



## **Aeroquest International Limited**

### **Unaudited Consolidated Financial Statements**

For the three and nine months ended June 30, 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 June 30, 2008.

# Aeroquest International Limited

Consolidated Balance Sheets  
Unaudited – Prepared by Management



As at	Jun. 30, 08 (Unaudited)	Sep. 30, 07 (Audited)
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 16,951,402	\$ 5,398,777
Accounts receivable	7,679,790	8,014,717
Unbilled contracts in progress	1,727,448	2,312,098
Inventory	53,037	-
Prepaid expenses and deposits	738,564	462,109
<b>Total current assets</b>	<b>27,150,241</b>	<b>16,187,701</b>
<b>Long term</b>		
Long term investments (Note 1)	62,001	90,001
Capital assets (Note 2)	11,021,411	7,618,873
Intangible assets (Note 3)	21,500,858	20,431,860
Goodwill (Note 4)	11,649,318	9,199,108
Future income taxes	152,847	143,747
<b>Total long term assets</b>	<b>44,386,435</b>	<b>37,483,589</b>
Total Assets	<b>\$ 71,536,676</b>	<b>\$ 53,671,290</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 5,902,249	\$ 5,325,928
Income taxes payable	679,106	2,238,543
Deferred revenue	3,168,591	3,838,463
Promissory notes (Note 5)	-	536,449
Capital lease obligations (Note 6)	309,025	292,466
<b>Total current liabilities</b>	<b>10,058,971</b>	<b>12,231,849</b>
<b>Long term</b>		
Promissory notes (Note 5)	-	2,597,339
Capital lease obligations (Note 6)	501,783	720,230
Future income taxes	6,904,137	6,566,056
<b>Total liabilities</b>	<b>17,464,891</b>	<b>22,115,474</b>
<b>Shareholders' equity</b>		
Share capital (Note 8)	48,310,010	27,403,594
Contributed surplus (Note 8)	1,952,802	1,320,461
Accumulated other comprehensive income	435,023	72,794
Retained earnings	3,373,950	2,758,967
<b>Total shareholders' equity</b>	<b>54,071,785</b>	<b>31,555,816</b>
Total Liabilities and Shareholders' Equity	<b>\$ 71,536,676</b>	<b>\$ 53,671,290</b>

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 Jun. 30, 08	Three months ended Jul. 31, 07	Nine months ended Jun. 30, 08	Nine months ended Jul.31, 07
<b>Sales</b>	<b>\$ 14,537,044</b>	\$ 9,355,350	<b>\$ 39,027,862</b>	\$ 19,389,937
Cost of sales	8,933,278	5,496,132	23,433,834	11,314,279
<b>Gross profit</b>	<b>5,603,766</b>	3,859,218	<b>15,594,028</b>	8,075,658
<b>Expenses and other items</b>				
General and administrative	2,524,212	1,195,796	6,735,349	3,252,643
Development expense	117,017	172,426	326,637	388,598
Foreign exchange (gain)/loss	135,940	144,538	103,790	255,944
Stock based compensation expense	173,209	6,875	729,171	98,351
Amortization of intangible assets	1,155,666	358,088	3,226,554	358,088
Depreciation of capital assets	907,751	323,734	2,074,221	870,813
<b>Total operating expenses</b>	<b>5,013,795</b>	2,201,457	<b>13,195,722</b>	5,224,437
<b>Operating profit</b>	<b>589,971</b>	1,657,761	<b>2,398,306</b>	2,851,221
Other costs (income) (Note 12)	(110,945)	(38,766)	(122,471)	(258,267)
Contract cancellations costs	-	-	-	270,000
<b>Income before income taxes</b>	<b>700,916</b>	1,696,527	<b>2,520,777</b>	2,839,488
Income taxes (Note 10)				
Current	751,780	758,768	2,350,698	1,332,061
Future	(354,987)	217	(1,070,287)	38,650
<b>Total income tax</b>	<b>396,793</b>	758,985	<b>1,280,411</b>	1,370,711
<b>Net income for the period</b>	<b>\$ 304,123</b>	\$ 937,542	<b>\$ 1,240,366</b>	\$ 1,468,777
Revaluation of long term investments to fair market value	(3,000)	-	(28,000)	-
Unrealized gain (loss) on translation of self-sustaining foreign operations	199,530	1,803	390,229	1,803
<b>Total comprehensive income, for the period</b>	<b>\$ 500,653</b>	\$ 939,345	<b>\$ 1,602,595</b>	\$ 1,470,580

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 Jun. 30, 08	Three months ended Jul. 31, 07	Nine months ended Jun. 30, 08	Nine months ended Jul. 31, 07
Retained earnings, beginning of period, as previously reported	\$ 3,280,994	\$ 530,561	\$ 2,758,967	\$ 260,054
Cumulative effect of change in accounting policy (Note 9)	-	245,029	-	209,967
Retained earnings, beginning of period, as restated	\$ 3,280,994	\$ 775,590	\$ 2,758,967	\$ 470,021
Excess of purchase price over cost on redemption of shares	(211,167)	-	(625,383)	(225,666)
Net income	304,123	937,542	1,240,366	1,468,777
<b>Retained earnings, end of period</b>	<b>\$ 3,373,950</b>	<b>\$ 1,713,132</b>	<b>\$ 3,373,950</b>	<b>\$ 1,713,132</b>
Earnings per share (Note 11)				
Basic	\$ 0.01	\$ 0.04	\$ 0.04	\$ 0.08
Fully diluted	\$ 0.01	\$ 0.04	\$ 0.03	\$ 0.07

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

# Aeroquest International Limited

## Consolidated Statements of Cash Flow Unaudited – Prepared by Management



For the period	Three months ended Jun. 30, 08	Three months ended Jul. 31, 07	Nine months ended Jun. 30, 08	Nine months ended Jul. 31, 07
<b>Cash provided by (used in)</b>				
<b>Operating activities</b>				
Net income for the period	\$ 304,123	\$ 937,542	\$ 1,240,366	\$ 1,468,777
Operating items not requiring cash				
Amortization of intangible assets	1,155,666	358,088	3,226,554	358,088
Depreciation of capital assets	907,751	323,734	2,074,221	870,813
Translation of self sustaining foreign operations	72,063	-	262,764	-
Future income taxes	(354,987)	217	(1,070,287)	38,650
Interest accretion on promissory notes	-	-	221,213	-
Stock based compensation	173,209	6,875	729,171	98,351
Write down of long term investment	-	-	-	110,000
Loss (Gain) on disposal of capital assets	(86,275)	-	(135,751)	7,377
<b>Operating cash flow before changes in non-cash working capital</b>	<b>2,171,550</b>	<b>1,626,456</b>	<b>6,548,251</b>	<b>2,952,056</b>
Changes in non cash working capital	605,668	1,015,618	(818,665)	2,331,153
<b>Total cash flow from operating activities</b>	<b>2,777,218</b>	<b>2,642,074</b>	<b>5,729,586</b>	<b>5,283,209</b>
<b>Investing activities</b>				
Capital asset purchases	(1,883,266)	(980,238)	(5,057,268)	(2,188,923)
Proceeds from sale of equipment	187,710	-	421,050	-
Loan receivable	-	-	-	44,250
Cash cost of acquisition (Note 4b)	(34,125)	(8,037,657)	(2,150,741)	(8,037,657)
<b>Total cash flow from investing activities</b>	<b>(1,729,681)</b>	<b>(9,017,895)</b>	<b>(6,786,959)</b>	<b>(10,182,330)</b>
<b>Financing activities</b>				
Promissory note payments	-	-	(5,337,600)	-
Capital lease payments	(44,840)	(23,823)	(273,899)	(23,823)
Aeroquest shares redeemed	(611,282)	-	(1,426,650)	(327,477)
Proceeds: issuance of common shares	334,615	7,667,750	19,648,147	7,806,500
<b>Total cash flow from financing activities</b>	<b>(321,507)</b>	<b>7,643,927</b>	<b>12,609,998</b>	<b>7,455,200</b>
Net change in cash and cash equivalents for the period	\$ 726,030	\$ 1,268,106	\$ 11,552,625	\$ 2,556,079
<b>Cash and cash equivalents, beginning of period</b>	<b>16,225,372</b>	<b>4,706,035</b>	<b>5,398,777</b>	<b>3,418,062</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 16,951,402</b>	<b>\$ 5,974,141</b>	<b>\$ 16,951,402</b>	<b>\$ 5,974,141</b>

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 nine months ending June 30, 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	(770,522)	(30,745)	(625,383)		(1,426,650)
Issuance of common shares for cash, net of expenses	18,524,419				18,524,419
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	998,271				998,271
Net income for the period			1,240,366		1,240,366
Stock based compensation expense		729,171			729,171
Unrealized gain on translation of self sustaining foreign operations				390,229	390,229
Revaluation of long term investments to fair market value				(28,000)	(28,000)
<b>Balance Jun. 30 08</b>	<b>\$ 48,310,010</b>	<b>\$ 1,952,802</b>	<b>\$ 3,373,950</b>	<b>\$ 435,023</b>	<b>\$ 54,071,785</b>

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**  
**Unaudited – Prepared by Management**  
**For the period ending June 30, 2008 and July 31, 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 subsidiary, Aeroquest Limited, 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'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 has changed its year end to September 30, effective in 2007. This financial report is for the three months and nine months ending June 30, 2008 with a comparison to the three months and nine months ending July 31, 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

**Aeroquest International Limited**  
**Summary of Significant Accounting Policies**  
**Unaudited – Prepared by Management**  
**For the period ending June 30, 2008 and July 31, 2007**



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 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 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.

**Aeroquest International Limited**  
**Summary of Significant Accounting Policies**  
**Unaudited – Prepared by Management**  
**For the period ending June 30, 2008 and July 31, 2007**



**Capital Assets**

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

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

**Intangible Assets and Other Long-Lived Assets**

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

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

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

**Goodwill**

Goodwill 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 \$196,530 in “other comprehensive income” transactions during the three months ended June 30, 2008.

# Aeroquest International Limited

Notes To Consolidated Financial Statements  
 Unaudited – Prepared by Management  
 For the periods ending June 30, 2008 and July 31, 2007



## 1. Long Term Investments

The Company owns shares in a number of Canadian public companies. The market value of these investments at June 30, 2008 was \$62,001, (\$90,001 at September 30, 2007).

## 2. Capital Assets

	Jun. 30, 2008			Sep. 30, 2007 Net Book Value
	Cost	Accumulated Depreciation	Net Book Value	
Airborne and geophysical equipment	\$12,929,639	\$ 4,464,115	\$ 8,465,524	\$ 5,980,072
Automotive equipment	677,480	363,869	313,611	308,596
Data processing equipment	614,035	290,774	323,261	230,139
Leasehold improvements	324,212	49,190	275,022	83,632
Office equipment	732,313	164,277	568,036	287,685
Equipment in process	1,075,957		1,075,957	728,749
	<b>\$ 16,353,636</b>	<b>\$ 5,332,225</b>	<b>\$ 11,021,411</b>	<b>\$ 7,618,873</b>

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

	Jun. 30, 2008		
	Cost	Accum. Depreciation	Net Book Value
Airborne and geophysical equipment	<b>\$ 1,335,226</b>	<b>\$ 357,715</b>	<b>\$ 977,511</b>

Depreciation for assets under capital lease for the period was \$79,258.

## 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)	Jun. 30, 2008			Sep. 30, 2007 Net Book Value
		Cost	Accumulated Amortization	Net Book Value	
Customer relationships	7	\$ 12,622,000	\$ 1,803,143	\$ 10,818,857	\$ 12,263,253
Technology	7	5,926,000	846,571	5,079,429	5,714,357
Sales backlog	1	898,000	898,000	-	680,250
Trade name	0	1,774,000		1,774,000	1,774,000
		<b>\$ 21,220,000</b>	<b>\$ 3,547,714</b>	<b>\$ 17,672,286</b>	<b>\$ 20,431,860</b>

# Aeroquest International Limited

**Notes To Consolidated Financial Statements**  
**Unaudited – Prepared by Management**  
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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)	Jun. 30, 2008			Sep. 30, 2007
		Cost	Accumulated Amortization	Net Book Value	Net Book Value
Customer relationships	7	\$ 2,200,000	\$ 157,142	\$ 2,042,858	\$ -
Technology	7	900,000	64,286	835,714	-
Sales backlog	1	700,000	350,000	350,000	-
Trade name	0	600,000		600,000	-
		<b>\$ 4,400,000</b>	<b>\$ 571,428</b>	<b>\$ 3,828,572</b>	<b>\$ -</b>

#### 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
<b>Total Purchase Price</b>	<b>\$ 25,005,331</b>

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired has now been finalized. The details of the consideration given and the fair value of net assets acquired, in Canadian dollars, are as follows:

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

# Aeroquest International Limited

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

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

The acquisition has been accounted for under the purchase method of accounting and the results of operations have been included in the consolidated statements of operations, effective from the acquisition date. The process of valuing certain assets acquired 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:

<b>Net Assets Acquired at Fair Values:</b>	
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	2,692,093
<b>Total net assets acquired, net of cash</b>	<b>\$ 6,096,049</b>

## 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.

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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. In the year, we have recognized interest accretion in the amount of \$221,213 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	\$ 358,980
Later than one year but not later than five years	534,595
Minimum lease payments	893,575
Future finance charges	(82,767)
Recognized as a liability	\$810,808
<b>Representing Capital Lease Obligation</b>	
Current	309,025
Long term	501,783
	<b>\$ 810,808</b>

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## 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 June 2009, October 2009 and January and December 2012. The minimum annual lease payments for the next five years are as follows:

2008	\$ 145,960
2009	581,184
2010	443,408
2011	444,741
2012	261,506
	<hr/>
	\$ 1,876,799

## 8. Share Capital

### a. Authorized

Unlimited number of voting common shares.

### b. Issued and Outstanding

	Jun. 30, 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	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	7,150,485	20,998,272	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	-	(1,475,582)	-	(1,005,670)
Shares redeemed	(597,800)	(770,522)	-	-
Share capital, closing	34,598,674	\$ 48,310,010	27,310,273	\$ 27,403,594

In the quarter ending June 30, 2008 the Company issued a total of 189,250 common shares through several transactions for a total cash consideration of \$342,562. These transactions comprise the issuance of 20,500 common shares on the exercise of employee stock options for a value of \$13,500 and issuance of 168,750 common shares on the exercise of share purchase warrants for a value of \$329,062.

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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.

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 276,000 shares in the quarter ending June 30, 2008 for a total consideration of \$611,282 of which \$385,234 is allocated to share capital, \$14,881 to contributed surplus and \$211,167 to retained earnings. On a year to date basis, the Company has redeemed 597,800 shares for a total consideration of \$1,426,650 of which \$770,522 is allocated to share capital, \$30,745 to contributed surplus and \$625,383 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.

<b>Number of warrants</b>	<b>Fair value</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
<b>2,250,000</b>	\$0.22	2.45	May 29, 2009
<b>450,000</b>	\$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.

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In the quarter ending June 30, 2008 a total of 168,750 warrants were exercised for a total value of \$329,062. On a year to date basis, a total of 483,818 warrants were exercised for a total value of \$998,270. 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 nine month period ending June 30, 2008.

	Number of Options	Avg. Exercise Price
Outstanding Sept. 30, 2007	975,000	\$ 0.65
Options granted	550,000	2.34
Options exercised	(99,332)	1.13
Options expired	-	-
<b>Total outstanding and exercisable Mar. 31, 2008</b>	<b>1,425,668</b>	<b>1.27</b>
Options granted	-	-
Options exercised	(20,500)	0.66
Options expired	-	-
<b>Total outstanding and exercisable Jun. 30, 2008</b>	<b>1,405,168</b>	<b>\$ 1.28</b>

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%

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## 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 June 30, 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
<b>Outstanding Mar. 31, 2008</b>	<b>529,999</b>	<b>2.10</b>
Granted	-	-
Vested	-	-
<b>Outstanding, Jun. 30, 2008</b>	<b>529,999</b>	<b>\$ 2.10</b>

## f. Contributed Surplus

	Jun. 30, 2008	Sep. 30, 2007
Contributed surplus, beginning of period	\$ 1,320,461	\$ 1,102,228
Stock option expense	445,294	-
Restricted stock unit expense	283,877	11,458
Redemption of shares	(30,745)	-
Exercise of stock options and RSU's	(66,085)	(63,225)
Broker warrants (450,000 @ \$0.60)	-	270,000
<b>Contributed surplus, end of period</b>	<b>\$ 1,952,802</b>	<b>\$ 1,320,461</b>

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## 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.

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

## 10. Income Taxes

	Jun. 30, 2008	Sep. 30, 2007
Income before income taxes	\$ 700,916	\$ 3,102,286
Statutory income tax rate	36.12%	36.12%
Computed income tax payable	253,171	1,120,546
Non-deductible expenses	2,401	8,191
Non deductible amortization	346,400	101,854
Other	(75,650)	14,262
Lower tax rate in foreign jurisdiction	(129,529)	(125,944)
<b>Income taxes</b>	<b>\$ 396,793</b>	<b>\$ 1,118,909</b>

## 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.

	Jun. 30, 2008	Jul 31, 2007
<b>Numerator</b>		
Net income for the period	\$ 304,123	\$ 937,542
<b>Denominator</b>		
Average common shares outstanding	34,662,091	21,537,773
Fully diluted common shares outstanding	38,813,440	23,549,440
Basic earnings per share	\$ 0.01	\$ 0.04
Fully diluted earnings per share	\$ 0.01	\$ 0.04

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## 12. Other Costs (Income)

Other income includes interest income earned on cash balances during the period of \$128,630 and interest expense of \$17,685 for a net of \$110,945 for the three months ending June 30, 2008. On a year to date basis, other income includes interest income of \$419,834 and interest expense of \$297,363, for a net of \$122,471.

## 13. Segmented Information

For the three month and nine month periods ended June 30, 2008 no one customer represented more than 10% of revenue.

### 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 June 30, 2008 and the comparable three months ended July 31, 2007:

	Jun. 30, 2008	Jul. 31, 2007
Revenue		
Canada	\$ 5,044,381	\$ 6,329,535
Australia	2,546,971	1,064,500
International	6,945,692	1,961,315
<b>Total Revenue</b>	<b>\$ 14,537,044</b>	<b>\$ 9,355,350</b>

Goodwill is located in Australia and USA. All capital assets originate in Canada, Australia and the United States and are mobilized to the job sites around the world. Capital assets in Canada amount to \$6.1 million, Australia \$4.7 million and USA \$0.2 million

## 14. Related Party Transactions

In the quarter we had no payments (\$0.08 million for the three months ending July 31, 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.

## 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 June 30, 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 June 30, 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%.

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## **16. Subsequent Event**

On June 18, 2008 Aeroquest announced that the Toronto Stock Exchange (TSX) had conditionally approved the listing of Aeroquest's common shares subject to Aeroquest satisfying certain customary filing requirements on or before September 15, 2008. Effective July 24, 2008, Aeroquest had met all of the requirements and commenced trading on the TSX. In conjunction with the graduation to the TSX, Aeroquest the TSX Venture Exchange has delisted Aeroquest's common shares from the TSX-V.