



Aeroquest International Limited

Unaudited Consolidated Financial Statements

For the three and six months ended March 31, 2008

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed these unaudited financial statements for the period ended March 31, 2008.

Aeroquest International Limited

Consolidated Balance Sheets
Unaudited – Prepared by Management



As at	Mar. 31, 08 (Unaudited)	Sep. 30, 07 (Audited)
Assets		
Current		
Cash and cash equivalents	\$ 16,225,372	\$ 5,398,777
Accounts receivable	9,425,932	8,014,717
Unbilled contracts in progress	1,190,195	2,312,098
Inventory	119,074	-
Prepaid expenses and deposits	554,868	462,109
Total current assets	27,515,441	16,187,701
Long term		
Long term investments (Note 1)	65,001	90,001
Capital assets (Note 2)	9,697,968	7,618,873
Intangible assets (Note 3)	22,760,971	20,431,860
Goodwill (Note 4)	11,863,976	9,199,108
Future income taxes	149,578	143,747
Total long term assets	44,537,494	37,483,589
Total Assets	\$ 72,052,935	\$ 53,671,290
Liabilities and Shareholders' Equity		
Current		
Accounts payable and accrued liabilities	\$ 5,644,547	\$ 5,325,928
Income taxes payable	1,036,917	2,238,543
Deferred revenue	3,554,044	3,838,463
Promissory notes (Note 5)	-	536,449
Capital lease obligations (Note 6)	293,343	292,466
Total current liabilities	10,528,851	12,231,849
Long term		
Promissory notes (Note 5)	-	2,597,339
Capital lease obligations (Note 6)	562,305	720,230
Future income taxes	7,287,187	6,566,056
Total liabilities	18,378,343	22,115,474
Shareholders' equity		
Share capital (Note 8)	48,354,284	27,403,594
Contributed surplus (Note 8)	1,800,821	1,320,461
Accumulated other comprehensive income	238,493	72,794
Retained earnings	3,280,994	2,758,967
Total shareholders' equity	53,674,592	31,555,816
Total Liabilities and Shareholders' Equity	\$ 72,052,935	\$ 53,671,290

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

Aeroquest International Limited

Consolidated Statement of Operations and Comprehensive Income Unaudited – Prepared by Management



For the period	Three months ended Mar. 31, 08	Three months ended Apr. 30, 07	Six months ended Mar. 31, 08	Six months ended Apr. 30, 07
Sales	\$ 13,294,277	\$ 5,936,703	\$ 24,490,818	\$ 10,034,587
Cost of sales	7,221,337	3,305,062	14,500,556	5,818,147
Gross profit	6,072,940	2,631,641	9,990,262	4,216,440
Expenses and other items				
General and administrative	2,330,573	1,209,228	4,211,136	2,043,370
Development expense	98,453	117,589	209,620	216,172
Foreign exchange (gain)/loss	24,313	154,272	(32,151)	124,883
Stock based compensation expense	173,208	91,476	555,963	91,476
Amortization of intangible assets	1,178,301	-	2,070,888	-
Depreciation of capital assets	654,838	277,444	1,166,471	547,079
Total operating expenses	4,459,686	1,850,009	8,181,927	3,022,980
Operating profit	1,613,254	781,632	1,808,335	1,193,460
Other costs (income) (Note 12)	(23,115)	(188,254)	(11,526)	(219,501)
Contract cancellations costs	-	202,500	-	270,000
Income before income taxes	1,636,369	767,386	1,819,861	1,142,961
Income taxes (Note 10)				
Current	1,161,718	408,147	1,598,918	573,293
Future	(340,930)	38,433	(715,300)	38,433
Total income tax	820,788	446,580	883,618	611,726
Net income for the period	\$ 815,581	\$ 320,806	\$ 936,243	\$ 531,235
Revaluation of long term investments to fair market value	(23,000)	-	(25,000)	-
Unrealized gain (loss) on translation of self-sustaining foreign operations	206,265	-	190,699	-
Total comprehensive income, for the period	\$ 998,846	\$ 320,806	\$ 1,101,942	\$ 531,235

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

Aeroquest International Limited

Consolidated Statements of Retained Earnings Unaudited – Prepared by Management



For the period	Three months ended Mar. 31, 08	Three months ended Apr. 30, 07	Six months ended Mar. 31, 08	Six months ended Apr. 30, 07
Retained earnings, beginning of period, as previously reported	\$ 2,674,783	\$ 625,455	\$ 2,758,967	\$ 260,054
Cumulative effect of change in accounting policy (Note 9)	-	54,995	-	209,967
Retained earnings, beginning of period, as restated	\$ 2,674,783	\$ 680,450	\$ 2,758,967	\$ 470,021
Excess of purchase price over cost on redemption of shares	(209,370)	(225,666)	(414,216)	(225,666)
Net income	815,581	320,806	936,243	531,235
Retained earnings, end of period	\$ 3,280,994	\$ 775,590	\$ 3,280,994	\$ 775,590
Earnings per share (Note 11)				
Basic	\$ 0.03	\$ 0.02	\$ 0.03	\$ 0.03
Fully diluted	\$ 0.02	\$ 0.02	\$ 0.03	\$ 0.03

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

Aeroquest International Limited

Consolidated Statements of Cash Flow Unaudited – Prepared by Management



For the period	Three months ended Mar. 31, 08	Three months ended Apr. 30, 07	Six months ended Mar. 31, 08	Six months ended Apr. 30, 07
Cash provided by (used in)				
Operating activities				
Net income for the period	\$ 815,581	\$ 320,806	\$ 936,243	\$ 531,235
Operating items not requiring cash				
Amortization of intangible assets	1,178,301	-	2,070,888	-
Depreciation of capital assets	654,838	277,444	1,166,471	547,079
Translation of self sustaining foreign operations	206,265	-	190,699	-
Future income taxes	(340,930)	38,433	(715,300)	38,433
Interest accretion on promissory notes	142,868	-	221,213	-
Stock based compensation	173,208	91,476	555,963	91,476
Write down of long term investment	-	110,000	-	110,000
Loss (Gain) on disposal of capital assets	(45,739)	7,377	(49,476)	7,377
Operating cash flow before changes in non-cash working capital	2,784,392	845,536	4,376,701	1,325,600
Accounts receivable	(3,626,098)	(265,503)	(1,391,557)	(432,147)
Prepaid expenses	139,132	(398,440)	(92,758)	(546,077)
Unbilled contracts in progress	954,319	129,874	1,121,903	(24,742)
Inventory	142,134	-	142,134	-
Accts. Payable and accrued liabilities	(2,059,911)	347,710	281,990	724,263
Income taxes	(1,151,404)	416,185	(1,201,626)	581,330
Deferred revenue	583,611	867,717	(284,419)	1,012,908
Total cash flow from operating activities	(2,233,825)	1,943,079	2,952,368	2,641,135
Investing activities				
Capital asset purchases	(1,708,993)	(951,720)	(2,940,662)	(1,208,685)
Loan receivable	-	41,850	-	44,250
Cash cost of acquisition (Note 4b)	(95,170)	-	(2,116,616)	-
Total cash flow from investing activities	(1,804,163)	(909,870)	(5,057,278)	(1,164,435)
Financing activities				
Promissory note payments	(5,337,600)	-	(5,337,600)	-
Capital lease payments	(70,604)	-	(229,059)	-
Aeroquest shares redeemed	(440,031)	(327,132)	(815,368)	(327,477)
Proceeds: issuance of common shares	18,677,574	138,750	19,313,532	138,750
Total cash flow from financing activities	12,829,339	(188,382)	12,931,505	(188,727)
Net change in cash and cash equivalents for the period	\$ 8,791,351	\$ 844,827	\$ 10,826,595	\$ 1,287,973
Cash and cash equivalents, beginning of period	7,434,021	3,861,208	5,398,777	3,418,062
Cash and cash equivalents, end of period	\$ 16,225,372	\$ 4,706,035	\$ 16,225,372	\$ 4,706,035

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

Aeroquest International Limited

Consolidated Statements of Shareholders' Equity
 Unaudited – Prepared by Management
 For the six months ending March 31, 2008



	Share Capital	Contributed Surplus	Retained Earnings	Accumulated Other Comp. Income	Total Shareholders' Equity
Balance Sep. 30, '07	\$ 27,403,594	\$ 1,320,461	\$ 2,758,967	\$72,794	\$ 31,555,816
Aeroquest shares purchased for cancellation	(385,288)	(15,864)	(414,216)		(815,368)
Issuance of common shares for cash, net of expenses	18,532,367				18,532,367
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	149,195	(37,239)			111,956
Warrants exercised	669,208				669,208
Net income for the period			936,243		936,243
Stock based compensation expense		555,963			555,963
Unrealized gain on translation of self sustaining foreign operations				190,699	190,699
Revaluation of long term investments to fair market value				(25,000)	(25,000)
Balance Mar. 31 08	\$ 48,354,284	\$ 1,800,821	\$ 3,280,994	\$ 238,493	\$ 53,674,592

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

Aeroquest International Limited
Summary of Significant Accounting Policies
For the period ending March 31, 2008 and April 30, 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 Venture Exchange under the trading symbol AQL-V.

The Company is engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

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

The Company acquired 100% of the voting shares of UTS Geophysics Pty Ltd. on July 3, 2007. UTS Geophysics Pty Ltd (UTS) is incorporated in Australia and has been in operation since 1992. Its head office is located at Perth Airport, Western Australia. UTS provides high resolution airborne magnetic, radiometric and gravimetric surveys using fixed-wing and rotary-wing aircraft for the exploration and environmental industries.

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 has changed its year end to September 30. This financial report is for the three months and six months ending March 31, 2008 with a comparison to the three months and six 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, Aeroquest (UK) Limited and UTS Geophysics Pty Ltd. and Geophex Ltd. All significant intercompany transactions and balances have been eliminated on consolidation.

Certain comparative figures have been reclassified to conform to the presentation adopted for the current period.

Use of Estimates

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

Revenue Recognition

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 9 – 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 we can be reasonably assured of collection.

Unbilled contracts in process represent the difference between revenue recognized on a percentage completion basis for contracts in process and that billed on the contract.

Foreign Currency Translation

The Company's functional currency is the Canadian dollar. Foreign currency accounts are translated into Canadian dollars as follows: At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars at the monthly average exchange rate. At the period end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period.

The accounts of self-sustaining foreign operations are translated at period end exchange rates, and revenues and expenses are translated at monthly average exchange rates. Differences arising from these foreign currency translations are recorded in shareholders' equity as accumulated other comprehensive income until they are realized by a reduction in the investment.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and short-term investments readily convertible to cash with original maturities of 90 days or less. The Company has no investments in asset backed commercial paper.

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.

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 is the resulting excess of purchase price over the fair value of the assets acquired. Goodwill is tested for impairment on an annual basis unless an event occurs that would render the fair value of a reporting unit below its carrying amount. Any impairment in goodwill is written off against earnings.

Research and Development

All research costs are charged to operations in the year of expenditure. Development costs are only capitalized if they meet the criteria for capitalization and are 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 allocated to other income and recognized when there is reasonable assurance that the credits will be realized.

Income Taxes

The Company follows the asset and liability method of tax allocation in accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws expected to be in effect when the differences are realized.

Stock Based Compensation

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

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

Change in Accounting Policies

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.

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

Comprehensive income represents the changes in the value of the net assets from non-owner sources. Other comprehensive income refers to items that are recognized in the comprehensive income but excluded from net income calculated in accordance with Canadian generally accepted accounting principles until such time as it is considered appropriate to recognize them in net income. Aeroquest had \$183,265 in “other comprehensive income” transactions during the three months ended March 31, 2008.

Aeroquest International Limited

Notes To Consolidated Financial Statements
For the periods ending March 31, 2008 and April 30, 2007



1. Long Term Investments

The Company owns shares in a number of Canadian public companies. The market value of these investments at March 31, 2008 was \$65,001, (\$90,001 at September 30, 2007).

2. Capital Assets

	Mar 31, 2008			Sep. 30, 2007 Net Book Value
	Cost	Accumulated Depreciation	Net Book Value	
Airborne and geophysical equipment	\$ 10,914,476	\$ 3,750,064	\$ 7,164,412	\$ 5,980,072
Automotive equipment	669,040	333,409	335,631	308,596
Data processing equipment	563,416	263,731	299,685	230,139
Leasehold improvements	317,757	33,580	284,177	83,632
Office equipment	683,075	131,929	551,146	287,685
Equipment in process	1,062,917		1,062,917	728,749
	\$ 14,210,681	\$ 4,512,713	\$ 9,697,968	\$ 7,618,873

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

	Mar. 31, 2008		
	Cost	Accum. Depreciation	Net Book Value
Airborne and geophysical equipment	\$ 1,335,226	\$ 278,457	\$ 1,056,769

Depreciation for assets under capital lease for the period was \$85,684.

3. Intangible Assets

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

Intangible Asset	Amort. Period (Years)	Mar. 31, 2008			Sep. 30, 2007 Net Book Value
		Cost	Accumulated Amortization	Net Book Value	
Customer relationships	7	\$ 12,717,447	\$ 1,362,583	\$ 11,354,864	\$ 12,263,253
Technology	7	5,926,000	634,929	5,291,071	5,714,357
Sales backlog	1	907,000	680,250	226,750	680,250
Trade name	0	1,774,000		1,774,000	1,774,000
		\$ 21,324,447	\$ 2,677,762	\$ 18,646,685	\$ 20,431,860

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.

Intangible Asset	Amort. Period (Years)	Mar. 31, 2008			Sep. 30, 2007
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	7	\$ 2,200,000	\$ 78,571	\$ 2,121,429	\$ -
Technology	7	900,000	32,143	867,857	-
Sales backlog	1	700,000	175,000	525,000	-
Trade name	0	600,000		600,000	-
		\$ 4,400,000	\$ 285,714	\$ 4,114,286	\$ -

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 which includes direct costs related to the acquisition of \$277,181. The total consideration paid is made up of the following:

Cash, net of cash acquired	\$ 7,050,796
Acquisition costs	277,181
Cash cost of acquisition	7,327,977
Shares of Aeroquest International (6,800,000 shares @ \$2.15)	14,620,000
Promissory note	3,057,354
Total Purchase Price	\$ 25,005,331

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired is not finalized and, as such, the fair value allocations of the purchase price are subject to change, and this change could be significant. On a preliminary basis, details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	
Cash	\$ 2,140,180
Accounts receivable	3,097,521
Unbilled contracts in progress	1,361,239
Capital assets	3,110,103
Future income taxes	(6,683,533)
Accounts payable and accruals	(3,972,024)
Capital lease obligations	(1,110,557)
Income taxes payable	(1,327,873)
Intangible assets	21,324,447
Goodwill	9,206,008
Total net assets acquired, net of cash	\$ 25,005,331

b) On December 31, 2007, the Company acquired 100% of the outstanding share capital of Geophex Ltd. for a total consideration of CAD\$6,061,924, which includes direct costs related to the acquisition of \$174,239. The total consideration paid is made up of the following:

Cash, net of cash acquired	\$ 1,942,377
Acquisition costs	174,239
Cash cost of acquisition	2,116,616
Shares of Aeroquest International (585,883 shares @ \$3.35)	1,962,708
Promissory note	1,982,600
Total Purchase Price	\$ 6,061,924

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired is not finalized and, as such, the fair value allocations of the purchase price are subject to change, and this change could be significant. On a preliminary basis, details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	
Cash	\$ 40,223
Accounts receivable	19,658
Inventory	261,208
Capital assets	198,260
Future income taxes	(1,438,540)
Accounts payable and accruals	(36,630)
Intangible assets	4,400,000
Goodwill	2,657,968
Total net assets acquired, net of cash	\$ 6,061,924

5. 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.

These notes were paid in full in February 2008. As a result, interest accretion in the amount of \$142,868 has been recognized in other costs.

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.

6. Capital Lease Obligation

Finance leases are established for the purchase of capital assets with terms ranging from 1 to 5 years. The lease obligations are capitalized at the lease inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The weighted average interest rate implicit in the leases is 7.63%.

Commitments in relation to capital leases are payable as follows:

Within one year	\$ 347,280
Later than one year but not later than five years	603,992
Minimum lease payments	951,272
Future finance charges	(95,624)
Recognized as a liability	\$855,648
Representing Capital Lease Obligation	
Current	293,343
Long term	562,305
	\$ 855,648

7. Operating Lease Commitments

The Company has several operating leases for premises. The lease payments range from \$1,800 per month to \$16,000 per month. Leases expire in May 2008, June 2009, October 2009 and January and December 2012.

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

2008	\$ 296,583
2009	580,797
2010	444,469
2011	445,802
2012	262,567
	\$ 2,030,218

8. Share Capital

a. Authorized

Unlimited number of voting common shares.

b. Issued and Outstanding

	Mar. 31, 2008		Sep. 30, 2007	
Share capital, opening	27,310,273	\$ 27,403,594	15,857,773	\$ 5,992,289
Shares issued on exercise of stock options	99,332	149,195	152,500	146,975
Shares issued on vesting of RSU's	30,001	22,500	-	-
Issuance of common shares for cash	6,981,735	20,669,209	4,500,000	7,650,000
Issuance of common shares on acquisition (Note 4)	585,883	1,962,708	6,800,000	14,620,000
Costs associated with equity issue	-	(1,467,634)	-	(1,005,670)
Shares redeemed	(321,800)	(385,288)	-	-
Share capital, closing	34,685,424	\$ 48,354,284	27,310,273	\$ 27,403,594

In the quarter ending March 31, 2008 the Company issued a total of 6,743,999 common shares through several transactions for a total cash consideration of \$18,677,574. These transactions comprise the issuance of 6,666,667 common shares from an equity offering for net proceeds of \$18,532,367, issuance of 27,332 common shares on the exercise of employee stock options for a value of \$22,707 and issuance of 50,000 common shares on the exercise of share purchase warrants for a value of \$122,500.

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 will be 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.

Common shares were issued in connection with the acquisition of Geophex Ltd. on December 31, 2007; 585,883 common shares for a total value of \$1,962,708.

The Company redeemed 159,700 shares in the quarter ending March 31, 2008 for a total consideration of \$440,031 of which \$222,634 is allocated to share capital, \$8,027 to contributed surplus and \$209,370 to retained earnings. The Company redeemed 162,100 shares in the quarter ending December 31, 2007 for a total consideration of \$375,337 of which \$162,654 is allocated to share capital, \$7,837 to contributed surplus and \$204,846 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 the market value of the shares on the date of closing and 4,500,000 were issued as part of a subscription receipt unit offering of one common share plus one half a common share purchase warrant priced at \$1.70.

c. Share Purchase Warrants

Warrants issued in the quarter ending July 31, 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.

Number of warrants	Fair value	Exercise Price	Expiry Date
2,250,000	\$0.22	2.45	May 29, 2009
450,000	\$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 quarter ending March 31, 2008 a total of 50,000 warrants were exercised for a total value of \$122,500. In the quarter ending December 31, 2007 a total of 265,068 warrants were exercised for a total value of \$546,708. No warrants were exercised in the stub period ending September 30, 2007.

d. Stock Options

The Company has a Stock Option plan under which the directors of the Company may grant options to acquire shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The strike price of these options will not be less than the market price of the common shares at the time of the grant. The options generally vest 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 options granted under the stock option plan for the periods ending March 31, 2008 and December 31, 2007.

	Number of Options	Avg. Exercise Price
Outstanding Sept. 30, 2007	975,000	\$ 0.65
Options granted	550,000	2.34
Options exercised	(72,000)	1.24
Options expired	-	-
Total outstanding and exercisable Dec. 31, 2007	1,453,000	1.26
Options granted	-	-
Options exercised	(27,332)	0.83
Options expired	-	-
Total outstanding and exercisable Mar 31, 2008	1,425,668	\$ 1.27

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	\$2.34
Exercise price	\$2.34
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.

The following table reflects the continuity of restricted stock units granted under the RSU plan for the period ended March 31, 2008:

	Number of Units	Avg. Exercise Price
Outstanding, Sept. 30, 2007	110,000	\$ 0.75
Granted	450,000	2.34
Vested	(30,001)	0.75
Outstanding Dec 31, 2007	529,999	2.10
Granted	-	-
Vested	-	-
Outstanding, Mar 31, 2008	529,999	\$ 2.10

f. Contributed Surplus

	Mar. 31, 2008	Sep. 30, 2007
Contributed surplus, beginning of period	\$ 1,320,461	\$ 1,102,228
Stock option expense	366,712	-
Restricted stock unit expense	189,251	11,458
Redemption of shares	(15,864)	-
Exercise of stock options and RSU's	(59,739)	(63,225)
Broker warrants (450,000 @ \$0.60)	-	270,000
Contributed surplus, end of period	\$ 1,800,821	\$ 1,320,461

9. Cumulative Effect of Change in Accounting Policy

The prior period adjustments come as a result of a change in the Company's revenue recognition policy from a contract completion basis to percentage of completion basis 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. The impact on the quarter ending April 30, 2007 on revenue is \$490,609, costs of sales \$300,575 and the impact on earnings of \$190,034.

	Mar. 2008	Sep. 30, 2007 and Prior	Total
Change in revenue	\$ -	\$ 496,270	\$ 496,270
Change in cost of sales	-	167,370	167,370
Total net impact to earnings	\$ -	\$ 328,900	\$ 328,900

10. Income Taxes

	Mar 31, 2008	Sep. 30, 2007
Income before income taxes	\$ 1,636,369	\$ 3,102,286
Statutory income tax rate	36.12%	36.12%
Computed income tax payable	591,056	1,120,546
Non-deductible expenses	4,100	8,191
Non deductible amortization	353,000	101,854
Other	49,632	14,262
Lower tax rate in foreign jurisdiction	(177,000)	(125,944)
Income taxes	\$ 820,788	\$ 1,118,909

11. 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.

	Mar 31, 2008	Apr 30, 2007
Numerator		
Net income for the period	\$ 815,581	\$ 320,806
Denominator		
Average common shares outstanding	32,552,780	15,787,215
Fully diluted common shares outstanding	36,893,379	17,017,873
Basic earnings per share	\$ 0.03	\$ 0.02
Fully diluted earnings per share	\$ 0.02	\$ 0.02

12. Other Costs (Income)

Other income includes interest income earned on cash balances during the period of \$209,514 and interest expense of \$186,399 for a net of \$23,115 for the three months ending March 31, 2008. On a year to date basis, other income includes interest income of \$291,204 and interest expense of \$279,678, for a net of \$11,526.

13. Segmented Information

For the three month period ended March 31, 2008 one customer represented 13% of revenue or \$1.7 million and on a year to date basis the same customer represented 12% of revenue or \$2.9 million. All revenue from this one customer was generated in Canada.

Geographic segments

The Company has operations in Canada and Australia and conducts surveys around the world. Its operations in all markets have similar products, services and customer types as well as similar economic characteristics. Revenues from external customers are generated around the world and are attributed to one of three geographic segments. The following table outlines revenue by geographic segment for the three months ended March 31, 2008 and the comparable three months ended April 30, 2007:

	Mar 31, 2008	Apr 30, 2007
Revenue		
Canada	\$ 6,022,473	\$ 3,518,703
Australia	2,911,850	-
International	4,359,954	2,418,000
Total Revenue	\$ 13,294,277	\$ 5,936,703

Goodwill is located in Australia and USA. All capital assets originate in Canada and Australia and are mobilized to the job sites around the world. Capital assets in Canada amount to \$5.9 million, Australia \$3.6 million and USA \$0.2 million

14. Related Party Transactions

In the quarter we had no payments (\$0.1 million for the three months ending April 30, 2007) to companies owned by certain directors for management consulting services. 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 quarter the company paid \$3.35 million to certain directors against the promissory notes payable as part of the financing of the UTS acquisition.

15. Credit Facilities

The Company has several operating facilities. In Canada, an operating facility is in place for Aeroquest Limited totalling \$2,000,000 (2006 - \$250,000), bearing interest at prime plus 0.75%, and secured by accounts receivable and a general security agreement. At March 31, 2008 no amounts have been drawn on this facility. In Australia, an operating facility is in place for UTS of A\$400,000 and, at March 31, 2008, 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 12.37%.