



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

For the 3 months ended December 31, 2010.

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 December 31, 2010.

## Consolidated Balance Sheets

As at	Dec. 31, 10	Sep. 30, 10
<b>Assets</b>		
Current		
Cash and cash equivalents (Note 1)	\$ 5,994,574	\$ 4,757,216
Accounts receivable	3,211,475	4,527,942
Income taxes recoverable	183,539	231,136
Unbilled contracts in progress	1,958,847	1,529,146
Inventory	143,922	699,935
Prepaid expenses and deposits	1,776,464	1,465,629
<b>Total current assets</b>	<b>13,268,821</b>	<b>13,211,004</b>
Long term		
Long term investments	180,338	171,828
Capital assets (Note 2)	9,566,493	9,766,989
Intangible assets (Note 3)	12,597,776	13,277,339
Goodwill (Notes 4, 5)	11,988,780	11,821,304
Future income taxes (Note 9)	2,414,723	2,314,545
<b>Total long term assets</b>	<b>36,748,111</b>	<b>37,352,005</b>
<b>Total Assets</b>	<b>\$ 50,016,932</b>	<b>\$ 50,563,009</b>
<b>Liabilities and Shareholders' Equity</b>		
Current		
Accounts payable and accrued liabilities	\$ 4,572,150	\$ 4,697,656
Deferred revenue	2,746,333	2,240,687
Capital lease obligations (Note 6)	123,893	200,964
<b>Total current liabilities</b>	<b>7,442,376</b>	<b>7,139,307</b>
Long term		
Capital lease obligations (Note 6)	4,811	9,264
Future income taxes (Note 9)	4,250,422	4,603,674
<b>Total liabilities</b>	<b>11,697,609</b>	<b>11,752,245</b>
Shareholders' equity		
Share capital (Note 8)	48,801,933	48,527,057
Contributed surplus (Note 8)	2,109,391	2,355,274
Accumulated other comprehensive income (loss)	2,860,505	2,404,764
Retained earnings/(deficit)	(15,452,506)	(14,476,331)
<b>Total shareholders' equity</b>	<b>38,319,323</b>	<b>38,810,764</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 50,016,932</b>	<b>\$ 50,563,009</b>

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

## Consolidated Statements of Operations

For the three months ending	Dec. 31, 10	Dec. 31, 09
<b>Sales</b>	<b>\$ 12,352,172</b>	<b>\$ 7,497,866</b>
Cost of sales	8,632,751	6,211,253
<b>Gross profit</b>	<b>3,719,421</b>	<b>1,286,613</b>
Expenses and other items		
General and administrative	3,080,122	2,396,811
Foreign exchange loss	215,416	81,087
Stock based compensation expense	27,733	84,809
Amortization of intangible assets	850,405	874,568
Depreciation of capital assets	690,023	880,148
<b>Total operating expenses</b>	<b>4,863,699</b>	<b>4,317,423</b>
<b>Operating loss</b>	<b>(1,144,278)</b>	<b>(3,030,810)</b>
Other costs (income)	-	(118,326)
Interest Expense	-	15,223
<b>Loss before income taxes and discontinued operations</b>	<b>(1,144,278)</b>	<b>(2,927,707)</b>
Income taxes (Note 9)		
Current	311,557	(438,291)
Future (recovery)	(479,660)	(385,725)
<b>Total income tax</b>	<b>(168,102)</b>	<b>(824,016)</b>
<b>Net loss before discontinued operations</b>	<b>(976,175)</b>	<b>(2,103,691)</b>
Loss from discontinued operations (Note 15)	-	(162,709)
<b>Net loss for the period</b>	<b>\$ (976,175)</b>	<b>\$ (2,266,400)</b>
Loss per share (Note 10)		
Basic	<b>\$ (0.03)</b>	<b>\$ (0.06)</b>
Diluted	<b>\$ (0.03)</b>	<b>\$ (0.06)</b>

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

## Consolidated Statements of Retained Earnings/(Deficit)

For the three months ending	Dec. 31, 10	Dec. 31, 09
Retained earnings (deficit), beginning of period	\$ (14,476,331)	\$ (5,889,147)
Net income/(loss)	(976,175)	(2,266,400)
<b>Retained earnings, end of period</b>	<b>\$ (15,452,506)</b>	<b>\$ (8,155,547)</b>

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

## Consolidated Statements of Comprehensive Income

For the three months ending	Dec. 31, 10	Dec. 31, 09
Net loss for the period	\$ (976,175)	\$ (2,266,400)
Revaluation of long term investments to fair market value (Net of tax \$1,137, 2009 - \$(26,773))	2,540	(52,177)
Unrealized gain(loss) on translation of self-sustaining foreign operations	453,201	(114,953)
Total Other Comprehensive Income/(loss)	455,741	(167,130)
Total Comprehensive Income/(loss)	\$ (520,434)	\$ (2,433,530)
Accumulated Other Comprehensive Income (loss):		
Revaluation of long term investments to fair market value	\$ (2,647)	\$ (28,081)
Unrealized gain(loss) on translation of self-sustaining foreign operations	2,863,152	1,351,379
Total Accumulated Other Comprehensive Income	\$ 2,860,505	\$ 1,323,298

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

## Consolidated Statements of Cash Flow

For the three months ending	Dec. 31, 10	Dec. 31, 09
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net income/(loss) for the period	\$ (976,175)	\$ (2,266,400)
Operating items not requiring cash		
Amortization of intangible assets	850,405	874,568
Depreciation of capital assets	690,023	880,148
Future income taxes	(479,660)	(385,725)
Stock based compensation	27,733	84,809
Loss on disposal of capital assets	5,955	-
<b>Operating cash flow before changes in non-cash working capital</b>	<b>118,281</b>	<b>(812,600)</b>
Changes in non cash working capital	1,557,313	(601,468)
<b>Total cash flow from operating activities</b>	<b>1,675,594</b>	<b>(1,414,068)</b>
<b>Investing activities</b>		
Capital asset purchases	(387,021)	(163,423)
Proceeds from disposal of capital assets	-	330,400
Long-term investments acquired	-	(90,000)
<b>Total cash flow from investing activities</b>	<b>(387,021)</b>	<b>76,977</b>
<b>Financing activities</b>		
Capital lease payments	(52,475)	(141,856)
Proceeds: issuance of common shares	1,260	4,450
<b>Total cash flow from financing activities</b>	<b>(51,215)</b>	<b>(137,406)</b>
Net change in cash and cash equivalents for the period	\$ 1,237,358	\$ (1,474,497)
<b>Cash and cash equivalents, beginning of period</b>	<b>4,757,216</b>	<b>6,145,784</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,994,574</b>	<b>\$ 4,671,287</b>

Supplementary Information (Note 13)

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, 10	\$ 48,527,057	\$ 2,355,274	\$ (14,476,331)	\$ 2,404,764	\$ 38,810,764
Share issuances pursuant to restricted stock unit vesting	273,001	(273,001)			-
Share issuances pursuant to stock options exercised	1,875	(615)			1,260
Net loss for the period			(976,175)		976,175
Stock based compensation expense		27,733			27,733
Unrealized gain (loss) on translation of self sustaining foreign operations				453,201	453,201
Revaluation of long term investments to fair market value				2,540	2,540
<b>Balance Dec. 31, 10</b>	<b>\$ 48,801,933</b>	<b>\$ 2,109,391</b>	<b>\$ (15,452,506)</b>	<b>\$ 2,860,505</b>	<b>\$ 38,319,322</b>

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

## Summary of Significant Accounting Policies December 31, 2010 and September 30, 2010

### 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 Pty Ltd. – (both now known as Aeroquest Airborne), Geophex Ltd (now known as Aeroquest Sensortech), 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 on July 3, 2007. UTS is incorporated in Australia and has been in operation since 1992. Its principal office is located on Fauntleroy Ave, Perth, Western Australia. The Company also acquired 100% of the voting shares of Geophex Ltd on December 31, 2007. Geophex manufactures and sells primarily ground based geophysical instruments, and also supplies institutions and private entities with specialized survey equipment. Geophex is based on Mercury Street in Raleigh, NC.

On September 30, 2009, the Company acquired 100% of the voting shares of Optimal Geomatics Inc. ("Optimal"), which had traded on the TSX-V. Optimal provides airborne survey operations using LiDAR and orthophotogrammetry technologies. Optimal has operations in Huntsville, Alabama and Vancouver, British Columbia. In March, 2010 Aeroquest sold the Vancouver operation to an industry participant. The remaining business adopted the trade name Aeroquest Optimal in 2010 and is located at 4975 Bradford Drive, Huntsville, AL

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.

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aeroquest Limited, UTS, Aeroquest (UK) Limited, Geophex Ltd., Optimal Geomatics Inc., and Aerokaz LLP. All significant inter-company transactions and balances have been eliminated on consolidation.

### 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, goodwill and capital assets, the valuation of future income tax assets and liabilities, rates for amortization of capital assets, the fair value of stock-based compensation and other stock based payments, and provisions for inventory and accounts receivable. Actual results could differ from estimates.

### Revenue Recognition

The Company's revenue recognition policy is to recognize revenue on a percentage of completion basis.

**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% 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.

## Summary of Significant Accounting Policies December 31, 2010 and September 30, 2010

**GEOMATICS REVENUE** - Revenues from contracts are recognized using the percentage of completion method. The degree of completion is determined based on costs incurred, excluding costs that are not representative of progress to complete, as a percentage of total costs anticipated for each contract. Provision is made for losses on contracts in progress when such losses first become known. Revisions in cost and profit estimates are reflected in the accounting period in which the relevant facts become known. Revenue from technical support services is deferred and recognized ratably over the period of the obligation. Revenue from consulting and other geomatics services is recorded as the services are performed.

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 progress represent the difference between revenue recognized on a percentage completion basis for contracts in progress 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 yearend 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 initial maturities of three months or less.

### Inventories

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

### 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 de-recognized from the balance sheet. Fair value is determined by reference to publicly quoted market prices.

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

Included in capital assets are Company owned data libraries. The Company creates data libraries and capitalizes the costs incurred. Created libraries may be acquired without pre-sale commitments or with pre-sale commitments that include an exclusive data use period. Created libraries, without pre-sale commitments, are amortized on a straight-line basis over a four year period. Created data libraries, with a pre-sale commitment, are initially expensed to cost of sales at 60% on delivery of data to the customer with the remaining balance capitalized and amortized on a straight line basis over the next four year period commencing a year from the delivery date. Capital assets are tested annually

## Summary of Significant Accounting Policies December 31, 2010 and September 30, 2010

for any impairment or more frequently if changes in circumstances indicate that the carrying amount of an asset may not be reasonable.

### 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 or more frequently if changes in circumstances indicate potential 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 until decision is made to end trade name at which time the amortization will take place over the remaining expected life of the trade name.

### Goodwill

Goodwill represents the difference between the price paid and the fair value attributed to tangible and intangible assets and liabilities 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 impairment occurs. The Corporation uses a combination of the discounted cash flow method and the market value 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 recognized when there is reasonable assurance that the credits will be realized and are offset against the related expenses.

### 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 awards 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 awards granted is recognized

## Summary of Significant Accounting Policies December 31, 2010 and September 30, 2010

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

All financial assets and liabilities are 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 initially measured on the balance sheet at fair value. 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 de-recognized from the balance sheets; and

**DERIVATIVE FINANCIAL INSTRUMENTS** - are classified as held-for-trading financial instruments and measured at fair value, with gains and losses recognized in the current period income.

Aeroquest designates its cash and cash equivalents as held-for-trading, its accounts receivable as loans and receivables, and its accounts payable and accruals as other financial liabilities and its long term investments as available for sale financial assets. Capital lease obligations and 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.

## FUTURE ACCOUNTING PRONOUNCEMENTS

### Harmonization of Canadian and International Accounting Standards

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five-year transitional period.

In 2008, the AcSB confirmed that IFRS will be mandatory in Canada for profit-oriented publicly accountable entities for fiscal periods beginning on or after January 1, 2011. The Company's first annual IFRS financial statements will be for the year ending September 30, 2012 and will include the comparative period for 2011. Starting in the first quarter of fiscal 2012, the Company will provide unaudited consolidated financial information in accordance with IFRS including comparative figures for 2011.

There are several phases that the Company will have to complete on the path to implementing IFRS:

- The initial impact assessment and scoping phase including the identification of significant differences between existing Canadian GAAP and IFRS as relevant to the Company's specific instance;
- The key elements phase including the identification, evaluation and selection of accounting policies necessary for the changeover to IFRS. As well, this phase includes other operational elements such as information technology, internal control over financial reporting and training;
- Finally, the embedding phase that will integrate the solutions into the Company's underlying financial systems and processes that are necessary for the Company to changeover to IFRS.

## Summary of Significant Accounting Policies December 31, 2010 and September 30, 2010

Initial impact assessment and scoping phase – status: Based upon the then current state of IFRS, in fiscal 2009 this phase utilized a diagnostic process and identified a modest number of topics possibly impacting either the Company's financial results and/or the Company's effort necessary to changeover to IFRS. The International Accounting Standards Board has activities currently underway which may, or will, change IFRS and such change may, or will, impact the Company; the Company will assess any such change as a component of its key elements phase.

Key elements phase – status: Currently underway are the identification, evaluation and selection of the accounting policies necessary for the Company to changeover to IFRS; consideration of impacts on operational elements such as information technology and internal control over financial reporting are integral to this process. Although its impact assessment activities are underway and progressing to plan, continued progress is necessary before the Company can prudently increase the specificity of the disclosure of pre- and post-IFRS changeover accounting policy differences.

### **Business Combinations**

In January 2009, the CICA issued Section 1582 "Business Combinations" to replace Section 1581. Prospective application of the standard is effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. This new standard effectively harmonizes the business combinations standard under Canadian GAAP with International Financial Reporting Standards ("IFRS"). The new standard revises guidance on the determination of the carrying amount of the assets acquired and liabilities assumed, goodwill and accounting for non-controlling interests at the time of a business combination. This standard will impact the Company's financial statements if the Company enters into business acquisitions in the future.

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

### 1. Cash and Cash Equivalents

Cash and cash equivalents are comprised of the following denominations (in their natural currency):

	Dec. 31, 2010	Sep. 30, 2010
Canadian Dollars	\$1,616,969	\$1,719,274
United States Dollars	3,643,553	2,881,754
Australian Dollars	724,560	184,565
Kazakhstan Tenge	21,129	21,129

### 2. Inventories

Inventories comprise the following:

	Dec. 31, 2010	Sep. 30, 2010
Work in progress	\$-	\$572,919
Finished goods	142,063	123,728
Supplies	1,859	3,288
Totals	\$143,922	\$699,935

### 3. Capital Assets

	Dec. 31, 2010			Sep. 30, 2010
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$19,548,273	\$12,327,668	\$7,220,606	\$7,490,575
Automotive equipment	634,967	501,462	133,505	145,800
Data processing equipment	787,838	542,843	244,995	312,836
Leasehold improvements	356,912	245,269	111,643	132,102
Office equipment	1,122,971	510,742	612,229	542,983
Data libraries	336,228	210,143	126,085	147,099
Equipment in process	1,117,429	-	1,117,429	995,594
	\$23,904,619	\$14,338,127	\$9,566,493	\$9,766,989

Equipment in process relates to airborne equipment that was not ready for use at year end and as a result has not been amortized.

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

**Notes To Consolidated Financial Statements**  
**December 31, 2010 and September 30, 2010**

	Dec. 31, 2010			Sep. 30, 2010
	Cost	Accum. Depreciation	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$ 1,754,337	\$ 1,207,987	\$ 546,350	\$ 598,631
Office equipment	329,997	201,137	128,860	147,003
	<b>\$ 2,084,334</b>	<b>\$ 1,409,124</b>	<b>\$ 675,210</b>	<b>\$ 745,634</b>

Depreciation for assets under capital lease was \$70,424 and \$69,371 for the three months ended December 31, 2010 and 2009 respectively.

**4. Intangible Assets**

Certain intangible assets were acquired as part of the acquisition of UTS on July 3, 2007. These intangible assets have been identified and recorded at their fair values as of the date of the acquisition.

UTS Intangible Asset	Amort. Period (Years)	Dec. 31, 2010				Sep. 30, 2010
		Cost	Accumulated Amortization	Impairment Charge	Net Book Value	Net Book Value
Customer relationships	7	\$14,194,846	\$7,097,435	\$ -	\$7,097,411	\$7,428,104
Technology	7	6,664,459	3,332,229	-	3,332,229	3,487,478
Trade name	-	1,995,064	1,995,064	-	-	-
		<b>\$22,854,368</b>	<b>\$12,424,728</b>	<b>\$-</b>	<b>\$10,429,640</b>	<b>\$10,915,582</b>

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

Geophex Intangible Asset	Amort. Period (Years)	Dec. 31, 2010				Sep. 30, 2010
		Cost	Accumulated Amortization	Impairment Charge	Net Book Value	Net Book Value
Customer relationships	7	\$2,307,657	\$988,995	-	\$1,318,661	\$1,449,536
Technology	7	902,996	386,999	-	\$515,997	567,210
Trade name	indefinite	601,997	40,713.00	227,807	333,477	345,011
		<b>\$3,812,650</b>	<b>\$1,416,707</b>	<b>\$227,807</b>	<b>\$2,168,136</b>	<b>\$2,361,757</b>

**Notes To Consolidated Financial Statements  
December 31, 2010 and September 30, 2010**

**4. Intangible Assets (Continued)**

Consolidated intangible assets are comprised of the following:

Consolidated Intangible Asset	Amort. Period (Years)	Dec. 31, 2010			Sep. 30, 2010	
		Cost	Accumulated Amortization	Impairment Charge	Net Book Value	
Customer relationships	7	\$16,502,502	\$8,086,430	-	\$8,416,072	\$8,877,640
Technology	7	7,567,455	3,719,228	-	3,848,227	4,054,688
Trade name	varies	2,597,061	2,035,777	227,807	333,477	345,011
		<b>\$26,667,018</b>	<b>\$13,841,435</b>	<b>\$227,807</b>	<b>\$12,597,776</b>	<b>\$13,277,339</b>

**5. Goodwill**

	Dec. 31, 2010	Sep. 30, 2010
Goodwill, beginning of period	\$11,821,304	\$11,408,513
Foreign currency translation gain (loss)	167,476	412,791
Goodwill, end of period	<b>\$11,988,780</b>	<b>\$11,821,304</b>

**6. 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 7.87% (September 30, 2010 – 7.77%).

Commitments in relation to capital leases are payable as follows:

	Dec. 31, 2010	Sep. 30, 2010
Within one year	\$129,432	\$208,849
Later than one year but not later than five years	4,903	9,443
Minimum lease payments	134,335	218,292
Future finance charges	(5,631)	(6,064)
Recognized as a liability	<b>\$128,704</b>	<b>\$212,228</b>
<b>Representing Capital Lease Obligations</b>		
Current	\$123,893	\$200,964
Long term	4,811	9,264
	<b>\$128,704</b>	<b>\$210,228</b>

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

### 7. Operating Lease Commitments

The Company has several operating leases for premises. The lease payments range from \$1,800 per month to \$17,000 per month. Leases expire in February and May 2010, January and December 2012, November 2013 and January 2015.

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

2010	<b>\$735,881</b>
2011	<b>632,459</b>
2012	<b>411,284</b>
2013	<b>317,318</b>
2014	<b>155,982</b>
Thereafter	-
	<b>\$2,252,924</b>

### 8. Share Capital

#### a. Authorized

Unlimited number of voting common shares.

#### b. Issued and Outstanding

	Dec. 31, 2010		Sep. 30, 2010	
	Qty	Amount	Qty	Amount
Share capital, opening	36,985,938	\$ 48,527,057	36,616,440	\$48,084,479
Shares issued on exercise of stock options	3,001	1,875	59,167	37,593
Shares issued on vesting of RSU's	116,667	273,001	244,168	376,535
Issuance of common shares on acquisition	-	-	66,163	28,450
Share capital, closing	<b>37,105,606</b>	<b>\$ 48,801,933</b>	36,985,938	\$ 48,527,057

A total of 3,001 common shares were issued in the three months ended December 31, 2010 upon the exercise of employee stock options generating cash proceeds of \$1,260. For the year ended September 30, 2010 a total of 59,167 common shares were issued upon the exercise of employee stock options generating cash proceeds of \$25,450. See note 8(c) for further details.

A total of 116,667 common shares were issued in the three months ended December 31, 2010 (244,168 common shares for the year ended September 30, 2010) 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 8(d) for further details.

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

Common shares were issued in connection with the acquisition of Optimal Geomatics Inc. on September 30, 2009. An additional 66,163 shares were issued in the quarter ended December 31, 2009 to a third party as compensation for due diligence services related to the acquisition. These shares had an ascribed value of \$0.43 per share for a total value of \$28,450.

### c. Stock Options

The Company has a Stock Option plan under which the directors of the Company may grant options to acquire shares of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company up to a maximum of 10% of the issued and outstanding shares in 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 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 issued and outstanding options have a five year life.

The following table reflects the continuity of employee stock options granted under the stock option plan for the three months ended December 31, 2010 and the year ended September 30, 2010. A total of 1,376,396 stock options remain available in the pool at December 31, 2010.

	Number of Options	Weighted Avg. Exercise Price
Outstanding Sep 30, 2009	2,030,833	\$0.68
Options granted	680,000	0.61
Options exercised	(59,167)	0.43
Options expired	(360,500)	1.69
<b>Total outstanding Sep. 30, 2010</b>	<b>2,291,166</b>	<b>\$0.62</b>
Options granted	50,000	0.85
Options exercised	(3,001)	0.42
Options expired	(4,000)	0.42
<b>Total outstanding Dec. 31, 2010</b>	<b>2,334,165</b>	<b>\$0.62</b>
<b>Total exercisable Dec. 31, 2010</b>	<b>1,412,833</b>	<b>\$0.68</b>

The fair value of stock options granted in the three months ended December 31, 2010 and the year ended September 30, 2010 were 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	\$0.55 - \$0.85
Exercise price	\$0.55 - \$0.85
Expected life of options	3 years
Expected stock price volatility	70%
Expected dividend yield	-
Risk free interest rate	4%

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

The weighted average grant date fair value of options granted in the three months ended December 31, 2010 was \$0.42 (\$0.30 for the year ended September 30, 2010).

### d. 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 three months period ended December 31, 2010 and the year ended September 30, 2010.

	Number of Units	Weighted Avg. Exercise Price
Outstanding, Sep 30, 2009	539,999	\$1.47
Granted	-	-
Vested	(244,168)	2.12
Expired	(52,499)	1.49
<b>Total Outstanding Sep. 30, 2010</b>	<b>243,332</b>	<b>\$1.34</b>
Granted	-	-
Vested	(116,667)	2.34
Expired	-	-
<b>Total Outstanding, Dec. 31, 2010</b>	<b>126,665</b>	<b>\$0.41</b>

### e. Contributed Surplus

	Dec. 31, 2010	Sep. 30, 2010
Contributed surplus, beginning of year	<b>\$2,355,274</b>	\$2,479,824
Stock option expense	<b>24,517</b>	192,413
Restricted stock unit expense	<b>3,216</b>	71,715
Exercise of stock options and RSU's	<b>(273,616)</b>	(388,678)
<b>Contributed surplus, end of year</b>	<b>\$2,109,391</b>	\$2,355,274

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

### 9. Income Taxes

	Dec. 31, 2010	Dec. 31, 2009
Income/(loss) before income taxes	\$ (1,144,278)	\$ (3,090,416)
Statutory income tax rate	28.75%	31.75%
Computed income tax payable	\$ (328,980)	\$ (981,207)
Valuation allowance on loss-carryforwards	150,966	-
Non-deductible/non-taxable items	6,139	21,366
Rate differences in future taxes	4,816	-
Other	12,618	163,240
Lower/(higher) tax rate in foreign jurisdiction	(13,661)	(27,415)
<b>Income taxes</b>	<b>\$ (168,102)</b>	<b>\$ (824,016)</b>

The tax effects of temporary differences that give rise to significant portion of the future tax assets at December 31, 2009 and September 30, 2008 are presented below:

<b>Future Taxes</b>	Dec. 31, 2010	Sep.30, 2010
Capital Assets	\$ (380,933)	- \$ (367,630)
Long term investments	(7,223)	(9,424)
Corporate minimum tax	84,122	84,122
Intangible assets	(3,964,712)	(4,185,130)
Tax loss recognition	2,254,965	2,082,465
Accruals	115,323	110,131
Other	62,759	(3,663)
	<b>\$ (1,835,699)</b>	<b>\$(2,289,129)</b>

Not included in the balances noted above are tax losses arising from the former Optimal Geomatics. Canadian tax loss carry-forwards totalling \$4,161,000 are available and expire as follows: \$637,000 on September 30, 2013; \$1,584,000 on September 30, 2027; \$127,000 on September 30, 2028; \$455,000 on September 30, 2029 and \$1,358,000 on September 30, 2030. United States tax losses totalling \$1,432,000 are available and expire as follows: \$1,051,000 on September 30, 2029 and \$381,000 on September 30, 2030.

**Notes To Consolidated Financial Statements**  
**December 31, 2010 and September 30, 2010**

**10. Loss per Share**

Basic loss per share has been calculated by dividing net income by the weighted average number of shares outstanding during the period. Diluted loss per share is similar to basic loss 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.

	Dec. 31, 2010	Dec.31, 2009
Numerator		
Net loss for the period	\$ (976,175)	\$ (2,266,400)
Denominator		
Average common shares outstanding	37,085,217	36,776,078
Diluted common shares outstanding	38,011,511	37,616,118
Basic loss per share	\$ (0.03)	\$ (0.06)
Diluted loss per share	\$ (0.03)	\$ (0.06)

**11. Segmented Information**

For the three months ended December 31, 2010 two customers represented a total of 23% of revenue. For the three months ended December 31, 2009, one customers represented approximately 10% of revenue.

The operations of the Company are split into three separate segments: Airborne Geophysics (the Aeroquest Airborne operations), Aerial Geomatics (the Aeroquest Optimal operations), instruments & sensors (Aeroquest Sensortech) and Corporate expenses. Selective information from each segment is presented below:

Three months ended December 31, 2010	Airborne Geophysics	Aerial Geomatics	Instruments & Sensors	Corporate	Total Consolidated
Revenue	\$10,312,881	\$1,573,002	\$466,289	-	\$12,352,172
Cost of Sales	6,996,889	1,460,885	174,977	-	8,632,751
Gross Margin	3,315,992	112,117	291,312	-	3,719,421
Operating Expenses	3,132,436	495,778	331,608	903,877	4,863,699
Income Taxes	(81,316)	-	17,289	(104,075)	(168,102)
Net Income/(Loss)	264,007	(383,661)	(57,584)	(798,937)	(976,175)
Total Capital Expenditures	364,301	4,764	-	17,956	387,021
Total Assets	\$31,141,473	\$1,365,031	\$5,199,864	\$12,310,564	\$50,016,932

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

Three months ended December 31, 2009	Airborne Geophysics	Aerial Geomatics	Instruments & Sensors	Corporate	Total Consolidated
Revenue	\$5,739,324	\$1,540,127	\$218,415	-	\$7,497,866
Cost of Sales	4,806,087	1,328,110	77,056	-	6,211,253
Gross Margin	933,237	212,017	141,359	-	1,286,613
Operating Expenses	3,276,486	430,696	263,977	346,264	4,317,423
Income Taxes	(794,767)	-	(29,249)	-	(824,016)
Net Income/(Loss)	(1,444,882)	(382,034)	(93,220)	(346,264)	(2,266,400)
Total Capital Expenditures	155,109	8,314	-	-	163,423
Total Assets	\$36,443,701	\$3,247,761	\$5,133,401	\$11,337,395	\$56,162,258

## 12. 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 three months ended December 31, 2010 and 2009:

	Dec. 31, 2010	Dec. 31, 2009
Revenue		
Canada	\$1,331,433	\$1,121,373
Australia	3,316,366	1,621,295
United States	2,107,013	2,492,686
International	5,597,357	2,262,512
Total Revenue	\$12,352,169	\$7,497,866

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 December 31, 2010 amount to \$5.4 million, Australia \$3.8 million and USA \$0.4 million (September 30, 2010, Canada \$5.8 million, Australia \$3.9 million, United States \$0.4 million).

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

### 13. Supplementary Cash Flow Information

	Dec. 31, 2010	Dec. 31, 2009
(a) Interest Paid	\$3,835	\$19,469
(b) Interest Received	3,612	1,272
(c) Income taxes paid (Refunded)	167,658	(7,967)
(d) Non cash transactions		
- Issuance of share capital on acquisition	-	28,450

### 14. Credit Facilities

The Company has had 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. As at December 31, 2010, no amounts have been drawn on this facility. As of September 30, 2010, \$113,772 was drawn on this facility and was repaid in early October of 2010. In Australia, an operating facility existed up until January, 2010 for UTS/Aeroquest of A\$400,000 and no amounts have been drawn on this facility during this period. This facility was cancelled in January, 2010.

### 15. 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 arise 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:

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

(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 December 31, 2010, the top five customers accounted for 42% of the Company's total accounts receivable and as of December 31, 2009, the top five customers accounted for 30% 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:

	Dec 31, 2009		Sep 30, 2009	
	\$	%	\$	%
Not Past Due	1,926,975	60.0%	3,301,144	72.9%
Past Due 0-30	1,023,262	31.9%	569,880	12.6%
Past Due 31-90	282,019	8.8%	147,950	3.3%
More than 90 days	372,472	11.6%	582,497	12.9%
Total trade receivables	3,604,728	112.2%	4,601,471	101.6%
Accrued receivables	45,816	1.4%	250,759	5.5%
Allowance for doubtful accounts	(439,069)	-13.7%	(324,288)	-7.2%
Total accounts receivable	3,211,475	100.0%	4,527,942	100.0%

(b) Interest Rate Risk: While the Company does have credit facilities in which it can draw upon (see Note 14) if required, the Company only drew on it once for several days at the end of September of 2010 totalling \$113,772. The facility was repaid in early October, 2010 through the sale of United States dollars to cover the Canadian dollar shortfall. The company did not draw on the facility at any time in the year-ended September 30, 2009. 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:

	Dec 31, 2010		Sep 30, 2010	
	USD	AUD	USD	AUD
Cash and cash equivalents	\$ 3,643,553	\$ 724,560	\$ 2,853,690	\$ 332,412
Accounts receivable	1,992,294	1,016,863	3,194,063	695,109
Accounts payable and accrued liabilities	(1,989,945)	(977,275)	(1,766,520)	(1,064,910)
Income taxes recoverable/(payable)	-	(23,914)	(146,220)	592,125
Capital lease obligations (current)	(16,017)	(106,053)	(26,086)	(175,102)
Capital lease obligations (long term)	-	(4,726)	-	(9,316)
Totals	\$ 3,629,885	\$ 629,455	\$ 4,108,927	\$ 370,318

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

The translation impact to the Company of a one cent increase in the Canadian dollar versus the Australian dollar would have decreased the net profit by \$6,457, whereas the impact versus the US dollar would have decreased the net profit by \$35,554 for the three months ended December 31, 2010. Conversely, a one cent decrease in the Canadian dollar versus the Australian dollar would have increased the net profit by \$6,590, whereas the impact versus the US dollar would have increased the net profit by \$36,269 for the three months ended December, 2010.

(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 December 31, 2009 the Company had a cash balance of \$6.0 million, \$3.2 million in accounts receivable, \$0.2 million in income taxes recoverable and \$2.0 million in unused committed bank credit facilities to settle current liabilities of \$4.7 million (excluding deferred revenue of \$2.7 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.

(e) **Fair Value Risk:** Fair Value Risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The carrying value of the Company's financial instruments consisting of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximates fair value due to their immediate or short-term maturity. The Company uses the following hierarchy for determining the fair value of financial instruments: Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets; Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instruments. Level 3 – inputs to the valuation methodology are observable and significant to the fair value method.

### 16. Discontinued Operations

On March 31, 2010, the Company sold the Vancouver operations of its aerial geomatics business segment. The earnings from discontinued operations for the three months ended December 31, 2009 was as follows:

	<b>Dec. 31, 2009</b>
Revenue	\$ 956,192
Cost of sales	568,091
Gross margin	108,579
Selling, general and administrative expenses	271,288
Net loss	(162,709)

### 16. 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.

## Notes To Consolidated Financial Statements December 31, 2010 and September 30, 2010

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).

### 17. Subsequent Event

On January 31, 2011, the Company announced that it had acquired Mapcon Mapping group of companies from OSI Geospatial Inc. Mapcon provides LiDAR, photogrammetry and related geomatic services to customers in the North American marketplace. Mapcon consists of two entities: a Canadian sales, operations and project management team located in Burnaby, BC; and a United States sales team located in Salt Lake City, Utah. Mapcon generated approximately \$4 million of revenue in its last fiscal year.

Total purchase price is \$1.15 million subject to an adjustment to reflect the difference between estimated and actual net working capital at closing. Of the \$1.15 million, \$0.9 million represents net working capital and the balance in other assets.