

AeroMechanical Services Ltd.

2007 Annual Report  
Management  
Discussions & Analysis

**TSX.V: AMA**



This management discussion and analysis (“MD&A”) should be read in conjunction with the audited annual consolidated financial statements of AeroMechanical Services Ltd. (“AMA” or the “Company”) as at and for the years ended December 31, 2007 and 2006. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP). Additional information with respect to AMA can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

This MD&A is dated April 9, 2008.

### **Forward-Looking Statements**


Except for historical statements made herein, this document contains forward-looking statements that involve risks and uncertainties including risks associated with the effect of changing economic conditions, trends in the development of the aviation and aerospace industries, market acceptance risks, and realizing expected revenue. Risk factors also include the Company’s ability to compete successfully in the future against existing and new competitors; the Company’s ability to execute its business plan and generate an overall profit. Due to these factors, actual results could differ materially from those expressed in forward-looking statements by the Company. Forward-looking statements are based on the estimates and opinions of AMA’s management at the time the statements were made.

### **Overview**

AeroMechanical Services Ltd. is a designer, developer, and service provider of innovative solutions to the global aerospace industry. The Company’s solutions are designed to improve the productivity and profitability of our customers.

The major products of the Company are Automated Flight Information Reporting System (afirs™), UpTime™, Underfloor Stowage Unit, and AeroQ™. These products are marketed globally by a team of several individuals: six based in Calgary, one in Switzerland, one in Florida, and one in Ontario. One of the Calgary staff is currently spending more than 90% of his time in China dealing with opportunities there. AMA has sales in several countries around the world.

2007 continues the strides made in 2006 to move revenues to afirs Uptime, which further defines AMA as an aviation solutions company. The research and development of our leading edge technology and services is being transformed into a continuous telecommunications revenue stream. To further this initiative AMA



continued to add Supplemental Type Certificates (STC), therefore broadening the aircraft types, models and jurisdictions in which afirs UpTime can be implemented. The STC process is always slower than we would like, but during 2007 AMA has seen improved turn around times as the regulatory bodies become familiar and build relationships with the AMA engineering team. The process is a requirement that cannot be shortcut by any potential competitors and therefore, as the stable of STC's grows, the barriers to entry increase. Customer installation schedules continue to be a challenge. Customer installation schedules are determined by the C Check schedules. C Checks are the regular inspections made on all commercial aircraft after a set number of hours of operation of the aircraft, allowing for the installation of AMA's products. . The Company obtains this schedule from a customer upon the signing of a contract, and manages the planned versus actual installations.

### **Trends and Economic Factors**

The Company continues to capitalize on the need for timely flight and sensor data from the aircraft to the ground operations and maintenance facilities. Airlines are increasingly looking for methods to reduce costs and more efficiently operate their aircraft. Margins are extremely thin in the airline industry. After labour, jet fuel is the second largest operating expense for airlines, making up 10 to 25 percent of an airline's annual operating costs. The slightest decrease in fuel consumption can turn into big savings. Some of the fuel saving methods currently used by airlines are; using one engine instead of two while taxiing, tankering extra fuel to avoid refueling at expensive locations, removing unnecessary equipment, to name a few. The afirs UpTime solution provides airlines with the data to save fuel costs and to monitor operational efficiency, supplying the most valuable tool in managing aircraft operations. AMA customers are showing significant return on investment over the costs of afirs UpTime.

The Company's revenues and income have been negatively impacted by the strengthening of the Canadian dollar relative to the US dollar since 2003. As a result of these movements, the Company's Canadian dollar revenues, which are substantially all denominated in US dollars, were lower than would have been had the foreign exchange not changed. While a significant amount of the Company's costs are denominated in Canadian dollars, there is also a significant portion of marketing costs that are non-Canadian denominated, and therefore create some natural hedge against the strengthening of the Canadian dollar.



## **System Approvals**

afirs is currently STC approved on the following aircraft:

- > Airbus A319, A320, A321
- > Boeing B737-200, 300, 400, 500
- > Boeing B737-600, 700, 800
- > Boeing B757-200, 300
- > Boeing B767-200
- > Bombardier DHC-8-100
- > Bombardier DHC-8-200
- > Bombardier DHC-8-300
- > Bombardier CRJ100
- > Bombardier CRJ200
- > Bombardier CRJ440
- > Fokker F100
- > Viking Air DHC-7 (LSTC)

afirs is pending approval, expected in 2008, on the following aircraft:

- > Airbus A330
- > Hawker Beech 800XP, 850XP, 900XP

afirs applications in process and expected to be submitted in 2008, on the following aircraft:

- > Boeing B747-100, 200
- > Boeing B747-300, 400
- > Boeing B747-8
- > DC-10
- > MD-81/82/83/87/88

## Results of Operations – Year Ended December 31, 2007

### Revenues

As shown in the following table, afirs UpTime Revenue and Unearned Revenue are showing the results forecasted. The Company's long term investment in marketing and building relationships has resulted in a strong pipeline of prospective customers around the world. The ongoing revenue streams from our existing customer base will continue to expand throughout future years.

In accordance with the Company's revenue recognition policy, initial network access fees are deferred as unearned revenue and revenue is recognized over the initial term of the contracts. In the early stages of the Company's growth this will result in less recognized revenue than cash received. The effect in the year is that AMA received \$2,638,111 (2006 - \$1,395,908) in cash revenue with \$1,989,404 (2006 - \$1,094,466) reported as revenue and \$648,707 (2006 - \$301,442) being included in unearned revenue.

In 2007, revenue for the Company continued to reflect the benefits of the Research and Development efforts that have been invested over the past 7 years. AMA has products tested, certified, and installed on aircraft to generate revenue, as well as inventory to continue the roll out to our new and existing customers.

Total revenues were \$1,989,404 and \$1,094,466 for fiscal 2007 and 2006, respectively.

	2007			2006			2005		
	afirs UpTime	Other	Total	afirs UpTime	Other	Total	afirs UpTime	Other	Total
Q1	\$ 171,778	\$ 666,140	\$ 837,918	\$ 93,901	\$ 124,427	\$ 218,328	\$ 61,068	\$ 94,942	\$ 156,010
Q2	191,278	281,844	473,122	140,304	158,548	298,852	67,292	48,290	115,582
Q3	256,710	55,974	312,684	134,397	124,416	258,813	100,165	7,106	107,271
Q4	282,629	83,051	365,680	239,262	79,211	318,473	114,242	18,427	132,669
<b>Total</b>	<b>\$ 902,395</b>	<b>\$ 1,087,009</b>	<b>\$ 1,989,404</b>	<b>\$ 607,864</b>	<b>\$ 486,602</b>	<b>\$ 1,094,466</b>	<b>\$ 342,767</b>	<b>\$ 168,765</b>	<b>\$ 511,532</b>

Rental revenue increased from \$607,864 in 2006 to \$709,191 in 2007, which is an increase of \$101,327. The rental revenue increase was not as dramatic as the increased level of installations due to the large number of installations completed in the last quarter and therefore were not revenue producing throughout 2007. In addition, there was significant work to complete contract terms, which occurred near or after the year-end.

Other revenue is derived from Underfloor Stowage Units, licensing fees, interest, and consulting. During 2007, Underfloor Stowage Units and other products was \$193,159 (2006 – \$290,810) where the decrease from the previous year was due to a significant order in 2006 from one airline that was not repeated in 2007, coupled with the Company focusing on its core airline solution of afirs UpTime. Licensing fees were \$797,869 (2006 – \$116,730), and interest revenue was \$95,861 (2006 - \$47,097). The \$673,989 increase in licensing fees was the result of the finalization of the licensing agreement with Vibro-Meter SA, a division of Meggitt Aerospace.

### **Gross Margin and Cost of Sales**

Gross margins before general and administrative expenses was \$638,009 for 2007 (2006 - \$233,319). This increase was the result of the continued increase in afirs Uptime revenue and the licensing fee received from Vibro-Meter SA.

Strategic customer relationships have provided AMA and the customers with valuable real-time data resulting in significant cost savings to clients. Testimonials from these customers have assisted AMA in attracting new clients, resulting in the signing of new contracts. The results have been positive from this strategic decision.

Cost of sales for afirs UpTime was \$1,206,506 on revenues of \$902,395 representing a gross loss of \$304,111 in 2007. This compares to 2006's \$535,046 cost of sales on revenues of \$607,864 or a gross margin of \$72,818 on afirs UpTime revenue. The decrease in the 2007 gross margin over 2006 on afirs UpTime is primarily due to an increased number of installed afirs units. As the number of installed units grows, the effect of the Revenue Recognition policy is amplified whereby the install costs exceeded the revenue recognized. During, late 2007 this issue was addressed and the Company has revised its service agreements, which will allow for a revised revenue recognition policy for these new service agreements to improve the gross margin as installations occur.

<b>2007</b>			
	<b>Revenue</b>	<b>Cost of Sales</b>	<b>Gross Margin</b>
afirs UpTime	\$ 902,395	\$ 1,206,506	\$ (304,111)
Other	1,087,009	144,889	942,120
<b>Total</b>	<b>\$ 1,989,404</b>	<b>\$ 1,351,395</b>	<b>\$ 638,009</b>

2006			
	Revenue	Cost of Sales	Gross Margin
afirs UpTime	\$ 607,864	\$ 535,046	\$ 72,818
Other	486,602	326,101	160,501
<b>Total</b>	<b>\$ 1,094,466</b>	<b>\$ 861,147</b>	<b>\$ 233,319</b>

2005			
	Revenue	Cost of Sales	Gross
afirs UpTime	\$ 342,767	\$ 370,527	\$ (27,760)
Other	168,765	48,944	119,821
<b>Total</b>	<b>\$ 511,532</b>	<b>\$ 419,471</b>	<b>\$ 92,061</b>

Gross Margins on other revenue was \$942,120 or 87% of other revenues in 2007, compared to \$160,501 or 33% in 2006, which is the result of license fee of \$727,989, consulting revenue of \$70,000, and interest revenue of \$95,861 in 2007 totaling \$893,850 versus a total of \$195,791 in 2006, which have no associated cost of goods sold.

### **Net Loss, General and Administrative and Marketing Expenses**

In 2007 the key driver of our performance continued to be the timely receipt of STC approvals from multiple regulators, the timely closing of contracts with potential customers, and the airline installation schedules of afirs on contracted aircraft due to their maintenance schedules. While the timely receipt of STC approvals has seen significant improvement, the key challenge continues to be the speed with which potential customers execute contracts and the difficulty in predicting the accuracy of aircraft maintenance schedules that are supplied by customers. As a result, the net loss for the year ended December 31, 2007 was \$6,868,314 compared with \$4,539,706 for 2006.

Our expense categories are not broken into departments for this year as the entire company was and is focused on getting our main product, afirs UpTime, out to our customers. For the year ended December 31, 2007, expenses were \$7,506,323 compared with \$4,773,023 for 2006.

Major Expense Categories	2007	2006	Variance	Explanation
Salaries and benefits, third party consulting, and share compensation	4,624,138	2,682,284	1,941,854	Staff levels increased in late 2006 and during 2007 with salaries increasing by \$1,250,326 over 2006 and related statutory payments and benefits increasing \$107,219. In addition, staff took salary reductions to ensure the longevity of the Company in 2005 and in late 2006 staff salaries were returned to their original levels. These increases were fully reflected in the 2007 costs. Third party consultants were engaged in 2007 to deal with sales and customer support of international customers resulting in an increase in consulting costs of \$423,109. Share based compensation increased by \$69,267 over 2006. With the goal of retaining leading edge staff the ongoing need for training increased that cost by \$53,240 during 2007. The continuing shift to a solution based international company and increased number of customers created the need to increase staffing levels in customer support, marketing/sales, and engineering.
Research and development costs	253,236	248,902	4,334	Development activities during the year remained at the same levels as 2006.
Office, computer services, insurance, depreciation stock exchange fees and bad debts	572,455	479,372	93,083	Office costs increased \$54,269 primarily due to an increase in telephone expenses related to the increased sales and marketing to international customers and international contracted customers. Insurance costs increased \$16,375 due to the addition of products liability coverage in 2007. Foreign exchange loss increased \$13,543 from 2006 as the result of the strengthening of the Canadian dollar. Fees related to being listed on the TSX-V increased from 2006 by \$9,696.
Interest and bank charges	24,094	33,878	(9,784)	Bank charges remained at the same level as 2006. In the first quarter of 2006 the issued debt and convertible debt were repaid and in 2007 there was no debt.
Rent	194,448	193,819	629	No change during 2007 in rented premises.
Marketing	1,079,353	618,508	460,845	The primary increase in marketing was related to increased travel expenses of \$407,769. This increased travel is the result of the international nature of the aviation industry and the Company's customer base. This ongoing investment in sales and marketing is expected to pay dividends in the years to come. The Company expects that expenses in marketing will continue at less or higher levels over the next year, as AMA continues to target global markets for its solutions. General marketing expenses such as trade show costs, advertising, and promotional materials increased \$56,076 over 2006. Marketing costs do not include salaries.
Investor relations	193,981	149,361	44,620	Investor relations costs increased \$44,620 due to increased emphasis on the capital markets and presenting the Company to both institutional investors retail, brokers, and retail investors via one on one meetings, investor show attendance, and video presentations.
Professional fees	564,618	366,899	197,719	Accounting and audit fees were \$119,665 in 2007 compared to \$197,721 in 2006, a decrease of \$78,056. Legal fees were higher in 2007 by \$279,859 because of legal work related to the actions by a Toronto based company. These actions are related to an allegation of patent infringement, request for a review of the Company's patent, and an allegation of interference with an employment contract.
<b>Total</b>	<b>7,506,323</b>	<b>4,773,023</b>	<b>2,733,300</b>	

	2007				2006			
	4th Q	3rd Q	2nd Q	1st Q	4th Q	3rd Q	2nd Q	1st Q
	\$	\$	\$	\$	\$	\$	\$	\$
Revenue	365,680	312,684	473,122	837,918	318,473	258,813	298,852	218,328
Loss	2,387,162	1,693,258	1,978,629	809,625	1,231,842	1,176,113	965,349	1,166,402
Loss/Share	.04	.03	.03	.01	.02	.03	.03	.04

### Comments on Quarterly Results

Quarterly revenue streams continue to shift to monthly repeating afirs UpTime revenues from specific sale of goods and consulting revenue streams over 2007. The monthly and annual UpTime fees will increase over time as more aircraft are installed with afirs.

### Research and Development

Research and development costs are being expensed as incurred. The majority of R&D costs are salaries and consulting expenses related to the design, testing, and manufacture of afirs, and the design and testing of UpTime. There are also expenses being incurred in the preliminary phases of AeroQ development.

### Foreign Exchange

All international sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In 2007, nearly 96% of the Company's gross sales were made in U.S. dollars compared to nearly 97% in 2006. The Company expects this to increase with the aviation industry conducting a majority of its transactions in U.S. dollars, the opportunity for sales in Canadian dollars is limited.

### Transactions with Related Parties

During the year the Company had no transactions with related parties that were not normal course business transactions related to their positions with the Company. These transactions were expense reimbursements for business travel and other company expenses paid by the related party and were measured at exchange amounts that the related party paid to a third party and were substantiated with a third party receipt.



## **Liquidity and Capital Resources**

During 2007, the Company issued Common Shares through private placement, the exercise of warrants, and the exercise of stock options. This has improved the financial position of the Company, especially when coupled with the increased cash based revenue.

In a private placement on June 1st, 2007 the Company issued 4,912,500 common shares at \$0.40 for gross proceeds of \$1,965,000 and 1,606,967 common shares at \$0.60 for gross proceeds of \$964,180. The net cash proceeds after issuance costs of these private placements totaled \$2,806,296. During 2007, AMA issued a total of 6,452,339 common shares on the exercise of various series of warrants at a weighted average price of \$0.53 per share. These exercised warrants provided net cash proceeds of \$3,403,379. A further 1,259,993 common shares were issued to directors, officers, employees, and consultants on the exercise of stock options. The weighted average issue price of these common shares was \$0.57, resulting in cash proceeds of \$721,598.

With the exercise of both stock options and warrants, it is of interest to note that 19% of the shares issued were issued to employees, directors, officers, and contractors. This brings the percentage of employees that own AMA shares to approximately 92%.

The successful equity offerings combined with increased cash based revenue throughout the year created sufficient capital to continue to operate and to provide capital for inventory to be deployed in order to expand our customer base.

Working capital at December 31, 2007 was \$3,469,360 compared to \$3,176,579 in 2006. The increase in working capital is primarily attributed to the operating loss for the year of \$6,868,314 less the net funds generated from the raising of capital equity of \$6,583,617 the remaining increase of \$577,478 is the result of various changes in working capital components as the result of business operations during the year including increase in unearned revenue of \$527,972. The Company currently has an available operating line of \$250,000 which had not been drawn at December 31, 2007. The operating line bears an interest rate of Canadian chartered bank prime plus 1.0% 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 the its continued marketing drive to clients around the world.

As at April 9, 2008, AMA's outstanding shares, options and warrants were as follows:

	<b>April 7, 2008</b>	<b>Dec 31, 2006</b>
Common shares outstanding	82,178,219	58,488,823
Options	1,754,668	2,426,995
Warrants	7,781,863	17,136,376

### **Contractual Obligations**

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

<b>Year</b>	<b>Premises</b>	<b>Equipment</b>	<b>Total</b>
2008	\$ 217,666	\$ 22,539	\$ 240,205
2009	51,704	16,777	68,481
2010		13,896	13,896
2011		11,580	11,580
<b>TOTAL</b>	<b>\$ 269,370</b>	<b>\$ 64,792</b>	<b>\$ 334,162</b>

In addition, the Company has repayment obligations related to two Government of Canada loan programs. Under the Industrial Research Assistance Program (IRAP), the Company has received \$330,966 (2006 - \$349,066), which is to be repaid, as a percentage of gross revenues, over a five to ten year period commencing in October 2005. Under the Technology Partnerships Canada (TPC) program, the Company has received \$104,523 (2006 - \$123,635) to be repaid over a ten-year period commencing in April 2006.

During 2007, AMA leased computer equipment totaling \$15,612 (2006 - \$44,956), which was accounted for as capital leases that expire in various years to 2010. The minimum lease payments are as follows:

<b>Year</b>	<b>Premises</b>
2008	\$ 29,400
2009	16,275
2010	4,003
<b>TOTAL</b>	<b>\$ 49,678</b>

The imputed interest is \$7,847 (2006 - \$10,650), leaving a total obligation of \$41,832 (2006 - \$43,223).

## **Results of Operations – Three Months Ended December 31, 2007**

### **Revenues**

The Company has adopted a revenue recognition policy, whereby, network access fees are deferred as unearned revenue and revenue is recognized over the initial term of the contracts. In the early stages of the Company's growth this will result in less revenue recognized than cash received. The effect in the quarter is that we received \$640,941 (2006 - \$468,114) in cash revenue with \$365,680 (2006 - \$318,473) reported as revenue and \$275,262 (2006 - \$149,640) being included in unearned revenue.

Revenue increased \$91,476 in the fourth quarter compared to the fourth quarter of last year. afirs UpTime revenues increased by \$43,367 over the fourth quarter of 2006. Sales revenue increased \$3,840 over the same quarter of the previous year. The increase in afirs UpTime revenue is the result of the increased number of installed and revenue generating afirs boxes, and these revenues are expected to grow at a significantly higher rate because the Company has the infrastructure, sales people, and support organization in place to support revenue growth.

### **Gross Margin and Cost of Sales**

Cost of sales in the fourth quarter of 2007 is \$610,190 compared to \$167,382 in 2006. This is a result of year end adjustments in the fourth quarter of 2007 that were higher than in 2006, as well as an increase in the volume of installations and product mix variations. Included in cost of sales are costs of non-routable parts and travel expenses for our engineers on initial installations of aircraft. As part of our service agreement, we assist new customers with engineering support on their initial installations. The cost is covered in our access fee. Non-routable parts are parts involved in the installation process that are non-reusable (such as cables) and do not form part of the rental asset. They would remain on the aircraft if the afirs unit was extracted. The travel and support costs form part of the non-routable parts and are expenses in the period. As we move forward with more clients the result will be less initial installations and increased recurring revenue streams. Accordingly, we will see cost of sales decline and margins increase.



### **Net Loss, General and Administrative and Marketing Expenses**

The net loss for the quarter ended December 31, 2007 was \$2,387,162 (2006 - \$1,231,842). Included in General and Administrative Expenses are increased marketing costs. Marketing expenses increased by \$79,391 to \$278,174 over the fourth quarter of 2006. The Company's focus is on generating new customers and will continue to engage resources in marketing.

Office expenses decreased by \$77,781 in the fourth quarter over 2006 primarily due to a \$51,226 decrease in computer services costs and a \$13,886 decrease in general office expenses. Professional fees increased \$233,718 to \$303,909 due to the ongoing litigation that was commenced by a Toronto company alleging that AMA engaged in patent infringement and encouraged a former employee to break their employment agreement.

Salaries, the main cost of doing business for the Company, increased to \$1,209,974 for the quarter versus \$792,140 for the fourth quarter of 2006, a \$417,834 increase. We are hiring good, qualified personnel as our customer base grows to ensure the Company is prepared for the growth as the result of our strategic business alliances that continue to open opportunities.


### **Research and Development**

Research and development costs are being expensed as incurred. The fourth quarter development costs for 2007 were \$102,408 as compared to \$173,905 in the same quarter of 2006. The majority of R&D costs are salaries, consulting expenses, testing and certification, and other expenses related to ongoing design, testing and certification of afirs UpTime. There is also a minor amount of expense associated with the preliminary phases of AeroQ.

### **Critical Accounting Policies and Estimates**

The Company prepares its financial statements in accordance with accounting principles generally accepted in Canada. The preparation of these financial statements requires Management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates are based on Management's historical experiences and various other assumptions that are believed by Management to be reasonable under the circumstances. Such assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could differ from these estimates.

The following are the Company's critical accounting policies, significant estimates, and assumptions used in preparing our financial statements:

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1. The Company maintains an allowance for doubtful accounts for estimated losses that may occur if customers are unable to pay trade balances owing to the Company. This allowance is determined based on a review of specific customers, historical experience and economic circumstances.
  2. Inventories are carried at the lower of cost and market value. Provisions for excess or obsolete inventory are recorded based on Management's assessment of the estimated market value of components and rental assets.
  3. The Company evaluates its future tax assets and records a valuation allowance where the recovery of future taxes does not meet the required level of certainty. At December 31, 2007, valuation allowances are provided for the full amount of future tax assets.
  4. The Company accrues reserves for afirs warranty expenses for the repair or replacement of defective products sold. The warranty reserve is based on an assessment of the historical experience of the Company. If the Company suffers a decrease in the quality of its products, an increase in warranty reserve may be required.


### **Financial Instruments**

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar, and other currencies with respect to assets, sales and purchases. The Company monitors fluctuations and may take action, if deemed necessary to mitigate its risk.

The Company is exposed to changes in interest rates as a result of the operating loan, bearing interest based on the Company's lenders' prime rate.

There is a credit risk associated with accounts receivable where the customer fails to pay invoices. The Company extends credit generally to credit worthy or well established customers. In the case of network access fees or product sales the invoiced amount is generally payable before the afirs or other product is shipped to the customer. As well, for monthly recurring revenue the Company has the ability to disable afirs UpTime and/or supply data in cases where the customer has not fulfilled its financial obligations.

The Company adopted as of January 1, 2007 the new standards issued by the Canadian Institute of Chartered Accountants ("CICA") regarding the recognition, measurement, disclosure and presentation of financial



instruments. Under these standards, financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. The new standards require that all financial instruments within the scope of the standards, including all derivative instruments be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The adoption of these new standards had no impact on the Company's accounts and deficit position as at December 31, 2007. As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading, accounts receivable are classified as loans and receivables. Accounts payable and certain accrued liabilities are classified as other liabilities all of which are measured at amortized cost. Carrying values approximate the fair values due to the short term nature of the instruments.

### **Subsequent Events**

On March 13th, 2008 the Company issued 4,500,000 units at \$1.00 per unit for net cash proceeds of \$4,041,460. Each unit consists of one common share and one-half purchase warrant whereby one whole warrant may be exercised into one common share at a price of \$1.30 any time until March 12, 2010.

Since December 31, 2007 the Company issued 4,476,597 common shares on the exercise of warrants for cash proceeds of \$1,767,411 and 481,00 common shares on the exercise of stock options for cash proceeds of \$135,360.



## **Contingencies**

The Company is defending itself in actions instigated by the same plaintiff and the Company believes that, as the amount of liability is undetermined at this time, no liability has been accrued for claims on these actions:

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 in respect to this action has been included in these consolidated 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 interference with legally binding contracts, disrupted business, attacks on the Company's reputation, and costs. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

In September 2007, the Company was served with a claim of patent infringement seeking unspecified damages. The Company maintains that the claims are without merit and no liability in respect to this action has been included in these consolidated financial statements, as management intends to vigorously defend the matter and believes the outcome will be in its favour. On December 24, 2007 the Company filed a Motion to Dismiss, which was heard on April 8, 2008 and dismissed with the caveat that the plaintiff could file an amended complaint by April 30, 2008 in which both inventors are named as parties. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.



## Corporate Information

### Directors

Bill Tempany	CEO of the Company
Darryl Jacobs	President of the Company, Co-Founder
Doug Marlin	President of Marlin Ventures Ltd.
Mike Brown	Partner, Geselbracht Brown
Christine Larkin	Senior Manager, BDO Dunwoody LLP
Tim Morgan	President, Morgan Air.

### Officers

Bill Tempany	CEO
Darryl Jacobs	President
Johannes Brom	COO
Tom French	CFO
Pat Sandall	VP Sales & Marketing

### Auditor

KPMG LLP	Calgary, Alberta
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### Legal Counsel

Chris Croteau	Tingle Merrett LLP
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### Offices

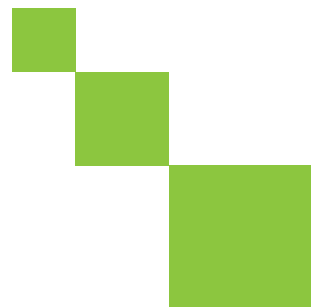
Head Office	#300, 2421 - 37 Avenue NE Calgary, Alberta T2E 6Y7
US Office	Suite 130-310, 2951 Marina Bay Drive League City, TX 77573

### Members of Audit Committee

Bill Tempany	CEO of the Company
Doug Marlin	President of Marlin Ventures Ltd.
Christine Larkin	Senior Manager, BDO Dunwoody LLP

### Members of Compensation Committee

Doug Marlin	President of Marlin Ventures Ltd.
Mike Brown	Partner, Geselbracht Brown
Tim Morgan	President, Morgan Air.



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238.27	-7.93	[8.12%]
928.10	+3.03	[0.89%]
38.23	+0.34	[0.93%]
4.23	+0.00	[1.93%]
46.02	-3.23	[1.32%]
47.38	+3.98	[0.32%]
74.32	-3.21	[0.99%]
2,494.87	-0.32	[5.32%]
2.48	+9.73	[0.02%]
332.45	+2.09	[1.87%]
86.39	+3.03	[0.89%]
4.21	+0.34	[0.93%]
132.09	+0.00	[1.93%]
33.83	+2.23	[3.78%]
57.92	-2.23	[1.32%]
23.33	-2.21	[0.73%]
832.98	+3.98	[0.32%]
73.12	0.00	[2.12%]
833.22	0.00	[0.99%]
8,212.30	0.00	[5.32%]
3.00	+9.73	[0.02%]
83.12	+2.09	[1.87%]
63.98	+9.73	[0.02%]
234.22	+0.34	[0.93%]
2.32	-0.21	[0.73%]
24.13	+3.33	[0.33%]
74.75	+0.32	[2.22%]
89.43	+4.10	[1.93%]
92.42	-0.43	[9.83%]
9329.32	+3.03	[0.89%]
23.32	+0.34	[0.93%]
928.10	+0.00	[1.93%]
38.23	+3.23	[3.78%]

