



## **Aeroquest International Limited** **Audited Consolidated Financial Statements**

For the year ended September 30, 2008, five months ended September 30, 2007  
and year ended April 30, 2007

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## AUDITORS' REPORT

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To the Shareholders of Aeroquest International Limited,

We have audited the consolidated balance sheets and statements of shareholders' equity of Aeroquest International Limited as at September 30, 2008 and September 30, 2007 and the consolidated statements of operations, retained earnings, comprehensive income, and cash flows for the periods ended September 30, 2008, September 30, 2007, and April 30, 2007. 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 from 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, 2008 and September 30, 2007 and the results of its operations and its cash flows for the periods ended September 30, 2008, September 30, 2007 and April 30, 2007 in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants, Licensed Public Accountants

Toronto, Ontario  
December 4, 2008

**BDO Dunwoody LLP is a Limited Liability Partnership registered in Ontario**

## Consolidated Balance Sheets

As at	Sep. 30, 08	Sep. 30, 07 (See Note 21)
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 1)	\$ 15,373,132	\$ 5,398,777
Accounts receivable	8,640,293	8,014,717
Unbilled contracts in progress	2,169,861	2,312,098
Inventory	132,853	-
Prepaid expenses and deposits	640,875	462,109
<b>Total current assets</b>	<b>26,957,014</b>	<b>16,187,701</b>
Long term		
Long term investments	30,501	90,001
Capital assets (Note 2)	10,890,000	7,618,873
Intangible assets (Note 3)	19,847,842	19,894,245
Goodwill (Notes 4, 5)	11,662,115	8,965,370
Future income taxes (Note 11)	152,584	143,747
<b>Total long term assets</b>	<b>42,583,042</b>	<b>36,712,236</b>
<b>Total Assets</b>	<b>\$ 69,540,056</b>	<b>\$ 52,899,937</b>
<b>Liabilities and Shareholders' Equity</b>		
Current		
Accounts payable and accrued liabilities	\$ 5,946,706	\$ 5,325,928
Income taxes payable	1,083,701	2,238,543
Deferred revenue	3,274,382	3,838,463
Promissory notes (Note 6)	-	536,449
Capital lease obligations (Note 7)	321,426	292,466
<b>Total current liabilities</b>	<b>10,626,215</b>	<b>12,231,849</b>
Long term		
Promissory notes (Note 6)	-	2,597,339
Capital lease obligations (Note 7)	469,575	720,230
Future income taxes (Note 11)	6,640,227	6,404,772
<b>Total liabilities</b>	<b>17,736,017</b>	<b>21,954,190</b>
Shareholders' equity		
Share capital (Note 9)	46,506,445	27,403,594
Contributed surplus (Note 9)	2,411,281	1,320,461
Accumulated other comprehensive income (loss)	(1,794,758)	(537,275)
Retained earnings	4,681,071	2,758,967
<b>Total shareholders' equity</b>	<b>51,804,039</b>	<b>30,945,747</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 69,540,056</b>	<b>\$ 52,899,937</b>

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" (signed)  
Roy T. Graydon, Director

"John Barker" (signed)  
John Barker, Director

## Consolidated Statements of Operations

	For the years ending	Sep. 30, 08	(5 mths) Sep. 30, 07	Apr.30, 07
<b>Sales</b>		<b>\$ 55,045,575</b>	\$ 19,299,618	\$ 20,187,043
Cost of sales		34,350,797	11,573,913	11,006,595
<b>Gross profit</b>		<b>20,694,778</b>	7,725,705	9,180,448
Expenses and other items				
General and administrative		9,441,905	2,353,069	3,764,145
Development expense		80,080	287,554	530,515
Foreign exchange (gain)/loss		(1,058,633)	384,363	119,635
Stock based compensation expense		959,792	11,458	236,306
Amortization of intangible assets		4,035,412	892,587	93,757
Depreciation of capital assets		2,813,564	694,808	942,666
<b>Total operating expenses</b>		<b>16,272,120</b>	4,623,839	5,687,024
<b>Operating profit</b>		<b>4,422,658</b>	3,101,866	3,493,424
Other costs (income)		(84,389)	20	(164,897)
Interest Income		(453,756)	(94,799)	(102,057)
Interest Expense		314,079	94,359	12,257
Contract cancellation costs		-	-	270,000
<b>Income before income taxes</b>		<b>4,646,724</b>	3,102,286	3,478,121
Income taxes (Note 11)				
Current		3,173,394	1,408,701	1,376,618
Future (recovery)		(1,369,775)	(289,792)	61,225
<b>Total income tax</b>		<b>1,803,619</b>	1,118,909	1,437,843
<b>Net income for the period</b>		<b>\$ 2,843,105</b>	\$ 1,983,377	\$ 2,040,278
Earnings per share (Note 12)				
Basic		<b>\$ 0.09</b>	\$ 0.09	\$ 0.13
Fully diluted		<b>\$ 0.09</b>	\$ 0.08	\$ 0.12

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

## Consolidated Statements of Retained Earnings

For the years ending	Sep. 30, 08	(5 mths) Sep. 30, 07	Apr. 30, 07
Retained earnings (deficit), beginning of period, as previously reported	\$ 2,758,967	\$ 530,561	\$ (1,136,790)
Cumulative effect of change in accounting policy (Note 10)	-	245,029	97,768
Retained earnings (deficit), beginning of period, as restated	\$ 2,758,967	\$ 775,590	\$ (1,039,022)
Excess of purchase price over cost on redemption of shares (Note 9)	(921,001)	-	(225,666)
Net income	2,843,105	1,983,377	2,040,278
<b>Retained earnings, end of period</b>	<b>\$ 4,681,071</b>	<b>\$ 2,758,967</b>	<b>\$ 775,590</b>

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

## Consolidated Statements of Comprehensive Income

For the years ending	Sep. 30, 08	(5 mths) Sep. 30, 07 (See Note 21)	Apr. 30, 07
Net Income for the period	\$ 2,843,105	\$ 1,983,377	\$ 2,040,278
Transitional adjustment	-	-	48,000
Revaluation of long term investments to fair market value (Net of tax \$21,420, 2007 - Nil)	(38,080)	(1,000)	-
Unrealized gain(loss) on translation of self-sustaining foreign operations (Note 21)	(1,219,403)	(584,275)	-
Total Other Comprehensive Income (loss)	\$ (1,257,483)	\$ (585,275)	48,000
Total Comprehensive Income	\$ 1,585,622	\$ 1,398,102	\$ 2,088,278
Accumulated Other Comprehensive Income (loss):			
Revaluation of long term investments to fair market value	\$ 8,920	\$ 47,000	\$ 48,000
Unrealized gain(loss) on translation of self-sustaining foreign operations	(1,803,678)	(584,275)	-
Total Accumulated Other Comprehensive Income (loss)	\$ (1,794,758)	\$ (537,275)	\$ 48,000

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

## Consolidated Statements of Cash Flow

For the years ending	Sep. 30, 08	(5 mths) Sep. 30, 07	Apr. 30, 07
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net income for the period	\$ 2,843,105	\$ 1,983,377	\$ 2,040,278
Operating items not requiring cash			
Amortization of intangible assets	4,035,412	892,587	93,757
Depreciation of capital assets	2,813,564	694,808	942,666
Translation of self sustaining foreign operations	-	25,794	-
Future income taxes	(1,369,775)	(289,792)	61,225
Interest accretion on promissory notes	221,213	76,434	-
Stock based compensation	959,792	11,458	236,306
Write down of long term investment	-	-	110,000
Loss on disposal of capital assets	50,639	-	7,377
<b>Operating cash flow before changes in non-cash working capital</b>	<b>9,553,950</b>	<b>3,394,666</b>	<b>3,491,609</b>
Changes in non cash working capital	(1,648,864)	(714,375)	825,815
<b>Total cash flow from operating activities</b>	<b>7,905,086</b>	<b>2,680,291</b>	<b>4,317,424</b>
<b>Investing activities</b>			
Capital asset purchases	(7,073,194)	(1,553,809)	(1,992,194)
Proceeds from sale of equipment	588,980	-	-
Loan receivable	-	-	60,528
Cash cost of acquisition (Notes 4a & 4b)	(2,157,641)	(7,321,077)	-
<b>Total cash flow from investing activities</b>	<b>(8,641,855)</b>	<b>(8,874,886)</b>	<b>(1,931,666)</b>
<b>Financing activities</b>			
Promissory note payments	(5,337,600)	-	-
Capital lease payments	(301,448)	(110,743)	-
Aeroquest shares redeemed	(3,297,975)	-	(330,402)
Proceeds: issuance of common shares	19,648,147	6,998,080	140,000
<b>Total cash flow from financing activities</b>	<b>10,711,124</b>	<b>6,887,337</b>	<b>(190,402)</b>
Net change in cash and cash equivalents for the period	\$ 9,974,355	\$ 692,742	\$ 2,195,356
<b>Cash and cash equivalents, beginning of period</b>	<b>5,398,777</b>	<b>4,706,035</b>	<b>2,510,679</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 15,373,132</b>	<b>\$ 5,398,777</b>	<b>\$ 4,706,035</b>
Cash	\$ 13,665,898	\$ 2,071,254	\$ 4,706,035
Cash Equivalents	\$ 1,707,234	\$ 3,327,523	-

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

Supplementary Information (Note 16)

## Consolidated Statements of Shareholders' Equity

For the year ending	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comp. Income (loss) (Note 21)	Total Shareholders' Equity
Balance Apr. 30, '07	\$ 5,992,289	\$ 1,102,228	\$ 775,590	\$-	\$ 7,870,107
Transitional Adjustment on adoption of financial instruments				48,000	48,000
Issuance of common shares for cash, net of expenses	6,644,330				6,644,330
Issuance of common shares on acquisition	14,620,000				14,620,000
Share issuances pursuant to stock options exercised	146,975	(63,225)			83,750
Broker Warrants Granted		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				(584,275)	(584,275)
Revaluation of long term investments to fair market value				(1,000)	(1,000)
<b>Balance Sep. 30 07</b>	<b>\$ 27,403,594</b>	<b>\$ 1,320,461</b>	<b>\$ 2,758,967</b>	<b>(\$ 537,275)</b>	<b>\$ 30,945,747</b>

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

## Consolidated Statements of Shareholders' Equity

For the year ending	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comp. Income (loss)	Total Shareholders' Equity
Balance Sep. 30, '07	\$ 27,403,594	\$ 1,320,461	\$ 2,758,967	\$(537,275)	\$ 30,945,747
Aeroquest shares purchased for cancellation	(2,283,689)	(93,285)	(921,001)		(3,297,975)
Issuance of common shares for cash, net of expenses	17,995,618				17,995,618
Issuance of common shares on acquisition	1,962,708				1,962,708
Share issuances pursuant to restricted stock unit vesting	22,500	(22,500)			-
Share issuances pursuant to stock options exercised	169,040	(43,585)			125,455
Warrants exercised	1,236,674	(238,402)			998,272
Broker Options Granted		528,800			528,800
Net income for the period			2,843,105		2,843,105
Stock based compensation expense		959,792			959,792
Unrealized gain (loss) on translation of self sustaining foreign operations				(1,219,403)	(1,219,403)
Revaluation of long term investments to fair market value				(38,080)	(38,080)
<b>Balance Sep. 30 08</b>	<b>\$ 46,506,445</b>	<b>\$ 2,411,281</b>	<b>\$ 4,681,071</b>	<b>(\$ 1,794,758)</b>	<b>\$ 51,804,039</b>

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

## Summary of Significant Accounting Policies September 30, 2008 and 2007

### Nature of Business

Aeroquest International Limited is incorporated under the Ontario Business Corporations Act.

The Company is a public company trading on the TSX as of July 24, 2008 under the trading symbol AQL. Prior to that date, the Company's shares traded on the TSX-V.

The Company's wholly owned subsidiaries, Aeroquest Limited, UTS Geophysics, Aeroquest (UK) Limited and Aerokaz LLP are engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

The Company acquired 100% of the voting shares of UTS Geophysics on July 3, 2007. UTS Geophysics is incorporated in Australia and has been in operation since 1992. Its head office is located at Perth Airport, Western Australia. On December 31, 2007, the Company acquired 100% of the voting shares of Geophex Ltd. 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 Company's wholly owned subsidiary, Aeroquest (UK) Limited is incorporated under the laws of England and Wales. The Company's wholly owned subsidiary, Aerokaz LLP is incorporated under the laws of Kazakhstan.

The Company has changed its year end to September 30, effective in 2007. This financial report is for the twelve months ending September 30, 2008, with a comparison to the five months ending September 30, 2007 and twelve months ending April 30, 2007.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aeroquest Limited, UTS Geophysics, Aeroquest (UK) Limited, Geophex Limited and Aerokaz LLP. 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

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as at the balance sheet date, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of potential impairments of intangibles and goodwill, the valuation of future income tax assets and liabilities, rates for amortization of property, plant and equipment, the fair value of stock-based compensation and other stock based payments, and provisions for inventory and accounts receivable.

### Revenue Recognition

Effective May 1, 2007, the Company made a change in its revenue recognition policy from a completed contract basis to a percentage of completion basis. This change has been made to more accurately reflect the business activity in Aeroquest and match revenues with the costs incurred in the pursuit of such revenue. All historical periods have been and will be restated to conform to this new revenue recognition policy.

As a result, the prior period comparatives may not match the results made public in earlier reporting periods. Further information can be found in Note 10 – Cumulative effect of change in accounting policy.

## Summary of Significant Accounting Policies September 30, 2008 and 2007

**MOBILIZATION CHARGES** – Mobilization charges are recognized as revenue at the time the Company commences mobilization to a new job site. The related costs of mobilization are included in cost of sales.

**SURVEY REVENUE** – Survey revenue is recognized over the period of the contract at the rate of 95 per cent of the established per kilometer survey rate for every kilometer actually flown and accepted during the survey. The final five percent of survey revenue is recognized upon completion and shipment of the final report to the customer.

**STANDBY CHARGES** – Standby charges are recognized as revenue as standby days are incurred. The related costs of standby are included in cost of sales.

**SALE OF EQUIPMENT** - Revenue on sale of equipment is recognized when title transfers to the customer as defined in the sales agreement. The cost of the equipment sold is capitalized to work in process until revenue on the sale of the equipment is recognized and then costs are recognized in cost of sales.

In all cases, revenue is recognized only when the amounts are fixed and determinable and when the Company 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.

### 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 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.

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 deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less.

### Inventories

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and market. For raw materials, market is defined as replacement cost; for work-in-process and finished goods, market is defined as net realizable value.

### 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.

The Company owns shares in a number of Canadian public companies.

## Summary of Significant Accounting Policies September 30, 2008 and 2007

### Capital Assets

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

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

### Intangible Assets and Other Long-Lived Assets

Intangible assets are amortized over the useful life of the underlying asset. No amortization is recorded where the asset has an infinite life or is not determinable. Any intangible assets not subject to amortization are tested annually for any impairment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to future net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which carrying amounts of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

Amortization is recorded on a straight line basis over the estimated useful life of the assets as follows:

Customer relationships	7 years
Technology	7 years
Sales backlog	1 year
Trade name	Not amortized

### Goodwill

Goodwill represents the difference between the price paid and the fair value attributed to tangible and intangible assets upon the acquisition of businesses. Goodwill is not amortized but tested for impairment annually or more frequently if changes in circumstances indicate a potential impairment. The impairment test first consists of a comparison of the fair value (using undiscounted cash flows) of the reporting unit to which goodwill is assigned with its carrying amount. When the carrying amount of a reporting unit exceeds its fair value, the fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. Any impairment loss is charged to earnings in the period in which the loss is incurred. The Corporation uses the discounted cash flow method to determine the fair value of reporting units.

### Research and Development

All research costs are charged to operations in the year of expenditure. Development costs are only capitalized if they meet the criteria for capitalization and are then amortized over the period of the expected life. Development costs are written off when there is no longer expectation of future benefits. Any investment tax credits received for these costs are offset against the related expenses 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.

## Summary of Significant Accounting Policies September 30, 2008 and 2007

### Stock Based Compensation

Liabilities incurred or other compensation arrangements that are based on the price of common stock, are measured at fair value at each reporting date, with the change in fair value reported in the statement of operations.

The Company uses the fair value based method of accounting for all its stock based compensation including restricted stock units. Accordingly, the fair value method of accounting is applied for stock options and restricted stock units granted to directors, officers, employees and consultants whereby the fair value of options granted is recognized over the vesting period. When the awards are exercised, share capital is credited by the sum of the consideration paid together with the related portion previously credited to contributed surplus.

### 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** - are 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** – are initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

**AVAILABLE-FOR-SALE FINANCIAL ASSETS** - are 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** - are classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period income.

Aeroquest designates its cash and cash equivalents 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.

## Summary of Significant Accounting Policies September 30, 2008 and 2007

### CHANGES IN ACCOUNTING POLICIES

On October 1, 2007, the Company adopted new Canadian accounting standards for financial instruments disclosures and presentation, sections 3862 and 3863, which require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks (Note 18)

On October 1, 2007, the Company adopted new Canadian accounting standards for capital management which specifies the disclosure of an entity's objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements and the consequences of non-compliance (Note 19).

### FUTURE ACCOUNTING PRONOUNCEMENTS

#### Goodwill and other Intangible Assets

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section will be applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The Corporation is currently evaluating the impact of the adoption of this new Section on its consolidated financial statements.

#### Harmonization of Canadian and International Accounting Standards

In March 2006, the Accounting Standards Board of the CICA released its new strategic plan, which proposed to abandon Canadian GAAP and effect a complete convergence to the International Financial Reporting Standards ("IFRS"). In April 2008, the CICA published an exposure draft as guidance which requires the transition to IFRS to replace Canadian GAAP as currently employed by Canadian publicly accountable enterprises. The changeover will occur no later than fiscal years beginning on or after January 1, 2011. Accordingly, the Corporation expects that its first interim consolidated financial statements presented in accordance with IFRS will be for the three-month period ended December 31, 2011, and its first annual consolidated financial statements presented in accordance with IFRS will be for the year ended September 30, 2012. IFRS uses a conceptual framework similar to Canadian GAAP, but there are significant differences in recognition, measurement and disclosure requirements. As a result, the Corporation is developing a plan to convert its consolidated financial statements to IFRS. The plan highlights the need to identify key accounting policy changes as the first step in the conversion process. Once these changes have been identified, other elements of the plan will be addressed. The Corporation has selected an external advisor to assist with the project and is currently in the process of assessing the differences between IFRS and the Corporation's current accounting policies. As implications of the conversion are identified, information technology and data system impacts will be assessed. Similarly, impacts on business activities will be assessed as differences are identified between the Corporation's current accounting policies and IFRS. Changes in accounting policies are likely. These changes may materially impact the Corporation's consolidated financial statements.

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 1. Cash and Cash Equivalents

Cash is comprised of the following denominations:

	Sep. 30, 2008	Sep. 30, 2007
Canadian Dollars	\$ 11,359,010	\$ 1,557,641
United States Dollars	2,432,422	1,341,980
Australian Dollars	1,712,616	2,839,742
Kazakhstan Tenge	245,488	-
Pounds Sterling	-	469

### 2. Capital Assets

	Cost	Sep. 30, 2008 Accumulated Depreciation	Net Book Value	Sep. 30, 2007 Net Book Value
Airborne and geophysical equipment	\$13,977,923	\$ 4,992,040	\$ 8,985,883	\$ 5,980,072
Automotive equipment	624,824	333,992	290,832	308,596
Data processing equipment	631,346	320,420	310,926	230,139
Leasehold improvements	334,714	68,168	266,546	83,632
Office equipment	824,277	209,585	614,692	287,685
Equipment in process	421,121		421,121	728,749
	<b>\$ 16,814,205</b>	<b>\$ 5,924,205</b>	<b>\$ 10,890,000</b>	<b>\$ 7,618,873</b>

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

Included in the above are assets under capital lease as follows:

	Sep. 30, 2008			Sep. 30, 2007
	Cost	Accum. Depreciation	Net Book Value	Net Book Value
Airborne and geophysical equipment	<b>\$ 1,335,226</b>	<b>\$ 431,028</b>	<b>\$ 904,198</b>	<b>\$ 1,235,084</b>

Depreciation for assets under capital lease was \$330,886 for 2008, \$100,142 for September 30, 2007 and Nil for April 30, 2007.

**Notes To Consolidated Financial Statements  
September 30, 2008 and 2007**

**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.

UTS Intangible Asset	Amort. Period (Years)	Sep. 30, 2008			Sep. 30, 2007
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	7	\$ 11,874,329	\$ 2,120,416	\$ 9,753,913	\$ 11,944,331
Technology	7	5,574,970	995,530	4,579,440	5,548,678
Sales backlog	1	844,806	844,806	-	672,311
Trade name	0	1,668,916		1,668,916	1,728,925
		<b>\$ 19,963,021</b>	<b>\$ 3,960,752</b>	<b>\$ 16,002,269</b>	<b>\$ 19,894,245</b>

Certain intangible assets were acquired as part of the acquisition of Geophex (See Note 4). These intangible assets have been identified and recorded at their fair values as of the date of the acquisition.

Geophex Intangible Asset	Amort. Period (Years)	Sep. 30, 2008			Sep. 30, 2007
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	7	\$ 2,469,142	\$ 264,551	\$ 2,204,591	\$ -
Technology	7	966,186	103,520	862,666	-
Sales backlog	1	536,770	402,577	134,192	-
Trade name	0	644,124		644,124	-
		<b>\$ 4,616,222</b>	<b>\$ 770,648</b>	<b>\$ 3,845,573</b>	<b>\$ -</b>

Consolidated intangible assets are comprised of the following:

Consolidated Intangible Asset	Amort. Period (Years)	Sep. 30, 2008			Sep. 30, 2007
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	7	\$ 14,343,471	\$ 2,384,967	\$ 11,958,504	\$ 11,944,331
Technology	7	6,541,156	1,099,050	5,442,106	5,548,678
Sales backlog	1	1,381,576	1,247,384	134,192	672,311
Trade name	0	2,313,040		2,313,040	1,728,925
		<b>\$ 24,579,243</b>	<b>\$ 4,731,401</b>	<b>\$ 19,847,842</b>	<b>\$ 19,894,245</b>

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 4. Business Acquisitions

a) On July 3, 2007, the Company acquired 100% of the outstanding share capital of UTS Geophysics Pty Ltd. for a total consideration of CAD\$25,005,331 (of which \$6,900 was incurred in fiscal 2008) which includes direct costs related to the acquisition of \$277,181. The total consideration paid is made up of the following:

	Sep. 30, 2008	Sep. 30, 2007
Cash, net of cash acquired	\$ 7,050,796	\$ 7,050,796
Acquisition costs	277,181	270,281
Cash cost of acquisition	7,327,977	7,321,077
Shares of Aeroquest International (6,800,000 shares @ \$2.15)	14,620,000	14,620,000
Promissory note	3,057,354	3,057,354
<b>Total Purchase Price</b>	<b>\$ 25,005,331</b>	<b>\$ 24,998,431</b>

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 has now been finalized and has resulted in several changes in the allocation of the purchase price between those estimated at September 30, 2007 and the final allocation at September 30, 2008. The details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	Sep. 30, 2008	Sep. 30, 2007
Cash	\$ 2,140,180	\$ 2,140,180
Accounts receivable	3,097,521	3,097,521
Unbilled contracts in progress	1,361,239	1,361,239
Capital assets	3,432,000	3,110,103
Future income taxes	(6,652,200)	(6,683,533)
Accounts payable and accruals	(3,972,024)	(3,972,024)
Capital lease obligations	(1,110,557)	(1,110,557)
Income taxes payable	(1,327,873)	(1,327,873)
Intangible assets	21,220,000	21,324,447
Goodwill	8,957,225	9,199,108
<b>Total net assets acquired, net of cash</b>	<b>\$ 25,005,331</b>	<b>\$ 24,998,431</b>

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

b) On December 31, 2007, the Company acquired 100% of the outstanding share capital of Geophex Ltd. for a total consideration of CAD\$6,096,049, which includes direct costs related to the acquisition of \$208,364. The total consideration paid is made up of the following:

Cash, net of cash acquired	\$ 1,942,377
Acquisition costs	208,364
Cash cost of acquisition	2,150,741
Shares of Aeroquest International (585,883 shares @ \$3.35)	1,962,708
Promissory note	1,982,600
<b>Total Purchase Price</b>	<b>\$ 6,096,049</b>

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 has now been finalized. The details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	
Cash	\$ 40,223
Accounts receivable	19,658
Inventory	261,208
Capital assets	198,260
Future income taxes	(1,657,650)
Accounts payable and accruals	(36,630)
Intangible assets	4,300,000
Goodwill	3,011,203
<b>Total net assets acquired, net of cash</b>	<b>\$ 6,096,049</b>

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 5. Goodwill

Goodwill has been acquired as part of the acquisitions of UTS Geophysics and Geophex Limited.

	Sep. 30, 2008	Sep. 30, 2007
Goodwill, beginning of period	\$ 8,965,370	\$ -
Acquisitions	3,011,203	9,199,108
Adjustments to purchase price	(241,883)	-
Foreign currency translation loss	(72,575)	(233,738)
<b>Goodwill, end of period</b>	<b>\$ 11,662,115</b>	<b>\$ 8,965,370</b>

### 6. Promissory Notes

a) As part of the acquisition of UTS, the Company entered into unsecured subordinated promissory note agreements with the vendors for a total value of \$3,355,000. The promissory notes are non-interest bearing for the first year and then bear interest at an annual rate of 10% calculated on a simple basis, payable semi-annually in arrears on June 30 and December 31 of each year. The promissory notes mature on June 30, 2011 and call for principal payments of \$838,750 on June 30 2008 and each year thereafter until June 30, 2011.

The notes have been discounted at a rate of 10% to \$3,057,354 which represents the fair value of the notes at the date of acquisition. The 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 was \$2,488,168 due to related parties.

These notes were paid in full in February 2008. In the year, we have recognized interest accretion in the amount of \$221,213 in interest expense. A total of \$76,434 in interest was accreted in the five month period ending September 30, 2007.

b) As part of the acquisition of Geophex Ltd. the company entered into an unsecured promissory note agreement with the vendor. The promissory note is for USD \$2,000,000 due July 1, 2008 with interest calculated at 7.5% per annum. This promissory note was paid in full in March 2008 with accrued interest of \$27,030.

### 7. Capital Lease Obligations

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 7.81% (2007 – 7.63%).

**Notes To Consolidated Financial Statements**  
**September 30, 2008 and 2007**

Commitments in relation to capital leases are payable as follows:

	Sep. 30, 2008	Sep. 30, 2007
Within one year	\$ 372,208	\$ 358,106
Later than one year but not later than five years	499,777	786,369
Minimum lease payments	871,985	1,144,475
Future finance charges	(80,984)	(131,779)
Recognized as a liability	\$791,001	\$1,012,696
<b>Representing Capital Lease Obligations</b>		
Current	321,426	292,466
Long term	469,575	720,230
	<b>\$ 791,001</b>	<b>\$ 1,012,696</b>

**8. 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 June 2009, October 2009 and January and December 2012 and November 2013.

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

2009	\$ 575,085
2010	450,350
2011	451,683
2012	268,448
2013	41,504
	<b>\$ 1,787,070</b>

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 9. Share Capital

#### a. Authorized

Unlimited number of voting common shares.

#### b. Issued and Outstanding

	Sep. 30, 2008		Sep. 30, 2007	
	Qty	Amount	Qty	Amount
Share capital, opening	27,310,273	\$ 27,403,594	15,857,773	\$ 5,992,289
Shares issued on exercise of stock options	119,832	169,040	152,500	146,975
Shares issued on vesting of RSU's	30,001	22,500	-	-
Issuance of common shares for cash	6,666,667	20,000,000	4,500,000	7,650,000
Issuance of common shares from exercise of broker warrants	374,168	968,031	-	-
Issuance of common shares from exercise of retail warrants	109,650	268,643	-	-
Issuance of common shares on acquisition (Note 4)	585,883	1,962,708	6,800,000	14,620,000
Costs associated with equity issue	-	(2,004,382)	-	(1,005,670)
Shares redeemed	(1,681,500)	(2,283,689)	-	-
Share capital, closing	33,514,974	\$ 46,506,445	27,310,273	\$ 27,403,594

A total of 119,832 common shares were issued in the year upon the exercise of employee stock options generating cash proceeds of \$125,455. For the five months ending September 30, 2007 a total of 152,500 common shares were issued upon the exercise of employee stock options generating cash proceeds of \$83,750. See note 9(d) for further details.

A total of 30,001 common shares were issued in the year under the restricted stock unit plan. These shares represent the vesting of restricted stock units upon the anniversary date. No cash proceeds were received. See note 9(e) for further details.

On February 5, 2008 Aeroquest closed an equity issue in a "bought deal" with Jennings Capital Inc. and a syndicate of underwriters including J.F. Mackie and Company Ltd. and National Bank Financial, previously announced on January 17, 2008. A total of 6,666,667 common shares were issued at a price of \$3.00 per share, for gross proceeds to Aeroquest of \$20 million. Aeroquest agreed to grant the underwriters an over-allotment to purchase an additional 1 million common shares (15% of offering) at the issue price of \$3.00 per share exercisable for 30 days following the closing of the offering. This over-allotment expired unexercised.

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

The net proceeds from the offering were used to repay notes issued in connection with Aeroquest's previously completed acquisition of UTS Geophysics and Geophex Ltd, for general working capital, and to fund continued growth.

In the year, a total of 109,650 common shares were issued upon the exercise of the retail warrants generating cash proceeds of \$268,643. Also in the year, a total of 374,168 common shares were issued upon the exercise of the broker warrants generating cash proceeds of \$729,629. See note 9(c) for further details on the share purchase warrants.

Common shares were issued in connection with the acquisition of Geophex Ltd. on December 31, 2007; 585,883 common shares at an ascribed value of \$3.35 for a total value of \$1,962,708 based on a reasonable period of time surrounding the transaction date.

The Company redeemed 1,681,500 shares for a total consideration of \$3,297,975 of which \$2,283,689 is allocated to share capital, \$93,285 to contributed surplus and \$921,001 to retained earnings. No shares were redeemed in the stub period ending September 30, 2007.

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 a reasonable period of time surrounding the transaction date 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.

### c. Share Purchase Warrants

Warrants issued in the year ending September 30, 2007 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. The retail warrants remain attached to the common shares issued as part of the offering until such time that they are exercised.

Type and Number of warrants	Fair value	Exercise Price	Expiry Date
2,250,000 (Retail Warrants)	\$0.22	2.45	May 29, 2009
450,000 (Broker Warrants)	\$0.60	1.95	May 29, 2009

The fair value of each warrant granted has been estimated as of the date of the grant using a Black-Scholes model with the following assumptions: Risk free rate of interest 4%- dividend yield 0%-volatility 70%- term 2 years.

In the year, 109,650 retail warrants were exercised at a price of \$2.45 yielding \$268,643. In the year, 374,168 broker warrants were exercised at a price of \$1.95 yielding \$729,629. No warrants were exercised in the stub period ending September 30, 2007. At September 30, 2008 a total of 2,140,350 retail warrants and 75,832 broker warrants remain outstanding.

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

	Sep. 30, 2008	Sep. 30, 2007
	Qty	Qty
Broker Warrants, Opening Balance Granted	450,000	-
Granted	-	450,000
Exercise during year	(374,168)	-
Broker Warrants, ending balance	75,832	450,000
Retail Warrants, Opening Balance	2,250,000	-
Granted	-	2,250,000
Exercised during year	(109,650)	-
Retail Warrants, ending balance	2,140,350	2,250,000

### d. Stock Options

The Company has a Stock Option plan under which the directors of the Company may grant options to acquire shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The strike price of these options will not be less than the market price of the common shares at the time of the grant. The options generally vest upon grant and have a term of five years. The terms of the stock option plan were amended such that stock options granted after September 30, 2007 vest over a three year period with one-third vesting on the grant date and two-thirds vesting over the following two years on the anniversary of the grant date.

The following table reflects the continuity of employee stock options granted under the stock option plan for the twelve month period ending September 30, 2008 and five month period ending September 30, 2007. A total of 1,228,168 stock options remain available in the pool at September 30, 2008.

	Number of Options	Weighted Avg. Exercise Price
Outstanding Apr. 30, 2007	1,127,500	\$ 0.64
Options granted	-	-
Options exercised	(152,500)	0.55
Options expired	-	-
Total outstanding and exercisable Sep. 30, 2007	975,000	0.65
Options granted	390,000	2.52
Options exercised	(119,832)	1.39
Options expired	(95,668)	2.90
Total outstanding Sep. 30, 2008	1,149,500	\$ 1.06
Total exercisable Sep. 30, 2008	944,833	\$ 0.79

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

The fair value of stock options granted in fiscal 2008 was estimated using a Black-Scholes option pricing model on the date of the grant with the following weighted average assumptions:

Stock price at grant date	<b>\$1.70 - \$3.15</b>
Exercise price	<b>\$1.70 - \$3.15</b>
Expected life of options	<b>3 years</b>
Expected stock price volatility	<b>70%</b>
Expected dividend yield	-
Risk free interest rate	<b>4%</b>

### 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. Unit holders receive common shares upon vesting.

The following table reflects the continuity of restricted stock units granted under the RSU plan and remain not vested for the twelve month period ending September 30, 2008 and five month period ending September 30, 2007.

	Number of Units	Weighted Avg. Exercise Price
Outstanding, April 30, 2007	110,000	\$ 0.75
Granted	-	-
Vested	-	-
Total Outstanding Sep. 30, 2007	<b>110,000</b>	<b>.075</b>
Granted	<b>450,000</b>	<b>2.34</b>
Vested	<b>(30,001)</b>	<b>0.75</b>
Expired	<b>(33,332)</b>	<b>0.75</b>
Total Outstanding, Sep. 30, 2008	<b>496,667</b>	<b>\$ 2.29</b>

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### f. Contributed Surplus

	Sep. 30, 2008	Sep. 30, 2007
Contributed surplus, beginning of period	\$ 1,320,461	\$ 1,102,228
Stock option expense	303,792	-
Restricted stock unit expense	656,000	11,458
Redemption of shares	(93,285)	-
Exercise of stock options and RSU's	(66,085)	(63,225)
Compensation options (400,000 @ \$1.322)(i)	528,800	
Broker warrants (450,000 @ \$0.60)	(238,402)	270,000
Contributed surplus, end of period	<b>\$ 2,411,281</b>	<b>\$ 1,320,461</b>

- (i) These amounts have been included in costs associated with equity issue included in share capital. The fair value of compensation options granted in fiscal 2008 was estimated using a Black-Scholes option pricing model on the date of the grant with the following weighted average assumptions: two year life, exercise price of \$3.00, risk free interest rate of 4% and volatility of 70%. The compensation options expire January 19, 2010 and are not included in the continuity schedule in note 9d.

### 10. 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 effective May 1, 2007. This change in accounting policy applied retroactively has a total impact on net income of \$328,900 increase. The following table outlines the impact for the current and prior periods.

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

**Notes To Consolidated Financial Statements  
September 30, 2008 and 2007**

**11. Income Taxes**

	Sep. 30, 2008	Sep. 30, 2007	Apr. 30, 2007
Income before income taxes	\$ 4,646,724	\$ 3,102,286	\$ 3,478,121
Statutory income tax rate	34.16%	36.12%	36.12%
Computed income tax payable	1,587,321	1,120,546	1,256,297
Non-deductible/non-taxable items	594,485	110,045	70,759
Other	19,190	14,262	110,502
Loss carry forward utilized	(65,042)	-	(104,614)
Recognition of future tax assets	-	-	83,397
Prior year ITC's	(40,157)	-	21,502
Lower tax rate in foreign jurisdiction	(292,178)	(125,944)	-
<b>Income taxes</b>	<b>\$ 1,803,619</b>	<b>\$ 1,118,909</b>	<b>\$ 1,437,843</b>

The tax effects of temporary differences that give rise to significant portion of the future tax assets at September 30, 2008, September 30, 2007 and April 30, 2007 are presented below:

<b>Future Taxes</b>	<b>Sep. 30, 2008</b>	Sep.30, 2007	Apr.30, 2007
Loss Carry Forwards	-	\$ 52,542	\$ 50,790
Capital Assets	(473,134)	(496,859)	(64,093)
Financing Fees	7,814	22,007	14,870
Other Comprehensive Income	(3,605)	(26,728)	-
CMT	23,905	35,716	-
Acquisition Portion	(6,283,149)	(5,975,468)	-
Accruals	152,584	91,205	-
Other	87,942	36,560	-
	<b>(6,487,643)</b>	<b>\$ (6,261,025)</b>	<b>\$ 1,567</b>

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 12. Earnings per Share

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

	Sep. 30, 2008	Sep.30, 2007	Apr.30, 2007
Numerator			
Net income for the period	\$ 2,843,105	\$ 1,983,377	\$ 2,040,278
Denominator			
Average common shares outstanding	32,150,758	22,701,773	15,787,215
Fully diluted common shares outstanding	33,397,528	23,419,661	16,984,715
Basic earnings per share	\$ 0.09	\$ 0.09	\$ 0.13
Fully diluted earnings per share	\$ 0.09	\$ 0.08	\$ 0.12

### 13. Segmented Information

For the twelve month period ended September 30, 2008, the five months ended September 30, 2007 and the year ended April 30, 2007, no one customer represented more than 10% of revenue.

The research and development activities of Geophex Limited are treated as a separate segment from the airborne services. Selective information from Geophex Limited and the Airborne Services Group are presented below:

In CAD\$	Geophex	Airborne Services	Total Consolidated
Revenue	\$ 1,981,268	\$ 53,064,307	\$ 55,045,575
Cost of Sales	779,885	33,570,912	34,350,797
Gross Margin	1,201,383	19,493,395	20,694,778
Operating Expenses	704,280	15,567,840	16,272,120
Income Taxes	170,840	1,632,779	1,803,619
Net Income	(408,539)	3,251,644	2,843,105
Total Capital Expenditures	\$ 4,000	7,069,194	7,073,194
Total Assets	\$ 6,751,061	\$ 62,788,995	\$ \$ 69,540,056

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 14. Geographic Segments

The Company has operations in Canada, Australia and the United States. The Company 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 years ended September 30, 2008 and 2007 and April 30, 2007:

	Sep. 30, 2008	Sep. 30, 2007	Apr. 30, 2007
Revenue			
Canada	\$ 21,028,000	\$ 10,524,594	\$ 15,349,140
Australia	10,325,000	3,090,000	-
International	23,692,575	5,685,024	4,837,903
<b>Total Revenue</b>	<b>\$ 55,045,575</b>	<b>\$ 19,299,618</b>	<b>\$ 20,187,043</b>

Goodwill is located in Australia and USA. All capital assets originate in Canada, Australia and the United States and are mobilized to the job sites around the world. Capital assets in Canada at September 30, 2008 amount to \$6.3 million, Australia \$4.4 million and USA \$0.2 million (September 30, 2007, Canada \$4.6 million, Australia \$3.0 million).

### 15. Related Party Transactions

In the year there were no payments (September 30, 2007 - \$93,312, April 30, 2007 - \$349,000) 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 the five months ending September 30, 2007, 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 was \$2,488,168.

### 16. Supplementary Cash Flow Information

	Sep. 30, 2008	Sep. 30, 2007	Apr. 30, 2007
(a) Interest Paid	\$ 312,809	\$ 17,928	-
(b) Interest Received	413,209	76,854	119,225
(d) Income taxes paid (Refunded)	3,265,694	(133,616)	(288,305)
(e) Non cash transactions		-	-
- Issuance of share capital and promissory notes on acquisition (Note 4)	3,945,308	17,677,354	-

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

### 17. Credit Facilities

The Company has several operating facilities. In Canada, an operating facility is in place for Aeroquest Limited totalling \$2,000,000 bearing interest at prime plus 0.75%, and secured by accounts receivable and a general security agreement. At September 30, 2008, 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, 2008 and September 30, 2007, no amounts have been drawn on this facility. The operating facility in Australia is secured by a fixed and floating charge over the assets of UTS. Current interest rate on the bank facility in Australia is 12.61% (2007 – 8.15%).

### 18. Financial Instruments Risk Exposure and Management

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes to the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods.

#### Principal Financial Instruments

The Company holds various forms of financial instruments from which financial instrument risks arises including:

- Trade receivables
- Cash at bank
- Trade and other payables
- Investments

The nature of these instruments and the Company's operations expose the Company to industry credit, interest rate, and foreign currency risks. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical. The carrying amounts of the Company's monetary assets and liabilities approximate their fair values. The Company's risk exposures and the impact on the financial instruments are as follows:

- (a) Credit Risk Management: Credit risk is the risk that the counterparty to a financial asset will default resulting in the Company incurring a financial loss. To mitigate this risk, the Company routinely follows up on overdue accounts. A significant portion of the Company's trade accounts receivable are from companies in the mining and oil and gas industry and are exposed to normal industry credit risks.

As at September 30, 2008, the top five customers accounted for 33% of the Company's total accounts receivable and as of September 30, 2007, the top five customers accounted for 27% of the total accounts receivable.

The Company establishes an allowance for doubtful accounts therefore the carrying amount of accounts receivables generally represents the maximum credit exposure. The aging of trade receivables is illustrated below:

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

	30-Sep-08		30-Sep-07	
	\$	%	\$	%
Not Past Due	3,583,730	41.5%	2,919,107	36.4%
Past Due 0-30	2,053,936	23.8%	2,565,479	32.0%
Past Due 31-90	2,497,559	28.9%	1,526,714	19.0%
More than 90 days	269,635	3.1%	713,710	8.9%
Total trade receivables	8,404,860	97.3%	7,725,010	96.4%
Accrued receivables	389,420	4.5%	489,211	6.1%
Allowance for doubtful accounts	(153,987)	-1.8%	(199,504)	-2.5%
Total accounts receivable	8,640,293	100.0%	8,014,717	100.0%

(b) Interest Rate Risk: While the company does have credit facilities in which it can draw upon (see Note 17) if required, the Company did not draw upon them at any time in the year ended September 30, 2008. Any remaining interest bearing debt relates to obligation under capital leases, which is at a fixed interest rate.

(c) Foreign Currency Rate Risk: While the Company's functional currency is the Canadian dollar, it does have significant transactions in United States and Australian dollars. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates and can have an effect on the Company's reported results. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables where possible.

Management relies on the natural hedge created by this matching process and thus has chosen not to otherwise hedge its foreign exchange risk. The significant balances in foreign currencies are as follows:

	30-Sep-08		30-Sep-07	
	USD	AUD	USD	AUD
Cash and cash equivalents	\$ 2,432,000	\$ 1,713,000	\$ 1,342,000	\$ 2,840,000
Accounts receivable	5,671,000	1,418,000	3,056,000	1,654,000
Accounts payable and accrued liabilities	(1,567,000)	(1,966,000)	(1,072,000)	(1,483,000)
Income taxes payable	(169,000)	(2,268,000)	-	(2,027,000)
Capital lease obligations (current)		(437,000)		(406,000)
Capital lease obligations (long term)		(587,000)		(891,000)
Totals	\$ 6,367,000	\$ (2,127,000)	\$ 3,326,000	\$ (313,000)

The translation impact to the Company of a 1 cent increase in the Canadian dollar versus the Australian dollar would have increased the net profit by \$14,000, whereas the impact versus the US dollar would have decreased the net profit by \$78,000 for the year ended September 30, 2008. Conversely, a 1 cent decrease in the Canadian dollar versus the Australian dollar would have decreased the net profit by \$14,000, whereas the impact versus the US dollar would have increased the net profit by \$78,000 for the year ended September 30, 2008.

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

(d) Liquidity Risk: Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. As at September 30, 2008 the Company had a cash balance of \$15.4 million, \$8.6 million in accounts receivable and \$2.3 million in unused committed bank credit facilities to settle current liabilities of \$7.3 million (excluding deferred revenue of \$3.3 million). To manage liquidity risk, the Company utilizes long and short term cash forecasts to ensure it has necessary funds to fulfill its obligations.

Management also reviews additional sources of capital and alternative replacement debt structures to continue its activities and discharge its commitments as they become due. Management believes that the liquidity risk is acceptable given historical operating results, value of the underlying assets as well as the existing and future pipeline of business opportunities. All financial liabilities noted in current liabilities are due for payment within the next year.

### 19. Capital Management

The Company's objectives in managing capital are to (i) ensure sufficient liquidity to pursue the Company's growth in operations and strategic acquisitions that are in line with the Company's business strategy globally; and (ii) to ensure the Company's ability to provide capital growth for its shareholders.

In the management of capital, the Company includes share capital and retained earnings in the definition of capital.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares, issue new debt, and/or issue new debt to replace existing debt with different characteristics.

The Company's current policy is to minimize the use of long term debt (other than capital leases). Previously, the Company had permitted the issuance of promissory notes in connection with the acquisition of its UTS and Geophex subsidiaries. These notes were retired in the 2008 fiscal year by using proceeds from the issuance of common shares as noted in Note 9.

### 20. Legal Action

On August 19, 2008 the Company announced that it has been served with a Statement of Claim by Geotech Ltd., Geotech Airborne Limited and Geo Equipment Manufacturing Ltd. (the "Geotech claim") filed in the Ontario Superior Court of Justice. The Geotech claim includes \$50 million in general damages and \$1 million in punitive damages from Aeroquest, three of its subsidiaries and another party for an alleged breach of contractual undertakings and misappropriation of certain confidential information. The claim relates to the activities of a former employee of Geotech Ltd. during the course of his employment with Aeroquest and certain undertakings given by the employee and Aeroquest in connection therewith. On September 22, 2008, the Company filed a Statement of Defence and Counterclaim indicating, among other things, that the Claim was completely without merit and the sole reason for filing the claim was to damage the business, operations and reputation of the Company. The Company has counterclaimed for a total of \$21 million for abuse of process and damages. Both the Claim and Defence and Counterclaim remain unresolved.

Management is of the view that the Geotech claim is completely without merit and thus no amount has been recognized in the financial statements of the Company related to this Claim.

In addition to the above, the Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that

## Notes To Consolidated Financial Statements September 30, 2008 and 2007

such matters will be resolved in the Company's favour, the Company does not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to those or other matters or amount which may be required to pay by reason thereof would have a material adverse impact on its financial position, results of operations or liquidity.

### 21. Prior Year Adjustments

During the year, the Company retroactively corrected an error in recording the translation of self sustaining foreign operations pertaining to the value of Goodwill and Intangible Assets. The adjustment has the effect of reducing Goodwill by \$233,738, Intangible assets by \$537,615 and Future Income Tax Liability by \$161,284 for a net reduction of \$610,069 which has been charged to Accumulated Other Comprehensive Income (Loss).