

AEROQUEST INTERNATIONAL LIMITED

Management's Discussion & Analysis For the year ending September 30, 2008



Issued on December 5, 2008

On October 23, 2007, we announced that we had received approval from Canada Revenue Agency to change our financial year end from April 30 to September 30th beginning with September 30, 2007. As a result of this change, in this report we are comparing the three months and year ended September 30, 2008 with the most comparable quarterly period under the old reporting structure, which would be for the two and five months ended September 30, 2007 and the year ended April 30, 2007.

Management's Discussion and Analysis (MD&A) is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. It explains trends in our financial condition and results of our operations for the three months and year ended September 30, 2008 compared with our operating results for the two and five months ended September 30, 2007 and the preceding year ended April 30, 2007. It also compares our balance sheet as at September 30, 2008 to our balance sheet as at September 30, 2007.

The consolidated financial statements presented here are those of the Aeroquest Group of Companies; Aeroquest International Limited and its wholly owned subsidiaries Aeroquest Limited, UTS Geophysics Pty Ltd, Geophex Ltd., Aeroquest (UK) Limited and AeroKaz LLP, with all significant inter-company balances having been eliminated on consolidation.

Additional information relating to our company is available on our website at www.aeroquest.ca and on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

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". The Company is hereby providing cautionary statements identifying important factors that could cause the Company's 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 the Company's 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 the Company's services, major technology changes, timing of product introductions, competition, the ability of the Company to replace lost revenue of a customer significant to an operating division, the ability of the Company to attract and retain key employees, and the possibility that such efforts will not have as great an impact on the operating results of the Company as is currently anticipated, is forward-looking information.

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

Although the Company believes 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 the Company's expectations ("**Cautionary Statements**"), including changes in general economic, market and business conditions, fluctuations in the cost of borrowing, political and economic development, the Company's 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 the Company or other parties whose operation or assets directly or indirectly affect the Company, 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 the Company's 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. The Company disclaims 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.

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 11 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, development expense, and gain or loss on foreign exchange.

2 Overview

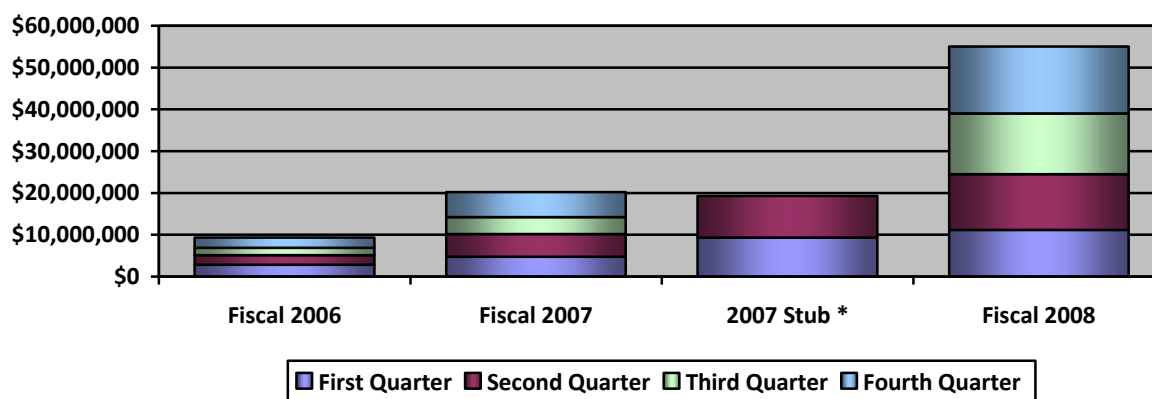
2.1 AEROQUEST'S BUSINESS

We are a world leader in the development and operation of innovative and proprietary airborne geophysical surveying platforms servicing the mineral exploration, petroleum, and environmental industries. We use two separate delivery platforms, helicopter and fixed wing, and provide our clients with a broad range of geophysical measurement techniques including magnetic, electromagnetic, gravimetric and radiometric surveys.

We operate a large fleet of airborne geophysical survey systems utilizing both helicopters and fixed wing aircraft. Our geophysical survey technologies include both time-domain and frequency-domain electromagnetics (including our proprietary AeroTEM, time-domain, electromagnetic technology), gravity, magnetic, and radiometric systems. Our combination of geophysical technologies and airborne platforms give us one of the broadest array of product and service offerings in our industry in the world today.

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

THREE YEAR REVENUE GROWTH SUMMARY



* 2007 Stub is composed of a three month period ending July 31, 2007 and a two month period ending September 30, 2007

2.2 BUSINESS STRATEGY

There are five components to our business strategy:

1. Expand the number of systems in our fleet
2. Expand internationally
3. Expand our capabilities in other geophysical survey technologies
4. Find new markets and applications of our airborne geophysical technologies, and
5. Use industry-leading research capability to explore other applications of our airborne geophysical technologies.

Expansion of our fleet and internationally is always predicated on the capacity of the marketplace to absorb such expansion. While markets for our systems remained strong, as was the case in fiscal 2008, such expansion did continue. Since year-end, prices for commodities such as minerals, and oil & gas have fallen sharply. As discussed below our Outlook (item 13), we have scaled back the pace of expansion and will only grow our fleet where market conditions permit.

SELECTED ANNUAL INFORMATION

	Fiscal Year Ended			YTD change	
	30-Sep-08	30-Sep-07	30-Apr-07	08-9/07	08-4/07
(in thousands of Canadian dollars)					
	<i>Year</i>	<i>Five Months</i>	<i>Year</i>		
Revenue	55,045	19,299	20,187	35,746	34,858
Net Income	2,843	1,983	2,040	860	803
Total assets	69,540	52,900	12,761	16,640	56,779
Long Term Liabilities	7,110	9,722	-	(2,612)	7,110

Major fluctuations in the selected annual information noted above primarily result from the acquisition of the Company's UTS subsidiaries on July 3, 2007 and Geophex Limited on December 31, 2007. These acquisitions are discussed in more detail throughout this MD&A

3 Fourth Quarter and Fiscal 2008 Operating Results

3.1 OVERVIEW AND HIGHLIGHTS

In the fourth quarter, we recorded consolidated revenue growth of 61 per cent over the comparable two month period last year. Growth in helicopter and fixed wing services was 31 and 81 per cent respectively over the most comparable two month period last year. Other services contributed \$0.7 million in revenue for the quarter. A more detailed discussion on these variances is noted below.

Gross profit in the quarter was \$5.1 million, or 32 per cent of revenue. Our gross profit percentage declined from 39 per cent of revenue in the comparable two month period last year due to reduced field productivity in the helicopter services segment and, to a lesser extent, the impact of currency fluctuations in the Canadian, US and Australian dollars. Issues related to productivity primarily relate to mobilizing helicopter systems to increasingly remote areas around the globe. They have been identified and addressed and we expect our productivity to improve in first quarter of our 2009 fiscal year.

Cash operating costs declined in the quarter compared to the two months ended September 30, 2007 primarily due to favourable exchange rate variances. As a result, we earned \$1.6 million after tax, or \$0.05 per share, while operating cash flow for the period was a very healthy \$2.2 million, or \$0.06 per share.

For the 2008 fiscal year, revenue increased to \$55.0 million with helicopter and fixed wing services comprising \$27.7 million and \$26.1 million respectively. Other services (principally the Company's Geophex subsidiary) provided \$1.3 million in revenue. Overall gross margins were \$20.7 million or 37.5% of revenue. This was a decline from the 40% in the five months ended September 30, 2007 and 45.5% in the year ended April 30, 2007. The decline in the gross margin on a year-over-year basis is also due to declining productivity in the helicopter services segment as noted above.

In the year, we saw the first real fruits of our strategy to expose our services on a consistent basis to the petroleum market. In the second half of the year, petroleum services revenue contributed to our consolidated revenue for the first time. In addition, 26% of the Company's backlog at year end related to Petroleum Services. We continue to pursue opportunities in this market and hope to see this contribution grow, both in absolute terms and as a percentage of revenue, over time.

In the fourth quarter we also incorporated AeroKaz LLP, a subsidiary located in Kazakhstan, to give us a foothold in the growing mineral and oil & gas marketplace in Central Asia. We expect business activity to commence in this subsidiary early in fiscal 2009.

3.2 Fleet Expansion

During the quarter there were a number of changes to the makeup of our fleet. In helicopter services we introduced two new AeroTEM systems in the quarter, all AeroTEM IV's. Over the last several quarters we have averaged approximately one new AeroTEM system per quarter. Two helicopter units were also retired in the quarter leaving the total number of helicopter units at 17. There were no changes to the fixed wing fleet in the fourth quarter with the fleet ending the year at 11 aircraft.

AIRBORNE FLEET SUMMARY

	Helicopter	Fixed wing	Total
AeroTEM	13		13
Impulse/GEM-2A	2		2
Magnetics			
single sensor	1	6	7
multi-sensor	1	5	6
Total	17	11	28

3.3 REVENUE BY GEOGRAPHY

The pace of globalization of our units continued in the fourth quarter. As of September 30, 2008, we had mobilized helicopter units in North and South America, Europe, Africa and Asia. In addition, we have mobilized fixed wing units to Australia & the South Pacific, Africa and North America.

With the recent acquisitions of UTS Geophysics and Geophex Ltd., our revenue outside of Canada has grown significantly and now represents more than 50 per cent of our total revenue.

REVENUE BY GEOGRAPHY

Three Months Ended September 30, 2008

(thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 4,097	\$ -	\$ 2,950	\$ 7,047	44%
Fixed wing services	2,113	2,458	3,697	8,268	52%
Other services	-	-	702	702	4%
Total Revenue - Aeroquest Group	\$ 6,210	\$ 2,458	\$ 7,349	\$ 16,017	100%
	39%	15%	46%	100%	

Year Ended September 30, 2008

(thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 18,656	\$ 61	\$ 8,957	\$ 27,674	50%
Fixed wing services	2,378	10,283	13,427	26,088	47%
Other services	-	-	1,284	1,284	2%
Total Revenue - Aeroquest Group	\$ 21,034	\$ 10,344	\$ 23,668	\$ 55,046	100%
	38%	19%	43%	100%	

3.4 CONSOLIDATED RESULTS

In the current quarter, consolidated revenue was \$16.0 million, up \$6.1 million or 61 per cent over the most comparable quarter last year. Revenue from helicopter services was \$7.0 million, up \$1.7 million or 31 per cent over the two months ended September 30, 2007. Revenue from fixed wing services was \$8.3 million up \$3.7 million up 81% over the two months ended September 30, 2007. While the majority of the difference is attributable to the three versus two month reporting period, the Company did experience growth in revenue and line kilometers.

For fiscal 2008, consolidated revenue was \$55 million. Consolidated revenue for the five months ended September 30, 2007 was \$19.3 million and for the year ended April 30, 2007 was \$20.2 million.

REVENUE & GROSS MARGIN

(in thousands of Canadian dollars)	Period Ended		Year-to-Date			YTD change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08-9/07	08-4/07
	3 Months	2 Months	Year	Five Months	Year		
Revenue							
Helicopter services	7,047	5,372	27,674	12,703	20,187	14,971	7,487
Fixed wing services	8,268	4,572	26,088	6,597	-	19,491	26,088
Other services	702	-	1,284	-	-	1,284	1,284
	16,017	9,944	55,046	19,300	20,187	35,746	34,859
Cost of sales							
Helicopter services	5,564	3,562	18,339	7,608	11,007	10,731	7,332
Fixed wing services	5,214	2,516	15,603	3,966	-	11,637	15,603
Other services	156	-	408	-	-	408	408
	10,934	6,078	34,350	11,574	11,007	22,776	23,343
Gross profit	5,083	3,866	20,696	7,726	9,180	12,970	11,516
Gross margin							
Helicopter services	21.0%	33.7%	33.7%	40.1%	45.5%		
Fixed wing services	36.9%	45.0%	40.2%	39.9%	0.0%		
Other services	77.8%		68.2%				
Gross profit margin %	31.7%	38.9%	37.6%	40.0%	45.5%		

Consolidated cost of sales was \$10.9 million in the quarter, or 68 per cent of consolidated revenue, compared to \$6.1 million or 61 per cent of consolidated revenue in the most comparable two month period last year. Gross margins in the quarter declined by 7 percentage points to 32 per cent, as compared to 39 per cent in the most comparable quarter last year.

Gross margin in helicopter services was 21 per cent in the quarter, as compared to 34 per cent in the most comparable period last year. The productivity issues experienced in the quarter with the AeroTEM units (as noted previously) also contributed to the compression in the gross margin of the helicopter services segment.

Gross margin in fixed wing services was 37 per cent of revenue in the current quarter as compared to 45 per cent in the most comparable two month period last year. While this change represents an eight percent drop in fixed wing gross margin, full year fixed wing gross margin is 40% which is approximately equal to the gross margin in the stub period ended September 30, 2007. The

decline in fixed wing gross margin in the quarter is primarily attributable to increased mobilization of aircraft to remote work locations around the globe, something that did not occur in the comparable prior period. Note though that the gross margin in the prior stub period only reflects fixed wing operations from July 3, 2007 onward (the date that the Company purchased the UTS business).

3.5 CASH OPERATING COSTS

Cash operating costs for the quarter totaled \$1.3 million, a decline of \$0.2 million, or 14% from \$1.5 million in the most comparable two month period last year. This decline is primarily due to a foreign exchange gain of \$1.2 million compared with a foreign exchange loss of \$0.2 million in the comparable two month period last year. The foreign exchange gain resulted from the company benefiting from the appreciation in the United States Dollar in the fourth quarter as much of the Company's revenue is denominated in United States dollars. This change is offset by an increase of \$1.5 million in general and administrative costs. The growth in these costs are primarily due to (a) the addition of Geophex; (b) growth in overhead to support additional helicopter and fixed wing systems; (c) timing differences related to a three versus two month reporting period; and (d) legal, listing and related costs associated with the graduation of the Company from the TSX Venture Exchange to the TSX (see note 9 below).

On a fiscal year basis, cash operating costs were 15.4 per cent of revenue for the year, slightly less than the 15.7% of revenue in the five months ended September 30, 2007 and a decline from the 21.9 per cent of revenue in the year ended April 30, 2007. While the foreign exchange gain did help with this ratio in fiscal 2008, we anticipate that this percentage will still remain relatively constant since general and administrative costs are primarily fixed in nature.

CASH OPERATING COSTS

	Three Months Ended		Fiscal Year Ended			YTD change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08-9/07	08-4/07
(in thousands of Canadian dollars)							
	3 Months	2 Months	Year	Five Months	Year		
General & administrative expense	2,706	1,157	9,441	2,353	3,764	7,088	5,677
Foreign exchange (gain) loss	(1,162)	240	(1,059)	384	120	(1,443)	(1,179)
Research & development expense	(247)	115	80	288	530	(208)	(450)
Total cash operating costs	1,297	1,512	8,462	3,025	4,414	(1,651)	4,048
% of revenue	8.1%	15.2%	15.4%	15.7%	21.9%		

3.6 OPERATING PROFIT AND EBITDA

EBITDA in the quarter was \$3.6 million, an increase of \$1.3 million or per cent over the comparable two month period last year. For fiscal 2008, EBITDA was \$11.3 million, compared with \$4.7 million for the period ended September 30, 2007 and \$4.5 million for the year ended April 30, 2007. EBITDA is up as a result of increased sales volume, and the fact that some of our costs are fixed so as revenue grows we will see a greater contribution to EBITDA. The increase in stock-based compensation expense in the year related to both the timing and amount of the grants versus the prior period. This issue is discussed further in note 10 below.

Depreciation and amortization charges totaled \$1.5 million in the quarter, an increase of \$0.6 million from the most comparable two month period last year. The increase in depreciation and amortization in the period is a result of the three versus two month reporting period and the increased depreciation and amortization related to the Geophex acquisition.

Operating profit in the current quarter was \$2.0 million, an increase of \$0.6 million or 40 per cent over the most comparable period last year. For the full fiscal year, operating profit was \$4.4 million, compared with \$3.1 million for the period ended September 30, 2007 and \$3.5 million for the year ended April 30, 2007. Operating profit as a percentage of revenue is 8% for the fiscal year. This is lower than the 16 and 17 percent in the prior two fiscal years primarily due to the increased depreciation and amortization of intangibles from the two acquisitions.

OPERATING PROFIT AND EBITDA

(in thousands of Canadian dollars)	Three Months Ended		Fiscal Year Ended			YTD change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	3 Months	<i>2 Months</i>	Year	<i>Five Months</i>	<i>Year</i>		
Gross profit	5,100	3,866	20,694	7,726	9,180	12,968	11,514
Cash operating costs	1,297	1,512	8,462	3,025	4,414	5,437	4,048
Stock-based compensation expense	231	5	960	11	236	949	724
EBITDA	3,572	2,349	11,272	4,690	4,530	6,582	6,742
EBITDA as a % of revenue	22.3%	23.6%	20.5%	24.3%	22.4%	(16%)	(9%)
Depreciation of capital assets	739	371	2,814	695	943	2,119	1,871
Amortization of intangible assets	809	534	4,035	893	94	3,142	3,941
Operating profit	2,024	1,444	4,423	3,102	3,493	1,321	930
Operating profit as a % of revenue	13%	15%	8%	16%	17%	(50%)	(53%)

3.7 NET INCOME

Net income for the quarter was \$1.6 million, or \$0.05 per share compared to net income of \$1.0 million, or \$0.05 per share in the comparable quarter last year. For the full fiscal year, net income was \$2.8 million, or \$0.09 per share.

Our provision for income taxes for the year was \$1.8 million for the year generating an apparent tax rate of 38.8% in the year. While this rate is an increase from the 35.9% the prior to fiscal year, it represents a reflection of the blend of statutory tax rates in Canada, Australia and USA, and the fact that most of our amortization expense is not deductible for tax purposes.

NET INCOME

(in thousands of Canadian dollars)	Three Months Ended		Fiscal Year Ended			YTD change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	3 Months	2 Months	Year	Five Months	Year		
Operating profit	\$ 2,024	\$ 1,444	\$ 4,423	\$ 3,102	\$ 3,493	\$ 1,321	\$ 930
Other costs (income)	(102)	38	(224)	15	(140)	(239)	(84)
Contract cancellation costs	-	-	-	-	270	-	(270)
Provision for income taxes	523	360	1,804	1,119	1,438	685	366
Net income	\$ 1,603	\$ 1,046	\$ 2,843	\$ 1,968	\$ 1,925	\$ 875	\$ 918
Earnings per share - basic	\$ 0.05	\$ 0.05	\$ 0.09	\$ 0.09	\$ 0.13	\$ -	\$ (0.04)
Apparent tax rate			38.8%	35.9%	39.7%		

4 Liquidity and Capital Resources

Comparative selected quarterly financial information

(Financials in 000's except /share data)

	(3Mo)	(3Mo)	(3Mo)	(3Mo)	(2mo)	(3 Mo)	(3Mo)	(3Mo)	(3Mo)	(3Mo)
	Q4-Sep 08	Q3-Jun 08	Q2-Mar 08	Q1-Dec 07	Q2-Sep 07	Q1-Jul 07	Q4-Apr 07	Q3-Jan 07	Q2-Oct 06	Q1-Jul 06
Revenue	\$ 16,017	\$ 14,537	\$ 13,295	\$ 11,197	\$ 9,944	\$ 9,355	\$ 5,937	\$ 4,098	\$ 5,387	\$ 4,765
Operating profit	\$ 2,024	\$ 590	\$ 1,613	\$ 195	\$ 1,444	\$ 1,658	\$ 782	\$ 412	\$ 1,581	\$ 719
Net income	\$ 1,603	\$ 304	\$ 815	\$ 121	\$ 1,046	\$ 938	\$ 321	\$ 210	\$ 945	\$ 564
Weighted average common shares	33,785	34,662	32,553	27,603	22,702	21,538	15,787	15,838	15,838	15,840
Earnings per share (basic)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.05	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.04
Earnings per share (diluted)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.04
Operating cash flow/share	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.06	\$ 0.08	\$ 0.08	\$ 0.05	\$ 0.03	\$ 0.08	\$ 0.06
Systems available for use at period end *	28	27	23	19	21	20	9	9	9	8
Fixed-wing systems	11	11	9	8	10	10				
Helicopter systems	17	16	14	11	11	10	9	9	9	8
AeroTEM systems included in above	13	11	8	8	8	7	6	6	6	5
Line kilometres flown during period										
Helicopter systems	74,100	73,200	59,000	47,700	38,000	51,100	44,800	25,600	45,500	49,000
Fixed-wing systems	520,000	457,700	362,000	408,900	351,000	158,000				
Contract back-log (CAD\$ thousands)										
Helicopter systems	\$ 6,856	\$ 5,100	\$ 5,900	\$ 8,000	\$ 8,400	\$ 12,000	\$ 8,300	\$ 3,500	\$ 3,500	\$ 4,700
Fixed-wing systems	\$ 9,256	\$ 11,900	\$ 11,400	\$ 11,000	\$ 7,900	\$ 11,000	\$ -	\$ -	\$ -	\$ -
Other	\$ 1,910	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

5 Liquidity and Capital Resources

Our cash balances, have increased by \$10.0 million from the start of the fiscal year. As well, our current liabilities have declined from \$12.2 to \$10.0 million in the same period. This improvement in liquidity is primarily a result of the raising of capital of \$19.6 million net of expenses. Cash and short-term investments are generally invested in liquid Canadian dollar, Australian dollar or U.S. dollar denominated securities with maturities no greater than ninety days. The Company has no investments in asset-backed commercial paper.

5.1 OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided \$3.0 million in the fourth quarter of fiscal 2008, an increase of \$1.2 million, or 70 per cent, from the most comparable two month period last year. Operating cash flow is tracking higher as a result of the higher sales activity and lower fixed cash costs as a percentage of sales.

Changes in non-cash working capital consumed \$0.8 million in the current quarter, as compared to consuming \$1.7 million in the comparable quarter last year. The change in non-cash working capital is primarily a result of an increase in the level of business which is increasing our working capital requirements.

For the 2008 fiscal year, operating cash flow before changes in working capital was \$9.6 million. Net changes in working capital consumed \$1.6 million resulting in total cash flow from operating activities of \$7.9 million. The change in working capital was primarily due to a decrease in income taxes payable of \$1.2 million, an increase in accounts receivable of \$0.6 million and a decrease in deferred revenue of \$0.6 million. Other changes to working capital generated the remaining \$0.4 million (net).

5.2 INVESTING ACTIVITIES

Investment activities in the quarter consumed \$2.0 million of cash, substantially all of which was for the acquisition of capital assets.

On a full year basis, investment activities consumed \$8.6 million compared to \$8.9 million for the five months ended September 30, 2007 and \$1.9 million for the year ended April 30, 2007. Capital expenditures for the year were \$7.1 million or 13% of revenue. In two preceding fiscal years, capital expenditures totaled \$3.5 million or 9% of revenue. The increased expenditure on capital was spent on increasing the number of survey systems in both our helicopter and fixed wing operations and maintaining our existing fleet of survey systems.

The acquisition of Geophex on December 31, 2007 consumed \$2.2 million in cash. The acquisition of UTS on July 3, 2007 consumed \$7.3 million of cash in the five month prior fiscal year.

5.3 FINANCING ACTIVITIES

Included in financing activities is the repurchase of common shares under the Company's Normal Course Issuer Bid. For the fourth quarter, the Company purchased for cancellation 1,083,700 shares of the Company for a value of \$1.9 million. For the full year, 1,681,300 shares of the Company were purchased for cancellation for a value of \$3.3 million.

Shares issued in the year consisted of the issuance of 6,666,667 shares pursuant to a secondary offering, the issuance of 585,883 common shares on the acquisition of Geophex, the issuance of 119,832 common shares upon the exercise of employee stock options and 30,001 common shares on the vesting of restricted stock units, and 483,818 common share purchase warrants. Total proceeds for all transactions were \$19.6 million.

Promissory notes of \$5.4 million related to the acquisitions of UTS Geophysics and Geophex were also paid in their entirety in the 2008 fiscal year.

5.4 CAPITAL RESOURCES

The Company has separate credit facilities and associated financial covenants in place for its Canadian and Australian operations. At September 30, 2008, no amounts have been drawn on either facility.

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

5.5 SUMMARY FINANCIAL POSITION

At September 30, 2008, we had current assets of \$27.0 million and current liabilities of \$10.6 million. Net working capital was \$16.3 million, an increase of \$12.2 million from September 30, 2007 and an increase of \$12.2 million from April 30, 2007. The increase in net working capital is primarily the result of the equity issue closing in Feb 2008 raising gross proceeds of \$20 million. Offsetting this increase in cash was expenses related to the equity issue of \$2.0 million, the repayment of outstanding promissory notes of \$5.3 million, and repurchase of shares under the Normal Course Issuer Bid of \$3.3 million (see note 9 below).

CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	30-Sep-08	30-Sep-07	30-Apr-07	Change from prior year		Change from second prior year	
Cash	\$15,373	\$5,399	4,706	\$9,974	185%	\$10,667	227%
Non-cash current assets	11,584	10,789	4,387	795	7%	7,197	164%
Current assets	26,957	16,188	9,093	10,769	67%	17,864	196%
Less: Current liabilities	10,626	12,232	4,891	(1,606)	(13%)	5,735	117%
Net working capital	\$16,331	\$3,956	\$4,202	\$12,375	313%	\$12,129	289%
Current ratio	2.5	1.3	1.9		92%		36%

6 Risks and Uncertainties

6.1 Foreign currency exchange risk

The Company records transactions and prepares its financial statements in Canadian dollars. For the year ended September 30, 2008, the Company maintained operations in Canada, Australia, and the United States with business conducted in other countries. International operations are considered financially and operationally self-sustaining. Accordingly, the Company's assets and liabilities of its foreign subsidiaries are translated into Canadian dollars at period end exchange rates. Revenue and expense items of its foreign subsidiaries are translated into Canadian dollars at monthly exchange rates.

Significant portions of the Company's expenditures are denominated in these currencies and therefore, a natural hedge exists for much of this exposure. However, a net exposure exists for Australian and United

States dollars cash flows that can affect earnings as the Canadian dollar exchange rate changes in relation to these currencies.

Other comprehensive income includes a currency translation adjustment related to the Company's net investment in self-sustaining subsidiaries.

While Company's foreign exchange policy does permit active hedging of any portion of its net foreign currency cash flow beyond the natural hedges identified and discussed above, no active hedges were employed in the quarter. As a result, no derivative products are employed by the Company.

6.2 INTEREST RATE RISK

Since the Company did not have any interest bearing debt in the fourth quarter, interest rate volatility did not have a direct impact on the Company's operations.

6.3 OTHER LITIGATION

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

Management is of the view that the Geotech claim is completely without merit and thus no amount has been recognized in the financial statements of the Company related to this Claim.

In addition to the above, the Company is 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 the Company's favour, the Company does 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 its financial position, results of operations or liquidity.

7 Off-Balance Sheet Arrangements

The Company has 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 the Company.

8 Transactions with Related Parties

For the year ended September 30, 2008 we made no payments (\$0.1 million for the five months ending September 30, 2007) to companies owned by certain directors for management consulting services. Transactions were in the normal course of operations and were measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximated the arm's length equivalent value for services performed.

9 Proposed Transaction – Spectrem Air

On September 24, 2008 that the Company has signed a non-binding letter of intent with Spectrem Air Limited (“Spectrem”) a member of the Anglo American group of companies, one of the world's largest mining and natural resource groups, to create a long-term outsourcing arrangement whereby Spectrem will outsource substantially all of its current airborne geophysical surveying business to Aeroquest.

This outsourcing arrangement contains three components: (i) an Acquisition Agreement – pursuant to which the Company will acquire from the members of the Anglo American Group Companies a Spectrem 2000™ airborne surveying system, two AeroTEM™ systems and substantially all other tangible assets used in the operation of Spectrem's airborne servicing business for consideration of US\$4.0 million through a combination of future survey credits under the Servicing Agreement and, at Spectrem's option, of up to US\$1.5 million in cash. The LOI contemplates that under the Acquisition Agreement, Aeroquest will be required to acquire a DC-3 'Dakota' aircraft within six months of the closing date and to begin to outfit it with surveying systems; (ii) a License Agreement – whereby the Company will license Spectrem's intellectual property relating to Spectrem's proprietary surveying systems and the Company will pay a yearly royalty fee based on a prescribed formula; and (iii) a Services Agreement – whereby the Company will guarantee to provide to the Anglo American Group Companies, including Spectrem, up to 50,000 kms per year use of certain of Aeroquest's airborne surveying systems at pre-determined rates.

The letter of intent is subject to confirmatory due diligence, execution of definitive legal documentation, the final approval of the board of directors of the Company, and Spectrem, and other customary conditions. The Company and Spectrem are currently negotiating the terms of the definitive documentation, but there is no assurance that these negotiations will prove successful. The letter of intent contemplates that the closing will occur on or before December 31, 2008.

10 Share Capital

At September 30, 2008, we had 33,514,974 Common Shares issued and outstanding and as at the same date the Common Share stock options held by directors, officers, employees, consultants, and brokers were as follows:

	Number of options	Exercise price	Expiry date
Issued options held by directors, officers and consultants under the Company Stock Option Plan	32,500	\$ 0.50	October 28, 2009
	10,000	\$ 2.00	October 28, 2009
	5,000	\$ 0.50	March 1, 2010
	15,000	\$ 2.00	June 30, 2010
	27,500	\$ 0.50	June 30, 2010
	250,000	\$ 0.50	February 9, 2011
	50,000	\$ 0.50	March 28, 2011
	427,500	\$ 0.60	June 30, 2011
	10,000	\$ 0.75	October 3, 2011
	15,000	\$ 0.75	October 13, 2011
	227,000	\$ 2.34	September 30, 2012
	30,000	\$ 3.15	January 15, 2013
	50,000	\$ 1.70	July 16, 2013
Total outstanding	1,149,500	\$ 1.06	
Total exercisable	944,833	\$ 0.79	

We have a Restricted Stock Unit (RSU) plan under which the directors of the Company may grant RSU units of the Company to qualified directors, officers, employees, and persons providing ongoing services to the Company. The strike price of these units will not be less than the market price of the common shares at the time of the grant. The units vest over a three year period with one third vesting in each of the three years on the anniversary date of the grant. At September 30, 2008 there were 496,667 RSU's outstanding. In October 2007, 450,000 RSU's were granted to certain employees and, 30,001 RSU's vested representing one-third of the RSU's granted on October 13, 2006.

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

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

In the current quarter the company purchased 1,083,700 shares for cancellation for a total consideration of \$1.9 million. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

11 Internal Controls and Disclosure Controls & Procedures

11.1 BACKGROUND

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.

As of September 30, 2008, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, and determined that they were effective.

11.2 UPCOMING CHANGES TO NI 52-109

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

- evaluate the effectiveness of Internal Controls over Financial Reporting ('ICFR');
- use a control framework in the design of their ICFR and such framework must be disclosed; and
- disclose all material weaknesses, their financial impact (actual or potential), and plans or actions to remediate such weaknesses.

The Company is currently working with external advisors to assess the impact of these changes on its current evaluation of ICFR and disclosure control and procedures and will be in a position to report under the revised NI 52-109 in its MD&A for the three months ended December 31, 2008.

12 Critical Accounting Policies and Estimates

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

12.1 ACCOUNTING POLICY CHANGES

REVENUE RECOGNITION

In order to match more accurately revenues with the costs incurred in the pursuit of such revenue, we changed our revenue recognition policy effective May 1, 2007. All historical periods have been and will be restated to conform to this new revenue recognition policy. As a result, the prior periods reported in this MD&A as well as in our Consolidated Financial Statements, dated September 30, 2008, may not match the results made public in earlier reporting periods. The total amount of revenue and profits over our history has not changed, but the period in which some of those revenues and profits were recorded may have changed by one quarter, earlier or later. We now recognize revenue as follows:

MOBILIZATION CHARGES – are recognized as revenue at the time we commence mobilization to a new job site. The related costs of mobilization are included in cost of sales.

SURVEY REVENUE – is recognized over the period of the contract at the rate of 95 per cent of the established per kilometer survey rate for every kilometer actually flown and accepted during the survey. The final five percent of survey revenue is recognized upon completion and shipment of the final report to the customer.

STANDBY CHARGES – are recognized as revenue as standby days are incurred. The related costs of standby are included in cost of sales.

REVENUE ON SALE OF EQUIPMENT - is recognized when title transfers to the customer as defined in the sales agreement. The cost of the equipment sold is capitalized to work in process until revenue on the sale of the equipment is recorded and then recognized in cost of sales.

In all cases, revenue is recognized only when the amounts are fixed and determinable and when we can be reasonably assured of collection.

Effective May 1, 2007 Aeroquest adopted the new recommendations of the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income; Section 3251, Equity; Section 3855, Financial Instruments – Recognition and Measurement; and Section 3861, Financial Instruments – Disclosure and Presentation. These new Handbook sections, which are effective for fiscal years commencing on or after October 1, 2006, set out criteria for the recognition, measurement, disclosure and presentation of financial instruments. These new standards do not require policies followed in prior periods to be revised. Thus, the comparative figures have not been restated. However, the new policy is required to be implemented on a retroactive basis with any adjustments pertaining to prior periods reflected in retained earnings or other comprehensive income.

Section 3855 requires all financial assets and liabilities to be classified into one of the following five categories: held-for-trading; held-to-maturity; loans and receivables; available-for-sale financial assets; and other financial liabilities. All financial instruments, including derivatives, are measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

HELD-FOR-TRADING FINANCIAL ASSETS - are measured at fair value with subsequent changes in fair value recognized in current period net income;

HELD-TO-MATURITY ASSETS, LOANS AND RECEIVABLES AND OTHER FINANCIAL LIABILITIES - are initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

AVAILABLE-FOR-SALE FINANCIAL ASSETS - are measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheets; and

DERIVATIVE FINANCIAL INSTRUMENTS - are classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period income.

Upon the adoption of these new standards, we designated our cash as held-for-trading, our accounts receivable as loans and receivables, our accounts payables and accruals as other financial liabilities, and our long term investments as available for sale financial assets. Promissory notes were designated as other financial liabilities.

Comprehensive income (or loss) represents the changes in the value of the net assets from non-owner sources. Other comprehensive income refers to items that are recognized in the comprehensive income but excluded from net income calculated in accordance with Canadian generally accepted accounting principles until such time as it is considered appropriate to recognize them in net income. During the three months and year ended September 30, 2008 we had \$1.4 and \$1.3 million respectively in "other comprehensive loss" transactions.

12.2 FOREIGN ACCOUNTING STANDARDS

The results of operations of 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.

12.3 USE OF ESTIMATES

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

BAD DEBT EXPENSE

We are required, each reporting period, to make an estimate of the likelihood that we will collect all of the accounts receivable owed to us. This requires that we exercise some judgment about the timing and likelihood of payment on accounts that have become past due and record a provision for those accounts where there is significant risk of collection. We review all outstanding accounts receivable on at least a monthly basis to establish whether or not any action is required.

FOREIGN CURRENCY TRANSLATION

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

Foreign currency accounts are translated into Canadian dollars as follows:

- At the transaction date, each asset, liability, revenue, and expense is translated into Canadian dollars by the use of the monthly average exchange rate.
- At the period end date, monetary assets, and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date.

The resulting foreign exchange gains and losses are included in income in the current period.

GOODWILL AND INTANGIBLE ASSETS

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

Intangible assets are amortized over the useful life of the underlying asset. No amortization is recorded where the asset has an infinite life or is not determinable. Any intangible assets not subject to amortization are tested annually for any impairment. Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are

reported at the lower of the carrying amount or fair value less cost to sell.

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

INCENTIVE COMPENSATION

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

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

12.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian public and publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year period ended in 2011. On May 9, 2008, the Canadian Securities Administrators issued CSA Staff Notice 52-320 which provided guidance on disclosure related to each financial reporting period in the three years before the first year for which a public company prepares its financial statements in accordance with IFRS. As the Company will begin reporting of IFRS in its September 30, 2012 fiscal year, the staff notice requires disclosure on the key elements and timing of its IFRS changeover plan beginning with the Company's interim MD&A for the quarter ended December 31, 2008.

The Company will therefore provide an update in its next quarterly interim MD&A on the IFRS changeover plan, the key elements and timing considerations thereto. In interim and annual MD&A's beyond this quarter, the company will continue to update and refine its guidance on the IFRS changeover plan.

13 OUTLOOK

13.1 SHORT-TERM

The Company continues to execute on its strategy first outlined in the September 30, 2007 annual report. While the current economic slowdown and its impact on world mineral and oil & gas prices will affect

the timing and pace of this strategy, the strategy itself still remains sound. Specifically, the strategy involves completion of the three targets:

Continue the international expansion – When demand exists for our services, we will continue to grow internationally both organically – through the addition of additional fixed wing and helicopter systems, and through acquisitions, joint ventures and strategic partnerships with companies across the globe. An element of this strategy is the Spectrem transaction noted above.

Organize around the UTS & Geophex acquisitions – Allowing the Company to offer a complete suite of Geophysical survey opportunities to our global customers. The Geophex acquisition also gives the company a major opportunity to not only provide geophysical R&D services to our customer base, but also to streamline and improve our internal R&D to ensure that we continue offer leading edge geophysical survey solutions to our customers.

Make inroads in oil & gas and environmental engineering – Broadening our base of product offerings to support diverse engineering opportunities opens up additional untapped markets globally and reduces the dependence of the Company on a single industry. We believe that the acquisition of Geophex will greatly assist in this opportunity through their core competency in environmental engineering. As well, the Company announced after year-end the creation of Aeroquest Data Services. This business involves the flying of non-exclusive surveys on behalf of our customers. The Company will retain ownership of these surveys thus providing an additional revenue stream that arises from a data library. This business model will be an additional revenue stream from the more traditional contract survey work.

13.2 MEDIUM TO LONG-TERM

Looking forward, our goal is to use our short term strategies to create a longer term goal of becoming the pre-eminent supplier of airborne geophysical surveys to clients in our target markets. Currently, we do not see any impediments to achieving this goal. We believe that the current market pressures that exist in the minerals and oil & gas markets are short term and ongoing depressed market prices are not sustainable in the long term. The Company will continue to adjust its fleet to market conditions.