AEROQUEST
INTERNATIONAL
ADVANCED AIRBORNE GEOPHYSICS

Report For The Stub Year Ended 30 September 2007

Effective September 30, 2007, the Company has changed its financial year end from April 30 to September 30.
As a result of this change, this Annual Report covers financial results for the five-month period ended September 30, 2007.
This annual report may contain forward-looking statements subject to risks, assumptions and uncertainties which may cause Aeroquest International's actual future results or performance to differ materially from those expressed herein. Risk factors are discussed in the Company's annual and quarterly reports and other public filings.

Dear Shareholder,

The report contained herein is a little bit different in that it covers a shortened year - the "year" beginning on May 1, 2007 and ending on September 30, 2007, a "year" of only five months. This reflects our decision to change our financial year end from April 30 to September 30. We decided to change our financial year end for several reasons including the fact that we were bringing together the operations of two companies, Aeroquest Limited and UTS Geophysics, each of which had a different year-end.

The reason we chose to make the change to September 30, in particular, stems from the seasonal nature of our business. In the Northern Hemisphere, winter months have shorter days and often inclement weather, which limits our surveying productivity. In many areas of the Southern Hemisphere, summer months have extreme temperatures, which also affect our ability to survey. So, while we operate all year round, the months of May to September are generally our most productive months - worldwide. Setting our year-end at September 30 means we are ending our financial year just as we are ending the busiest part of our survey year, and this seemed logical to us. We apologize for any short-term confusion that may come about as a result of us making this change.

In my last letter to shareholders, I laid out three targets for the upcoming year. Please allow me to use this space to report on our progress to this point on each of these issues. Since we are reporting on only five months of progress, our report will be an interim one; we do not expect to have completed all the objectives we set for ourselves at this point but would hope to be in a position to report meaningful progress.

1. **Organize around the UTS Acquisition**

   We are making good progress at aligning the operations of Aeroquest and UTS Geophysics. Each of Aeroquest and UTS are busy developing a pipeline of prospective business not only for their own systems, but also the systems of their sister company. We expect to effect a formal transfer of control of certain UTS systems to Aeroquest and certain Aeroquest systems to UTS within the next few weeks. We will also shortly be launching a new 'go-to-market' strategy for the combined business and are excited to begin presenting a unified "face" to the customer.

2. **Continue the International Expansion**

   The international expansion continues on pace. We have established a permanent office in Johannesburg, S. Africa that will begin directing the African continental operations of all of our systems, helicopter and fixed wing. We currently have five systems, four fixed wing and one helicopter, operating in Africa and hope to add a second helicopter system in the coming weeks. We have also begun the importation of a second AeroTEM system into Russia because of the demand for services in that area and are working on other opportunities in the region. The development plan for other regions continues as well.

3. **Make Measurable Inroads in Oil & Gas and Environmental Engineering**

   Our Petroleum Services initiative is currently meeting our expectations in terms of market development. We continue to be very optimistic and we expect to report more on its ongoing progress in the coming months.

   On the Environmental Engineering side, subsequent to the financial period covered in this report, we made a significant step forward in our strategy by identifying, negotiating and closing the acquisition of Geophex, Ltd. of Raleigh, NC. Geophex is a very strong team of research scientists and engineers that have built a strong franchise as a 'research company' - a company in the business of doing research. The discipline and control of seeking to make a profit by undertaking commercial research has allowed Geophex to develop an efficient and profitable research organization. We expect to be able to leverage both past and future developments from this group in our business in the future and are thrilled to have them as part of our team.

One of Geophex's specific core competencies is in the area of Environment Engineering, especially as it relates to things like UXO, or Unexploded Ordnance. If you have read any of my previous letters to shareholders, you will know that this is an area that we have been interested in for some time now. We are looking forward to see what additional opportunities we can create from Geophex's excellent reputation in this area.

On balance, we are quite satisfied with the progress to date, but we are not complacent. Our goal is long term, sustainable growth, so each of these letters to shareholders is less of a summary than it is an update from the current "rest stop on the interstate". Thank the stars for High Speed Internet. In the coming year we will continue to work on the three targets that we just discussed and will report on our progress at the next annual reporting period.

Looking Forward

We still see no barriers to us continuing to successfully advance our strategies. The markets for our services remain strong. While there is a higher level of anxiety in the short term in part due to economic factors, especially as it relates to current US economic performance and the effect that it may have on the demand for commodities; this apparent anxiety has not affected demand for our services to date. In addition, while we are managing for the short term, we are planning for the medium and long term, and in those longer time frames we see many opportunities to continue to profitably grow our business.

I often use the analogy of a three legged stool to describe our current strategic objectives; namely to create a company that can deploy similar technologies across several different end-user markets, creating three (or more) unique customer groups and a delivery capability that can move seamlessly between each one. We are in a very fortunate position today where our core business of Mining Services is, and continues to be, very strong. We are also very fortunate that there are other areas - like Petroleum and Environmental Services that also offer substantial growth opportunities. At this point, construction on the three legged stool is proceeding according to plan.

Thank you for your continued support.

Sincerely,

Roy T. Graydon

President & CEO

FOR THE PERIOD ENDED SEPTEMBER 30, 2007

Issued on January 15, 2008

On October 23, 2007, we announced that we had received approval from Canada Revenue Agency to change our financial year end to September 30th, beginning with September 30, 2007. As a result of this change, we are reporting on (i) the two month period ended September 30, 2007 (the "two month period"), and (ii) the five month period ended September 30, 2007 (the "five month period"). Comparative periods discussed here reflect the nearest quarterly filings in the prior year, which would be for the three and six months ended October 31, 2006. In addition we have compared the five month period to the twelve month period ended April 30, 2007.

We do not believe that the twelve month period ended April 30, 2007 is the most useful comparable period for the financial year just ended for several reasons, including the fact that it is a twelve month period as compared to the five month period contained in this report and the fact that our business is seasonal and so the most appropriate comparisons are likely between periods of roughly comparable seasons. As a result, we have augmented our disclosure and have compared the most recent five month financial year results to the six month period ended October 31, 2006 and the twelve month period ended April 30, 2007.

Management's Discussion and Analysis (MD&A) is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. It explains trends in our financial condition and results of our operations for the two months and five months ended September 30, 2007 compared with our operating results for the corresponding period three months and six months ended October 31, 2006 as well as the twelve month period ended April 30, 2007, our previous financial year-end. It also compares our balance sheet as at September 30, 2007 to our balance sheet as at April 30, 2007. This MD&A should be read in conjunction with our annual consolidated financial statements for the five month period ended September 30, 2007.

The consolidated financial statements presented here are those of the Aeroquest Group of Companies; Aeroquest International Limited and its wholly owned subsidiaries Aeroquest Limited, UTS Geophysics Pty Ltd., and Aeroquest (UK) Limited, with all significant inter-company balances having been eliminated on consolidation.

Additional information relating to our company is available on our website at www.aeroquest.ca and on the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of a company's future prospects and make informed investment decisions. Statements that are not historical fact and are based on current expectations, estimates and assumptions are forward-looking statements.

This MD&A contains forward-looking statements about our business. Inherent in these statements are known and unknown risks, uncertainties and other factors that may cause the results, performance, or achievements of our company to differ materially from those expressed or implied by such statements. Such factors include, among others, general economic and business conditions, major technology changes, timing of product introductions, competition and our ability to attract and retain key employees.

OVERVIEW

AEROQUEST'S BUSINESS

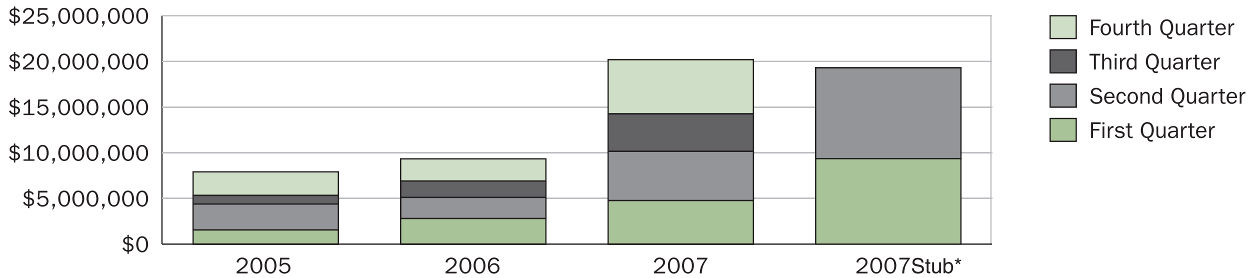
We are a world leader in the development and operation of innovative and proprietary airborne geophysical surveying platforms servicing the mineral exploration, petroleum and environmental industries. We use two separate delivery platforms, helicopter and fixed wing, and specialize in magnetic, electromagnetic (M/EM) surveys as well as gravity and radiometric surveys.

We operate a number of helicopter-based, time-domain (sometimes called transient) electromagnetic (TEM) systems on platforms ranging from 5 metres to 12 metres in diameter, delivered under the trade-name AeroTEM™. We also supply helicopter-based geophysical surveying platforms based on frequency domain electromagnetics (trade-name Impulse™), total field magnetics, magnetic gradient and radiometrics.

In July 2007, we completed the purchase of UTS Geophysics. UTS offers ultra high resolution airborne magnetic and radiometric surveys as well as traditional regional magnetic and gravimetric surveys. Further details on the transaction are presented in our report for the period ended July 31, 2007 and in the Notes to the Consolidated Financial Statements of this report.

In this report, we have broken out Aeroquest and UTS results to the extent practical so that the activity of each business unit may be analyzed. To assist with clarity, we have chosen to refer to consolidated results as those of the Aeroquest Group of Companies, or simply the Aeroquest Group. Aeroquest on its own will refer to the results of Aeroquest International Limited, prior to the consolidation of UTS and UTS results will refer to the results of UTS as though it were operating on a stand-alone basis. It is our hope that this will make it easier to see how each business contributes to the consolidated result. This report includes the results of UTS from the date of acquisition, July 03, 2007.

THREE YEAR GROWTH SUMMARY



* 2007Stub is the five months composed of the three month period ended July 31, 2007 and the two month period ended September 30, 2007.

Over the past three years, we have been steadily building our fleet of airborne survey systems and expanding our presence into continents such as Europe, Africa, Asia and Australia.

BUSINESS STRATEGY

There are five components to our business strategy:

1. Expand the number of systems in our fleet
2. Expand internationally
3. Expand our capabilities in other geophysical survey technologies such as frequency domain electromagnetics (FDEM) and fixed wing magnetics, radiometrics and gravity
4. Find new markets and applications of our airborne geophysical technologies, such as petroleum and environmental services, and
5. Use industry-leading research capability to explore other applications of our airborne geophysical technologies.

TWO AND FIVE MONTH OPERATING RESULTS

OVERVIEW AND HIGHLIGHTS

The two month period was a good one for the Aeroquest Group. Revenue growth continues at a very healthy rate for both Aeroquest and its sister company, UTS Geophysics. For example, Aeroquest generated the same level of revenue in the two months represented in the most recent period ($5.4 million) as it did in the three months reflected in the most comparable quarter from last year - the quarter that ended October 31, 2006 ($5.4 million). We expect that both Aeroquest and UTS will continue to experience very healthy rates of growth in the next year.

We saw strong revenue growth in the most recently completed periods, up 85% in the two month period over the comparable (three month) period last year and 90% in the five month period over the comparable (six month) period last year. Revenue of $19.3 million in the five month period ended September 30, 2007 compares to revenue of $20.2 million for the twelve month period ended April 30, 2007.

Gross profit for both Aeroquest and UTS is in the range of that anticipated given each company's sales level and the specific factors in the period. Increases in general and administrative expenses were more than offset by increases in revenue and gross profit. As a result, the Aeroquest Group earned $1.0 million, or $0.05 per share, in the two month period and $2.0 million, or $0.09 per share, in the five month period.

FINANCIAL AND OPERATING SUMMARY

(000s except / share data)	(2 mo)	(3 mo)	(3 mo)	(3 mo)	(3 mo)	(3 mo)	(3 mo)	(3 mo)
	Q2-Sep-07	Q1-Jul-07	Q4-Apr-07	Q3-Jan-07	Q2-Oct-06	Q1-Jul-06	Q4-Apr-06	Q3-Jan-06
Revenue	$ 9,944	$ 9,355	$ 5,937	$ 4,098	$ 5,387	$ 4,765	$ 2,434	$ 1,794
Operating profit	$ 1,444	$ 1,658	$ 782	$ 412	$ 1,581	$ 719	($ 331)	($ 56)
Net income	$ 1,046	$ 938	$321	$ 210	$ 945	$ 564	($ 399)	($ 35)
Wtd. Avg. common shares	22,702	21,538	15,787	15,838	15,838	15,840	15,840	15,840
EPS (basic)	$ 0.05	$ 0.04	$ 0.02	$ 0.01	$ 0.06	$ 0.04	($ 0.03)	($ 0.00)
Systems available at period end*	21	20	9	9	9	8	7	7
Fixed-wing systems	10	10						
Helicopter systems	11	10	9	9	9	8	7	7
AeroTEM systems in above	8	7	6	6	6	5	4	4
Line kilometres flown during period								
Fixed-wing systems	351,000	158,000	-	-	-	-	-	-
Helicopter systems	38,000	51,100	44,800	25,600	45,500	49,000	16,900	12,950
Contract backlog								
Fixed-wing systems	$ 7,900	$ 11,000	-	-	-	-	-	-
Helicopter systems	$ 8,400	$ 12,000	$ 8,300	$ 3,500	$ 3,500	$ 4,700	$ 2,600	

* excluding gamma ray spectrometers

REVENUE BY GEOGRAPHY

Two months ended September 30, 2007:

(000s)	Canada	Australia	Rest of World	Total	
Aeroquest Ltd. (helicopter)	$ 4,061	$ -	$ 1,310	$ 5,371	54%
UTS (fixed-wing)	112	2,026	2,435	4,573	46%
Total Revenue - Group	$ 4,173	$ 2,026	$ 3,745	$ 9,944	100%
	42%	20%	38%	100%	

Five months ended September 30, 2007:

(000s)	Canada	Australia	Rest of World	Total	
Aeroquest Ltd. (helicopter)	$ 9,939	$ -	$ 2,764	$ 12,703	66%
UTS (fixed-wing)	564	3,090	2,943	6,597	34%
Total Revenue - Group	$ 10,503	$ 3,090	$ 5,707	$ 19,300	100%
	54%	16%	30%	100%	

On November 6, 2007, we announced that we had entered into a Letter of Intent to acquire Geophex, Ltd. of Raleigh, North Carolina. We are pleased to report the closing of the purchase on December 31, 2007. 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 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 consideration paid to the vendor of the shares of Geophex, consisted of US$2.0 million in cash, US$2.0 million in the form of a Promissory Note and 498,001 common shares of Aeroquest International having an aggregate value of US$1.7 million. The obligation of the vendor to complete the transaction was subject to Aeroquest International, concurrent with closing, undertaking to cause Geophex to pay a one-time employment bonus to a senior executive of Geophex in the form of 87,882 common shares of Aeroquest International, its new parent company, having an aggregate value of US$0.3 million.

CONSOLIDATED RESULTS

In the two month period, Aeroquest Group revenue was $9.9 million, up $4.6 million or 85 per cent, compared to the three month period ended October 31, 2006. Revenue in helicopter services was $5.4 million in the two month period ended September 30, 2007, as compared to revenue of $5.4 million in the three month period ended October 31, 2006. Revenue growth in helicopter services was consistent with expectations, given some challenges faced by our company in the form of sustained inclement weather on several of our Canadian surveys. Organic revenue growth came from a combination of changes in the mix of systems flying, with more AeroTEM surveys being completed this year as compared to the same period last year, an increase in the average per-line-kilometre rate charged on surveys and increased mobilization and standby charges. Fixed wing revenue originating from the acquisition of UTS was $4.6 million for the two months ended September 30, 2007 and $6.6 million from the date of acquisition, July 3, 2007.

Consolidated revenue for the five months ended September 30, 2007 was $19.3 million, up $9.0 million or 90 per cent over the six month period ended October 31, 2006, but down $0.9 million from the $20.2 million recorded in the twelve months ended April 30, 2007. As was discussed above, the reduction in revenue relates solely to the fact that we are comparing a current five month period to an historical twelve month period.

Revenue & Gross Profit

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Revenue									
Helicopter	**$ 5,372**	$ 5,387	**$ 12,703**	$ 10,152	$ 2,551	25%	$ 20,187	($ 7,484)	(37%)
Fixed-wing	**4,572**	-	**6,597**	-	6,597		-	6,597	
	9,944	5,387	**19,300**	10,152	9,148	90%	20,187	(887)	(4%)
Cost of sales									
Helicopter	**3,562**	2,388	**7,608**	5,188	(2,420)	(47%)	11,007	3,399	31%
Fixed-wing	**2,516**	-	**3,966**	-	(3,966)		-	(3,966)	
	6,078	2,388	**11,574**	5,188	(6,386)	(123%)	11,007	(567)	(5%)
Gross profit	**$ 3,866**	$ 2,999	**$ 7,726**	$ 4,964	$ 2,762	56%	$ 9,180	($ 1,454)	(16%)
Gross profit margin %	**38.9%**	55.7%	**40.0%**	48.9%		(18%)	46%		(12%)

Cost of sales was $6.1 million in the two month period, or approximately 61 per cent of revenue. This compares to $2.4 million in the three month period ended October 31, 2006, representing 44 per cent of revenue in that period.

In the five month period, cost of sales was 60 per cent of revenue compared to 51 per cent of revenue for the six months ended October 31, 2006 and 55 per cent of revenue for the twelve months ended April 30, 2007. Cost of sales as a percentage of revenue increased relative to comparable periods in helicopter operations primarily due to unusually bad weather in several areas of Canada, most notably northern Saskatchewan, northern Quebec and the Province of Newfoundland and Labrador. When bad weather grounds our systems, we generally charge our clients a daily standby charge sufficient to cover the minimum costs of the field crews and the equipment; however, since we are not flying during these 'weather days', we are not earning survey revenue. During the five month period ended September 30, 2007, in our helicopter operations we spent a total of 261 days on the ground due to weather. This compares to 164 days of weather-related downtime in the six month period ended October 31, 2006.

We also made further modifications to our recognition of survey costs in helicopter operations in the quarter that affected the allocation of some costs in our cost of sales. In the two month period, we changed the way we account for in-process survey costs to recognize them on an "as incurred" basis rather than accruing them on a percentage completion basis. As a result of this change, an additional $0.4 million in survey costs were recognized in the two month period that was attributable to activity in the quarter ended July 31, 2007.

Primarily as a result of the weather delays and the effect of this accounting change, gross margin in helicopter operations was 34 per cent of revenue in the two month period, well below our target level. After taking into account the change in the recognition of costs, normalized gross margin for helicopter surveys conducted in the two month period totalled 40 per cent of revenue. As the average weather in the areas in which we survey returns to normal, we expect gross margin in helicopter operations to improve again.

Cost of sales in fixed wing operations for the two month period ended September 30, 2007 was $2.6 million, or 55 per cent of fixed wing revenue, yielding a gross margin of 45 per cent of revenue. This was a very strong result in fixed wing and contributed meaningfully to the fact that, on a consolidated basis, cost of sales for the five month period was $11.6 million or 60 per cent of revenue resulting in an overall gross profit margin for the Aeroquest Group of 40 per cent of revenue. This gross profit margin compares to a gross margin of 49 per cent in the six months ended October 31, 2006 and 45 per cent for the twelve months ended April 30, 2007. Gross profit margin is generally lower in the most recent period due to the effect of abnormally bad weather in some of the Company's survey areas as was previously described.

CASH OPERATING COSTS

Cash operating costs for the Aeroquest Group totalled $1.5 million in the two month period, up from $1.1 million in the three month period ended October 31, 2006, an increase of $0.4 million, or 37 per cent. This increase is attributed to an increase in general and administrative costs which were up by $0.2 million over the comparable quarter last year and a loss on foreign currency exchange of $0.2 million. General and administrative costs also increased due to the inclusion of administrative costs at UTS of $0.4 million. The loss on foreign exchange arose primarily as a result of holding US dollar denominated accounts receivable as the Canadian and Australian dollars continued to strengthen against the US dollar during the period.

In the five month period, cash operating costs totalled $3.0 million, as compared to $2.0 million in the six months ended October 31, 2006 and $4.4 million in the twelve months ended April 30, 2007. In general, cash operating costs have been falling as a percentage of revenue as the Company’s revenue has grown; dropping from 20 to 22 per cent of revenue in the historical periods to 16 per cent of revenue in the most recent five month period, reflecting the economies of scale in growing our business.

Cash Operating Costs

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
General & administrative expense	**$ 1,157**	$ 953	**$ 2,353**	$ 1,721	($ 632)	(37%)	$ 3,764	$ 1,411	37%
Foreign exchange (gain) loss	**240**	4	**384**	(5)	(389)	(7,780%)	120	(264)	(220%)
Research & development expense	**115**	150	**288**	314	26	8%	530	242	46%
Total cash operating costs	**$ 1,512**	$ 1,107	**$ 3,025**	$ 2,030	($ 995)	(49%)	$ 4,414	$ 1,389	31%
% of Revenue	**15.2%**	20.5%	**15.7%**	20.0%		21%	21.9%		28%

OPERATING PROFIT

Operating profit for the two month period ended September 30, 2007 was $1.4 million, a decline of $0.2 million or 9 per cent from the operating profit of $1.6 million in the three month period ended October 31, 2006. The decline in operating profit was primarily attributable to the additional depreciation and amortization expense resulting from the UTS acquisition. In addition, the current period represents only two months of activity compared to the three months of activity for the comparable period.

Operating profit for the five months ended September 30, 2007 was $3.1 million or 16 per cent of revenue. This compares with $2.3 million (23 per cent of revenue) and $3.5 million (17 per cent of revenue) for the six month period ended October 31, 2006 and the 12 month period ended April 30, 2007, respectively. Growth in operating profit over the six month period ended October 31, 2006 was primarily the result of the growth in revenue between the periods, while the reduction compared to the period ended April 30, 2007 was attributed to the aforementioned difference in the number of months between the two periods.

Depreciation and amortization expenses totalled $0.9 million in the two month period, and $1.6 million in the five month period. Depreciation expense has been growing as a result of additions to capital assets in Aeroquest and the addition of over $3.0 million of capital equipment from the acquisition of UTS. The increase in amortization expense relates to the amortization of intangible assets acquired in the UTS acquisition.

Operating Profit

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Gross profit	$ 3,866	$ 2,999	$ 7,726	$ 4,964	$ 2,762	56%	$ 9,180	($ 1,454)	(16%)
Cash operating costs	1,512	1,107	3,025	2,030	(995)	(49%)	4,414	1,389	31%
Stock based compensation expense	5	21	11	145	134	92%	236	225	95%
Depreciation of capital assets	371	259	695	427	(268)	(63%)	943	248	26%
Amortization of intangible assets	534	31	893	62	(831)	(1,340%)	94	(799)	(850%)
Operating profit	$ 1,444	$ 1,581	$ 3,102	$ 2,300	$ 802	35%	$3,493	($ 391)	(11%)
As % of revenue	15%	29%	16%	23%		(30%)	17%		(6%)

NET INCOME

For the two and five month periods, other income was negligible, resulting from interest expense on the promissory notes payable from the purchase of UTS offsetting interest income on cash balances.

Our provision for income taxes in the two month period was $0.4 million compared to $0.7 million in the three month period ended October 31, 2006. The decrease was the result of lower net income before taxes in the current period due, in turn, to the fact that this was a two month period, and an income tax refund of $0.1 million as a result of utilizing prior year tax losses.

Our provision for income taxes in the five month period was $1.1 million, giving an apparent tax rate of 36 per cent - virtually identical to the Company's statutory tax rate of 36 per cent, comparable to the apparent tax rate in the six month period ended October 31, 2006 (36 per cent) and lower than the apparent tax rate in the twelve month period ended April 30, 2007 (41 per cent).

As a result of all of the above factors, we recorded a net income in the two month period ended September 30, 2007 of

Net Income

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Operating profit	$ 1,444	$ 1,581	$ 3,102	$ 2,300	$ 802	35%	$ 3,493	($ 391)	(11%)
Other costs (income)	38	(24)	(0)	(35)	(35)	(100%)	15	15	100%
Provision for income taxes	360	660	1,119	826	(293)	(35%)	1,438	319	22%
Net income	$ 1,046	$ 945	$ 1,983	$ 1,509	$ 474	31%	$ 2,040	($ 57)	(3%)
Earnings per share - basic	$ 0.05	$ 0.06	$ 0.09	$ 0.10	($ 0.01)	(10%)	$ 0.13	($ 0.04)	(31%)
Apparent tax rate			36.1%	35.4%					

$1.0 million, or $0.05 per share compared to net income of $0.9 million, or $0.06 per share in the three month period ended October 31, 2006.

For the five month period net income was $2.0 million, or $0.09 per share, which compares to $1.5 million, or $0.10 per share, for the six months ended October 31, 2006 and $2.0 million, or $0.13 per share, for the twelve month period ended April 30, 2007. Differences in earnings and earnings per share between these periods are as a result of the difference in the different number of months in the two periods.

CASH FLOW

CASH FLOW FROM OPERATING ACTIVITIES

Before changes in non-cash working capital, operating cash flow provided $1.8 million in the two month period, an increase of $0.5 million from the three month period ended October 31, 2006. For the five month period, operating cash flow was $3.4 million, up $1.2 million or 57 percent over the six months ended October 31, 2006 and down by $0.1 million from the $3.5 million recorded in the twelve month period ended April 30, 2007. Operating cash flow is generally tracking higher as a result of the higher sales activity and lower fixed costs as a percentage of sales.

Changes in non-cash working capital consumed $1.7 million in the two month period, as compared to $0.6 million in the three month period ended October 31, 2006. For the five month period, non-cash working capital consumed $0.7 million, an increase of $0.2 million over the six month period ended October 31, 2006. In the twelve months ended April 30, 2007, the change in non-cash working capital was a positive one of $0.8 million. As our company grows, we expect changes in non-cash working capital to be negative, because, on balance as our company grows so should its investment in accounts receivable. In the two and five month periods, changes in non-cash working capital were influenced both by income tax payments and by reduction of customer deposits as we continued to fly surveys and reduce the backlog of line kilometres.

Cash Flow from Operating Activities

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Net income	**$ 1,046**	$ 945	**$ 1,983**	$ 1,509	$ 474	31%	$ 2,040	($ 57)	(3%)
Depreciation & amortization	**905**	291	**1,588**	489	1,099	225%	1,037	551	53%
Translation of self-sustaining foreign operation	**24**	-	**26**	-	26		-	26	-
Stock based compensation expense	**5**	21	**11**	145	(134)	(92%)	236	(225)	(95%)
Interest accretion on promissory notes	**76**	-	**76**	-	76		-	76	-
Write down of long-term investments	**-**	-	**-**	-	-	-	110	(110)	(100%)
Loss on disposal of capital assets	**-**	-	**-**	-	-	-	7	(7)	(100%)
Future income taxes	**(290)**	23	**(290)**	23	(313)	(1,361%)	61	(351)	(575%)
Operating cash flow	**1,766**	1,280	**3,394**	2,166	1,228	57%	3,491	(97)	(3%)
Change in non-cash working capital	**(1,728)**	(607)	**(714)**	(490)	(224)	(46%)	826	(1,540)	(186%)
Cash flow from operating activities	**$ 38**	$ 673	**$ 2,680**	$ 1,676	$ 1,004	60%	$ 4,317	($ 1,637)	(38%)

CASH FLOW FROM INVESTING ACTIVITIES

Investment activities in the two month period used $0.6 million of cash compared to $0.3 million in the same quarter last year. For the five month period, investment activities are up significantly at $8.9 million, due primarily to the acquisition of UTS in July 2007. The total cash consideration for the acquisition of UTS was $7.0 million. We also incurred $0.3 million in acquisition costs. Acquisition of capital assets consumed $0.6 million in the two month period, as compared to $0.3 million, in the three month period ended October 31, 2006. For the five month period, capital expenditures were $1.6

million. In the two month period, capital expenditures, as a percentage of revenue, were unchanged at six per cent and unchanged for the five month period at eight percent. Generally, capital expenditures have ranged from six per cent to 10 per cent of revenue with the bulk of capital being spent on manufacturing and maintaining our fleet of survey systems.

Cash Flow from Investing Activities

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Acquisition of capital assets	**($ 574)**	($ 318)	**($ 1,554)**	($ 783)	($ 771)	(98%)	($ 1,992)	$ 438	22%
Cash costs of UTS acquisition	**(19)**	-	**(7,321)**	-	(7,321)	-	-	(7,321)	-
Loan receivable	**-**	16	**-**	16	(16)	(100%)	60	(60)	(100%)
Cash flow from investing activities	**($ 593)**	($ 302)	**($ 8,875)**	($ 767)	($ 8,108)	(1,057%)	($ 1,932)	($ 6,943)	(359%)
Capital expenditures as a % of revenue	**6%**	6%	**8%**	8%			10%		

CASH FLOW FROM FINANCING ACTIVITIES

In the two month period, financing activities consisted of lease payments of $0.1 million and proceeds from issuance of common shares related to employee stock options of $0.1 million. For the five months, financing activities consisted of lease payments of $0.1 million and net proceeds from issuance of common shares of $7.0 million, of which $6.9 million related to the acquisition of UTS and $0.1 million related to employee stock options.

Cash Flow from Financing Activities

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	6 Months YTD 31-Oct-06	Change 30-Sep-07 to 31-Oct-06		12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Capital lease payments	**($ 87)**	$ -	**($ 111)**	$ -	($ 111)		$ -	($ 111)	-
Proceeds - issuance of common shares	**66**	1	**6,998**	1	6,997	699,700%	140	6,858	4,898%
Aeroquest shares redeemed		(3)	**-**	(3)	3	(100%)	(330)	330	100%
Cash flow from financing activities	**($ 21)**	($ 2)	**$ 6,887**	($ 2)	$ 6,889	344,450%	($ 190)	$ 7,077	3,725%

LIQUIDITY AND CAPITAL RESOURCES

Our liquidity, as measured by cash balances, has increased by $0.7 million from the end of the last fiscal year (April 30, 2007) and $2.0 million from October 31, 2006. This improvement in liquidity is a result of the generation of profitable sales and management of working capital, offset by cash movements in connection with the UTS acquisition. Cash and

Cash & Working Capital Changes

(000s)	2 Months Ended 30-Sep-07	3 Months Ended 31-Oct-06	5 Months YTD 30-Sep-07	12 Months YTD 30-Apr-07	Change 30-Sep-07 to 30-Apr-07	
Cash	**$ 5,399**	$ 3,418	**$ 5,399**	$ 4,706	$ 693	15%
Non-cash current assets	**10,789**	3,430	**10,789**	4,387	6,402	146%
Current assets	**16,188**	6,848	**16,188**	9,093	7,095	78%
Less: current liabilities	**12,232**	2,574	**12,232**	4,891	7,341	150%
Net working capital	**$ 3,956**	$ 4,274	**$ 3,956**	$ 4,202	($ 246)	(6%)
Current ratio	**1.3**	2.7	**1.3**	1.9	-	(32%)

short-term investments are generally invested in liquid Canadian dollar, Australian dollar or U.S. dollar denominated securities with maturities no greater than ninety days.

FINANCIAL POSITION

At September 30, 2007, we had current assets of $16.2 million and current liabilities of $12.2 million. Net working capital was $4.0 million, a decrease of $0.2 million from April 30, 2007. This $0.2 million change from the year-end April 30, 2007 is primarily due to the acquisition of UTS in July 2007, but was also influenced by rising current liabilities from the change of revenue recognition policy and a higher number of contracts in process within Aeroquest.

TRANSACTIONS WITH RELATED PARTIES

For the five months ended September 30, 2007 we paid $0.1 million ($0.1 million for the six months ended October 31, 2006) to companies owned by certain directors for management consulting services. These transactions were 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, we entered into promissory notes with certain directors as part of the financing of the UTS acquisition. The amount of the promissory notes to these directors is $2.5 million.

SHARE CAPITAL

At September 30, 2007, we had 27,310,273 Common Shares issued and outstanding.

At September 30, 2007, Common Share stock options held by directors, officers, employees, consultants, and brokers were as follows:

Fully Vested & Exercisable Options

	Number of options	Exercise price	Expiry date
Held by directors, officers, employees and consultants under the Company's Stock Option Plan	32,500	$ 0.50	October 28, 2009
	40,000	$ 2.00	October 28, 2009
	5,000	$ 0.50	March 1, 2010
	15,000	$ 2.00	June 30, 2010
	27,500	$ 0.50	June 30, 2010
	250,000	$ 0.50	February 9, 2011
	50,000	$ 0.50	March 28, 2011
	480,000	$ 0.60	June 30, 2011
	30,000	$ 0.75	October 3, 2011
	30,000	$ 0.75	October 13, 2011
	15,000	$ 0.75	October 16, 2011
Total vested & exercisable under Stock Option Plan	975,000	$ 0.65	

We have a Restricted Stock Unit (RSU) plan under which the directors of the Company may grant RSU units of the Company to qualified directors, officers, employees, and persons providing ongoing services to the Company. The strike price of these units will not be less than the market price of the common shares at the time of the grant. The units vest over a three year period with one third vesting in each of the three years on the anniversary date of the grant. A total of 120,000 units were granted to employees at an average price of $0.75 per unit of which 110,000 are outstanding. There were no grants of stock options or restricted stock units in the five months ended September 30, 2007.

In the second quarter of the fiscal year ended April 30, 2007, we received approval from the TSX for a normal course issuer bid whereby the Company was given the right to purchase up to 500,000 of its own common shares on the open market for cancellation. At September 30, 2007, we had purchased a total of 237,500 common shares of Aeroquest International Limited for cancellation for a total consideration of $330,000. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

INTERNAL CONTROLS AND DISCLOSURE CONTROLS & PROCEDURES

We maintain a system of internal controls over financial reporting designed to safeguard assets and ensure that financial information is reliable. We also undertake ongoing evaluations of the effectiveness of our internal controls over financial reporting and, where appropriate, implement enhancements. We also file annual and quarterly certifications in accordance with Multilateral Instrument 52-109 certifying that our CEO and CFO have reviewed our financial statements and MD&A to ensure that they do not contain an untrue fact or omit a material fact, and that they present fairly the financial position, results of operation and cash flows of our company.

We also maintain a system of disclosure controls and procedures designed to ensure the reliability completeness and timeliness of the information we disclose in all of our public disclosure documents, including this MD&A. These controls are designed to ensure that information required to be disclosed by Aeroquest is recorded, processed, summarized and reported on a timely basis, as required by law, and is accumulated and communicated to Aeroquest's senior management and board of directors to allow timely decisions on required disclosure. In addition, our Audit Committee and Board of Directors provide an oversight role with respect to all public disclosure and review all financial statements, press releases, and MD&A, including this one. Our annual and quarterly certifications also confirm that disclosure controls exist, that we have evaluated their effectiveness, and that we have reported to you our conclusions about their effectiveness, especially during the period covered by this MD&A.

As of September 30, 2007, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting, and determined that they were effective.

BUSINESS RISKS AND UNCERTAINTIES

MINERAL EXPLORATION SPENDING

The demand for our services is linked quite closely to the level of worldwide mineral exploration spending. Over the past several years, worldwide exploration spending has generally been increasing, driven by strong demand and higher prices for most mineral commodities. While this growth in exploration spending has benefitted us enormously, we must be careful to ensure that we size our business at a level that allows us to sustain profitable operation in reaction to exploration cycle ebbs and flows. In addition, we must continually seek to diversify our revenue stream so that we are less reliant on any given commodity or any given market.

INDUSTRY COMPETITION

The level of competition in our industry is heavily influenced by changes in supply or demand. Changes in supply can occur as existing competitors expand (or contract) their fleets of airborne survey systems. As these fleets expand they may be deployed in areas where we are active. If the demand for services is not high enough in these areas to support the additional systems, we would expect to see increased competition and an adverse effect on pricing. To counter this risk, we are working continually developing improvements to our systems to make them lighter and more economical to fly, allowing us to maintain profitability in the face of any price decreases, and we are working on expanding into areas that provide us with competitive advantages; areas where our systems are particularly well suited to either the geography or the geology.

THREAT OF NEW ENTRANTS

The barriers to entry into the helicopter-based EM survey market are not insignificant. However, over the past several years a number of new EM systems have entered the market, most of which offer many similarities to our EM systems. It is possible that new entrants will continue to appear. To mitigate this risk we focus on both maintaining our competitive edge technologically, so that new entrant systems are not better systems, and on building long term client relationships based on the provision of a wide variety of high quality geophysical survey systems in a wide variety of geographies, all backed by a high service level.

The barriers to entry in the fixed-wing market are generally less than those in the helicopter-based EM market. Consequently, there are a larger number of smaller firms in this market. Our ability to distinguish ourselves in this market segment will come from the fact that we offer higher resolution surveys and a better service experience.

TECHNOLOGICAL OBSOLESCENCE

It is possible that new technologies will emerge that replace our current EM technology. Although, at this point we do not see many, we maintain an active Research and Development function that, as time advances, will expand the range of research activities to include potential new survey methods. With this ongoing commitment to R&D, we hope to maintain and expand any technological advantage we currently have.

FINANCIAL RISKS

We are highly cash flow positive and our business is one with a higher proportion of variable costs than fixed. This means that we should be able to respond to changes in demand in a reasonably balanced manner. However, we charge for surveys on a per line kilometre basis and pay helicopter costs (for example) on a per hour basis. It is possible that in particularly competitive situations industry pricing could fall to a level that makes it difficult to adequately cover per-hour costs with per line kilometre revenue. On each survey, we project the anticipated helicopter costs, taking into account such factors as the hourly charge of the helicopter, the current price of fuel, the expected production rate in the survey area, and the risk of adverse weather. We then establish pricing at a level that should ensure that we can cover our costs and earn an adequate return.

CURRENCY RISKS

We offer services on almost every continent in the world and have significant inflows (and outflows) in currencies other than the Canadian dollar. Currently, our largest exposures are to the Australian dollar and the U.S. dollar. We actively monitor our foreign exchange exposure and will use financial instruments and other techniques to hedge risk when we deem it appropriate.

WEATHER RISKS

Because we offer airborne services we can only survey in conditions that allow for flying. Precipitation, wind, low visibility and excessively high or low temperatures can all affect our ability to fly. In some areas, at some times of the year, the weather can be highly unpredictable, or sometimes predictably bad. Bad weather can and does affect our productivity and can adversely affect our profitability if we have not correctly anticipated it, or if we are subject to an unusually long string of unusually bad weather. We attempt to mitigate this risk by flying in many different areas of the world at the same time, believing that the average weather over the globe is likely more stable than the average weather in any given survey area.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

NATURE OF BUSINESS

Aeroquest International Limited is incorporated under the Ontario Business Corporations Act. We are a public company trading on the TSX Venture Exchange under the trading symbol AQL-V. We, through our wholly-owned subsidiaries Aeroquest Limited, Aeroquest (UK) Ltd., and UTS Geophysics Pty Ltd. are engaged in the operation of providing airborne geophysical services to the mining, petroleum, environmental and geologic engineering industries as well as government agencies worldwide.

Here and in our Consolidated Financial Statements (including the Notes) we have identified the accounting policies and estimates that are critical to the understanding of our business and the results of our operations.

ACCOUNTING POLICY CHANGES

REVENUE RECOGNITION

In order to match more accurately revenues with the costs incurred in the pursuit of such revenue, we changed our revenue recognition policy effective May 1, 2007. All historical periods have been and will be restated to conform to this new revenue recognition policy. As a result, the prior periods reported in this MD&A as well as in our Consolidated Financial Statements, dated September 30, 2007, may not match the results made public in earlier reporting periods. The total amount of revenue and profits over the Company's history has not changed, but the period in which some of those revenues and profits were recorded may have changed by one quarter, earlier or later. We now recognize revenue as follows:

MOBILIZATION CHARGES

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

SURVEY REVENUE

Survey revenue is recognized over the period of the contract at the rate of 95 per cent of the established per kilometre survey rate for every kilometre 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 recorded and then recognized in cost of sales.

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

NEW ACCOUNTING STANDARDS

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

USE OF ESTIMATES

In the preparation of our financial statements we are required to make some estimates of the fair value of certain transactions, or the likely impact of certain events on our results of operations. The following is a summary of the areas that require the most significant use of estimates:

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.

BAD DEBT EXPENSE

We are required each reporting period to make an estimate of the likelihood that we will collect all of the accounts receivable owed to us. This requires that we exercise some judgment about the timing and likelihood of payment on accounts that have become past due and record a provision for those accounts where there is significant risk of collection. We review all outstanding accounts receivable on at least a monthly basis to establish whether or not any action is required.

FOREIGN CURRENCY TRANSLATION

We record revenue in Canadian, Australian and United States dollars as well as in Euros and, at times, other currencies. Changes in the exchange rates between currencies may create a change in the revenue or profit on a survey between the time we record revenue and the time we disburse for costs. In addition, we translate all amounts into Canadian dollars for the purposes of financial reporting.

Foreign currency accounts are translated into Canadian dollars as follows:

- At the transaction date, each asset, liability, revenue, and expense is translated into Canadian dollars by the use of the monthly average exchange rate.
- At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date.

The resulting foreign exchange gains and losses are included in income in the current period.

INCENTIVE COMPENSATION

We have an Incentive Plan of which all employees are members. The Incentive Plan establishes Target and Stretch performance levels against which the performance of the Company and its employees and managers are measured. Each quarter we accrue an amount equal to one quarter of the estimated Incentive Plan payout based on the Company meeting its Target performance levels. The actual amount paid could be different from the amounts estimated in interim periods requiring an adjustment, usually in the fourth quarter of the year.

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 fair value of stock-based compensation is estimated using a Black-Scholes option pricing methodology. The principal assumptions required for the Black-Scholes methodology are assumptions about the expected life of the options, and the expected volatility and dividend policy of the underlying stock over the expected life of the options.

Aeroquest International Limited

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE FIVE MONTHS ENDED SEPTEMBER 30, 2007 AND YEAR ENDED APRIL 30, 2007

CONTENTS

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AUDITORS' REPORT

To the Shareholders of Aeroquest International Limited,

We have audited the consolidated balance sheets of Aeroquest International Limited as at September 30, 2007 and April 30, 2007 and the consolidated statements of operations and comprehensive income, retained earnings, shareholders equity and cash flows for the periods then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2007 and April 30, 2007 and the results of its operations and its cash flows for the periods then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario

January 15, 2008

AEROQUEST INTERNATIONAL LIMITED

Consolidated Balance Sheets

As at	30-Sep-07	30-Apr-07
Assets		
Current		
Cash and cash equivalents	$ 5,398,777	$ 4,706,035
Accounts receivable	8,014,717	3,758,228
Unbilled contracts in process	2,312,098	23,029
Prepaid expenses and deposits	462,109	606,144
	16,187,701	9,093,436
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 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	-
	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	-
	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
	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.

On behalf of the Board,

Roy T. Graydon *Director*

John Barker *Director*

AEROQUEST INTERNATIONAL LIMITED

Consolidated Statements of Operations and Comprehensive Income

For the five months ended	30-Sep-07	30-Apr-07
(with comparatives for the year ended 30-Apr-07)		
Sales	$ 19,299,618	$ 20,187,043
Cost of sales	11,573,913	11,006,595
Gross margin	7,725,705	9,180,448
Expenses and other items		
Amortization expense	892,587	93,757
Depreciation expense	694,808	942,666
development expense	287,554	530,515
Foreign exchange loss	384,363	119,635
General & administrative expenses	2,353,069	3,764,145
Stock based compensation expense	11,458	236,306
	4,623,839	5,687,024
Operating income	3,101,866	3,493,424
Other Items		
Contract cancellation costs	-	270,000
Other costs (Income)	(420)	(254,697)
	(420)	15,303
Income before income taxes	3,102,286	3,478,121
Income taxes (recovery) (Note 10)		
Current	1,408,701	1,376,618
Future	(289,792)	61,225
	1,118,909	1,437,843
Net income for the period	1,983,377	2,040,278
Revaluation of long-term investments to		
fair market value	(1,000)	-
Unrealized gain on translation of		
self-sustaining foreign operation	25,793	-
Total comprehensive income for the period	$ 2,008,170	$ 2,040,278

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

For the five months ended (with comparatives for the year ended 30-Apr-07)	30-Sep-07	30-Apr-07
Retained earnings (deficit), beginning of year, as previously reported	$ 530,561	($ 1,136,790)
Cumulative effect of change in accounting policy (Note 9)	245,029	97,768
Retained earnings (deficit), beginning of year as restated	775,590	(1,039,022)
Net income	1,983,377	2,040,278
Excess of purchase price over cost on redemption of shares (Note 8)	-	(225,666)
Retained earnings, end of year	$ 2,758,967	$ 775,590
Earnings per share: (Note 13)		
Basic	$ 0.09	$ 0.13
Fully diluted	$ 0.08	$ 0.12

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

Consolidated Statements of Shareholders' Equity

For the five months ended 30-Sep-07	Share Capital	Contributed Surplus	Retained Earnings	Accum. Other Comp. Income	Total Shareholders' Equity
Balance 30-Apr-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/(loss) 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 30-Sep-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.

AEROQUEST INTERNATIONAL LIMITED

Consolidated Statements Of Cash Flows

For the five months ended ended	30-Sep-07	30-Apr-07
(with comparatives for the year ended 30-Apr-07)		
Cash provided by (used in):		
Operating activities		
Net income for the year	$ 1,983,377	($ 2,040,278)
Adjustments required to reconcile net income with net cash from operating activities		
Amortization of intangible assets	892,587	93,757
Depreciation of capital assets	694,808	942,666
Translation of self-sustaining foreign operation	25,794	-
Write down of long term investment	-	110,000
Stock-based compensation expense	11,458	236,306
Future income taxes (recovery)	(289,792)	61,225
Interest accretion on promissory notes	76,434	-
Loss on disposal of capital assets	-	7,377
	3,394,666	3,491,609
Changes in non cash working capital balances		
Accounts receivable	(1,160,771)	(1,850,909)
Prepaid expenses and deposits	144,035	(547,463)
Unbilled contracts in process	(927,830)	19,021
Accounts payable and accrued liabilities	(762,718)	550,400
Income taxes	(84,273)	1,474,943
Deferred revenue	2,077,182	1,179,823
	2,680,291	4,317,424
Investing activities		
Loan receivable	-	60,528
Purchase of capital assets	(1,553,809)	(1,992,194)
Cash costs of acquisition (Note 4)	(7,321,077)	-
	(8,874,886)	(1,931,666)
Financing activities		
Capital lease payments	(110,743)	-
Proceeds from issuance of common shares/warrants	6,998,080	140,000
Aeroquest shares redeemed	-	(330,402)
	6,887,337	(190,402)
Net change in cash and cash equivalents during the period	692,742	2,195,356
Cash and cash equivalents, beginning of period	4,706,035	2,510,679
Cash and cash equivalents, end of period	$ 5,398,777	$ 4,706,035

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

Supplementary Information (Note 14)

AEROQUEST INTERNATIONAL LIMITED

Summary Of Significant Accounting Policies 30-Sep-07 and 30-Apr-07

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 UTS Geophysics Pty Ltd on July 3, 2007. UTS Geophysics Pty Ltd 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.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aeroquest Limited, Aeroquest (UK) Limited and UTS Geophysics Pty Ltd 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 kilometre survey rate for every kilometre 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 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 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

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 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 on a straight line basis 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 retrospective 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 $24,794 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.

AEROQUEST INTERNATIONAL LIMITED

Notes To Financial Statements 30-Sep-07 and 30-Apr-07

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

	30-Sep-07			30-Apr-07
	Cost	Accumulated Depreciation	Net Book Value	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
	10,242,643	3,352,519	6,890,124	3,183,373
Equipment in process	728,749	-	728,749	466,396
	$ 10,971,392	$ 3,352,519	$ 7,618,873	$ 3,649,769

Equipment in process refers to airborne equipment that was not ready for use at year end. Included in the above are assets under capital lease as:

	30-Sep-07		
	Cost	Accumulated Depreciation	Net Book Value
Airborne & 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 (years)	Cost	Accumulated 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 Acquisition

On July 3, 2007, the Company acquired 100% of the outstanding share capital of UTS Geophysics 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
Cash costs of acquisition	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:

Cash	$ 2,140,180
Accounts receivable	3,097,521
Unbilled contracts in process	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 Note

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 per cent 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 $2,488,168 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	(131,779)
Recognized as a liability	$ 1,012,696
Representing Capital Lease Obligation:	
Current	$ 292,466
Long term	720,230
	$ 1,012,696

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.

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

8. Share Capital

(a) Authorized:

Unlimited number of voting common shares.

(b) Issued and outstanding:

	30-Sep-07		30-Apr-07	
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 period September 30, 2007. For the year ended 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 year 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	03 July 2009
450,000	$ 0.60	$ 1.95	03 July 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 per cent - dividend yield 0 per cent - volatility 70 per cent - 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 over a three year period with one third vesting in each of the three years on the anniversary date of the 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 ended September 30, 2007 and April 30, 2007.

	Number of options	Average exercise price
Outstanding, 30-Apr-06	997,500	$ 1.10
Options granted	740,000	0.62
Options expired or cancelled	(355,000)	1.96
Options exercised	(255,000)	0.55
Outstanding and exercisable, 30-Apr-07	1,127,500	$ 0.64
Options granted	-	-
Options exercised	(152,500)	0.55
Options expired	-	-
Outstanding and exercisable, 30-Sep-07	975,000	$ 0.65

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

	2007
Stock 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	4.0%

(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, 30-Apr-06	-	-
Granted	120,000	$ 0.75
Expired/cancelled	(10,000)	0.75
Outstanding, 30-Apr-07	110,000	0.75
Granted	-	
Expired	-	
Outstanding, 30-Sep-07	110,000	$ 0.75

(f) Contributed Surplus

	30-Sep-07	30-Apr-07
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.

	30-Sep-07	30-Apr-07 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

	30-Sep-07	30-Apr-07
Income before income taxes	$ 3,102,286	$ 3,478,121
Statutory income tax rate	36.12%	36.12%
Computed income tax payable (recovery)	1,120,546	1,256,297
Non deductible expenses	8,191	36,894
Non deductible amortization	101,854	33,865
Other	14,262	110,502
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:

	30-Sep-07	30-Apr-07
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 acquisition portion	(6,437,076)	-
Net future tax asset (liability)	($ 6,422,309)	$ 1,567

11. Related Party Transactions

During the period, the Company paid $93,312 ($349,000 for the period ended April 2007) 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 addition, the Company paid $nil (April 2007 - $270,000) to companies owned by certain directors related to the restructuring of their contracts.

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 $2,488,168.

12. Segmented Information

(a) For the periods ended September 30 and April 30, 2007, no one customer individually represented more than 10 per cent of revenue.

(b) 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:

	30-Sep-07	30-Apr-07
Revenue:		
Canada	$ 10,524,594	$ 15,349,140
Australia	3,090,000	-
International	5,685,024	4,837,903
Total Revenue	$ 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. Capital assets in Canada amount to $4.6 million and in Australia amount to $3.0 million.

13. Earnings Per Share

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

	30-Sep-07	30-Apr-07
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

14. Supplementary Cash Flow Information

	30-Sep-07	30-Apr-07
(a) Interest paid	**$ 17,928**	$ -
(b) Interest received	**76,854**	119,225
(c) Income taxes paid (refunded)	**(133,616)**	(288,305)
(d) Non Cash Transactions		
Issuance of share capital and promissory notes on acquisition (Note 4)	**17,677,354**	-

15. Credit Facility

The Company has several operating facilities. In Canada, an operating facility is in place for Aeroquest Limited totaling $2,000,000, bearing interest at prime plus 0.75 per cent 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. The current interest rate on the bank facility in Australia is 11.25 per cent.

16. Subsequent Events

i) On November 6, 2007, Aeroquest International Limited announced that it has entered into a Letter of Intent to acquire Geophex, Ltd. of Raleigh, North 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. On December 31, 2007 Aeroquest International Limited announced the closing of the purchase of Geophex.

Geophex, founded in 1983 by Dr. I.J. 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.

Geophex will continue to operate under the trade name "Geophex" and the two most senior officers of Geophex, Dr. I. J. Won and Mr. Alex Oren, have signed new employment agreements with Geophex and will continue to oversee the operations of Geophex after closing.

The purchase price consideration paid to Dr. I.J. Won, the vendor of the shares of Geophex, consisted of US$2.0 million in cash, US$2.0 million in the form of a Promissory Note and 498,001 common shares of Aeroquest International having an aggregate value of US$1,700,000. The obligation of the vendor to complete the transaction was subject to Aeroquest International, concurrent with closing, undertaking to cause Geophex to pay a one-time employment bonus to Mr. Alex Oren in the form of 87,882 common shares of Aeroquest International, its new parent company, having an aggregate value of US$300,000.

ii) On October 1, 2007 Aeroquest granted 550,000 stock options and 450,000 restricted stock units to employees of the Company. The fair value of the stock options granted was estimated using the Black-Scholes option pricing model which calculated a value of $1.143 per share with an expected life of 3 years, 70 per cent volatility and 4 per cent risk free interest rate. Under the terms of the stock option agreement, the stock option expense will be amortized over three years in accordance with the vesting schedule.

The restricted stock units have been assigned a fair value of $2.34 per unit. The RSU expense will be amortized over three years in accordance with the vesting schedule.

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