



Aeroquest International Limited

Unaudited Consolidated Financial Statements

For the 5 months and year ended September 30, 2007

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 September 30, 2007.

Aeroquest International Limited

Consolidated Balance Sheets
Unaudited – Prepared by Management



As at	Sept. 30, 2007 (Unaudited)	April 30, 2007 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 5,398,777	\$ 4,706,035
Accounts receivable	8,014,717	3,758,228
Unbilled contracts in progress	2,312,098	23,029
Prepaid expenses and deposits	462,109	606,144
Total current assets	16,187,701	9,093,436
Long term		
Long term investments (Note 1)	90,001	16,001
Capital assets (Note 2)	7,618,873	3,649,769
Intangible assets (Note 3)	20,431,860	-
Goodwill (Note 4)	9,199,108	-
Future income taxes (Note 10)	143,747	1,567
Total long term assets	37,483,589	3,667,337
Total Assets	\$ 53,671,290	\$ 12,760,773
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 5,325,928	\$ 2,134,442
Income taxes payable	2,238,543	994,943
Deferred revenue	3,838,463	1,761,281
Promissory notes (Note 5)	536,449	-
Capital lease obligations (Note 6)	292,466	-
Total current liabilities	12,231,849	4,890,666
Long term		
Promissory notes (Note 5)	2,597,339	-
Capital lease obligations (Note 6)	720,230	-
Future income taxes (Note 10)	6,566,056	-
Total Liabilities	22,115,474	4,890,666
Shareholders' equity		
Share capital (Note 8)	27,403,594	5,992,289
Contributed surplus (Note 8)	1,320,461	1,102,228
Accumulated other comprehensive income	72,794	-
Retained earnings	2,758,967	775,590
Total shareholders' equity	31,555,816	7,870,107
Total Liabilities and Shareholders' Equity	\$ 53,671,290	\$ 12,760,773

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 two months ended Sep. 30, '07	For the three months ended Oct. 31, '06	For the five months ended Sep. 30, '07	For the six months ended Oct. 31, '06
Sales	\$ 9,944,268	\$ 5,387,482	\$ 19,299,618	\$ 10,152,455
Cost of sales	6,077,781	2,388,050	11,573,913	5,188,447
Gross profit	3,866,487	2,999,432	7,725,705	4,964,008
Expenses and other items				
Amortization of intangible assets	534,499	31,253	892,587	62,505
Depreciation of capital assets	371,074	259,300	694,808	426,838
Development expense	115,128	149,858	287,554	314,343
Foreign exchange (gain)/loss	240,518	3,793	384,363	(5,248)
General and administrative	1,156,581	953,324	2,353,069	1,720,776
Stock based compensation expense	4,582	21,330	11,458	144,830
Total operating expenses	2,422,382	1,418,858	4,623,839	2,664,044
Operating profit	1,444,105	1,580,574	3,101,866	2,299,964
Other costs (income) (Note 12)	38,346	(24,151)	(420)	(35,197)
Income before income taxes	1,405,759	1,604,725	3,102,286	2,335,161
Income taxes (Note 10)				
Current	649,933	659,504	1,408,701	826,118
Future	(290,009)	-	(289,792)	-
Net income for the period	\$ 1,045,835	\$ 945,221	\$ 1,983,377	\$ 1,509,043
Revaluation of long term investments to fair market value	(1,000)	-	(1,000)	-
Unrealized gain on translation of self-sustaining foreign operations	23,990	-	25,793	-
Total comprehensive income, for the period	\$ 1,068,825	\$ 945,221	\$ 2,008,170	\$ 1,509,043

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 two months ended Sep. 30, '07	For the three months ended Oct. 31, '06	For the five months ended Sep. 30, '07	For the six months ended Oct. 31, '06
Retained earnings (deficit), beginning of period, as previously reported	\$ 1,713,132	(\$ 840,885)	\$ 530,561	(\$ 1,136,790)
Cumulative effect of change in accounting policy (Note 9)	-	365,685	245,029	97,768
Retained earnings (deficit), beginning of period, as restated	1,713,132	(475,200)	775,590	(1,039,022)
Net income	1,045,835	945,221	1,983,377	1,509,043
Retained earnings, end of period	\$ 2,758,967	\$ 470,021	\$ 2,758,967	\$ 470,021
Earnings per share (Note 11)				
Basic	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.10
Fully diluted	\$ 0.04	\$ 0.05	\$ 0.08	\$ 0.09

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 two months ended Sep. 30, '07	For the three months ended Oct. 31, '06	For the five months ended Sep. 30, '07	For the six months ended Oct. 31, '06
Cash provided by (used in)				
Operating activities				
Net income for the period	\$ 1,045,835	\$ 945,221	\$ 1,983,377	\$ 1,509,043
Operating items not requiring cash				
Depreciation of capital assets	371,074	259,300	694,808	426,838
Amortization of intangible assets	534,499	31,253	892,587	62,505
Translation of self-sustaining foreign operation	23,991	-	25,794	-
Future income taxes	(290,009)	22,792	(289,792)	22,792
Interest accretion on promissory notes	76,434	-	76,434	-
Stock based compensation	4,582	21,330	11,458	144,830
Operating cash flow before changes in non-cash working capital	1,766,406	1,279,896	3,394,666	2,166,008
Accounts receivable	493,102	(1,122,315)	(1,160,771)	(1,429,172)
Prepaid expenses	156,414	(27,409)	144,035	(1,386)
Unbilled contracts in progress	(803,589)	33,203	(927,830)	43,763
Accounts payable and accrued liabilities	959,155	(367,934)	(762,718)	(163,453)
Income taxes	(803,066)	727,000	(84,273)	893,614
Deferred revenue	(1,730,205)	150,679	2,077,182	166,915
Total cash flow from operating activities	38,217	673,120	2,680,291	1,676,289
Investing activities				
Capital asset purchases	(573,571)	(318,192)	(1,553,809)	(783,509)
Loan receivable	-	16,278	-	16,278
Acquisition, net of cash acquired (Note 4)	(19,090)	-	(7,321,077)	-
Total cash flow from investing activities	(592,661)	(301,914)	(8,874,886)	(767,231)
Financing activities				
Capital lease payments	(86,920)	-	(110,743)	-
Aeroquest shares redeemed		(2,925)		(2,925)
Proceeds from issuance of common shares	66,000	1,250	6,998,080	1,250
Total cash flow from financing activities	(20,920)	(1,675)	6,887,337	(1,675)
Net change in cash / cash equivalents for the period	(\$ 575,364)	\$ 369,531	\$ 692,742	\$ 907,383
Cash and cash equivalents, beginning of period	5,974,141	3,048,531	4,706,035	2,510,679
Cash and cash equivalents, end of period	\$ 5,398,777	\$ 3,418,062	\$ 5,398,777	\$ 3,418,062

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 five months ending September 30, 2007



	Share capital	Contributed surplus	Retained earnings	Accumulated other comprehensive income	Total shareholders' equity
Balance Apr 30, '07	\$ 5,992,289	\$ 1,102,228	\$ 775,590	\$ -	\$ 7,870,107
Transitional adjustment on adoption of financial instruments				48,000	48,000
Issuance of common shares for cash	7,650,000				7,650,000
Issuance of common shares on acquisition	14,620,000				14,620,000
Costs associated with equity issue	(1,005,670)				(1,005,670)
Share issuances pursuant to stock options exercised	146,975	(63,225)			83,750
Broker warrants		270,000			270,000
Net income for the period			1,983,377		1,983,377
Stock based compensation expense		11,458			11,458
Unrealized gain on translation of self sustaining foreign operations				25,794	25,794
Revaluation of long term investments to fair market value				(1,000)	(1,000)
Balance Sep. 30 '07	\$ 27,403,594	\$ 1,320,461	\$ 2,758,967	\$ 72,794	\$ 31,555,816

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



Significant Accounting Policies

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 acquired 100% of the voting shares of Universal Tracking Systems Pty Ltd on July 3, 2007. Universal Tracking Systems 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.

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 has changed its year end to September 30. This financial report is for the five months and also year ending September 30, 2007 with a comparison to the six months ending October 31, 2006. As a result of this change, the quarterly results at September 30, 2007 represent two months of activity with a comparison to the three months ending October 31, 2006.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aeroquest Limited, Aeroquest (UK) Limited and Universal Tracking Systems Pty Ltd (UTS). All significant inter company 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

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.

The annual financial statements follow the same accounting policies and methods as the most recent annual financial statements with the exception of a change in its revenue recognition policy from a completed contract basis to a percentage of completion basis effective May 1, 2007. 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.

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.

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

Financial Instruments:

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: 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: initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

Available-for-sale financial assets: 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: 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 \$24,793 in “other comprehensive income” transactions during the five months ended September 30, 2007 and had an opening transitional adjustment to accumulated other comprehensive income of \$48,000 at May 1, 2007.



Notes To Consolidated Financial Statements

1. Long Term Investments

The Company owns shares in a number of Canadian public companies. The market value of these investments at September 30, 2007 was \$90,001, (\$91,000 at April 30, 2007).

2. Capital Assets

	September 30, 2007			April 30, 2007 Net Book Value
	Cost	Accumulated Depreciation	Net Book Value	
Airborne and geophysical equipment	\$ 8,734,967	\$ 2,754,895	\$ 5,980,072	\$ 2,562,147
Automotive equipment	585,265	276,669	308,596	162,949
Data processing equipment	449,887	219,748	230,139	189,483
Leasehold improvements	95,510	11,878	83,632	88,586
Office equipment	377,014	89,329	287,685	180,208
Equipment in process	728,749		728,749	466,396
	\$ 10,971,392	\$ 3,352,519	\$ 7,618,873	\$ 3,649,769

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

Included in the above are assets under capital lease as

	Sept. 2007		
	Cost	Accum. Depreciation	Net Book Value
Airborne and geophysical equipment	\$ 1,335,226	\$ 100,142	\$ 1,235,084

Depreciation for assets under capital lease for the period was \$100,142.

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	Amortization Period in Years	September 30, 2007		
		Cost	Amortization	Net Book Value
Customer relationships	7	\$ 12,717,447	\$ 454,194	\$ 12,263,253
Technology	7	5,926,000	211,643	5,714,357
Sales backlog	1	907,000	226,750	680,250
Trade name	0	1,774,000		1,774,000
		\$ 21,324,447	\$ 892,587	\$ 20,431,860

4. Business Acquisitions

On July 3, 2007, the Company acquired 100% of the outstanding share capital of Universal Tracking Systems Pty Ltd. for a total consideration of CAD\$24,998,431, which includes direct costs related to the acquisition of \$270,281. The total consideration paid is made up of the following:

Cash, net of cash acquired	\$ 7,050,796
Acquisition costs	270,281
	7,321,077
Shares of Aeroquest International (6,800,000 shares @ \$2.15)	14,620,000
Promissory Note	3,057,354
Total Purchase Price	\$ 24,998,431

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	9,199,108
Total net assets acquired, net of cash	\$ 24,998,431

5. Promissory Notes

As part of the acquisition of UTS, the Company entered into unsecured subordinated promissory note agreements with the sellers UTS 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 fair value of the notes at September 30, 2007 under the effective interest method is \$3,133,788. The \$76,434 difference between the fair value at acquisition and year end represents interest accretion.

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.

Included in the balance is \$2,663,806 due to related parties.

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	\$ 358,106
Later than one year but not later than five years	786,369
Minimum lease payments	1,144,475
Future finance charges	<u>(131,779)</u>
Recognized as a liability	<u>\$ 1,012,696</u>
Representing Capital Lease Obligation:	
Current	292,466
Long term	<u>720,230</u>
	<u>\$ 1,012,696</u>

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 2012. The minimum annual lease payments for the next five years are as follows:

2008	\$ 406,007
2009	398,177
2010	284,335
2011	285,668
2012	102,433
	<hr/>
	\$ 1,476,620

8. Share Capital

a. Authorized

Unlimited number of voting common shares.

b. Issued and Outstanding

	September 30, 2007		April 30, 2007	
Share capital, opening	15,857,773	\$ 5,992,289	15,840,273	\$ 5,836,176
Shares issued on exercise of stock options	152,500	146,975	255,000	243,925
Issuance of common shares for cash	4,500,000	7,650,000	-	-
Issuance of common shares on acquisition (Note 4)	6,800,000	14,620,000	-	-
Costs associated with equity issue	-	(1,005,670)	-	-
Shares redeemed	-	-	(237,500)	(87,812)
Share capital, closing	27,310,273	\$ 27,403,594	15,857,773	\$ 5,992,289

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.

The Company did not redeem any of its shares in the year period September 30, 2007. For the year ending April 30, 2007, the Company redeemed shares at a total cost of \$330,402. This amount is allocated as follows: \$87,812 to share capital, \$16,924 to contributed surplus and the resulting excess of \$225,666 to retained earnings.

c. Share purchase warrants

Warrants issued in the first quarter 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	July 3, 2009
450,000	\$0.60	1.95	July 3, 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. No warrants had been exercised at 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 following table reflects the continuity of options granted under the stock option plan for the periods ending September 30, 2007 and April 30, 2007.

	Number of Options	Avg. Exercise Price
Outstanding April 30, 2006	997,500	1.10
Options granted	740,000	0.62
Options expired or cancelled	(355,000)	1.96
Options exercised	(255,000)	0.55
Total outstanding and exercisable April 30, 2007	1,127,500	0.64
Options granted	-	-
Options exercised	(152,500)	0.55
Options expired	-	-
Total outstanding and exercisable Sept. 30, 2007	975,000	\$ 0.65

The fair value of stock options granted during the April 2007 period was estimated using a Black-Scholes option pricing model on the date of the grant with the following weighted average assumptions:

Stock option price at grant date	\$0.60-\$0.72
Exercise price	\$0.62
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 September 30, 2007:

	Number of Units	Average Exercise Price
Outstanding, April 30, 2006	-	-
Granted	120,000	\$0.75
Expired/Cancelled	(10,000)	0.75
Outstanding April 30, 2007	110,000	0.75
Granted	-	-
Expired	-	-
Outstanding, Sept. 30, 2007	110,000	\$0.75

f. Contributed Surplus

	Sept. 30, 2007	April 30, 2007
Contributed surplus, beginning of period	\$ 1,102,228	\$ 986,771
Stock option expense	-	221,410
Restricted stock unit expense	11,458	14,896
Redemption of shares	-	(16,924)
Exercise of stock options	(63,225)	(103,925)
Broker warrants (450,000 @ \$0.60)	270,000	-
Contributed surplus, end of period	\$ 1,320,461	\$ 1,102,228

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. This change in accounting policy applied retroactively has a total impact on net income of \$328,900 increase of which \$245,029 relates to prior periods. The following table outlines the impact for the current and prior periods.

	September 2007	April 30, 2007 and Prior	Total
Change in revenue	(\$ 36,353)	\$ 532,623	\$ 496,270
Change in cost of sales	(120,224)	287,594	167,370
Total net impact to earnings	\$ 83,871	\$ 245,029	\$ 328,900

10. Income Taxes

	Sept. 30, 2007	April 30, 2007
Income (loss) before income taxes	\$ 3,102,286	\$ 3,330,860
Statutory income tax rate	36.12%	36.12%
Computed income tax payable (recovery)	1,120,546	1,203,107
Non-deductible expenses	8,191	36,894
Non deductible amortization	101,854	33,865
Other	14,262	163,692
Loss carry forward utilized		(104,614)
Recognition of future tax assets		83,397
Prior year ITC's		21,502
Lower tax rate in foreign jurisdiction	(125,944)	-
Income taxes	\$ 1,118,909	\$ 1,437,843

The tax effects of temporary differences that give rise to significant portion of the future tax assets at September 30, 2007 and April 30, 2007 are presented below:

	Sept. 30, 2007	April 30, 2007
Future taxes		
Loss carry forwards	\$ 52,542	\$ 50,790
Capital assets	(68,770)	(64,093)
Financing fees	22,007	14,870
Other comprehensive income	(26,728)	
CMT	35,716	
UTS intangibles	(6,437,076)	-
Net future tax asset/(liability)	(\$ 6,422,309)	\$ 1,567

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.

	Sept.30, 2007	April 30, 2007
Numerator		
Net Income for the period	\$ 1,983,377	\$ 2,040,278
Denominator		
Average common shares outstanding	22,701,773	15,787,215
Fully diluted common shares outstanding	23,419,661	16,984,715
Basic earnings per share	\$ 0.09	\$ 0.13
Fully diluted earnings per share	\$ 0.08	\$ 0.12

12. Other Costs (Income)

Other income includes interest income earned on cash balances during the period of \$76,854 and interest expense of \$76,434 for a net of \$420 for the five months ending September 30, 2007.

13. Segmented Information

For the periods ended September 30, 2007 and April 30, 2007, no one customer individually represented more than 10% of revenue.

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 five months ended September 30, 2007 and the twelve months ended April 30, 2007:

	Sep. 30, 2007	April 30, 2007
Revenue		
Canada	\$ 10,524,594	\$ 15,349,140
Australia	3,090,000	0
Rest of World	5,685,024	4,837,903
	\$ 19,299,618	\$ 20,187,043

Goodwill is located in Australia and all capital assets originate in Canada and Australia and are mobilized to the job sites around the world.

14. Related Party Transactions

During the period, the Company paid \$4,500 (\$90,000 in October 2006) to companies owned by certain directors for management consulting services. 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 the year, the company entered into promissory notes with certain directors as part of the financing of the UTS acquisition on July 3, 2007. The amount of the promissory notes to these two directors is \$2,663,806.

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 September 30, 2007 and April 30, 2007 no amounts have been drawn on this facility. In Australia, an operating facility is in place for UTS of A\$400,000 and, at September 30, 2007, 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 11.25%.

16. Subsequent Events

On November 6, 2007, Aeroquest International Limited announced that it has entered into a Letter of Intent to acquire Geophex, Ltd. of Raleigh, N. Carolina. Geophex is a leading research company specializing in the design and construction of geophysical instruments with a particular focus on the utilization of electromagnetic technology.

Geophex, founded in 1983 by Dr. IJ Won, 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 purchase price is expected to be US\$6 million and will be funded with a combination of cash and shares of Aeroquest. Aeroquest currently has sufficient internal resources to fund the cash portion of the transaction. The acquisition is expected to close before December 31, 2007.

The Letter of Intent is still subject to confirmatory due diligence, execution of definitive legal documentation and other customary conditions. The companies are negotiating the terms of a Definitive Agreement of Purchase and Sale, but there is no assurance that these negotiations will result in a completed transaction.