



Management's Discussion & Analysis

For the period ending March 31, 2009

Issued on May 4, 2009

Management's Discussion and Analysis (MD&A) is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. It explains trends in our financial condition and results of our operations for the three and six months ended March 31, 2009 ("Q2-F09" and "YTD-F09" respectively) compared with our operating results for the three and six months ended March 31, 2008 ("Q2-F08" and "YTD-F08" respectively). It also compares our balance sheet as at March 31, 2009 to our September 30, 2008 fiscal year-end balance sheet.

The consolidated financial statements presented here are those of the Aeroquest Group of Companies; Aeroquest International Limited and its wholly owned subsidiaries Aeroquest Limited, UTS Geophysics Pty Ltd, Geophex Ltd., Aeroquest (UK) Limited and AeroKaz LLP (collectively, "the Company"), 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. Unless otherwise noted, all amounts noted in this MD&A are in Canadian dollars.

1.1 FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of a company's future prospects and make informed investment decisions. Certain statements in this MD&A are forward-looking statements or information, collectively "forward-looking statements". We are hereby providing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to", "will continue", "is anticipated", "estimated", "intend", "plan", "projection", "could", "may", "believes", "feel", "targeting", "look forward", "goals", "objective", "outlook" and similar expressions) are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Without limitation, information regarding the volatility of the market for our services, worldwide political stability, factors that could result in significant or prolonged disruption to mining and oil & gas exploration worldwide, domestic and international economic conditions, other political and economic situations and uncertainties, changes in foreign currency exchange rates, the impacts of changes in industry priorities and spending on exploration activities related to our services, major technology changes, timing of product introductions, competition, our ability to replace lost revenue of a customer significant to an operating division, our ability to attract and retain key employees, and the possibility that such efforts will not have as great an impact on our operating results as is currently anticipated, is forward-looking information.

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

Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations ("Cautionary Statements"), including changes in general economic, market and business conditions, fluctuations in the cost of borrowing, political and economic development, our ability to receive timely regulatory approvals, competitive actions of other companies, the occurrence of unexpected events such as equipment failures and other similar events affecting us or other parties whose operation or assets directly or indirectly affect us, and those risks set forth under the heading "Risks & Uncertainties" below.



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All subsequent written and oral forward-looking statements attributable to Aeroquest or persons acting on behalf of Aeroquest are expressly qualified in their entirety by the Cautionary Statements. The forward-looking information contained herein is current only as of the date of this document. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. We disclaim any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise unless such disclosure is required by law.

1.2 NON GAAP FINANCIAL MEASURES

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

EBITDA

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

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 Our Business, Strategy & Outlook

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 operate a large fleet of airborne geophysical survey systems utilizing two separate delivery platforms; helicopters and fixed wing aircraft. Our geophysical survey technologies include both time-domain and frequency-domain electro-magnetics (including our proprietary AeroTEM, time-domain, electro-magnetic 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.



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2.2 SELECTED COMPARATIVE QUARTERLY FINANCIAL INFORMATION

(Financials in 000's except /share data)	(3Mo)	(3Mo)	(3Mo)	(3Mo)	(3Mo)	(3Mo)	(2Mo)	(3Mo)	(3Mo)
	Q2-Mar 09	Q1-Dec 08	Q4-Sep 08	Q3-Jun 08	Q2-Mar 08	Q1-Dec 07	Q2-Sep 07	Q1-Jul 07	Q4-Apr 07
Revenue	\$ 7,963	11,298	16,017	14,537	13,295	11,197	9,944	9,355	5,937
Operating profit	\$ (1,698)	(2,008)	2,024	590	1,613	195	1,444	1,658	782
Net income	\$ (659)	(1,514)	1,603	304	815	121	1,046	938	321
Weighted average common shares	\$ 33,613	33,597	33,785	34,662	32,553	27,603	22,702	21,538	15,787
Earnings per share (basic)	\$ (0.03)	(0.04)	0.05	0.01	0.03	0.00	0.05	0.04	0.02
Earnings per share (diluted)	\$ (0.03)	(0.04)	0.05	0.01	0.03	0.00	0.08	0.04	0.02
Operating cash flow/share	\$	(0.03)	0.05	0.06	0.09	0.06	0.08	0.08	0.05
Systems available for use at period end *	27	27	28	27	23	19	21	20	9
Fixed-wing systems	10	10	11	11	9	8	10	10	-
Helicopter systems	17	17	17	16	14	11	11	10	9
AeroTEM systems included in above	13	13	163	11	8	8	8	7	6
Line kilometres flown during period									
Helicopter systems	11,400	59,150	74,100	73,200	59,000	47,700	38,000	51,100	44,800
Fixed-wing systems	189,000	316,000	520,000	457,700	362,000	408,900	351,000	158,000	-
Contract back-log (CAD\$ thousands)									
Helicopter systems	\$ 1,000	2,700	6,900	5,100	5,900	8,000	8,400	12,000	8,300
Fixed-wing systems	\$ 5,600	9,700	9,200	11,900	11,400	11,000	7,900	11,000	-
Other	\$ 1,400	1,600	1,900	-	-	-	-	-	-
Total Backlog	\$ 8,000	14,000	18,000	17,000	17,300	19,000	16,300	23,000	8,300

* excluding gamma ray spectrometers

The effect of the current economic recession and resulting lower commodity prices for base metals and petroleum has had a marked negative impact on exploration spending. As a result, our Q2-F09 revenue declined by \$5.3 million to \$8.0 million from \$13.3 million in Q2-F08. Gross profit in Q2-F09 was \$3.3 million, a decline of \$2.8 million over the \$6.0 million in Q2-F08. Q2-F09 net loss was \$1.0 million compared with Q2-F08 profit of \$0.8 million. The decline in profitability is due to several factors operating at once, including reduced revenue, a slightly lower gross margin, and general and administrative expenses that are now spread over a smaller base of revenue. In response, we embarked on a significant cost reduction program throughout Q2-F09 and the restructuring costs are also reflected in the results. These issues are discussed in more detail throughout this MD&A.

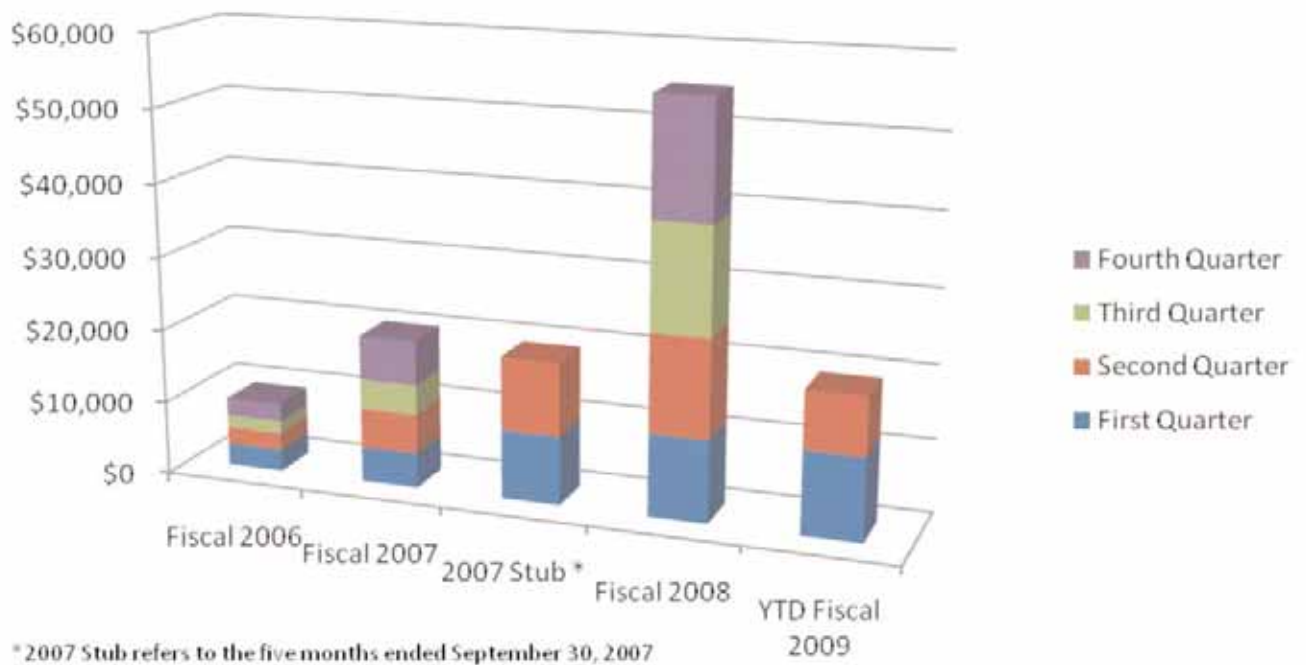


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REVENUE BY QUARTER 2006-9

(\$'000s)



2.3 BUSINESS STRATEGY

Our strategy has not changed materially over the past three years; we want to become the preferred supplier of airborne geophysical survey technologies and services in the world. Our strategy has three components:

1. Establish ourselves internationally - this means having enough airborne systems to cover the world, and a broad enough range of technologies and platforms to appeal to exploration companies on all continents, all climates and all terrains.
2. Find new applications for our technologies - this means expanding the addressable market of clients for our existing services. We began this with Petroleum Services and will continue it with Environmental Services applications such as UXO remediation and groundwater exploration.
3. Explore other, complimentary, technologies - this means looking for new technologies that are either complimentary with our existing technologies, or complimentary with our existing service delivery model.

2.4 OUTLOOK

We continue to believe that the economic slowdown that has led to depressed commodity prices will affect our financial and operating results in the short-term. Global exploration spending in both mineral and petroleum exploration has slowed and we expect it to remain below last year's levels throughout the balance of this calendar year.



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To address this slowdown, we have established the following five priorities for the balance of the 2009 fiscal year:

1. Improve efficiencies in our field operations;
2. Reduce overhead costs;
3. Target select commodities, including gold, uranium and petroleum services;
4. Make meaningful and demonstrable progress in establishing new markets; and
5. Remain opportunistic.

Other opportunities for airborne surveys will continue to grow, especially in the environmental and unexploded ordinance (UXO) areas as we anticipate government spending in these areas will continue to grow. It is doubtful, though, that such growth will make up for the slowdown in the mineral and petroleum industries.

In response to the slowdown, we have taken measures to reduce our cost structure including decisions to reduce our global workforce by 20% in January, 2009 and a further 25% in March 2009. These decisions were not made lightly but were required to properly size our operations to the forecasted business in the near future. We will continue our strategy of focusing on operational efficiencies and carefully managing our cash until economic conditions improve. Looking forward beyond one year, our objective is to use our short term tactics to position ourselves to react quickly once the recovery in our core markets occurs. Currently, we do not see any impediments to achieving this goal and we believe we have the financial resources to ride out the current economic storm. We believe that the current market pressures that exist in the minerals and oil & gas markets are short term and ongoing depressed commodity prices are not realistic in the medium or long term.

3 Second Quarter Operating Results

3.1 OVERVIEW AND HIGHLIGHTS

The global economic recession and the resulting impact on mineral and petroleum exploration have continued to impact our revenue and backlog in the second quarter. In Q2-F09, we recorded consolidated revenue decline of 40 per cent over Q2-F08. Helicopter services declined by 78 per cent to \$1.6 million and fixed wing services declined by 4 per cent to \$5.9 million from their levels in Q2-F08. Other services (principally revenue from Geophex) contributed \$0.4 million in revenue for the quarter compared with \$0.2 million in Q2-F08. A more detailed discussion on these variances is noted below. In the quarter, the effect of the economic slowdown started to impact our operations with average revenue per line kilometer declining significantly in our fixed wing business and our backlog showing a decline to \$8.0 million at March 31, 2009.

We have taken steps in the first and second quarters to both diversify our business offerings and reduce our cost structure to address the economic slowdown. The addition of two new total field gravity systems has had an immediate impact on revenue as these two new units resulted in an additional \$3 million of fixed wing revenue in Q2-F09 (and slightly over \$4 million YTD-F09).

Revenue has also diversified from traditional base metal exploration. In Q2-F09, petroleum exploration comprised greater than 50% of our overall revenue base.

Latest in airborne data acquisition, processing and interpretation services, to the resource, energy and environmental industries.

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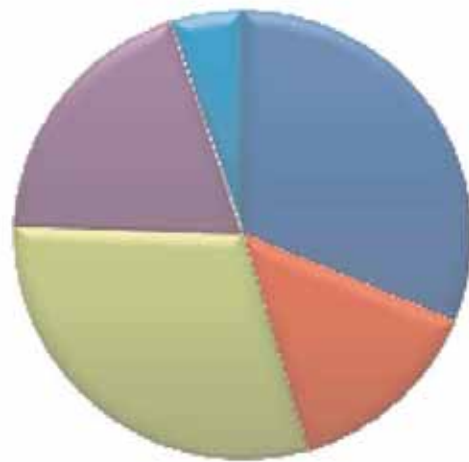
For the period ending March 31, 2009

REVENUE BREAKDOWN BY COMMODITY

Q2-2009



YTD-2009



As well, we have been aggressive in reducing our cost structure. Headcount reductions totaling 45% of our staff took place in January and late March that will result in an annualized \$3 million reduction to our payroll burden. We are also taking steps with our suppliers to reduce other costs, both direct costs such as helicopter and aircraft rentals, as well as indirect costs such as facility leases and other selling, general and administrative costs.

Our cash balances declined to \$10.4 million at the end of Q2 from \$14.2 million at the end of Q1 and \$15.4 million at the end of September, 2008. While cash flow from operations was positive at \$0.7 million, capital expenditures as well as changes in our working capital have consumed cash in the period. We do not anticipate significant capital expenditures for the balance of the 2009 fiscal year.

3.2 FLEET EXPANSION

Beginning in the fall of 2008, we slowed the pace of expansion in anticipation of the slowing economy. In this most recent quarter, a second total field gravity system was fitted to one of our multi-sensor magnetic aircraft and has now begun production. No other systems were added to our fleet. Our active fleet is now comprised of 28 systems; 17 helicopter based and 11 fixed wing based.



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AIRBORNE FLEET SUMMARY

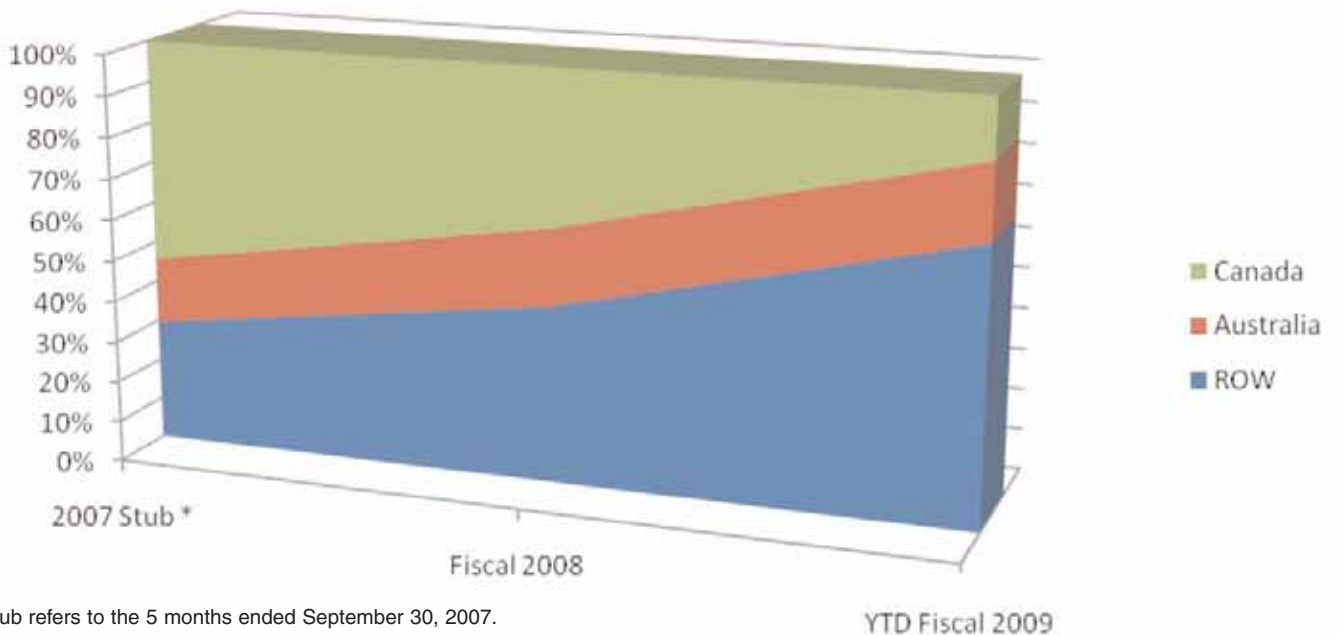
		Helicopter	Fixed Wing	Total
AeroTEM		13	-	13
Impulse/GEM-2A		2	-	2
Magnetics	single sensor	1	6	7
	multi-sensor	1	3	4
Gravity	(+ multi-sensor mag)		2	2
Total		17	11	28

3.3 REVENUE BY GEOGRAPHY


While the economic slowdown has impacted our volume of business, we continue to position equipment around the globe. As of March 31, 2009, we had position helicopter systems in North and South America, Europe, Africa and Asia. During the same period, we continued to operate fixed wing units in Australia & the South Pacific, Africa and North America.

Since the acquisition of UTS Geophysics and Geophex Ltd in July and December 2007 respectively, our revenue outside of Canada has grown significantly. At the same time, our Canadian based revenue has declined due to the economic slowdown. The result is that revenue outside of Canada in Q2-F09 represented over 85 per cent of our total revenue. Of the 65 percent of revenue outside of Canada and Australia, approximately \$1.2 million, or 15 per cent was derived in the United States. No other country represented more than 10% of our revenue.

REVENUE BY GEOGRAPHY 2007-9



* 2007 Stub refers to the 5 months ended September 30, 2007.



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REVENUE BY GEOGRAPHY

Three Months Ended March 31, 2009

(in thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 858	\$ 17	\$ 754	1,629	20%
Fixed wing services	287	1,600	4,001	5,888	74%
Other services	-	-	446	446	6%
Total Revenue - Aeroquest Group	\$ 1,145	\$ 1,617	\$ 5,201	7,963	100%
	14.4%	20.3%	65.3%	100%	

Six Months Ended March 31, 2009

(in thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 2,357	\$ 296	\$ 5,823	8,476	44%
Fixed wing services	442	3,253	6,113	9,808	51%
Other services	-	-	978	978	5%
Total Revenue - Aeroquest Group	\$ 2,799	\$ 3,549	\$ 12,914	19,262	100%
	14.5%	18.4%	67.0%	100%	

3.4 CONSOLIDATED RESULTS

In Q2-F09, consolidated revenue was \$8.0 million, down \$5.3 million or 40 per cent over Q2-F08. Revenue from helicopter services was \$1.6 million, down \$5.8 million or 78 per cent over Q2-F08. Revenue from fixed wing services was \$5.9 million, an increase of \$0.2 million or 4 per cent over Q2-F08. Other services revenue (Geophex Ltd.) was \$0.4 million in Q2-F09 compared with \$0.2 million in Q2-F08. Revenue from helicopter services showed a marked decline due to the impact of the current economic recession. Our traditional customers in base metal exploration have delayed or cancelled many of their surveys due to a combination of low base metal prices and tight capital markets hindering their ability to raise necessary exploration capital. Fixed wing services increased due primarily to the introduction of our first total field gravity system at the end of the first quarter. A second system was delivered and accepted at the end of the second quarter.

YTD-F09 revenue was \$19.2 million, a decline of \$5.2 million or 21 per cent over YTD-F08. Revenue from fixed wing services was \$9.8 million, down \$0.7 million or 7 per cent over YTD-F08. YTD-F09 revenue from helicopter services was \$8.5 million, a decline of \$5.3 million or 38 per cent over the YTD-F08. Other services revenue was \$1.0 million YTD-F09, an increase of \$0.8 million over YTD-F08. The increase in other services revenue reflects the fact that the Geophex acquisition took place at the end of the first quarter of fiscal 2008.

Consolidated cost of sales was \$4.7 million in Q2-F09, or 59 per cent of consolidated revenue, compared to \$6.1 million or 64 per cent of consolidated revenue in Q2-F08. Gross margin in Q2-F09 declined by 5 per cent to 41 per cent, compared to 46 per cent in Q2-F08. YTD-F09 consolidated cost of sales was \$13.1 million or 68 per cent of consolidated revenue compared to \$14.5 million or 59 per cent of consolidated revenue in YTD-F08. YTD-F09 gross margin declined by 9 per cent to 32 per cent compared to 41 per cent in YTD-F08.

Gross margin in helicopter services was negative 2.6 per cent in Q2-F09, as compared to 42 per cent in the Q2-F08. This margin decline is primarily attributable to the significant decline in helicopter survey revenue without a comparable decline in the fixed cost component of operations staff, which forms part of cost of sales. As previously indicated, we have taken steps in Q2-F09 to reduce headcount that will mitigate this reduction in margins in future quarters.

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OPERATING STATEMENTS

(in thousands of Canadian dollars)	Three Months Ended			Six Months Ended		
	31-Mar-09	31-Mar-08	Change	31-Mar-09	31-Mar-08	Change
Revenue						
Helicopter services	\$1,629	\$7,427	\$ (5,798)	\$ 8,476	\$ 13,734	\$ (5,258)
Fixed wing services	5,888	5,641	247	9,808	10,531	(723)
Other services	446	226	220	978	226	752
	7,963	13,294	(5,331)	19,262	24,491	(5,229)
Cost of Sales						
Helicopter services	1,672	4,279	(2,607)	6,413	8,188	(1,775)
Fixed wing services	2,841	2,873	(32)	6,304	6,244	60
Other services	197	69	128	364	69	295
	4,710	7,221	(2,511)	13,081	14,501	(1,420)
Gross Profit	3,253	6,073	(2,820)	6,181	9,990	(3,809)
Gross margin						
Helicopter services	(2.6%)	42.4%		24.3%	40.4%	
Fixed wing services	51.8%	49.1%		35.7%	40.7%	
Other services	55.8%	69.5%		62.8%	69.5%	
Gross profit margin %	40.9%	45.7%		32.1%	40.8%	
General & administrative expense	3,083	2,430	653	7,433	4,421	3,012
Foreign exchange (gain) loss	(25)	24	(49)	(1,231)	(32)	(1,199)
Total cash operating costs	3,058	2,454	604	6,202	4,389	1,813
<i>% of revenue</i>	<i>27.1%</i>	<i>21.9%</i>		<i>54.9%</i>	<i>39.2%</i>	
Stock-based compensation expense	135	173	(38)	240	556	(316)
EBITDA	60	3,446	(3,386)	(261)	5,045	(5,306)
EBITDA as a % of revenue	0.1%	25.9%		(0.5%)	20.6%	
Depreciation of capital assets	1,011	655	356	1,812	1,166	646
Amortization of intangible assets	747	1,178	(431)	1,633	2,071	(438)
Operating profit/(loss)	(1,698)	1,613	(3,311)	(3,706)	1,808	(5,514)
Operating profit as a % of revenue	(15%)	12.0%		(33%)	7.4%	
Interest expense (income)	(85)	(23)	(62)	(141)	(12)	(129)
Provision for income taxes	(659)	821	(1,480)	(1,098)	884	(1,982)
Net income	(954)	815	1,769)	(2,467)	936	(3,403)
Earnings per share - basic	(0.03)	0.03	(0.06)	(0.07)	0.03	(0.10)



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Gross margin in fixed wing services was \$3.0 million, or 52 per cent of revenue in the current quarter as compared to 49 per cent in Q2-F08. This increase is primarily due to the impact of gravity based surveys that were undertaken in the quarter using the first of our two new total gravity systems. Margins on gravity based surveys are traditionally higher than other fixed wing services.

YTD-F09 gross margins in helicopter surveys was 24 per cent compared to 40 per cent in YTD-F08 reflecting the marked decline in margins in Q2-F08. YTD-F09 gross margins in fixed wing surveys was 36 per cent compared to 41 per cent in YTD-F08 reflecting the lower than normal margins in the first quarter of fiscal 2009 - primarily due to start-up costs on the new gravity system combined with the impact of fixed costs in cost of sales impacting reduced revenue in the first quarter.

3.5 CASH OPERATING COSTS

Cash operating costs in Q2-F09 totaled \$3.1 million, an increase of \$0.7 million, or 27 per cent from \$2.4 million over Q2-F08. This increase is primarily due to the following: 1) increased staffing levels in our airborne services operations between March 31, 2008 and March 31, 2009 and other general and administrative costs of \$0.5 million, and 2) Restructuring costs of \$0.2 million expensed in Q2-F09 related to our workforce reduction efforts in the quarter to reduce our headcount to a point commensurate with anticipated work in the near future.

Offsetting the increase in general and administrative expense was a net change in foreign exchange gain of \$0.1 million over Q2-F08. The foreign exchange gain resulted from the appreciation in the United States dollar in the second quarter as much of our revenue is denominated in United States dollars. YTD-F09 cash operating costs totaled \$6.2 million, an increase of \$1.8 million, or 41 per cent from \$4.4 million over Q2-F08. This increase is primarily due to the increased staffing levels over the last 12 months (as noted above) and a provision for collectability of a large receivable taken in the first quarter of fiscal 2009 of \$1.3 million. Offsetting the increase in general and administrative expense was a net change in foreign exchange gain of \$1.2 million YTD-F08 (again, due to the appreciation in the United States dollar since the end of the last fiscal year).

3.6 OPERATING PROFIT AND EBITDA

EBITDA in Q2-F09 was \$0.1 million, a decrease of \$3.4 million over Q2-F08. YTD-F09 EBITDA is negative \$0.3 million, a decline of \$5.3 million over YTD-F08. EBITDA is down primarily due to the gross margin compression quarter over quarter combined with the increase in cash operating costs discussed previously. Stock-based compensation expense in Q2-F09 declined only slightly compared to Q2-F08 (see note 10 below).

Depreciation and amortization charges totaled \$1.8 million in Q2-F09, an increase of \$0.2 million from Q2-F08. YTD-F09 depreciation and amortization was \$3.4 million, an increase of \$0.2 million from YTD-F08. The increase in depreciation and amortization in the period is a result of depreciation related to airborne systems acquired in the last fiscal year combined with the increased depreciation and amortization related to the Geophex acquisition. Operating loss in Q2-F09 was \$1.7 million compared with an operating profit of \$1.6 million in Q2-F08. YTD-F09 operating loss was \$3.7 million compared with an operating profit of \$1.8 million in YTD-F08.

3.7 NET INCOME

Net loss for Q2-F09 was \$1.0 million, or \$0.03 per share compared to net income of \$1.0 million, or \$0.03 per share in Q2-F08. YTD-F09 net loss was \$2.5 million or \$0.07 a share compared to YTD-F08 net income of \$0.9 million or \$0.03 per share.

Our provision for recovery of income taxes for Q2-F09 was \$0.7 million generating an apparent tax rate of 37 per cent in the quarter. While this rate is a decline from the 51.6 per cent in Q2-F08, it represents a reflection of the blend of statutory tax rates in Canada, Australia and USA, the recognition of future income taxes on or acquisitions and the fact that most of our amortization expense is not deductible for tax purposes.



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4 Liquidity and Capital Resources

Our cash balances declined by \$3.8 million from \$14.2 million at December 31, 2008 to \$10.4 million at March 31, 2009. Most of this change in liquidity was as a result of changes to balance sheet items and capital expenditures, as opposed to being the result of cash flow from operating activities.

CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	31-Mar-09	30-Sep-08	31-Mar-08	Change from year-end		Change from 31-Mar-08	
Cash	\$ 10,437	\$ 15,373	\$ 16,225	\$ (4,936)	(32%)	\$ 5,788	(36%)
Non-cash current assets	8,467	11,584	11,290	(3,117)	(27%)	(2,823)	(25%)
Current assets	18,904	26,957	27,515	(8,053)	(30%)	(8,611)	(31%)
Less: Current liabilities	6,258	10,626	6,682	(4,368)	(41%)	(424)	(6%)
Net working capital	\$ 12,646	\$ 16,331	\$ 20,833	\$ (3,685)	(23%)	\$ (8,187)	(39%)
Current ratio	3.0	2.5	4.1		19%		(27%)

Operating activities generated approximately \$0.7 million of cash in the period, while changes in working capital consumed \$2.6 million of cash, and capital expenditures used a further \$2.0 million. The net change in working capital is primarily due to our current liabilities declining by \$4.5 million, from \$10.8 million to \$6.3 million offset by a \$2.2 million decline in current assets. Net working capital was \$12.6 million at the end of Q2-F09.

Cash and short-term investments are currently invested in liquid Canadian dollar, Australian dollar or U.S. dollar denominated bank guaranteed securities with maturities no greater than ninety days.

SUMMARY CASH FLOW

(in thousands of Canadian dollars)	Three Months Ended			Six Months Ended		
	31-Mar-09	31-Mar-08	Change	31-Mar-09	31-Mar-08	Change
Operating activities						
Net Income/(Loss)	\$ (953)	\$ 816	\$ (1,769)	\$ (2,467)	\$ 936	\$ (3,403)
Non-cash operating items						
Depreciation/Amortization	1,758	1,833	(75)	3,445	3,232	213
Future taxes	(236)	(341)	105	(528)	(715)	187
Stock based compensation	135	173	(38)	240	556	(316)
Other	-	97	(97)		172	
Operating cash before change in non-cash working capital	704	2,578	(1,874)	690	4,181	(3,491)
Change in non-cash working capital	(2,373)	(4,812)	2,439	(1,263)	(1,229)	(34)
Cash flow from operations	(1,669)	(2,234)	565	(573)	2,952	(3,525)

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SUMMARY CASH FLOW (CONTINUED)

(in thousands of Canadian dollars)	Three Months Ended			Six Months Ended		
	31-Mar-09	31-Mar-08	Change	31-Mar-09	31-Mar-08	Change
Investing activities						
Capital asset purchases	(2,088)	(1,709)	(379)	(4,128)	(2,941)	(1,187)
Cash cost of acquisitions	-	-	-	-	(2,116)	2,116
Other	50	(95)	145	(36)	-	(36)
Cash flow from investing	(2,038)	(1,804)	(234)	(4,164)	(5,057)	893
Financing Activities						
Capital lease payments	(58)	(71)	13	(143)	(229)	86
Promissory note payments	-	(5,338)	5,338	-	(5,338)	5,338
Redemption of shares	-	(440)	440	-	(815)	815
Proceeds from issuance of shares	-	18,678	(18,678)	-	19,312	19,312
Cash flow from financing	(58)	12,829	(12,887)	(143)	12,930	(13,073)
Net change in cash for the period	(3,765)	8,791	(12,556)	(4,880)	10,825	15,705
Cash - beginning of period	14,202	7,434	6,768	15,373	5,399	9,974
Cash - end of period	\$ 10,437	\$ 16,225	\$ (5,788)	\$ (15,516)	\$ 7,531	\$ (23,047)

4.1 OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow was \$0.7 million in Q2-F09, a decrease of \$2.1 million from Q2-F08. Operating cash flow is tracking lower as a result of the reduced net income and lower non-cash operating expenses.

Changes in non-cash working capital consumed \$2.4 million in Q2-F09, compared with consuming \$4.8 million of cash in Q2-F08. The \$2.4 million is primarily comprised of a reduction in accounts payable and deferred revenue of \$2.0 million and \$2.3 million respectively, an increase in income taxes recoverable of \$1.1 million, offset by a decrease in accounts receivable of \$1.9 million from the beginning of the quarter.

As business volumes slowed in the quarter, we experienced a lengthening in payment terms with our customers. However, our principal suppliers, notably helicopter and aircraft operators, still required timely payment of their invoices. This change, combined with the reduction in deferred revenue resulting from business that was pre-paid and flown in the quarter and income tax instalment payments by our UTS operations in Australia comprised the majority of the changes in our non-cash working capital position.

The difference in the changes in non-cash working capital between Q2-F09 and Q2-F08 is primarily a result of receivable balances decreasing by \$1.9 million in Q2-F09 compared with receivable balances increasing by \$3.7 million in Q2-F08.

4.2 INVESTING ACTIVITIES

Investment activities in Q2-F09 consumed \$2.0 million of cash, substantially all of which was for the acquisition of capital assets. Virtually all of the capital spent in Q2-F09, as well as Q1-F09 was spent on acquiring two airborne gravity systems. We committed to these systems in mid F08 and took delivery of



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one in each of the past two quarters. These systems are quite important to our operating and strategic plans and our entry into gravity surveying has been immediately productive, as is evidenced by the fact that gravity surveys have accounted for approximately \$4.0 million of revenue year-to-date.

In Q2-F08, investment activities consumed \$1.8 million of cash, \$1.7 million for capital assets and \$0.1 million of additional costs incurred in Q2-08 related to the acquisition of Geophex on December 31, 2008.

4.3 FINANCING ACTIVITIES

Included in financing activities in Q2-F09 is the payment under our capital leases consumed \$0.1 million the same as in Q2-F08.

Q2-F08 also reflected \$18.9 million of cash generated from an equity issue in February, 2008. This issuance raised \$20 million less \$1.1 million of issue costs. Also included in the financing activities in Q2-F08 was \$0.4 million of cash consumed in the purchase of our shares under our Normal Course Issuer Bid which was in place for most of calendar 2008 (see Note 10 below). There was no share buyback activity in the most recent quarter.

4.4 CAPITAL RESOURCES

We have separate credit facilities and associated financial covenants in place for our Canadian and Australian operations. At March 31, 2009, no amounts had been drawn on either facility.

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

4.5 SUMMARY FINANCIAL POSITION

At March 31, 2009, we had current assets of \$18.9 million and current liabilities of \$6.3 million. Net working capital was \$12.6 million, a decrease of \$3.7 million from September 30, 2008 and an increase of \$12.3 million from March 31, 2008. The increase in net working capital from the Q2-F08 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 due from the acquisition of UTS and Geophex in 2007, and repurchase of shares under the Normal Course Issuer Bid of \$3.3 million throughout the last fiscal year and into the first quarter of this year (see note 10 below).

5 Risks and Uncertainties

5.1 FOREIGN CURRENCY EXCHANGE RISK

We record transactions and prepare our financial statements in Canadian dollars. For Q2-F09, we 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, our assets and liabilities of our foreign subsidiaries are translated into Canadian dollars at period end exchange rates. Revenue and expense items of our foreign subsidiaries are translated into Canadian dollars at monthly exchange rates.

Significant portions of our 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 our net investment in self-sustaining subsidiaries.

While our foreign exchange policy does permit active hedging of any portion of our net foreign currency cash flow beyond the natural hedges identified and



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discussed above, no active hedges were employed in the quarter. As a result, we do not employ any derivative products.

5.2 INTEREST RATE RISK

Since we did not have any interest bearing debt in the first quarter, interest rate volatility did not have a direct impact on our operations.

5.3 OTHER LITIGATION

On August 19, 2008 we announced that we had been served with a Statement of Claim by Geotech Ltd., Geotech Airborne Limited and Geo Equipment Manufacturing Ltd. (the "Geotech Claim") filed in the Ontario Superior Court of Justice. The Geotech Claim includes \$50 million in general damages and \$1 million in punitive damages from Aeroquest, three of its subsidiaries and another party for an alleged breach of contractual undertakings and misappropriation of certain confidential information. The claim 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, we filed a Statement of Defence and Counterclaim indicating, among other things, that the Claim was completely without merit and Geotech's sole reason for filing the claim was to damage the business, operations and reputation of Aeroquest. Our counterclaim totaled \$21 million.

On March 3, 2009, we announced that we had entered into an agreement with Geotech to settle the claim filed against us by Geotech, and to settle the counterclaim filed against Geotech by us. As part of the settlement, Geotech has acknowledged that our helicopter-borne time domain electro-magnetic systems (AeroTEM systems) do not use any confidential information of Geotech or any of their subsidiary companies. The settlement does not compromise any patent rights of Aeroquest or Geotech in any manner. We did not pay any sum of money to Geotech, nor did we agree to any restrictions on its operations as part of the settlement. The remaining terms of the settlement between the parties remain confidential.

In addition to the above, we are involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in our favour, we do not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to those or other matters or amount which may be required to pay by reason thereof would have a material adverse impact on our financial position, results of operations or liquidity.

6 Off-Balance Sheet Arrangements

We have not entered into any off balance sheet arrangements, other than previously disclosed, that have, or are reasonably likely to have, an impact on the current or future results of operations or the financial condition of our company.

7 Transactions with Related Parties

For the three months ended March 31, 2009 and 2008 we did not make any payments to companies or any other parties related to our officers or directors.

8 Cancellation of Proposed Spectrem Air Transaction

On September 24, 2008 we announced that we had signed a non-binding letter of intent with Spectrem Air Limited ("Spectrem") a member of the Anglo American group of companies, one of the world's largest mining and natural resource groups, to create a long-term outsourcing arrangement whereby Spectrem would outsource substantially all of its current airborne geophysical surveying business to Aeroquest. Details of the letter of intent were outlined in



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the press release dated that same day, and in our year-end MD&A and audited financial statements.


Due to the extraordinary market conditions that have prevailed since the signing of the letter of intent, including reductions in commodity prices and corresponding reductions in exploration spending, both parties have agreed that the economic assumptions driving the transaction have fundamentally changed. As a result, we announced on February 4, 2009 that the parties mutually agreed to terminate the letter of intent. However, our relationship with Spectrem remains strong and we will continue to cooperate on business initiatives going forward as well as ongoing technology development around our AeroTEM™ technology.

9 Share Capital

At March 31, 2009, we had 33,613,309 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
	422,500	0.60	June 30, 2011
	10,000	0.75	October 3, 2011
	15,000	0.75	October 13, 2011
	216,000	2.34	September 30, 2012
	30,000	3.15	January 15, 2013
	50,000	1.70	July 16, 2013
	492,000	0.42	January 18, 2014
	65,000	0.38	February 26, 2014
Total outstanding	1,690,500	\$ 0.84	
Total exercisable	1,193,834	0.82	

We have a Restricted Stock Unit (RSU) plan under which the Board of Directors of our Company may grant RSU units of our Company to qualified directors, officers, employees, and persons providing ongoing services to our 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, 2009 there were 548,332 RSU's outstanding. 225,000 RSU's were granted in Q2-2009. No RSU's were converted to Common Shares in the quarter. However, 173,335 previously granted RSU's vested in the first quarter of 2009 and were converted to Common Shares (representing one third of the existing RSU's granted in 2006 and 2007).



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

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

In the first quarter of fiscal 2009, we purchased 75,000 shares for cancellation for a total consideration of \$0.1 million. The share capital value and outstanding shares have been adjusted to reflect this cancellation. The Normal Course Issuer Bid expired in December, 2008 and was not renewed.

10 Internal Controls and Disclosure Controls & Procedures

We maintain a system of internal controls over financial reporting designed to safeguard assets and ensure that financial information is reliable. We also undertake ongoing evaluations of the effectiveness of our internal controls over financial reporting and, where appropriate, implement enhancements. We also file annual and quarterly certifications in accordance with National (formerly Multilateral) Instrument 52-109 certifying that our CEO and CFO have reviewed our financial statements and MD&A to ensure that they do not contain an untrue fact or omit a material fact, and that they present fairly the financial position, results of operation and cash flows of our company.

We also maintain a system of disclosure controls and procedures designed to ensure the reliability completeness and timeliness of the information we disclose in all of our public disclosure documents, including this MD&A. These controls are designed to ensure that information required to be disclosed by Aeroquest is recorded, processed, summarized and reported on a timely basis, as required by law, and is accumulated and communicated to Aeroquest's senior management and board of directors to allow timely decisions on required disclosure. In addition, our Audit Committee and Board of Directors provide an oversight role with respect to all public disclosure and review all financial statements, press releases, and MD&A, including this one. Our annual and quarterly certifications also confirm that disclosure controls exist, that we have evaluated their effectiveness, and that we have reported to you our conclusions about their effectiveness, especially during the period covered by this MD&A.

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

- 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.

In the first quarter of fiscal 2009, we engaged external advisors to assess the impact of these changes on our current evaluation of ICFR and disclosure control and procedures. As a result, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures and internal control over financial reporting, and determined that they were effective as of March 31, 2009.



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11 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.

11.1 ACCOUNTING POLICY CHANGES

On October 1, 2007, we adopted new Canadian accounting standards for financial instruments disclosures and presentation, sections 3862 and 3863, that require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks. Also on October 1, 2007, we adopted new Canadian accounting standards for capital management that specifies the disclosure of an entity's objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements and the consequences of non-compliance.

On October 1, 2008, we adopted new Canadian accounting recommendations for goodwill and intangible assets. The new recommendations provide guidance on when expenditures qualify for recognition as intangible assets. Our results of operations were not materially affected by the new recommendations.

11.2 FOREIGN ACCOUNTING STANDARDS

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

11.3 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.



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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.

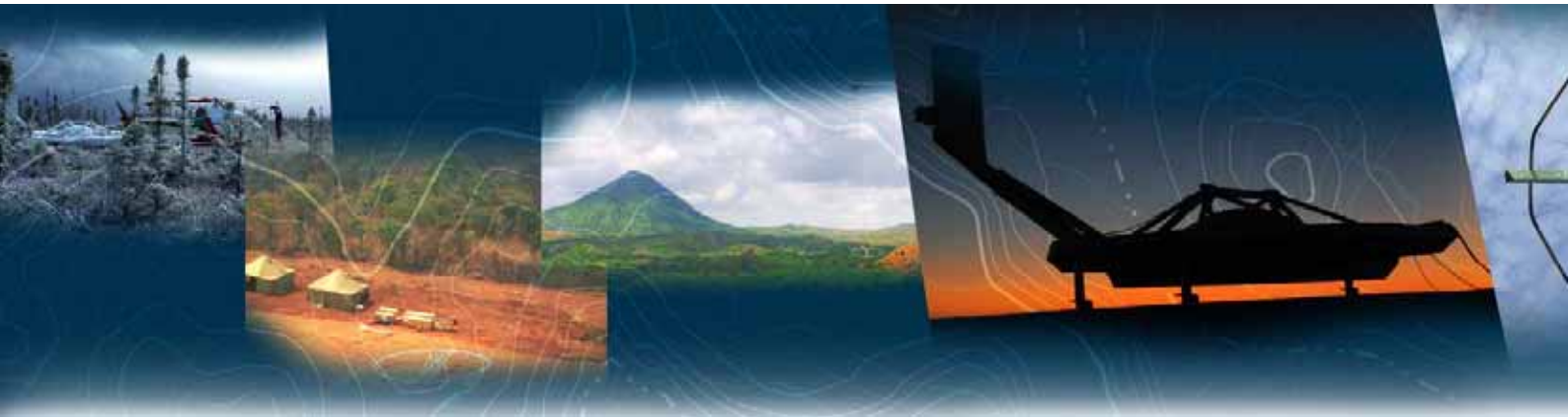
INCENTIVE COMPENSATION

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

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

11.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

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



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There are several phases to that we will have to complete on the path to implementing IFRS:

- The initial impact assessment and scoping phase including the identification of significant differences between existing Canadian GAAP and IFRS as relevant to the Company's specific instance;
- The key elements phase including the identification, evaluation and selection of accounting policies necessary for the changeover to IFRS. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training;
- Finally, the embedding phase that will integrate the solutions into our underlying financial systems and processes that are necessary for the Company to changeover to IFRS.

We have engaged third party consultants to assist in this process. As of March 31, 2009, we are nearing completion of the initial impact assessment phase. However, we are not yet in a position to quantify the result (if any) of this study but will continue to report on this process in subsequent MD&A.