

Aeroquest International Limited

Unaudited Interim Consolidated Financial Statements For the six months ended October 31, 2006 and 2005

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, 2006.

Aeroquest International Limited
Consolidated Balance Sheets
Unaudited – Prepared by Management

As at	Unaudited October 31, 2006	Audited April 30, 2006
Assets		
Current:		
Cash and cash equivalents	\$ 3,418,062	\$ 2,510,679
Accounts receivable	3,327,468	1,907,319
Prepaid expenses	60,067	58,681
Income taxes receivable	-	480,000
Contracts in process	157,295	165,749
Loans receivable (note 1)	44,250	60,528
	<u>7,007,142</u>	<u>5,182,956</u>
Long term:		
Long-term investments (note 2)	126,001	126,001
Capital assets (note 3)	2,964,289	2,607,618
Intellectual property (note 4)	31,251	93,757
Future income taxes	40,000	62,792
	<u>3,161,541</u>	<u>2,890,168</u>
Total Assets	<u>\$ 10,168,683</u>	<u>\$ 8,073,124</u>
Liabilities and Shareholders' Equity		
Current:		
Accounts payable and accrued liabilities	\$ 1,411,565	\$ 1,584,042
Income taxes payable	413,614	-
Deferred revenue	1,117,348	802,925
	<u>2,942,527</u>	<u>2,386,967</u>
Shareholders' equity		
Share capital (note 5)	5,834,501	5,836,176
Contributed surplus	1,131,601	986,771
Retained earnings (deficit)	260,054	(1,136,790)
	<u>7,226,156</u>	<u>5,686,157</u>
Total Shareholders' Equity	<u>7,226,156</u>	<u>5,686,157</u>
Total Liabilities and Shareholders' Equity	<u>\$ 10,168,683</u>	<u>\$ 8,073,124</u>

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	Three months ended		Six months ended	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
Revenue	\$ 5,777,702	\$ 1,866,532	\$ 10,004,947	\$ 4,664,715
Cost of sales	2,622,552	1,147,136	5,153,138	3,208,074
Gross margin	3,155,150	719,396	4,851,809	1,456,641
Expenses and Other Items:				
Development expenses	149,858	265,816	314,343	566,629
General and administrative expenses	957,117	718,944	1,715,528	1,366,092
Amortization expense	290,553	236,096	489,343	481,291
Stock option expense	21,330	-	144,830	36,650
	1,418,858	1,220,856	2,664,044	2,450,662
Operating profit (loss)	1,736,292	(501,460)	2,187,765	(994,021)
Other costs/(income)	(24,151)	(27,326)	(35,197)	(27,326)
Contract cancellation costs	-	268,250	-	268,250
Write down of discontinued development projects	-	73,368	-	73,368
	(24,151)	314,292	(35,197)	314,292
Income (loss) before income taxes	1,760,443	(815,752)	2,222,962	(1,308,313)
Income taxes:				
Current (recovery)	659,504	(292,069)	826,118	(456,197)
Net income (loss) for the period	1,100,939	(523,683)	1,396,844	(852,116)
Retained earnings (deficit), beginning of period	(840,885)	(216,995)	(1,136,790)	111,438
Dividends	-	-	-	-
Retained earnings (deficit), end of period	\$ 260,054	\$ (740,678)	\$ 260,054	\$ (740,678)
Earnings (loss) per share:				
Basic (note 9)	\$ 0.07	\$ (0.03)	\$ 0.09	\$ (0.05)
Fully diluted	\$ 0.06	\$ (0.03)	\$ 0.08	\$ (0.05)

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>Six months ended</u>	
	October 31, 2006	October 31, 2005	October 31, 2006	October 31, 2005
Cash provided by (used in)				
Operating activities				
Net income (loss)	\$ 1,100,939	\$ (523,683)	\$ 1,396,844	\$ (852,116)
Operating items not requiring cash:				
Amortization	290,553	236,096	489,343	481,291
Stock option expense	21,330	-	144,830	36,650
Future income taxes	22,792	-	22,792	-
Write down of discontinued development projects	-	73,368	-	73,368
Operating cash flow before changes in non-cash working capital	<u>1,435,614</u>	<u>(214,219)</u>	<u>2,053,809</u>	<u>(260,807)</u>
Accounts receivable	(1,122,315)	(259,482)	(1,429,172)	123,320
Prepaid expenses	(27,409)	3,437	(1,386)	(3,438)
Contracts in process	267,705	(280,210)	8,454	233,223
Accounts payable and accrued liabilities	(367,934)	600,869	(163,453)	223,091
Deferred revenue	(239,541)	534,720	314,423	(182,529)
Income taxes	727,000	(179,229)	893,614	(343,357)
Cash flow from operating activities	<u>673,120</u>	<u>205,886</u>	<u>1,676,289</u>	<u>(210,497)</u>
Investing activities				
Capital asset purchases	(318,192)	(338,789)	(783,509)	(680,316)
Loan receivable	16,278	17,748	16,278	3,184
Cash flow from investing activities	<u>(301,914)</u>	<u>(321,041)</u>	<u>(767,231)</u>	<u>(677,132)</u>
Financing activities				
Shares issued from option plan	1,250	-	1,250	-
Shares cancelled from NCIB	(2,925)	-	(2,925)	-
Repayment of long term debt	-	(2,475)	-	(4,950)
	<u>(1,675)</u>	<u>(2,475)</u>	<u>(1,675)</u>	<u>(4,950)</u>
Net change in cash and cash equivalents for the period	369,531	(117,630)	907,383	(892,579)
Cash and cash equivalents, beginning of the period	3,048,531	2,259,389	2,510,679	3,034,338
Cash and cash equivalents, end of the period	\$ 3,418,062	\$ 2,141,759	\$ 3,418,062	\$ 2,141,759

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

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

October 31, 2006 and 2005

Nature of Business

Aeroquest International Limited (formerly PISCorp.) 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 year end are classified as contracts in process whereas customer deposits received in advance for these contracts in process are classified as deferred revenue.

Revenue on 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.

Financial Instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or

Aeroquest International Limited
Summary of Significant Accounting Policies
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credit risks arising from its financial instruments. The fair value of financial instruments approximate their carrying values, unless otherwise noted.

Foreign Currency Translation

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 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.

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 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.

Capital Assets

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:

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

Intellectual Property

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.

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

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Summary of Significant Accounting Policies
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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.

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1. Loan Receivable

The loan receivable is due from a shareholder, is non-interest bearing and due on demand. Re-payments are being made at a rate of \$5,000 per month until the receivable has been paid off – expected in July 2007.

2. Long-term Investments

	(Unaudited) October 31, 2006	(Audited) April 30, 2006
Convertible Debenture	\$ 110,000	\$ 110,000
Public Company Shares	16,001	16,001
	\$ 126,001	\$ 126,001

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 October 31, 2006 was \$89,000 (\$142,000 at April 30, 2006).

3. Capital Assets

	(Unaudited) 31-Oct-06			(Audited) 30-Apr-06
	Cost	Accum. Amortization	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$ 3,970,459	\$ 1,736,633	\$ 2,233,826	\$ 1,735,511
Automotive equipment	441,774	236,326	205,448	223,429
Data processing equipment	314,771	165,530	149,241	113,520
Leasehold improvements	87,993	70,040	17,953	32,618
Office equipment	183,915	53,047	130,868	95,402
	4,998,912	2,261,576	2,737,336	2,200,480
Equipment in process	226,953	-	226,953	407,138
	\$ 5,225,865	\$ 2,261,576	\$ 2,964,289	\$ 2,607,618

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

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4. Intellectual Property	(Unaudited)	(Audited)
	October 31, 2006	April 30, 2006
Intellectual property	\$ 375,032	\$ 375,032
Accumulated amortization	(343,781)	(281,275)
	<u>\$ 31,251</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)	-
Pre-reverse take-over issued common shares of PICorp.	<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>

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
Shares issued upon exercise of options in Aeroquest International Limited	13,611	6,250
Shares cancelled on purchase under NCIB	(4,500)	(2,925)
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)
	<u>15,838,273</u>	<u>\$ 5,834,501</u>

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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 October 31, 2006 the Company has acquired 4,500 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 October 31, 2006.

	Number of options	Average exercise price
Outstanding, beginning of year	697,500	\$ 0.71
Granted	740,000	.62
Options exercised	(2,500)	.50
Outstanding, end of period	1,435,000	\$.67

The following table summarizes information about stock options outstanding at October 31, 2006.

Exercise Price	Number outstanding, October 31, 2006	Weighted Average remaining contractual life (years)	Weighted average exercise price
\$ 0.50 to \$2.00	1,435,000	4.50	\$.67

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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5. Share Capital (continued)

(d) Contributed Surplus

	(Unaudited) October 31, 2006	(Audited) April 30, 2006
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 2006 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	\$0.75
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%

6. Related Party Transactions

During the period, the Company paid \$90,000 (\$130,000 in 2005) 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.

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7. Commitments

The Company has operating leases for its three premises. The lease for one location 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. The newest lease calls for monthly payment of \$1,833 for 24 months and then \$1,896 per month for the final 12 months.

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

2007	\$	48,979
2008		65,750
2009		66,128
2010		55,127
	\$	235,984

8. Segmented Information

The Company has no distinct reportable business segments.

9. Earnings (Loss) per Share

Basic loss per share has been calculated by dividing the net loss by the weighted average number of shares outstanding during the year. The fully diluted 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.

	<u>31-Oct-06</u>	<u>31-Oct-05</u>	<u>31-Oct-06</u>	<u>31-Oct-05</u>
Numerator				
Net income (loss) for period	\$ 1,100,939	\$ (523,683)	\$ 1,396,844	\$ (852,116)
Denominator				
Average common shares outstanding	15,838,273	15,840,273	15,838,273	15,840,273
Fully diluted shares outstanding	17,273,273	17,605,273	17,273,273	17,605,273
Basic income (loss) per share	\$ 0.07	\$ (0.03)	\$ 0.09	\$ (0.05)
Fully diluted income (loss) per share	\$ 0.06	\$ (0.03)	\$ 0.08	\$ (0.05)

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. The weighted

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average number of shares used in computing the earnings per share for 2005 was calculated based on the number of shares outstanding for the period from the beginning of the fiscal year to the date of the reverse take-over, deemed to be the number of shares issued by Aeroquest International Limited (formerly PICorp.) (the legal parent) to the shareholders of Aeroquest Limited (the legal subsidiary) and for the period from the date of the reverse take-over to the end of the fiscal year based on the number of shares issued by the Company.

As the Company experienced a loss for 2005, all potential common shares outstanding from dilutive securities are considered anti-dilutive and are excluded from the calculation of loss per share.

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 October 31, 2006 no amounts have been drawn on this facility.

11. Comparative Figures

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