

2009 Management Discussion & Analysis

TSX.V: AMA



AeroMechanical Services Ltd.



Management Discussion & Analysis

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, 2009 and 2008. 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.

This MD&A is dated April 19, 2010.

Non-GAAP Financial Measures

The Company reports its financial results in accordance with GAAP. It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital, 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. 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, 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

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 and to ensure that the communications between terrestrial and airborne staff and assets is to the highest possible standard. Our tools also provide the ability to deliver large amounts of data if an aircraft is in distress through our FLYHTStream product.

The major products of the Company are the Automated Flight Information Reporting System ("afirs"), UpTime, Fuel Initiative Reporting System Tracker ("FIRST"), FLYHT Fuel Management System, Underfloor Stowage Unit, FLYHTStream, and AeroQ. These products are marketed globally by a team of several employees and agents based in Canada, United States, United Kingdom, France, Switzerland, Abu Dhabi, Ireland, and Argentina. A Calgary employee is currently spending more than 95% of his time in China working on opportunities there.

In 2009 AMA continued on the progress made in 2008 through an increase in recurring revenues of afirs UpTime and services revenue. This progress with these two revenue streams continues to further define AMA as an aviation solutions company. The continued research and development of our leading edge technology and services and the development of add-on products such as FIRST, FuelMI, and FLYHTStream is being transformed into a continuous telecommunications revenue stream. To further this initiative, AMA continues to add Supplemental Type Certificates ("STCs"), therefore broadening the aircraft types, models, and jurisdictions in which the afirs UpTime solution can be implemented. The process is a requirement that cannot be shortcut by any potential competitors and therefore, as the list of STCs grows, the barriers to entry increase.

As in previous years, customer installation schedules continue to be a challenge. Customer installation schedules are determined by "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 or a time limit, 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.

The acceptance of AMA as a global aviation solutions provider continues to be reinforced with the addition of agreements with industry heavyweights to the growing list of industry partners. During 2009 the Company added Sierra Nevada Corporation, GuestLogix Inc., and L-3 Communications Recorder Division to the distinguished list of partners such as Meggitt PLC. The Company continues to be involved and grow its presence in the global aviation industry through participation in various industry events and organizations. AMA's response to the Air France flight 447 mishap and its rapid delivery of FLYHTStream led to its involvement with various industry initiatives, the most notable being the European Oceanic Position Tracking Improvement and Monitoring ("OPTIMI") and the Critical Event Detection and Reporting ("CEDAR") as well as the roundtable talks organized by the French accident investigation branch, the Bureau d'Enquetes et d'Analyses pour la securite de l'aviation civile ("BEA"), into transoceanic tracking and data streaming.

Trends and Economic Factors

The Company continues to capitalize on the need for timely flight and sensor data from the aircraft to ground operations and maintenance facilities. Airlines are increasingly looking for methods to reduce costs and operate their aircraft more efficiently. Margins are extremely thin in the airline industry. Fuel and labour compete as the largest operating expenses for airlines, with fuel making up to approximately 25 percent of some 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 include: using one engine instead of two while taxiing, tankering extra fuel, operating the Auxiliary Power Unit ("APU"), configuring the aircraft for most efficient flight profiles, and removing unnecessary equipment. These are examples of ways airlines can save fuel. The Company's afirs, UpTime, FIRST, and FLYHT Fuel Management System solutions are valuable tools that provide airlines with the data to save fuel costs and to improve operational efficiency and effectively manage aircraft operations. AMA customers are showing significant return on investment over the costs of afirs and UpTime.

In 2009 the Company continued to witness weakness across a variety of financial markets, resulting in continued volatility and uncertainty on a global basis together with recessionary conditions in many economies. The Company was not immune from the impact of these economic conditions. In particular, the aviation industry has been impacted by a slowdown in the demand for air travel, both business and vacation. The offset to the industry was continued moderated fuel costs from previous years, which continued to reduce operating costs and remove some of the pressure from the industry. The Company remains optimistic about its business outlook for 2010 as the global aviation industry moves out of the recessionary period that started in 2008 and continues to adopt technology that will help it monitor flight, operations, and maintenance issues to reduce costs. The Company has seen an upsurge in interest from legacy airlines for its technology as they strive to improve operational efficiency and reduce costs, and capital budgets return to pre-2008 levels. As well there has been a surge in interest from growing markets such as South America and the Middle East. Airlines in these

markets have not seen the load factor declines of the legacy carriers and possess the capital budgets to improve the technology they are using to create efficient, low cost, technology driven operations.

The acquisition of the assets of a competitor, Wingspeed Corporation (“Wingspeed”), in October and the assumption of customer contracts and the restoration of service in December should increase monthly recurring revenue in 2010. The Company does not expect to see monthly recurring revenues at the same levels as existing AMA customers since the Wingspeed serviced customers contracted for a considerably lower level of deliverables. The Company does see the potential to sell value-added services to the Wingspeed customers as well as the opportunity to upgrade these customers to a full afirs UpTime solution over time.

The strengthening of the Canadian dollar relative to the US dollar during 2009 has negatively impacted the Company’s revenues and income. 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 rates not changed. While a significant amount of the Company’s costs are denominated in Canadian dollars, a significant portion of marketing and parts costs are US Dollar denominated, and therefore create some natural hedge against the fluctuations of the Canadian dollar.

System Approvals

AMA has received STC approvals for afirs on the following aircraft:

- ✓ Airbus A319, A320, A321
- ✓ Airbus A330
- ✓ Boeing B737-200, 300, 400, 500
- ✓ Boeing B737-500, 600, 700, 800
- ✓ Boeing B757-200
- ✓ Boeing B767-200, 300
- ✓ Bombardier DHC-8-100, 200, 300
- ✓ Bombardier CRJ100, 200, 400
- ✓ Fokker F100
- ✓ Hawker Beech 750, 850XP, 900XP, 950XP
- ✓ DC-10
- ✓ Viking Air DHC-7 (LSTC)

AMA will be submitting STC approval for afirs in 2010 on the following aircraft:

- ✓ Airbus A300, A310

- ✓ Dessault Falcon
- ✓ Embraer Legacy

AMA has STC applications in process for afirs, expected to be submitted in 2010 on the following aircraft:

- ATR-42, 72
- Boeing 747-200,400
- MD-81/82/83/87/88

In addition, the company will be filing the necessary documents to obtain approval for the afirs 228 for all currently approved 220 STCs over the next several years.

Results of Operations – Year Ended December 31, 2009

Revenues

The following table shows afirs and UpTime revenue as well as other revenue, which consists of consulting services and interest revenue. The Company's long-term investment in marketing, research and development, and building relationships has resulted in a strong pipeline of prospective customers around the world. While 2009 has been a challenging year in the aviation industry, the Company believes that the ongoing revenue streams from our existing customer base will continue to expand throughout future years through the addition of services and fleet expansions. These efforts resulted in shipments totaling 44 during 2009 compared to 90 during 2008. AMA anticipates that shipment levels will return to historical levels as the aviation industry rebounds.

The Company has two types of revenue streams relating to afirs equipment depending on the type of service agreement: (1) leases and (2) sales. In accordance with the Company's revenue recognition policy for lease type agreements, the arrangement consideration is 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. 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, the UpTime usage fees are recognized as the service is provided based on actual customer usage that month. For the Sierra Nevada Corporation ("SNC") license fee, the amount received is deferred as unearned revenue and revenue is recognized over the initial 5 year term of the agreement. The amounts recorded in unearned revenue are non-refundable. The effect in the year is that AMA received \$7,471,777 (2008: - \$5,252,618) in cash revenue, which is calculated as \$5,106,494 (2008: - \$3,176,995) reported as financial statement revenue plus \$3,756,846 (2008: - \$2,186,541) being cash received for arrangement consideration less the portion of cash received during the year that is recognized in financial statement revenue of \$1,391,563 (2008 - \$110,918).

In 2009, revenue for the Company continued to reflect the benefits of the research and development efforts that have been invested over the past 9 years. AMA has products tested, certified, and installed on aircraft to generate revenue, as well as inventory to continue the rollout to our new and existing customers.

Total revenues were \$5,106,494 and \$3,176,995 for fiscal 2009 and 2008, respectively.

	2009			2008			2007		
	afirs UpTime	Other	Total	afirs UpTime	Other	Total	afirs UpTime	Other	Total
Q1	\$ 918,410	\$335,522	\$1,253,932	\$ 349,893	\$ 48,175	\$ 398,068	\$171,778	\$ 666,140	\$ 837,918
Q2	1,225,574	98,430	1,324,004	475,675	120,588	596,263	191,278	281,844	473,122
Q3	1,386,093	135,801	1,521,894	502,966	287,027	789,993	256,710	55,974	312,684
Q4	887,236	119,428	1,006,664	1,027,491	365,180	1,392,671	282,629	83,051	365,680
Total	\$4,417,313	\$689,181	\$5,106,494	\$2,356,025	\$820,970	\$3,176,995	\$902,395	\$1,087,009	\$1,989,404

Other revenue is derived from the sale of underfloor stowage units, the sale of consulting services, licensing fees, and interest. During 2009, underfloor stowage units revenue was \$228,465 (2008 – \$254,946), consulting revenue was \$196,454 (2008 - \$484,408), licensing fees were \$257,520 (2008 – \$Nil), and interest revenue was \$6,742 (2008 - \$81,616).

Gross Margin and Cost of Sales

Gross margin before general and administrative expenses was \$2,861,893 for 2009 (2008 - \$1,017,149). This increase was the result of the continued increase in afirs UpTime revenue and the move to sales type agreements from lease type agreements, which creates a better matching of revenue recognized to the cost of shipments and installation support.

Cost of sales for afirs, UpTime was \$2,092,831 on revenues of \$4,417,313 representing a gross margin of \$2,324,482 or 52.6% in 2009. This compares to 2008's \$1,978,679 cost of sales on revenues of \$2,356,025, representing a gross margin of \$377,346 or 16% on afirs UpTime revenue. The increase in the 2009 gross margin over 2008 on afirs UpTime is primarily due to an increased number of installed afirs units under the sales type agreements versus the lease type agreements, coupled with increased functionality. The revenue and expenses under the sales type agreements revenue recognition policy are aligned, which improves the margin versus lease type agreements where revenue is deferred and recognized over the term of the contract and expenses are recognized upon shipment.

Cost of sales on other revenue was \$151,770 on revenues of \$689,181, resulting in a gross margin of \$537,411 or 78.0%. In 2008 other revenue cost of sales was \$181,167 on revenues of \$820,970, resulting in a gross margin of \$639,803 or 77.9%. While there was a reduction in the overall gross margin for other revenue in 2009, it remained consistent on a percentage basis at 78%. The decrease in other revenue in 2009 is the result of a decrease in interest revenue and consulting services.

2009				
	Revenue	Cost of Sales	Gross Margin - \$	Gross Margin - %
afirs UpTime	\$ 4,417,313	\$ 2,092,831	\$ 2,324,482	52.6%
Other	689,181	151,770	537,411	78.0%
Total	\$ 5,106,494	\$ 2,244,601	\$ 2,861,893	56.0%

2008				
	Revenue	Cost of Sales	Gross Margin - \$	Gross Margin - %
afirs UpTime	\$ 2,356,025	\$ 1,978,679	\$ 377,346	16.0%
Other	820,970	181,167	639,803	77.9%
Total	\$ 3,176,995	\$ 2,159,846	\$ 1,017,149	32.0%

2007				
	Revenue	Cost of Sales	Gross Margin - \$	Gross Margin - %
afirs UpTime	\$ 902,395	\$ 1,206,506	\$ (304,111)	(33.7)%
Other	1,087,009	144,889	942,120	86.7%
Total	\$ 1,989,404	\$ 1,351,395	\$ 638,009	32.1%

Net Loss, General and Administrative and Marketing Expenses

In 2009, the key driver of our performance continued to be the timely closing of contracts with prospective customers, airline installation schedules of afirs on contracted aircraft due to their maintenance schedules, and the timely receipt of STC approvals from multiple regulators. The key challenge continues to be the speed with which potential customers execute contracts and the difficulty in predicting the accuracy of customer-supplied aircraft maintenance schedules. As well, the

global downturn in the aviation industry adds the challenge of increasing the backlog of contracted aircraft. As a result, the net loss for the year ended December 31, 2009 was \$4,539,718 compared with \$8,523,228 loss for 2008. Efforts are being made to have OEMs install afirs in the factory and we hope to see movement in this regard in 2010.

Expense categories are not broken into departments for this year as the entire company was and is focused on getting our main products, afirs, UpTime, FLYHTStream, FIRST, and FLYHT Fuel Management System out to customers. For the year ended December 31, 2009, expenses were \$7,399,269 compared with \$9,540,377 for 2008.

Major Expense Categories	2009	2008	Variance	Explanation
Salaries and benefits, third party consulting, and share compensation	4,554,823	5,865,426	(1,310,603)	Staff levels in support positions decreased in 2009 causing salaries to decrease \$428,183 over 2009, and related statutory payments and benefits decreased \$45,992. To continue to attract and retain industry leading professionals, variable compensation was further instituted in 2009 resulting in increased variable compensation payments of \$96,000. The use of third party consultants was reduced in 2009 or the compensation arrangement was altered to be performance based resulting in a decrease in consulting costs of \$625,196. Share based compensation decreased by \$297,820 over 2009. Other staffing related expenses decreased \$10,223.
Research and development costs	574,444	745,308	(170,864)	The decrease in research and development is the result of decreased direct research and development activities during early 2009, but this trend reversed in the later half of the year with the commencement of research related to the new generation afirs hardware which will meet the requirements of regulatory changes in the aviation industry.
Office, computer services, insurance, depreciation stock exchange fees and bad debts	739,297	787,360	(48,063)	Office costs decreased \$48,063 primarily due to overall costs containment during 2008. The significant changes were a reduction in communication expenses of \$20,097 as the result of the introduction of an internet based phone system in late 2008. Bad debt expense decreased by \$134,244 due to increased diligence on collection of receivables and in 2008 one major customer declared bankruptcy which was not repeated in 2009. One time expenses related to the court appointment as interim manager of the Wingspeed assets for the period prior to the asset sale increased expenses by \$57,963. During 2009 expenses related to the relocation of the corporate offices and one recently hired industry leading professional was \$56,441. Foreign exchange loss increased \$27,222 from 2008 as the result of the strengthening of the Canadian dollar during 2009. Other office related expenses tracked either at the same level or lower than 2008.

Major Expense Categories	2009	2008	Variance	Explanation
Interest and bank charges	41,319	41,963	(644)	Bank charges decreased slightly in 2009.
Rent	400,784	240,589	160,195	Rent expense increased in 2009 as the result of the relocation of the corporate offices in early 2009. The increase was due to a combination of increased effective rental rate and the addition of office space to meet the needs of the Company.
Marketing	415,795	1,009,963	(594,168)	The decrease in marketing expenses is primarily related to the reduction in travel and associated travel expenses of \$546,966. This reduction was in response to the softening of the industry coupled with the use of various technologies to reduce the need to travel to potential customer locations. The Company expects the expenses in marketing to increase over the next year, as AMA continues to target global markets for its solutions and the industry rebounds to pre-2008 levels. Expenses related to marketing supplies and materials reduced \$47,202 from 2008 as there were adequate levels of inventory to meet the 2009 needs. Marketing costs do not include salaries.
Investor relations	85,656	158,330	(72,674)	Investor relations costs decreased \$72,674 due to the decreased emphasis on the use of investor show attendance and video presentations. The Company maintained a presence in the capital markets by presenting the Company to institutional investors, retail brokers, and retail investors via one on one meetings. The Company believes that one on one meetings are the most effective use of funds and anticipates that costs will increase in future years.
Professional fees	587,151	691,438	(104,287)	Legal fees were lower in 2009 by \$120,988 because of the withdrawal of the patent infringement action by a Toronto based company, which was partially offset by increased legal fees of \$22,400 relating to the filing of patent applications in 2009. Consulting fees were \$144,211 in 2009 compared to \$170,904 in 2008, a decrease of \$26,692. This decrease is primarily due to consulting related to the operations of Wingspeed of \$34,819 and a decrease of \$61,511 for third party consultants during 2009. Audit and accounting related expenses increased from \$78,270 in 2008 to \$121,664 in 2009 or \$43,394 due to increased audit expenses, IFRS consulting to prepare for the January 1, 2011 implementation, and the increased audit work associated with the purchase of the Wingspeed assets.
Total	7,399,269	9,540,377	(2,141,108)	

UpTime recurring fees should increase over time as more aircraft are installed with afirs and customers contract for the FIRST and FuelMI products that were introduced in 2009.

Quarterly Results

2009				
	Q4	Q3	Q2	Q1
Revenue	\$1,006,664	\$1,521,894	\$1,324,004	\$1,253,932
Loss	1,189,445	717,268	1,333,969	1,299,036
Loss/Share	0.01	0.01	0.02	0.02

2008				
	Q4	Q3	Q2	Q1
Revenue	1,392,671	789,994	596,263	398,067
Loss	1,912,469	1,814,010	2,709,237	2,087,512
Loss/Share	0.02	0.02	0.03	0.03

2007				
	Q4	Q3	Q2	Q1
Revenue	365,680	312,684	473,122	837,918
Loss	2,387,162	1,693,258	1,978,629	809,265
Loss/Share	0.04	0.03	0.03	0.01

UpTime recurring fees should increase over time as more aircraft are installed with afirs and customers contract for the FIRST and FuelMI products that were introduced in 2009.

Research and Development

Research and development (“R&D”) costs are being expensed as incurred. The majority of R&D costs are consulting expenses related to the design, testing, and manufacture of afirs, the design and testing of UpTime, and the design and testing of FIRST, FLYHTStream, and FLYHT Fuel Management System. During the last quarter of 2009, R & D commenced on the development of the next generation afirs known as afirs 228 (the “228”). This next generation product is aimed at meeting the global regulatory changes to air traffic control systems. The project budget for the 228 was approved by the Board of Directors at \$4.4 million through 2011. The Company anticipates receiving federal government funding to offset some of this R & D.

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 2009, over 98% of the Company’s gross sales were made in U.S. dollars compared to 97% in 2008. The Company expects this to continue since the aviation industry conducts a majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company will continue to look for opportunities to denominate agreements in other major currencies to reduce the exposure to fluctuations in the U.S. dollar.

Transactions with Related Parties

During the year, the Company’s transactions with a company owned by a director to supply consulting services and travel expenses totaled \$113,101 compared to \$73,694 in 2008. All of the transactions were at amounts that were agreed upon by the parties and approximated fair market value. The remaining transactions with related parties were normal 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 2009, the Company issued common shares through private and brokered placements and the exercise of stock options. This has improved the financial position of the Company, especially when coupled with the increased cash based revenue.

The Company issued 4,175,000 common shares on October 8th, 2009 pursuant to a non brokered private placement at \$0.40 resulting in gross proceeds of \$1,670,000. Pursuant to a brokered placement that closed on November 20th, 2009 the Company issued 16,000,000 units at \$0.50 for gross proceeds of \$8,000,000. Each unit consisted of one common share and one-half of one share purchase warrant where one full warrant is exercisable until May 20, 2011 at \$0.75. The net cash proceeds after issuance costs of the brokered placement totaled \$7,360,000. This brokered placement also included the issuing of an additional 1,120,000 agent warrants, which entitle the holder to acquire one common share at \$0.50 until November 20th, 2010. A further 823,167 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 \$0.21, resulting in cash proceeds of \$173,467.

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, 2009 was \$7,572,447 compared to \$1,335,314 in 2008 an increase of \$6,237,133. The increase in working capital is primarily attributed to the net funds generated from the raising of capital equity of \$9,100,723 less the operating loss for the year of \$4,539,718; the remaining increase of \$1,675,735 is the result of various changes in working capital components as the result of business operations during the year.

Neither customer deposits nor the current portion of unearned revenue are refundable and if those two items were not included in the working capital calculation, the resulting modified working capital at December 31, 2009 would be \$9,785,744 compared to \$2,981,781 in 2008.

The Company currently has an available operating line of \$250,000 which had not been drawn at December 31, 2009. 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. If general economic conditions or the financial condition of a major customer deteriorates then the Company may have to raise the necessary financing in the capital markets.

As at April 19, 2010, AMA's issued and outstanding shares was 103,582,386.

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:

Year	Premises	Equipment	Total
2010	419,619	119,165	538,784
2011	432,652	90,328	522,980
2012	445,685	32,319	478,004
2013	458,718		458,718
2014	76,815		76,815
	\$ 1,833,489	\$ 241,812	\$ 2,075,301

In addition, the Company has repayment obligations related to two Government of Canada loan programs. Under the Industrial Research Assistance Program (IRAP), the outstanding balance is \$246,134 (2008 – \$307,101), 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 an outstanding balance of \$66,298 (2008 - \$85,410) to be repaid based on 15% of the initial contribution, which equates to \$19,122 per year for a 10 year repayment period. The yearly repayment is due if the Company has achieved more than a 10% increase in gross revenue over the previous year and the gross revenue exceeds the base gross revenue that was set in fiscal of 2004 of \$556,127. The repayment period commenced January 1st, 2005.

During 2009, AMA leased computer equipment totaling \$245,810 (2008 - \$47,350), which was accounted for as capital leases that expire in various years to 2012. The minimum lease payments are as follows:

Year	Total
2010	\$ 119,165
2011	90,328
2012	32,319
	\$ 241,812

The imputed interest is \$17,861 (2008 - \$17,575), leaving a total obligation of \$223,951 (2008 - \$55,425).

Results of Operations – Three Months Ended December 31, 2009

Revenues

During the fourth quarter \$725,565 (2008 - \$1,934,462) was received in cash revenue which is calculated as \$1,006,664 (2008 - \$1,392,672) and reported as financial statement revenue plus \$293,460 (2008 - \$624,805) being cash received for arrangement consideration less the portion of cash recognized during the quarter that is included in financial statement revenue of \$574,560 (2008 - \$83,015). Shipments during the fourth quarter totaled 7 compared to 25 during the same quarter of 2008.

Revenue decreased \$386,007 in the fourth quarter compared to the fourth quarter of last year, and afirs UpTime revenues decreased by \$95,032 over the fourth quarter of 2008. Product sales revenue decreased \$227,882 and services revenue and interest decreased \$63,093 over the same quarter of the previous year. The decrease in afirs UpTime revenue is the result of the decreased number of shipments during the quarter compared to the same quarter of 2008. This decrease can be directly attributed to the sluggishness of the aviation industry and the reduction in capital spending. The offset was an increase of 48.8% in recurring revenue in the quarter versus the same quarter of 2008 to \$579,248 from \$389,254, which indicates that the initiatives to maximize the revenue from installed equipment are bearing fruit. The decrease in product sales revenue can be directly attributed to a large volume of sales of underflow storage product in the fourth quarter of 2008 that did not occur in the same quarter of 2009. Product sales revenue historically fluctuates between quarters. The services revenue decrease was the result of consulting that was undertaken in the fourth quarter of 2008 for a major airline and an original equipment manufacturer as well as chargeable installation support for an airline customer. This type of consulting and installation support was not required in the fourth quarter of 2009.

Gross Margin and Cost of Sales

Cost of sales in the fourth quarter of 2009 is \$356,597 compared to \$847,179 in 2008, a decrease of \$490,582. The gross margin for the fourth quarter of 2009 was 64.6% versus 38.1% for the same period of 2008. Included in cost of sales are costs of non-routable parts and travel expenses for our engineers on initial installations of aircraft. Also, the introduction of the sales type agreement increased the gross margin as all cost of sales are recognized when the revenue is recognized instead of the revenue being recognized over the first term of the agreement and costs such as non-routable supplies and installation support being recognized when incurred. Accordingly, the change to sales type agreements has had the anticipated consequences with a cost of sales decline and an increase in margins. This is also coupled with increasing recurring revenue as a percentage of total revenue during the quarter, which will increase the overall margin as a percentage of sales since the cost of sales for recurring revenue is lower than that for afirs shipments and its corresponding non-routable supplies and support.

Net Loss, General and Administrative, and Marketing Expenses

The net loss for the quarter ended December 31, 2009 was \$1,189,445 (2008 - \$1,912,469). Included in general and administrative expenses are decreased marketing costs. Marketing expenses

decreased by \$97,356 to \$127,420 over the fourth quarter of 2008. The Company's focus is on generating new customers and as such will continue to engage resources in marketing; however, the sales and marketing team has focused on the use of technology to meet the needs of potential customers while minimizing the costs associated with marketing to the global aviation industry. The use of agents in key markets has further reduced the need for North American based sales personnel to travel as extensively. As the aviation industry rebounds and the demand for the Company's products and services increases there is an anticipation that marketing costs will increase.

Office expenses increased by \$29,566 in the fourth quarter over the same period of 2008, primarily due to a move of the corporate office in early 2009, increasing the fourth quarter rent expense by \$56,777 which was offset by a decrease in other general office expenses of \$27,211.

Salaries, the main cost of doing business, decreased to \$1,028,532 for the quarter versus \$1,504,493 for the fourth quarter of 2008, a \$475,961 decrease. This decrease is the result of the consolidation of functions and operational efficiencies that were instituted during 2009. The Company continues to hire qualified personnel as our customer base grows to ensure the Company is prepared for growth as the result of our strategic business alliances that continue to open opportunities. As these opportunities are solidified, it is expected that salaries will increase to meet the demands of the market place.

Stock-based compensation was \$81,737 in the fourth quarter of 2009 compared to \$34,757 in the same period of 2008. The increase was due to an option grant to non-executive employees in the quarter to recognize their service to the Company at a higher fair value than the corresponding option grant in the fourth quarter of 2008. As well, 50% of an option grant in May 2009 to a consultant vested during the quarter.

Research and Development

R & D costs are being expensed as incurred. The fourth quarter development costs for 2009 were \$133,392 as compared to \$258,158 in the same quarter of 2008. The decrease during the quarter was due to the timing of resources being placed into the planning process for the next generation afirs product in collaboration with Sierra Nevada Corporation as well as UpTime, FIRST, FLYHTStream, and FLYHT Fuel Management System. The majority of R&D costs are comprised of consulting expenses, testing and certification, and other expenses. Once the planning phase is completed in the early first quarter of 2010, the research and development costs will increase accordingly.

Critical Accounting Policies and Estimates

The Company prepares its consolidated 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:

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 net realizable value. Provisions for excess or obsolete inventory are recorded based on Management's assessment of the estimated market value of raw materials and afirs completed.
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, 2009, valuation allowances are provided for the full amount of future tax assets.
4. The Company records amounts for warranty based on the actual costs associated with replacing components that are not functioning and these costs are recorded at the time a warranty claim is determined.
5. Intangible assets are stated at cost and comprise a license, customer contracts, and customer relationships. The license has an indefinite life. The customer contracts and relationships are amortized using the straight line method over the remaining life of the assumed contract. Intangible assets not subject to amortization are subject to an annual impairment test or more frequently if events or circumstances change that indicate that the carrying value may not be recoverable. Intangible assets subject to amortization are tested for impairment if events or circumstances indicate that the underlying value of the contract or relationship has changed.
6. The Company recognizes revenue from lease type agreements as agreement consideration, which is recorded as unearned revenue and recognized into revenue over the term of the lease agreement. Sales type agreement consideration is deferred as unearned revenue and corresponding expenses are recorded as work in progress until the system is fully functional and customer acceptance has been obtained at which time the full deferred amount is recognized in revenue along with the work in progress as cost of sales. For both types of agreements the revenue from UpTime usage fees is recognized at the end of each month and is based on actual usage during that month.

Underfloor stowage unit revenue is recognized when the unit is shipped and consulting services revenue is recognized when the services are completed.

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 agreement consideration or product sales the invoiced amount is generally payable before the afirs or other product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis will require that a deposit payment be made before a service is provided. 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.

Wingspeed Acquisition

On October 26, 2009, the Company purchased the assets of Wingspeed Corporation from the court-appointed receiver for cash consideration of \$310,780 and acquisition costs of \$194,220 for a total consideration of \$505,000. The purchase included but was not limited to the assumption of 3 customer contracts covering 51 aircraft, all intellectual property, tangible personal property, licenses and permits, product files, FAA Part 145 repair station status, and title and interest to know - how and technology. The operations of Wingspeed had ceased in August 2009, and AMA's primary goal after the acquisition was to restore service to the customers using onboard Wingspeed hardware and AMA's ground-based UpTime service. This was accomplished by the end of 2009, and recurring monthly service invoicing commenced in January 2010. The acquisition was accounted for under the new CICA Handbook Section 1581 "Business Combinations" and included in the financial results after October 26, 2009. Additional details relating to the acquisition are included in note 3 of the consolidated financial statements.

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 in respect to this action has been included in the 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.

Adoption of New Accounting Standards

As of January 1, 2009, the Company adopted the newly issued accounting standard, CICA Handbook Section 3064 "Goodwill and Intangible Assets", relating to the method of accounting for goodwill and

intangible assets and the related disclosures. The adoption of these standards had no effect on the Company's consolidated financial statements.

Pending Pronouncements

The CICA issued Section 1582, "Business Combinations", which replaces former guidance on business combinations. Section 1582 establishes principles and requirements for the acquisition method for business combinations and related disclosures. This statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first reporting period beginning on or after January 2011 with earlier application permitted. The Company has chosen not to early adopt the new section.

The CICA issued Sections 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests", which replaces existing guidance. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 provides guidance on accounting for non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. These standards are effective on or after the beginning of the first annual reporting period beginning on or after January 2011 with earlier application permitted. The Company has chosen not to early adopt the new section.

International Financial Reporting Standards Changeover Plans

International Financial Reporting Standards ("IFRS") are to be implemented by the Company on January 1st, 2011 and CSA Notice 522-320 requires that progress on IFRS changeover plans be disclosed. AMA has completed a formal gap analysis of the differences between IFRS and Canadian GAAP. This analysis was reviewed by both the Audit Committee and external advisors. Based on that analysis the Company has commenced a detailed review and the preparation of white papers on areas of significant difference. To date AMA has identified the following areas where differences will occur but has not yet determined the potential impact on its financial statements. These areas are:

1. Property Plant & Equipment

The decision to adopt the cost model instead of revaluation will probably be made. Current depreciation rates have been reviewed and will most likely be deemed appropriate for all property, plant and equipment.

2. Impairment

IFRS results in increased exposure to impairment write downs. The movement from the existing afirs 220 to afirs 228 may result in impairment depending on the demand level for the afirs 220 at the time of transition. The Company has determined that it has a limited number of cost generating units ("CGU").

3. Leases

The Company has determined that there is no effect on the classification of capital versus operating leases.

4. IFRS 1

The most significant item under IFRS 1 will be determining the opening values for Property Plant and Equipment and if the cost model is appropriate. As well it is most likely that the election will be made to move cumulative translation gains and losses to Retained Earnings at December 31, 2009 as well as maintaining the investment value of FLYHT Inc. at the current carrying value.

The Company will continue to work in conjunction with its IFRS advisors to have the white papers and decisions made in the first half of 2010 with opening 2010 Balance Sheet completed and audited during the third quarter of 2010. The timing will be somewhat dependent on the availability of the IFRS consultant and AMA's auditors.