

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

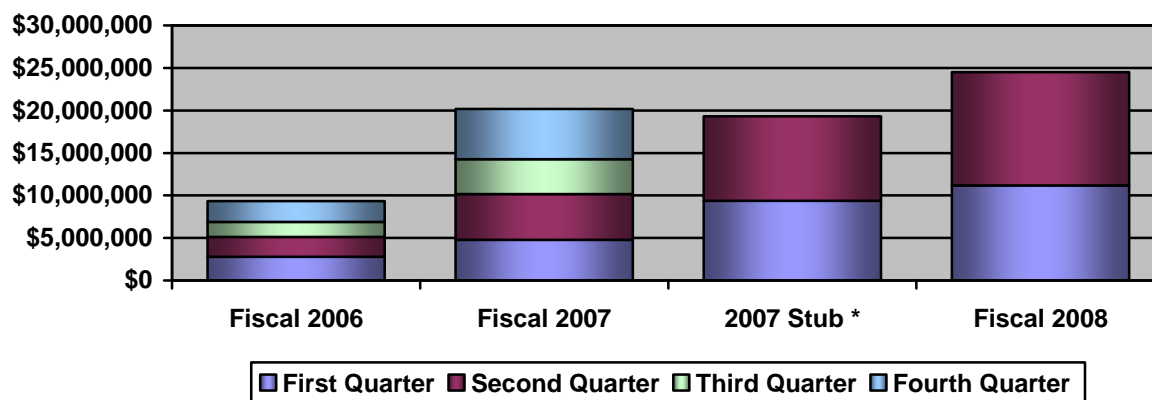
AEROQUEST'S BUSINESS

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, reactivated a helicopter system and at quarter-end had already signed contracts for helicopter work. 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)

	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)

	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 \$2.9 million, or 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.



Aeroquest International Limited

Unaudited Consolidated Financial Statements

For the three and six months ended March 31, 2008

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited financial statements for the period ended March 31, 2008.

Aeroquest International Limited

Consolidated Balance Sheets
Unaudited – Prepared by Management



As at	Mar. 31, 08 (Unaudited)	Sep. 30, 07 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 16,225,372	\$ 5,398,777
Accounts receivable	9,425,932	8,014,717
Unbilled contracts in progress	1,190,195	2,312,098
Inventory	119,074	-
Prepaid expenses and deposits	554,868	462,109
Total current assets	27,515,441	16,187,701
Long term		
Long term investments (Note 1)	65,001	90,001
Capital assets (Note 2)	9,697,968	7,618,873
Intangible assets (Note 3)	22,760,971	20,431,860
Goodwill (Note 4)	11,863,976	9,199,108
Future income taxes	149,578	143,747
Total long term assets	44,537,494	37,483,589
Total Assets	\$ 72,052,935	\$ 53,671,290
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 5,644,547	\$ 5,325,928
Income taxes payable	1,036,917	2,238,543
Deferred revenue	3,554,044	3,838,463
Promissory notes (Note 5)	-	536,449
Capital lease obligations (Note 6)	293,343	292,466
Total current liabilities	10,528,851	12,231,849
Long term		
Promissory notes (Note 5)	-	2,597,339
Capital lease obligations (Note 6)	562,305	720,230
Future income taxes	7,287,187	6,566,056
Total liabilities	18,378,343	22,115,474
Shareholders' equity		
Share capital (Note 8)	48,354,284	27,403,594
Contributed surplus (Note 8)	1,800,821	1,320,461
Accumulated other comprehensive income	238,493	72,794
Retained earnings	3,280,994	2,758,967
Total shareholders' equity	53,674,592	31,555,816
Total Liabilities and Shareholders' Equity	\$ 72,052,935	\$ 53,671,290

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Aeroquest International Limited

Consolidated Statement of Operations and Comprehensive Income Unaudited – Prepared by Management



For the period	Three months ended Mar. 31, 08	Three months ended Apr. 30, 07	Six months ended Mar. 31, 08	Six months ended Apr. 30, 07
Sales	\$ 13,294,277	\$ 5,936,703	\$ 24,490,818	\$ 10,034,587
Cost of sales	7,221,337	3,305,062	14,500,556	5,818,147
Gross profit	6,072,940	2,631,641	9,990,262	4,216,440
Expenses and other items				
General and administrative	2,330,573	1,209,228	4,211,136	2,043,370
Development expense	98,453	117,589	209,620	216,172
Foreign exchange (gain)/loss	24,313	154,272	(32,151)	124,883
Stock based compensation expense	173,208	91,476	555,963	91,476
Amortization of intangible assets	1,178,301	-	2,070,888	-
Depreciation of capital assets	654,838	277,444	1,166,471	547,079
Total operating expenses	4,459,686	1,850,009	8,181,927	3,022,980
Operating profit	1,613,254	781,632	1,808,335	1,193,460
Other costs (income) (Note 12)	(23,115)	(188,254)	(11,526)	(219,501)
Contract cancellations costs	-	202,500	-	270,000
Income before income taxes	1,636,369	767,386	1,819,861	1,142,961
Income taxes (Note 10)				
Current	1,161,718	408,147	1,598,918	573,293
Future	(340,930)	38,433	(715,300)	38,433
Total income tax	820,788	446,580	883,618	611,726
Net income for the period	\$ 815,581	\$ 320,806	\$ 936,243	\$ 531,235
Revaluation of long term investments to fair market value	(23,000)	-	(25,000)	-
Unrealized gain (loss) on translation of self-sustaining foreign operations	206,265	-	190,699	-
Total comprehensive income, for the period	\$ 998,846	\$ 320,806	\$ 1,101,942	\$ 531,235

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Aeroquest International Limited

Consolidated Statements of Retained Earnings Unaudited – Prepared by Management



For the period	Three months ended Mar. 31, 08	Three months ended Apr. 30, 07	Six months ended Mar. 31, 08	Six months ended Apr. 30, 07
Retained earnings, beginning of period, as previously reported	\$ 2,674,783	\$ 625,455	\$ 2,758,967	\$ 260,054
Cumulative effect of change in accounting policy (Note 9)	-	54,995	-	209,967
Retained earnings, beginning of period, as restated	\$ 2,674,783	\$ 680,450	\$ 2,758,967	\$ 470,021
Excess of purchase price over cost on redemption of shares	(209,370)	(225,666)	(414,216)	(225,666)
Net income	815,581	320,806	936,243	531,235
Retained earnings, end of period	\$ 3,280,994	\$ 775,590	\$ 3,280,994	\$ 775,590
Earnings per share (Note 11)				
Basic	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.03
Fully diluted	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.03

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Aeroquest International Limited

Consolidated Statements of Cash Flow Unaudited – Prepared by Management



For the period	Three months ended Mar. 31, 08	Three months ended Apr. 30, 07	Six months ended Mar. 31, 08	Six months ended Apr. 30, 07
Cash provided by (used in)				
Operating activities				
Net income for the period	\$ 815,581	\$ 320,806	\$ 936,243	\$ 531,235
Operating items not requiring cash				
Amortization of intangible assets	1,178,301	-	2,070,888	-
Depreciation of capital assets	654,838	277,444	1,166,471	547,079
Translation of self sustaining foreign operations	206,265	-	190,699	-
Future income taxes	(340,930)	38,433	(715,300)	38,433
Interest accretion on promissory notes	142,868	-	221,213	-
Stock based compensation	173,208	91,476	555,963	91,476
Write down of long term investment	-	110,000	-	110,000
Loss (Gain) on disposal of capital assets	(45,739)	7,377	(49,476)	7,377
Operating cash flow before changes in non-cash working capital	2,784,392	845,536	4,376,701	1,325,600
Accounts receivable	(3,626,098)	(265,503)	(1,391,557)	(432,147)
Prepaid expenses	139,132	(398,440)	(92,758)	(546,077)
Unbilled contracts in progress	954,319	129,874	1,121,903	(24,742)
Inventory	142,134	-	142,134	-
Accts. Payable and accrued liabilities	(2,059,911)	347,710	281,990	724,263
Income taxes	(1,151,404)	416,185	(1,201,626)	581,330
Deferred revenue	583,611	867,717	(284,419)	1,012,908
Total cash flow from operating activities	(2,233,825)	1,943,079	2,952,368	2,641,135
Investing activities				
Capital asset purchases	(1,708,993)	(951,720)	(2,940,662)	(1,208,685)
Loan receivable	-	41,850	-	44,250
Cash cost of acquisition (Note 4b)	(95,170)	-	(2,116,616)	-
Total cash flow from investing activities	(1,804,163)	(909,870)	(5,057,278)	(1,164,435)
Financing activities				
Promissory note payments	(5,337,600)	-	(5,337,600)	-
Capital lease payments	(70,604)	-	(229,059)	-
Aeroquest shares redeemed	(440,031)	(327,132)	(815,368)	(327,477)
Proceeds: issuance of common shares	18,677,574	138,750	19,313,532	138,750
Total cash flow from financing activities	12,829,339	(188,382)	12,931,505	(188,727)
Net change in cash and cash equivalents for the period	\$ 8,791,351	\$ 844,827	\$ 10,826,595	\$ 1,287,973
Cash and cash equivalents, beginning of period	7,434,021	3,861,208	5,398,777	3,418,062
Cash and cash equivalents, end of period	\$ 16,225,372	\$ 4,706,035	\$ 16,225,372	\$ 4,706,035

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Aeroquest International Limited

Consolidated Statements of Shareholders' Equity
 Unaudited – Prepared by Management
 For the six months ending March 31, 2008



	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance Sep. 30, '07	\$ 27,403,594	\$ 1,320,461	\$ 2,758,967	\$72,794	\$ 31,555,816
Aeroquest shares purchased for cancellation	(385,288)	(15,864)	(414,216)		(815,368)
Issuance of common shares for cash, net of expenses	18,532,367				18,532,367
Issuance of common shares on acquisition	1,962,708				1,962,708
Share issuances pursuant to restricted stock unit vesting	22,500	(22,500)			-
Share issuances pursuant to stock options exercised	149,195	(37,239)			111,956
Warrants exercised	669,208				669,208
Net income for the period			936,243		936,243
Stock based compensation expense		555,963			555,963
Unrealized gain on translation of self sustaining foreign operations				190,699	190,699
Revaluation of long term investments to fair market value				(25,000)	(25,000)
Balance Mar. 31 08	\$ 48,354,284	\$ 1,800,821	\$ 3,280,994	\$ 238,493	\$ 53,674,592

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Aeroquest International Limited
Summary of Significant Accounting Policies
For the period ending March 31, 2008 and April 30, 2007



Nature of Business

Aeroquest International Limited is incorporated under the Ontario Business Corporations Act. The Company is a public company trading on the TSX Venture Exchange under the trading symbol AQL-V.

The Company is engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

The Company's wholly owned subsidiary, Aeroquest (UK) Limited is incorporated under the laws of England and Wales and is engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

The Company acquired 100% of the voting shares of UTS Geophysics Pty Ltd. on July 3, 2007. UTS Geophysics Pty Ltd (UTS) is incorporated in Australia and has been in operation since 1992. Its head office is located at Perth Airport, Western Australia. UTS provides high resolution airborne magnetic, radiometric and gravimetric surveys using fixed-wing and rotary-wing aircraft for the exploration and environmental industries.

On December 31, 2007 the Company acquired 100% of the voting shares of Geophex Ltd. Geophex manufactures and sells primarily ground-based geophysical instruments, and also supplies institutions and private entities with specialized survey equipment on a contract-to-build basis. Geophex has established a particular expertise in special and customized geophysical investigations, especially as it relates to environmental projects.

The Company has changed its year end to September 30. This financial report is for the three months and six months ending March 31, 2008 with a comparison to the three months and six months ending April 30, 2007.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aeroquest Limited, Aeroquest (UK) Limited and UTS Geophysics Pty Ltd. and Geophex Ltd. All significant intercompany transactions and balances have been eliminated on consolidation.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

Use of Estimates

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates as additional information becomes available in the future. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue Recognition

Effective May 1, 2007 the company made a change in its revenue recognition policy from a completed contract basis to a percentage of completion basis. This change has been made to more accurately reflect the business activity in Aeroquest and match revenues with the costs incurred in the pursuit of such revenue. All historical periods have been and will be restated to conform to this new revenue recognition policy. As a result, the prior period comparatives may not match the results made public in earlier reporting periods. Further information can be found in Note 9 – Cumulative effect of change in accounting policy.

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

SURVEY REVENUE – 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 – Standby charges are recognized as revenue as standby days are incurred. The related costs of standby are included in cost of sales.

SALE OF EQUIPMENT - 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 recognized and then costs are 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.

Unbilled contracts in process represent the difference between revenue recognized on a percentage completion basis for contracts in process and that billed on the contract.

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. 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 at 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.

The accounts of self-sustaining foreign operations are translated at period end exchange rates, and revenues and expenses are translated at monthly average exchange rates. Differences arising from these foreign currency translations are recorded in shareholders' equity as accumulated other comprehensive income until they are realized by a reduction in the investment.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments readily convertible to cash with original maturities of 90 days or less. The Company has no investments in asset backed commercial paper.

Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

Long-term Investments

Long-term investments are classified as available-for-sale financial assets and measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheet.

Capital Assets

Capital assets are stated at cost less accumulated depreciation. Cost is net of related investment tax credits and government grants. Depreciation based on the estimated useful life of the asset is calculated as follows:

Airborne and geophysical equipment	30% diminishing balance
Automotive equipment	30% diminishing balance
Data processing equipment	30% diminishing balance
Office equipment	20% diminishing balance
Leasehold improvements	shorter of estimated economic life or lease term

Intangible Assets and Other Long-Lived Assets

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 as follows:

Customer relationships	7 years
Technology	7 years
Sales backlog	1 year
Trade name	Not amortized

Goodwill

Goodwill is the resulting excess of purchase price over the fair value of the assets acquired. Goodwill is tested for impairment on an annual basis unless an event occurs that would render the fair value of a reporting unit below its carrying amount. Any impairment in goodwill is written off against earnings.

Research and Development

All research costs are charged to operations in the year of expenditure. Development costs are only capitalized if they meet the criteria for capitalization and are then amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits. Any investment tax credits received for these costs are allocated to other income and recognized when there is reasonable assurance that the credits will be realized.

Income Taxes

The Company follows the asset and liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are realized.

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 Company uses the fair value based method of accounting for all its stock based compensation including restricted stock units. Accordingly, the fair value method of accounting is applied for stock options and restricted stock units granted to directors, officers, employees and consultants whereby the fair value of options granted is recognized over the vesting period. When the awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to contributed surplus.

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, Aeroquest designated its cash as held-for-trading, its accounts receivable as loans and receivables, and its accounts payables and accruals as other financial liabilities and long term investments as available for sale financial assets. Promissory notes are 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. Aeroquest had \$183,265 in “other comprehensive income” transactions during the three months ended March 31, 2008.

Aeroquest International Limited

Notes To Consolidated Financial Statements
For the periods ending March 31, 2008 and April 30, 2007



1. Long Term Investments

The Company owns shares in a number of Canadian public companies. The market value of these investments at March 31, 2008 was \$65,001, (\$90,001 at September 30, 2007).

2. Capital Assets

	Mar 31, 2008			Sep. 30, 2007 Net Book Value
	Cost	Accumulated Depreciation	Net Book Value	
Airborne and geophysical equipment	\$ 10,914,476	\$ 3,750,064	\$ 7,164,412	\$ 5,980,072
Automotive equipment	669,040	333,409	335,631	308,596
Data processing equipment	563,416	263,731	299,685	230,139
Leasehold improvements	317,757	33,580	284,177	83,632
Office equipment	683,075	131,929	551,146	287,685
Equipment in process	1,062,917		1,062,917	728,749
	\$ 14,210,681	\$ 4,512,713	\$ 9,697,968	\$ 7,618,873

Equipment in process relates to airborne equipment that was not ready for use at period end. Included in the above are assets under capital lease as

	Mar. 31, 2008		
	Cost	Accum. Depreciation	Net Book Value
Airborne and geophysical equipment	\$ 1,335,226	\$ 278,457	\$ 1,056,769

Depreciation for assets under capital lease for the period was \$85,684.

3. Intangible Assets

Certain intangible assets were acquired as part of the acquisition of UTS (See Note 4). These intangible assets have been identified and recorded at their fair values as of the date of the acquisition.

Intangible Asset	Amort. Period (Years)	Mar. 31, 2008			Sep. 30, 2007 Net Book Value
		Cost	Accumulated Amortization	Net Book Value	
Customer relationships	7	\$ 12,717,447	\$ 1,362,583	\$ 11,354,864	\$ 12,263,253
Technology	7	5,926,000	634,929	5,291,071	5,714,357
Sales backlog	1	907,000	680,250	226,750	680,250
Trade name	0	1,774,000		1,774,000	1,774,000
		\$ 21,324,447	\$ 2,677,762	\$ 18,646,685	\$ 20,431,860

Certain intangible assets were acquired as part of the acquisition of Geophex (See Note 4). These intangible assets have been identified and recorded at their fair values as of the date of the acquisition.

Intangible Asset	Amort. Period (Years)	Mar. 31, 2008			Sep. 30, 2007
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	7	\$ 2,200,000	\$ 78,571	\$ 2,121,429	\$ -
Technology	7	900,000	32,143	867,857	-
Sales backlog	1	700,000	175,000	525,000	-
Trade name	0	600,000		600,000	-
		\$ 4,400,000	\$ 285,714	\$ 4,114,286	\$ -

4. Business Acquisitions

a) On July 3, 2007, the Company acquired 100% of the outstanding share capital of UTS Geophysics Pty Ltd. for a total consideration of CAD\$25,005,331 which includes direct costs related to the acquisition of \$277,181. The total consideration paid is made up of the following:

Cash, net of cash acquired	\$ 7,050,796
Acquisition costs	277,181
Cash cost of acquisition	7,327,977
Shares of Aeroquest International (6,800,000 shares @ \$2.15)	14,620,000
Promissory note	3,057,354
Total Purchase Price	\$ 25,005,331

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired is not finalized and, as such, the fair value allocations of the purchase price are subject to change, and this change could be significant. On a preliminary basis, details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	
Cash	\$ 2,140,180
Accounts receivable	3,097,521
Unbilled contracts in progress	1,361,239
Capital assets	3,110,103
Future income taxes	(6,683,533)
Accounts payable and accruals	(3,972,024)
Capital lease obligations	(1,110,557)
Income taxes payable	(1,327,873)
Intangible assets	21,324,447
Goodwill	9,206,008
Total net assets acquired, net of cash	\$ 25,005,331

b) On December 31, 2007, the Company acquired 100% of the outstanding share capital of Geophex Ltd. for a total consideration of CAD\$6,061,924, which includes direct costs related to the acquisition of \$174,239. The total consideration paid is made up of the following:

Cash, net of cash acquired	\$ 1,942,377
Acquisition costs	174,239
Cash cost of acquisition	2,116,616
Shares of Aeroquest International (585,883 shares @ \$3.35)	1,962,708
Promissory note	1,982,600
Total Purchase Price	\$ 6,061,924

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired is not finalized and, as such, the fair value allocations of the purchase price are subject to change, and this change could be significant. On a preliminary basis, details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	
Cash	\$ 40,223
Accounts receivable	19,658
Inventory	261,208
Capital assets	198,260
Future income taxes	(1,438,540)
Accounts payable and accruals	(36,630)
Intangible assets	4,400,000
Goodwill	2,657,968
Total net assets acquired, net of cash	\$ 6,061,924

5. Promissory Notes

a) As part of the acquisition of UTS, the Company entered into unsecured subordinated promissory note agreements with the vendors for a total value of \$3,355,000. The promissory notes are non-interest bearing for the first year and then bear interest at an annual rate of 10% calculated on a simple basis, payable semi-annually in arrears on June 30 and December 31 of each year. The promissory notes mature on June 30, 2011 and call for principal payments of \$838,750 on June 30 2008 and each year thereafter until June 30, 2011.

The notes have been discounted at a rate of 10% to \$3,057,354 which represents the fair value of the notes at the date of acquisition. The company covenants that it will not borrow or guarantee any indebtedness other than operating lines of credit and any credit facility or other indebtedness in existence at the time of the promissory notes without the consent of the note holders. As well, any cash proceeds from the issuance of any securities to the public or upon the exercise of any warrants existing as of the date of the note will go to repay the latest scheduled principal payment outstanding.

These notes were paid in full in February 2008. As a result, interest accretion in the amount of \$142,868 has been recognized in other costs.

b) As part of the acquisition of Geophex Ltd. the company entered into an unsecured promissory note agreement with the vendor. The promissory note is for USD \$2,000,000 due July 1, 2008 with interest calculated at 7.5% per annum. This promissory note was paid in full in March 2008 with accrued interest.

6. Capital Lease Obligation

Finance leases are established for the purchase of capital assets with terms ranging from 1 to 5 years. The lease obligations are capitalized at the lease inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The weighted average interest rate implicit in the leases is 7.63%.

Commitments in relation to capital leases are payable as follows:

Within one year	\$ 347,280
Later than one year but not later than five years	603,992
Minimum lease payments	951,272
Future finance charges	(95,624)
Recognized as a liability	\$855,648
Representing Capital Lease Obligation	
Current	293,343
Long term	562,305
	\$ 855,648

7. Operating Lease Commitments

The Company has several operating leases for premises. The lease payments range from \$1,800 per month to \$16,000 per month. Leases expire in May 2008, June 2009, October 2009 and January and December 2012.

The minimum annual lease payments for the next five years are as follows:

2008	\$ 296,583
2009	580,797
2010	444,469
2011	445,802
2012	262,567
	\$ 2,030,218

8. Share Capital

a. Authorized

Unlimited number of voting common shares.

b. Issued and Outstanding

	Mar. 31, 2008		Sep. 30, 2007	
Share capital, opening	27,310,273	\$ 27,403,594	15,857,773	\$ 5,992,289
Shares issued on exercise of stock options	99,332	149,195	152,500	146,975
Shares issued on vesting of RSU's	30,001	22,500	-	-
Issuance of common shares for cash	6,981,735	20,669,209	4,500,000	7,650,000
Issuance of common shares on acquisition (Note 4)	585,883	1,962,708	6,800,000	14,620,000
Costs associated with equity issue	-	(1,467,634)	-	(1,005,670)
Shares redeemed	(321,800)	(385,288)	-	-
Share capital, closing	34,685,424	\$ 48,354,284	27,310,273	\$ 27,403,594

In the quarter ending March 31, 2008 the Company issued a total of 6,743,999 common shares through several transactions for a total cash consideration of \$18,677,574. These transactions comprise the issuance of 6,666,667 common shares from an equity offering for net proceeds of \$18,532,367, issuance of 27,332 common shares on the exercise of employee stock options for a value of \$22,707 and issuance of 50,000 common shares on the exercise of share purchase warrants for a value of \$122,500.

On February 5, 2008 Aeroquest closed an equity issue in a "bought deal" with Jennings Capital Inc. and a syndicate of underwriters including J.F. Mackie and Company Ltd. and National Bank Financial, previously announced on January 17, 2008. A total of 6,666,667 common shares were issued at a price of \$3.00 per share, for gross proceeds to Aeroquest of \$20 million. Aeroquest agreed to grant the underwriters an over-allotment to purchase an additional 1 million common shares (15% of offering) at the issue price of \$3.00 per share exercisable for 30 days following the closing of the offering. This over-allotment expired unexercised.

The net proceeds from the offering will be used to repay notes issued in connection with Aeroquest's previously completed acquisition of UTS Geophysics and Geophex Ltd, for general working capital, and to fund continued growth.

Common shares were issued in connection with the acquisition of Geophex Ltd. on December 31, 2007; 585,883 common shares for a total value of \$1,962,708.

The Company redeemed 159,700 shares in the quarter ending March 31, 2008 for a total consideration of \$440,031 of which \$222,634 is allocated to share capital, \$8,027 to contributed surplus and \$209,370 to retained earnings. The Company redeemed 162,100 shares in the quarter ending December 31, 2007 for a total consideration of \$375,337 of which \$162,654 is allocated to share capital, \$7,837 to contributed surplus and \$204,846 to retained earnings. No shares were redeemed in the stub period ending September 30, 2007.

In the stub year end September 30, 2007, the Company issued a total of 11,300,000 common shares for a total value of \$21,775,000. Of the issued common shares, 6,800,000 shares were issued at an ascribed value of \$2.15 to the sellers of UTS based on the market value of the shares on the date of closing and 4,500,000 were issued as part of a subscription receipt unit offering of one common share plus one half a common share purchase warrant priced at \$1.70.

c. Share Purchase Warrants

Warrants issued in the quarter ending July 31, 2007 were issued in connection with a private placement of subscription receipt units and are exercisable at the holder's option. Warrants at an exercise price of \$2.45 have an acceleration clause that entitles the Company to force exercise of the warrants if the stock price on the TSX Venture Exchange equals or exceeds \$3.50 for a period of 20 consecutive trading days beginning November 3, 2007. There are no conditions whereby the Company would have to settle the warrants in cash. The warrants issued to the brokers on the equity offering of 450,000 have a value of \$270,000 which is included in the cost associated with the equity offering.

Number of warrants	Fair value	Exercise Price	Expiry Date
2,250,000	\$0.22	2.45	May 29, 2009
450,000	\$0.60	1.95	May 29, 2009

The fair value of each warrant granted has been estimated as of the date of the grant using a Black-Scholes model with the following assumptions: Risk free rate of interest 4%- dividend yield 0%- volatility 70%- term 2 years.

In the quarter ending March 31, 2008 a total of 50,000 warrants were exercised for a total value of \$122,500. In the quarter ending December 31, 2007 a total of 265,068 warrants were exercised for a total value of \$546,708. No warrants were exercised in the stub period ending September 30, 2007.

d. Stock Options

The Company has a Stock Option plan under which the directors of the Company may grant options to acquire shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The strike price of these options will not be less than the market price of the common shares at the time of the grant. The options generally vest upon grant and have a term of five years. The terms of the stock option plan were amended such that stock options granted after September 30, 2007 vest over a three year period with one-third vesting on the grant date and two-thirds vesting over the following two years on the anniversary of the grant date.

The following table reflects the continuity of options granted under the stock option plan for the periods ending March 31, 2008 and December 31, 2007.

	Number of Options	Avg. Exercise Price
Outstanding Sept. 30, 2007	975,000	\$ 0.65
Options granted	550,000	2.34
Options exercised	(72,000)	1.24
Options expired	-	-
Total outstanding and exercisable Dec. 31, 2007	1,453,000	1.26
Options granted	-	-
Options exercised	(27,332)	0.83
Options expired	-	-
Total outstanding and exercisable Mar 31, 2008	1,425,668	\$ 1.27

The fair value of stock options granted in fiscal 2008 was estimated using a Black-Scholes option pricing model on the date of the grant with the following weighted average assumptions:

Stock price at grant date	\$2.34
Exercise price	\$2.34
Expected life of options	3 years
Expected stock price volatility	70%
Expected dividend yield	-
Risk free interest rate	4%

e. Restricted Stock Unit Plan

The Company has 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.

The following table reflects the continuity of restricted stock units granted under the RSU plan for the period ended March 31, 2008:

	Number of Units	Avg. Exercise Price
Outstanding, Sept. 30, 2007	110,000	\$ 0.75
Granted	450,000	2.34
Vested	(30,001)	0.75
Outstanding Dec 31, 2007	529,999	2.10
Granted	-	-
Vested	-	-
Outstanding, Mar 31, 2008	529,999	\$ 2.10

f. Contributed Surplus

	Mar. 31, 2008	Sep. 30, 2007
Contributed surplus, beginning of period	\$ 1,320,461	\$ 1,102,228
Stock option expense	366,712	-
Restricted stock unit expense	189,251	11,458
Redemption of shares	(15,864)	-
Exercise of stock options and RSU's	(59,739)	(63,225)
Broker warrants (450,000 @ \$0.60)	-	270,000
Contributed surplus, end of period	\$ 1,800,821	\$ 1,320,461

9. Cumulative Effect of Change in Accounting Policy

The prior period adjustments come as a result of a change in the Company's revenue recognition policy from a contract completion basis to percentage of completion basis effective May 1, 2007. This change in accounting policy applied retroactively has a total impact on net income of \$328,900 increase. The following table outlines the impact for the current and prior periods. The impact on the quarter ending April 30, 2007 on revenue is \$490,609, costs of sales \$300,575 and the impact on earnings of \$190,034.

	Mar. 2008	Sep. 30, 2007 and Prior	Total
Change in revenue	\$ -	\$ 496,270	\$ 496,270
Change in cost of sales	-	167,370	167,370
Total net impact to earnings	\$ -	\$ 328,900	\$ 328,900

10. Income Taxes

	Mar 31, 2008	Sep. 30, 2007
Income before income taxes	\$ 1,636,369	\$ 3,102,286
Statutory income tax rate	36.12%	36.12%
Computed income tax payable	591,056	1,120,546
Non-deductible expenses	4,100	8,191
Non deductible amortization	353,000	101,854
Other	49,632	14,262
Lower tax rate in foreign jurisdiction	(177,000)	(125,944)
Income taxes	\$ 820,788	\$ 1,118,909

11. Earnings per Share

Basic earnings per share has been calculated by dividing net income by the weighted average number of shares outstanding during the period. Fully diluted earnings per share is similar to basic earnings per share, except the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

	Mar 31, 2008	Apr 30, 2007
Numerator		
Net income for the period	\$ 815,581	\$ 320,806
Denominator		
Average common shares outstanding	32,552,780	15,787,215
Fully diluted common shares outstanding	36,893,379	17,017,873
Basic earnings per share	\$ 0.03	\$ 0.02
Fully diluted earnings per share	\$ 0.02	\$ 0.02

12. Other Costs (Income)

Other income includes interest income earned on cash balances during the period of \$209,514 and interest expense of \$186,399 for a net of \$23,115 for the three months ending March 31, 2008. On a year to date basis, other income includes interest income of \$291,204 and interest expense of \$279,678, for a net of \$11,526.

13. Segmented Information

For the three month period ended March 31, 2008 one customer represented 13% of revenue or \$1.7 million and on a year to date basis the same customer represented 12% of revenue or \$2.9 million. All revenue from this one customer was generated in Canada.

Geographic segments

The Company has operations in Canada and Australia and conducts surveys around the world. Its operations in all markets have similar products, services and customer types as well as similar economic characteristics. Revenues from external customers are generated around the world and are attributed to one of three geographic segments. The following table outlines revenue by geographic segment for the three months ended March 31, 2008 and the comparable three months ended April 30, 2007:

	Mar 31, 2008	Apr 30, 2007
Revenue		
Canada	\$ 6,022,473	\$ 3,518,703
Australia	2,911,850	-
International	4,359,954	2,418,000
Total Revenue	\$ 13,294,277	\$ 5,936,703

Goodwill is located in Australia and USA. All capital assets originate in Canada and Australia and are mobilized to the job sites around the world. Capital assets in Canada amount to \$5.9 million, Australia \$3.6 million and USA \$0.2 million

14. Related Party Transactions

In the quarter we had no payments (\$0.1 million for the three months ending April 30, 2007) to companies owned by certain directors for management consulting services. Transactions are in the normal course of operations and are measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximates the arm's length equivalent value for services performed. In the quarter the company paid \$3.35 million to certain directors against the promissory notes payable as part of the financing of the UTS acquisition.

15. Credit Facilities

The Company has several operating facilities. In Canada, an operating facility is in place for Aeroquest Limited totalling \$2,000,000 (2006 - \$250,000), bearing interest at prime plus 0.75%, and secured by accounts receivable and a general security agreement. At March 31, 2008 no amounts have been drawn on this facility. In Australia, an operating facility is in place for UTS of A\$400,000 and, at March 31, 2008, no amounts have been drawn on this facility. The operating facility in Australia is secured by a fixed and floating charge over the assets of UTS. Current interest rate on the bank facility in Australia is 12.37%.