

AEROQUEST INTERNATIONAL LIMITED

Management's Discussion & Analysis For the period ending June 30, 2008



Issued on August 13, 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 nine months ended June 30, 2008 with the most comparable quarterly period under the old reporting structure, which would be for the three months and nine months ended July 31, 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 June 30, 2008 compared with our operating results for the corresponding period three months ended July 31, 2007. It also compares our balance sheet as at June 30, 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 the period ended 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.

1.1 FORWARD-LOOKING STATEMENTS

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

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

Readers should also refer to the Company's continuous disclosure materials filed with Canadian Securities Regulatory Authorities for additional information with respect to certainly of these risk factors, including the our most recent Annual Report and accompanying Management's Discussion and Analysis (September 30, 2007).

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

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

1.2 NON GAAP FINANCIAL MEASURES

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

EBITDA

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

APPARENT TAX RATE

We define apparent tax rate as the total income tax expense (current and future) as a percentage of income before taxes. More information on our income tax expense and the reconciliation between income tax expense and our statutory tax rate is contained in Note 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.

2 Overview

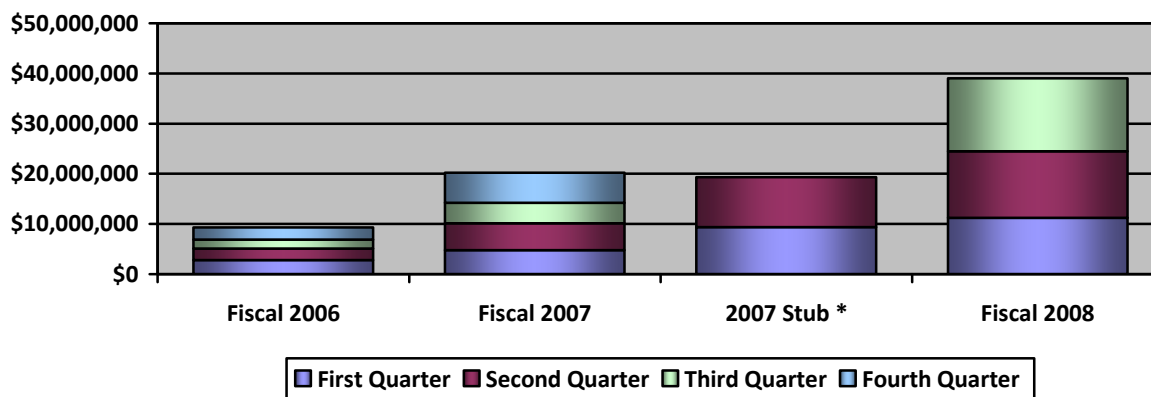
2.1 AEROQUEST'S BUSINESS

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

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

In this report we will provide to the extent practical, results for each survey platform, namely, helicopter services, fixed wing services and other services. The financial information pertaining to our most recent acquisition, Geophex Ltd., will be reported under the Other Services section.

THREE YEAR REVENUE GROWTH SUMMARY



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

2.2 BUSINESS STRATEGY

There are five components to our business strategy:

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

3 Third Quarter Operating Results

3.1 OVERVIEW AND HIGHLIGHTS

In the current quarter, we recorded consolidated revenue growth of 55 per cent over the comparable period last year. Growth in fixed wing services was 245 per cent over the most comparable period last year and 766 per cent on a year to date basis, however, since the UTS business was purchased effective July 3, 2007, the prior year comparables reflect only one month of fixed wing revenue. Helicopter services revenue declined by 2 per cent over the most comparable period last year but grew by 20 per cent on a year to date basis. Other services contributed \$0.4 million in revenue for the quarter and \$0.6 million year to date.

Gross profit in the quarter was \$5.6 million, or 39 per cent of revenue. Our gross profit percentage declined from 41 per cent of revenue in the comparable period last year due to reduced field productivity in the helicopter services segment. Issues related to productivity have been identified and addressed and we expect our productivity to improve in the fourth quarter.

Cash operating costs increased in the quarter as we continue to expand sales and operational capacity to meet growth expectations of the business. As a result, we earned \$0.4 million after tax, or \$0.01 per share, while operating cash flow for the period was a very healthy \$2.2 million, or \$0.06 per share.

In the quarter, we saw the first real fruits of our strategy to expose our services on a consistent basis to the petroleum market. In the quarter, our recently announced Petroleum Services initiative contributed to consolidated revenue for the first time. In addition, 14% of the Company's backlog at quarter end related to Petroleum Services. We continue to pursue opportunities in this market and hope to see this contribution grow, both in absolute terms and as a percentage of revenue, over time.

3.2 FLEET EXPANSION

During the quarter there were a number of changes to the makeup of our fleet. In our fixed wing services we commissioned two new ultra high resolution aircraft, bringing to eleven the number of fixed wing systems in service globally. In helicopter services we introduced three new AeroTEM systems in the quarter, all AeroTEM IV's. Over the last several quarters we have averaged approximately one new AeroTEM system per quarter. However, in the current quarter we also lost the use of one AeroTEM system in Russia which was damaged beyond repair during a recent survey.

AIRBORNE FLEET SUMMARY

		Helicopter	Fixed wing	Total
AeroTEM		11		11
Impulse/GEM-2A		3		3
Magnetics	single sensor	2	6	8
	multi-sensor	1	5	6
Total		17	11	28

At the end of the second quarter we took one of the new frequency domain systems, the GEM-2A helicopter system, offline for upgrades and remains offline at the end of the third quarter.

3.3 REVENUE BY GEOGRAPHY

In the quarter, we continue to mobilize equipment in various locations around the globe. As of June 30, 2008, we had mobilized helicopter units in North and South America, Europe, Africa and Asia. In addition, we have mobilized fixed wing units to Australia & the South Pacific, Africa and North America. We believe that the pace of globalization of these units will continue to grow in the fourth quarter and beyond.

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 June 30, 2008

(thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 4,746	\$ -	\$ 2,442	\$ 7,188	49%
Fixed wing services	298	2,547	4,144	6,989	48%
Other services	-	-	360	360	2%
Total Revenue - Aeroquest Group	\$ 5,044	\$ 2,547	\$ 6,946	\$ 14,537	100%
	35%	18%	48%	100%	

Nine Months Ended June 30, 2008

(thousands of Canadian dollars)

	Canada	Australia	RoW	Total	
Helicopter services	\$ 14,424	\$ 61	\$ 6,437	\$ 20,922	54%
Fixed wing services	394	7,825	9,301	17,520	45%
Other services	-	-	586	586	2%
Total Revenue - Aeroquest Group	\$ 14,818	\$ 7,886	\$ 16,324	\$ 39,028	100%
	38%	20%	42%	100%	

3.4 CONSOLIDATED RESULTS

In the current quarter, consolidated revenue was \$14.5 million, up \$5.2 million or 55 per cent over the most comparable quarter last year. Revenue from helicopter services was \$7.2 million, down \$0.2 million or 2 per cent over the most comparable quarter last year. While we added new AeroTEM units during the quarter, operational efficiency declined due to a number of factors including offline time to mobilize units to locations globally, scheduled & unscheduled maintenance, and weather related delays. We anticipate that productivity should return to historical levels and beyond in the fourth quarter. Fixed wing services contributed \$7.0 million, up \$5.0 million or 245 per cent for the three months ending June 30, 2008. This increase is due to the fact that UTS was acquired on July 3, 2007, thus contributing only one month to the most comparable quarter. Other services represent research and development services, which contributed \$0.4 million in revenue in the quarter.

On a year to date basis, consolidated revenue was \$39.0 million, up \$19.6 million or 101 per cent over the most comparable nine month period last year. Revenue contribution from helicopter services grew 20 per cent on a year to date basis over the prior year to date period, while the contribution from fixed wing services amounted to \$17.5 million and other services of \$0.6 million.

REVENUE & GROSS MARGIN

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior year-to-date	
	30-Jun-08	31-Jul-07	30-Jun-08	31-Jul-07				
Revenue								
Helicopter services	7,188	7,331	20,922	17,366	(143)	(2%)	3,556	20%
Fixed wing services	6,989	2,024	17,520	2,024	4,965	245%	15,496	766%
Other services	360	-	586	-	360		586	
	14,537	9,355	39,028	19,390	5,182	55%	19,638	101%
Cost of sales								
Helicopter services	4,708	4,103	12,896	9,921	(605)	(15%)	(2,975)	(30%)
Fixed wing services	4,043	1,393	10,287	1,393	(2,650)	(190%)	(8,894)	(638%)
Other services	182	-	251	-	(182)		(251)	-
	8,933	5,496	23,434	11,314	(3,437)	(63%)	(12,120)	(107%)
Gross profit	5,604	3,859	15,594	8,076	1,745	45%	7,518	93%
Gross margin								
Helicopter services	34.5%	44.0%	38.4%	42.9%	(9.5%)	(21.6%)	(4.5%)	(10.5%)
Fixed wing services	42.2%	31.2%	41.3%	31.2%	11.0%	35.2%	10.1%	32.4%
Other services	49.4%	-	57.2%	-				
Gross profit margin %	38.5%	41.3%	40.0%	41.7%		(6.5%)		(4.1%)

Consolidated cost of sales was \$8.9 million in the quarter, or 61 per cent of consolidated revenue, compared to \$5.5 million or 59 per cent of consolidated revenue in the most comparable quarter last year. As a result, gross margins in the quarter declined by 2 percentage points to 39 per cent, as compared to 41 per cent in the most comparable quarter last year.

Gross margin in helicopter services was 35 per cent in the quarter, as compared to 44 per cent in the most comparable period last year. The productivity issues experienced in the quarter with the AeroTEM units (as noted previously) also contributed to the compression in the gross margin of the helicopter services segment.

Gross margin in fixed wing services was 42 per cent of revenue in the current quarter as compared to 31 per cent in the most comparable period last year. Note that the comparable period only includes one month of fixed wing operations as the UTS acquisition closed on July 3, 2007. The improvement in gross margin year over year is brought about by a combination of factors, including a very specific and successful focus at improving productivity and margins in our fixed wing operations. 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.

3.5 CASH OPERATING COSTS

Cash operating costs for the quarter totaled \$2.8 million, up from \$1.5 million in the most comparable quarter last year, an increase of \$1.3 million, or 84 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 increased from 16 per cent of revenue in the most comparable period last year to 19 per cent of revenue in the most recent period. While the costs as a percentage of revenue did increase in the quarter, we anticipate that this trend will reverse in the fourth quarter as these costs are primarily fixed in nature.

CASH OPERATING COSTS

(in thousands of Canadian dollars)	Three Months Ended		Year-to-Date		Change from prior year		Change from prior YTD	
	30-Jun-08	31-Jul-07	30-Jun-08	31-Jul-07				
General & administrative expense	2,524	1,196	6,735	3,253	(1,328)	(111%)	(3,482)	(107%)
Foreign exchange (gain) loss	136	144	104	256	8	6%	152	59%
Research & development expense	117	172	327	389	55	32%	62	16%
Total cash operating costs	2,777	1,512	7,166	3,898	(1,265)	(84%)	(3,268)	(84%)
% of revenue	19%	16%	18%	20%	(18%)		9%	

3.6 OPERATING PROFIT AND EBITDA

EBITDA in the quarter was \$2.7 million, an increase of \$0.3 million or 13 per cent over the comparable period last year. On a year to date basis, EBITDA was \$7.7 million, an increase of \$3.6 million or 89 per cent. EBITDA is up as a result of increased sales volume, and the fact that some of our costs are fixed so as revenue grows we will see a greater contribution to EBITDA. The increase in stock-based compensation expense 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 \$2.1 million in the quarter, an increase of \$1.4 million from the most comparable quarter last year. The increase in depreciation in the period is a result of the addition of over \$3 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 \$0.8 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 \$0.6 million, a decrease of \$1.1 million or 64 per cent over the most comparable period last year. On a year to date basis, operating profit was \$2.4 million, a decrease of \$0.4 million or 13 per cent over the prior year to date period. Operating profit as a percentage of revenue is down 77 per cent over the comparable quarter last year and 57% over the comparable prior year to date period primarily due to 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	
	30-Jun-08	31-Jul-07	30-Jun-08	31-Jul-07				
Gross profit	5,604	3,859	15,594	8,076	1,745	45%	7,518	93%
Cash operating costs	2,777	1,512	7,166	3,897	(1,265)	(84%)	(3,269)	(84%)
Stock-based compensation expense	173	7	729	99	(166)	(2371%)	(630)	(636%)
EBITDA	2,654	2,340	7,699	4,080	314	13%	3,619	89%
EBITDA as a % of revenue	18%	25%	20%	21%		(27%)		(6%)
Depreciation of capital assets	908	324	1,978	871	(584)	(180%)	(1,107)	(127%)
Amortization of intangible assets	1,156	358	3,249	358	(798)	(223%)	(2,891)	(808%)
Operating profit	590	1,658	2,472	2,851	(1,068)	(64%)	(379)	(13%)
Operating profit as a % of revenue	4%	18%	6%	15%		(77%)		(57%)

3.7 NET INCOME

Net income for the quarter was \$0.3 million, or \$0.01 per share compared to net income of \$0.9 million, or \$0.04 per share in the comparable quarter last year.

Our provision for income taxes in the period was \$0.4 million compared to \$0.8 million in the comparable quarter last year and generated an apparent tax rate of 51% 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	
	30-Jun-08	31-Jul-07	30-Jun-08	31-Jul-07				
Operating profit	590	1,658	2,398	2,851	(1,068)	(64%)	(453)	(16%)
Other costs (income)	(111)	(39)	(122)	(258)	72	185%	(136)	(53%)
Contract cancellation costs	-	-	-	270	-		270	100%
Provision for income taxes	397	759	1,280	1,370	362	48%	90	7%
Net income	304	938	1,240	1,469	(634)	(68%)	(229)	(16%)
Earnings per share - basic	\$ 0.01	\$ 0.04	\$ 0.04	\$ 0.08				
Apparent tax rate	57%	45%	51%	48%				

4. Selected Quarterly Financial Information

Comparative selected quarterly financial information

(Financials in 000's except /share data)

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

* excluding gamma ray spectrometers

5 Liquidity and Capital Resources

Our liquidity, as measured by cash balances, has increased by \$11.6 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. The Company has no investments in asset-backed commercial paper.

5.1 OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided \$2.2 million in the current period, an increase of \$0.5 million, or 34 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.

Changes in non-cash working capital generated \$0.6 million in the current quarter, as compared to generating \$1.0 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 generated cash; changes in accounts receivable provided \$1.7 million, changes in accounts payable and accruals provided \$0.3 million and changes in income taxes payable required \$0.4 million. These were offset by cash consumed through changes in contracts in progress, deferred revenue, prepaid expenses and inventory.

5.2 INVESTING ACTIVITIES

Investment activities in the quarter consumed \$1.7 million of cash compared to \$9.0 million in the most comparable quarter last year. Last year included \$8.0 million in cash used for the acquisition of UTS.

On a year to date basis, investment activities consumed \$6.8 million compared to \$10.2 million for the prior year to date period. The acquisition of Geophex on December 31, 2007 consumed \$2.1 million in cash.

In the current quarter, capital expenditures were 13 per cent of revenue compared to 11 per cent in the most comparable period last year. Acquisition of capital assets consumed \$1.9 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.

5.3 FINANCING ACTIVITIES

In the current quarter, financing activities consisted of the purchase for cancellation of 276,000 shares of Aeroquest for a value of \$0.6 million, and proceeds of \$0.3 million from the issuance of 20,500 common shares upon the exercise of employee stock options and 168,750 common share purchase warrants.

5.4 CREDIT FACILITIES & DEBT AGREEMENTS

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

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

5.5 SUMMARY FINANCIAL POSITION

At June 30, 2008, we had current assets of \$27.1 million and current liabilities of \$10.1 million. Net working capital was \$17.0 million, an increase of \$14.5 million from July 31, 2007 and an increase of \$13.0 million from September 30, 2007. The increase in net working capital is primarily the result of the equity issue closing in Feb 2008 raising gross proceeds of \$20 million. Offsetting this increase in cash was expenses related to the equity issue of \$1.5 million and the repayment of outstanding promissory notes of \$5.3 million.

CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	30-Jun-08		31-Jul-07		30-Jun-08		30-Sep-07		Change from prior year		Changes on Year End	
Cash	\$16,951	\$5,974	16,951	5,399	\$10,977	184%	\$11,552	214%				
Non-cash current assets	10,199	10,635	10,199	10,789	(436)	(4%)	(590)	(5%)				
Current assets	27,150	16,609	27,150	16,188	10,541	63%	10,962	68%				
Less: Current liabilities	10,059	14,116	10,059	12,232	(4,057)	(29%)	(2,173)	(18%)				
Net working capital	\$17,091	\$2,493	\$17,091	\$3,956	\$14,598	586%	\$13,135	332%				
Current ratio	2.7	1.2	2.7	1.3	1.5	129%	1.4	104%				

6 Risks and Uncertainties

6.1 Foreign currency exchange risk

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

Significant portions of the Company's expenditures are also 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.

Shareholders' equity includes a currency translation adjustment related to the Company's net investment in self-sustaining subsidiaries.

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

6.2 INTEREST RATE RISK

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

6.3 OTHER LITIGATION

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to those or other matters or amount which may be

required to pay by reason thereof would have a material adverse impact on its financial position, results of operations or liquidity.

7 Off-Balance Sheet Arrangements

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

8 Transactions with Related Parties

For the quarter ended June 30, 2008 we made no payments (\$0.08 million for the three months ending July 31, 2007) to companies owned by certain directors for management consulting services. Transactions were in the normal course of operations and were measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximated the arm's length equivalent value for services performed.

9 Share Capital

At June 30, 2008, we had 34,598,674 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,	32,500	\$ 0.50	October 28, 2009
officers, employees and consultants under the	10,000	\$ 2.00	October 28, 2009
Company's Stock Option Plan	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
	442,500	\$ 0.60	June 30, 2011
	10,000	\$ 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	1,405,168	\$ 1.28	

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 June 30, 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.

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 the company purchased 276,000 shares for cancellation for a total consideration of \$611,282. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

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

11 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

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 our history has not changed, but the period in which some of those revenues and profits were recorded may have changed by one quarter, earlier or later. We now recognize revenue as follows:

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

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

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

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

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

11.2 NEW ACCOUNTING STANDARDS

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

11.3 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 June 30, 2008 we had \$0.2 million in "other comprehensive income" transactions.

11. 4 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.

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.

12 Subsequent Event – TSX Listing

On July 24, 2008, the Company delisted from the TSX-Venture Exchange and commenced trading on the Toronto Stock Exchange (TSX). Concurrent with the graduation to the TSX, the TSX approved an amendment to the Normal Course Issuer Bid of December 13, 2007 (as noted in paragraph 9 above) 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).

13 Outlook

13.1 SHORT-TERM

The Company continues to execute on its strategy outlined in the September 30, 2007 annual report. Specifically, completion of the three targets:

Organize around the UTS & Geophex acquisitions – Allowing the Company to offer a complete suite of Geophysical survey opportunities to our global customers. The Geophex acquisition also gives the

company a major opportunity to not only provide geophysical R&D services to our customer base, but also to streamline and improve our internal R&D to ensure that we continue offer leading edge geophysical survey solutions to our customers.

Continue the international expansion – We will continue to grow internationally both organically – through the addition of additional fixed wing and helicopter systems, and look to augment that growth through acquisitions, joint ventures and strategic partnerships with companies across the globe.

Make inroads in oil & gas and environmental engineering – Broadening our base of product offerings to support diverse engineering opportunities opens up additional untapped markets globally. We believe that the acquisition of Geophex will greatly assist in this opportunity through their core competency in environmental engineering.

13.2 MEDIUM TO LONG-TERM

Looking forward, our goal is to use our short term strategies to create a longer term goal of becoming the pre-eminent supplier of airborne geophysical surveys to clients in our target markets. Currently, we do not see any impediments to achieving this goal. With continued strong commodity prices for minerals and oil & gas, the global market and demand for our services remains healthy.