,017	$ 50,563	$ 49,040	$ 50,971	$ 56,162
Long term liabilities (excluding future taxes)	$ -	$ 645	$ 602	$ 5	$ 9	$ 19	$ 54	$ 136
Systems available for use at period end *	23	26	26	26	26	26	28	28
Fixed-wing systems	9	10	9	9	9	9	9	9
Helicopter systems	14	14	15	15	15	15	17	17
AeroTEM systems included in above	10	10	11	11	11	11	13	13
Geomatics systems	-	-	-	-	-	-	-	-
Line kilometres flown during period								
Helicopter systems	49,070	15,800	38,200	20,100	26,300	27,500	20,100	22,700
Fixed-wing systems	154,066	353,000	314,000	405,000	389,000	286,000	88,000	267,000
Contract back-log (CAD$ thousands)								
Helicopter systems	$ 1,623	$ 2,859	$ 2,300	$ 1,500	$ 2,700	$ 2,700	$ 1,700	$ 2,000
Fixed-wing systems	$ 5,333	$ 8,800	$ 9,500	$ 5,900	$ 8,000	$ 8,200	$ 3,800	$ 1,600
Geomatics	$ 1,785	$ 2,700	$ 3,600	$ 3,500	$ 3,900	$ 3,600	$ 4,700	$ 7,400
Other	$ 685	$ -	$ 200	$ 300	$ 100	$ 300	$ 340	$ 400
Total Backlog	$ 9,426	$ 14,359	$ 15,600	$ 11,200	$ 14,700	$ 14,800	$ 10,540	$ 11,400

* excluding gamma ray spectrometers

Note 1: Fiscal 2010 Q1 to Q3 revenue and operating loss figures have been restated to reflect the disposal of the Canadian component of the Optimal Geomatics business that is now disclosed in aggregate as discontinued operations in the financial statements.

Note 2: Fiscal quarterly revenue and operating loss figures for 2010 and 2011 have been restated to reflect the disposal of Aeroquest Optimal Inc., the principal USA component of the Optimal Geomatics business, that is now disclosed in aggregate as discontinued operations in the financial statements.

2.2 Aeroquest's Business

Aeroquest collects and interprets data that reveals information about what is at and beneath the earth's surface. We seek to 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 Geophex. With over 130 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 11 million line kilometers of fixed-wing surveys and over 1.1 million line kilometers of helicopter surveys – enough to circle the globe over 330 times.

2.3 Business Strategy

Following the resignation of the previous CEO in May, the Board advised management to focus on organic growth and improving operational performance. Accordingly, we have amended our strategy statement to reflect a sharper focus on organic growth and operational performance improvement. Growth efforts will focus primarily on the airborne geophysics business, taking advantage of the global reach available through the current base of operations. We will also continue to work to develop our expertise in operating in new parts of the world, and we will continue to seek to establish more dominant positions in selected key markets. We are currently reevaluating the strategic importance of the remaining airborne geomatics survey businesses in light of the sale of the primary operating asset in this segment subsequent to year end (See subsequent event on Aeroquest Optimal sale). We will also focus more closely on operational performance to improve service levels, streamline processes and reducing costs. This focus reflects Management's view regarding the increasingly price competitive nature of the airborne geophysics segment in particular. We will retain our focus on investment in innovation, recognizing the importance of technological advancement in maintaining competitive advantage. We will also continue to invest in adding new systems and embracing new technologies, but those additions will be selective based upon clearly defined market opportunities. Our revised strategy statement is as follows:

OBJECTIVE	
to be the most sought after provider of geoscience services in our markets	
Strategy	**Intent**
Invest in innovation	• Establish market leading positions in all of our core technologies • Continuously invest in training to develop the experience and expertise of our people
Focus on organic growth	• Open up markets in Latin America, MENA, and Eurasia, in particular • Increase market share in existing markets.
Improve Operational Performance	• Continually focus on streamlining business processes and reducing operating costs. • Become a market price setter in selected markets.

2.4 Outlook

In May, Mr. Roy Graydon, CEO, resigned as a result of a shift in the Company' business strategy from growth through mergers and acquisitions to organic growth from its core operations. Mr. Bob Motz, previously the CFO of the Company, was appointed Interim CEO and as of October 31, 2011 was appointed President and CEO and a member of the Board of Directors. Mr. Marc Beisheim joined the Company on October 31st as CFO.

Global spending in both mineral and petroleum exploration has improved from the lows that occurred in early 2009. Although recently in decline, commodity prices have been at levels through most of 2011 that would normally stimulate ongoing exploration. Accordingly, we continue to remain optimistic for all modes of airborne exploration for the medium and long term. In the short term, however, we have experienced increased price competition and a reduced level of exploration opportunities; particularly for fixed-wing surveys. Helicopter operations, on the other hand, experienced stronger than expected demand in Q4-F2011 compensating, in part, for the reduced fixed-wing business. These short term demand shifts amplify the volatility and uncertainty of predicting market opportunities in the short term.

In late September, we received an offer to purchase the Company's primary geomatics business located in Huntsville, Alabama, USA. The unsolicited offer coincided with the following management activities: 1) the strategic review described in Section 2.3, 2) an assessment of 2011 results to date, and 3) an assessment of the capital requirements of the Company. The decision was subsequently made to pursue the offer and the business unit was subsequently sold for proceeds of US$1.2 million with the transaction closing November 30. In light of this sale, we are further reevaluating the strategic importance of the remaining geomatics business segment and do not offer any specific guidance on market outlook for this segment at this time.

The company currently has no external debt and finances capital expenditures and operating activities principally from cash flow from operations. However, the company has incurred losses in each of its last three fiscal years and has accumulated an operating deficit of $32.0 million as of September 30, 2011. Subsequent to year end, the Company received proceeds of US$1.2 million from the sale of the geomatics business unit noted above. These proceeds were made available to finance ongoing operations. However, whether and when the company can attain profitability and positive cash flows is uncertain.

Notwithstanding the above, we remain optimistic about the medium to long term market for the geophysics segment. However, in the near term, we will continue to focus on internal growth, operational efficiency and careful management of cash as economic conditions improve.

3 Fourth Quarter Operating Results

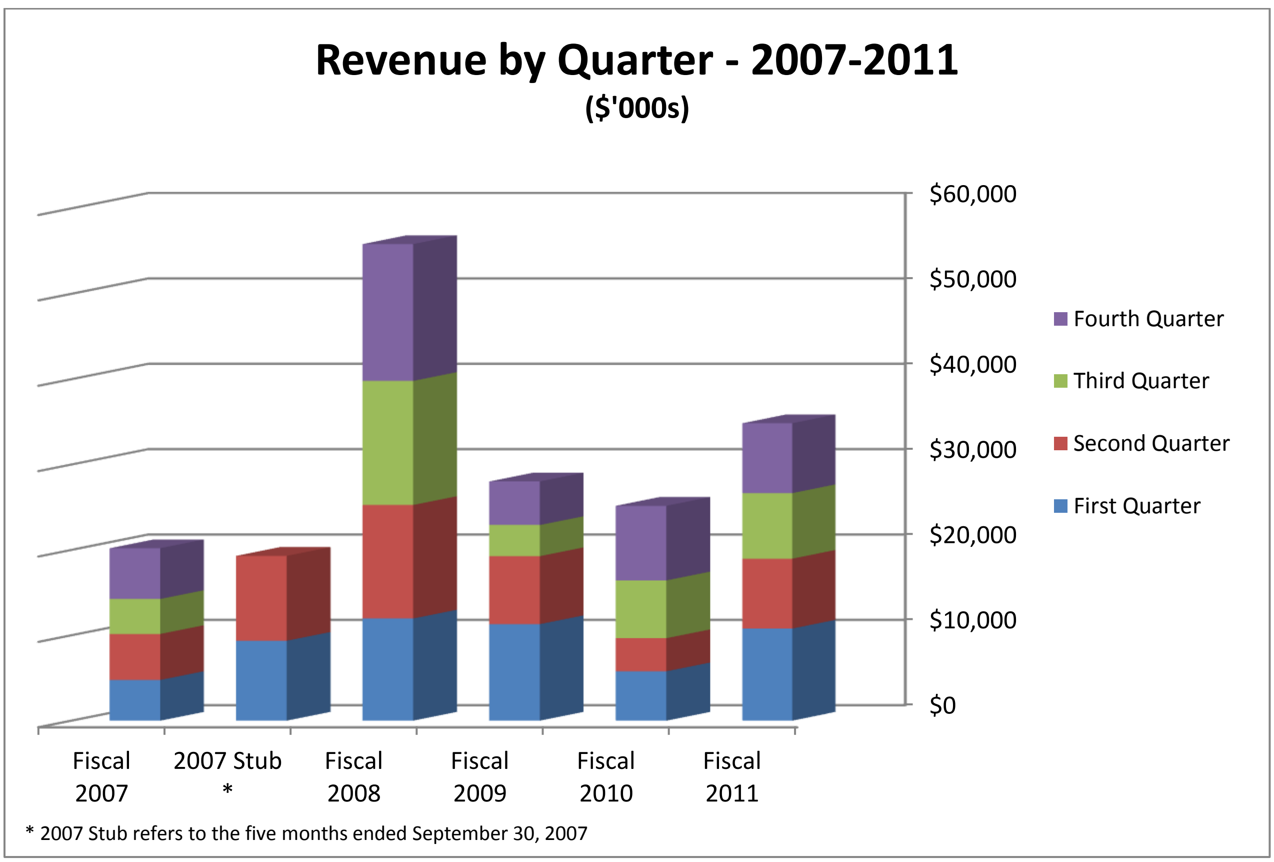
3.1 Overview and Highlights

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

- Airborne Geophysics – comprising Aeroquest Airborne Canada and Aeroquest Airborne Australia, the former UTS Geophysics business);
- Aerial Geomatics – the Mapcon Mapping businesses; and
- Instruments & Sensors –the Geophex business.

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

The fourth quarter provided mixed results relative to signs earlier in the year that suggested economic recovery trickling down to grassroots exploration activities, especially in fixed-wing activities in the growth markets of Africa and South-East Asia. Grassroots exploration activity continues to improve from levels seen in fiscal 2010, however there was a softening of demand, particularly for fixed-wing services in Q4**.** As a result, our Q4-F2011 revenue decreased by $0.5 million (or 6 per cent) to $8.2 million from $8.7 million in Q4-F2010. In the Airborne Geophysics segment, helicopter services increased by 24 per cent to $3.6 million and fixed-wing services decreased by 28 per cent to $3.9 million from their respective levels in Q4-F2010. The Aerial Geomatics segment contributed $0.6 million in Q4-F2011 attributable to the current year acquisition of Mapcon Mapping. The Instruments & Sensors segment contributed $0.0 million in revenue for the quarter, a decrease of $0.4 million to the level reported in Q4-F2010. A more detailed discussion of these variances is provided below.



Gross profit in Q4-F2011 was $1.7 million or 21 per cent of revenue, a decrease of $0.4 million from the $2.2 million, or 25 per cent of revenue reported in Q4-F2010. Margins in airborne geophysics continue to be below the historical levels realized in 2007 and 2008 due to a combination of lower average pricing and lower average productivity. Fixed-wing services continue to experience lower margins due to significant production delays related to logistics and weather in the quarter and increasing price competition. Helicopter margin were improved in Q4-F2011 due to increased line kilometers flown and a better distribution of the fixed-cost component of cost of sales. Geomatics margins remain below our expectations.

The Q4-F2011 net loss was $10.6 million compared with Q4-F2010 loss of $2.3 million. Q4-F2011 results reflect an impairment charge to goodwill and a write down of intangible assets totaling $9.5M. Net loss other wise of $1.1 million was an improvement over Q4-F2010. Q4-F2011 selling, general and administrative ("SG&A") expenses declined by $0.9 million or 37 per cent from Q4-F2010, reflecting cost cutting measures undertaken throughout the summer months. The above issues, as well as their year-to-date impact on financial results, are discussed in more detail throughout this MD&A.

3.2 Airborne Fleet Summary

In this most recent quarter, we retired three older AeroTEM units (our AeroTEM III systems). We also activated two AeroTEM HD systems, our largest and most powerful time-domain EM systems. Our active fleet is now comprised of 23 systems; 14 helicopter based and 9 fixed-wing.

Airborne Fleet Summary

		Helicopter	Fixed wing	Total
Geophysics				
AeroTEM		10		10
Impulse/GEM-2A		2		2
Magnetics	**single sensor**	1	4	5
	multi-sensor	1	3	4
Gravity	**(+ multi-sensor mag)**		2	2
Total		14	9	23

3.3 Revenue by Geographic Segment

Three Months Ended September 30, 2011

(thousands of Canadian dollars)	Canada	Australia	USA	RoW	Total	
Airborne Geophysics						
Fixed Wing services	$ 320	$ 2,065	$ 43	$ 1,512	$ 3,940	48%
Helicopter services	2,705	312	122	493	3,632	44%
System sales	-	-	-	-	-	0%
Total Geophysics	3,025	2,377	165	2,005	7,572	93%
Aerial Geomatics	605	-	-	-	605	7%
Instruments & Sensors	-	-	4	-	4	0%
Total Revenue - Aeroquest Group	$ 3,630	$ 2,377	$ 169	$ 2,005	$ 8,181	100%
	44.4%	29.1%	2.1%	24.5%	100%	

Year Ended September 30, 2011

(thousands of Canadian dollars)	Canada	Australia	USA	RoW	Total	
Airborne Geophysics						
Fixed Wing services	$ 1,440	$ 9,958	$ 209	$ 6,632	$ 18,239	52%
Helicopter services	6,929	312	429	4,546	12,216	35%
System sales	-	-	-	1,636	1,636	5%
Total Geophysics	8,369	10,270	638	12,814	32,091	92%
Aerial Geomatics	1,669	-	-	-	1,669	5%
Instruments & Sensors	72	-	829	165	1,066	3%
Total Revenue - Aeroquest Group	$ 10,110	$ 10,270	$ 1,467	$ 12,979	$ 34,826	100%
	29.0%	29.5%	4.2%	37.3%	100%	

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 September 30, 2011, 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 Australasia, Africa and North and South 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, no country (other than those listed) represented more than 10 per cent of revenue.

3.4 Consolidated Results

In Q4-F2011, consolidated revenue was $8.2 million, down $0.5 million or 6 per cent over Q4-F2010. In Airborne Geophysics, revenue from helicopter services was $3.6 million, up $0.7 million or 24 per cent over Q4-F2010 while revenue from fixed-wing services was $3.9 million, down $1.5 million or 28 per cent over Q4-F2010. Revenue from helicopter services increased significantly in the quarter reflecting sales successes from Australia. Fixed-wing operations were negatively impacted due to scheduled and unscheduled aircraft maintenance, weather conditions and permitting delays.

Revenue from Aerial Geomatics was $0.6 million attributable to the acquisition of Mapcon Mapping. Revenue from Instruments & Sensors was $0.0 million in Q4-F2011, a decrease of $0.2 million over the revenue reported in Q4-F2010.

YTD-F2011 revenue is $34.8 million, an increase of $9.8 million or 39 per cent over the $25.1 million reported in YTD-F2010. Airborne Geophysics revenue is up $8.6 million or 36 per cent to $32.1 million, helped by an increase of $6.9 million in fixed-wing and helicopter services, as well as revenue of $1.6 million recorded in the first quarter of fiscal 2011 on the sale of an AeroTEM system to a subsidiary of the Chinese government.

Cost of sales was $6.4 million in Q4-F2011, or 79 per cent of revenue, compared to $6.6 million or 75 per cent of consolidated revenue in Q4-F2010. Gross margin declined by 4% in Q4-F2011 to 21 per cent versus 25% in Q4-F2010.

The results for Areoquest Optimal Inc. have been reclassified as discontinued operations. Accordingly, the results for Aerial Geomatics only reflect the Mapcon Mapping acquisition. Gross profit in the quarter was a negative 1 per cent reflecting weak market demand.

Consolidated Results

(in thousands of Canadian dollars)	Three Months Q4-F11	Q4-F10	Change $	%	Year Ending F2011	F2010	Change $	%
Revenue								
Airborne Geophysics								
Fixed Wing	**3,940**	5,436	(1,496)	(28%)	**18,239**	13,920	4,319	31%
Helicopter	**3,632**	2,935	697	24%	**12,216**	9,609	2,607	27%
System Sales	**-**	-	-	N/A	**1,636**	-	1,636	N/A
Total Airborne Geophysics	**7,572**	8,371	(799)	(10%)	**32,091**	23,529	8,562	36%
Aerial Geomatics	**605**	-	605	N/A	**1,669**	-	1,669	N/A
Instruments & Sensors	**4**	363	(359)	(99%)	**1,066**	1,544	(478)	(31%)
	8,181	8,734	(553)	(6%)	**34,826**	25,073	9,753	39%
Cost of sales								
Airborne Geophysics								
Fixed Wing	**3,454**	4,294	(840)	(20%)	**14,808**	11,366	3,442	30%
Helicopter	**2,484**	2,212	272	12%	**8,973**	7,852	1,121	14%
System Sales	**-**	-	-	N/A	**613**	-	613	N/A
Total Airborne Geophysics	**5,938**	6,506	(568)	(9%)	**24,394**	19,218	4,563	27%
Aerial Geomatics	**613**	-	613	N/A	**1,445**	-	1,445	N/A
Instruments & Sensors	**(107)**	53	(160)	(302%)	**410**	497	(87)	(18%)
	6,444	6,559	(115)	(2%)	**26,249**	19,715	6,534	33%
Gross profit	**1,737**	2,175	(438)	(20%)	**8,577**	5,358	3,219	60%

	Q4-F11	Q4-F10	F2011	F2010
Gross margin				
Airborne Geophysics				
Fixed Wing	***12.3%***	*21.0%*	***18.8%***	*18.3%*
Helicopter	***31.6%***	*24.6%*	***26.5%***	*18.3%*
System Sales	***N/A***	*N/A*	***62.5%***	*N/A*
Total Airborne Geophysics	***21.6%***	*22.3%*	***24.0%***	*18.3%*
Aerial Geomatics	***-1.3%***	*-*	***13.4%***	*-*
Instruments & Sensors	***2775.0%***	*85.4%*	***61.5%***	*67.8%*
Gross profit margin %	***21.2%***	*24.9%*	***24.6%***	*21.4%*

	Q4-F11	Q4-F10	Change $	%	F2011	F2010	Change $	%
General & administrative expense	**1,477**	2,339	(862)	(37%)	**10,869**	8,950	1,919	21%
Foreign exchange (gain) loss	**(290)**	351	(641)	(183%)	**22**	420	(398)	(95%)
Total cash operating costs	**1,187**	2,690	(1,503)	(56%)	**10,891**	9,370	1,521	16%
% of revenue	*12.4%*	*26.1%*			*26.7%*	*28.7%*		
Stock-based compensation expense	**5**	9	(4)	56%	**375**	264	111	42%
Loss on disposal of capital assets	**214**	-	214	-	**214**	(305)	519	-
EBITDA	**331**	(524)	855	(163%)	**(2,903)**	(3,971)	1,068	(27%)
EBITDA as a % of revenue	*0.6%*	*(5.1%)*			*(7.1%)*	*(12.2%)*		
Depreciation of capital assets	**759**	1,008	(249)	(25%)	**2,995**	3,248	(253)	(8%)
Amortization of intangible assets	**865**	857	8	1%	**3,416**	3,417	(1)	(0%)
Impairment of goodwill & intangible asset	**9,476**	-	9,476	100%	**9,476**	-	9,476	100%
Operating profit/(loss)	**(10,769)**	(2,389)	(8,380)	351%	**(18,790)**	(10,636)	(8,154)	77%
Operating profit as a % of revenue	*(112.3%)*	*(23.2%)*			*(46.0%)*	*(32.6%)*		
Interest and other expense (income)	**19**	(23)	42	(183%)	**(250)**	(307)	57	(19%)
Provision for income taxes	**(111)**	(409)	298	(73%)	**(1,419)**	(2,591)	1,172	(45%)
Loss (gain) from discontinued operations	**(73)**	302	(375)	-	**386**	849	(463)	-
Net income	**$ (10,604)**	$ (2,259)	$ (8,345)	369%	**$ (17,507)**	$ (8,587)	$ (8,920)	104%

In Airborne Geophysics, gross margin in helicopter services was 21.6 per cent in Q4-F2011, as compared to 22.3 per cent in the Q4-F2010. Gross margins in Airborne Geophysics helicopter services were 31.6 per cent of revenue in the current quarter as compared to 24.6 per cent in Q4-F2010. Gross margins in Airborne Geophysics fixed-wing services were 12.3 per cent of revenue in the current quarter as compared to 21.0 per cent in Q4-F2010. As previously stated, we had a number of factors that impacted productivity in Q4-F2011; particularly for fixed-wing services, and we expect margins to improve in subsequent quarters as market conditions and productivity improves.

YTD-F2011 gross profit was $8.6 million or 24.6 per cent of revenue, an increase of $3.2 million from the $5.4 million (and 21.4 per cent of revenue) reported in YTD-F2010. The impact of the previously noted system sale served to improve overall margins when compared to YTD-F2010.

3.5 Cash Operating Costs

Cash operating costs in Q4-F2011 totaled $1.2 million, a decrease of $1.5 million, or 56 per cent from the $2.7 million reported in Q4-F2010. This decrease reflects the actions taken by us as we downsize our operations to address the economic slowdown.

3.6 Operating Profit and EBITDA

EBITDA in Q4-F2011 was positive $0.3 million, an increase of $0.8 million over the negative EBITDA of $0.5 million reported in Q4-F2010. The major component of this increase was a reduction of SG&A offset by a slight reduction in Gross Profit.

Depreciation, and amortization totaled $1.6 million in Q4-F2011, versus $1.9 million reported in Q4-F2010 reflecting the slower pace of capital asset acquisition in the last two fiscal years. Also in Q4-F2011, there was an impairment charge recorded against goodwill as well as a write down of the carrying value of intangible assets. These non-cash charges amounted $9.5 million.

As a result, operating loss before discontinued operations in Q4-F2011 was $10.7 million compared to the operating loss of $2.0 million reported in Q4-F2010. The loss (gain) from discontinued operations reflects the reclassification of the results of Aeroqust Optimal Inc., which was sold subsequent to year end.

3.7 Net Loss

Net loss for Q4-F2011 was $10.6 million, or $0.28 per share compared to net loss of $2.3 million, or $0.06 per share in Q4-F2010.

Our provision for the recovery of income taxes for Q4-F2011 was $0.1 million compared to the income tax recovery of $0.4 million in Q4-F2010. The percentage rate decrease 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 as well reflecting the impact on permanent differences related to certain of the impairment charges.

4 Liquidity and Capital Resources

Our cash balances declined by $4.1 million from $4.8 million at September 30, 2010 to $0.7 million at September 30, 2011. Much of this decline is due to three factors:

1) Cash flow from operations – which consumed $(0.5) million of cash (cash flow from operations consumed $2.2 million of cash whereas changes in non-cash working capital generated $1.7 million of cash);

2) Acquisition of Mapcon Mapping – which consumed $1.4 million; and

3) Capital expenditures which consumed $2.2 million of cash.

Cash & Working Capital Changes

	Three Months			Year		
(in thousands of Canadian dollars)	**Q4-F11**	Q4-F10	Change	**F2011**	F2010	Change
Operating activities						
Net Income/(Loss)	**$ (10,604)**	$ (2,259)	$ (8,345)	**$ (17,507)**	$ (8,587)	$ (8,920)
Non-cash operating items						
Depreciation/Amortization	**1,721**	1,953	(232)	**6,716**	7,139	(423)
Impairment	**9,476**	-	9,476	**9,476**	-	9,476
Loss on net assets held for sale	**50**	-	50	**50**	-	50
Future taxes	**(457)**	(1,613)	1,156	**(1,509)**	(2,242)	733
Loss/(Gain) on disposal of capital assets	**208**	72	136	**214**	(305)	519
Stock based compensation	**5**	10	(5)	**376**	264	112
Operating cash before change in non-cash working capital	**399**	(1,837)	2,236	**(2,184)**	(3,731)	1,547
Change in non-cash working capital	**(1,552)**	1,295	(2,847)	**1,730**	3,572	(1,842)
Cash flow from operations	**(1,153)**	(542)	(611)	(454)	(159)	(295)
Investing activities						
Capital asset purchases	**(300)**	(400)	100	**(2,220)**	(1,238)	(982)
Proceeds from disposal of capital assets	**-**	73	(73)	**-**	583	(583)
Long term investments sold (acquired)	**91**	-	91	**91**	(90)	181
Cash cost of acquistion	**-**	-	-	**(1,384)**	-	(1,384)
Cash flow from investing	**(209)**	(327)	118	**(3,513)**	(745)	(2,768)
Financing Activities						
Capital lease payments	**-**	(36)	36	**(195)**	(510)	315
Proceeds from issuance of shares	**-**	-	-	**75**	25	50
Cash flow from financing	**-**	(36)	36	**(120)**	(485)	365
Net change in cash for the period	**(1,362)**	(905)	(457)	**(4,087)**	(1,389)	(2,698)
Cash - beginning of period	**2,032**	5,662	(3,630)	**4,757**	6,146	(1,389)
Cash - end of period	**$ 670**	$ 4,757	$ (4,087)	**$ 670**	$ 4,757	$ (4,087)

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

In Q4-F2011, cash flow from operations before changes in working capital generated $0.4 million of cash in the quarter. Changes in non-cash working capital consumed $1.6 million of cash. In Q4-F2010, operating cash flow before changes in working capital consumed $1.8 million of cash and net changes in non-cash working capital generated $1.3 million in cash.

4.2 Investing Activities

Investment activities in Q4-F2011 consumed $0.2 million of cash representing capital expenditures made in the quarter of $0.3 million offset by proceeds on the sale of long term investments of $0.1 million. Q4-F2010's capital expenditures were $0.4 million offset by proceeds on the disposal of capital assets of $0.1 million.

4.3 Financing Activities

There were no financing expenditures in Q4-F2011.

4.4 Cash

Our cash balances for the year declined by $4.1 million. This decline is primarily the result of the combination of cash used in capital expenditures of $2.2 million and $1.4 million cash used of the acquisition of Mapcon Mapping.

Subsequent to year end, the Company realized US$1.2M in proceeds on the sale of Aeroquest Optimal Inc. 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 amounting to CAD$2.0 million. The credit facility has an evidence borrowing limit computed as 75% of current accounts receivable. This evidence limit determines the effective borrowing limit at points in time. We continually assess the necessity of drawing upon the balance of the credit facility relative to our working capital requirements. At September 30, 2011, the evidence borrowing limit is approximately $0.7 million and no amounts are outstanding against this facility. As highlighted in the General Outlook section, we finance capital expenditures and operational activities principally from cash flow from operations. However, whether and when the Company can attain profitability and positive cash flows is uncertain.

4.6 Summary Financial Position

As of September 30, 2011, we had current assets of $10.6 million and current liabilities of $8.6 million. Net working capital was $2.0 million, a decrease of $4.1 million from September 30, 2010.

Summary Cash & Working Capital

(in thousands of Canadian dollars)	30-Sep-11	30-Sep-10	Change from prior year-end	
Cash	**$670**	$4,757	($4,087)	-85.9%
Non-cash current assets	**9,945**	8,454	1,491	17.6%
Current assets	**10,615**	13,211	(2,596)	-19.7%
Less: Current liabilities	**8,628**	7,139	1,489	20.9%
Net working capital	**$1,987**	$6,072	($4,085)	-67.3%
Current ratio	**1.2**	1.9		-33.5%

4.7 Acquisition of Mapcon Mapping

On January 31, 2011, we completed the acquisition of the 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 prior to acquisiton.

The total purchase price net of cash acquired was $1.4 million. The acquisition has been accounted for under the purchase method of accounting and has been included in the balance sheet of the Company on March 31, 2011. 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	$ 18
Accounts receivable	863
Work in progress	1,191
Prepaids	11
Capital assets	270
Accounts payable and accrued liabilities	(948)
Deferred revenue	(3)
Total net assets acquired, net of cash	$ 1,384

Consideration provided was all paid in cash.

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.

4.8 Sale of Aeroquest Optimal Business

In late September, we received an offer to purchase the Company's primary geomatics business located in Huntsville, Alabama, USA. The offer coincided with management's strategic review described in Section 2.3. The decision was subsequently taken to pursue the offer and the business unit was subsequently sold with the transaction closing November 30. Proceeds from the sale were US$1,234,780. We have recorded a write down of net assets held for sale of $50,164 as at September 30, 2011. We expect to utilize the proceeds to support our geophysics operations and invest in improving the technology in both our fixed wing and helicopter platforms.

5 Risks and Uncertainties

5.1 Commodity Price Fluctuations

All commodities, by their nature, are subject to wide price fluctuations and are affected by numerous factors beyond our control, such as interest rates, exchange rates, inflation or deflation, global and regional supply and demand, weather and general economic conditions and political conditions. Currently, commodity prices for minerals, with the exception of gold, and oil have experienced significant declines compared to their historical highs. This decline in commodity prices may have a material adverse effect on the over-all level of mineral and oil and gas exploration undertaken by our clients and other industry participants which could result in a decrease in revenue and have a material adverse effect on our business, financial condition and results of operation.

5.2 Foreign Operations and Regulatory Requirements

A significant portion of our projects are undertaken outside of Canada. These operations are affected, in varying degrees, by political conditions and government regulations relating to the airborne survey and mining industries. Changes in such regulations or shifts in political conditions are beyond our control and may adversely affect our business, financial condition and results of operations. Operations may be affected in varying degrees by government regulations with respect to aircraft registration and operation, required permits and licenses, customs and duty requirements, and income taxes. Changes in foreign government regulations affecting the airborne survey and mining industries could have a material adverse effect on our business, financial condition and results of operations.

5.3 Market Acceptance

Our future success depends on our ability to address the need of our potential customer base by developing and introducing products, product updates, and services on a timely basis, by adapting the operation of our products to new platforms and by keeping pace with technological developments and emerging industry standards. In order to secure future growth, we must be able to commit substantial resources to developing and marketing new products and services. If markets do not develop, or demand for the Corporation’s products occurs more slowly than expected, we may have expended resources and capital without realizing sufficient revenue, and our business, financial condition and results of operations could be adversely affected.

5.4 Foreign Currency Exchange Risk

We record transactions and prepare our financial statements in Canadian dollars. For Q4-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.

5.5 Interest Rate Risk

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.

5.6 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 September 30, 2011, we had 37,325,940 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	250,000	$	0.50	February 9, 2016
employees under the Company Stock Option Plan	312,500	$	0.60	June 30, 2016
	15,000	$	0.75	October 13, 2016
	64,000	$	2.34	September 30, 2012
	50,000	$	1.70	July 16, 2013
	280,666	$	0.42	January 18, 2014
	339,000	$	0.45	August 4, 2014
	120,000	$	0.55	October 20, 2014
	435,000	$	0.63	May 11, 2015
	50,000	$	0.85	December 14, 2015
	180,000	$	0.62	June 9, 2016
Total outstanding	2,096,166	$	0.58	
Total exerciseable	1,764,833	$	0.58	

7.2 Restricted Stock Unit Plan

At September 30, 2011 there were 51,665 RSU's outstanding. No RSU's were granted, vested or converted into Common Shares in either Q4-F2011 or Q4-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 2011 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 September 30, 2011.

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

In January 2009, the CICA issued Section 1582 "Business Combinations", Section 1601 "Consolidated Financial Statements and Section 1602 "Non-controlling Interests" to replace Section 1581 "Business Combinations" and Section 1600 "Consolidated Financial Statements". Prospective application of these standards are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. This new Section 1582 effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new Section 1582 revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. New Section 1601 together with Section 1602 establish standards for the preparation of consolidated financial statements.

Please also refer to commentary on IFRS noted at 9.4 below.

9.2 Foreign Accounting Standards

The results of operations of our subsidiary Aeroquest (Aust) Pty Ltd. are prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS) and then adjusted to Canadian GAAP standards for consolidation. Our Geophex Ltd. And Aeroquest Optimal 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.

Included in September 30, 2011 accounts receivable is an amount of approximately $800,000 from a customer resident in Libya. Included in the $800,000 is $128,000 that was in transit at a United Kingdom bank. Subsequent to the end of Q3-F2011, we received permission from the Canadian government to collect all monies owed. The $128,000 has since been paid. While some uncertainty exists regarding the general political unrest in Libya, we have ongoing contact with the customer and continue to work with them to arrange for collection of the remaining balance. Specifically, the survey data is being reviewed and quality assured by the customer. This process is nearing completion and we continue to work towards collection of the remaining balance. We have determined that no allowance for doubtful accounts is necessary at this time specific to this item.

FUTURE INCOME TAXES

The computation of future income taxes requires an estimate of future income tax rates as well as an assessment of whether it will be more likely than not that the benefit of a future tax asset will be realized. Changes in the estimate for future income tax rates as well as the period end assessment regarding the more likely than not test could significantly change the amount of future incomes taxes currently and previously recognized. An average future income tax rate of 28.75% was used to compute future income taxes in F2011 (31.75% in F2010). Furthermore, except for future income taxes associated with Aeroquest (Aust) Pty Ltd., management determined that the remaining future income tax assets of the company did not meet the more likely than not test. As a result, no current future income tax assets were recorded and amounts previously recognized were derecognized through the income taxes provision. Amounts derecognized in Q4-F2011 amounted to $1.1 million.

We also record a future tax liability against the amount of any intangible assets recorded upon the purchase of a business. Subsequently, the amount of the future tax liability is reduced to reflect amortization as well as impairment charges.

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 the 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.

An assessment of the carrying value of Goodwill was undertaken as at September 30, 2011. An impairment charge of $6.8 million was recorded.

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 held for sale are reported at the lower of the carrying amount or fair value less cost to sell.

The long-lived assets of the Company were reviewed for impairment as at September 30, 2011. An impairment charge in the amount of $2.7 million was recorded against the intangible assets of Aeroquest (Aust) Pty Ltd.

Amortization is recorded on a straight line basis over the estimated useful life of the assets. Customer relationships and technology are amortized over five & seven years, sales backlog is amortized over one year and any trade names are not amortized until a decision is made to end trade name at which time the amortization will take place over the remaining expected life of the trade name.

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.

We 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

We have 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 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

We have formalized the IFRS Transition Plan. The following are elements of the plan that are 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 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.

We have completed the detailed assessment phase for all standards that affect the transition to IFRS. We are currently in the implementation phase on many of the IFRS issues including construction of full financial statements.

Potential accounting changes as a result of transition to IFRS

We have 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 our company, its differences from Canadian Generally Accepted Accounting Principles ("GAAP") and their potential impact. The list is not comprehensive and does not include all of the differences from 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 our 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. We have reviewed componentization of PP&E and do not expect any material adjustments upon transition to IFRS.

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.

We have decided to apply 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.

We have conducted a review of our share-based payment transactions outstanding at the transition date and have determined that there will be no significant impact on transition date. The Company currently accounts for awards with graded vesting features as separate awards and there is no material difference anticipated by applying a forfeiture rate to share-based payment transactions.

Foreign Exchange Translation - We sell products to customers in foreign currencies and purchases services and raw materials from suppliers invoiced in foreign currencies. An analysis was undertaken to determine what the functional currency is under IFRS for each subsidiary.

This analysis has determined that there will be no change to the functional currency for any of our subsidiaries under IFRS. We have also elected to apply the IFRS 1 election to allow it to not calculate the translation difference in relation to certain exchange gains and losses recognized in other comprehensive income. As a result of the election the cumulative translation balance for all the foreign operations is set at zero at the date of transition.

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

The results indicated that there will be no significant change to the recognition or classification policy for revenue under IFRS.

Business Combinations – we have elected not to restate business combinations prior to the transition date, as permitted under IFRS 1. Any business combinations that occur prior to October 1, 2010 will be accounted for under previous Canadian generally accepted accounting principles.

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

After review of the standards noted above and other differences from GAAP, we do not expect any significant impact of IFRS on our financial statements. However, we continue to reassess our evaluations and accounting policy choices and have the ability to adjust or modify conclusions up to the release of our first IFRS statements.

We have completed the analysis of IFRS issues including evaluation of any IFRS 1 exemptions. The project is now in the process of documenting accounting policies under IFRS, creating additional note disclosures and developing a full set of IFRS statements. Note that consistent with many other entities transitioning to IFRS we will revisit our evaluations and accounting policy choices up to and including the date of the release of our first IFRS statements.

We have monitored the release of new standards and, to date, have opted against early adoption. Therefore there will be no impact for the first IFRS financial statements. We continue to monitor the IASB's progress on future projects and their impact on our ongoing IFRS reporting.

Impact on Information Systems and Technology

It is anticipated that the adoption of IFRS will have some impact on information systems requirements. We are 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 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.

As the conversion to IFRS progresses, additional information will need to be maintained. The impact on systems and existing processes is still being evaluated. These changes are expected to be manageable 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. Adjustments to internal controls in response to the conversion to IFRS have been scheduled. The additional controls are not expected to be significant but will continue to be evaluated as the conversion continues.

Training

We have begun training for finance personnel with respect to IFRS. In addition, training has commenced for senior management and audit committee members. The Company will continue to monitor and evaluate the need for training as a result of the IFRS conversion.

Impact on Business

We have reviewed the impact IFRS will have on business practices. Given our expectation that there will be no material differences, we do not expect there to be a significant impact on contractual or business relationships. However, we will monitor new accounting standards issued by the IASB to determine any future impact on the business.