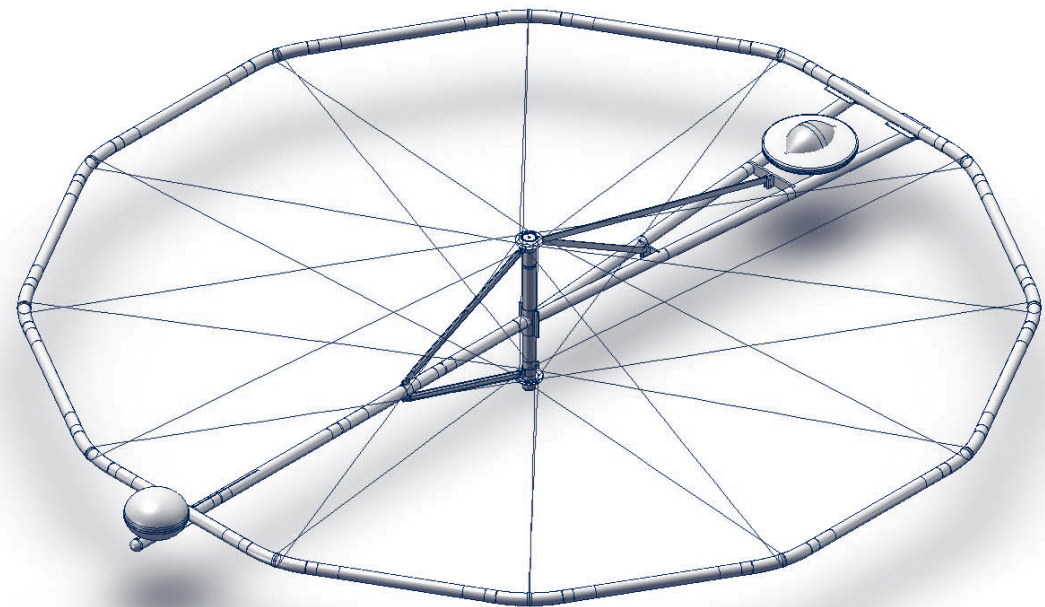
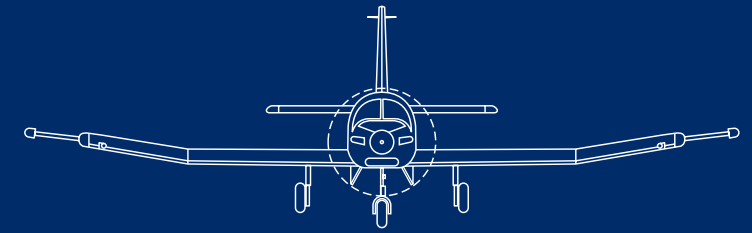


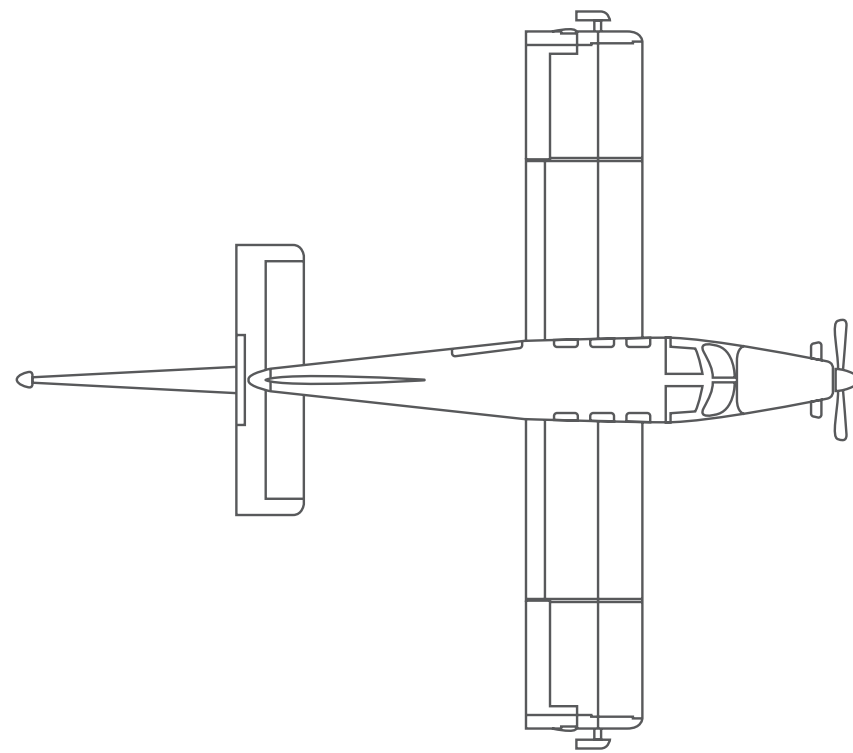
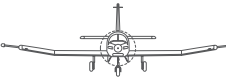
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2009



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The AEROQUEST International Group of Companies



## LETTER TO SHAREHOLDERS

Aeroquest had a very, very difficult year both operationally and financially in fiscal 2009. As a direct result of the Global Financial Crisis (now referred to as the GFC), the world's economies began to contract and the bottom fell out of our market - greenfield exploration for minerals and petroleum. Aeroquest is heavily dependent on exploration spending to drive its Airborne Geophysics Survey businesses. The uncertainty created in the minds, and reflected in the actions, of our clients resulted in revenue declining across all of our companies: UTS Aeroquest (Australia), Aeroquest Surveys (Canada), and Geophex (United States) on the order of 50% in one year.

Oddly, gold averaged about \$975 an oz. for the 2009 year, copper averaged \$2.30 per pound, and oil averaged over \$62 per barrel. Similarly, the prices of silver, nickel, zinc and other major industrial and precious metals have, for the most part, recovered dramatically from their lows in the first quarter of 2009. The average 2009 prices for all these major resource commodities would, in normal times, stimulate greenfield exploration spending. Throughout 2009, however, they did not.

The 2009 fiscal year ended pretty much as we expected it would – with an increase from the activity levels of our third quarter, but without a return to the activity levels we need to regain profitability with the size and scope of business we have today.

Over the course of the year, we responded as we had to in the face of this reality. The initiatives we undertook included a reduction in our workforce of 45%, a clamp-down on discretionary expenditures, a temporary roll-back of senior management salaries, the closure of one of our regional offices, and severe restrictions to our capital expenditure program in the last half of the year. The cumulative effect of the operational changes is over \$4 million in annual expense reduction. This will serve us well as we go into 2009, but it is not enough – we have to grow our revenue again. More on that in a moment.

**When we look back on 2009, there are four items that I believe beg further explanation and that, taken together, largely help explain our change in financial position during the year:**

- 1. Revenue.** Our revenue was down by \$27 million, or 49% from last year. As I said above, we saw this decline in all of our businesses - helicopter, fixed wing, and contract R&D. This was, of course, due to the GFC.
- 2. Gross Margin.** We had lower than expected gross margins - especially in our helicopter business. Helicopter Services margins came in at less than 17% for the year. Fixed Wing Services, by contrast, generated a 30% gross margin. Our margin performance in helicopters reflects both the reduced revenue level and the fact that we have more fixed costs on this side of the business. There is a greater requirement for operational and technical support, and a higher level of post-acquisition processing required in our Electromagnetic systems, which are flown on helicopters, as compared to our mag or gravity systems, which are flown with fixed wing. Our focus during this past year has been on trying to keep our team together. Keeping our operational, technical and processing teams intact to the extent possible is critically important in our business. We've worked hard to find and train our people and we continue to work hard to try to keep them.
- 3. Bad Debt.** We recorded in excess of \$2.1 million of bad debt expense in the year – again resulting from the fallout of the GFC. This level of bad debt is \$2 million higher than what we would expect under normal conditions, given our level of revenue. While we are very unsatisfied with ourselves over this performance, I take small comfort from the fact that approximately two thirds of this bad debt related to a single account – a single very bad decision on our part, if you will.
- 4. Capital Expenditures.** We spent over \$4 million in capital in a year where we had negative cash flow, which on the surface seems unusual. However, in our case, over 80% of that expenditure went to the purchase of two gravity meters that we committed to in 2008 and took delivery of in early 2009. These meters are a critical part of our oil and gas strategy and are important contributors to revenue even in bad times, as evidenced by the fact that over \$8 million of the \$28 million in revenue for 2009 came from gravity surveys, approximately half of which were done with these new meters.

These last three items, our gross margin shortfall, bad debt expense, and capital expenditures combine to explain most of our change in cash over the course of the year.

2009 wasn't all bad though. There were at least two bright spots in our year. The first is our performance in the petroleum market. We continue to make significant in-roads in this market. In 2009, it represented approximately

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40% of our revenue and is a higher percentage of our backlog. We are developing important relationships in key frontier areas, where either a lack of information or the existence of a complex geological environment lends itself well to the type of work we do.

The second bright light is our most recent acquisition - Optimal Geomatics, which closed on the last day of our fiscal year. Optimal is in aerial geomatics - aerial photography and LiDAR. Despite some differences in the technology, Optimal's business is very similar to that of Aeroquest's. We each fly contract surveys - we collect data, add value to that data through sophisticated postacquisition processing, and deliver information to our clients that help them understand something about the ground over which we flew. What Optimal also gives us is exposure to a completely new market of customers and sows the seeds for continued sustainable growth. We are very happy to have successfully acquired Optimal and enthusiastically welcome them into our business.

**One year ago, we established four priorities for 2009. Here is how we did against them:**

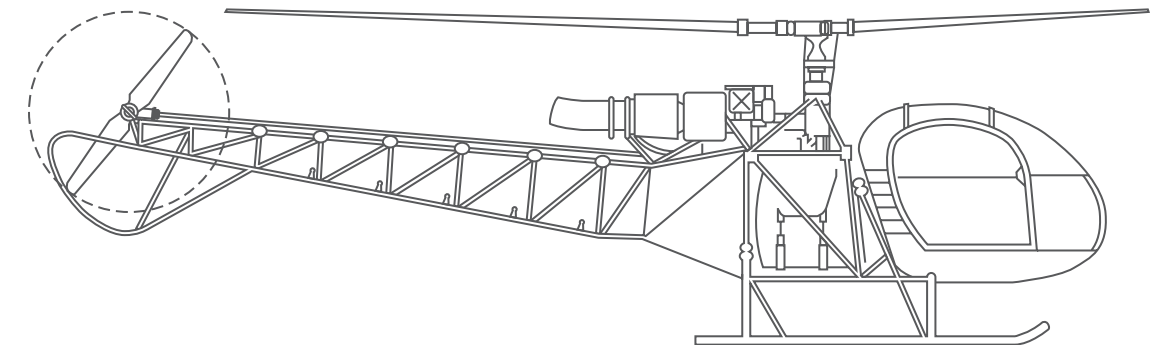
1. **Improve Efficiencies in our Field Operations.** We developed and implemented several new field procedures in 2009, especially around field safety and ongoing QA/QC. We are looking forward to the uptick in demand to see these new procedures in action.
2. **Expand our success in Petroleum Surveys.** As I mentioned above, we are happy with how this market has developed and see it as a core offering of ours for the foreseeable future.
3. **Make Meaningful and Demonstrable Progress in Environmental Services.** We have not made the progress we would have liked in this area in 2009. The economic conditions for much of the year were not conducive to the type of product and the particular markets we serve. We expect a better year in 2010 here, and the addition of an infrastructure component to our business, with the acquisition of Optimal Geomatics, should assist in the revenue diversification we were hoping for from non-exploration related industries.
4. **Remain Opportunistic (and Optimistic).** We were opportunistic in 2009. We identified, negotiated, and closed the acquisition of Optimal Geomatics. This business will become a cornerstone for increased work in Infrastructure-related industries in the future. Remaining optimistic was harder. We were forced to let go of 45% of our staff during the year and these people, their skills, passion and humour are already sadly missed. We wish them all the best in the future.

**I have established three main priorities for 2010:**

1. **Get back to Profitability.** Someone once told me that the only legitimate purpose of business is to earn economic profits - if you are not earning profits, it's just a hobby. We are dedicated to restoring the profitability of our business and I'd like to see it happen this year.
2. **Rebuild our Capital Base.** We consumed too much cash in 2009. We were very fortunate to have been so well capitalized going into 2009 and it served us well during this tumultuous year, but given the size, scope, and volatility of our business, we need a stronger capital base than we have going into 2010. We will continue to work to conserve capital and generate cash, but we will also look for other opportunities to rebuild our capital base throughout the year.
3. **Become One Aeroquest.** As Aeroquest has grown, we have absorbed several different businesses, each with their own names and cultures. One of the things that has emerged from across our employee base, however, is a desire to move to One company, One name, One brand. In 2010, we will move to bring all of our companies together under the Aeroquest banner.

We have been operating for the past year in an environment of zero visibility. This has been especially difficult regardless of whether you are a shareholder, an employee, a member of our board of directors, or one of our senior managers. At this point, it seems that things are beginning to settle down and there is room for cautious optimism. I earnestly hope so. But to all of the people that have stuck with the Company over the past year - shareholders, employees, and others - I extend my sincere thanks and appreciation for your support and commitment.

Roy T. Graydon, President & CEO



## Management's Discussion & Analysis

For the year ending September 30, 2009

## MANAGEMENT'S DISCUSSION & ANALYSIS

For the year ending September 30, 2009

Issued on December 9, 2009

Management's Discussion and Analysis (MD&A) is intended to help readers understand the dynamics of our business and the key factors underlying our financial results. It explains trends in our financial condition and results of our operations for the three and year ended September 30, 2009 ("Q4-F09" and "F2009" respectively) compared with our operating results for the three months and year ended September 30, 2008 ("Q4-F08" and "F2008" respectively). It also compares our balance sheet as at September 30, 2009 to our balance sheet as at September 30, 2008.

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

Additional information relating to our company is available on our website at [www.aeroquest.ca](http://www.aeroquest.ca) and on the System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://www.sedar.com). Unless otherwise noted, all amounts noted in this MD&A are in Canadian dollars.

### 1.1 FORWARD-LOOKING STATEMENTS

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

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

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

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

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

### 1.2 NON GAAP FINANCIAL MEASURES

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

#### EBITDA

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

#### APPARENT TAX RATE

We define apparent tax rate as the total income tax expense (current and future) as a percentage of income before taxes. More information on our income tax expense and the reconciliation between income tax expense and our statutory tax rate is contained in Note 10 to the consolidated financial statements for the year.

#### CASH OPERATING COSTS

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

## 2 OUR BUSINESS, STRATEGY & OUTLOOK

### 2.1 AEROQUEST'S BUSINESS

We are a world leader in the development and operation of innovative and proprietary airborne geoscience survey platforms serving the mineral and petroleum exploration industries, and the environmental and infrastructure industries. We operate a large fleet of airborne geophysical and geomatic survey systems utilizing two separate delivery platforms; helicopters and fixed wing aircraft. Our geophysical survey technologies include time-domain and frequency-domain electro-magnetics (including our proprietary AeroTEM, time-domain electromagnetic technology), gravity, magnetic, and radiometric systems. Our geomatic survey technologies include LiDAR and ortho-rectified digital photography. Our combination of geoscience technologies and airborne platforms give us one of the broadest arrays of product and service offerings in our industry in the world today. We are active on virtually all continents assisting our clients in investigating features at or near the earth's surface and to depths of several kilometers beneath the earth's surface.

2.2 SELECTED COMPARATIVE QUARTERLY FINANCIAL INFORMATION

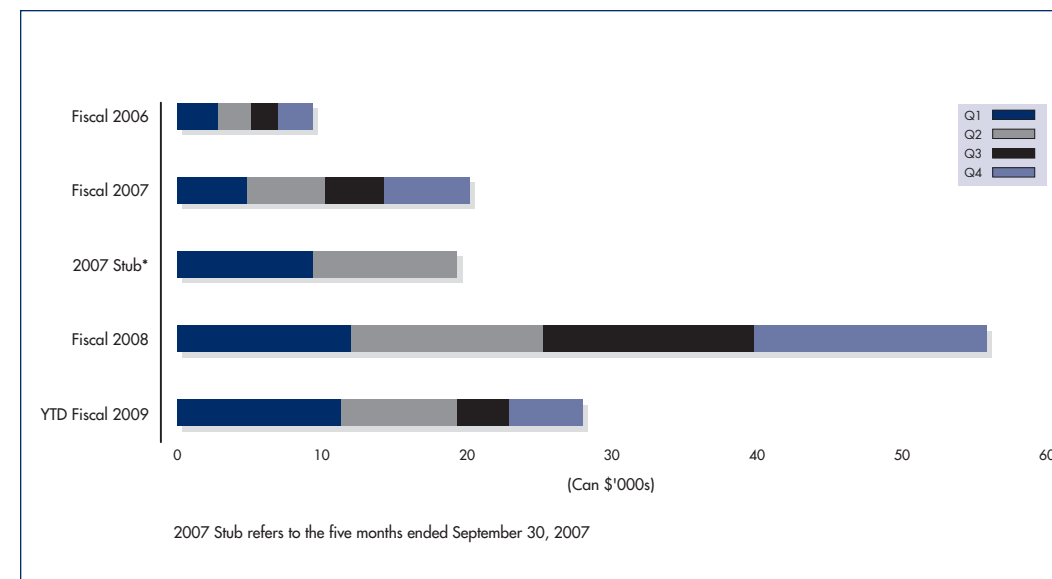
(Financials in 000's except /share data)	Q4-Sep 09	Q3-Jun 09	Q2-Mar 09	Q1-Dec 08	Q4-Sep 08	Q3-Jun 08	Q2-Mar 08	Q1-Dec 07
Revenue	\$ 5,099	\$ 3,651	\$ 7,963	\$ 11,298	\$ 16,017	\$ 14,537	\$ 13,295	\$ 11,197
Operating profit	\$ (6,362)	\$ (4,601)	\$ (1,698)	\$ (2,008)	\$ 2,024	\$ 590	\$ 1,613	\$ 195
Net income	\$ (4,657)	\$ (3,498)	\$ (953)	\$ (1,514)	\$ 1,603	\$ 304	\$ 815	\$ 121
Weighted average common shares	33,725	33,627	33,613	33,597	33,785	34,662	32,553	27,603
Earnings per share (basic)	\$ (0.14)	\$ (0.11)	\$ (0.03)	\$ (0.04)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00
Earnings per share (diluted)	\$ (0.13)	\$ (0.11)	\$ (0.03)	\$ (0.04)	\$ 0.05	\$ 0.01	\$ 0.03	\$ 0.00
Operating cash flow/share	\$ (0.05)	\$ (0.06)	\$ 0.02	\$ 0.03	\$ 0.05	\$ 0.06	\$ 0.09	\$ 0.06
Total assets	\$ 57,740	\$ 60,240	\$ 64,624	\$ 68,660	\$ 69,540	\$ 71,537	\$ 72,053	\$ 59,331
Long term liabilities	\$ 224	\$ 252	\$ 316	\$ 486	\$ 470	\$ 502	\$ 562	\$ 3,126
Systems available for use at period end *	29	27	28	27	28	27	23	19
Fixed-wing systems	10	10	11	10	11	11	9	8
Helicopter systems	17	17	17	17	17	16	14	11
AeroTEM systems included in above	13	13	13	13	13	11	8	8
Geomatics systems	2	—	—	—	—	—	—	—
Line kilometres flown during period								
Helicopter systems	5,400	2,700	11,400	59,150	74,100	73,200	59,000	47,700
Fixed-wing systems	351,000	144,000	189,000	316,000	520,000	457,700	362,000	408,900
Contract back-log (CAD\$ thousands)								
Helicopter systems	\$ 1,082	\$ 100	\$ 1,000	\$ 2,700	\$ 6,900	\$ 5,100	\$ 5,900	\$ 8,000
Fixed-wing systems	\$ 2,726	\$ 5,600	\$ 5,600	\$ 9,700	\$ 9,200	\$ 11,900	\$ 11,400	\$ 11,000
Geomatics	\$ 6,704	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Other	\$ 370	\$ 900	\$ 1,400	\$ 1,600	\$ 1,900	\$ —	\$ —	\$ —
Total Backlog	\$ 10,882	\$ 6,600	\$ 8,000	\$ 14,000	\$ 18,000	\$ 17,000	\$ 17,300	\$ 19,000

\* excluding gamma ray spectrometers

The effect of the current economic recession and resulting uncertainty continues to negatively affect exploration spending – in particular on helicopter based surveys as they are more expensive on a per line kilometer basis than fixed wing surveys. As a result, our Q4-F09 revenue declined by \$10.9 million to \$5.1 million from \$16.0 million in Q4-F08. Gross profit in Q4-F09 was \$3.9 million, a decline of \$6.0 million from the \$10.9 million reported in Q4-F08. Q4-F09 net loss was \$4.7 million compared with Q4-F08 profit of \$1.6 million. The decline in profitability is due to several factors working at once, including reduced revenue – especially in helicopter based surveys, reduced gross margin due to the fixed cost component of cost of sales applied to a lower revenue base, foreign currency losses, and other general and administrative expenses that, while lower on a run-rate basis from the prior quarter, are now spread over a smaller base of revenue. As well, Q4-F09 reflected an impairment charge of \$2.9 million for goodwill and intangible asset write-down to fair value.

We embarked on a significant cost reduction program beginning in Q2 and continuing through Q4 of fiscal 2009 and the restructuring costs associated with these efforts are also reflected in our results. These issues are discussed in more detail throughout this MD&A.

REVENUE BY QUARTER - 2006-2009



2.3 BUSINESS STRATEGY

Our strategy is to become the preferred supplier of airborne geoscience survey technologies and services in the world. Our strategy has three components:

- 1. Establish ourselves internationally** – Ours is a global industry with global opportunities; if we want to be the one that people turn to in order to get help in capitalizing on these opportunities, then we have to be ready and able to go anywhere. To date, we have successfully surveyed in well over 40 countries around the globe and have completed surveys and positioned systems on every continent but Antarctica.
- 2. Find new applications for our technologies** – We will continue to develop various new markets where we can take advantage of the technologies we understand like in the Energy and Environmental Services industries.
- 3. Explore other, complimentary, technologies** – Specifically, we are looking for new technologies that are either complimentary with our existing technologies, or complimentary with our existing service delivery model. Aerial remote sensing technologies are examples of such complimentary technologies. Aerial remote sensing is similar to geophysical surveying except that the objects of interest in remote sensing are at the earth's surface, whereas the objects of interest in geophysics are usually buried beneath the earth's surface. During F2009 we negotiated and closed the purchase of Optimal Geomatics Inc., giving us capabilities in two important remote sensing technologies; LiDAR and aerial photography.

2.4 OUTLOOK

Global spending in both mineral and petroleum exploration has slowed and we expect it to remain below the levels of 2007 and 2008 for the balance of 2009 and 2010. Commodity prices are generally at levels that would normally stimulate exploration so we remain optimistic about the medium and long terms, but in the short term, the nervousness that has characterized the past 12 months continues and is reflected in lower than normal spending on projects of higher risk or projects with longer paybacks – like Greenfield exploration. We have downsized our business to reflect this reality and are working to maintain breakeven or better positions in each of our regional offices.

We have implemented new field procedures in helicopter operations to address historical field inefficiencies. These include updates to our Safety Management Systems and Standard Operating Procedures in the field, with a focus on placing Safety ahead of all other considerations, and comprehensive training all of our field staff. We are happy to date with our progress on this front and look forward to the opportunity to put these new procedures into effect as business volumes recover.

We have taken measures to reduce our cost structure including global workforce reductions of approximately 70 persons, or approximately 50% of our geophysical survey staff, and the closure of one regional office in F2009. These decisions were not made lightly but were required to properly size our operations to the forecasted business in the near future. We will continue to focus on operational efficiencies and carefully managing our cash as economic conditions improve.

We have been successful at maintaining a critical mass of survey revenue in the petroleum sector; this business continues to account for a large share of our geophysical survey revenue. At this point, the Environmental industry remains quiet for Aeroquest, but we have been looking for opportunities to bolster this area, in particular on the infrastructure side. To strengthen this business, in F2009 we acquired Optimal Geomatics Inc. The transaction closed on September 30, 2009 and will begin to be reflected in the Company's operating result in the first quarter of fiscal 2010. Optimal is a specialist in remote sensing, specifically LiDAR and aerial photography. The acquisition brings with it new opportunities in the Infrastructure and Environmental Industries as most of Optimal's clients are from these industries.

We have also been actively looking for other businesses that may be combined with our own to enhance our product offerings, geographical presence and range of technologies. We continue to believe that this market will present us with corporate acquisition opportunities that allow us to compress our strategic plan; allowing us to accomplish more in a shorter time frame.

Looking forward beyond one year, our objective is to use our short term tactics to position ourselves to react quickly once the recovery in our core markets takes hold. We believe that the current market pressures that exist in the minerals and oil & gas markets are short term and ongoing depressed exploration expenditures are not realistic in the medium or long term.

### 3 FOURTH QUARTER OPERATING RESULTS

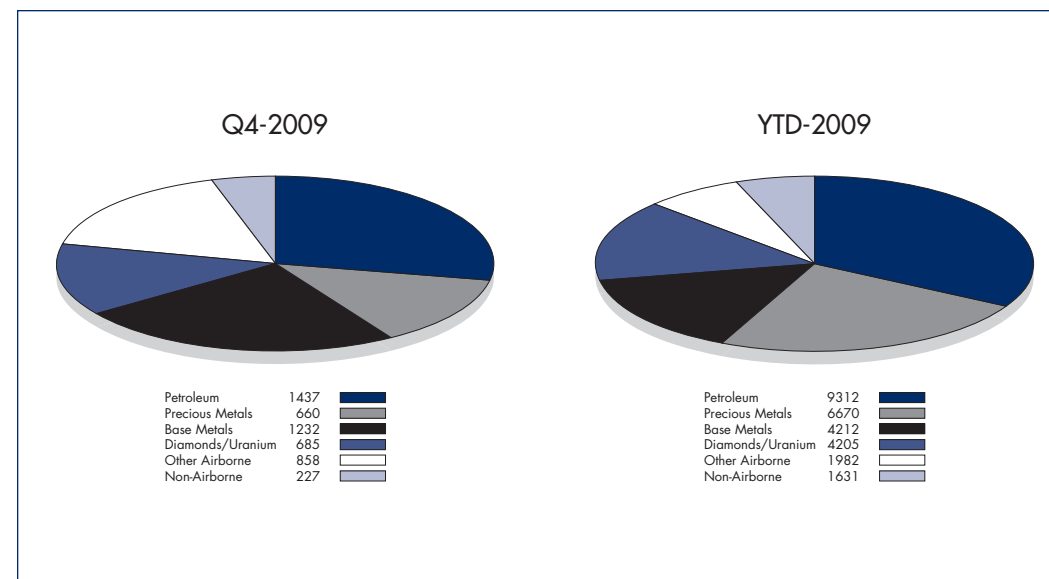
#### 3.1 OVERVIEW AND HIGHLIGHTS

The global economic recession and the resulting impact on mineral and petroleum exploration continued to negatively impact our revenue and backlog in the fourth quarter. In Q4-F09, we recorded a decline in consolidated revenue of 68 per cent over Q4-F08. Helicopter services declined by 89 per cent to \$0.8 million and fixed wing services declined by 51 per cent to \$4.1 million from their levels in Q4-F08. Other services (principally revenue from Geophex) contributed \$0.2 million in revenue for the quarter compared with \$0.7 million in Q4-F08. These are all very significant declines on a year over year basis, but are consistent with, and in some cases higher than, the levels in earlier quarters. A more detailed discussion on these variances is provided below.

We have taken steps over the course of the current fiscal year to both diversify our business offerings and reduce our cost structure to address the economic slowdown. The addition of two new total field gravity systems has had an immediate impact on revenue as these two new units resulted in an additional \$2.1 million of fixed wing revenue in Q4-F09 (and slightly over \$7.8 million F2009).

Revenue has also diversified from traditional base metal exploration. In Q4-F09, petroleum exploration comprised a healthy percentage our overall revenue base and we expect to generate continued healthy contributions from the petroleum sector going forward.

#### REVENUE BREAKDOWN BY COMMODITY



Over the past several quarters, we have been aggressive in reducing our cost structure. Headcount reductions totaling 60 per cent of our staff took place in January, March and July that will result in an annualized \$3.5 million reduction to our payroll burden. Other reductions to senior management salaries will also help to reduce our run rate operating costs. Finally, we are also taking steps with our suppliers to reduce other costs, both direct costs such as helicopter and aircraft rentals, as well as indirect costs such as facility leases and other selling, general and administrative costs.

Our cash balances declined to \$6.1 million at the end of Q4-F09 from \$8.0 million at the end of Q3-F09 and \$15.4 million at the end of September, 2008. Cash flow from operations in Q4-F09 was negative using \$1.7 million of cash. As discussed below, \$1.3 million of this balance related to cash flow from operations before changes in working capital and \$0.4 million relates to changes in non-cash working capital in the quarter. Capital expenditures for the quarter were less than \$0.1 million, reflecting our efforts to minimize cash outflows going into fiscal 2010.

#### 3.2 AIRBORNE FLEET SUMMARY

Beginning in the fall of 2008, we slowed the pace of expansion in anticipation of the slowing economy. In this most recent quarter, there were no new changes to the geophysical survey fleet. Our active fleet is now comprised of 30 systems; 17 helicopter based and 13 fixed wing based. With the acquisition of Optimal Geomatics, we have now added two new LiDAR and othophotogrammetry systems.

#### AIRBORNE FLEET SUMMARY

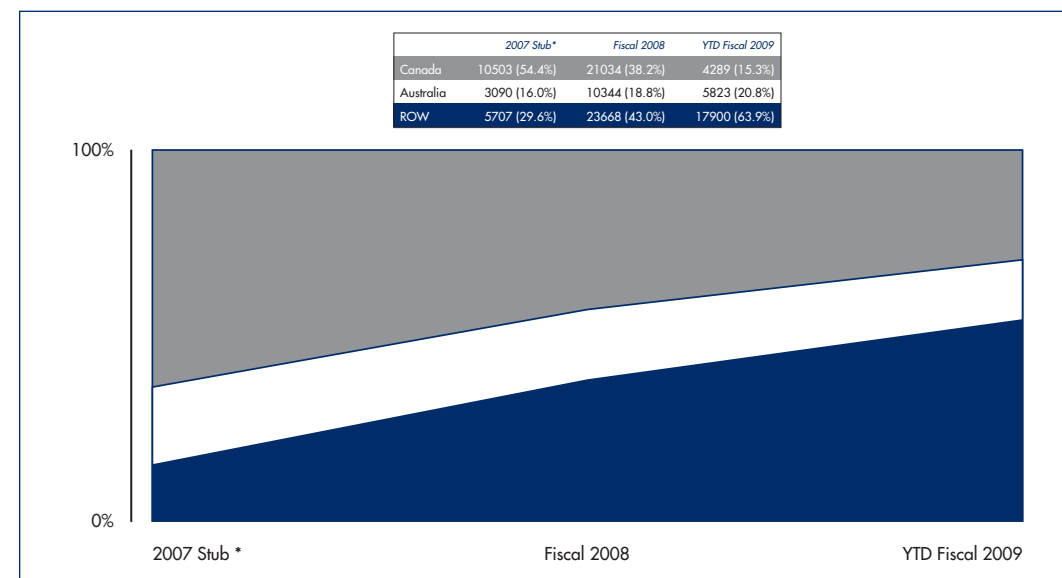
	Helicopter	Fixed wing	Total
AeroTEM	13		13
Impulse/GEM-2A	2		2
Magnetics			
single sensor	1	6	7
multi-sensor	1	3	4
Gravity			
(+ multi-sensor mag)		2	2
Optimal Geomatics		2	2
<b>Total</b>	<b>17</b>	<b>13</b>	<b>30</b>

### 3.3 REVENUE BY GEOGRAPHIC SEGMENT

While the economic slowdown has impacted our volume of business, we continue to be active around the globe. As of September 30, 2009, we had positioned helicopter systems in North and South America, Europe, Africa and Australasia. During the same period, we operated fixed wing units in Australia & the South Pacific, Africa and North America.

Since the acquisition of UTS Geophysics Pty Ltd. and Geophex Ltd., in July and December of 2007 respectively, our revenue outside of Canada has grown significantly. However, our Canadian based revenue has declined in F2009 due to the economic slowdown. The result is that revenue outside of Canada in Q4-F09 represented over 76 per cent of our total revenue with revenue from contracts flown in Australia being the largest portion of our business at 25 per cent. Of the 51 per cent of revenue outside of Canada and Australia, approximately \$0.6 million, or 12 per cent was derived in the United States. No other country represented more than 10 per cent of our revenue.

#### REVENUE BY GEOGRAPHIC SEGMENT 2007 - 2009



#### REVENUE BY GEOGRAPHIC SEGMENT

Three Months Ended Sept 30, 2009					
(thousands of Canadian dollars)	Canada	Australia	RoW	Total	
Helicopter services	\$ 739	\$ —	\$ 18	\$ 757	15%
Fixed wing services	502	1,254	2,360	4,116	81%
Other services	—	—	227	227	4%
<b>Total Revenue - Aeroquest Group</b>	<b>\$ 1,241</b>	<b>\$ 1,254</b>	<b>\$ 2,605</b>	<b>\$ 5,100</b>	<b>100%</b>
	24.3%	24.6%	51.1%	100%	
Year Ended September 30, 2009					
(thousands of Canadian dollars)	Canada	Australia	RoW	Total	
Helicopter services	\$ 3,328	\$ 296	\$ 5,934	\$ 9,558	34%
Fixed wing services	946	4,453	11,424	16,823	60%
Other services	—	—	1,631	1,631	6%
<b>Total Revenue - Aeroquest Group</b>	<b>\$ 4,274</b>	<b>\$ 4,749</b>	<b>\$ 18,989</b>	<b>\$ 28,012</b>	<b>100%</b>
	15.3%	17.0%	67.8%	100%	

### 3.4 CONSOLIDATED RESULTS

#### OPERATING STATEMENTS

(in thousands of Canadian dollars)	Q4-F09	Q4-F08	Change	YTD-F09	YTD-F08	Change
<b>Revenue</b>						
Helicopter services	757	7,047	(6,290)	9,558	27,674	(18,116)
Fixed wing services	4,116	8,268	(4,152)	16,823	26,088	(9,265)
Other services	227	702	(475)	1,631	1,284	347
	5,100	16,017	(10,917)	28,012	55,046	(27,034)
<b>Cost of sales</b>						
Helicopter services	860	5,564	(4,704)	7,952	18,340	(10,388)
Fixed wing services	3,072	5,214	(2,142)	11,730	15,603	(3,873)
Other services	110	156	(46)	657	408	249
	4,042	10,934	(6,892)	20,339	34,351	(14,012)
<b>Gross profit</b>	<b>1,058</b>	<b>5,083</b>	<b>(4,025)</b>	<b>7,673</b>	<b>20,695</b>	<b>(13,022)</b>
<b>Gross margin</b>						
Helicopter services	-13.6%	21.0%		16.8%	33.7%	
Fixed wing services	25.4%	36.9%		30.3%	40.2%	
Other services	51.5%	77.8%		59.7%	68.2%	
Gross profit margin %	20.7%	31.7%		27.4%	37.6%	
General & administrative expense	2,116	2,459	(343)	11,845	9,522	2,323
Foreign exchange (gain) loss	308	(1,162)	1,470	(232)	(1,059)	827
<b>Total cash operating costs</b>	<b>2,424</b>	<b>1,297</b>	<b>1,127</b>	<b>11,613</b>	<b>8,463</b>	<b>3,150</b>
% of revenue	21.5%	11.6%		102.8%	75.6%	
Stock-based compensation expense	108	231	(123)	456	960	(504)
EBITDA	(1,474)	3,555	(5,029)	(4,396)	11,272	(15,668)
EBITDA as a % of revenue	-2.7%	26.7%		-8.0%	46.0%	
Depreciation of capital assets	932	739	193	3,900	2,814	1,086
Amortization of intangible assets	1,075	809	266	3,493	4,035	(542)
Impairment of goodwill & intangibles	2,880	—	2,880	2,880	—	2,880
<b>Operating profit/(loss)</b>	<b>(6,361)</b>	<b>2,007</b>	<b>(8,368)</b>	<b>(14,669)</b>	<b>4,423</b>	<b>(19,092)</b>
Operating profit as a % of revenue	-56.3%	14.9%		-129.8%	18.1%	
Interest and other expense (income)	20	(102)	122	(127)	(224)	97
Provision for income taxes	(1,725)	523	(2,248)	(3,920)	1,804	(5,724)
<b>Net income</b>	<b>\$ (4,656)</b>	<b>\$ 1,586</b>	<b>\$ (6,242)</b>	<b>\$ (10,622)</b>	<b>\$ 2,843</b>	<b>(13,465)</b>
Earnings per share - basic	\$ (0.14)	\$ 0.05	\$ (0.19)	\$ (0.32)	\$ 0.09	\$ (0.41)



In Q4-F09, consolidated revenue was \$5.1 million, down \$10.9 million or 68 per cent over Q4-F08. Revenue from helicopter services was \$0.8 million, down \$6.3 million or 89 per cent over Q4-F08 while revenue from fixed wing services was \$4.1 million, down \$4.2 million or 50 per cent over Q4-F08. Other services revenue (Geophex Ltd.) was \$0.2 million in Q4-F09, down \$0.5 million or 71 per cent over Q4-F08. Revenue from helicopter services showed a marked decline due to the impact of the current economic downturn. Our traditional customers in mineral exploration have delayed or cancelled many of their surveys due to a combination of the current economic slump and tight capital markets hindering their ability to raise necessary exploration capital. Fixed wing services also experienced a similar decline but not to the extent of helicopter services – which are more expensive on a per line kilometer basis and thus tend to be the survey method most at risk in times of tight exploration spending.

Total F2009 revenue was \$28.0 million, a decline of \$27.0 million or 49 per cent over F2008. Revenue from fixed wing services was \$16.8 million, down \$9.3 million or 35 per cent over F2008, while F2009 revenue from helicopter services was \$9.6 million, a decline of \$18.1 million or 65 per cent over the F2008. Other services revenue was \$1.6 million F2009, an increase of \$0.3 million over F2008. The increase in other services revenue primarily reflects the fact that the Geophex acquisition took place at the end of the first quarter of fiscal 2008 and thus contributed to revenue for only three of the four quarters in that year.

Cost of sales was \$4.0 million in Q4-F09, or 76.5 per cent of revenue, compared to \$10.9 million or 69.3 per cent of consolidated revenue in Q4-F08. Gross margin in Q4-F09 declined by 11 percentage points to 21 per cent, compared with 32 per cent in Q4-F08. F2009 cost of sales was \$20.3 million or 72.6 per cent of consolidated revenue compared to \$34.3 million or 62.4 per cent of revenue in F2008. F2009 gross margin declined by 11 percentage points to 27 per cent compared to 38 per cent in F2008.

Gross margin in helicopter services was negative 14 per cent in Q4-F09, as compared to 21 per cent in the Q4-F08. This margin decline is primarily attributable to the significant decline in helicopter survey revenue without a comparable decline in the fixed cost component of operations staff, which forms part of cost of sales. The negative margin is an improvement over the third quarter of F09 as revenue levels improve. As previously indicated, we have continued to reduce operational headcount that will mitigate this margin pressure somewhat in future quarters.

Gross margin in fixed wing services was \$1.0 million, or 25 per cent of revenue in the current quarter as compared to 37 per cent in Q4-F08. This decrease is also due to the impact of lower revenue against the fixed cost component of cost of sales. This decline in revenue results from both a decline in volume and decline in pricing with pricing accounting for approximately one-third of the total change.

F2009 gross margins in helicopter surveys was 17 per cent compared to 31 per cent in F2008 reflecting the marked decline in margins in Q3 and Q4-F08. F2009 gross margins in fixed wing surveys was 30 per cent compared to 40 per cent in F2008 also reflecting the decline in margins in the second half of F09 as well as costs related to the start-up of the two new total field gravity systems in the first quarter of fiscal 2009.

### 3.5 CASH OPERATING COSTS

Cash operating costs in Q4-F09 totaled \$2.4 million, an increase of \$1.1 million, or 84 per cent from the \$1.3 million reported in Q4-F08. This increase is primarily due to an increase in the foreign exchange expense of \$1.5 million primarily due to the depreciation in the United States dollar in the quarter as much of our revenue is denominated in United States dollars and an increase in bad debt expense of \$0.4 million, offset by a reduction in other general and administrative expense of \$0.7 million as the impact of the workforce reductions undertaken in the last half of the year begins to reflect in reduced general and administrative expense.

F2009 cash operating costs totaled \$11.6 million, an increase of \$3.1 million, or 36 per cent from the \$8.5 million reported in Q4-F08. This increase is primarily due to a) the provision for collectability of two large receivables in the year totaling \$1.8 million over amounts provided for in F08; b) net decrease in foreign currency gain of \$0.8 million in F09 over F08; and c) increased staffing levels in the first six months of F09 compared with the first six months of F08 combined with severance costs and other obligations related to the downsizing that took place in the second half of F09 comprising much of the remainder of the difference in annual cash operating costs.

### 3.6 OPERATING PROFIT AND EBITDA

EBITDA in Q4-F09 was negative \$1.5 million, a decline of \$5.1 million over the positive EBITDA of \$3.6 million reported in Q4-F08. F2009 EBITDA is negative \$4.4 million, a decline of \$15.6 million over F2008. EBITDA is down primarily due to the gross margin compression quarter over quarter combined with the increase in cash operating costs discussed previously. Stock-based compensation expense in Q4-F09 declined by \$0.1 million compared to Q4-F08 (see note 9 below).

Depreciation and amortization charges totaled \$2.0 million in Q4-F09, an increase of \$0.5 million from Q4-F08. The increase in depreciation & amortization in the quarter is due to increased depreciation of airborne systems acquired in the last fiscal year and a decision by management to begin phasing out the UTS Geophysics brand name, which resulted in increase in amortization of intangible assets. This is somewhat offset by reduced amortization charges related to the acquisition of Geophex on December 31, 2008. F2009 depreciation and amortization was \$7.4 million, an increase of \$0.5 million from F2008.

Under Canadian GAAP, we test our goodwill and intangible assets for impairment on an annual basis. In Q4-F09, we determine that the value of the Geophex goodwill was impaired. As well, in Q4-F09, we decided to phase out the UTS brand name and rebrand our airborne services group simply as Aeroquest. This decision also necessitated an assessment of the fair value of the trade name. These assessments resulted in an impairment adjustment to goodwill and intangible assets totaling \$2.9 million. This non-cash expense was booked in Q4-F09.

Operating loss in Q4-F09 was \$6.4 million compared with an operating profit of \$2.0 million in Q4-F08. F2009 operating loss was \$14.7 million compared with an operating profit of \$4.4 million in F2008.

### 3.7 NET INCOME

Net loss for Q4-F09 was \$4.7 million, or \$0.14 per share compared to net income of \$1.6 million, or \$0.05 per share in Q4-F08. F2009 net loss was \$10.6 million or \$0.32 per share compared to net income of \$2.8 million or \$0.09 per share.

Our provision for recovery of income taxes for Q4-F09 was \$1.7 million generating an apparent tax rate of 27 per cent in the quarter a slight increase over the 26 per cent apparent tax rate reported in Q4-F08.

#### 4 LIQUIDITY AND CAPITAL RESOURCES

Our cash balances declined by \$1.9 million from \$8.0 million at June 30, 2009 to 6.1 million at September 30, 2009. Most of this change in liquidity was the result of cash flow from operations consuming \$1.7 million of cash.

##### CASH & WORKING CAPITAL CHANGES

(in thousands of Canadian dollars)	Three Months			Year		
	Q4-F09	Q4-F08	Change	2009	2008	Change
<b>Operating activities</b>						
Net Income/(Loss)	\$ (4,657)	\$ 1,603	\$ (6,260)	\$ (10,622)	\$ 2,843	\$ (13,465)
<b>Non-cash operating items</b>						
Depreciation/Amortization	2,007	1,548	459	7,393	6,849	544
Impairment charges	2,880	—	2,880	2,880	—	2,880
Future taxes	(1,657)	(299)	(1,358)	(2,432)	(1,370)	(1,062)
Stock based compensation	108	231	(123)	456	960	(504)
Other	—	(76)	76	—	272	(272)
<b>Operating cash before change in non-cash working capital</b>	<b>(1,319)</b>	<b>3,007</b>	<b>(4,326)</b>	<b>(2,325)</b>	<b>9,554</b>	<b>(11,879)</b>
Change in non-cash working capital	(360)	(831)	471	(2,349)	(1,649)	(700)
<b>Cash flow from operations</b>	<b>(1,679)</b>	<b>2,176</b>	<b>(3,855)</b>	<b>(4,674)</b>	<b>7,905</b>	<b>(12,579)</b>
<b>Investing activities</b>						
Capital asset purchases	(9)	(2,016)	2,007	(4,150)	(7,073)	2,923
Cash cost of acquisitions	(65)	(7)	(58)	(65)	(2,158)	2,093
Other	(18)	168	(186)	(54)	589	(643)
<b>Cash flow from investing</b>	<b>(92)</b>	<b>(1,855)</b>	<b>1,763</b>	<b>(4,269)</b>	<b>(8,642)</b>	<b>4,373</b>
<b>Financing Activities</b>						
Capital lease payments	(85)	(28)	(57)	(270)	(301)	31
Promissory note payments	—	—	—	—	(5,338)	5,338
Redemption of shares	—	(1,871)	1,871	(57)	(3,298)	3,241
Proceeds from issuance of shares	—	—	—	42	19,648	(19,606)
<b>Cash flow from financing</b>	<b>(85)</b>	<b>(1,899)</b>	<b>1,814</b>	<b>(285)</b>	<b>10,711</b>	<b>(10,996)</b>
Net change in cash for the period	(1,856)	(1,578)	(278)	(9,228)	9,974	(19,202)
Cash - beginning of period	8,001	16,951	(8,950)	15,373	5,399	9,974
<b>Cash - end of period</b>	<b>\$ 6,145</b>	<b>\$ 15,373</b>	<b>\$ (9,228)</b>	<b>\$ 6,145</b>	<b>\$ 15,373</b>	<b>\$ (9,228)</b>

Cash and short-term investments are currently invested in liquid Canadian dollar, Australian dollar or U.S. dollar denominated bank guaranteed securities with maturities no greater than three months.

#### 4.1 OPERATING ACTIVITIES

Operating activities consumed approximately \$1.3 million of cash in the quarter, while changes in working capital consumed \$0.4 million of cash, and capital expenditures used less than \$0.1 million. Operating cash flow is tracking lower as a result of the reduced revenue, net income and lower non-cash operating expenses. The net change in working capital is composed of a decline of \$2.0 million in current liabilities, from \$6.3 million to \$4.2 million, a \$4.1 million increase in non-cash current assets, from \$6.5 million to \$10.6 million offset by working capital acquired through the Optimal Geomatics acquisition of \$0.8 million. Net cash expended on the Optimal Geomatics acquisition was \$0.1 million (reflecting deal costs less cash acquired).

Our cash balances declined in Q4-F09 by \$1.9 million compared with an increase in cash of \$0.7 million in Q4-F08. This change is primarily as a result of the change in operating cash flow between the two periods. In Q4-F08 we had positive cash flow from operations of \$2.8 million while in Q3-2009 we had negative cash flow from operations of \$1.7 million. This \$4.5 million swing was mitigated by a \$1.9 million reduction in capital expenditures between the two periods.

As business volumes slowed in the quarter, we experienced a lengthening in payment terms with our customers. However, our principal suppliers, notably helicopter and aircraft operators and fuel providers, still required timely payment of their invoices. This change, combined with the reduction in deferred revenue resulting from business that was pre-paid and flown in the quarter comprised the majority of the changes in our non-cash working capital position.

The difference in the changes in non-cash working capital between Q4-F09 and Q4-F08 is primarily a result of receivable balances and accounts payable decreasing by \$2.9 million and \$1.1 million respectively in Q4-F09 compared with an increase in accounts receivable and accounts payable of \$0.6 million and \$0.6 million in accounts payable in Q4-F08.

#### 4.2 INVESTING ACTIVITIES

Investment activities in Q4-F09 consumed \$0.1 million of cash held, the majority of which related to the cash cost related to the acquisition of Optimal Geomatics on September 30, 2009 of \$65,207 (see Section 8 below). Capital asset expenditures in the quarter were minor and generally consisted of improvements to the airborne fleet. F2009 capital expenditures were \$4.1 million. In the first and second quarters we took delivery of two total field gravity systems for our fixed wing fleet. The total cost of these systems, including all acceptance testing was \$3.2 million. We committed to these systems in mid F2008 and took delivery of one in each of the first and second quarters of this fiscal year. These systems are quite important to our operating and strategic plans and our entry into gravity surveying has been immediately productive, as is evidenced by the fact that gravity surveys have accounted for approximately \$8.0 million of revenue in F2009.

#### 4.3 FINANCING ACTIVITIES

The bulk of the financing activities in Q4-F09 were the payments under our capital leases of \$0.1 million.

F09 financing activities included \$0.1 million of cash consumed in the purchase of our shares under our Normal Course Issuer Bid which was in place for most of the first quarter of fiscal 2009 (see Section 9 below). There was no share buyback activity in the most recent quarter and there has been none since the first quarter of F2009.

#### 4.4 CAPITAL RESOURCES

We have separate credit facilities and in place for our Canadian and Australian operations. At September 30, 2009, no amounts had been drawn on either facility.

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

#### 4.5 SUMMARY FINANCIAL POSITION

As of September 30, 2009, we had current assets of \$16.8 million and current liabilities of \$6.2 million. Net working capital was \$10.6 million, a decrease of \$5.7 million from September 30, 2008 and an increase of \$0.2 million from June 30, 2009.

#### SUMMARY CASH FLOW

(in thousands of Canadian dollars)	30-Sep-09	30-Jun-09	30-Sep-08	Change from June 30, 2009		Change from prior year-end	
Cash	\$ 6,146	\$ 8,001	\$ 15,373	(\$ 1,855)	(23%)	(\$ 9,227)	(60%)
Non-cash current assets	10,696	6,574	11,584	4,122	63%	(888)	(8%)
<b>Current assets</b>	<b>16,842</b>	<b>14,575</b>	<b>26,957</b>	<b>2,267</b>	<b>16%</b>	<b>(10,115)</b>	<b>(38%)</b>
Less: Current liabilities	6,238	4,198	10,626	2,040	49%	(4,388)	(41%)
<b>Net working capital</b>	<b>\$ 10,604</b>	<b>\$ 10,377</b>	<b>\$ 16,331</b>	<b>\$ 227</b>	<b>2%</b>	<b>(\$ 5,727)</b>	<b>(35%)</b>
Current ratio	2.7	3.5	2.5	(22%)		6%	

## 5 RISKS AND UNCERTAINTIES

### 5.1 FOREIGN CURRENCY EXCHANGE RISK

We record transactions and prepare our financial statements in Canadian dollars. For Q4-F09, we maintained operations in Canada, Australia, and the United States with business conducted in other countries as well. International operations are considered financially and operationally self-sustaining. Accordingly, the assets and liabilities of our foreign subsidiaries are translated into Canadian dollars at period end exchange rates. Revenue and expense items of our foreign subsidiaries are translated into Canadian dollars at monthly exchange rates.

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

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

While our foreign exchange policy does permit active hedging of any portion of our net foreign currency cash flow beyond the natural hedges identified and discussed above, no active hedges were employed in the quarter or the year. As a result, we do not employ any financial derivative products.

### 5.2 INTEREST RATE RISK

We did not have any interest bearing debt in either F2009 or F2008 and had positive cash balances during these periods. Interest rate volatility had minimal impact on our operations only to the extent that the interest rate received on our cash balances was negatively affected by the overall decline in interest rates in the Canada, Australia and the United States.

### 5.3 LITIGATION

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

On March 3, 2009, we announced that we had entered into an agreement with Geotech to settle the claim filed against us by Geotech, and to settle the counterclaim filed against Geotech by us. As part of the settlement, Geotech acknowledged that our helicopter-borne time domain electromagnetic systems (AeroTEM systems) do not use any confidential information of Geotech or any of their subsidiary companies. The settlement does not compromise any patent rights of Aeroquest or Geotech in any manner. We did not pay any sum of money to Geotech, nor did we agree to any restrictions on its operations as part of the settlement. The remaining terms of the settlement between the parties remain confidential.

In addition to the above, we are involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in our favour, we do not currently believe that the outcome of adverse decisions in any pending or threatened proceedings related to those or other matters or amount which may be required to pay by reason thereof would have a material adverse impact on our financial position, results of operations or liquidity.

## 6 OFF-BALANCE SHEET ARRANGEMENTS

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

## 7 TRANSACTIONS WITH RELATED PARTIES

For the three and twelve months ended September 30, 2009 and 2008, we did not make any payments to companies or any other parties related to our officers or directors.

## 8 ACQUISITION OF OPTIMAL GEOMATICS INC.

On July 29, 2009, we announced that we had entered into an Arrangement Agreement with Optimal Geomatics Inc. (TSX-V:OPG) whereby Optimal would be acquired by Aeroquest. Under the terms of the Arrangement Agreement, the proposed transaction would be effected by way of a Plan of Arrangement completed under the Canada Business Corporations Act. Optimal shareholders would receive 1 common share of Aeroquest for each 21 common shares of Optimal owned and would result in Aeroquest issuing approximately 2.9 million common shares to Optimal shareholders.

Closing of the transaction was conditional on the approval of Optimal shareholders and satisfaction of other customary conditions including stock exchange and court approvals which were satisfied in late September, 2009 with the closing occurring on September 30, 2009.

The acquisition has been accounted for under the purchase method of accounting and has been included in the balance sheet of the Company on September 30, 2009. 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 ('000s):	
Cash	\$ 529
Accounts receivable	2,269
Inventory	7
Work in progress	48
Prepays	267
Capital assets	400
Other assets	254
Accounts payable and accrued liabilities	(1,484)
Capital lease obligations	(247)
Deferred revenue	(192)
<b>Total net assets acquired, net of cash</b>	<b>\$ 1,322</b>
Consideration provided was a combination of shares of the Company along with cash expended in deal costs as follows:	
Acquisition costs	\$ 594
Less: Cash acquired	(529)
Cash cost of acquisition	65
Shares of Aeroquest International (2,923,130 shares @ \$0.43)	1,257
<b>Total Purchase Price</b>	<b>\$ 1,322</b>

## 9 CANCELLATION OF PROPOSED SPECTREM AIR TRANSACTION

On September 24, 2008 we announced that we had signed a non-binding letter of intent with Spectrem Air Limited ("Spectrem") a member of the Anglo American group of companies, one of the world's largest mining and natural resource groups, to create a long-term outsourcing arrangement whereby Spectrem would outsource substantially all of its current airborne geophysical surveying business to Aeroquest. Details of the letter of intent were outlined in the press release dated that same day, and in our year-end MD&A and audited financial statements.

Due to the extraordinary market conditions that have prevailed since the signing of the letter of intent, including reductions in commodity prices and corresponding reductions in exploration spending, both parties have agreed that the economic assumptions driving the transaction have fundamentally changed. As a result, we announced on February 4, 2009 that the parties mutually agreed to terminate the letter of intent. However, our relationship with Spectrem remains strong and we will continue to cooperate on business initiatives going forward as well as ongoing technology development around our AeroTEM™ technology.

## 10 SHARE CAPITAL

### 10.1 STOCK OPTION PLAN

At September 30, 2009, we had 36,616,440 Common Shares issued and outstanding and as at the same date the Common Share stock options held by directors, officers, employees, consultants, and brokers were as follows:

	Number of options	Exercise price	Expiry date
Issued options held by directors, officers and consultants under the Company Stock Option Plan	32,500	\$ 0.50	October 28, 2009
	10,000	\$ 2.00	October 28, 2009
	5,000	\$ 0.50	March 1, 2010
	15,000	\$ 2.00	June 30, 2010
	7,500	\$ 0.50	June 30, 2010
	250,000	\$ 0.50	February 9, 2011
	367,500	\$ 0.60	June 30, 2011
	3,000	\$ 0.75	October 3, 2011
	15,000	\$ 0.75	October 13, 2011
	165,000	\$ 2.34	September 30, 2012
	50,000	\$ 1.70	July 16, 2013
	417,333	\$ 0.42	January 18, 2014
	65,000	\$ 0.38	February 26, 2014
	628,000	\$ 0.45	August 4, 2014
<b>Total outstanding</b>	<b>2,030,833</b>	<b>\$ 0.68</b>	
<b>Total exercisable</b>	<b>1,008,500</b>	<b>\$ 0.80</b>	

### 10.2 RESTRICTED STOCK UNIT PLAN

At September 30, 2009 there were 539,998 RSU's outstanding. 225,000 RSU's were granted in the second quarter of 2009. No RSU's were converted to Common Shares in the quarter. However, 173,335 previously granted RSU's vested in the first quarter of 2009 and were converted to Common Shares (representing one third of the existing RSU's granted in 2006 and 2007).

### 10.3 NORMAL COURSE ISSUER BID

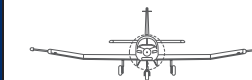
On December 13, 2007, we received approval from the TSX Venture Exchange for a Normal Course Issuer Bid whereby we were given the right to purchase up to 1,374,660 of our common shares on the open market.

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

In the first quarter of fiscal 2009, we purchased 75,000 shares for cancellation for a total consideration of \$0.1 million. The share capital value and outstanding shares have been adjusted to reflect this cancellation. The Normal Course Issuer Bid expired in December, 2008 and was not renewed.

## 11 INTERNAL CONTROLS AND DISCLOSURE CONTROLS & PROCEDURES

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



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

NI 52-109 also contains the requirements that we, on an annual basis:

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

In the first quarter of fiscal 2009, we engaged external advisors to assess the impact of these changes on our current evaluation of ICFR and disclosure control and procedures. As a result, our Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of our disclosure controls and procedures and internal control over financial reporting, and determined that they were effective as of September 30, 2009.

## 12 CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

### 12.1 ACCOUNTING POLICY CHANGES

On October 1, 2008, we adopted new Canadian accounting recommendations for goodwill and intangible assets. The new recommendations provide guidance on when expenditures qualify for recognition as intangible assets. Our results of operations were not materially affected by the new recommendations.

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

Also on October 1, 2007, we adopted new Canadian accounting standards for capital management that specifies the disclosure of an entity's objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements and the consequences of non-compliance.

On October 1, 2008, we adopted new CICA Handbook Section 1000, Financial Statement Concepts which was amended to focus on the capitalization of costs that truly meet the definition of an asset and de-emphasizes the matching principle. The results of operations of the Company were not materially affected by these new pronouncements.

### 12.2 FOREIGN ACCOUNTING STANDARDS

The results of operations of our subsidiary UTS Geophysics Pty Ltd. are prepared in accordance with Australian equivalents to International Reporting Standards (AIFRS) and then adjusted to Canadian GAAP standards for consolidation. Our Geophex Ltd. subsidiary results are reported under United States GAAP and are adjusted to Canadian GAAP standards for consolidation.

### 12.3 USE OF ESTIMATES

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

#### BAD DEBT EXPENSE

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

#### FOREIGN CURRENCY TRANSLATION

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

Foreign currency accounts are translated into Canadian dollars as follows:

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

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

#### GOODWILL AND INTANGIBLE ASSETS

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

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

Amortization is recorded on a straight line basis over the estimated useful life of the assets. Customer relationships and technology are amortized over seven years, sales backlog is amortized over one year and any trade names are not amortized until a decision is made to phase out the trade name at which point in time a fair value assessment of the name is performed.



### INCENTIVE COMPENSATION

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

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

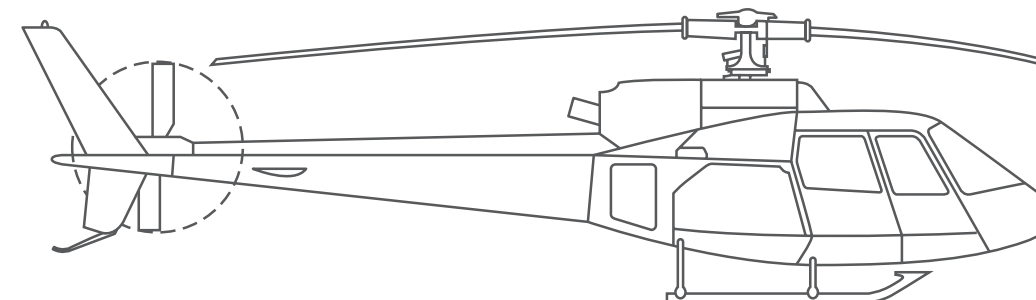
### 12.4 INTERNATIONAL FINANCIAL REPORTING STANDARDS ('IFRS')

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

There are several phases to that we 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 our underlying financial systems and processes that are necessary for the Company to changeover to IFRS.

We have engaged third party consultants to assist in this process. As of September 30, 2009, we have completed the initial impact assessment and have begun work on the key elements phase. However, we are not yet in a position to quantify the result (if any) of this study but will continue to report on this process in subsequent MD&A.



## Audited Consolidated Financial Statements

For the years ended September 30, 2009 and 2008

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## AUDITORS' REPORT

To the Shareholders of Aeroquest International Limited

We have audited the consolidated balance sheets of Aeroquest International Limited as at September 30, 2009 and September 30, 2008 and the consolidated statements of operations, retained earnings / (deficit), comprehensive income, cash flow and shareholders' equity for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2009 and September 30, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO Dunwoody LLP"

Chartered Accountants. Licensed Public Accountants

Toronto, Ontario  
December 9, 2009

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

## CONSOLIDATED BALANCE SHEETS

	As at	Sep. 30, 09	Sep. 30, 08
<b>Assets</b>			
Current			
Cash and cash equivalents (Note 1)		\$ 6,145,782	\$ 15,373,132
Accounts receivable		5,870,328	8,640,293
Income taxes recoverable		2,196,916	–
Unbilled contracts in progress		723,008	2,169,861
Inventory		342,012	132,853
Prepaid expenses and deposits		1,564,357	640,875
<b>Total current assets</b>		<b>16,842,403</b>	<b>26,957,014</b>
Long term			
Long term investments		99,521	30,501
Capital assets (Note 2)		12,426,652	10,890,000
Intangible assets (Note 3)		16,275,187	19,847,842
Goodwill (Notes 4, 5)		11,408,513	11,662,115
Future income taxes (Note 10)		687,907	152,584
<b>Total long term assets</b>		<b>40,897,780</b>	<b>42,583,042</b>
<b>Total Assets</b>		<b>57,740,183</b>	<b>\$ 69,540,056</b>
<b>Liabilities and Shareholders' Equity</b>			
Current			
Accounts payable and accrued liabilities		\$ 4,783,426	\$ 5,946,706
Income taxes payable		–	1,083,701
Deferred revenue		910,429	3,274,382
Capital lease obligations (Note 7)		543,874	321,426
<b>Total current liabilities</b>		<b>6,237,729</b>	<b>10,626,215</b>
Long term			
Capital lease obligations (Note 7)		223,815	469,575
Future income taxes (Note 10)		5,113,055	6,640,227
<b>Total liabilities</b>		<b>11,574,599</b>	<b>17,736,017</b>
Shareholders' equity			
Share capital (Note 9)		48,084,479	46,506,445
Contributed surplus (Note 9)		2,479,824	2,411,281
Accumulated other comprehensive income (loss)		1,490,428	(1,794,758)
Retained earnings/(deficit)		(5,889,147)	4,681,071
<b>Total shareholders' equity</b>		<b>46,165,584</b>	<b>51,804,039</b>
<b>Total Liabilities and Shareholders' Equity</b>		<b>\$ 57,740,183</b>	<b>\$ 69,540,056</b>

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

On behalf of the board:

Roy T. Graydon, Director

John Barker, Director

## CONSOLIDATED STATEMENTS OF OPERATIONS

	For the years ending	Sep. 30, 09	Sep. 30, 08
<b>Sales</b>		<b>\$ 28,011,967</b>	\$ 55,045,575
Cost of sales		20,338,937	34,350,797
<b>Gross profit</b>		<b>7,673,030</b>	20,694,778
Expenses and other items			
General and administrative		11,844,837	9,521,985
Foreign exchange (gain)/loss		(231,968)	(1,058,633)
Stock based compensation expense		456,437	959,792
Amortization of intangible assets		3,492,777	4,035,412
Impairment of goodwill and intangible assets		2,879,936	—
Depreciation of capital assets		3,899,812	2,813,564
<b>Total operating expenses</b>		<b>22,341,831</b>	16,272,120
<b>Operating profit/(loss)</b>		<b>(14,668,801)</b>	4,422,658
Other costs (income)		(67,668)	(84,389)
Interest Income		(59,101)	(453,756)
Interest Expense		—	314,079
<b>Income/(loss) before income taxes</b>		<b>(14,542,032)</b>	4,646,724
Income taxes (Note 10)			
Current		(1,488,221)	3,173,394
Future (recovery)		(2,431,507)	(1,369,775)
<b>Total income tax</b>		<b>(3,919,728)</b>	1,803,619
<b>Net income/(loss) for the period</b>		<b>\$ (10,622,304)</b>	\$ 2,843,105
Earnings/(loss) per share (Note 11)			
Basic		(\$ 0.32)	\$ 0.09
Diluted		(\$ 0.31)	\$ 0.09

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 years ending	Sep. 30, 09	Sep. 30, 08
Retained earnings (deficit), beginning of period		\$ 4,681,071	\$ 2,758,967
Excess of purchase price over cost on redemption of shares (Note 9)		52,086	(921,001)
Net income/(loss)		(10,622,304)	2,843,105
<b>Retained earnings, end of period</b>		<b>\$ (5,889,147)</b>	\$ 4,681,071

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

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ending	Sep. 30, 09	Sep. 30, 08
Net Income/(loss) for the period		\$ (10,622,304)	\$ 2,843,105
Revaluation of long term investments to fair market value (Net of tax \$7,818, 2008 - \$21,420)		15,176	(38,080)
Unrealized gain(loss) on translation of self-sustaining foreign operations		3,270,010	(1,219,403)
<b>Total Other Comprehensive Income (loss)</b>		<b>\$ 3,285,186</b>	\$ (1,257,483)
<b>Total Comprehensive Income (loss)</b>		<b>\$ (7,337,118)</b>	\$ 1,585,622
Accumulated Other Comprehensive Income (loss):			
Revaluation of long term investments to fair market value		\$ 24,096	\$ 8,920
Unrealized gain(loss) on translation of self-sustaining foreign operations		1,466,332	(1,803,678)
<b>Total Accumulated Other Comprehensive Income (loss)</b>		<b>\$ 1,490,428</b>	\$ (1,794,758)

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

## CONSOLIDATED STATEMENTS OF CASH FLOW

	For the years ending	Sep. 30, 09	Sep. 30, 08
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net income/(loss) for the period		\$ (10,622,304)	\$ 2,843,105
Operating items not requiring cash			
Amortization of intangible assets		3,492,777	4,035,412
Impairment of goodwill and intangible assets		2,879,936	
Depreciation of capital assets		3,899,812	2,813,564
Future income taxes		(2,431,507)	(1,369,775)
Interest accretion on promissory notes		—	221,213
Stock based compensation		456,437	959,792
Loss on disposal of capital assets		—	50,639
<b>Operating cash flow before changes in non-cash working capital</b>		<b>(2,324,849)</b>	<b>9,553,950</b>
Changes in non cash working capital		(2,348,909)	(1,648,864)
<b>Total cash flow from operating activities</b>		<b>(4,673,758)</b>	<b>7,905,086</b>
<b>Investing activities</b>			
Capital asset purchases		(4,149,488)	(7,073,194)
Proceeds from sale of capital assets		—	588,980
Long-term investments acquired		(53,844)	—
Cash cost of acquisitions (Notes 4a & 4b)		(65,407)	(2,157,641)
<b>Total cash flow from investing activities</b>		<b>(4,268,739)</b>	<b>(8,641,855)</b>
<b>Financing activities</b>			
Promissory note payments		—	(5,337,600)
Capital lease payments		(270,133)	(301,448)
Aeroquest shares redeemed		(56,815)	(3,297,975)
Proceeds: issuance of common shares		42,095	19,648,147
<b>Total cash flow from financing activities</b>		<b>(284,853)</b>	<b>10,711,124</b>
Net change in cash and cash equivalents for the period		\$ (9,227,350)	\$ 9,974,355
<b>Cash and cash equivalents, beginning of period</b>		<b>15,373,132</b>	<b>5,398,777</b>
<b>Cash and cash equivalents, end of period</b>		<b>\$ 6,145,782</b>	<b>\$ 15,373,132</b>
Cash		\$ 6,145,782	\$ 13,665,898
Cash Equivalents		—	\$ 1,707,234

Supplementary Information (Note 15)

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

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

## 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, 08	\$ 46,506,445	\$ 2,411,281	\$ 4,681,071	\$ (1,794,758)	\$ 51,804,039
Aeroquest shares purchased for cancellation	(104,240)	(4,661)	52,086		(56,815)
Issuance of common shares on acquisition	1,256,946				1,256,946
Share issuances pursuant to restricted stock unit vesting	368,503	(368,503)			—
Share issuances pursuant to stock options exercised	56,825	(14,730)			42,095
Net loss for the period			(10,622,304)		(10,622,304)
Stock based compensation expense		456,437			456,437
Unrealized gain (loss) on translation of self sustaining foreign operations				3,270,010	3,270,010
Revaluation of long term investments to fair market value				15,176	15,176
<b>Balance Sep. 30, 09</b>	<b>\$ 48,084,479</b>	<b>\$ 2,479,824</b>	<b>\$ (5,889,147)</b>	<b>\$ 1,490,428</b>	<b>\$ 46,165,584</b>

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

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

September 30, 2009 and 2008

### 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 ("UTS"), Aeroquest (UK) Limited and Aerokaz LLP are engaged in the operation of providing airborne geophysical services to the mining, oil & gas, environmental and geologic engineering industries as well as government agencies worldwide.

The Company acquired 100% of the voting shares of UTS Geophysics on July 3, 2007. UTS Geophysics is incorporated in Australia and has been in operation since 1992. Its head office is located at Perth Airport, Western Australia. On December 31, 2007, the Company acquired 100% of the voting shares of Geophex Ltd. Geophex manufactures and sells primarily ground-based geophysical instruments, and also supplies institutions and private entities with specialized survey equipment on a contract-to-build basis. Geophex has established a particular expertise in special and customized geophysical investigations, especially as it relates to environmental projects. On September 30, 2009, the Company acquired 100% of the voting shares of Optimal Geomatics Inc., 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.

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 Geophysics ("UTS"), Aeroquest (UK) Limited, Geophex Limited, 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 per cent of the established per kilometer survey rate for every kilometer actually flown and accepted during the survey. The final five percent of survey revenue is recognized upon completion and shipment of the final report to the customer.

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

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

In all cases, revenue is recognized only when the amounts are fixed and determinable and when the Company can be reasonably assured of collection. Unbilled contracts in process represent the difference between revenue recognized on a percentage completion basis for contracts in process and that billed on the contract.

### FOREIGN CURRENCY TRANSLATION

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

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

### CASH AND CASH EQUIVALENTS

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

### INVENTORIES

Inventories are valued at the lower of cost, determined on a first-in, first-out basis, and 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 removed 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:

<b>Airborne and geophysical equipment</b>	30% diminishing balance
<b>Automotive equipment</b>	30% diminishing balance
<b>Data processing equipment</b>	30% diminishing balance
<b>Office equipment</b>	20% diminishing balance
<b>Leasehold improvements</b>	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.

**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:

<b>Customer relationships</b>	7 years
<b>Technology</b>	7 years
<b>Sales backlog</b>	1 year
<b>Trade name</b>	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 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 offset against the related expenses and recognized when there is reasonable assurance that the credits will be realized.

**INCOME TAXES**

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

**STOCK BASED COMPENSATION**

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

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

**FINANCIAL INSTRUMENTS**

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 measured on the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and recognition of the changes in fair value of financial instruments depends upon their initial classifications, as follows:

**Held-for-trading Financial Assets** – are measured at fair value with subsequent changes in fair value recognized in current period net income;

**Held-to-maturity Assets, Loans and Receivables and other Financial Liabilities** – are initially measured at fair value and subsequently measured at amortized cost with changes recognized in current period net income;

**Available-for-sale Financial Assets** – are measured at fair value with subsequent gains and losses included in other comprehensive income until the asset is removed from the balance sheets; and

**Derivative Financial Instruments** – are classified as held-for-trading financial instruments and measured at fair value, with respect to gains and losses in the current period income.

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

**CHANGES IN ACCOUNTING POLICIES**

On October 1, 2007, the Company adopted new Canadian accounting standards for financial instruments disclosures and presentation, sections 3862 and 3863, which require the Company to increase disclosure on the nature, extent and risk arising from the financial instruments and how the entity manages those risks (Note 17).

On October 1, 2007, the Company adopted new Canadian accounting standards for capital management which specifies the disclosure of an entity's objectives, policies and procedures for managing capital, quantitative data about what it manages as capital, any externally imposed capital requirements and the consequences of non-compliance (Note 18).

In February 2008, the CICA issued Section 3064, Goodwill and intangible assets, replacing Section 3062, Goodwill and other intangible assets and Section 3450, Research and development costs. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The new Section is applicable to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. The results of operations of the Company were not materially affected by these new pronouncements.

CICA Handbook Section 1000, Financial Statement Concepts has been amended to focus on the capitalization of costs that truly meet the definition of an asset and de-emphasizes the matching principle. The revised requirements are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The results of operations of the Company were not materially affected by these new pronouncements.

## 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 to 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.

**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.

## 1. CASH AND CASH EQUIVALENTS

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

	Sep. 30, 2009	Sep. 30, 2008
Canadian Dollars	\$ 5,356,746	\$ 11,359,010
United States Dollars	1,043,337	2,432,422
Australian Dollars	(349,851)	1,712,616
Kazakhstan Tenge	21,129	245,488

## 2. CAPITAL ASSETS

	Sep. 30, 2009			Sep. 30, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$ 18,816,434	\$ 8,502,819	\$ 10,313,615	\$ 8,985,883
Automotive equipment	631,878	425,095	206,783	290,832
Data processing equipment	733,926	423,485	310,441	310,926
Leasehold improvements	339,183	146,642	192,541	266,546
Office equipment	894,416	341,735	552,681	614,692
Data libraries	336,228	—	336,228	—
Equipment in process	514,363	—	514,363	421,121
	\$ 22,226,428	\$ 9,839,776	\$ 12,426,652	\$ 10,890,000

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:

	Sep. 30, 2009			Sep. 30, 2008
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Airborne and geophysical equipment	\$ 1,642,777	\$ 910,399	\$ 732,378	\$ 904,198
Office equipment	377,190	—	377,190	—
	\$ 2,019,967	\$ 910,399	\$ 1,109,568	\$ 904,198

Depreciation for assets under capital lease was \$194,109 and \$330,886 for September 30, 2009 and 2008 respectively.

### 3. 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		Sep. 30, 2009				Sep. 30, 2008
Intangible Asset	Amort. Period (Years)	Cost	Accumulated Depreciation	Impairment Charge	Net Book Value	Net Book Value
Customer relationships	7	\$ 13,171,389	\$ 4,233,661	\$ —	\$ 8,937,728	\$ 9,753,913
Technology	7	6,183,937	1,987,694	—	4,196,243	4,579,440
Sales backlog	1	937,087	937,087	—	—	—
Trade name	1.17	1,851,215	264,459	1,396,756	190,000	1,668,916
		<b>\$ 22,143,628</b>	<b>\$ 7,422,901</b>	<b>\$ 1,396,756</b>	<b>\$ 13,323,972</b>	<b>\$ 16,002,269</b>

On August 5, 2009, the Company decided to phase out the UTS tradename. This change necessitated an impairment test for goodwill and intangible assets at that date. The result was an impairment charge to the trade name of \$1,396,756. The balance of the trade name will be amortized to income and fully expensed by September 30, 2010.

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. During the year, an assessment of the fair value of the goodwill and intangible assets was performed (see Note 5). The result of this analysis was an impairment to the trade name of \$289,065 which has been charged to earnings. The balance of the trade name remains with an indefinite life.

Geophex		Sep. 30, 2009				Sep. 30, 2008
Intangible Asset	Amort. Period (Years)	Cost	Accumulated Depreciation	Impairment Charge	Net Book Value	Net Book Value
Customer relationships	7	\$ 2,484,223	\$ 621,066	\$ —	\$ 1,863,157	\$ 2,204,591
Technology	7	972,087	243,022	—	729,065	862,666
Sales backlog	1	540,048	540,048	—	—	134,192
Trade name	indefinite	648,058	—	289,065	358,993	644,124
		<b>\$ 4,644,416</b>	<b>\$ 1,404,136</b>	<b>\$ 289,065</b>	<b>\$ 2,951,215</b>	<b>\$ 3,845,573</b>

Consolidated intangible assets are comprised of the following:

Consolidated		Sep. 30, 2009				Sep. 30, 2008
Intangible Asset	Amort. Period (Years)	Cost	Accumulated Depreciation	Impairment Charge	Net Book Value	Net Book Value
Customer relationships	7	\$ 15,565,612	\$ 4,854,717	\$ —	\$ 10,800,895	\$ 11,958,504
Technology	7	7,156,024	2,230,716	—	4,925,308	5,442,106
Sales backlog	1	1,477,135	1,477,135	—	—	134,192
Trade name	varies	2,499,273	264,459	1,685,821	548,994	2,313,040
		<b>\$ 26,788,044</b>	<b>\$ 8,827,027</b>	<b>\$ 1,685,821</b>	<b>\$ 16,275,187</b>	<b>\$ 19,847,842</b>

### 4. BUSINESS ACQUISITIONS

a) On September 30, 2009, the Company acquired 100% of the outstanding share capital of Optimal Geomatics Inc. for a total consideration of CAD\$1,322,353 which includes direct costs related to the acquisition of \$594,847. The total consideration paid is made up of the following:

Acquisition costs	\$ 594,847
Less: Cash acquired	(529,440)
Cash cost of acquisition	65,407
Shares of Aeroquest International (2,923,130 shares @ \$0.43)	1,256,946
<b>Total Purchase Price</b>	<b>\$ 1,322,353</b>

The acquisition has been accounted for under the purchase method of accounting and has been included in the consolidated balance sheet of the Company on September 30, 2009. The details of the fair value of net assets acquired, in Canadian dollars, are as follows:

Net Assets Acquired at Fair Values:	
Cash	\$ 529,440
Accounts receivable	2,269,024
Inventory	7,271
Work in progress	47,562
Prepays	266,847
Capital assets	400,299
Other assets	254,043
Accounts payable and accrued liabilities	(1,483,578)
Capital lease obligations	(246,821)
Deferred revenue	(192,294)
<b>Total net assets acquired, net of cash</b>	<b>\$ 1,322,353</b>

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

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

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

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

## 5. GOODWILL

	Sep. 30, 2009	Sep. 30, 2008
Goodwill, beginning of year	\$ 11,662,115	\$ 8,965,370
Acquisitions	—	3,011,203
Adjustments to purchase price	—	(241,883)
Impairments	(1,194,115)	
Foreign currency translation gain (loss)	940,513	(72,575)
<b>Goodwill, end of year</b>	<b>\$ 11,408,513</b>	<b>\$ 11,662,115</b>

During the year ended September 30, 2009, the Company recorded an impairment charge to goodwill of \$1,194,115 related to the acquisition of Geophex Limited on December 31, 2007. The fair value of this reporting unit declined due to a decline in operating results and lower future profit expectations. Goodwill as of September 30, 2009 is comprised of \$2,057,274 attributable to Geophex (which includes \$19,745 in foreign currency translation gain and an impairment charge of \$1,194,115 recognized in the year), and \$9,350,239 attributable to UTS (which includes \$920,770 in foreign currency translation gains recognized in the year).

## 6. PROMISSORY NOTES

- a) As part of the acquisition of UTS on July 3, 2007, the Company entered into unsecured subordinated promissory note agreements with the vendors for a total value of \$3,355,000. The promissory notes were non-interest bearing for the first year and then bore 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 were to mature on June 30, 2011 and called for principal payments of \$838,750 on June 30 2008 and each year thereafter until June 30, 2011.

The notes had been discounted at a rate of 10% to \$3,057,354 as of September 30, 2007 which represented the fair value of the notes at the date of acquisition. The company had covenanted that it would 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 would go to repay the latest scheduled principal payment outstanding. Included in the balance was \$2,488,168 due to related parties.

These notes were paid in full in February 2008. In that year, interest accretion of \$221,213 was recognized in interest expense.

- b) As part of the acquisition of Geophex Ltd. on December 31, 2007, the company entered into an unsecured promissory note agreement with the vendor. The promissory note was for USD \$2,000,000 due July 1, 2008 with interest calculated at 7.5% per annum. This promissory note was paid in full in March 2008 with accrued interest of \$27,030.

## 7. CAPITAL LEASE OBLIGATIONS

Finance leases are established for the purchase of capital assets with terms ranging from 1 to 5 years. The lease obligations are capitalized at the lease inception at the lower of fair value of the leased property and the present value of the minimum lease payments. The weighted average interest rate implicit in the leases is 7.60% (2008 – 7.81%).

Commitments in relation to capital leases are payable as follows:

	Sep. 30, 2009	Sep. 30, 2008
Within one year	\$ 582,363	\$ 372,208
Later than one year but not later than five years	228,393	499,777
Minimum lease payments	810,756	871,985
Future finance charges	(43,067)	(80,984)
Recognized as a liability	\$ 767,689	\$ 791,001
<b>Representing Capital Lease Obligations</b>		
Current	543,874	321,426
Long term	223,815	469,575
	<b>\$ 767,689</b>	<b>\$ 791,001</b>

All of the long term capital lease obligation will be fully settled before September 30, 2011.

## 8. 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 October 2009, 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	\$ 1,062,000
2011	791,000
2012	547,000
2013	319,000
2014	223,000
Thereafter	70,662
	<b>\$ 3,013,000</b>

## 9. SHARE CAPITAL

### A. AUTHORIZED

Unlimited number of voting common shares.

### B. ISSUED AND OUTSTANDING

	Sep. 30, 2009		Sep. 30, 2008	
	Qty	Amount	Qty	Amount
Share capital, opening	33,514,974	\$ 46,506,445	27,310,273	\$ 27,403,594
Shares issued on exercise of stock options	80,001	56,825	119,832	169,040
Shares issued on vesting of RSU's	173,335	368,503	30,001	22,500
Issuance of common shares for cash	—	—	6,666,667	20,000,000
Issuance of common shares from exercise of broker warrants	—	—	374,168	968,031
Issuance of common shares from exercise of retail warrants	—	—	109,650	268,643
Issuance of common shares on acquisition (Note 4)	2,923,130	1,256,946	585,883	1,962,708
Costs associated with equity issue	—	—	—	(2,004,382)
Shares redeemed	(75,000)	(104,240)	(1,681,500)	(2,283,689)
Share capital, closing	36,616,440	\$ 48,084,479	33,514,974	\$ 46,506,445

A total of 80,001 common shares were issued in the year upon the exercise of employee stock options generating cash proceeds of \$42,095. For the year ended September 30, 2008 a total of 119,832 common shares were issued upon the exercise of employee stock options generating cash proceeds of \$125,455. See note 9(d) for further details.

A total of 173,335 common shares were issued in the year ended September 30, 2009 (30,001 common shares for the year ended September 30, 2008) under the restricted stock unit plan. These shares represent the vesting of restricted stock units upon the anniversary date. No cash proceeds were received. See note 9(e) for further details.

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

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

In the year ended September 30, 2008, a total of 109,650 common shares were issued upon the exercise of the retail warrants generating cash proceeds of \$268,643. Also in the year, a total of 374,168 common shares were issued upon the exercise of the broker warrants generating cash proceeds of \$729,629. See note 9(c) for further details on the share purchase warrants.

Common shares were issued in connection with the acquisition of Optimal Geomatics Inc. on September 30, 2009. 2,923,130 common shares were issued at an ascribed value of \$0.43 for a total value of \$1,256,946 based on a reasonable period of time surrounding the announcement date of the transaction. Common shares were issued in connection with the acquisition of Geophex Ltd. on December 31, 2007; 585,883 common shares at an ascribed value of \$3.35 for a total value of \$1,962,708 based on a reasonable period of time surrounding the announcement date.

For the year ended September 30, 2009, the Company redeemed 75,000 shares under its Normal Course Issuer bid for cash consideration of \$56,815. A total of \$104,240 is allocated to share capital, \$4,661 to contributed surplus and (\$52,086) to retained earnings. For the year ended September 30, 2008, the Company redeemed 1,681,500 shares for a total consideration of \$3,297,975 of which \$2,283,689 is allocated to share capital, \$93,285 to contributed surplus and \$921,001 to retained earnings.

### C. SHARE PURCHASE WARRANTS

Warrants issued in the year ending September 30, 2007 were issued in connection with a private placement of subscription receipt units and are exercisable at the holder's option. Warrants at an exercise price of \$2.45 have an acceleration clause that entitles the Company to force exercise of the warrants if the stock price on the TSX Venture Exchange equals or exceeds \$3.50 for a period of 20 consecutive trading days beginning November 3, 2007. There are no conditions whereby the Company would have to settle the warrants in cash. The warrants issued to the brokers on the equity offering of 450,000 have a value of \$270,000 which is included in the cost associated with the equity offering. The retail warrants remain attached to the common shares issued as part of the offering until such time that they are exercised.

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

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

In the year ended September 30, 2008, 109,650 retail warrants were exercised at a price of \$2.45 yielding \$268,643. 374,168 broker warrants were exercised at a price of \$1.95 yielding \$729,629. At September 30, 2008 a total of 2,140,350 retail warrants and 75,832 broker warrants remained outstanding. There were no transactions related to these warrants in the year and thus all remaining broker and retail warrants expired on May 29, 2009.

	Sep. 30, 2009 Qty	Sep. 30, 2008 Qty
Broker Warrants, Opening Balance	75,832	450,000
Exercised	—	(374,168)
Expired	(75,832)	—
Broker Warrants, ending balance	—	75,832
Retail Warrants, Opening Balance	2,140,350	2,250,000
Exercised	—	(109,650)
Expired	(2,140,350)	—
Retail Warrants, ending balance	—	2,140,350

**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 over a three year period with one-third vesting on the grant date and two-thirds vesting over the following two years on the anniversary of the grant date.

The following table reflects the continuity of employee stock options granted under the stock option plan for the twelve month periods ending September 30, 2009 and 2008. A total of 1,228,168 stock options remain available in the pool at September 30, 2009.

	Number of Options	Weighted Avg. Exercise Price
Outstanding Sep 30, 2007	975,000	\$ 0.65
Options granted	390,000	2.52
Options exercised	(119,832)	1.39
Options expired	(95,668)	2.90
<b>Total outstanding Sep. 30, 2008</b>	<b>1,149,500</b>	<b>\$ 1.06</b>
Options granted	1,185,000	0.43
Options exercised	(80,001)	0.53
Options expired	(223,666)	1.22
<b>Total outstanding Sep. 30, 2009</b>	<b>2,030,833</b>	<b>\$ 0.68</b>
<b>Total exercisable Sep. 30, 2009</b>	<b>1,008,500</b>	<b>\$ 0.80</b>

The fair value of stock options granted in fiscal 2009 and 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	\$ 0.38 - \$ 3.15
Exercise price	\$ 0.38 - \$ 3.15
Expected life of options	3 years
Expected stock price volatility	70%
Expected dividend yield	—
Risk free interest rate	4%

The weighted average grant date fair value of options granted in the year was \$0.24.

**E. RESTRICTED STOCK UNIT PLAN**

The Company has a Restricted Stock Unit (RSU) plan under which the directors of the Company may grant RSU units of the Company to qualified directors, officers, employees and persons providing ongoing services to the Company. The strike price of these units will not be less than the market price of the common shares at the time of the grant. The units vest over a three year period with one third vesting in each of the three years on the anniversary date of the grant. Unit holders receive common shares upon vesting.

The following table reflects the continuity of restricted stock units granted under the RSU plan and remain not vested for the twelve month period ending September 30, 2009 and 2008.

	Number of Options	Weighted Avg. Exercise Price
Outstanding, Sep 30, 2007	110,000	\$ 0.75
Granted	450,000	2.34
Vested	(30,001)	0.75
Expired	(33,332)	0.75
<b>Total Outstanding Sep. 30, 2008</b>	<b>496,667</b>	<b>\$ 2.29</b>
Granted	225,000	0.41
Vested	(173,335)	2.26
Expired	(8,333)	2.34
<b>Total Outstanding, Sep. 30, 2009</b>	<b>539,999</b>	<b>\$ 1.47</b>

**F. CONTRIBUTED SURPLUS**

	Sep. 30, 2009	Sep. 30, 2008
Contributed surplus, beginning of year	\$ 2,411,281	\$ 1,320,461
Stock option expense	122,880	303,792
Restricted stock unit expense	333,557	656,000
Redemption of shares	(4,661)	(93,285)
Exercise of stock options and RSU's	(383,233)	(66,085)
Grant of compensation options (400,000 @ \$1.322)(i)	—	528,800
Exercise of broker warrants (374,168 @ \$0.60)	—	(238,402)
<b>Contributed surplus, end of year</b>	<b>\$ 2,479,824</b>	<b>\$ 2,411,281</b>

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

## 10. INCOME TAXES

	Sep. 30, 2009	Sep. 30, 2008
Income/(loss) before income taxes	\$ (14,542,032)	\$ 4,646,724
Statutory income tax rate	33.13%	34.16%
Computed income tax payable	\$ (4,817,775)	1,587,321
Non deductible/non-taxable items	604,727	594,485
Other	144,652	19,190
Loss carry forward utilized	—	(65,042)
Prior year ITC's	—	(40,157)
Lower tax rate in foreign jurisdiction	148,667	(292,178)
Income taxes	\$ (3,919,728)	\$ 1,803,619

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

Future Taxes	Sep. 30, 2009	Sep. 30, 2008
Capital Assets	\$ 14,759	\$ (473,134)
Financing Fees	—	7,814
Other Comprehensive Income	(11,423)	(3,605)
CMT	101,625	23,905
Acquisition Portion	(5,134,888)	(6,283,149)
Tax loss recognition	356,179	—
Accruals	331,709	152,584
Other	(83,109)	87,942
	\$ (4,425,148)	\$ (6,487,643)

Not included in the balances noted above are tax losses arising from Optimal Geomatics. Canadian tax loss carry-forwards totalling \$3,590,000 are available and expire as follows: \$787,000 on September 30, 2010; \$637,000 on September 30, 2013; \$1,584,000 on September 30, 2027; \$127,000 on September 30, 2028 and \$455,000 on September 30, 2029. United States tax losses totalling \$1,051,000 are available and expire September 30, 2029.

## 11. EARNINGS/(LOSS) PER SHARE

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

	Sep. 30, 2009	Sep. 30, 2008
Numerator		
Net income/(loss) for the period	\$ ( 10,622,304)	\$ 2,843,105
Denominator		
Average common shares outstanding	33,640,665	32,150,758
Diluted common shares outstanding	34,185,820	33,397,528
Basic earnings/(loss) per share	\$ (0.32)	\$ 0.09
Diluted/(loss) earnings per share	\$ (0.31)	\$ 0.09

## 12. SEGMENTED INFORMATION

For the year ended September 30, 2009 two customers each represented approximately 10% of revenue. For the year ended September 30, 2008, no one customer represented more than 10% of revenue.

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

Year ended September 30, 2009	Research & Development	Airborne Services	Total Consolidated
Revenue	\$ 2,352,643	\$ 25,659,324	\$ 28,011,967
Cost of Sales	947,619	19,391,318	20,338,937
Gross Margin	1,405,024	6,268,006	7,673,030
Operating Expenses	3,226,238	19,115,593	22,341,831
Income Taxes	(388,885)	(3,530,843)	(3,919,728)
Net Income	(1,432,429)	(9,189,875)	(10,622,304)
Total Capital Expenditures	3,534	4,145,954	4,149,488
Total Assets	\$ 4,440,044	\$ 53,300,139	\$ 57,740,183

Year ended September 30, 2008	Research & Development	Airborne Services	Total Consolidated
Revenue	\$ 1,981,268	\$ 53,064,307	\$ 55,045,575
Cost of Sales	779,885	33,570,912	34,350,797
Gross Margin	1,201,383	19,493,395	20,694,778
Operating Expenses	704,280	15,567,840	16,272,120
Income Taxes	170,840	1,632,779	1,803,619
Net Income	(408,539)	3,251,644	2,843,105
Total Capital Expenditures	\$ 4,000	7,069,194	7,073,194
Total Assets	\$ 6,751,061	\$ 62,788,995	\$ 69,540,056

Included in Research & Development segment revenue is intercompany R&D charges of \$721,631 and \$710,124 for the years ended September 30, 2009 and 2008 respectively. These charges were eliminated on consolidation.

## 13. GEOGRAPHIC SEGMENTS

The Company has operations in Canada, Australia and the United States. The Company conducts surveys around the world. Its operations in all markets have similar products, services and customer types as well as similar economic characteristics. Revenues from external customers are generated around the world and are attributed to one of three geographic segments. The following table outlines revenue by geographic segment for the years ended September 30, 2009 and 2008:

	Sep. 30, 2009	Sep. 30, 2008
Revenue		
Canada	\$ 4,274,572	\$ 21,028,000
Australia	4,748,635	10,325,000
International	18,988,760	23,692,575
Total Revenue	\$ 28,011,967	\$ 55,045,575

Goodwill is located in Australia and USA. All capital assets originate in Canada, Australia and the United States and are mobilized to the job sites around the world. Capital assets in Canada at September 30, 2009 amount to \$7.1 million, Australia \$5.0 million and USA \$0.5 million (September 30, 2008, Canada \$6.3 million, Australia \$4.4 million, United States \$0.2 million).

#### 14. RELATED PARTY TRANSACTIONS

In the years ended September 30, 2009 and 2008 there were no payments to companies owned by directors for management consulting services.

The Company entered into promissory notes with certain former directors as part of the financing of the UTS acquisition on July 3, 2007. The amount of the promissory notes to these two directors was \$2,488,168 and was paid in full in the year ended September 30, 2008.

#### 15. SUPPLEMENTARY CASH FLOW INFORMATION

	Sep. 30, 2009	Sep. 30, 2008
(a) Interest Paid	\$ 63,972	\$ 312,809
(b) Interest Received	48,154	413,209
(d) Income taxes paid (Refunded)	1,228,911	3,265,694
(e) Non cash transactions		
- Issuance of share capital and promissory notes on acquisition (Note 4)	1,256,946	3,945,308

#### 16. CREDIT FACILITIES

The Company has several operating facilities. In Canada, an operating facility is in place for Aeroquest Limited totalling \$2,000,000 bearing interest at prime plus 0.75%, and secured by accounts receivable and a general security agreement. At September 30, 2009 and 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 September 30, 2009 and 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 9.76% (2008 – 12.61%).

#### 17. 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:

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

As at September 30, 2009, the top five customers accounted for 35% of the Company's total accounts receivable and as of September 30, 2008, the top five customers accounted for 33% 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:

	Sep. 30, 2009		Sep. 30, 2008	
	\$	%	\$	%
Not Past Due	3,850,818	65.6%	3,583,730	41.5%
Past Due 0-30	472,704	8.1%	2,053,936	23.8%
Past Due 31-90	76,662	1.3%	2,497,559	28.9%
More than 90 days	1,626,348	27.7%	269,635	3.1%
Total trade receivables	6,026,532	102.7%	8,404,860	97.3%
Accrued receivables	653,933	11.1%	389,420	4.5%
Allowance for doubtful accounts	(810,137)	-13.8%	(153,987)	-1.8%
Total accounts receivable	5,870,328	100.0%	8,640,293	100.0%

- (b) **Interest Rate Risk:** While the company does have credit facilities in which it can draw upon (see Note 16) if required, the Company did not draw upon them at any time in the years ended September 30, 2009 or 2008. Any remaining interest bearing debt relates to obligation under capital leases, which is at a fixed interest rate.

- (c) **Foreign Currency Rate Risk:** While the Company's functional currency is the Canadian dollar, it does have significant transactions in United States and Australian dollars. Accordingly, the related financial assets and liabilities are subject to fluctuations in exchange rates and can have an effect on the Company's reported results. The Company manages its exposure to foreign currency fluctuations by maintaining foreign currency bank accounts and trade accounts receivable to offset foreign currency payables where possible. Management relies on the natural hedge created by this matching process and thus has chosen not to otherwise hedge its foreign exchange risk. The significant balances in foreign currencies are as follows:

	Sep. 30, 2009		Sep. 30, 2008	
	USD	AUD	USD	AUD
Cash and cash equivalents	\$ 1,043,000	\$ (349,900)	\$ 2,432,000	\$ 1,713,000
Accounts receivable	5,130,000	416,000	5,671,000	1,418,000
Accounts payable and accrued liabilities	(1,969,000)	(1,058,000)	(1,567,000)	(1,966,000)
Income taxes recoverable/(payable)	(163,000)	657,000	(169,000)	(2,268,000)
Capital lease obligations (current)		333,000		(437,000)
Capital lease obligations (long term)		185,000		(587,000)
Totals	\$ 4,041,000	\$ 183,100	\$ 6,367,000	\$ (2,127,000)

The translation impact to the Company of a 1 cent increase in the Canadian dollar versus the Australian dollar would have increased the net profit by \$4,800, whereas the impact versus the US dollar would have decreased the net profit by \$28,000 for the year ended September 30, 2009. Conversely, a 1 cent decrease in the Canadian dollar versus the Australian dollar would have decreased the net profit by \$11,000, whereas the impact versus the US dollar would have increased the net profit by \$66,000 for the year ended September 30, 2009.

- (d) **Liquidity Risk:** Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. As at September 30, 2009 the Company had a cash balance of \$6.1 million, \$5.9 million in accounts receivable and \$2.4 million in unused committed bank credit facilities to settle current liabilities of \$3.2 million (excluding deferred revenue of \$0.9 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.

## 18. CAPITAL MANAGEMENT

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

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

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

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

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