

Aeroquest International Limited

Interim Consolidated Financial Statements
For the six months ended October 31, 2005 and 2004

Unaudited Interim Financial Statements

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the period ended October 31, 2005.

Aeroquest International Limited
Consolidated Balance Sheets
 Unaudited – Prepared by Management
 October 31, 2005 April 30, 2005
 Unaudited Audited

Assets

Current assets

Cash and cash equivalents	\$ 2,141,759	\$ 3,034,338
Accounts receivable	1,816,251	1,939,571
Prepaid expenses	3,438	-
Income taxes receivable	479,804	136,447
Deferred contract costs	280,210	513,433
Loans receivable (note 1)	60,529	63,713

	4,781,991	5,687,502
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Long term assets

Long-term investments (note 2)	16,001	16,001
Capital assets (note 3)	2,929,093	2,740,931
Intellectual property (note 4)	156,262	218,767
Future income taxes	110,000	110,000

	3,211,356	3,085,699
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	\$ 7,993,347	\$ 8,773,201
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Liabilities and Shareholders' Equity

Current liabilities

Accounts payable and accrued liabilities	\$ 1,249,899	\$ 1,026,808
Deferred revenue	534,720	717,249
Current portion of long-term debt (note 5)	630	5,580

	1,785,249	1,749,637
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Shareholders' equity

Share capital (note 6)	5,986,176	5,986,176
Contributed surplus	962,600	925,950
Retained earnings (deficit)	(740,678)	111,438

	6,208,098	7,023,564
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	\$ 7,993,347	\$ 8,773,201
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On behalf of the Board:

"Signed"

 Roy Graydon, CEO

"Signed"

 Ann Dumyn, Director

Aeroquest International Limited
Consolidated Statements of Operations and Retained Earnings (Deficit)
Unaudited – Prepared by Management

	Three months ended		Six Months Ended	
	October 31, 2005	October 31, 2004	October 31, 2005	October 31, 2004
Sales	\$ 1,866,532	\$ 2,861,993	\$ 4,664,715	\$ 4,415,910
Cost of sales	1,147,136	1,422,532	3,208,074	2,325,646
Gross margin	719,396	1,439,461	1,456,641	2,090,264
Other income	27,326	-	27,326	-
	746,722	1,439,461	1,483,967	2,090,264
Operating costs				
Development expenses	265,816	108,969	566,629	186,129
General and administrative expenses	718,944	492,848	1,402,742	895,515
Depreciation and amortization expense	236,096	103,099	481,291	237,608
	1,220,856	704,916	2,450,662	1,319,252
Operating profit (loss)	(474,134)	734,545	(966,695)	771,012
Write down of discontinued project	73,368	-	73,368	-
Termination costs	268,250	-	268,250	-
Income (loss) before provision for income taxes	(815,752)	734,545	(1,308,313)	771,012
Income taxes				
Current (recovery)	(292,069)	169,165	(456,197)	179,665
Future (recovery)	-	-	-	-
	(292,069)	169,165	(456,197)	179,665
Net income (loss) for the period	(523,683)	565,380	(852,116)	591,347
Retained earnings (deficit), beginning of period	(216,995)	615,131	111,438	589,164
Retained earnings (deficit), end of period	\$ (740,678)	1,180,511	\$ (740,678)	\$ 1,180,511
Earnings (loss) per share (note 9)				
Basic	(\$.03)	\$0.05	(\$.05)	\$0.06
Fully diluted	(\$.03)	\$0.05	(\$.05)	\$0.05

Aeroquest International Limited
Consolidated Statements of Cash Flows
Unaudited – Prepared by Management

	Three months ended		Six Months Ended	
	October 31, 2005	October 31, 2004	October 31, 2005	October 31, 2004
Cash flows provided by (used in):				
Operating activities				
Net income (loss)	\$ (523,683)	\$ 565,380	\$ (852,116)	\$ 591,347
Operating items not requiring cash				
Amortization	236,096	103,099	481,291	237,608
Stock option expense	-	-	36,650	-
Write down of discontinued project	73,368	-	73,368	-
	(214,219)	668,479	(260,807)	828,955
Changes in non-cash working capital balances				
Accounts receivable	(259,482)	(850,830)	123,320	(1,152,281)
Prepaid expenses	3,437	48,033	(3,438)	73,566
Deferred contract costs	(280,210)	-	233,223	198,750
Deferred finance costs	-	184,828	-	184,828
Accounts payable and accrued liabilities	600,869	271,664	223,091	631,650
Deferred revenue	534,720	139,639	(182,529)	101,978
Income taxes	(179,229)	(104,280)	(343,357)	(93,780)
	205,886	357,533	(210,497)	773,666
Investing activities				
Sales of marketable securities	-	699,612	-	787,288
Loan receivable	17,748	34,315	3,184	-
Capital asset purchases	(338,789)	(580,578)	(680,316)	(1,046,053)
Decline in market value of long term investment	-	4,004	-	4,004
	(321,041)	157,353	(677,132)	(254,761)
Financing activities				
Repayment of long term debt	(2,475)	(6,250)	(4,950)	(12,970)
Net proceeds from common share issue	-	3,321,219	-	3,321,219
Other financing activities		115,023		84,007
	(2,475)	3,429,992	(4,950)	3,392,256
Increase (decrease) in cash during period	(117,630)	3,944,878	(892,579)	3,911,161
Cash, beginning of the period	2,259,389	457,406	3,034,338	491,123

Cash, end of the period

2,141,759

4,402,284

2,141,759

4,402,284

Aeroquest International Limited
Summary of Significant Accounting Policies
Unaudited – Prepared by Management

October 31, 2005 and 2004

Basis of Presentation

been generally accepted accounting principles for interim financial statements. The interim financial statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality. These interim statements do not include all the note disclosure required for annual financial statements and therefore they should be read in conjunction with the Company's audited consolidated financial statements for the year ended April 30, 2005.

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian accepted accounting principles for interim financial statements. The interim financial statements have, in management's opinion, been properly prepared using judgement within reasonable limits of materiality. These interim statements do not include all the note disclosure required for annual financial statements and therefore they should be read in conjunction with the Company's audited consolidated financial statements for the year ended April 30, 2005.

Nature of Business

Aeroquest International Limited (formerly PICorp.) was incorporated by Certificate of Incorporation issued pursuant to the provisions of the General Corporation Law of the State of Delaware on September 21, 2001. On April 29, 2004, the Company was continued under the ABCA and on October 27, 2004 continued under the OBCA in conjunction with the Qualifying Transaction. The Company is a public company trading on the TSX Venture Exchange.

The Company's wholly owned subsidiary, Aeroquest Limited is incorporated under the laws of Ontario 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Aeroquest Limited. All significant intercompany transactions and balances have been eliminated on consolidation.

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.

Aeroquest International Limited
Summary of Significant Accounting Policies
Unaudited – Prepared by Management

October 31, 2005 and 2004

Revenue Recognition	<p>Revenue is recognized when fieldwork is complete, the contract revenue is fixed and determinable and ability to collect is reasonably assured. Customer deposits received in advance of contract completion and costs related to contracts for which field work is incomplete at period end are classified as deferred revenue and deferred contract costs respectively.</p> <p>Revenue on sale of equipment is recognized when the equipment is delivered to the customer, the amount is fixed and determinable and ability to collect is reasonably assured. The related cost of the equipment is recognized in cost of sales.</p>										
Financial Instruments	<p>It is management's opinion that, unless otherwise noted, the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments.</p> <p>The fair values of these financial instruments approximate their carrying values, unless otherwise noted.</p>										
Foreign Currency Translation	<p>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 exchange rate in effect at that date; At the year 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.</p>										
Cash and Cash Equivalents	<p>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.</p>										
Long-term Investments	<p>Long-term investments are carried at cost unless an impairment in value exists that is other than temporary, in which case the long-term investment is written down to fair market value.</p>										
Capital Assets	<p>Capital assets are stated at cost less accumulated amortization. Cost is net of related investment tax credits and government grants. Amortization based on the estimated useful life of the asset is calculated as follows:</p> <table><tr><td>Airborne and geophysical equipment:</td><td>30% diminishing balance</td></tr><tr><td>Automotive equipment:</td><td>30% diminishing balance</td></tr><tr><td>Data processing equipment:</td><td>30% diminishing balance</td></tr><tr><td>Leasehold improvements:</td><td>shorter of estimated economic life or lease term</td></tr><tr><td>Office equipment:</td><td>20% diminishing balance</td></tr></table>	Airborne and geophysical equipment:	30% diminishing balance	Automotive equipment:	30% diminishing balance	Data processing equipment:	30% diminishing balance	Leasehold improvements:	shorter of estimated economic life or lease term	Office equipment:	20% diminishing balance
Airborne and geophysical equipment:	30% diminishing balance										
Automotive equipment:	30% diminishing balance										
Data processing equipment:	30% diminishing balance										
Leasehold improvements:	shorter of estimated economic life or lease term										
Office equipment:	20% diminishing balance										

Aeroquest International Limited
Summary of Significant Accounting Policies
Unaudited – Prepared by Management

October 31, 2005 and 2004

Intellectual Property

Intellectual property is recorded at cost and amortized on a straight line basis over three years. The value of the intellectual property is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment of permanent nature in the value of the intellectual property is written off against earnings.

Long-lived Assets

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 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.

Research and Development

All research costs are charged to operations in the year of expenditure. Development costs are capitalized if they meet the criteria for capitalization and are amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits.

Income Taxes

The Company follows the 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

Direct awards of stock and liabilities 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. Accordingly, the fair value method of accounting is applied for stock options granted to directors, officers, employees and consultants whereby the weighted average fair value of options granted is measured as of the earlier of the period the options are vested or the performance is complete and are recognized in the financial statements in accordance with the nature of the services or the assets received. 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.

Aeroquest International Limited
Notes to Consolidated Financial Statements
Unaudited – Prepared by Management

October 31, 2005 and 2004

1. Loans Receivable

The loan receivable is due from a shareholder, is non-interest bearing and due on demand.

2. Long-term Investment

The Company owns shares in Canadian public companies. The market value of these shares at October 31, 2005 was approximately \$30,000 (\$50,000 in April 30, 2005).

3. Capital Assets

	October 31, 2005	April 30, 2005
	(unaudited)	(audited)
Airborne and geophysical equipment	\$ 3,240,988	\$ 2,726,359
Automotive equipment	388,916	373,051
Data processing equipment	245,568	213,788
Leasehold improvements	87,993	87,993
Office equipment	123,624	82,032
	4,087,089	3,483,223
Accumulated amortization	(1,467,934)	(1,049,150)
	2,619,155	2,434,073
Equipment in process	309,938	306,858
Net book value	\$ 2,929,093	\$ 2,740,931

Equipment in process relates to work in process on airborne equipment that was not ready for use at year end.

4. Intellectual Property

	October 31, 2005	April 30, 2005
	(unaudited)	(audited)
Intellectual property	\$ 375,032	\$ 375,032
Accumulated amortization	(218,770)	(156,265)
	\$ 156,262	\$ 218,767

Aeroquest International Limited
Notes to Consolidated Financial Statements
Unaudited – Prepared by Management

October 31, 2005 and 2004

5. Long-term Debt

	October 31, 2005	April 30, 2005
	(unaudited)	(audited)
Finance contract payable - 5.9%, due December 4, 2005, monthly payments of \$825 principal and interest.	\$ 630	\$ 5,580
Less: current portion	630	5,580
	\$ -	\$ -

(i) On May 31, 2004, debentures were issued with interest accruing at 10% commencing six months from the date of the original transfer of funds. When the Company entered into a reverse take-over, the entire principal amount was deemed to be converted into common shares at rates of \$.90 to \$1.00. Since the Company went public before the deferred interest was payable, no interest was accrued or payable.

6. Share Capital

(a) Authorized: Unlimited number of voting common shares.

(b) Issued and outstanding:

	Number of	Share capital
	common shares	
Pre-RTO issued common shares of PICorp.		
Balance at May 1, 2003	3,166,665	\$ 280,040
Consolidation of common shares on a 3 for 1 basis	(2,111,110)	-
	1,055,555	\$ 280,040
Pre-RTO issued common shares of Aeroquest Limited		
Balance at May 1, 2003	100	\$ 100
Shares issued for stock dividends	4,863,310	5
Stock options granted	-	123,260
Shares issued on stock options granted	1,369,565	138
Shares issued in exchange for intellectual property	4,167,025	375,032
	10,400,000	\$ 498,535
<u>Issued from the date of the RTO</u>		
Share capital is comprised of the number of issued and outstanding common shares of PICorp. and the stated capital of Aeroquest Limited	1,055,555	\$ 498,535
Common shares issued on the RTO	10,400,000	43,307
Debentures converted to Aeroquest International Limited shares, net of issue costs	2,373,607	2,071,423
Exercised options of Aeroquest International Limited shares	11,111	5,000
Public offering of Aeroquest International Limited shares	2,000,000	4,000,000
Costs relating to share issue net of income tax effect	-	(632,089)
	15,840,273	\$ 5,986,176

Aeroquest International Limited
Notes to Consolidated Financial Statements
Unaudited – Prepared by Management

October 31, 2005 and 2004

6. Share Capital (continued)

(c) 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 vest upon grant and have a term of five years.

In addition, the Company had granted 300,000 options to certain brokers as partial consideration for services rendered in respect of the RTO.

The following table reflects the continuity of all options granted for the period ended October 31, 2005.

	Number of options	Average exercise price
Outstanding, beginning of year	1,635,000	\$ 2.00
Granted	130,000	2.00
Outstanding and exercisable, end of year	1,765,000	\$ 2.00

The following table summarizes information about stock options outstanding at October 31, 2005.

Exercise price	Number outstanding, October 31, 2005	Weighted average remaining contractual life (years)	Weighted average exercise price
\$ 2.00	1,765,000	3.46	\$ 2.00

The fair value of stock options granted during the six month period ended October 31, 2005 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	\$1.35
Exercise price	\$2.00
Expected life of options	3 years
Expected stock price volatility	40%
Expected dividend yield	Nil
Risk-free interest rate	3.0%

The stock option expense for the quarter ended October 31, 2005 was \$nil (\$36,650 – in quarter ended July 31, 2005) with a corresponding credit to contributed surplus.

Aeroquest International Limited
Notes to Consolidated Financial Statements
Unaudited – Prepared by Management

October 31, 2005 and 2004

7. Related Party Transactions

During the three months ended October 31, 2005, the Company paid \$115,000 (\$130,000 in 2004) to companies owned by certain directors for management consulting services. During the six months ended October 31, 2005 the Company paid \$235,000 (\$260,000 in 2004) under the same arrangement. These 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 addition, during the three months ended October 31, 2005, the Company paid a total of \$247,000 in costs related to the termination of a contract with a former director.

In addition to the above, a bonus payable to a shareholder of \$nil (2004 - \$315,000) is included in accounts payable at the end of the period.

8. Commitments

The Company has operating leases for its two premises. The lease for one location is for \$4,667 per month, under a lease expiring in 2007. The other lease calls for payments of \$2,500 per month until 2007 and \$2,708 per month until 2010.

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

2006	\$	64,500
2007		79,000
2008		32,500
2009		32,500
2010		<u>32,500</u>
	\$	<u>241,000</u>

Aeroquest International Limited
Notes to Consolidated Financial Statements
Unaudited – Prepared by Management

October 31, 2005 and 2004

9. Earnings (Loss) per Share

Basic earnings (loss) per share has been calculated by dividing the net income (loss) by the weighted average number of shares outstanding during the six months period ended October 31, 2005. The fully diluted earnings (loss) per share is similar to the basic earnings (loss) per share, except the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued.

	Three Months Ended October 31, 2005	Three Months Ended October 31, 2004	Six Months Ended October 31, 2005	Six Months Ended October 31, 2004
Numerator				
Net Income (loss) for the period	\$ (523,683)	\$ 565,380	\$ (852,116)	\$ 591,347
Denominator				
Average common shares outstanding	15,840,273	10,400,000	15,840,273	10,400,000
Fully diluted shares outstanding	17,555,273	11,586,111	17,156,940	10,993,056
Basic income (loss) per share	\$ (0.03)	\$ 0.05	\$ (0.05)	\$ 0.06
Fully diluted income (loss) per share	\$ (0.03)	\$ 0.05	\$ (0.05)	\$ 0.05

As the Company experienced a loss for the three and six months ended October 31, 2005, all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of loss per share in those periods.

11. Credit Facility

At quarter-end, the Company had operating facilities totaling \$750,000 available for its use, bearing interest at prime plus 0.5%, and secured by a general security agreement. At October 31, 2005 no amounts had been drawn on this facility.

