AeroMechanical Services – First Quarter 2011

FLYHT™

AeroMechanical Services Ltd.

TABLE OF CONTENTS

LETTER TO SHAREHOLDERS

The first quarter of 2011 saw AeroMechanical Services Ltd. ("AMA" or the "Company") achieve major initiatives in product development, finance and corporate communications.

First and foremost, we made substantial progress with development of the next generation Automated Flight Information Reporting System ("AFIRS"), the AFIRS™ 228. Since we repatriated the software development early in the year, the program has accelerated and we have achieved a number of major milestones. The 228 team has advanced development to the functioning stage and on May 16, 2011, a Limited Run Initial Production ("LRIP") unit performed a very successful demonstration flight on a Hawker Beechcraft 750 in Chester, England. The hardware and software performed without incident, successfully transmitting all data on the flight and meeting all specifications required by the potential client for the system. The demonstration also displayed the full emergency data-streaming capabilities from our FLYHTStream™ program.

The flight test was a significant milestone in the development of the 228. Its success validates our team's efforts and highlights the 228's capabilities to prospective and existing customers. The demonstration is the first step in completing the commercial roll-out of this product, planned for the third quarter of 2011. Meanwhile, we are proceeding with regulatory certification for safety services and expect the 228 to be fully certified for use in safety services by mid-2012.

The next step in the program is to complete the DO160 environmental testing to ensure the product does not disturb communication, navigation or flight control systems on host aircraft. These tests are planned for late July or early August and once complete, additional flight testing will be done to obtain the Supplemental Type Certificates ("STCs"), which are currently in hand or under development.

It is important to note that our current flagship product, AFIRS 220, passed these tests and will continue to be supplied to customers not requiring safety services messages, which is one of the key design features of the AFIRS 228. AFIRS 220 is still being marketed and it will remain in service for many years to come. AFIRS 228 supports the transmission over Iridium satellite systems of Safety Services messages - a defined set of communications between the aircraft and Air Traffic Control, which can directly or indirectly affect flight safety.

The unique design and commercial promise of AFIRS 228 led the federal government to grant AMA with a repayable investment of $1.96 million during the first quarter. The funding will assist AMA's continued development and certification of the 228. The award, which was made under Industry Canada's Strategic Aerospace and Defence Initiative, is to be repaid over the next 15 years. These funds will be received starting in the second quarter of 2011 for work completed to date on the AFIRS 228 program.

During the first quarter we also concluded the design, construction and commissioning of the Flight Tracking Operations Command Centre for the Nigerian Civil Aviation Authority ("NCAA"). AMA and the NCAA initiated the project in March 2010 as a one-time undertaking and it was executed on budget and on schedule. As we were completing the NCAA Command Centre, we began work on a similar facility, also in Nigeria but for a private enterprise. These installations demonstrate AMA's technological expertise, product development versatility and global project management skills. They also constitute a showcase to market such expertise to similar clients around the world, opening the door to exciting possibilities for the future.

As we expand AMA's global sales and marketing reach, we have also enhanced our corporate communications activities. During the first quarter we moved forward with a multifaceted initiative that began with a complete overhaul of our website. We also registered AMA accounts with Facebook, Twitter, Slideshare, YouTube and a company blog and news page. That was followed by the 2010 AMA Annual Report, which for the first time featured an extensive marketing section. We have also retained a Toronto-based investor relations firm to assist with shareholder communications and investor outreach activities.

LETTER TO SHAREHOLDERS (continued)

Financial Results

Results of the first quarter reflect the state of the economy in general and the aviation industry in particular. During the period, global financial markets remained weak and volatile. Air carriers saw some recovery of passenger traffic and cargo volumes, but not to pre-recession levels. As a result, airlines continued to demonstrate reluctance to commit to capital projects. Six AFIRS 220 units were delivered in the quarter and revenues from other services grew slightly.

In spite of these conditions, revenue during the three months ended March 31, 2011 increased by $79,569 or 7.6% over the first quarter of 2010 to $1.1 million. Of the Company's four sources of revenue, the largest increase was $85,850 in technical services, powered by the first phase of the second command and control centre in Nigeria. AFIRS installation revenue increased by $18,671, while parts revenue gained $14,774 due to higher sales of Underfloor Stowage Units.

There was a significant reduction in R&D expenditures in the first quarter, mainly because of the repatriation of core software development from an outside party. These savings are expected to continue through the finalization of the 228 program and will help to achieve the Company's near-term objective of generating positive cash flow as soon as possible.

AMA enters the second quarter with a strong financial position. As at March 31, 2011, the Company had modified working capital (net of non repayable customer deposits) of $4.8 million.

Outlook

Going forward, we expect AMA's growth to be fuelled by three main drivers: fuel costs, operations in remote areas and international carriers' need for Aircraft Communications Addressing and Reporting Systems ("ACARS") over Iridium.

The first is the high price of fuel, which typically comprises at least 25% of airline expenses. Our FLYHT Fuel Management System is a valuable productivity tool that offers a strong return on investment that increases as fuel prices rise.

A second growth driver originates with the fact that most AMA customers operate in regions with poor infrastructure, dated communications tools and difficult operating environments. Our products support those customers in many ways. In particular, they receive real-time information on the location and airworthiness of their aircraft, can communicate with the aircraft's crew via text messages or telephone and can even remotely configure AFIRS to provide different information at different intervals if required.

A third growth driver stems from a global push for aircraft operators to receive information provided by ACARS more frequently and reliably in areas with poor VHF radio coverage. One of the key benefits of the AFIRS 228 is that it can provide ACARS data in addition to all the other benefits offered by the system.

Moving forward, revenues should increase from fee-for-service consulting activities that deploy AMA's technological expertise in new ways. The successful completion of the Flight Tracking Operations Command Center in Nigeria powerfully demonstrates the ability of our engineers to develop solutions in new aviation-related areas. Such innovations convey the added benefit of diversifying the Company's revenue streams.

Revenue growth is derived from AMA's business model mainly by the sale and operation of AFIRS units. As AFIRS units are installed in customer aircraft, the Company benefits in two ways: the initial purchase of the hardware is typically paid in advance of shipping the kits, plus recurring revenues derived from Uptime data transmission from existing customers. The volume of recurring revenues is dependent on levels of aircraft usage. As the economy recovers, flight hours are expected to rise, with AMA's recurring revenues growing in tandem.

LETTER TO SHAREHOLDERS (continued)

At the end of the first quarter, AMA had a backlog of 113 AFIRS 220 units, not including business from China. These represent orders from customers who are delaying the final purchase and installation on aircraft because of slow business.

AMA's sales team is focused on three main sectors. First, the major airlines are increasingly expressing interest in the cost-saving technologies offered by AFIRS and its applications. Second, we are seeking out carriers in markets such as Africa, South America, the Middle East and Eastern Europe and Russia. Aircraft operators in these markets have not been as affected by the recession as the majors, and their capital investment resources are less diminished as a result. The third sector is Original Equipment Manufacturers ("OEM"). For AMA, partnerships with OEMs are the ideal arrangement because an AFIRS unit can be sold for every plane that rolls off the assembly line, and we are continuing our efforts to build relationships with manufacturers.

We see 2011 as an important year in which we will complete the final phase of the AFIRS 228 development amid a recovering aircraft industry. Meanwhile, the strengths and performance of the 220 will continue to provide reliable service to our customers for a long time. This combination of a leading-edge product and a high standard of service, form the main drivers that will expand our customer base, increase business volumes and build shareholder value.

As always, we thank our loyal shareholders for their investment, our board for their guidance and counsel, our employees for their innovative solutions and our customers for their business. It is AMA's timely and effective response to customers' demands that will broaden our opportunities in the global aviation services market and drive shareholder value in the future.

Bill Tempany
Chairman and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of May 25, 2011 and should be read in conjunction with the unaudited interim consolidated financial statements of AeroMechanical Services Ltd. ("AMA" or the "Company") for the three months ended March 31, 2011 and the accompanying notes. Additional information with respect to AMA can be found on SEDAR at www.sedar.com which is supplemental to the unaudited interim consolidated financial statements and notes for the three month period ended March 31, 2011. The Company has prepared its March 31, 2011 Condensed Consolidated Interim Financial Statements in accordance with IFRS1, First-Time Adoption of International Financial Reporting Standards ("IFRS" or "GAAP"), and with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow and capital expenditures. The Company's IFRS accounting policies are provided in Note 3 to the Interim Consolidated Financial Statements. In addition, Note 14 to the Interim Consolidated Financial Statements presents reconciliations between the Company's 2010 Canadian GAAP and the 2010 IFRS results. The reconciliations include: the Consolidated Statement of Financial Position as at January 1, 2010, March 31, 2010, and December 31, 2010 and the Consolidated Statement of Comprehensive Income for the three month period ended March 31, 2010 and the year ended December 31, 2010.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with generally accepted accounting principles ("GAAP"). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, loss before research and development ("R & D") and cash revenue. AMA defines working capital as current assets less current liabilities. The Company defines modified working capital as current assets less current liabilities not including customer deposits or the current portion of unearned revenue because those customer deposits are non-refundable. AMA defines cash revenue as financial statement revenue plus arrangement consideration received during the period that has not yet been recognized as revenue in the period due to the required revenue recognition criteria not yet being satisfied. Loss before R & D is defined as the net loss minus the direct costs associated with research and development. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

Forward-Looking Statements

This discussion includes certain statements that may be deemed "forward-looking statements" that are subject to risks and uncertainty. All statements, other than statements of historical facts included in this discussion, including, without limitation, those regarding the Company's financial position, business strategy, projected costs, future plans, projected revenues, objectives of management for future operations, the Company's ability to meet any repayment obligations, the use of non-GAAP financial measures, trends in the airline industry, the global financial outlook, expanding markets, research and development of next generation products and any government assistance in financing such developments, foreign exchange rate outlooks, new revenue streams and sales projections, cost increases as related to marketing, research and development (including AFIRS™ 228), administration expenses, and litigation matters, may be or include forward-looking statements. Although the Company believes the expectations expressed in such forward-looking statements are based on a number of reasonable assumptions regarding the Canadian, U.S., and global economic environments, local and foreign government policies/regulations and actions and assumptions made based upon discussions to date with the Company's customers and advisers, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in the forward-looking statements include production rates, timing for product deliveries and installations, Canadian, U.S., and foreign government activities, volatility of the aviation market for the Company's products and services, factors that result in significant and prolonged disruption of air travel worldwide, U.S. military activity, market prices, foreign exchange rates, continued availability of capital and financing and general economic, market, or business conditions in the aviation industry, worldwide political stability or any effect those may have on our customer base. Investors are cautioned that any such statements are not guarantees of future performance and that actual results or developments may differ materially from those projected in the forward-looking statements.

Although the Company believes 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. The Company cannot assure investors that actual results will be consistent with any forward-looking statements; accordingly, readers should not place undue reliance on forward-looking statements. The forward-looking statements contained herein are current only as of the date of this document. The Company disclaims 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.

Overview

AMA is a designer, developer and service provider of innovative solutions to the global aerospace industry and markets and sells under the brand name FLYHT™. The Company's solutions are designed to improve productivity and profitability of our customers and to ensure that the communications between terrestrial and airborne staff and assets are to the highest possible standard. Our tools also provide the ability to deliver large amounts of data on demand and initiated automatically if specific parameters are breached and detected on the aircraft, by manual selection by the air crew or commenced by authorized ground personnel, through our patent pending FLYHTStream™ product.

AFIRS™ UpTime™

AMA's automated flight information reporting system ("AFIRS") is installed on aircraft and monitors hundreds of essential functions from the plane and the black box. AFIRS sends that information to the UpTime Server on the ground, which stores and relays the data to the airline in real-time. Airlines can use this information to increase passenger safety, improve productivity, maximize efficiency and enhance profitability. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. AMA offers global satellite coverage, providing service to whoever needs it, when they need it, anywhere on the planet.

FLYHTStream™

For the first time in history, AMA developed and has patent pending technology to stream aircraft data in real-time. If an aircraft encounters an emergency, AMA's proven technology can automatically stream vital data, normally secured in the black box, and provide position information to designated sites on the ground in real-time. This technology opens new doors for increased awareness and safety in the industry.

FLYHT Fuel Management System

The FLYHT Fuel Management System is a powerful way to focus attention on areas of greatest savings potential automatically, and to provide the information necessary to make decisions about the operation. Most airlines currently rely on a system of reports, manually generated and analyzed to make fuel savings decisions within the operation. This is time consuming and relies on the user to calculate areas of potential by cross-referencing a great number of queries. The FLYHT Fuel Management System is not just a report generation tool, it is a dynamic, interactive application that answers key questions by generating alerts and providing the user with the ability to quickly identify trends. AMA designed this unique application that highlights exceptions to best practices, provides quick drill downs to spot root cause, and identifies trends. It is an intuitive tool that enables fuel managers to act on information instead of compiling and analyzing data.

The Fuel Management System is ideally suited for large commercial airlines and is designed to receive inputs from AFIRS, ACARS, Flight Planning Systems, Load Planning Systems, and Electronic Flight Bags (“EFB”).

FIRST

The Fuel Initiative Reporting System Tracker (“FIRST”) is a tool that eliminates uncertainty about the effectiveness of an airline’s fuel savings initiatives. FIRST can be purchased separately, as a standalone module from the FLYHT Fuel Management System. It uses real-time flight data acquired from the aircraft’s onboard systems, and presents the data to operations personnel in an easy to read dashboard. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. Where compliance has not been met, associated costs are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

Underfloor Stowage Unit

The Underfloor Stowage Unit offers the flight crew additional stowage space in the cockpit. With this addition, the manuals will always be within reach of the seated crew. When in use, the manuals are kept safe, dry and clean inside the Stowage Unit. In addition, safety equipment and other items required by the flight crew can be accessed any time throughout the flight without leaving the cockpit. The Stowage Unit is certified to be installed in Bombardier CRJ series, Challenger and DHC-8’s and can also be installed in other aircraft types.

AMA’s products and services are marketed globally by a team of several employees and agents based in Canada, the United States, the United Kingdom, Ireland, France, Switzerland, Abu Dhabi, Ireland and Argentina. A Calgary employee is currently spending more than 95% of his time working on opportunities in China.

Trends and Economic Factors

The Company continues to capitalize on the need for timely flight and sensor data from aircraft to ground operations and maintenance facilities.

During the first quarter, the Company continued to witness weakness across financial markets, resulting in continued volatility and uncertainty leading to reluctance for airlines to commit to capital projects. While the aviation industry has seen the slowdown in the demand reverse for air travel, (both business and vacation), it remains far from pre-recession levels. The modest increase in capital expenditures across the international aviation industry has resulted in customer payment or shipment for six kits. At the end of the first quarter AMA had a backlog of 113 pending shipments or units not yet activated, excluding units contracted by its Chinese customer. During the first quarter the Company continued to negotiate with potential customers, which have not yet resulted in executed contracts.

In addition, the Company continues to meet the needs of the aviation industry through the introduction of value-added information products and specialty services that can build customer value and AMA revenues from existing installations as well as new ones. Three areas of concentration continue to be the essential flight data recorder streaming, the fuel management program and related product enhancements, and fee-for-service consulting services. The Company views these initiatives as enhancing the value added to the industry and as strengthening the monthly recurring revenue base.

The continued strength of the Canadian dollar relative to the U.S. dollar during the first quarter of 2011 continues to negatively impact the Company’s revenues and income. As a result of these movements, the Company’s Canadian dollar revenues, which are substantially all denominated in U.S. dollars, were lower than they would have been had the foreign exchange rates not changed. While a significant amount of the Company’s costs are denominated in Canadian dollars, a significant portion of marketing and part costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2011

Revenue

The Summary of Quarterly Results Table (page 11) outlines the quarterly installation kits, recurring voice and data, miscellaneous parts, and technical services. The Company's long term investment in marketing and relationship building has created a strong pipeline of prospective clients around the world. The ongoing revenue streams from our existing client base is expected to continue to expand throughout this and future years. Installation delays associated with customers' decisions to install AFIRS during heavy maintenance continue to delay revenue recognition, but they represent captive long-term recurring revenue.

The Company has two types of revenue streams relating to AFIRS equipment depending on the type of service agreement: sales and rental. In accordance with the Company's revenue recognition policy for rental type agreements, the arrangement consideration is deferred as unearned revenue and revenue is recognized over the initial term of the contracts. For sales type agreements, AFIRS fees are deferred as unearned revenue and corresponding expenses are recorded as work in progress. When the system is fully functional and the customer has accepted the system, the deferred amount is fully recognized in revenue along with the work in progress as cost of sales. Under both forms of agreement, UpTime usage fees are recognized as the service is provided based on actual customer usage each month. The amounts recorded in unearned revenue are non-refundable.

AMA received $1,373,781 in cash revenues in the quarter with $1,121,452 reported as revenue and $252,329 being included in unearned revenue. That compares to $1,267,676 in cash revenue in the first quarter of 2010 with $1,041,883 reported as revenue and $225,793 in unearned revenue.

Revenue increased by $79,569 in the first quarter compared to the first quarter of last year. Installation kit revenues increased by $18,671 over the first quarter of 2010 as the result of the same number of shipments and increased recognition of unearned revenue. Recurring voice and data revenue decreased by $39,726 due to a reduction of 2,733 flight hours coupled with a strengthening of the Canadian dollar in relation to the U.S. dollar. The reduction in flight hours resulted from the bankruptcy of a customer late in Q1 2010. Parts revenue increased by $14,774 owing to increased sales of Underfloor Stowage Units when compared to the first quarter of 2010. Technical Services revenue increased by $85,850 over the first quarter of 2010 due to the installation of the first phase of a second command and control centre in Nigeria and installation support for an existing customer.

Gross Profit

AMA's cost of product sales includes the direct cost of the AFIRS kit, installation and training support as well as associated shipping expenses and travel expenses for our engineers in onsite installation support. Installations on aircraft are performed by third parties at the customer's expense. The cost of sales as a percentage of revenue in the first quarter of 2011 is 44.0% compared to 43.5% in the same quarter of 2010. This minor increase is due to the relative consistent mix of revenue between the first quarter of 2011 and 2010 and the Company's ability to keep cost of sales relatively constant in relation to revenue.

Gross margin as a percent of revenue for the past eight quarters is 56.0% for Q1 2011 compared to 66.7% for Q4 2010, 50.4% for Q3 2010, 55.9% for Q2 2010, 56.5% for Q1 2010, 64.6% for Q4 2009, 45.6% for Q3 2009, and 65.8% for Q2 2009 (note that data for the quarters before January 1, 2010 has not been restated for the adoption of IFRS and therefore the ability to use for comparison purposes may be limited)

Operating Activities

Other Income

Other income consists of the recognition of the Sierra Nevada Corporation (“SNC”) license fee that was deferred as unearned revenue when received and is being recognized over the initial five year term of the agreement.

Distribution Expenses

Distribution costs consist of the overhead expenses associated with the delivery of services to customers and sales and marketing which decreased by $308,232 from the first quarter of 2010. Salaries and benefits decreased $158,662 mainly due to increased involvement of operations staff in R & D activities associated with the AFIRS 228 project and the allocation of their salary costs to R & D. Other expenses decreased by $136,746 from the first quarter of 2010 due to bad debt expense in the first quarter of 2010 related to the bankruptcy of a customer and no such unfortunate incidents occurred in the first quarter of 2011. Office expenses decreased by $10,879 due to the allocation between cost centers and not due to a reduction in the overall expense. The $24,907 reduction in travel expenses in the first quarter of 2011 versus the same quarter of 2010 was the result of a decrease in the costs associated with trade show registrations of $5,594 and a reduction in travel and meals expensed by $19,313. The Company evaluates its attendance at trade shows on a yearly basis and adjusts the involvement or level participation to meet the overall marketing plan for the year. Expenses related to equipment and equipment maintenance increased $20,352 in the first quarter of 2011 versus the same quarter of 2010. The increase is due to the costs associated with the movement of the UpTime hosting centre and the required equipment and software maintenance related to the move.

Administration Expenses

Administration costs consist of overhead expenses associated with the general operations of the Company that are not directly associated with delivery of services or sales. These expenses decreased by $60,522 from the first quarter of 2010. The major differences were a decrease in legal fees of $51,926 due to the reduction in legal services related to legal proceedings by a Toronto based company. Contract labour increased over the first quarter of 2010 by $16,258 due to the reconstruction of the Company’s website by a consultant as well as the consulting provided on social media initiatives. Travel expenses decreased $16,129 from the first quarter of 2010 due to a reduction in investor relations (“IR”) travel resulting from the work in the first quarter of 2010 to realign and focus the initiatives in the IR domain. As the revised IR plan is rolled out it is expected that these costs will return or exceed the levels of previous quarters. Depreciation expense also decreased from the first quarter of 2010 by $12,140 due to a number of capital assets that have been fully depreciated over the past year. Moving forward a portion of this equipment will require replacement, and depreciation expense is expected to increase to previous levels. Investor relations expense increased by $10,161 due to costs associated with the launch of the social media campaign during the first quarter and the engagement of an IR firm in addition to the existing supplier. Salaries and benefits decreased by $8,849 from the first quarter of 2010 due to a reduction in variable compensation which was partially offset by the addition of an internal IR resource in the second quarter of 2010, and the allocation of labour costs to projects and R & D. This allocation did not reduce the overall salary expense.

Research and Development Expenses

Research and development costs for the first quarter of 2011 were $782,487 as compared to $1,037,405 in 2010, a decrease of $254,918. For reference the R & D expenses in the fourth quarter of 2010 totaled $1,560,873 which equates to a decrease of $778,386 from Q4 2010. The decrease during the quarter is the result of the decision early in the first quarter of 2011 to repatriate the core software development to Calgary and build a team around the existing resources of our Calgary based contractors and staff. This decision has more than met expectations, both in deliverables and cost reduction as evidenced by the receipt of a provisions only Supplemental Type Certificate for the Hawker Beechcraft Series 987 aircraft as announced on March 9th, 2011. In addition, the AFIRS 228 was successfully flight tested on a potential customer’s Hawker Beechcraft airplane on May 16th, 2011. R & D costs were reduced during Q1 2011 while meeting and/or exceeding all development timelines.

As announced on February 23, 2011, the Company signed an agreement with the Canadian government under the Strategic Aerospace and Defense Initiative (“SADI”) program whereby the Company will receive a repayable contribution of 30% of eligible AFIRS 228 development costs to a maximum of $1.96 million. The contribution will be repayable over 15 years commencing April 30, 2014. No contribution was claimed in the first quarter of 2011 but it is anticipated it will be claimed in the second quarter of 2011.

Net Finance Costs

Net finance costs consist of interest revenue, realized and unrealized foreign exchange gains and losses, bank service charges, interest expense, debenture interest, accretion of debenture interest, and the amortization of the debenture issue costs. Finance income increased by $20,188 due to increased interest revenue from deposits of $4,913 and foreign exchange gain increases of $15,275. Finance costs increased by $104,936 due primarily to debenture interest expense, debenture interest accretion and the amortization of debenture issue costs which totaled $108,036, but was partially offset by a decrease in bank charges and interest of $3,100.

Net Loss

The net loss in the quarter ending March 31, 2011 was $1,485,292 compared to a loss of $2,063,614 in the same quarter of 2010, which is a decrease of $578,322. This decrease is primarily due to increased gross profit of $39,398 coupled with decreased distribution expenses of $308,232, decreased administrative expenses of $60,522, decreased research and development of $254,918, increased finance income of $20,188 being off-set by increased finance costs of $104,936. If the loss in the first quarter 2011 was adjusted by removing R & D, including the extensive development of the next generation AFIRS 228, the loss would be $702,805 compared to $1,026,209 or a decrease of $323,404 compared to the first quarter of 2010.

Summary of Quarterly Results

	Q2-09	Q3-09	Q4-09	Q1-10	Q2-10	Q3-10	Q4-10	Q1-11
Revenue (cash)	$ 2,783,947	$ 1,133,796	$ 725,565	$ 1,267,676	$ 1,635,874	$ 1,289,897	$ 1,573,837	$ 1,373,781
Revenue (GAAP)	1,324,004	1,521,894	1,006,664	1,041,883	1,212,231	1,009,966	1,421,044	1,121,452
Loss	1,333,969	717,268	1,189,445	2,063,614	2,559,629	2,601,006	1,911,047	1,485,292
Loss before R&D	1,103,034	706,747	1,103,034	1,026,209	1,122,377	855,724	350,174	702,805
Loss/Share	$ 0.02	$ 0.01	$ 0.01	$ 0.02	$ 0.02	$ 0.03	$ 0.02	$ 0.01

The information for the quarters Q2-09, Q3-09 and Q4-09 were prepared prior to the application of IFRS and were not restated. For this reason the value of the information for comparative purposes may be limited.

Liquidity and Capital Resource

As of March 31, 2011 the Company had working capital of $2,468,517 compared to working capital of $4,295,809 in the same period of 2010, a decrease of $1,827,292. The decrease in the working capital is attributed primarily to decreased cash of $826,738, increased accounts receivable of $366,754, increased prepaid and deposits of $32,298, increased inventory of $49,236, increased accounts payable of $1,452,687, an increase in the current portion of unearned revenue of $65,535, a decrease in the current portion of loans payable of $44,611, and a decrease in the current portion of obligation under capital leases of $24,769.

Neither customer deposits nor the current portion of unearned revenue are refundable and if those two items are not included in the working capital calculation, the resulting modified working capital at March 31, 2011 would be $4,841,078 compared to $6,609,824 in 2010. As well, at March 31, 2011 the Company had outstanding accounts payable to SNC of $1,796,643 relating to their involvement with the development of the AFIRS 228. As reported in the 2010 Annual Report the development effort for the AFIRS 228 program was split into four general modules: (1) hardware, (2) board support software (both developed by a Calgary contractor), (3) Embedded Logic Applications (“ELA”) (developed by AMA staff in Calgary), and (4) core software (the responsibility of SNC). Late in 2010, it was recognized by management that progress on the AFIRS 228 program was on track for year end delivery for the hardware, board support software and ELA. However, time estimates to complete the core software continued to slip and costs had escalated. In the first quarter of 2011, management of AMA reviewed the state of the core software development with SNC in order to develop a plan and prepare for the transition from an SNC deliverable to AMA maintained software. It was determined by management that the best course of action to successfully complete the 228 in a timely fashion was to repatriate the core software development to Calgary and build a team around the existing resources of our Calgary based contractors and staff. That transition occurred in February 2011 and it is anticipated that a product will be delivered to customers in 2011 with full certification by mid 2012 which meets the timelines required by our current customers and prospects. The current accounts payable amount of $1,796,643 as at March 31, 2011 is being reviewed by both parties and negotiations are ongoing to reduce this liability while maintaining the relationship for manufacturing and military marketing.

The Company has an available operating line of $250,000 that was undrawn at March 31, 2011. The operating line bears an interest rate of Canadian chartered bank prime plus 1.5%, and is secured by assignment of cash collateral and a general security agreement.

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company’s installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. To meet the shortfall in cash flow and improve working capital the Company has obtained additional financing from the capital markets. To continue as a going concern the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions or the financial condition of a major customer deteriorates then the Company may have to scale back operations to create positive cash flow from existing revenue and /or raise the necessary financing in the capital markets.

As at May 25, 2011, AMA’s issued and outstanding share capital was 118,630,466.

Contingencies

In September 2007, the Company, among others, was served with a counterclaim alleging that the Company induced a breach of contract and interfered with economic relationships. The Company maintains that the claims are without merit and no liability has been included in the consolidated interim financial statements, as management intends to vigorously defend the matter and believes the outcome will be in its favour. On November 7, 2007 the Company filed a Statement of Defense and a counterclaim against three parties for their interference with legally binding contracts, disrupted business, attacks on the Company's reputation and costs. During the first quarter of 2011 there has been no substantial progress on a resolution to the action. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

Contractual Obligations

The Company has entered into various leases for its operating premises and equipment. Future minimum annual payments for the next five years under these operating leases are as follows:

Year	Premises	Equipment	Total
2011	$ 324,489	$ 63,864	$ 388,353
2012	445,685	32,319	478,004
2013	458,718		458,718
2014	76,815		76,815
2015	-	-	-
Total	**$ 1,305,707**	**$ 96,183**	**$ 1,401,890**

Recent Accounting Pronouncements

All accounting standards effective for periods beginning on or after January 1, 2011 have been adopted as part of the transition to IFRS. The following new accounting pronouncements have been issued but are not effective and may have an impact on the Company:

As of January 1, 2013, the Company will be required to adopt IFRS 9, Financial Instruments, which is the result of the first phase of the IASB's project to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. It is anticipated that the adoption of this standard will not likely have a material impact on the Company's financial statements.

Auditors' Involvement

National Instrument 51-102, Part 4, subsection 4.3 (3) (a), requires that if an auditor has not performed a review of the interim financial statements there must be an accompanying notice to the interim statements indicating that the interim financial statements have not been reviewed by an auditor.

The auditors of AeroMechanical Services Ltd. have not performed a review of the unaudited interim financial statements for the three month periods ended March 31, 2011 and March 31, 2010.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (unaudited)

	March 31, 2011	December 31, 2010 (Note 14)	January 1, 2010 (Note 14)
Assets			
Current assets:			
Cash and cash equivalents	$ 5,025,759	$ 6,617,852	$ 7,161,427
Restricted cash	250,000	250,000	250,000
Trade and other receivables	878,589	882,895	524,138
Deposits and prepaid expenses	205,253	140,304	293,408
Inventory	1,476,335	1,456,132	1,572,017
Total current assets	7,835,936	9,347,183	9,800,990
Non-current assets			
Property and equipment	371,496	402,535	478,968
Rental assets	142,546	155,101	143,538
Intangible assets	305,161	339,810	478,403
Inventory	735,060	779,052	846,860
Total non-current assets	1,554,263	1,676,498	1,947,769
Total assets	$ 9,390,199	$ 11,023,681	$ 11,748,759
Liabilities			
Current liabilities			
Trade payables and accrued liabilities	$ 3,419,636	$ 3,508,175	$ 1,270,750
Unearned revenue (note 4)	1,791,776	2,105,409	1,589,313
Loans payable (note 5)	76,520	86,557	109,536
Finance lease obligations	79,487	86,118	105,804
Total current liabilities	5,367,419	5,786,259	3,075,403
Non-current liabilities			
Unearned revenue (note 4)	910,132	726,469	1,534,529
Loans payable (note 5)	2,483,485	2,381,972	202,896
Finance lease obligations	52,996	68,956	118,147
Provisions	58,150	61,239	-
Total non-current liabilities	3,504,763	3,238,636	1,855,572
Total liabilities	8,872,182	9,024,895	4,930,975
Equity			
Share capital (note 6)	36,734,758	36,730,844	35,550,028
Convertible debenture	389,110	389,110	-
Warrants (note 6)	5,134,018	5,134,018	4,181,685
Contributed surplus (note 6)	3,750,772	3,750,114	1,956,075
Accumulated other comprehensive income	(49)	-	-
Deficit	(45,490,592)	(44,005,300)	(34,870,004)
Total equity	518,017	1,998,786	6,817,784
Total liabilities and equity	$ 9,390,199	$ 11,023,681	$ 11,748,759

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (unaudited)

		For the three months ended March 31		
		2011		2010 (Note 14)
Revenue	$	1,121,452	$	1,041,883
Cost of sales		493,608		453,437
Gross profit		627,844		588,446
Other income		64,380		64,380
Distribution expenses (note 8)		767,872		1,076,104
Administration expenses (note 9)		560,019		620,541
Research and development expenses (note 10)		782,487		1,037,405
Results from operating activities		(1,418,154)		(2,081,224)
Finance income (note 11)		48,369		28,181
Finance costs (note 11)		115,507		10,571
Net finance costs		(67,138)		17,610
Loss for the period		(1,485,292)		(2,063,614)
Foreign currency translation		(49)		8
Total comprehensive loss for the period	$	(1,485,341)	$	(2,063,606)
Earnings per share				
Basic and diluted loss per share (note 12)	$	(0.01)	$	(0.02)

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For three months ended March 31 (unaudited)

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Cumulative translation account*	Deficit	Total Equity
Balance at January 1, 2010	$ 35,550,028	$ -	$ 4,181,685	$ 1,956,075	$ -	$ (34,870,004)	$ 6,817,784
Total comprehensive loss for the period	-	-	-	-	-	(2,063,614)	(2,063,614)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	6,239	-	-	6,239
Share options exercised	36,794	-	-	(14,444)	-	-	22,350
Warrants expired	-	-	(1,452,371)	1,452,371	-	-	-
Accumulated other comprehensive income	-	-	-	-	8	-	8
Total contributions by and distributions to owners	36,794	-	(1,452,371)	1,444,166	8	-	28,597
Balance	$ 35,586,822	$ -	$ 2,729,314	$ 3,400,241	$ 8	$ (36,933,618)	$ 4,782,767
Balance at January 1, 2011	$ 36,730,844	$ 389,110	$ 5,134,018	$ 3,750,114	$ -	$ (44,005,300)	$ 1,998,786
Loss for the period	-	-	-	-	-	(1,485,292)	(1,485,292)
Foreign currency translation differences	-	-	-	-	(49)	-	(49)
Total comprehensive loss for the period	-	-	-	-	(49)	(1,485,292)	(1,485,341)
Contributions by and distributions to owners							
Share issue cost recovery	3,914	-	-	-	-	-	3,914
Share-based payment transactions	-	-	-	658	-	-	658
Total contributions by and distributions to owners	3,914	-	-	658	-	-	4,572
Balance	$ 36,734,758	$ 389,110	$ 5,134,018	$ 3,750,772	$ (49)	$ (45,490,592)	$ 518,017

*Accumulated other comprehensive income

See accompanying notes to condensed consolidated interim financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (unaudited)

	For the three months ended March 31			
		2011		2010 (Note 14)
Cash flows from operating activities				
Loss for the period	$	(1,485,292)	$	(2,063,614)
Adjustments for:				
Depreciation		32,638		44,779
Depreciation of rental assets		13,425		9,066
Amortization of intangible assets		34,648		34,648
Share based compensation		658		22,350
Convertible debenture accretion		88,722		-
Amortization of debenture issue costs		19,314		-
Change in inventories		23,790		50,019
Change in trade and other receivable		10,058		29,110
Change in prepayments		(64,998)		120,464
Change in trade and other payables		(35,990)		702,470
Change in provisions		(3,089)		-
Change in unearned revenue		(129,971)		(167,575)
Unrealized foreign exchange		(35,995)		(17,171)
Interest income		(11,525)		(6,612)
Interest expense		1,727		4,342
Net cash from operating activities		(1,541,880)		(1,237,724)
Cash flows from investing activities				
Acquisitions of property and equipment		(1,599)		(8,103)
Acquisitions of rental assets		(871)		(28,218)
Interest received		11,525		6,612
Net cash used in investing activities		9,055		(29,709)
Cash flows from financing activities				
Proceeds from issue of shares and warrants		3,914		6,239
Repayment of borrowings		(16,560)		(11,174)
Payment of finance lease liabilities		(22,590)		(26,311)
Interest Paid		(1,727)		(4,342)
Net cash used in financing activities		(36,963)		(35,588)
Net decrease in cash and cash equivalents		(1,569,788)		(1,303,021)
Cash and cash equivalents at January 1		6,617,852		7,161,427
Effect of exchange rate fluctuations on cash held		(22,305)		(5,909)
Cash and cash equivalents	$	5,025,759	$	5,852,497

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (unaudited)

1. Reporting entity

AeroMechanical Services Ltd. (the “Company” or “AMA”) was founded in 1998. The Company has been listed on the Toronto Stock Exchange (TSX.V: AMA) since March 2003 and is a public company incorporated under the Canada Business Corporations Act and is domiciled in Canada. The address of the Company’s head office is 200W, 1144 – 29th Avenue NE, Calgary, Alberta T2E 7P1.

The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2011 comprise the Company and its subsidiaries.

AMA is a designer, developer, and service provider to the global aerospace industry. The Company supports aviation customers in different sectors including commercial, business, leasing and military operators. Clients are using AMA's products on every continent and the Company proudly serves more than 30 aircraft operators globally. AMA’s headquarters are located in Calgary, Canada with representation in China, the Middle East, South America, the USA and Europe. The Company’s solutions and services are sold under the FLYHT brand name.

The consolidated financial statements of the Company as at and for the year ended December 31, 2010 which were prepared under Canadian GAAP are available upon request from the Company’s registered office or at www.flyht.com.

2. Basis of preparation

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. These are the Company’s first International Financial Reporting Standards (“IFRS”) condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of AMA is provided in Note 14. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under previous Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

The policies applied in these condensed interim consolidated financial statements are based on IFRS issued and effective as of May 25, 2011. Any subsequent changes to IFRS that become effective and are adopted for the December 31, 2011 annual financial statements could result in revisions to accounting policies applied in these interim financial statements, and if applicable, the opening statement of financial changes and reconciliations included herein.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on May 25, 2011

(b) Basis of measurement

The condensed consolidated interim financial statements have been prepared on an historical cost basis except financial instruments at fair value through profit or loss, which are measured at fair value in the statement of financial position (“SFP”).

2. Basis of preparation (continued)

(c) Functional and presentation currency

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Critical judgments in applying accounting policies and key estimates having the most significant effect on the amounts recognized in the condensed consolidated interim financial statements are discussed in the following notes:

Note 3(f) – Inventories
Note 3(g) – Impairment
Note 3(j) – Warranty
Note 3(k) – Revenue recognition
Note 3(o) – Recognition of deferred tax asset

(e) Going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. At March 31, 2011, the Company had working capital of $2,468,517 (December 31, 2010: $3,560,924), a deficit of $45,490,592 (December 31, 2010: $44,005,300), a net loss of $1,485,292, and negative cash flow from operations of $1,541,880.

The Company has incurred significant operating losses and negative cash flows from operations over the past years and has positive working capital due to its ability to obtain additional financing to fund its on-going operations. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and/or obtaining additional financing to fund its on-going operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management's continued cost containment strategy, the completion of research and development projects, and general economic conditions.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flows or raising additional capital to meet its working capital requirements. If the Company is unable to satisfy its working capital requirements from these sources, the Company's ability to continue as a going concern and to achieve its intended business objectives will be adversely affected. These condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

These accounting policies have been applied consistently by AMA's subsidiaries.

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, the Company will measure goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company will elect on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.
Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination will be expensed as incurred.

To date, there have been no acquisitions since the purchase of Wingspeed Corp.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, AMA elected not to restate the Wingspeed Corp. business combination that occurred in October 2009.

(ii) Subsidiaries

Subsidiaries are entities controlled by AMA. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

These condensed consolidated interim financial statements consolidate the accounts of AMA and its wholly owned subsidiaries, FLYHT Inc., AeroMechanical Services USA Inc., FLYHT Corp., and FLYHT India Corp. The latter three subsidiaries are inactive.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

3. Significant accounting policies (continued)

(b) Foreign currency

(i) Foreign currency transactions

Foreign currency transactions are translated to Canadian dollars at the exchange rate in effect on the transaction date. Foreign currency denominated monetary assets and liabilities at each reporting date are retranslated to the functional currency at the exchange rate in effect on that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates in effect at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates in effect on the transaction dates.

Foreign currency differences are recognized in other comprehensive income in the cumulative translation account.

Foreign exchange gains or losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in other comprehensive income in the cumulative amount of foreign currency translation differences.

(c) Financial instruments

(i) Non-derivative financial assets

The Company initially recognizes loans, receivables, and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expires, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables. Cash and cash equivalents consist of bank deposits.

3. Significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Non-derivative financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company has the following non-derivative financial liabilities: debentures, trade payables, accrued liabilities, loans payable, and finance lease obligations.

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(iii) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

Warrants

Warrants are classified as equity. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects.

The fair value of warrants is estimated using the Black-Scholes option pricing model.

(iv) Compound financial instruments

Compound financial instruments issued by the Company comprise convertible secured subordinate debentures that can be converted to common shares at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

3. Significant accounting policies (continued)

(d) Property and equipment, intangible assets

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset including those that are directly attributable to bringing the asset to the location and working condition for its intended use.

Software that is integral to the functionality of the related equipment is recognized as property and equipment; otherwise it is considered an intangible asset.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment. Net gains are recognized in other income and net losses are recognized in other expenses.

(ii) Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated using the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in profit or loss at rates calculated to write-off assets over their estimated useful lives since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

The depreciation rates are as follows:

Computers	30% declining balance
Software	12 months straight line
Equipment	20% declining balance
Leasehold improvements	Term of lease (5 years)

Estimates of depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Any changes in these estimates are accounted for prospectively.

3. Significant accounting policies (continued)

(d) Property and equipment, intangible assets (continued)

(iv) Research and development

Expenditure on research activities is expensed as incurred.

Research and development costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of AFIRS and the design and testing of UpTime, FIRST, FLYHTStream, and FLYHT Fuel Management System. Other research and development costs include testing and certification.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalized includes the cost of materials, direct labour, overhead costs that are directly attributable to preparing the asset for its intended use, and borrowing costs on qualifying assets for which the commencement date for capitalization is on or after January 1, 2010. Other development expenditure is recognized in profit or loss as incurred.

Capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(v) Other intangible assets

Other intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

Acquired intangible assets with indefinite useful lives are stated at cost and are not amortized.

An intangible asset is derecognized on disposal or when no future economic benefits are expected from its use or disposal.

(vi) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(vii) Amortization

Amortization is calculated based on the asset's cost less its residual value.

Customer contracts and relationships are amortized over the remaining life of the contracts that were assumed on acquisition of Wingspeed Corporation's assets (residual value is zero). This method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. The useful lives for the current and comparative periods range from two to four years as per the terms of the contracts.

The license with Bombardier that allows AMA access to technical documents has an indefinite life and is not amortized. The license never expires. Many AFIRS units are installed on Bombardier aircraft; therefore, there is no foreseeable end date.

Estimates of amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate. Any changes in these estimates are accounted for prospectively.

3. Significant accounting policies (continued)

(e) Leased assets

Leases where the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for according to the accounting policy applicable to that asset. Other leases are operating leases and the Company does not recognize the leased assets in its statement of financial position. Initial direct costs for operating leases are expensed immediately by the lessee.

As a lessee, AMA has several finance leases for computer hardware, software, and equipment.

As a lessee, AMA has only one operating lease, for its premises.

As a lessor, rental assets are recorded at cost in AMA's statement of financial position and consist of AFIRS units that are leased and in use in customer aircraft under lease type agreements. Depreciation is provided for active leased units on a straight-line basis over six years. Spare units at customer sites are not depreciated until swapped into service.

(f) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. The amount of inventory that is expected to be recovered more than 12 months after the reporting date is presented as a non-current asset.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Any writedown to net realizable value is recognized as an expense. Reversals of previous writedowns are recognized in profit or loss in the period when the reversal occurs.

AFIRS material inventories include general parts which are held pending installation and sales to customers. The weighted average method is used.

The carrying cost of AFIRS completed units includes raw material component costs plus a standard labour allocation. AFIRS completed inventory consists of AFIRS units that have been assembled and are held pending sale to customers. The weighted average cost method is used for components, while the labour component to each unit is valued using the standard cost method.

Installations-in-progress includes product costs, and other direct project costs. When the system is fully functional, the installations-in-progress balance is recognized as cost of sales to correspond with the full unearned revenue amount recognized as revenue.

The production of Underfloor Stowage Units is outsourced and the weighted average cost method is used.

3. Significant accounting policies (continued)

(g) Impairment

(i) Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, or indications that a debtor will enter bankruptcy.

The Company assesses impairment of each customer's receivable balance by analyzing historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss regarding a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For intangible assets that have indefinite useful lives, the recoverable amount is estimated at year end. The Company's non-financial assets that are subject to impairment include: property and equipment, rental assets, and intangible assets.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized in profit or loss if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are allocated to reduce the carrying amounts of the assets in the CGU on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized.

3. Significant accounting policies (continued)

(h) Employee benefits

(i) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The Company follows accrual accounting for wages, salaries, commissions, and variable compensation payments. The commission policy outlines how commissions are calculated and when payment is made to employees.

(ii) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as an expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards.

Share-based payment transactions are equity-settled. Share options granted to directors and employees are measured using the fair value of the equity instruments granted at the grant date; which is determined using the Black-Scholes option pricing model.

If options are promised to an employee before the grant date, the Company recognizes the expense at the service commencement date based on fair value. Once the grant date is established, the earlier estimate is revised so that the expense is recognized based on the actual grant date fair value.

AMA estimates the expected forfeiture rate at the option grant date and updates the estimate over time as new information becomes available. Forfeitures may occur if employees terminate their employment before the options vest.

(i) Share-based payment transactions to non-employees

(i) Stock options granted to consultants

The Company grants stock options to consultants. These share-based payment transactions are equity-settled. Transactions with non-employees are measured based on the fair value of the goods or services received, at the receipt date. Fair value is measured at the date the entity obtains the goods or the counterparty renders service.

AMA estimates the expected forfeiture rate at the option grant date and updates the estimate over time as new information becomes available. Forfeitures may occur if consultants do not fulfill their obligations before the options vest.

(ii) Agent warrants

When the Company issues common shares, warrants, and debentures through brokered private placements, agent warrants are issued to the agents as consideration for their services.

Warrants are classified as equity. Incremental costs directly attributable to the issue of warrants are recognized as a deduction from equity, net of any tax effects.

The fair value of warrants is estimated using the Black-Scholes option pricing model.

3. Significant accounting policies (continued)

(j) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

(i) Warranties

The Company warrants that the AFIRS products shall be free of defects during the term of each agreement and any renewals. Also, AMA warrants that it will deliver all data services required by the customer accurately and on-time. A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data.

(k) Revenue

(i) Installation kits

(a) Sales type agreements

AFIRS fees from sales type service agreements are deferred as unearned revenue and corresponding expenses are recorded as an asset (installations in progress). Once the system (including the AFIRS unit and installation kit) is fully functional, the full deferred amount is recognized in revenue along with the installations in progress as cost of sales.

(b) Lease type agreements

The Company rents AFIRS units to some customers under operating leases. Under the terms of the lease agreements, the AFIRS units remain the property of AMA and do not transfer to the customer nor is there an option for the customer to purchase the AFIRS unit at the end of the lease.

The upfront fee from leased AFIRS contracts is initially recorded as unearned revenue and recognized upon shipment of the AFIRS unit into revenue over the first term of the lease agreement.

(ii) Voice and Data

Revenue from UpTime usage fees is recognized at the end of each month and is based on actual usage during that month.

(iii) Parts

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable. Revenue is recognized when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of Underfloor Stowage Units is recognized when the unit is shipped, title is transferred, and collection is reasonably assured.

(iv) Technical Services

Technical services are provided based on orders and contracts with customers that include fixed or determinable prices that are based on daily, hourly, or contracted rates. Revenue is recognized as services are rendered and when collectability is reasonably assured.

3. Significant accounting policies (continued)

(k) Revenue (continued)

(v) Other Income - Licensing Revenue

License fees and royalties paid for the use of AMA's assets (i.e. trademarks, patents, and software) are recognized on an accrual basis.

(l) Government Assistance

(i) Government Grants

Government grants related to income are recognized in profit or loss to match the costs that they are intended to compensate when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant.

(ii) Government Loans

Low-interest or interest-free government loans are measured initially at their fair value and interest is imputed on the loan in subsequent periods. The benefit of the below market interest rate is measured as the difference between the fair value of the loan on initial recognition and the amount received. This benefit is accounted for according to the type of grant.

(m) Lease payments

(i) Operating lease payments

Payments made under operating leases are recognized in profit or loss on an accrual basis over the term of the lease. Initial direct costs for operating leases are immediately expensed.

(ii) Finance lease payments

Minimum lease payments made under finance leases are apportioned between finance costs and a reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(n) Finance income and finance costs

Finance income comprises interest income which is recognized as it accrues in profit or loss, using the effective interest method. The Company earns income on its cash and cash equivalents (bank deposits) and its restricted cash (Guaranteed Investment Certificates). Interest is recognized when earned.

Finance costs comprise interest expense on borrowings, and unwinding of the discount on provisions.

Foreign currency gains and losses are reported on a net basis.

3. Significant accounting policies (continued)

(o) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

When a taxable temporary difference arises from the initial recognition of the equity component separately from the liability component of a compound financial instrument, the resulting deferred tax liability is charged directly to the carrying amount of the equity component.

A deferred tax liability (asset) is recognized for exchange gains and losses related to foreign non-monetary assets and liabilities that are remeasured into the functional currency using historical rates or indexing for tax purposes.

Deferred tax assets recognized for share-based payment arrangements are adjusted each period to reflect the amount of tax deduction that the entity would receive if the award were tax deductible in the current period based on the current market price of the shares.

(p) Earnings per share

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined each period by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, for the effects of all dilutive potential common shares, which comprise debentures, share options, and warrants.

(q) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are not yet effective for the annual periods beginning January 1, 2011, and have not been applied in preparing these condensed consolidated interim financial statements. None of these are expected to have a significant effect on the consolidated financial statements of AMA, except for IFRS 9 Financial Instruments, which becomes mandatory in the Company’s 2013 consolidated financial statements and is expected to impact the classification and measurement of financial assets. The extent of the impact has not been determined.

4. Unearned revenue

Unearned revenue classified as current consists of sales type agreements revenue that will be recognized when the system is fully functional, and rental type agreements revenue and license fees expected to be recognized as income in the next year.

Unearned revenue classified as non-current consists of the non-current portion of rental type agreements and license fees.

The license and manufacturing agreement with Sierra Nevada Corporation ("SNC") gives SNC the right to manufacture the Company's AFIRS product and market the AFIRS UpTime technology and products to the global military market. This license fee is deferred as unearned revenue and revenue is recognized on a straight-line basis over the five year term of the agreement.

All amounts recorded in unearned revenue are non-refundable.

		2011		2010
Balance, beginning of year	$	2,831,878	$	3,123,842
Installation access fees		252,329		237,521
License fees		(64,380)		(64,380)
Earned revenues		(317,919)		(340,716)
Balance March 31		2,701,908		2,956,267
Less current portion		1,791,776		1,726,241
Non-current portion	$	910,132	$	1,230,026

5. Loans and borrowings

Government loans

On February 23, 2011, the Company signed a contribution agreement with Industry Canada under the Strategic Aerospace and Defense Initiative ("SADI") for the development of the next generation product, AFIRS 228. Under the terms of the agreement, SADI will make a repayable unsecured contribution to the Company of the lesser of 30% of the eligible project costs to December 30, 2012 or $1,967,507. The amount is repayable over 15 years commencing April 30, 2014. The payments are on a stepped basis starting April 30, 2014. Payments comprise 3.5% of the contribution and increase 15% yearly until April 30, 2028, when the final payment is 24.5% of the contribution. The amount to be repaid is 165% of the original contribution.

6. Capital and other components of equity

Common Shares

	Number of Shares		Value
Balance December 31, 2010	118,615,466	$	36,730,844
Share issue cost recovery			3,914
Balance March 31, 2011	118,615,466	$	36,734,758

Stock option plan

	Number of shares		Weighted average exercise price
Outstanding March 31, 2011 and December 31, 2010	2,498,977	$	0.39

6. Capital and other components of equity (continued)

Contributed surplus

Balance December 31, 2010	$	3,750,114
Share based compensation		658
Balance March 31, 2011	$	3,750,772

Warrants

	Number of warrants	Weighted average exercise price
Outstanding March 31, 2011 and December 31, 2010	29,655,609	$ 0.73

7. Operating segments

The Company has one operating segment.

Geographical Information

The following revenue is based on the geographical location of customers.

		2011		2010
Revenue				
North America	$	550,496	$	717,133
South America		137,202		116,447
Africa / Middle East		310,596		128,438
Europe		15,354		1,104
Australasia		104,568		76,870
Asia		3,236		1,891
Revenue	$	1,121,452	$	1,041,883

All non-current assets (property and equipment and intangible assets) reside in Canada.

Major customers

Revenues from the three largest customers represent approximately 28% (2010: 36%) of the Company's total revenues.

8. Distribution expenses

		2011		2010
Salaries and benefits	$	464,354	$	623,016
Contract labour		149,754		147,144
Office		76,591		87,470
Travel		59,524		84,431
Equipment and equipment maintenance		25,358		5,006
Other		(7,709)		129,037
Total	$	767,872	$	1,076,104

9. Administration expenses

		2011		2010
Salaries and benefits	$	303,511	$	312,360
Contract labour		30,365		14,107
Office		81,870		79,503
Legal fees		1,636		53,562
Audit and accounting		36,114		36,000
Investor relations		26,729		16,568
Brokerage, stock exchange, and transfer agent fees		11,934		10,260
Travel		18,856		34,985
Equipment and equipment maintenance		11,920		12,920
Depreciation		32,639		44,779
Other		4,445		5,497
Total	$	560,019	$	620,541

10. Research and development expenses

To date, all development costs have been expensed as incurred.

AMA is receiving funding from the Industrial Research Assistance Program ("IRAP") government grant through the National Research Council of Canada which is in effect from August 17, 2009 to March 31, 2011. The Company will receive a maximum of $320,000 to develop the FLYHT Fuel Management System. The grant reimburses a portion of AMA's salary and contractor costs. This grant is classified as being related to income. AMA is using the net presentation approach by reducing compensation expense relating to research and development.

		2011		2010
Salaries and benefits	$	197,432	$	221,793
Contract labour		633,417		774,182
Office		12,111		6,109
Travel		22,202		43,476
Equipment and equipment maintenance		1,676		1,638
Components		5,620		5,888
Government grants		(90,031)		(18,630)
Other		60		2,949
Total	$	782,487	$	1,037,405

11. Finance income and finance costs

Recognized in profit or loss:

		2011		2010
Interest income on bank deposits	$	11,525	$	6,612
Net foreign exchange gain		36,844		21,569
Finance income	$	48,369	$	28,181
Bank service charges	$	5,744	$	6,229
Interest expense		1,727		4,342
Debenture interest expense		88,722		-
Debenture cost amortization		19,314		-
Finance costs	$	115,507	$	10,571

12. Earnings per share

Basic earnings per share

The calculation of basic and diluted earnings per share at March 31, 2011 was based on a weighted average number of common shares outstanding of 118,615,466 (2010: 103,538,319).

Loss attributable to common shareholders

		2011		2010
Loss attributable to common shareholders	$	(1,485,292)	$	(2,063,614)
Basic and diluted earnings per share	$	(0.01)	$	(0.02)

Weighted average number of common shares

	2011	2010
Issued common shares at January 1	118,615,466	103,498,386
Effect of share options exercised	-	84,000
Weighted average number of common shares at March 31	118,615,466	103,582,386

13. Contingency

The Company is defending itself in an action for which the Company believes the amount of liability is undeterminable at this time. No liability has been accrued for claims on this action.

In September 2007, the Company, among others, was served with a counterclaim alleging that the Company induced a breach of contract and interfered with economic relationships. The Company maintains that the claims are without merit. Management intends to vigorously defend the matter and believes the outcome will be in its favour. On November 7, 2007 the Company filed a statement of defense and a counterclaim against three parties for interference with legally binding contracts, disrupted business, attacks on the Company’s reputation, and costs. During 2011, there has been no substantial progress on a resolution to the action. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

Based on legal advice, management does not expect the outcome of the action to have a material effect on the Company’s financial position.

14. Explanation of transition to IFRS

These are the Company’s first consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the condensed consolidated interim financial statements for the three months ended March 31, 2011, the comparative information presented in these condensed consolidated interim financial statements for the three months ended March 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company’s date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company’s financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

14. Explanation of transition to IFRS (continued)

Reconciliation of equity

	January 1, 2010			December 31, 2010			March 31, 2010		
	Canadian GAAP	Effect of transition	IFRS	Canadian GAAP	Effect of transition	IFRS	Canadian GAAP	Effect of transition	IFRS
Assets									
Current assets									
Cash and cash equivalents	$ 7,161,427	$ -	$ 7,161,427	$ 6,617,852	$ -	$ 6,617,852	$ 5,852,497	$ -	$ 5,852,497
Restricted cash	250,000	-	250,000	250,000	-	250,000	250,000	-	250,000
Trade and other receivables	524,138	-	524,138	882,895	-	882,895	511,835	-	511,835
Deposits and prepaid expenses	293,408	-	293,408	140,304	-	140,304	172,955	-	172,955
Inventory (note 14.b)	2,418,877	(846,860)	1,572,017	2,235,184	(779,052)	1,456,132	2,368,858	(941,759)	1,427,099
Total current assets	10,647,850	(846,860)	9,800,990	10,126,235	(779,052)	9,347,183	9,156,145	(941,759)	8,214,386
Non-current assets									
Property and equipment	478,968	-	478,968	402,535	-	402,535	442,292	-	442,292
Rental assets	143,538	-	143,538	155,101	-	155,101	162,691	-	162,691
Intangible assets	478,403	-	478,403	339,810	-	339,810	443,754	-	443,754
Inventory (note 14.b)	-	846,860	846,860	-	779,052	779,052	-	941,759	941,759
Total non-current assets	1,100,909	846,860	1,947,769	897,446	779,052	1,676,498	1,048,737	941,759	1,990,496
Total assets	$11,748,759	$ -	$ 11,748,759	$ 11,023,681	$ -	$11,023,681	$10,204,882	$ -	$10,204,882

14. Explanation of transition to IFRS (continued)

Reconciliation of equity (continued)

	January 1, 2010			December 31, 2010			March 31, 2010		
	Canadian GAAP	Effect of transition	IFRS	Canadian GAAP	Effect of transition	IFRS	Canadian GAAP	Effect of transition	IFRS
Liabilities current liabilities									
Trade and other payables	$ 1,270,750	$ -	$ 1,270,750	$ 3,508,175	$ -	$ 3,508,175	$ 1,966,949	$ -	$ 1,966,949
Unearned revenue	1,589,313	-	1,589,313	2,105,409	-	2,105,409	1,726,241	-	1,726,241
Loans payable	109,536	-	109,536	86,557	-	86,557	121,131	-	121,131
Finance lease obligations	105,804	-	105,804	86,118	-	86,118	104,256	-	104,256
Total current liabilities	3,075,403	-	3,075,403	5,786,259	-	5,786,259	3,918,577	-	3,918,577
Unearned revenue	1,534,529	-	1,534,529	726,469	-	726,469	1,230,026	-	1,230,026
Loans payable	202,896	-	202,896	2,381,972	-	2,381,972	180,128	-	180,128
Finance lease obligations	118,147	-	118,147	68,956	-	68,956	93,384	-	93,384
Provision	-	-	-	61,239	-	61,239	-	-	-
Total non-current liabilities	1,855,572	-	1,855,572	3,238,636	-	3,238,636	1,503,538	-	1,503,538
Total liabilities	$ 4,930,975	-	$ 4,930,975	$ 9,024,895	-	$ 9,024,895	$ 5,422,115	-	$ 5,422,115
Equity									
Share capital	$ 35,550,028		$ 35,550,028	$ 36,730,844	-	$ 36,730,844	$35,586,822	-	$35,586,822
Convertible debenture	-	-	-	389,110	-	389,110	-	-	-
Warrants	4,181,685	-	4,181,685	5,134,018	-	5,134,018	2,729,314	-	2,729,314
Contributed surplus (IFRS note a)	1,943,917	12,158	1,956,075	3,723,840	26,274	3,750,114	3,393,063	7,178	3,400,241
Accumulated other comprehensive income	-	-	-	-	-	-	8	-	8
Deficit (note 14.a)	(34,857,846)	(12,158)	(34,870,004)	(43,979,026)	(26,274)	(44,005,300)	(36,926,440)	(7,178)	(36,933,618)
Total equity	6,817,784	-	6,817,784	1,998,786	-	1,998,786	4,782,767	-	4,782,767
Total liabilities and equity	$ 11,748,759	$ -	$ 11,748,759	$ 11,023,681	$ -	$ 11,023,681	$10,204,882	$ -	$10,204,882

14. Explanation of transition to IFRS (continued)

Reconciliation of comprehensive income for the year ended December 31, 2010

	Canadian GAAP	Effect of transition	IFRS
Revenue			
AFIRS UpTime sales	$ 1,277,909	$ -	$ 1,277,909
AFIRS UpTime usage	2,778,913	-	2,778,913
Part sales	121,674	-	121,674
Services	506,627	-	506,627
Total revenue	4,685,123	-	4,685,123
Cost of sales	1,961,745	-	1,961,745
Gross profit	2,723,378	-	2,723,378
Other income	266,127		266,127
Distribution expenses (note 14.a)	3,562,016	(7,367)	3,554,649
Administrative expenses (note 14.a)	2,758,357	21,482	2,779,839
Research and development expenses	5,780,811	-	5,780,811
Results from operating activities	(9,111,679)	(14,115)	(9,125,794)
Finance income	43,459	-	43,459
Finance costs	48,692	-	48,692
Net finance costs	(5,233)	-	(5,233)
Loss before income tax (note 14.a)	(9,116,912)	(14,115)	(9,131,027)
Income tax expense	4,269		4,269
Total comprehensive loss for the period	$ (9,121,181)	$ (14,115)	$ (9,135,296)
Earnings per share			
Basic and diluted earnings per share	$ (0.09)	$ -	$ (0.09)

14. Explanation of transition to IFRS (continued)

Reconciliation of comprehensive income for the three months ended March 31, 2010

	Canadian GAAP	Effect of transition	IFRS
Revenue			
AFIRS UpTime sales	$ 243,984	$ -	$ 243,984
AFIRS UpTime usage	759,499	-	759,499
Part sales	27,097	-	27,097
Services	11,303	-	11,303
Total revenue	1,041,883	-	1,041,883
Cost of sales	453,437	-	453,437
Gross profit	588,446	-	588,446
Other income	64,380	-	64,380
Distribution expenses (note 14.a)	1,083,471	(7,367)	1,076,104
Administrative expenses (note 14.a)	618,151	2,390	620,541
Research and development expenses	1,037,405	-	1,037,405
Results from operating activities	(2,086,201)	4,977	(2,081,224)
Finance income	28,181	-	28,181
Finance costs	10,571	-	10,571
Net finance costs	17,610	-	17,610
Loss for the period (note 14.a)	(2,068,591)	4,977	(2,063,614)
Foreign currency translation differences	8	-	8
Total comprehensive loss for the period	$ (2,068,583)	$ 4,977	$ (2,063,606)
Earnings per share			
Basic and diluted earnings per share	$ (0.02)	$ -	$ (0.02)

Material adjustments to the statement of cash flows for 2010

There are no material differences between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP.

14. Explanation of transition to IFRS (continued)

Notes to the reconciliations

(a.) Share-based payments

AMA qualified for the exemption under IFRS 1 and opted to use it. Therefore, the Company has not retrospectively applied IFRS 2 Share-based Payment to equity instruments that were granted after November 7, 2002 that vested before the transition date. IFRS 2 will apply to equity instruments granted after November 7, 2002 that vest after the transition date.

An adjustment was made to the opening IFRS statement of financial position for the options granted to the Howard Group. Under Canadian GAAP, these options were valued using the Black-Scholes pricing model; but under IFRS, the options are measured using the fair value of the services received by AMA.

An adjustment was made to the opening IFRS statement of financial position for the options promised to two employees before they were granted. At the service commencement date, AMA recognized the expense based on fair value. On the grant date, the commencement date estimate was revised so that the expense was recognized based on the actual grant date fair value.

As a result, deficit as at January 1, 2010 decreased by $12,158 and Contributed Surplus decreased by the same amount.

(b.) Inventories

The statement of financial position shows a reclassification from current to non-current assets for the portion of inventory that is not expected to turnover in the 12 months following the SFP date.

(c.) Business combination

As part of its transition to IFRS, AMA elected not to restate business combinations that occurred prior to January 1, 2010. Therefore, there was no impact on the financial statements.

(d.) Foreign exchange

The Company has chosen to use the optional exemption and deem the cumulative translation differences to be zero at the IFRS transition date, and has reclassified any amounts recognized according to Canadian GAAP on that date as retained earnings.

The cumulative translation differences arising on the translation of FLYHT Inc. was nil at December 31, 2009. Therefore, there was no impact on the financial statements.

CORPORATE INFORMATION

Registrar and Transfer Agent
Valiant Trust Company
Telephone: 1-866-313-1872
Email: inquires@valianttrust.com
www.valianttrust.com

Share Listing
Shares are traded on the TSX Venture Exchange
Ticker Symbol: AMA

Investor Relations
Email: investors@amscanada.com
Telephone: 1-403-250-9956
Toll free: 1-866-250-9956

Barnes Communications Inc.
Colin Languedoc
Email: clanguedoc@barnesir.com
Phone: 1-416-367-5000
www.barnesmcinerney.com

Directors

Bill Tempany	CEO of the Company
Richard Hayden	President of the Company
Doug Marlin	President, Marlin Ventures Ltd.
Mike Brown	Partner, Geselbracht Brown
Paul Takalo, CA	Vice-President, Standen's Limited
Jacques Kavafian	President and CEO, 7546220 Canada Inc.
Jack Olcott	President, General Aviation Company

Officers

Bill Tempany	CEO
Richard Hayden	President
Thomas French, CGA	VP Finance and CFO
Matt Bradley	VP Business Development

Auditor
KPMG LLP — Calgary, Alberta

Legal Counsel
Chris Croteau — Tingle Merrett LLP

Head Office
200W, 1144 - 29 Avenue NE
Calgary, Alberta T2E 7P1