



2008
Annual Report





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Letter to Shareholders

As I begin this, my third Letter to Shareholders as CEO of Aeroquest, we seem to be heading into uncertain times. We face the prospect of a difficult environment over the next little while as the world's economies adjust to the credit crisis that began in 2007 and continues today, and the financial market crash of 2008. Consequently, in this letter I'd like to review both our results for the fiscal 2008 year, which ended on September 30, 2008, and also discuss our preparedness for the possibility of a sustained economic downturn going into 2009.

Let me begin at the end. Aeroquest is better positioned financially and strategically than it has been at any time in its history. We have one of the strongest, if not the strongest, balance sheet in our industry. We have successfully developed a business with good geographic diversity, a wide range of geophysical technologies, and we operate surveys at every price point a customer of ours might require. We believe that the environment of the next few years will afford Aeroquest a once-in-a-lifetime opportunity to establish itself as the preferred supplier of airborne geophysical surveys in the world. And our goal is to do just that.

Review of 2008 Operations

In 2008, Aeroquest establish production records in virtually every area of its business. We flew 1.75 million line kilometers of fixed wing surveys and over 254,000 line kilometers of helicopter surveys. Together, our total line kilometer production of over 2 million line kilometers was equivalent to flying around the world over 50 times. All told, we spent over 22,000 hours in the air in 2008 on survey. That means that on average, there were two Aeroquest systems in the air, on survey, every hour of every day of every week of the 2008 fiscal year.

This was not without its challenges, however, and these challenges showed up particularly in our helicopter operations. While we flew approximately 254,000 line kilometers of helicopter production, and while that was a production record for the company, we expected that we would do more. Our helicopter operations suffered from a bit of a "perfect storm" of three complicating factors.

The first issue in helicopters was the release of our newest generation AeroTEM™ systems. These systems, while very light and easily transportable, are also slightly less rigid than earlier designs and initially have been more difficult to operate. We believe that we have now overcome the biggest issues affecting the in-field efficiency and productivity of these systems, but the process was longer and more difficult than we expected.

The second issue complicating our helicopter operations was the impact of moving international. An explicit component of our strategy has been international expansion, however, in 2008 we found ourselves "going international" faster than we expected. For example, in fiscal 2007, approximately 80% of our helicopter systems operated in North America. However, beginning in May of 2008, we saw a reversal of this, with a big increase in demand for our AeroTEM systems coming from outside North America. During the year, we flew helicopter surveys in nine different countries outside North America. An international survey is generally more time intensive for our operations groups, requiring 2-3 times as much head office involvement as a North American survey, and our helicopter operations in Mississauga, Canada found themselves under-staffed relative to the new requirements of the business.

Finally, the growth in the number of systems in the field at a given time added to the strain that already existed in Helicopter operations. In fiscal 2008, we constructed and deployed nine new helicopter-based systems. While we also decommissioned three systems as a result of damages suffered on surveys, we were challenged in finding and training enough people to operate those new systems in the field.

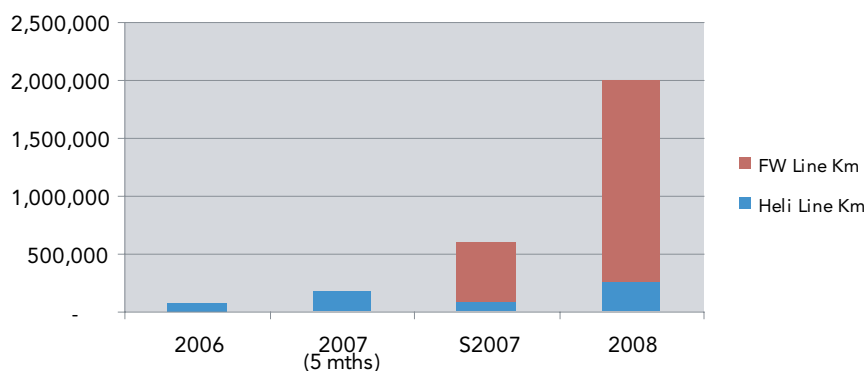
We continue to work at improving the efficiency of our helicopter fleet. We have addressed most of the most pressing problems that showed up in 2008 and look forward to improved effectiveness going forward.

Chief Executive Officer's Message

In contrast to helicopter operations, the operating performance of our fixed wing fleet generally surpassed our expectations. We flew 1.75 million line kilometers, an increase of 8% over the same period last year. We only added one net new fixed-wing system in 2008, but made substantial changes to the make-up of our fleet. During the year, we replaced four aircraft and added another. We retired two Cessna 208s and two Cessna 210s from our fleet and added two PAC750XLs, two Cessna 206s and one Cessna 406. We believe that the PAC750 is a more stable surveying platform and has much better performance characteristics on survey than the Cessna 208. The Cessna 206 has a fixed undercarriage (meaning the wheels do not retract in flight) and fewer moving parts, making it easier and cheaper to maintain than a Cessna 210. Finally, the Cessna 406 is a twin-engine aircraft, often a requirement from a safety standpoint when flying surveys over open water. Our fixed wing fleet currently stands at 11 systems, five PAC750XLs, two Cessna 206s, one Cessna 406, two Fletcher Fu-24s and a PAC Cresco.

In 2008, we also committed to begin to offer airborne gravity surveys to our clients. In the year, we committed to purchase two airborne gravity systems and at year-end had taken delivery of the first and were flight testing the system. We expect to take delivery of the second gravity meter in the first half of fiscal 2009 and expect that these systems will be busy, principally in Africa and Central Asia.

Line Km Flown 2006-08



Developments on Strategy

In my last letter to shareholders I committed to three priorities in fiscal 2008. Here is how we did against these objectives;

1. Organize around the UTS Acquisition

From an operations standpoint, we spent most of the year aligning the operating activities of UTS Geophysics and Aeroquest Limited. We put in place similar organizational structures and operating procedures across the subsidiaries and created common standards of reporting. The objective is to make the client experience identical (and positive) regardless of which member of the Aeroquest Group flies its surveys. We are substantially complete this process and expect to see tangible benefits in terms of organizational efficiency and client satisfaction going forward.

2. Continue the International Expansion

Aeroquest International now operates on every continent of the world, except Antarctica. In fiscal 2008 we flew surveys in over 20 countries around the world. With almost 30 systems available and our recent expansion into airborne gravity, we can now credibly offer a full range of airborne geophysical technologies, on any airborne platform, anywhere in the world.

As a next step in our international expansion, we announced that we had signed a letter of intent to acquire the operations of Spectrem Air Limited, a subsidiary of Anglo American. This acquisition will provide us with several important benefits. Firstly, we will be expanding and deepening our existing relationship with Anglo American by securing a long term supply agreement with Anglo

Chief Executive Officer's Message

Group companies through Spectrem Air. Secondly, we will assume control of the entire operations centre of Spectrem Air, located at the Lanseria Airfield just outside of Johannesburg, including approximately two dozen experienced airborne survey personnel. We expect that this group will eventually assume control of all Aeroquest airborne assets operating in Africa, Europe, Central Asia and the Middle East. And finally, we will gain access to Spectrem₂₀₀₀ technology.

We originally anticipated closing this transaction on December 31, 2008. While we did not meet this expected date, negotiations are continuing.

3. Make measurable inroads in Petroleum Services and Environmental Engineering

In 2008, we made very good progress in Petroleum Services. Approximately 5% of our revenue in the year was derived from Petroleum work, but more importantly, it was an increasing percentage of our revenue as the year progressed and comprised 26% of our contracted backlog at year-end. We are very pleased with our success in this area and believe that we can continue to build on it in the coming years.

We also established Aeroquest Data Services Limited (ADSL) in the year. ADSL will partner with clients – mostly in the Petroleum space – to do non-exclusive (sometimes called multi-client) surveys. In these situations, ADSL will retain ownership of the data collected and will look to resell it in the future to other interested parties. Over time, ADSL expects to build up an extensive library of airborne data in some of the most interesting and prospective exploration areas around the world.

On the Environmental Engineering side, our subsidiary, Geophex Limited, had a successful first nine months as a member of the Aeroquest International Group of Companies. We recorded \$1.3 million of revenue in the nine month period from the closing of that acquisition to year-end, and Geophex has played an important role within Aeroquest in the development of new and improved AeroTEM and other airborne systems. We expect to see continued revenue growth in Geophex in the next few years as the level of US government work in the area of UXO remediation increases and the company begins to more aggressively market its ground-based electromagnetic sensor technology around the world.

Outlook for 2009

Fine Tuning our Strategy

Our strategy has not changed materially over the past three years and our goal is pretty simple: we want to become the preferred supplier of airborne geophysical survey technologies and services in the world. Today, I would describe our strategy as having three components:

Establish ourselves internationally – this means having enough airborne systems to cover the world, and a broad enough range of technologies and platforms to appeal to exploration companies on all continents, all climates and all terrains.

Find new applications for our technologies – this means expanding our addressable market of clients. We began this with Petroleum Services and will continue it with Environmental Services applications such as UXO remediation and groundwater exploration.

Explore other, complimentary, technologies – this means looking for new technologies that are either complimentary with our existing technologies, or complimentary with our existing service delivery model. The Spectrem acquisition, for example, will bring with it exposure to a complimentary technology – fixed wing time-domain EM – that will fit seamlessly with our existing airborne operations. We continue to look for other potential additions to our capabilities.

Key Priorities for 2009

At this point in time, most companies would suggest that 2009 will be a difficult year for them, operationally. We would say the same thing. The uncertainty in the world today resulting from the credit and stock market crises over the past 18 months is likely to result in our business contracting somewhat in 2009. We will remain cautious and prudent with our capital and resources as long as this uncertainty persists and will use this time to further strengthen our core operations. And we will be ready to act when the time comes. As I alluded to at the start of this letter, we believe that this environment will produce some incredible opportunities in the long run for companies that can manage the right combination of prudence in the short term and courage for the long term.

We have established four operating goals for Fiscal 2009:

1. Improve Efficiencies in our Field Operations

A prospective slowdown in our airborne survey operations will give us the opportunity to continue to revamp our internal processes to improve our consistency and the level of service we provide our customers.

2. Expand our Success in Petroleum Services

We hope that the Petroleum Services initiative is just getting started and we expect that it will continue to grow in absolute terms and relative to our company overall in 2009.

3. Make Meaningful and Demonstrable Progress in Environmental Services

This year, we expect to establish a bigger business in selling ground-based geophysical equipment based on Geophex's GEM™ technology. We also would like to expand our presence in the Canadian and US UXO remediation business possibly by partnering with other like-minded companies. Finally, we intend to establish some proofs of concept on the viability of using our technology in the search for groundwater.

4. Remain Opportunistic (and Optimistic)

We believe that the world's most successful companies in five or ten years will be the ones that distinguish themselves through their actions in the next 12 to 24 months. And those successful companies will not be the ones that curl up in a ball and hide from the world. This storm will pass and Aeroquest will emerge stronger from it.

Thank you for your continued support.

Sincerely,



Roy T. Graydon
President & CEO

MANAGEMENT'S DISCUSSION AND ANALYSIS



Management's Discussion & Analysis

For the year ending September 30, 2008 and 2007

Issued on December 5, 2008

On October 23, 2007, we announced that we had received approval from Canada Revenue Agency to change our financial year end from April 30 to September 30th beginning with September 30, 2007. As a result of this change, in this report we are comparing the three months and year ended September 30, 2008 with the most comparable quarterly period under the old reporting structure, which would be for the two and five months ended September 30, 2007 and the year ended April 30, 2007.

Management's Discussion and Analysis (MD&A) is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. It explains trends in our financial condition and results of our operations for the three months and year ended September 30, 2008 compared with our operating results for the two and five months ended September 30, 2007 and the preceding year ended April 30, 2007. It also compares our balance sheet as at September 30, 2008 to our balance sheet as at September 30, 2007.

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

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

1. Forward-Looking Statements

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of a company's future prospects and make informed investment decisions. Certain statements in this MD&A are forward-looking statements or information, collectively "forward-looking statements". We are hereby providing cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in forward-looking statements made in this MD&A. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result," "are expected to", "will continue", "is anticipated", "estimated", "intend", "plan", "projection", "could", "may", "believes", "feel", "targeting", "look forward", "goals", "objective", "outlook" and similar expressions) are not historical facts and may be forward-looking and may involve estimates, assumptions and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements.

Without limitation, information regarding the volatility of the market for our services, worldwide political stability, factors that could result in significant or prolonged disruption to mining and oil & gas exploration worldwide, domestic and international economic conditions, other political and economic situations and uncertainties, changes in foreign currency exchange rates, the impacts of changes in industry priorities and spending on exploration activities related to our services, major technology changes, timing of product introductions, competition, the ability for us to replace lost revenue of a customer significant to an operating division, the ability to attract and retain key employees, and the possibility that such efforts will not have as great an impact on the operating results of our Company as is currently anticipated, is forward-looking information.

Readers should also refer to our continuous disclosure materials filed with Canadian Securities Regulatory Authorities for additional information with respect to certainly of these risk factors, including the our most recent Annual Information Form.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations ("**Cautionary Statements**"), including changes in general economic, market and business conditions, fluctuations in the cost of borrowing, political and economic development, our ability to receive timely regulatory approvals, competitive actions of other companies, the occurrence of unexpected events such as equipment failures and other similar events affecting us or other parties whose operation or assets directly or indirectly affect us, and those risks set forth under the heading "Risks & Uncertainties" below.

All subsequent written and oral forward-looking statements attributable to the Company or persons acting on behalf of our Company are expressly qualified in their entirety by the Cautionary Statements. The forward-looking information contained herein is current only as of the date of this document. New factors emerge from time to time, and it is not possible for management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor or combination of factors may cause actual results to differ materially from those contained in any forward-looking statements. We disclaim any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise unless such disclosure is required by law.

1.1 Non GAAP Financial Measures

Certain financial measures used in this MD&A do not have any standardized meaning under Canadian generally accepted accounting principles (GAAP). Below is a definition of each of the non-GAAP financial measures used in this MD&A. At the point where each non-GAAP financial measure is first discussed, a table has been provided to reconcile that financial information to the most directly comparable GAAP measure.

EBITDA

Earnings before interest, taxes, depreciation and amortization (EBITDA) is a financial metric used to analyze operating results. We define EBITDA as revenue less cost of sales, cash operating costs, and stock-based compensation expense, and we use it as a benchmark of operating performance. We caution you that EBITDA as calculated by us may not be comparable to similarly titled amounts reported by other companies.

Apparent tax rate

We define apparent tax rate as the total income tax expense (current and future) as a percentage of income before taxes. More information on our income tax expense and the reconciliation between income tax expense and our statutory tax rate is contained in Note 11 to the consolidated financial statements for the period.

Cash operating costs

We define cash operating costs to be those operating expenses in our income statement that involve, or will involve, an inflow or outflow of cash. At present, cash operating costs are the sum of general and administrative expenses, development expense, and gain or loss on foreign exchange.

2. Overview

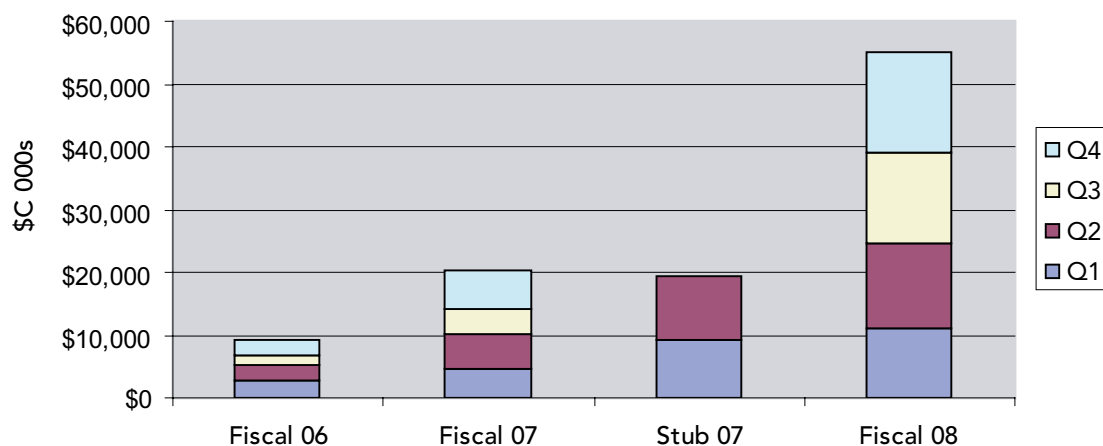
2.1 Aeroquest's Business

We are a world leader in the development and operation of innovative and proprietary airborne geophysical surveying platforms servicing the mineral exploration, petroleum, and environmental industries. We use two separate delivery platforms, helicopter and fixed wing, and provide our clients with a broad range of geophysical measurement techniques including magnetic, electromagnetic, gravimetric and radiometric surveys.

We operate a large fleet of airborne geophysical survey systems utilizing both helicopters and fixed wing aircraft. Our geophysical survey technologies include both time-domain and frequency-domain electro-magnetics (including our proprietary AeroTEM, time-domain, electromagnetic technology), gravity, magnetic, and radiometric systems. Our combination of geophysical technologies and airborne platforms give us one of the broadest array of product and service offerings in our industry in the world today.

In this report we will provide to the extent practical, results for each survey platform, namely, helicopter services, fixed wing services and other services.

THREE YEAR REVENUE GROWTH SUMMARY



(Stub 07 is composed of a three month period ending Jul 31, 2007 and a two month period ending Sep 30, 2007)

2.2 Business Strategy

There are five components to our business strategy:

1. Expand the number of systems in our fleet
2. Expand internationally
3. Expand our capabilities in other geophysical survey technologies
4. Find new markets and applications of our airborne geophysical technologies, and
5. Use industry-leading research capability to explore other applications of our airborne geophysical technologies.

Expansion of our fleet and internationally is always predicated on the capacity of the marketplace to absorb such expansion. While markets for our systems remained strong, as was the case in fiscal 2008, such expansion did continue. Since year-end, prices for commodities such as minerals, and oil & gas have fallen sharply. As discussed below our Outlook (item 13), we have scaled back the pace of expansion and will only grow our fleet where market conditions permit.

SELECTED ANNUAL INFORMATION

<i>(in thousands of Canadian dollars)</i>	Fiscal Year Ended			YTD change	
	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	Year	Five Months	Year		
Revenue	\$ 55,045	\$ 19,299	\$ 20,187	\$ 35,746	\$ 34,858
Net Income	2,843	1,983	2,040	860	803
Total assets	69,540	52,900	12,761	16,640	56,779
Long Term Liabilities	7,110	9,722	-	(2,612)	7,110

Major fluctuations in the selected annual information noted above primarily result from the acquisition of the Company's UTS subsidiaries on July 3, 2007 and Geophex Limited on December 31, 2007. These acquisitions are discussed in more detail throughout this MD&A.

3. Fourth Quarter and Fiscal 2008 Operating Results

3.1 Overview and Highlights

In the fourth quarter, we recorded consolidated revenue growth of 61 per cent over the comparable two month period last year. Growth in helicopter and fixed wing services was 31 and 81 per cent respectively over the most comparable two month period last year. Other services contributed \$0.7 million in revenue for the quarter. A more detailed discussion on these variances is noted below.

Gross profit in the quarter was \$5.1 million, or 32 per cent of revenue. Our gross profit percentage declined from 39 per cent of revenue in the comparable two month period last year due to reduced field productivity in the helicopter services segment and, to a lesser extent, the impact of currency fluctuations in the Canadian, US and Australian dollars. Issues related to productivity primarily relate to mobilizing helicopter systems to increasingly remote areas around the globe. They have been identified and addressed and we expect our productivity to improve in first quarter of our 2009 fiscal year.

Cash operating costs declined in the quarter compared to the two months ended September 30, 2007 primarily due to favourable exchange rate variances. As a result, we earned \$1.6 million after tax, or \$0.05 per share, while operating cash flow for the period was a very healthy \$2.2 million, or \$0.06 per share.

For the 2008 fiscal year, revenue increased to \$55.0 million with helicopter and fixed wing services comprising \$27.7 million and \$26.1 million respectively. Other services (principally the Company's Geophex subsidiary) provided \$1.3 million in revenue. Overall gross margins were \$20.7 million or 37.5% of revenue. This was a decline from the 40% in the five months ended September 30, 2007 and 45.5% in the year ended April 30, 2007. The decline in the gross margin on a year-over-year basis is also due to declining productivity in the helicopter services segment as noted above.

In the year, we saw the first real fruits of our strategy to expose our services on a consistent basis to the petroleum market. In the second half of the year, petroleum services revenue contributed to our consolidated revenue for the first time. In addition, 26% of the Company's backlog at year end related to Petroleum Services. We continue to pursue opportunities in this market and hope to see this contribution grow, both in absolute terms and as a percentage of revenue, over time.

In the fourth quarter we also incorporated AeroKaz LLP, a subsidiary located in Kazakhstan, to give us a foothold in the growing mineral and oil & gas marketplace in Central Asia. We expect business activity to commence in this subsidiary early in fiscal 2009.

3.2 Fleet Expansion

During the quarter there were a number of changes to the makeup of our fleet. In helicopter services we introduced two new AeroTEM systems in the quarter, all AeroTEM IV's. Over the last several quarters we have averaged approximately one new AeroTEM system per quarter. Two helicopter units were also retired in the quarter leaving the total number of helicopter units at 17. There were no changes to the fixed wing fleet in the fourth quarter with the fleet ending the year at 11 aircraft.

AIRBORNE FLEET SUMMARY

	Helicopter	Fixed wing	Total
Time Domain EM (AeroTEM)	13		13
Frequency Domain EM (Impulse/GEM-2A)	2		2
Magnetics			
single sensor	1	6	7
multi-sensor	1	5	6
Total	17	11	28

3.3 Revenue by Geography

The pace of globalization of our units continued in the fourth quarter. As of September 30, 2008, we had mobilized helicopter units in North and South America, Europe, Africa and Asia. In addition, we have mobilized fixed wing units to Australia & the South Pacific, Africa and North America.

With the recent acquisitions of UTS Geophysics and Geophex Ltd., our revenue outside of Canada has grown significantly and now represents more than 50 per cent of our total revenue.

REVENUE BY GEOGRAPHY

Three Months Ended September 30, 2008

(thousands of Canadian dollars)	Canada	Australia	RoW	Total	
Helicopter services	\$ 4,097	\$ -	\$ 2,950	\$ 7,047	44%
Fixed wing services	2,113	2,458	3,697	8,268	52%
Other services	-	-	702	702	4%
Total Revenue - Aeroquest Group	\$ 6,210	\$ 2,458	\$ 7,349	\$ 16,017	100%
	39%	15%	46%	100%	

Year Ended September 30, 2008

(thousands of Canadian dollars)	Canada	Australia	RoW	Total	
Helicopter services	\$ 18,656	\$ 61	\$ 8,957	\$ 27,674	50%
Fixed wing services	2,378	10,283	13,427	26,088	47%
Other services	-	-	1,284	1,284	2%
Total Revenue - Aeroquest Group	\$ 21,034	\$ 10,344	\$ 23,668	\$ 55,046	100%
	38%	19%	43%	100%	

3.4 Consolidated Results

In the current quarter, consolidated revenue was \$16.0 million, up \$6.1 million or 61 per cent over the most comparable quarter last year. Revenue from helicopter services was \$7.0 million, up \$1.7 million or 31 per cent over the two months ended September 30, 2007. Revenue from fixed wing services was \$8.3 million up \$3.7 million or 81% over the two months ended September 30, 2007. While the majority of the difference is attributable to the three versus two month reporting period, we did experience growth in revenue and line kilometers.

For fiscal 2008, consolidated revenue was \$55 million. Consolidated revenue for the five months ended September 30, 2007 was \$19.3 million and for the year ended April 30, 2007 was \$20.2 million.

REVENUE & GROSS MARGIN

(in thousands of Canadian dollars)	Period Ended		Fiscal Year			Yearly Change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	3 Months	2 Months	Year	5 Months	Year		
Revenue							
Helicopter services	\$ 7,047	\$ 5,372	\$ 27,674	\$ 12,703	\$ 20,187	\$ 14,971	\$ 7,487
Fixed wing services	8,268	4,572	26,088	6,597	-	19,491	26,088
Other services	702	-	1,284	-	-	1,284	1,284
	\$ 16,017	\$ 9,944	\$ 55,046	\$ 19,300	\$ 20,187	\$ 35,746	\$ 34,859
Cost of sales							
Helicopter services	\$ 5,564	\$ 3,562	\$ 18,339	\$ 7,608	\$ 11,007	\$ 10,731	\$ 7,332
Fixed wing services	5,214	2,516	15,603	3,966	-	11,637	15,603
Other services	156	-	408	-	-	408	408
	\$ 10,934	\$ 6,078	\$ 34,350	\$ 11,574	\$ 11,007	\$ 22,776	\$ 23,343
Gross profit	\$ 5,083	\$ 3,866	\$ 20,696	\$ 7,726	\$ 9,180	\$ 12,970	\$ 11,516
Gross margin							
Helicopter services	21.0%	33.7%	33.7%	40.1%	45.5%		
Fixed wing services	36.9%	45.0%	40.2%	39.9%	0.0%		
Other services	77.8%		68.2%				
Gross profit margin %	31.7%	38.9%	37.6%	40.0%	45.5%		

Consolidated cost of sales was \$10.9 million in the quarter, or 68 per cent of consolidated revenue, compared to \$6.1 million or 61 per cent of consolidated revenue in the most comparable two month period last year. Gross margins in the quarter declined by 7 percentage points to 32 per cent, as compared to 39 per cent in the most comparable quarter last year.

Gross margin in helicopter services was 21 per cent in the quarter, as compared to 34 per cent in the most comparable period last year. The productivity issues experienced in the quarter with the AeroTEM units (as noted previously) also contributed to the compression in the gross margin of the helicopter services segment.

Gross margin in fixed wing services was 37 per cent of revenue in the current quarter as compared to 45 per cent in the most comparable two month period last year. While this change represents an eight percent drop in fixed wing gross margin, full year fixed wing gross margin is 40% which is approximately equal to the gross margin in the stub period ended September 30, 2007. The decline in fixed wing gross margin in the quarter is primarily attributable to increased mobilization of aircraft to remote work locations around the globe, something that did not occur in the comparable prior period. Note though that the gross margin in the prior stub period only reflects fixed wing operations from July 3, 2007 onward (the date that we purchased the UTS business).

3.5 Cash Operating Costs

Cash operating costs for the quarter totaled \$1.3 million, a decline of \$0.2 million, or 14% from \$1.5 million in the most comparable two month period last year. This decline is primarily due to a foreign exchange gain of \$1.2 million compared with a foreign exchange loss of \$0.2 million in the comparable two month period last year. The foreign exchange gain resulted from the company benefiting from the appreciation in the United States Dollar in the fourth quarter as much of our revenue is denominated in United States dollars. This change is offset by an increase of \$1.5 million in general and administrative costs. The growth in these costs are primarily due to (a) the addition of Geophex; (b) growth in overhead to support additional helicopter and fixed wing systems; (c) timing differences related to a three versus two month reporting period; and (d) legal, listing and related costs associated with the graduation of our Company from the TSX Venture Exchange to the TSX (see item 9 below).

On a fiscal year basis, cash operating costs were 15.4 per cent of revenue for the year, slightly less than the 15.7% of revenue in the five months ended September 30, 2007 and a decline from the to 21.9 per cent of revenue in the year ended April 30, 2007. While the foreign exchange gain did help with this ratio in fiscal 2008, we anticipate that this percentage will still remain relatively constant since general and administrative costs are primarily fixed in nature.

CASH OPERATING COSTS

<i>(in thousands of Canadian dollars)</i>	Period Ended		Fiscal Year Ended			Yearly Change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	3 Months	2 Months	Year	5 Months	Year		
General & administrative expense	\$ 2,706	\$ 1,157	\$ 9,441	\$ 2,353	\$ 3,764	\$ 7,088	\$ 5,677
Foreign exchange (gain) loss	(1,162)	240	(1,059)	384	120	(1,443)	(1,179)
Research & development expense	(247)	115	80	288	530	(208)	(450)
Total cash operating costs	\$ 1,297	\$ 1,512	\$ 8,462	\$ 3,025	\$ 4,414	\$ (1,651)	\$ 4,048
% of revenue	8.1%	15.2%	15.4%	15.7%	21.9%		

3.6 Operating Profit and EBITDA

EBITDA in the quarter was \$3.6 million, an increase of \$1.3 million or 52 per cent over the comparable two month period last year. For fiscal 2008, EBITDA was \$11.3 million, compared with \$4.7 million for the period ended September 30, 2007 and \$4.5 million for the year ended April 30, 2007. EBITDA is up as a result of increased sales volume, and the fact that some of our costs are fixed so as revenue grows we will see a greater contribution to EBITDA. The increase in stock-based compensation expense in the year related to both the timing and amount of the grants versus the prior period. This issue is discussed further in note 10 below.

Depreciation and amortization charges totaled \$1.5 million in the quarter, an increase of \$0.6 million from the most comparable two month period last year. The increase in depreciation and amortization in the period is a result of the three versus two month reporting period and the increased depreciation and amortization related to the Geophex acquisition.

Operating profit in the current quarter was \$2.0 million, an increase of \$0.6 million or 40 per cent over the most comparable period last year. For the full fiscal year, operating profit was \$4.4 million, compared with \$3.1 million for the period ended September 30, 2007 and \$3.5 million for the year ended April 30, 2007. Operating profit as a percentage of revenue is 8% for the fiscal year. This is lower than the 16 and 17 percent in the prior two fiscal years primarily due to the increased depreciation and amortization of intangibles from the two acquisitions.

OPERATING PROFIT AND EBITDA

<i>(in thousands of Canadian dollars)</i>	Period Ended		Fiscal Year Ended			Yearly Change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	3 Months	2 Months	Year	5 Months	Year		
Gross profit	\$ 5,100	\$ 3,866	\$ 20,694	\$ 7,726	\$ 9,180	\$ 12,968	\$ 11,514
Cash operating costs	1,297	1,512	8,462	3,025	4,414	5,437	4,048
Stock-based compensation expense	231	5	960	11	236	949	724
EBITDA	\$ 3,572	\$ 2,349	\$ 11,272	\$ 4,690	\$ 4,530	\$ 6,582	\$ 6,742
EBITDA as a % of revenue	22.3%	23.6%	20.5%	24.3%	22.4%	(16%)	(9%)
Depreciation of capital assets	\$ 739	\$ 371	\$ 2,814	\$ 695	\$ 943	\$ 2,119	\$ 1,871
Amortization of intangible assets	809	534	4,035	893	94	3,142	3,941
Operating profit	\$ 2,024	\$ 1,444	\$ 4,423	\$ 3,102	\$ 3,493	\$ 1,321	\$ 930
Operating profit	13%	15%	8%	16%	17%	(50%)	(53%)

3.7 Net Income

Net income for the quarter was \$1.6 million, or \$.05 per share compared to net income of \$1.0 million, or \$0.05 per share in the comparable quarter last year. For the full fiscal year, net income was \$2.8 million, or \$0.09 per share.

Our provision for income taxes for the year was \$1.8 million for the year generating an apparent tax rate of 38.8% in the year. While this rate is an increase from the 35.9% the prior to fiscal year, it represents a reflection of the blend of statutory tax rates in Canada, Australia and USA, and the fact that most of our amortization expense is not deductible for tax purposes.

NET INCOME

<i>(in thousands of Canadian dollars)</i>	Period Ended		Fiscal Year Ended			Yearly Change	
	30-Sep-08	30-Sep-07	30-Sep-08	30-Sep-07	30-Apr-07	08- 9/07	08- 4/07
	3 Months	2 Months	Year	5 Months	Year		
Operating profit	\$ 2,024	\$ 1,444	\$ 4,423	\$ 3,102	\$ 3,493	\$ 1,321	\$ 930
Other costs (income)	(102)	38	(224)	15	(140)	(239)	(84)
Contract cancellation costs	-	-	-	-	270	-	(270)
Provision for income taxes	523	360	1,804	1,119	1,438	685	366
Net income	\$ 1,603	\$ 1,046	\$ 2,843	\$ 1,968	\$ 1,925	\$ 875	\$ 918
Earnings per share - basic	\$ 0.05	\$ 0.05	\$ 0.09	\$ 0.09	\$ 0.13	\$ -	\$ (0.04)
Apparent tax rate			38.8%	35.9%	39.7%		

4. Liquidity and Capital Resources

COMPARATIVE SELECTED QUARTERLY FINANCIAL INFORMATION

	(3Mo)	(3Mo)	(3Mo)	(3Mo)	(2Mo)	(3 Mo)	(3Mo)	(3Mo)	(3Mo)	(3Mo)
(Financials in 000's except /share data)	Q4-Sep 08	Q3-Jun 08	Q2-Mar 08	Q1-Dec 07	Q2-Sep 07	Q1-Jul 07	Q4-Apr 07	Q3-Jan 07	Q2-Oct 06	Q1-Jul 06
Revenue	\$ 6,017	\$ 14,537	\$ 13,295	\$ 11,197	\$ 9,944	\$ 9,355	\$ 5,937	\$ 4,098	\$ 5,387	\$ 4,765
Operating profit	\$ 2,024	\$ 590	\$ 1,613	\$ 195	\$ 1,444	\$ 1,658	\$ 782	\$ 412	\$ 1,581	\$ 719
Net income	\$ 1,603	\$ 304	\$ 815	\$ 121	\$ 1,046	\$ 938	\$ 321	\$ 210	\$ 945	\$ 564
Weighted average common shares	33,785	34,662	32,553	27,603	22,702	21,538	15,787	15,838	15,838	15,840
Earnings per share (basic)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.05	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.06	\$ 0.04
Earnings per share (diluted)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00	\$ 0.04	\$ 0.04	\$ 0.02	\$ 0.01	\$ 0.05	\$ 0.04
Operating cash flow/share	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.06	\$ 0.08	\$ 0.08	\$ 0.05	\$ 0.03	\$ 0.08	\$ 0.06
Systems available for use at period end *	28	27	23	19	21	20	9	9	9	8
Fixed-wing systems	11	11	9	8	10	10				
Helicopter systems	17	16	14	11	11	10	9	9	9	8
AeroTEM systems included in above	13	11	8	8	8	7	6	6	6	5
Line kilometres flown during period										
Helicopter systems	74,100	73,200	59,000	47,700	38,000	51,100	44,800	25,600	45,500	49,000
Fixed-wing systems	520,000	457,700	362,000	408,900	351,000	158,000				
Contract back-log (CAD\$ thousands)										
Helicopter systems	\$ 6,856	\$ 5,100	\$ 5,900	\$ 8,000	\$ 8,400	\$ 12,000	\$ 8,300	\$ 3,500	\$ 3,500	\$ 4,700
Fixed-wing systems	\$ 9,256	\$ 1,900	\$ 11,400	\$ 11,000	\$ 7,900	\$ 11,000	\$ -	\$ -	\$ -	\$ -
Other	\$ 1,910	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

* excluding gamma ray spectrometers

5. Liquidity and Capital Resources

Our cash balances, have increased by \$10.0 million from the start of the fiscal year. As well, our current liabilities have declined from \$12.2 to \$10.0 million in the same period. This improvement in liquidity is primarily a result of the raising of capital of \$19.6 million net of expenses. Cash and short-term investments are generally invested in liquid Canadian dollar, Australian dollar or U.S. dollar denominated securities with maturities no greater than ninety days. We have no investments in asset-backed commercial paper.

5.1 Operating Activities

Before changes in non-cash working capital, operating cash flow provided \$3.0 million in the fourth quarter of fiscal 2008, an increase of \$1.2 million, or 70 per cent, from the most comparable two month period last year. Operating cash flow is tracking higher as a result of the higher sales activity and lower fixed cash costs as a percentage of sales.

Changes in non-cash working capital consumed \$0.8 million in the current quarter, as compared to consuming \$1.7 million in the comparable quarter last year. The change in non-cash working capital is primarily a result of an increase in the level of business which is increasing our working capital requirements.

For the 2008 fiscal year, operating cash flow before changes in working capital was \$9.6 million. Net changes in working capital consumed \$1.6 million resulting in total cash flow from operating activities of \$7.9 million. The change in working capital was primarily due to a decrease in income taxes payable of \$1.2 million, an increase in accounts receivable of \$0.6 million and a decrease in deferred revenue of \$0.6 million. Other changes to working capital generated the remaining \$0.4 million (net).

5.2 Investing Activities

Investment activities in the quarter consumed \$2.0 million of cash, substantially all of which was for the acquisition of capital assets.

On a full year basis, investment activities consumed \$8.6 million compared to \$8.9 million for the five months ended September 30, 2007 and \$1.9 million for the year ended April 30, 2007. Capital expenditures for the year were \$7.1 million or 13% of revenue. In two preceding fiscal years, capital expenditures totaled \$3.5 million or 9% of revenue. The increased expenditure on capital was spent on increasing the number of survey systems in both our helicopter and fixed wing operations and maintaining our existing fleet of survey systems.

The acquisition of Geophex on December 31, 2007 consumed \$2.2 million in cash. The acquisition of UTS on July 3, 2007 consumed \$7.3 million of cash in the five month prior fiscal year.

5.3 Financing Activities

Included in financing activities is the repurchase of common shares under our Company's Normal Course Issuer Bid. For the fourth quarter, we purchased for cancellation 1,083,700 shares of the Company for a value of \$1.9 million. For the full year, 1,681,500 shares of the Company were purchased for cancellation for a value of \$3.3 million.

Shares issued in the year consisted of the issuance of 6,666,667 shares pursuant to a secondary offering, the issuance of 585,883 common shares on the acquisition of Geophex, the issuance of 119,832 common shares upon the exercise of employee stock options and 30,001 common shares on the vesting of restricted stock units, and 483,818 common share purchase warrants. Total proceeds for all transactions were \$19.6 million.

Promissory notes of \$5.4 million related to the acquisitions of UTS Geophysics and Geophex were also paid in their entirety in the 2008 fiscal year.

5.4 Capital Resources

We have separate credit facilities and associated financial covenants in place for our Canadian and Australian operations. At September 30, 2008, no amounts have been drawn on either facility.

We believe that cash flow from operations and unused operating facilities will be sufficient to fund its working capital, capital expenditure requirements and debt service costs (if applicable) for the near future.

5.5 Summary Financial Position

At September 30, 2008, we had current assets of \$27.0 million and current liabilities of \$10.6 million. Net working capital was \$16.3 million, an increase of \$12.4 million from September 30, 2007 and an increase of \$12.1 million from April 30, 2007. The increase in net working capital is primarily the result of the equity issue closing in Feb 2008 raising gross proceeds of \$20 million. Offsetting this increase in cash was expenses related to the equity issue of \$2.0 million, the repayment of outstanding promissory notes of \$5.3 million, and repurchase of shares under the Normal Course Issuer Bid of \$3.3 million (see item 9 below).

CASH & WORKING CAPITAL CHANGES

<i>(in thousands of Canadian dollars)</i>	30-Sep-08	30-Sep-07	30-Apr-07	Change from prior year		Change from second prior year	
Cash	\$ 15,373	\$ 5,399	\$ 4,706	\$ 9,974	185%	\$ 10,667	227%
Non-cash current assets	11,584	10,789	4,387	795	7%	7,197	164%
Current assets	\$ 26,957	\$ 16,188	\$ 9,093	\$ 10,769	67%	\$ 17,864	196%
Less: Current liabilities	10,626	12,232	4,891	(1,606)	(13%)	5,735	117%
Net working capital	\$ 16,331	\$ 3,956	\$ 4,202	\$ 12,375	313%	\$ 12,129	289%
Current ratio	2.5	1.3	1.9		92%		36%

6. Risks and Uncertainties

6.1 Foreign currency exchange risk

We record transactions and prepare our financial statements in Canadian dollars. For the year ended September 30, 2008, we maintained operations in Canada, Australia, and the United States with business conducted in other countries. International operations are considered financially and operationally self-sustaining. Accordingly, the assets and liabilities of our foreign subsidiaries are translated into Canadian dollars at period end exchange rates. Revenue and expense items of its foreign subsidiaries are translated into Canadian dollars at monthly exchange rates.

Significant portions of our expenditures are denominated in these currencies and therefore, a natural hedge exists for much of this exposure. However, a net exposure exists for Australian and United States dollars cash flows that can affect earnings as the Canadian dollar exchange rate changes in relation to these currencies.

Other comprehensive income includes a currency translation adjustment related to our net investment in self-sustaining subsidiaries.

While our Company's foreign exchange policy does permit active hedging of any portion of our net foreign currency cash flow beyond the natural hedges identified and discussed above, no active hedges were employed in the quarter. As a result, no derivative products are employed by us.

6.2 Interest Rate Risk

Since we did not have any interest bearing debt in the fourth quarter, interest rate volatility did not have a direct impact on our Company's operations.

6.3 Other Litigation

On August 19, 2008 we announced that we had 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 fifty million dollars in general damages and one million dollars 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, we 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 our Company. We have counterclaimed for a total of \$21 million for abuse of process and damages. Both the Claim and Defence and Counterclaim remain unresolved.

We are of the view that the Geotech claim is completely without merit and thus no amount has been recognized in the financial statements of our Company related to this Claim. It is, however, disclosed as a contingent liability in Note 20 of the audited financial statements.

In addition to the above, we are 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 such matters will be resolved in our favour, We do 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 our financial position, results of operations or liquidity.

7. Off-Balance Sheet Arrangements

We have not entered into any off balance sheet arrangements, other than previously disclosed, that have, or are reasonably likely to have, an impact on the current or future results of operations or the financial condition of our Company.

8. Transactions with Related Parties

For the year ended September 30, 2008 we made no payments (\$0.1 million for the five months ending September 30, 2007) to companies owned by certain directors for management consulting services. Transactions were in the normal course of operations and were measured at the exchange value (the amount of consideration established and agreed to by the related parties), which approximated the arm's length equivalent value for services performed.

9. Proposed Transaction – Spectrem Air

On September 24, 2008 we signed a non-binding letter of intent with Spectrem Air Limited ("Spectrem") a member of the Anglo American group of companies, one of the world's largest mining and natural resource groups, to create a long-term outsourcing arrangement whereby Spectrem will outsource substantially all of its current airborne geophysical surveying business to Aeroquest.

This outsourcing arrangement contains three components: (i) an Acquisition Agreement – pursuant to which we will acquire from the members of the Anglo American Group Companies a Spectrem 2000™ airborne surveying system, two AeroTEM™ systems and substantially all other tangible assets used in the operation of Spectrem's airborne servicing business for consideration of US\$4.0 million through a combination of future survey credits under the Servicing Agreement and, at Spectrem's option, of up to US\$1.5 million in cash. The LOI contemplates that under the Acquisition Agreement, Aeroquest will be required to acquire a DC-3 'Dakota' aircraft within six months of the closing date and to begin to outfit it with surveying systems; (ii) a License Agreement – whereby we will license Spectrem's intellectual property relating to Spectrem's proprietary surveying systems and we will pay a yearly royalty fee based on a prescribed formula; and (iii) a Services Agreement – whereby we will guarantee to provide to the Anglo American Group Companies, including Spectrem, up to 50,000 kms per year use of certain of Aeroquest's airborne surveying systems at pre-determined rates.

The letter of intent is subject to confirmatory due diligence, execution of definitive legal documentation, the final approval of the board of directors of our Company, and Spectrem, and other customary conditions. Our Company and Spectrem are currently negotiating the terms of the definitive documentation, but there is no assurance that these negotiations will prove successful. The letter of intent contemplates that the closing will occur on or before December 31, 2008.

10. Share Capital

At September 30, 2008, we had 33,514,974 Common Shares issued and outstanding and as at the same date the Common Share stock options held by directors, officers, employees, consultants, and brokers were as follows:

	Number of options	Exercise price	Expiry date
Issued options held by directors,	32,500	\$ 0.50	October 28, 2009
officers and consultants under the	10,000	\$ 2.00	October 28, 2009
Company Stock Option Plan	5,000	\$ 0.50	March 1, 2010
	15,000	\$ 2.00	June 30, 2010
	27,500	\$ 0.50	June 30, 2010
	250,000	\$ 0.50	February 9, 2011
	50,000	\$ 0.50	March 28, 2011
	427,500	\$ 0.60	June 30, 2011
	10,000	\$ 0.75	October 3, 2011
	15,000	\$ 0.75	October 13, 2011
	227,000	\$ 2.34	September 30, 2012
	30,000	\$ 3.15	January 15, 2013
	50,000	\$ 1.70	July 16, 2013
Total outstanding	1,149,500	\$ 1.06	
Total exercisable	944,833	\$ 0.79	

We have a Restricted Stock Unit (RSU) plan under which the board of directors may grant RSU units to qualified directors, officers, employees, and persons providing ongoing services to our 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. At September 30, 2008 there were 496,667 RSU's outstanding. In October 2007, 450,000 RSU's were granted to certain employees and, 30,001 RSU's vested representing one-third of the RSU's granted on October 13, 2006.

On December 13, 2007, we received approval from the TSX Venture Exchange for a normal course issuer bid whereby our Company was given the right to purchase up to 1,374,660 of its own common shares on the open market for cancellation terminating on December 16, 2008.

On July 24, 2008, we delisted from the TSX-Venture Exchange and commenced trading on the Toronto Stock Exchange (TSX). Concurrent with the graduation to the TSX, the TSX approved an amendment to the Normal Course Issuer Bid of December 13, 2007 which increased the number of shares that can be acquired pursuant to the bid to 1,653,336 common shares (an increase of 278,676 common shares).

In the final quarter of fiscal 2008, we purchased 1,083,700 shares for cancellation for a total consideration of \$1.9 million. The share capital value and outstanding shares have been adjusted to reflect this cancellation.

11. Internal Controls and Disclosure Controls & Procedures

11.1 Background

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

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

As of September 30, 2008, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our Company's disclosure controls and procedures and internal control over financial reporting, and determined that they were effective.

11.2 Upcoming Changes to NI 52-109

In 2008, the Canadian Securities Authorities announced changes to NI 52-109 that will impact our reporting effective for fiscal quarters ending after December 15, 2008. Changes that will have an impact include the following new requirements that we:

- evaluate the effectiveness of Internal Controls over Financial Reporting ('ICFR');
- use a control framework in the design of their ICFR and such framework must be disclosed; and
- disclose all material weaknesses, their financial impact (actual or potential), and plans or actions to remediate such weaknesses.

We are currently working with external advisors to assess the impact of these changes on its current evaluation of ICFR and disclosure control and procedures and will be in a position to report under the revised NI 52-109 in its MD&A for the three months ended December 31, 2008.

12. Critical Accounting Policies and Estimates

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

12.1 Accounting Policy Changes

REVENUE RECOGNITION

In order to match more accurately revenues with the costs incurred in the pursuit of such revenue, we changed our revenue recognition policy effective May 1, 2007. All historical periods have been restated to conform to this new revenue recognition policy. As a result, the prior periods reported in this MD&A as well as in our Consolidated Financial Statements, dated September 30, 2008, may not match the results made public in earlier reporting periods. The total amount of revenue and profits over our history has not changed, but the period in which some of those revenues and profits were recorded may have changed by one quarter, earlier or later. We now recognize revenue as follows:

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

SURVEY REVENUE – 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 – are recognized as revenue as standby days are incurred. The related costs of standby are included in cost of sales.

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

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

Effective May 1, 2007 we 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.

Upon the adoption of these new standards, we designated our cash as held-for-trading, our accounts receivable as loans and receivables, our accounts payables and accruals as other financial liabilities, and our long term investments as available for sale financial assets. Promissory notes were designated as other financial liabilities.

Comprehensive income (or loss) 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. During the three months and year ended September 30, 2008 we had \$1.4 and \$1.3 million respectively in "other comprehensive loss" transactions.

12.2 Foreign Accounting Standards

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

12.3 Use of Estimates

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

BAD DEBT EXPENSE

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

FOREIGN CURRENCY TRANSLATION

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

Foreign currency accounts are translated into Canadian dollars as follows:

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

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

GOODWILL AND INTANGIBLE ASSETS

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 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.

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. Customer relationships and technology are amortized over seven years, sales backlog is amortized over one year and any trade names are not amortized.

INCENTIVE COMPENSATION

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

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

12.4 International Financial Reporting Standards ('IFRS')

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian public and publicly accountable companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year period ended in 2011. On May 9, 2008, the Canadian Securities Administrators issued CSA Staff Notice 52-320 which provided guidance on disclosure related to each financial reporting period in the three years before the first year for which a public company prepares its financial statements in accordance with IFRS. As we will begin reporting of IFRS in its September 30, 2012 fiscal year, the staff notice requires disclosure on the key elements and timing of its IFRS changeover plan beginning with our Company's interim MD&A for the quarter ended December 31, 2008.

We will therefore provide an update in its next quarterly interim MD&A on the IFRS changeover plan, the key elements and timing considerations thereto. In interim and annual MD&A's beyond this quarter, the company will continue to update and refine its guidance on the IFRS changeover plan.

13. Outlook

13.1 Short-Term

We continue to execute on our strategy first outlined in the September 30, 2007 annual report. While the current economic slowdown and its impact on world mineral and oil & gas prices will affect the timing and pace of this strategy, the strategy itself still remains sound. Specifically, the strategy involves completion of the three targets:

CONTINUE THE INTERNATIONAL EXPANSION – When demand exists for our services, we will continue to grow internationally both organically – through the addition of additional fixed wing and helicopter systems, and through acquisitions, joint ventures and strategic partnerships with companies across the globe. An element of this strategy is the Spectrem transaction noted above.

ORGANIZE AROUND THE UTS & GEOPHEX ACQUISITIONS – Allowing us to offer a complete suite of geophysical survey opportunities to our global customers. The Geophex acquisition also gives the company a major opportunity to not only provide geophysical R&D services to our customer base, but also to streamline and improve our internal R&D to ensure that we continue offer leading edge geophysical survey solutions to our customers.

MAKE INROADS IN PETROLEUM SERVICES AND ENVIRONMENTAL ENGINEERING – Broadening our base of product offerings to support diverse engineering opportunities opens up additional untapped markets globally and reduces the dependence of our Company on a single industry. We believe that the acquisition of Geophex will greatly assist in this opportunity through their core competency in environmental engineering. As well, we announced after year-end the creation of Aeroquest Data Services Limited. This business involves the flying of non-exclusive surveys on behalf of our customers. We will retain ownership of these surveys thus providing an additional revenue stream that arises from a data library. This business model will be an additional revenue stream from the more traditional contract survey work.

13.2 Medium To Long-Term

Looking forward, our goal is to use our short term strategies to create a longer term goal of becoming the pre-eminent supplier of airborne geophysical surveys to clients in our target markets. Currently, we do not see any impediments to achieving this goal. We believe that the current market pressures that exist in the minerals and oil & gas markets are short term and ongoing depressed market prices are not sustainable in the long term. We will continue to adjust its fleet to market conditions.





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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BDO Dunwoody LLP
Chartered Accountants
and Advisors

Royal Bank Plaza
P.O. Box 32
Toronto Ontario Canada M5J 2J8
Telephone: (416) 865-0200
Telefax: (416) 865-0887

www.bdo.ca

AUDITORS' REPORT

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)
Assets		
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
Total current assets	26,957,014	16,187,701
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
Total long term assets	42,583,042	36,712,236
Total Assets	\$ 69,540,056	\$ 52,899,937
Liabilities and Shareholders' Equity		
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
Total current liabilities	10,626,215	12,231,849
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
Total liabilities	17,736,017	21,954,190
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
Total shareholders' equity	51,804,039	30,945,747
Total Liabilities and Shareholders' Equity	\$ 69,540,056	\$ 52,899,937

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
Sales		\$ 55,045,575	\$ 19,299,618	\$ 20,187,043
Cost of sales		34,350,797	11,573,913	11,006,595
Gross profit		20,694,778	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
Total operating expenses		16,272,120	4,623,839	5,687,024
Operating profit		4,422,658	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
Income before income taxes		4,646,724	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
Total income tax		1,803,619	1,118,909	1,437,843
Net income for the period		\$ 2,843,105	\$ 1,983,377	\$ 2,040,278
Earnings per share (Note 12)				
Basic		\$ 0.09	\$ 0.09	\$ 0.13
Fully diluted		\$ 0.09	\$ 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
Retained earnings, end of period	\$ 4,681,071	\$ 2,758,967	\$ 775,590

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
Cash provided by (used in)				
Operating activities				
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
Operating cash flow before changes in non-cash working capital		9,553,950	3,394,666	3,491,609
Changes in non cash working capital		(1,648,864)	(714,375)	825,815
Total cash flow from operating activities		7,905,086	2,680,291	4,317,424
Investing activities				
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)	-
Total cash flow from investing activities		(8,641,855)	(8,874,886)	(1,931,666)
Financing activities				
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
Total cash flow from financing activities		10,711,124	6,887,337	(190,402)
Net change in cash and cash equivalents for the period		\$ 9,974,355	\$ 692,742	\$ 2,195,356
Cash and cash equivalents, beginning of period		5,398,777	4,706,035	2,510,679
Cash and cash equivalents, end of period		\$ 15,373,132	\$ 5,398,777	\$ 4,706,035
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)
Balance Sep. 30 07	\$ 27,403,594	\$ 1,320,461	\$ 2,758,967	\$ (537,275)	\$ 30,945,747

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)
Balance Sep. 30 08	\$ 46,506,445	\$ 2,411,281	\$ 4,681,071	\$ (1,794,758)	\$ 51,804,039

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.

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.

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.

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.

Summary of Significant Accounting Policies

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.

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

	Sep. 30, 2008			Sep. 30, 2007
	Cost	Accumulated Depreciation	Net Book Value	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
	\$ 16,814,205	\$ 5,924,205	\$ 10,890,000	\$ 7,618,873

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	Accumulated Depreciation	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$ 1,335,226	\$ 431,028	\$ 904,198	\$ 1,235,084

Depreciation for assets under capital lease was \$330,886 for 2008, \$100,142 for September 30, 2007 and Nil for April 30, 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		Sep. 30, 2008			Sep. 30, 2007
Intangible Asset	Amort. Period	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
		\$ 19,963,021	\$ 3,960,752	\$ 16,002,269	\$ 19,894,245

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		Sep. 30, 2008			Sep. 30, 2007
Intangible Asset	Amort. Period	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	-
		\$ 4,616,222	\$ 770,648	\$ 3,845,573	\$ -

Consolidated intangible assets are comprised of the following:

Consolidated		Sep. 30, 2008			Sep. 30, 2007
Intangible Asset	Amort. Period	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
		\$ 24,579,243	\$ 4,731,401	\$ 19,847,842	\$ 19,894,245

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
Total Purchase Price	\$ 25,005,331	\$ 24,998,431

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired 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
Total net assets acquired, net of cash	\$ 25,005,331	\$ 24,998,431

Notes to Consolidated Financial Statements

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
Total Purchase Price	\$ 6,096,049

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
Total net assets acquired, net of cash	\$ 6,096,049

5. Goodwill

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

	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)
Goodwill, end of period	\$ 11,662,115	\$ 8,965,370

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%).

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
Representing Capital Lease Obligations		
Current	321,426	292,466
Long term	469,575	720,230
	\$ 791,001	\$ 1,012,696

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
	\$ 1,787,070

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.

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.

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	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

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	\$1.70 - \$3.15
Exercise price	\$1.70 - \$3.15
Expected life of options	3 years
Expected stock price volatility	70%
Expected dividend yield	-
Risk free interest rate	4%

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	110,000	\$ 0.75
Granted	450,000	2.34
Vested	(30,001)	0.75
Expired	(33,332)	0.75
Total Outstanding, Sep. 30, 2008	496,667	\$ 2.29

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	\$ 2,411,281	\$ 1,320,461

- (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	\$ 83,871	\$ 245,029	\$ 328,900

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)	-
Income taxes	\$ 1,803,619	\$ 1,118,909	\$ 1,437,843

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

Future Taxes	Sep. 30, 2008	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	-
	\$ (6,487,643)	\$ (6,261,025)	\$ 1,567

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 Ltd. are treated as a separate segment from the airborne services. Selective information from Geophex Ltd. 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

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
Total Revenue	\$ 55,045,575	\$ 19,299,618	\$ 20,187,043

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	-

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

	Sep. 30, 2008		Sep. 30, 2007	
	\$	%	\$	%
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:

	Sep. 30, 2008		Sep. 30, 2007	
	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.

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 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).



HEAD OFFICE OFFICERS

Aeroquest International Limited
7687 Bath Road
Mississauga, ON
L4T 3T1 Canada
Toll Free. +1 866 693 9129
T. +1 905 672 9129
F. +1 905 672 7083
W. aeroquest.ca

CALGARY SALES DIRECTORS

510-5th Street SW, Suite 620
Calgary, AB
T2P 3S2 Canada
T. +1 403 450 9621
F. +1 403 398 4657

VANCOUVER SALES DIRECTORS

1130 West Pender
Suite 1090
Vancouver, BC
V6E 4A4 Canada
T. +1 604 676 9648
F. +1 604 676 9650

AUSTRALIA

UTS Geophysics
116 Fauntleroy Avenue, Perth Airport
Western Australia 6104 Australia
T. + 61 8 9479 4232
F. + 61 8 9479 7361
W. uts.com.au

UNITED STATES

Geophex Ltd.
605 Mercury Street
Raleigh, NC
27603 USA
T. +1 919 839 8515
F. +1 919 839 8528
W. geophex.com

AUDITORS
BDO Dunwoody
1 City Centre Drive, Suite 1700
Mississauga, ON
Canada L5B 1M2
T. +1 905 270 7700
F. +1 905 270 7915

TRANSFER AGENT
Computershare Investor Services Inc.
9th Floor, 100 University Avenue
Toronto, ON
Canada M5J 2Y1
T. +1 800 564 6253
F. +1 888 453 0330



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TSX : AQL

Calgary +1 403 450 9621 Vancouver +1 604 676 9648 Raleigh +1 919 839 8515 Perth +61 8 9479 4232 Pretoria +27 12 332 3320



Head office
7687 Bath Road
Mississauga, Ontario
Canada L4T 3T1

Phone	+1 905 672 9129
Toll Free	+1 866 693 9129
Fax	+1 905 672 7083
Website	aeroquest.ca



The AEROQUEST INTERNATIONAL Group of Companies