BDO

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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 April 30, 2007 and 2006 and the consolidated statements of operations and retained earnings (deficit) and cash flows for the years 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 April 30, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants, Licensed Public Accountants
Toronto, Ontario
June 25, 2007

AEROQUEST INTERNATIONAL LIMITED

Consolidated Balance Sheets

April 30	2007	2006
Assets		
Current		
Cash and cash equivalents	$4,706,035	$2,510,679
Accounts receivable	3,758,228	1,907,319
Income taxes receivable	-	480,000
Prepaid expenses and deposits	606,144	58,681
Contracts in process	310,623	165,749
Loan receivable (Note 1)	-	60,528
Total Current Assets	9,381,030	5,182,956
Long term investments (Note 2)	16,001	126,001
Capital assets (Note 3)	3,649,769	2,607,618
Intellectual property (Note 4)	-	93,757
Future income taxes (Note 6)	1,567	62,792
Total Assets	$13,048,367	$8,073,124
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	$2,134,442	$1,584,042
Income taxes payable	994,943	-
Deferred revenue	2,293,904	802,925
Total Current Liabilities	5,423,289	2,386,967
Shareholders' equity		
Share capital (Note 5)	5,992,289	5,836,176
Contributed surplus (Note 5)	1,102,228	986,771
Retained earnings (deficit)	530,561	(1,136,790)
Total Shareholders' Equity	7,625,078	5,686,157
Total Liabilities and Shareholders' Equity	$13,048,367	$8,073,124

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 Retained Earnings (Deficit)

For the years ended April 30	2007	2006
Sales	$19,875,887	$9,112,291
Cost of sales	10,842,700	5,764,336
Gross margin	9,033,187	3,347,955
Expenses		
General & administrative expenses	3,883,780	2,787,891
Research & development expenses	530,515	792,933
Amortization expense	1,036,423	954,216
Stock option expense	221,410	61,510
Restricted Stock Unit expense	14,896	-
Total Expenses	5,687,024	4,596,550
Operating income (loss)	3,346,163	(1,248,595)
Other Items		
Write down of discontinued development projects	-	142,424
Contract cancellation costs	270,000	268,250
Other costs (Income) (Note 9)	(254,697)	(47,110)
Total Other Items	15,303	363,564
Income (loss) before income taxes	3,330,860	(1,612,159)
Income taxes (recovery) (Note 6)		
Current	1,376,618	(476,139)
Future	61,225	47,208
Total Income Taxes (Recovery)	1,437,843	(428,931)
Net income (loss) for the year	$1,893,017	$(1,183,228)
Retained earnings (deficit), beginning of year	$(1,136,790)	$46,438
Net income (loss) for the year	1,893,017	(1,183,228)
Change on redemption of shares (Note 5b)	(225,666)	-
Retained earnings (deficit), end of year	$530,561	$(1,136,790)
Income (loss) per share: (Note 11)		
Basic	$0.12	$(0.07)
Fully diluted	$0.11	$(0.07)

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 years ended April 30	2007	2006
Cash provided by (used in):		
Operating activities		
Net income (loss) for the year	$1,893,017	$(1,183,228)
Amortization	1,036,423	954,216
Write down of long term investment	110,000	-
Stock option expense	221,410	61,510
Restricted stock unit expense	14,896	
Future income taxes	61,225	47,208
Loss (Gain) on disposal of capital assets	7,377	(5,253)
Operating Cash Flow	3,344,348	(125,547)
Changes in non cash working capital balances		
Accounts receivable	(1,850,909)	(77,748)
Prepaid expenses and deposits	(547,463)	(58,681)
Contracts in process	(144,874)	347,684
Accounts payable and accrued liabilities	550,400	557,234
Income taxes	1,474,943	(558,553)
Deferred revenue	1,490,979	85,676
Cash Flow From Operating Activities	4,317,424	170,065
Investing activities		
Loan receivable	60,528	3,185
Purchase of capital assets	(1,992,194)	(1,074,226)
Insurance proceeds on capital assets	-	382,897
Cash Flow From Investing Activities	(1,931,666)	(688,144)
Financing activities		
Repayment of long term debt	-	(5,580)
Proceeds on exercise of stock options	140,000	-
Aeroquest shares redeemed	(330,402)	-
Cash Flow From Financing Activities	(190,402)	(5,580)
Net change in cash and cash equivalents during the year	$2,195,356	$(523,659)
Cash and cash equivalents, beginning of year	$2,510,679	$3,034,338
Cash and cash equivalents, end of year	$4,706,035	$2,510,679

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

Supplementary Information (Note 12)

AEROQUEST INTERNATIONAL LIMITED

Summary Of Significant Accounting Policies

Nature of Business

Aeroquest International Limited is incorporated under the Ontario Business Corporations Act. The Company is a public company trading on the TSX Venture Exchange under the trading symbol AQL-V.

The Company's wholly owned subsidiary, Aeroquest Limited is incorporated under the laws of Ontario and is engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

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 and Aeroquest (UK) Limited. All significant inter company transactions and balances have been eliminated on consolidation.

Use of Estimates

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates as additional information becomes available in the future. The financial statements have, in management's opinion, been properly prepared using careful judgment within reasonable limits of materiality and within the framework of the accounting policies summarized below.

Revenue Recognition

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

Financial Instruments

Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments. The fair values of these financial instruments approximate their carrying values, unless otherwise noted. The Canadian dollar equivalents of amounts included in the balance sheet which are denominated in U.S. dollars are as follows:

Cash	$2,441,607
Accounts receivable	548,579
Accounts payable	10,642
Deferred revenue	451,929

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short term investments readily convertible to cash with original maturities of 90 days or less.

Long term Investments

Long term investments are carried at cost unless an impairment in value exists that is other than temporary, in which case the long term investment is written down to fair market value.

Capital Assets

Capital assets are stated at cost less accumulated amortization. Cost is net of related investment tax credits and government grants. Amortization based on the estimated useful life of the asset is calculated as follows:

Airborne and geophysical equipment	- 30% diminishing balance
Automotive equipment	- 30% diminishing balance
Data processing equipment	- 30% diminishing balance
Office equipment	- 20% diminishing balance
Leasehold improvements	- shorter of estimated economic life or lease term

Intellectual Property

Intellectual property is recorded at cost and amortized on a straight line basis over 3 years. The value of the intellectual property is regularly evaluated by reviewing the returns of the related business, taking into account the risk associated with the investment. Any impairment of permanent nature in the value of the intellectual property is written off against earnings.

Long lived Assets

Long lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Research and Development

All research costs are charged to operations in the year of expenditure. Development costs are only capitalized if they meet the criteria for capitalization and are amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits. 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 liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are realized.

Stock based Compensation

The Company has adopted the recommendations of the CICA with respect to stock based compensation and other stock based payments. These standards require that direct awards of stock, liabilities incurred or other compensation arrangements that are based on the price of common stock, be measured at fair value at each reporting date, with the change in fair value reported in the statement of operations.

The Company uses the fair value based method of accounting for all its stock based compensation 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.

AEROQUEST INTERNATIONAL LIMITED

Notes To Financial Statements

1. Loan Receivable

The loan receivable was due from a shareholder, was non interest bearing and due on demand. At April 30, 2007 there is no balance outstanding.

2. Long term Investments

	2007	2006
Convertible Debenture	-	$110,000
Public Company Shares	16,001	16,001
	$16,001	$126,001

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

The convertible debenture note is in default and the Company has initiated efforts to accelerate repayment of this debenture. However, there is no assurance that Aeroquest will recover all or any part of the amounts owing. Accordingly, the Company has written off this balance. The write off of $110,000 is included in general and administrative expenses in the year. The warrants to purchase 2,200,000 common shares expired unused.

The Company owns shares in several Canadian public companies. The market value of these shares at April 30, 2007 was $91,000 ($142,000 in 2006).

3. Capital Assets

	2007			2006
	Cost	Accum. Amortization	Net Book Value	Net Book Value
Airborne and geophysical equipment	$4,712,717	$2,150,570	$2,562,147	$1,735,511
Automotive equipment	402,695	239,746	162,949	223,429
Data processing equipment	383,050	193,567	189,483	113,520
Leasehold improvements	92,540	3,954	88,586	32,618
Office equipment	250,081	69,873	180,208	95,402
	5,841,083	2,657,710	3,183,373	2,200,480
Equipment in process	466,396	-	466,396	407,138
Total Capital Assets	$6,307,479	$2,657,710	$3,649,769	$2,607,618

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

4. Intellectual Property

	2007	2006
Intellectual property	$375,032	$375,032
Accumulated amortization	(375,032)	(281,275)
	-	$93,757

5. Share Capital

(a) Authorized

Unlimited number of voting common shares.

(b) Issued and Outstanding

	2007		2006	
Share capital, opening	15,840,273	$5,836,176	15,840,273	$5,836,176
Shares issued on exercise of stock options	255,000	243,925	-	-
Shares redeemed	(237,500)	(87,812)	-	-
Share capital, closing	15,857,773	$5,992,289	15,840,273	$5,836,176

Shares held in escrow at April 30, 2007, amounted to Nil (2006: 2,464,166).

During the year, the Company redeemed shares for $330,402. This amount was allocated as follows: $87,812 of the carrying value of the shares to share capital; $16,924 to contributed surplus; the resulting excess of $225,666 to retained eamings.

(c) Stock Options

The Company has a Stock Option Plan under which the directors of the Company may grant options to acquire shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The strike price of options granted will not be less than the market price of the common shares at the time of the grant. The options vest upon grant and have a term of five years. 1,540,000 shares have been authorized for the grants of options.

An additional 300,000 shares were authorized for the grant of options to brokers in connection with the Company's RTO. The following table reflects the continuity of options granted under the Stock Option Plan for the years ended April 30, 2007 and 2006.

	Number of options	Average exercise price
Outstanding, May 1, 2005	1,635,000	$2.00
Options granted	460,000	0.50
Options expired or cancelled	(1,097,500)	2.00
Outstanding and exercisable, April 30, 2006	997,500	$1.10
Options granted	740,000	0.62
Options exercised	(255,000)	0.55
Options expired	(355,000)	1.96
Outstanding and exercisable, April 30, 2007	1,127,500	$0.64

The following table summarizes information about stock options outstanding at April 30, 2007.

Exercise Price	Number Outstanding, April 30, 2007	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price
$0.50 to $2.00	1,127,500	3.0	$0.64

The fair value of stock options granted during the 2007 and 2006 fiscal years were estimated using a Black-Scholes option pricing model on the date of the grant with the following weighted average assumptions:

	2007	2006
Stock price at grant date	$0.60 - $0.72	$0.36 - $1.35
Exercise price	$0.75	$0.50 - $ 2.00
Expected life of options	3 years	3 years
Expected stock price volatility	70%	40%
Expected dividend yield	-	-
Risk free interest rate	4.0%	3.0%

(d) Contributed Surplus

	2007	2006
Contributed surplus, beginning of year	$986,771	$925,950
Stock option expense	221,410	61,510
Restricted stock unit expense	14,896	-
Redemption of shares	(16,924)	-
Exercise of stock options	(103,925)	
Adjustment on consolidation	-	(689)
Contributed surplus, end of year	$1,102,228	$986,771

(e) Restricted Stock Unit Plan

The Company has a Restricted Stock Unit (RSU) Plan under which the directors of the Company may grant restricted stock units 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. In October 2006, 120,000 units were granted to employees at an average price of $0.75 per unit.

The following table reflects the continuity of restricted stock units granted under the RSU Plan for the year ended April 30, 2007:

	Number of Units	Average exercise price
Outstanding, beginning of year	-	-
Granted	120,000	$0.75
Expired	(10,000)	0.75
Outstanding, end of year	110,000	$0.75

6. Income Taxes

	2007	2006
Income (loss) before income taxes	$3,330,860	$(1,612,159)
Statutory income tax rate	36.12%	36.12%
Computed income tax payable (recovery)	1,203,107	(582,312)
Non deductible expenses	36,894	32,170
Non deductible amortization	33,865	45,154
Rate difference before reverse takeover	-	28,849
Tax adjustments related to prior years	163,977	47,208
Income taxes	$1,437,843	$(428,931)

The tax effects of temporary differences that give rise to significant portion of the future tax assets at April 30, 2007 and 2006 are presented below:

	2007	2006
Future taxes		
Loss carry forwards	$50,790	$17,792
Capital assets	(64,093)	-
Financing fees	14,870	45,000
Net future tax assets	$1,567	$62,792

7. Related Party Transactions

During the year, the Company paid $349,000 (2006: $423,000) 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 $270,000 (2006: $247,000) to companies owned by certain directors related to the restructuring of their contracts.

8. 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, October 2009 and January 2012.

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

2008	$238,416
2009	218,023
2010	210,252
2011	202,103
2012	153,394
	$1,022,188

9. Other Costs (Income)

Other income includes $188,152 (2006: $Nil) for refunds received under the Scientific Research and Development program related to taxation years ending October 27, 2004 and April 30, 2005.

10. Segmented Information

(a) In 2006 and 2007, no one customer individually represented more than 10 per cent of revenue. Included in revenue is an amount of $Nil (2006: $309,462) for the sale of equipment. At April 30, 2007, three customers comprised 39 per cent of trade accounts receivable (2006: one customer at 13 per cent)

(b) Geographic Segments

The Company conducts surveys in Canada and around the world. In fiscal 2007 the Company conducted surveys in Canada, USA, Russia, Mexico, Sweden, Finland, Albania and Israel. Its operations in all markets have similar products, services and customer types as well as similar economic characteristics. Revenues from international customers are attributed to individual countries on the basis of the country in which the survey is flown.

The following table outlines revenue by geographic segment:

	2007	2006
Revenue:		
Canada	$15,037,984	$9,112,291
International	4,837,903	-
Total Revenue	$19,875,887	$9,112,291

11. Earnings (Loss) Per Share

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

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

	2007	2006
Numerator:		
Net income (loss) for the year	$1,893,017	$(1,183,228)
Denominator:		
Average common shares outstanding	15,787,215	15,840,273
Fully diluted common shares outstanding	16,984,715	16,837,773
Basic earnings (loss) per share	$0.12	$(0.07)
Fully diluted earnings (loss) per share	$0.11	$(0.07)

12. Supplementary Cash Flow Information

	2007	2006
(a) Interest paid	$-	$20,158
(b) Interest received	119,225	47,110
(c) Income taxes paid (refunded)	(288,305)	93,674
Non Cash Transactions:		
(a) Accounts receivable exchanged for convertible debenture (Note 2)	$-	110,000

13. Credit Facility

The Company has operating facilities totaling $2,000,000 (2006: $250,000) available for its use, bearing interest at prime plus 0.75 per cent, and secured by accounts receivable and a general security agreement. At April 30, 2007 no amounts have been drawn on this facility.

14. Subsequent Events

(a) On May 1, 2007, Aeroquest announced that it had entered into a non-binding letter of intent (the "Letter of Intent") to acquire 100% of the shares of Universal Tracking Systems Pty Ltd, of Australia, operating under the name UTS Geophysics. The Letter of Intent contemplates that the acquisition will be financed by issuing to the vendors 6.8 million common shares of Aeroquest, the payment to the vendors of $8.3 million in cash, and the assumption by the vendors of a promissory note in the amount of $3.85 million. The Letter of Intent is subject to completion of formal due diligence, satisfactory financing arrangements, execution of definitive legal documentation, approval of the TSX Venture Exchange, approval of the board and shareholders of UTS Geophysics, and other customary conditions for transactions of this nature.

(b) On May 30, 2007 Aeroquest announced the closing of its brokered private placement offering of subscription receipts through a syndicate led by J.F. Mackie & Company Ltd. and including Becher McMahon Capital Markets Inc. The Company issued 4,500,000 subscription receipts at a price of $1.70 per subscription receipt for aggregate gross proceeds of $7,650,000. Each subscription receipt will entitle the holder, without payment of any additional consideration, to one common share and one-half of one non-transferable share purchase warrant, with each whole warrant exercisable for an additional common share at a price of $2.45 for two years, upon (i) completion of the acquisition by the Company of all of the issued and outstanding shares of Universal Tracking Systems Pty Ltd., and (ii) delivery of a closing notice by the Company to J.F. Mackie in accordance with the subscription receipt and escrow agreement. As part of their commission, the Agents were issued 450,000 broker warrants exercisable for one common share at a price of $1.95 per warrant for a period of two years. The gross proceeds of the offering have been deposited in escrow pending closing of the acquisition and delivery of the closing notice in accordance with the subscription receipt and escrow agreement. If the acquisition closes and the closing notice is delivered on or before July 31, 2007, the net proceeds of the sale of the subscription receipts will be released to the Company and used to pay a portion of the price of the acquisition. The subscription receipts, and the common shares and warrants issuable thereunder, are subject to a statutory hold period as prescribed by applicable securities laws.