

## **Aeroquest International Limited**

### **Unaudited Interim Consolidated Financial Statements**

**For the nine months ended January 31, 2007 and 2006**

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 January 31, 2007.

**Aeroquest International Limited**  
**Consolidated Balance Sheets**  
Unaudited – Prepared by Management

As at	Unaudited January 31, 2007	Audited April 30, 2006
<b>Assets</b>		
<b>Current:</b>		
Cash and cash equivalents	\$ 3,861,208	\$ 2,510,679
Accounts receivable	3,492,725	1,907,319
Prepaid expenses	207,704	58,681
Income taxes receivable	-	480,000
Contracts in process	139,922	165,749
Loans receivable (note 1)	41,850	60,528
	<u>7,743,409</u>	<u>5,182,956</u>
<b>Long term:</b>		
Long-term investments (note 2)	126,001	126,001
Capital assets (note 3)	2,982,870	2,607,618
Intellectual property (note 4)	-	93,757
Future income taxes	40,000	62,792
	<u>3,148,871</u>	<u>2,890,168</u>
<b>Total Assets</b>	<b>\$ 10,892,280</b>	<b>\$ 8,073,124</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current:</b>		
Accounts payable and accrued liabilities	\$ 1,786,732	\$ 1,584,042
Income taxes payable	578,759	-
Deferred revenue	935,578	802,925
	<u>3,301,069</u>	<u>2,386,967</u>
<b>Shareholders' equity</b>		
Share capital (note 5)	5,834,156	5,836,176
Contributed surplus	1,131,600	986,771
Retained earnings (deficit)	625,455	(1,136,790)
	<u>7,591,211</u>	<u>5,686,157</u>
<b>Total Shareholders' Equity</b>	<b>7,591,211</b>	<b>5,686,157</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 10,892,280</b>	<b>\$ 8,073,124</b>

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

**Aeroquest International Limited**  
**Consolidated Statements of Operations and Retained Earnings**  
Unaudited – Prepared by Management

For the period	<u>Three months ended</u>		<u>Nine months ended</u>	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
<b>Revenue</b>	<b>\$ 4,424,845</b>	\$ 1,764,320	<b>\$ 14,429,793</b>	\$ 6,429,035
<b>Cost of sales</b>	<b>2,685,074</b>	825,600	<b>7,838,213</b>	4,033,674
<b>Gross margin</b>	<b>1,739,771</b>	938,720	<b>6,591,580</b>	2,395,361
<b>Expenses and Other Items:</b>				
Development expenses	98,583	182,307	412,926	748,936
General and administrative expenses	804,753	632,801	2,520,280	1,998,893
Amortization expense	269,635	231,330	758,979	712,621
Stock option expense	-	-	144,830	36,650
	<b>1,172,971</b>	1,046,438	<b>3,837,015</b>	3,497,100
<b>Operating profit (loss)</b>	<b>566,800</b>	(107,718)	<b>2,754,565</b>	(1,101,739)
Other costs/(income)	(31,247)	(8,174)	(66,443)	(35,500)
Contract cancellation costs	67,500	-	67,500	268,250
Write down of discontinued development projects	-	-	-	73,368
	<b>36,253</b>	(8,174)	<b>1,057</b>	306,118
<b>Income (loss) before income taxes</b>	<b>530,547</b>	(99,544)	<b>2,753,508</b>	(1,407,857)
<b>Income taxes:</b>				
Current (recovery)	165,146	(21,051)	991,263	(477,248)
<b>Net income (loss) for the period</b>	<b>365,401</b>	(78,493)	<b>1,762,245</b>	(930,609)
<b>Retained earnings (deficit), beginning of period</b>	<b>260,054</b>	(740,678)	<b>(1,136,790)</b>	111,438
<b>Dividends</b>	-	-	-	-
<b>Retained earnings (deficit), end of period</b>	<b>\$ 625,455</b>	\$ (819,171)	<b>\$ 625,455</b>	\$ (819,171)
<b>Earnings (loss) per share:</b>				
Basic (note 9)	<b>\$ 0.02</b>	\$ (0.005)	<b>\$ 0.11</b>	\$ (0.06)
Fully diluted	<b>\$ 0.02</b>	\$ (0.005)	<b>\$ 0.10</b>	\$ (0.06)

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

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

For the period	<u>Three months ended</u>		<u>Nine months ended</u>	
	January 31, 2007	January 31, 2006	January 31, 2007	January 31, 2006
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss)	\$ 365,401	\$ (78,493)	\$ 1,762,245	\$ (930,609)
Operating items not requiring cash:				
Amortization	269,635	231,330	758,979	712,621
Stock option expense	-	-	144,830	36,650
Future income taxes	-	-	22,792	-
Write down of discontinued development projects	-	-	-	73,368
Operating cash flow before changes in non-cash working capital	<b>635,036</b>	152,837	<b>2,688,846</b>	(107,970)
Accounts receivable	<b>(166,644)</b>	918,654	<b>(1,595,817)</b>	1,041,974
Prepaid expenses	<b>(147,637)</b>	(55,772)	<b>(149,023)</b>	(59,210)
Contracts in process	<b>17,373</b>	(116,863)	<b>25,827</b>	116,360
Accounts payable and accrued liabilities	<b>376,553</b>	23,762	<b>213,100</b>	246,853
Deferred revenue	<b>(181,770)</b>	(270,655)	<b>132,653</b>	(453,184)
Income taxes	<b>165,145</b>	(179,112)	<b>1,058,759</b>	(522,469)
Cash flow from operating activities	<b>698,056</b>	472,851	<b>2,374,345</b>	262,354
<b>Investing activities</b>				
Capital asset purchases	<b>(256,965)</b>	(85,476)	<b>(1,040,474)</b>	(765,793)
Loan receivable	<b>2,400</b>	-	<b>18,678</b>	3,184
Cash flow from investing activities	<b>(254,565)</b>	(85,476)	<b>(1,021,796)</b>	(762,609)
<b>Financing activities</b>				
Shares issued from option plan	-	-	<b>1,250</b>	-
Shares cancelled from NCIB	<b>(345)</b>	-	<b>(3,270)</b>	-
Repayment of long term debt	-	(631)	-	(5,580)
	<b>(345)</b>	(631)	<b>(2,020)</b>	(5,580)
<b>Net change in cash and cash equivalents for the period</b>	<b>443,146</b>	386,744	<b>1,350,529</b>	(505,835)
<b>Cash and cash equivalents, beginning of the period</b>	<b>3,418,062</b>	2,141,759	<b>2,510,679</b>	3,034,338
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 3,861,208</b>	\$ 2,528,503	<b>\$ 3,861,208</b>	\$ 2,528,503

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

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

**January 31, 2007 and 2006**

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**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. The Company's wholly owned subsidiary, Aeroquest (UK) Limited is incorporated under the laws of England and Wales. Both are 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 subsidiaries, Aeroquest Limited and Aeroquest (UK) Limited. All significant inter company 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.

**Revenue Recognition**

Revenue is recognized when fieldwork is substantially complete, the contract revenue is fixed and determinable and collectibility is reasonably assured. Contracts range for less than a one year period. Costs related to contracts for which field work is incomplete at period end are classified as contracts in process while customer deposits received in advance for these contracts in process are classified as deferred revenue.

Revenue on the sale of equipment is recognized when the equipment is delivered to the customer, the amount is fixed and determinable and collectibility is reasonably assured. The related cost of the equipment is recognized in cost of sales.

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

**January 31, 2007 and 2006**

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<b>Financial Instruments</b>	Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair value of financial instruments approximate their carrying values, unless otherwise noted.										
<b>Foreign Currency Translation</b>	<p>Foreign currency accounts are translated into Canadian dollars as follows:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date.</li></ul> <p>The resulting foreign exchange gains and losses are included in income in the current period.</p>										
<b>Cash and Cash Equivalents</b>	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.										
<b>Long-term Investments</b>	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.										
<b>Capital Assets</b>	<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>Office equipment</td><td>- 20% diminishing balance</td></tr><tr><td>Leasehold improvements</td><td>- shorter of estimated economic life or lease term</td></tr></table>	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
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										
<b>Intellectual Property</b>	Intellectual property is recorded at cost and amortized on a straight line basis over 3 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.										
<b>Long-lived Assets</b>	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										

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

**January 31, 2007 and 2006**

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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 only 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**

The Company has adopted the recommendations of the CICA with respect to stock-based compensation and other stock-based payments. These standards require that direct awards of stock, liabilities incurred or other compensation arrangements that are based on the price of common stock, be 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.

The fair value method of accounting is applied for restricted stock units granted to directors, officers, employees and consultants whereby the weighted average fair value of restricted stock units granted is measured from the grant date and accrued in the financial statements over the vesting period of 1/3 per year over the three year period. When the awards are fully vested, share capital is credited by the sum of the consideration together with the related portion previously credited to contributed surplus.

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

**January 31, 2007 and 2006**

**1. Loans Receivable**

The loans receivable are due from two shareholders, are non-interest bearing and due on demand. Re-payments are being made on the one loan at a rate of \$5,000 per month until the receivable has been paid off – expected in July 2007. The second loan will be repaid in March 2007.

**2. Long-term Investments**

	(Unaudited) January 31, 2007	(Audited) April 30, 2006
Convertible Debenture	\$ 110,000	\$ 110,000
Public Company Shares	16,001	16,001
	<b>\$ 126,001</b>	<b>\$ 126,001</b>

The convertible debenture is non-interest bearing to the maturity date and bears interest at 15% p.a accrued daily, compounded monthly beyond the maturity date to the date of payment. Once final approval has been received for a listing for trading on the CNQ, the issuer has agreed to pay 40% of the principal balance concurrently with the closing of the first issuance of securities. The balance of 60% is to be repaid in three payments of 20% each, every 90 days thereafter, with any remaining amounts to be paid in full by the maturity date. This debenture is convertible in whole or in part at any time up to and including the maturity date at the conversion price of \$0.05 or for 2,200,000 common shares. The maturity date is 12 months after the closing of the first issuance of securities to the public. Aeroquest also holds 2,200,000 warrants to purchase 2,200,000 common shares of the issuer at \$0.07 per share expiring on May 11, 2007.

The Company owns shares in several Canadian public companies. The market value of these shares at January 31, 2007 was \$92,000 (\$142,000 at April 30, 2006).

**3. Capital Assets**

	(Unaudited) 31-Jan-07			(Audited) 30-Apr-06
	Cost	Accum. Amortization	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$ 4,135,056	\$ 1,929,875	\$ 2,205,181	\$ 1,735,511
Automotive equipment	441,774	254,186	187,588	223,429
Data processing equipment	330,561	178,295	152,266	113,520
Leasehold improvements	87,993	77,373	10,620	32,618
Office equipment	186,724	60,231	126,493	95,402
	5,182,108	2,499,960	2,682,148	2,200,480
Equipment in process	300,722	-	300,722	407,138
	<b>\$ 5,482,830</b>	<b>\$ 2,499,960</b>	<b>\$ 2,982,870</b>	<b>\$ 2,607,618</b>

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

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

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4. Intellectual Property	(Unaudited)	(Audited)
	January 31, 2007	April 30, 2006
Intellectual property	\$ 375,032	\$ 375,032
Accumulated amortization	(375,032)	(281,275)
	<u>\$ -</u>	<u>\$ 93,757</u>

**5. Share Capital**

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

(b) Issued and outstanding:

Pre-reverse take-over issued common shares of PICorp.

	No. of Common Shares	Share Capital
PICorp Capital Ltd. - balance at May 1, 2003	3,166,665	\$ 280,040
Consolidation of common shares on a 3 for 1 basis	(2,111,110)	-
	<u>1,055,555</u>	<u>\$ 280,040</u>

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

Pre-reverse take-over issued common shares of Aeroquest Limited	<u>10,400,000</u>	<u>\$ 498,535</u>
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Opening share capital (comprised of the number of issued and outstanding common shares of PICorp and the stated capital of Aeroquest Limited)	1,055,555	\$ 43,307
Common shares issued on the RTO	10,400,000	498,535
Debentures converted to Aeroquest International Limited shares, net of issue costs	2,373,607	2,071,423
Public offering of Aeroquest International Limited shares	2,000,000	4,000,000
Costs relating to share issue net of income tax effect	-	(782,089)
Shares issued upon exercise of options in Aeroquest International Limited	13,611	6,250
Shares cancelled on purchase under NCIB	(5,000)	(3,270)
	<u>15,837,773</u>	<u>\$ 5,834,156</u>

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

**January 31, 2007 and 2006**

**5. Share Capital (continued)**

In the second quarter, the Company received approval from the TSX for a normal course issuer bid whereby the Company has been given the right to purchase up to 500,000 of its own common shares on the open market for cancellation. At January 31, 2007 the Company has acquired 5,000 common shares of Aeroquest International Limited for cancellation. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

(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.

The following table reflects the continuity of options granted under the stock option plan for the period ended January 31, 2007.

	Number of options	Average exercise price
Outstanding, beginning of year	697,500	\$ 0.71
Granted	740,000	.62
Options exercised or expired	(57,500)	1.74
Outstanding, end of period	1,380,000	\$ .62

The following table summarizes information about stock options outstanding at January 31, 2007.

Exercise Price	Number outstanding, January 31, 2007	Weighted Average remaining contractual life (years)	Weighted average exercise price
\$ 0.50 to \$2.00	1,380,000	4.10	\$ .62

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

Stock price at grant date	\$0.36 - \$1.35
Exercise price	\$0.50 - \$2.00
Expected life of options	3 years
Expected stock price volatility	40%
Expected dividend yield	-
Risk-free interest rate	3.0% - 4.0%

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

**January 31, 2007 and 2006**

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5. Share Capital (continued)

(d) Contributed Surplus

	(Unaudited) <u>January 31, 2007</u>	(Audited) <u>April 30, 2006</u>
Contributed surplus, beginning of year	\$ 986,771	925,950
Stock option expense	144,830	61,510
Adjustment on consolidation	-	(689)
Contributed surplus, end of year	<u>\$ 1,131,601</u>	<u>\$ 986,771</u>

(e) Restricted Stock Unit Plan

The Company has a Restricted Stock Unit plan under which the directors of the Company may grant RSU shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The strike price of these grants will not be less than the market price of the common shares at the time of the grant. The grants vest over a three year period with one third vesting in each of the three years on the anniversary date of the grant.

In October 2006 a total of 120,000 RSU shares were granted to employees at an average price of \$0.75 per share.

The fair value of RSU shares granted during the 2007 fiscal year was estimated on the date of the grant using a Black-Scholes option pricing model with the following weighted average assumptions

Stock price at grant date	\$0.75
Exercise price	\$0.75
Expected life of grants	3 years
Expected stock price volatility	40%
Expected dividend yield	-
Risk-free interest rate	3.0% - 4.0%

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6. Related Party Transactions

During the period, the Company paid \$90,000 (\$105,000 in 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. During the nine months ending January 31, 2007 the company has paid \$270,000 (\$290,000 in 2006) under the same arrangements.

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

**January 31, 2007 and 2006**

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**7. Commitments**

The Company has several operating leases for office locations. One lease is for \$4,958 per month, under a lease expiring in February 2007. Another lease calls for payments of \$3,437 per month until April 2007 and \$3,646 per month thereafter until April 2010. Another lease calls for monthly payments of \$1,833 for 24 months and then \$1,896 per month for the final 12 months. The company has entered into a five year lease arrangement beginning February 1, 2007 to re-locate its head office to Mississauga with lease payments of \$15,967 per month with annual increases of 1.6% per year.

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

2007	\$ 66,194
2008	258,166
2009	261,773
2010	254,002
2011	202,103
2012	<u>153,394</u>
	<u>\$ 1,195,632</u>

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**8. Segmented Information**

The Company has only one business segment, the provision of airborne geophysical surveys.

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**9. Earnings (Loss) per Share**

Basic earnings (loss) per share has been calculated by dividing the net earnings (loss) by the weighted average number of shares outstanding during the year. The fully diluted earnings (loss) per share is similar to the basic 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.

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

**January 31, 2007 and 2006**

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	<u>31-Jan-07</u>	<u>31-Jan-06</u>	<u>31-Jan-07</u>	<u>31-Jan-06</u>
Numerator				
Net income (loss) for period	\$ 365,401	\$ (78,493)	\$ 1,762,245	\$ (930,609)
Denominator				
Average common shares outstanding	15,837,773	15,840,273	15,837,773	15,840,273
Fully diluted shares outstanding	17,217,773	17,075,273	17,217,773	17,075,273
Basic income (loss) per share	\$ 0.02	\$ (0.00)	\$ 0.11	\$ (0.06)
Fully diluted income (loss) per share	\$ 0.02	\$ (0.00)	\$ 0.10	\$ (0.06)

The weighted average number of shares used in computing the earnings per share for 2006 was calculated based on the average number of shares outstanding for the year.

As the Company experienced a loss for 2006, all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of loss per share.

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**10. Credit Facility**

The Company has operating facilities totaling \$250,000 available for its use, bearing interest at prime plus 0.75%, and secured by a general security agreement. At January 31, 2007 no amounts have been drawn on this facility.

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**11. Comparative Figures**

The comparative figures have been reclassified to conform to the financial statement presentation of the current quarter.