

AEROQUEST INTERNATIONAL LIMITED

Management's Discussion & Analysis For the period ending March 31, 2008



Issued on May 14, 2008

On October 23, 2007, we announced that we had received approval from Canada Revenue Agency to change our financial year end to September 30th beginning with September 30, 2007. As a result of this change, in this report we are comparing the three months and six months ended March 31, 2008 with the most comparable quarterly period under the old reporting structure, which would be for the three months and six months 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 ended March 31, 2008 compared with our operating results for the corresponding period three months ended April 30, 2007. It also compares our balance sheet as at March 31, 2008 to our balance sheet as at September 30, 2007. This MD&A should be read in conjunction with our annual consolidated financial statements for 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, Aeroquest (UK) Limited and Geophex Ltd., 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.

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. Statements that are not historical fact and are based on current expectations, estimates, and assumptions are forward-looking statements.

This MD&A contains forward-looking statements about our business. Inherent in these statements are known and unknown risks, uncertainties, and other factors that may cause the results, performance, or achievements of our company to differ materially from those expressed or implied by such statements. Such factors include, among others, general economic and business conditions, major technology changes, timing of product introductions, competition, and our ability to attract and retain key employees.

NON GAAP FINANCIAL MEASURES

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

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

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

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

Overview

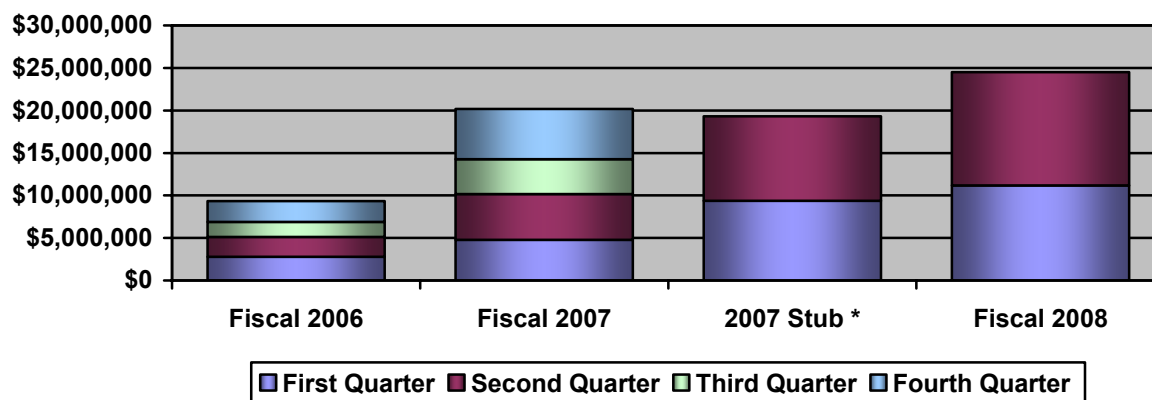
AEROQUEST'S BUSINESS

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 recent management discussion and analysis reports we provided a breakdown of the financial and operating activity of our principal operating subsidiary, Aeroquest Limited, and our recently acquired subsidiary UTS Geophysics. As we go forward we believe it is more appropriate to base our discussion on two principal survey platforms, helicopter and fixed-wing. Consequently, in this report we have summarized results by helicopter services, fixed wing services and other services. The financial information pertaining to our most recent acquisition, Geophex Ltd., is reported under the Other Services discussion.

THREE YEAR GROWTH SUMMARY



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

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.

FINANCIAL AND OPERATING SUMMARY

(Financials in 000's except /share data)

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

*excluding gamma ray spectrometers

Second Quarter Operating Results

OVERVIEW AND HIGHLIGHTS

In the current quarter, we recorded consolidated revenue growth of 124 per cent over the comparable period last year. Growth in helicopter services was 25 per cent over the most comparable period last year, and 37 per cent on a year to date basis. Fixed wing services contributed \$5.6 million of revenue in the quarter and \$10.5 million year to date. Other services contributed \$0.2 million in revenue for the quarter and year to date. We continue to expect that we will experience healthy growth over the coming year as we move into our traditionally stronger operating seasons.

Gross profit improved in the quarter to \$6.0 million, or 46 per cent of revenue as we were able to increase field productivity and reduce downtime due to poor weather conditions. Cash operating costs increased in the quarter as we continue to expand sales and operational capacity to meet growth expectations of the business but these costs continue to go down as a percentage of revenue, as compared to earlier periods. As a result, we earned \$0.8 million after tax, or \$0.03 per share, while operating cash flow for the period was a healthy \$2.8 million, or \$0.09 per share.

In the quarter, our operating subsidiary, Aeroquest Limited, signed its first fixed wing contracts, while another subsidiary, UTS Geophysics, signed its first helicopter contract. These are important developments because they are evidence that we are establishing a broader base of operations in helicopter and fixed wing surveys in both of our principal operating subsidiaries.

FLEET EXPANSION

During the quarter there were a number of changes to the makeup of our fleet. In our fixed wing services we commissioned a new ultra high resolution aircraft, bringing to nine the number of fixed wing systems in service globally. In helicopter services we introduced one new AeroTEM system in the quarter, an AeroTEM III. Over the last several quarters we have averaged approximately one new AeroTEM system per quarter. However, in the current quarter we also lost the use of one AeroTEM system, which struck a tree during a survey and was irreparably damaged. During the quarter we also introduced two frequency domain systems, two single magnetic sensor systems and decommissioned one of our gradiometer systems. At period end, we also had two AeroTEM IV systems and one fixed wing system under construction which were put into service in April.

AIRBORNE FLEET SUMMARY

		Helicopter	Fixed wing	Total
AeroTEM		8		8
Impulse/GEM-2A		3		3
Magnetics	single sensor	2	5	7
	multi-sensor	1	4	5
Total		14	9	23

At the end of the quarter we took one of the new frequency domain systems, the GEM-2A helicopter system, offline for upgrades and expect it to be back in service in the next several months.

REVENUE BY GEOGRAPHY

In the quarter, we mobilized one AeroTEM helicopter system to South America to begin survey work, including a contract in Peru expected to be worth in excess of \$1.3 million. We expect this system will stay in South America for the foreseeable future. We are now active on every continent in the world, with the exception of Antarctica.

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 March 31, 2008

(thousands of Canadian dollars)

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

	Canada	Australia	RoW	Total	
Helicopter services	\$ 5,943	\$ 61	\$ 1,423	\$ 7,427	56%
Fixed wing services	79	2,851	2,711	5,641	42%
Other services	-	-	226	226	2%
Total Revenue - Aeroquest Group	\$ 6,022	\$ 2,912	\$ 4,360	\$ 13,294	100%
	45%	22%	33%	100%	

Six Months Ended March 31, 2008

(thousands of Canadian dollars)

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

	Canada	Australia	RoW	Total	
Helicopter services	\$ 9,678	\$ 61	\$ 3,995	\$ 13,734	56%
Fixed wing services	96	5,278	5,157	10,531	43%
Other services	-	-	226	226	1%
Total Revenue - Aeroquest Group	\$ 9,774	\$ 5,339	\$ 9,378	\$ 24,491	100%
	40%	22%	38%	100%	

We are also delighted to have the opportunity to participate in the success of our clients. During this quarter and last, clients of Aeroquest issued a total of 41 press releases detailing discoveries, or other developments, that were directly related to airborne geophysical surveys flown for them by Aeroquest in the recent past.

CONSOLIDATED RESULTS

In the current quarter, consolidated revenue was \$13.3 million, up \$7.4 million or 124 per cent over the most comparable quarter last year. Revenue from helicopter services was \$7.4 million, up \$1.5 million or 25 per cent over the most comparable quarter last year. Growth in helicopter services came from a combination of an increase in the number of systems able to produce revenue, an increase in the average per line kilometer rate charged on surveys, and changes in the mix of systems flying, with more AeroTEM surveys being completed this year as compared to the same period last year. Fixed wing services contributed \$5.6 million for the three months ending March 31, 2008. Other services represent the sale of geophysical instrument equipment, and research and development services, which contributed \$0.2 million in revenue in the quarter.

On a year to date basis, consolidated revenue was \$24.5 million, up \$14.5 million or 144 per cent over the most comparable six month period last year. Revenue contribution from helicopter services grew 37 per cent on a year to date basis over the prior year to date period, while the contribution from fixed wing services amounted to \$10.5 million and other services of \$0.2 million.

REVENUE & GROSS MARGIN

(in thousands of Canadian dollars)	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07	Change from prior year		Change from prior year-to-date	
Revenue								
Helicopter services	7,427	5,937	13,734	10,034	1,490	25%	3,700	37%
Fixed wing services	5,641	-	10,531	-	5,641		10,531	
Other services	226	-	226	-	226		226	
	13,294	5,937	24,491	10,034	7,357	124%	14,457	144%
Cost of sales								
Helicopter services	4,279	3,305	8,188	5,818	(974)	(29%)	(2,370)	(41%)
Fixed wing services	2,873	-	6,244	-	(2,873)		(6,244)	-
Other services	69	-	69	-	(69)		(69)	-
	7,221	3,305	14,501	5,818	(3,916)	(118%)	(8,683)	(149%)
Gross profit	6,073	2,632	9,990	4,216	3,441	131%	5,774	137%
Gross margin								
Helicopter services	42%	44%	40%	42%	(2%)	(4%)	(2%)	(4%)
Fixed wing services	49%	-	41%	-				
Other services	69%	-	69%	-				
Gross profit margin %	46%	44%	41%	42%		3%		(3%)

Consolidated cost of sales was \$7.2 million in the quarter, or 54 per cent of consolidated revenue, compared to \$3.3 million or 56 per cent of consolidated revenue in the most comparable quarter last year. As a result, gross margins in the quarter were up by two percentage points to 46 per cent, as compared to 44 per cent in the most comparable quarter last year.

Gross margin in helicopter services was 42 per cent in the quarter, as compared to 44 per cent in the most comparable period last year. Gross margin in helicopter services has been returning to levels comparable to earlier periods as the weather patterns in some of our survey areas revert back to historical averages.

Gross margin in fixed wing services was 49 per cent of revenue in the current quarter. This excellent result is considerably better than recent periods, brought about by a combination of factors, including a very specific and successful focus, in our fixed wing operations, at improving productivity and margins. Other contributory factors included the fact that in the quarter, we flew a disproportionately high number of kilometers with owned (as opposed to leased) aircraft, and we also flew longer than average jobs in the quarter, which resulted in improved field productivity and lower costs per kilometer. We expect the operational improvements to be permanent, but cannot always count on long surveys to keep per kilometer costs down. As a result, we expect to see improved gross margins from fixed wing services in the future, but do not necessarily expect them to continue at the levels of this most recently completed quarter.

CASH OPERATING COSTS

Cash operating costs for the quarter totaled \$2.5 million, up from \$1.5 million in the most comparable quarter last year, an increase of \$1.0 million, or 66 per cent. Cash operating costs increased due to the inclusion of both UTS Geophysics, and Geophex Ltd., in the quarter, but are also increasing as we continue to expand the infrastructure to support the level of growth in the business. As a percentage of revenue, cash operating costs have declined from 25 per cent of revenue in the most comparable period last year to 18 per cent of revenue in the most recent period. As these costs are primarily fixed in nature, we expect to see these costs decline as a percentage of revenue as revenue continues to increase.

CASH OPERATING COSTS

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07				
General & administrative expense	2,331	1,209	4,211	2,043	(1,122)	(93%)	(2,168)	(106%)
Foreign exchange (gain) loss	24	154	(32)	125	130	84%	157	126%
Research & development expense	99	118	210	216	19	16%	6	3%
Total cash operating costs	2,454	1,481	4,389	2,384	(973)	(66%)	(2,005)	(84%)
% of revenue	18%	25%	18%	24%			26%	25%

OPERATING PROFIT AND EBITDA

EBITDA in the quarter was \$3.4 million, an increase of \$2.4 million or 225 per cent over the comparable period last year. On a year to date basis, EBITDA was \$5.0 million, an increase of \$3.3 million or 190 per cent. EBITDA is up as a result of increased sales volume, improved margins in the quarter 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 related to both the timing of the grants (there were no grants in the comparable period last year) and the extension of the stock option plan to the Aeroquest Group's new employees from UTS Geophysics.

Depreciation and amortization charges totaled \$1.8 million in the quarter, an increase of \$1.6 million from the most comparable quarter last year. The increase in depreciation in the period is a result of the addition of over \$3.0 million of equipment from the acquisition of UTS, \$0.2 million in equipment from the acquisition of Geophex and a higher level of depreciation related to a larger fleet of AeroTEM systems. However, most of the increase relates to an increase in amortization charges of \$1.2 million in the quarter relating to the amortization of intangible assets acquired in the UTS and Geophex acquisitions.

Operating profit in the current quarter was \$1.6 million, an increase of \$0.8 million or 106 per cent over the most comparable period last year. On a year to date basis, operating profit was \$1.8 million, an increase of \$0.6 million or 52 per cent over the prior year to date period. Operating profit as a percentage of revenue is down 8 per cent over the comparable quarter last year and 38% over the comparable prior year to date period as a result of increased depreciation and amortization of intangibles from the two acquisitions.

OPERATING PROFIT AND EBITDA

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07				
Gross profit	6,073	2,632	9,990	4,216	3,441	131%	5,774	137%
Cash operating costs	2,454	1,481	4,389	2,384	(973)	(66%)	(2,005)	(84%)
Stock-based compensation expense	173	92	556	92	(81)	(88%)	(464)	(504%)
EBITDA	3,446	1,059	5,045	1,740	2,387	225%	3,305	190%
EBITDA as a % of revenue	26%	18%	21%	17%		45%		19%
Depreciation of capital assets	655	277	1,166	547	(378)	(136%)	(619)	(113%)
Amortization of intangible assets	1,178	-	2,071	-	(1,178)		(2,071)	
Operating profit	1,613	782	1,808	1,193	831	106%	615	52%
Operating profit as a % of revenue	12%	13%	7%	12%		(8%)		(38%)

NET INCOME

Net income for the quarter was \$0.8 million, or \$0.03 per share compared to net income of \$0.3 million, or \$0.02 per share in the comparable quarter last year.

Our provision for income taxes in the period was \$0.8 million compared to \$0.5 million in the comparable quarter last year and generated an apparent tax rate of 50% in the quarter, 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		Year-to-Date		Change from prior year		Change from prior YTD	
	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07				
Operating profit	1,613	782	1,808	1,193	831	106%	615	52%
Other costs (income)	(23)	(188)	(12)	(220)	(165)	(88%)	(208)	(95%)
Contract cancellation costs	-	202	-	270	202	100%	270	100%
Provision for income taxes	821	447	884	612	(374)	(84%)	(272)	(44%)
Net income	815	321	936	531	494	154%	405	76%
Earnings per share - basic	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.03				
Apparent tax rate	50%	58%	49%	54%				

Cash Flow

CASH FLOW FROM OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided \$2.8 million in the current period, an increase of \$1.9 million, or 229 per cent, from the most comparable quarter 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.

CASH FLOW FROM OPERATING ACTIVITIES

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07				
Net income	815	321	936	531	494	154%	405	76%
Depreciation & amortization	1,833	277	3,237	547	1,556	562%	2,690	492%
Stock based compensation expense	173	92	556	92	81	88%	464	504%
Translation of self sustaining foreign operations	206	-	191	-	206		191	
Interest accretion on promissory notes	143	-	221	-	143		221	
Future income taxes	(341)	38	(715)	38	(379)	(997%)	(753)	(1982%)
Writedown of long term investment	-	110	-	110	(110)	(100%)	(110)	(100%)
Gain on disposal of fixed assets	(45)	7	(49)	7	(52)	(743%)	(56)	(800%)
Operating cash flow	2,784	845	4,377	1,325	1,939	229%	3,052	(230%)
Operating cash flow per share	\$ 0.09	\$ 0.05	\$ 0.15	0.08	\$ 0.03	60%	\$ 0.06	74%
Change in non-cash working capital	(5,018)	1,098	(1,424)	1,316	(6,116)	(557%)	(2,740)	(208%)
Cash flow from operating activities	(2,234)	1,943	2,953	2,641	(4,177)	(215%)	312	12%

Changes in non-cash working capital consumed \$5.0 million in the current quarter, as compared to generating \$1.1 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. In the quarter the following working capital components consumed cash; changes in accounts receivable required \$3.6 million, changes in accounts payable and accruals required \$2.1 million and changes in income taxes payable required \$1.2 million. The change in accounts payable and accruals is a result of the reversal of an accrual of \$2.0 million in December related to the purchase of Geophex, as was discussed in our most recent MD&A, covering the three-month period ending December 31, 2007.. These cash requirements were offset somewhat by cash generated through changes in deferred revenue, contracts in progress, inventory and prepaid expenses.

CASH FLOW FROM INVESTING ACTIVITIES

Investment activities in the quarter consumed \$1.8 million of cash compared to \$0.9 million in the most comparable quarter last year. On a year to date basis, investment activities consumed \$5.0 million compared to \$1.2 million for the prior year to date period. The acquisition of Geophex on December 31, 2007 consumed \$2.1 million in cash.

CASH FLOW FROM INVESTING ACTIVITIES

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07				
Acquisition of capital assets	(1,709)	(952)	(2,941)	(1,209)	(757)	(80%)	(1,732)	(143%)
Cash component of Geophex acquisition	(95)	-	(2,116)	-	(95)		(2,116)	
Loan receivable	-	42	-	44	(42)	(100%)	(44)	100%
Cash flow from investing activities	(1,804)	(910)	(5,057)	(1,165)	(894)	(98%)	(3,892)	(334%)
Acquisition of capital assets as a % of revenue (excluding acquisitions)	13%	16%	12%	12%				

In the current quarter, capital expenditures were 13 per cent of revenue compared to 16 per cent in the most comparable period last year. Acquisition of capital assets consumed \$1.7 million, as compared to \$1.0 million, in the most comparable quarter last year. The bulk of capital was spent on increasing the number of survey systems and maintaining our existing fleet of survey systems.

CASH FLOW FROM FINANCING ACTIVITIES

In the current quarter, financing activities consisted of the purchase for cancellation of 159,700 shares of Aeroquest for a value of \$0.4 million, and proceeds of \$144,000 from the issuance of 27,332 common shares upon the exercise of employee stock options and 50,000 common share purchase warrants. In addition, Aeroquest issued 6,666,667 common shares in an equity offering, which closed in Feb 2008 raising \$18.5 million net of expenses and commissions. The proceeds from this equity offering were used, in part, to discharge the promissory notes from the acquisitions of UTS Geophysics and Geophex totaling \$5.3 million.

CASH FLOW FROM FINANCING ACTIVITIES

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year	Change from prior YTD
	31-Mar-08	30-Apr-07	31-Mar-08	30-Apr-07		
Capital lease payments	(71)	-	(229)	-	(71)	(229)
Aeroquest shares redeemed	(440)	(327)	(815)	(328)	(113)	(487)
Proceeds from issuance of common shares	18,678	139	19,314	139	18,539	19,175
Promissory note payments	(5,338)	-	(5,338)	-	(5,338)	(5,338)
Cash flow from financing activities	12,829	(188)	12,932	(189)	13,017	13,121

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity, as measured by cash balances, has increased by \$11.0 million from the start of the fiscal year. This improvement in liquidity is primarily a result of the raising of \$18.5 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.

FINANCIAL POSITION

At March 31, 2008, we had current assets of \$27.5 million and current liabilities of \$10.5 million. Net working capital was \$17.0 million, an increase of \$12.8 million from April 30, 2007 and an increase of \$13.0 million from September 30, 2007. The increase in net working capital is a 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 \$1.5 million and the repayment of outstanding promissory notes of \$5.3 million.

CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	31-Mar-08		30-Apr-07		31-Mar-08		30-Sep-07		Change from prior year		Changes on Year End	
Cash	\$16,225	\$4,706	16,225	5,399	\$11,519	245%	\$10,826	201%				
Non-cash current assets	11,290	4,387	11,290	10,789	6,903	157%	501	5%				
Current assets	27,515	9,093	27,515	16,188	18,422	203%	11,327	70%				
Less: Current liabilities	10,529	4,891	10,529	12,232	5,638	115%	(1,703)	(14%)				
Net working capital	\$16,986	\$4,202	\$16,986	\$3,956	\$12,784	304%	\$13,030	329%				
Current ratio	2.6	1.9	2.6	1.3	0.8	41%	1.3	97%				

TRANSACTIONS WITH RELATED PARTIES

For the quarter ended March 31, 2008 we made no payments (\$0.1 million for the three months ending April 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. In the quarter, we paid \$3.35 million to certain directors against the promissory notes payable as part of the financing of the UTS Geophysics acquisition.

SHARE CAPITAL

At March 31, 2008, we had 34,685,424 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
Fully vested & exercisable options held by directors, officers, employees and consultants under the Company's 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
	455,000	\$ 0.60	June 30, 2011
	18,000	\$ 0.75	October 3, 2011
	15,000	\$ 0.75	October 13, 2011
	547,668	\$ 2.34	September 30, 2012
Total vested & exercisable under Stock Option Plan	1,425,668	\$ 1.27	

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 March 31, 2008 there were 529,999 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.

In October 2006, we received approval from the TSX for a normal course issuer bid whereby the Company was given the right to purchase up to 500,000 of its own common shares on the open market for cancellation terminating on October 8, 2007. In the first quarter of our 2008 fiscal year, we purchased a total of 162,100 common shares of Aeroquest International Limited for cancellation for total consideration of \$375,337, or an average of \$2.32 per share.

On December 13, 2007, we received approval from the TSX 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. In the current quarter we purchased 159,700 shares for cancellation for a total consideration of \$440,031. The share capital value and outstanding shares have been adjusted to reflect these transactions.

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 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 March 31, 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.

Critical Accounting Policies and Estimates

NATURE OF BUSINESS

Aeroquest International Limited is incorporated under the Ontario Business Corporations Act. We are a public company trading on the TSX Venture Exchange under the trading symbol AQL-V. We, through our wholly-owned subsidiaries Aeroquest Limited, Aeroquest (UK) Ltd., UTS Geophysics Pty Ltd. and Geophex Ltd. are engaged in the operation of providing airborne geophysical services to the mining, petroleum, environmental and geologic engineering industries as well as government agencies worldwide.

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.

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, 2007, may not match the results made public in earlier reporting periods. The total amount of revenue and profits over the Company's 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.

NEW ACCOUNTING STANDARDS

The results of operations of Universal Tracking Systems Pty Ltd. are prepared in accordance with Australian equivalents to International Reporting Standards (AIFRS) and then adjusted to Canadian GAAP standards for consolidation.

CHANGE IN ACCOUNTING POLICIES

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 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 ended March 31, 2008 we had \$183,265 in “other comprehensive income” transactions.

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.

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.

STOCK-BASED COMPENSATION

Liabilities incurred or other compensation arrangements that are based on the price of common stock, are measured at fair value at each reporting date, with the change in fair value reported in the statement of operations.

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.