

# MANAGEMENT DISCUSSION AND ANALYSIS

2010 ANNUAL REPORT



F L **Y** H T™

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, 2010 and 2009. 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 6, 2011.

### 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 but does not include internal labour costs. 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 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 patent pending FLYHTStream™ product.

### *AFIRSTM UpTimeTM*

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 transfers 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 has developed and has patent pending technology to stream data off an aircraft in real-time. If an airplane 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 the 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 teamed up with an award winning user experience development team to design this unique application that highlights exceptions to best practices, provides quick drill downs to spot the 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 (EFBs). The system can also operate independently of AFIRS.

### *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 the 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, costs are shown. This tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

### *The Underfloor Storage 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 the Bombardier CRJ series, Challenger and DHC-8’s and can also be installed in other aircraft types.

AMA’s products are marketed globally by a team of several employees and agents based in Canada, the United States, the 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 2010 AMA continued on the progress made in 2009 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. While the rate of increase slowed in 2010 from previous years the number of total flight hours since 2005 passed through the 700,000 hour mark with approximately 300,000 hours of those being in 2010 versus 211,000 in 2009. Our continued research and development of our leading edge technology and services and the continued development of value added products such as FIRST, FLYHT Fuel Management System, and FLYHTStream is being transformed into a continuous telecommunications revenue stream. To further this initiative, AMA continues to add Supplemental Type Certificates (“STCs”), which broadens 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 barrier to entry for competitive products increases.

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.

## 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% 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. The Company’s AFIRS, UpTime, FIRST, and FLYHT Fuel Management System solutions are valuable tools that provide airlines with the data to reduce 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 2010 the Company continued to witness weakness across a variety of financial markets, resulting in continued volatility and uncertainty leading to the 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 has been minor and remains far from the pre-recession levels. The industry continued to see reduced fuel costs which lead to a reduction in operating costs. The Company remains optimistic about its business outlook for 2011 as the global aviation industry continues to move 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 interest from legacy airlines for its technology as they strive to improve operational efficiency and reduce costs, as capital budgets return to pre-2008 levels.

As well, there has been a surge in interest from growing markets such as Africa, 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 2009 and the assumption of customer contracts and the restoration of service in December 2009 had the desired effect of increasing monthly recurring revenue in 2010. The Company did 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 has capitalized the opportunity to sell value-added services to Wingspeed customers as well as pursue the opportunity to upgrade them to a full AFIRS UpTime solution over time.

During 2010 AMA signed four contracts, including the largest single contract in its history. For competitive and confidentiality reasons the Company is not able to disclose the customers’ names publicly. In March AMA signed two contracts in Nigeria. The first was with the Nigerian Civil Aviation Authority (“NCAA”) to provide services and equipment to establish a state-of-the-art Operations Command Centre in Lagos, Nigeria. The initial order for the equipment, training and commissioning of the centre was \$281,000. The second was a five-year contract to provide a Nigerian based operator

with patented AFIRS UpTime technology for their fleet of aircraft. If AMA is able to install on all contracted aircraft and provide services for the full term of the contract the gross revenues will be approximately \$2,514,000 USD. The third contract of 2010 was signed in July 2010 with an African air carrier for a five-year term with a potential gross revenue of \$205,000 USD, if AMA is able to install on all contracted aircraft and provide services for the full term of the contract. The final contract of 2010 was signed with a Scandinavian airline in July 2010 with a potential gross revenue of \$4,353,360 USD, if AMA is able to install on all contracted aircraft and provide services for the full five-year term of the contract.

The continued strength of the Canadian dollar relative to the U.S. dollar during 2010 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 parts costs are U.S. dollar denominated, and therefore create a natural hedge against the fluctuations of the Canadian dollar.

## System Approvals

A supplemental type certificate ("STC") is an airworthiness certification required to modify an aircraft from its original design and is issued by an aviation regulator. AMA's AFIRS equipment is an addition to an aircraft and therefore an STC is required prior to installation. AMA has received or applied for AFIRS product approvals from Transport Canada ("TC"), the Federal Aviation Administration ("FAA") in the United States, the European Aviation Safety Agency ("EASA") in Europe, and the General Administration of Civil Aviation of China ("CAAC") for various aircraft models, depending on customer requirements.

The process to receive a STC takes some time to complete, but in all cases it starts with an application for the STC through any one of TC, FAA or EASA. Generally, AMA starts the process with TC by opening an application with the regulator and then an STC data package is created. This data package consists of the engineering documents that outline how the AFIRS equipment will be installed on the aircraft. This data package is submitted to TC for approval and once that stage of approval is received, ground and flight testing takes place. To fulfil the flight test requirement, AMA must have access to the appropriate type and model of aircraft. This is done with the cooperation of either an existing or potential customer. Once these tests are completed, AMA submits an activation data package to TC that enables the AFIRS unit to be integrated into the aircraft systems. If TC approves the submission an STC is issued. To obtain an STC from another regulator AMA prepares an application which is sent through TC to the regulator such as FAA, EASA or CAAC along with the STC package previously approved by TC. The regulator reviews the package and issues their STC based on that review and approval.

The time required for the approval process through TC will vary depending on the aircraft and workloads but a general rule of thumb is about three months with a further minimum of three months if an STC is required from another regulator such as FAA, EASA or CAAC.

AMA has received STC approvals for AFIRS 220 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, 400
- ✓ Bombardier CRJ100, 200, 400
- ✓ DC-10
- ✓ Fokker F100
- ✓ Hawker Beech 750, 850XP, 900XP, 950XP
- ✓ Viking Air DHC-7 (LSTC)

AMA has received STC approvals for AFIRS 228 on the following aircraft:

- ✓ Hawker Beech 750, 850XP, 900XP, 950XP

AMA has STC applications in process for AFIRS 220 or 228, expected to be submitted in 2011, depending on market requirements, for the following aircraft:

- ATR-42, 72
- Boeing 747-200,400
- Boeing B777
- Bombardier CRJ-700, 900
- Dassault Falcon 2000
- Embraer EMB – 135/145 (includes Legacy)
- McDonnell Douglas MD-81/82/83/87/88

In addition, the Company will be filing the necessary documents to obtain approval for the AFIRS 228 for a majority of currently approved 220 STCs, depending on market requirements, over the next several years. Portions of those costs, including salaries and salary burden, will be covered by funding provided by Industry Canada in February 2011 under the Strategic Aerospace Defence Initiative program (see “Subsequent Event”).

## RESULTS OF OPERATIONS – YEAR ENDED DECEMBER 31, 2010

### Revenues

The following table shows AFIRS and UpTime revenue as well as other revenue, which consists of consulting services, license fees 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 2010 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 through future years with the addition of services and fleet expansions. Recurring revenue continued to increase in 2010 despite a reduction in customers due to bankruptcies. During 2010 shipments totaled 27 compared to 44 during 2009.

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,

the UpTime usage fees are recognized as the service is provided based on actual customer usage each month. For the Sierra Nevada Corporation (“SNC”) license fee, the amount received is deferred as unearned revenue and revenue is recognized over the initial five year term of the agreement. The amounts recorded in unearned revenue are non-refundable.

The effect in 2010 is that AMA received \$6,050,023 (2009: - \$7,471,777) in cash revenue, which is calculated as \$4,967,861 (2009: - \$5,106,494) reported as financial statement revenue plus \$1,072,378 (2009: - \$3,756,846) being cash received for arrangement consideration less the portion of cash received during the year that is recognized in financial statement revenue of \$1,082,161 (2009 - \$1,391,563).

Total revenues were \$4,967,861 and \$5,106,494 for fiscal 2010 and 2009, respectively.

	2010			2009			2008		
	AFIRS UpTime	Other	Total	AFIRS UpTime	Other	Total	AFIRS UpTime	Other	Total
<b>Q1</b>	\$1,015,181	\$97,695	\$1,112,876	\$ 918,410	\$335,522	\$1,253,932	\$349,893	\$48,175	\$ 398,068
<b>Q2</b>	1,169,311	111,836	1,281,147	1,225,574	98,430	1,324,004	475,675	120,588	596,263
<b>Q3</b>	924,042	157,887	1,081,929	1,386,093	135,801	1,521,894	502,966	287,027	789,993
<b>Q4</b>	1,023,616	468,293	1,491,909	887,236	119,428	1,006,664	1,027,491	365,180	1,392,671
<b>Total</b>	<b>\$4,132,150</b>	<b>\$835,711</b>	<b>\$4,967,861</b>	<b>\$4,417,313</b>	<b>\$689,181</b>	<b>\$5,106,494</b>	<b>\$2,356,025</b>	<b>\$820,970</b>	<b>\$3,176,995</b>

Other revenue is derived from the sale of Underfloor Stowage units, the sale of consulting services, licensing fees, commissions and interest. During 2010, Underfloor Stowage Unit revenue was \$46,346 (2009 – \$228,465), consulting revenue was \$506,625 (2009 - \$196,454), licensing fees were \$257,520 (2009 – \$257,520), commissions were \$8,607 (2009 - \$Nil) and interest revenue was \$16,613 (2009 - \$6,742).

## Gross Margin and Cost of Sales

Gross margin before general and administrative expenses was \$3,006,116 for 2010 (2009 - \$2,861,893). This increase was the result of the continued increase in recurring revenue as a percentage of total revenue and increased technical services and licensing revenue which have significantly higher margins than the margins associated with the shipment of installation kits.

Cost of sales for AFIRS UpTime was \$1,925,672 on revenues of \$4,132,150 representing a gross margin of \$2,206,478 or 53.4% in 2010. This compares to 2009’s \$2,092,831 cost of sales on revenues of \$4,417,313, representing a gross margin of \$2,324,482 or 52.6% on AFIRS UpTime revenue. The increase in the 2010 gross margin over 2009 on AFIRS UpTime is primarily due to the higher level of recurring revenue as a percentage of the total at the higher gross margin associated with the recurring revenue stream. Cost of sales on other revenue was \$36,073 on revenues of \$835,711, resulting in a gross margin of \$799,638 or 95.7%. In 2009 other revenue cost of sales was \$151,770 on revenues of \$689,181, resulting in a gross margin of \$537,411 or 78.0%.

The increase in other revenue in 2010 is the result of an increase in interest revenue and consulting services which is partially offset by a decrease in revenue from Underfloor Stowage Units.

2010				
	Revenue	Cost of Sales	Gross Margin - \$	Gross Margin - %
<b>AFIRS UpTime</b>	\$ 4,132,150	\$ 1,925,672	\$ 2,206,478	53.4%
<b>Other</b>	835,711	36,073	799,638	95.7%
<b>Total</b>	<b>\$ 4,967,861</b>	<b>\$ 1,961,745</b>	<b>\$ 3,006,116</b>	<b>60.5%</b>

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

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

## Net Loss, General and Administrative and Marketing Expenses

In 2010, 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. In addition, the Company is placing significant resources into the development of the next generation AFIRS 228 to meet the needs of the aviation industry and the changing international regulations. As a result, the net loss for the year ended

December 31, 2010 was \$9,121,181 compared with \$4,539,718 loss for 2009. If direct research and development expenses were excluded from the net loss the resulting net loss before research and development would be \$4,263,686 for 2010 compared to a loss before research and development in 2009 of \$3,965,274. Efforts are being made to have Original Equipment Manufacturers (“OEM”) install AFIRS in the factory and with the announcement in 2010, an agreement with Hawker Beechcraft has been established. AMA is working to strengthen the OEM initiatives throughout 2011.

Expense categories are not segregated by department for 2010 as the entire company has been focused on delivering our main products, AFIRS, UpTime, FLYHTStream, FIRST, and FLYHT Fuel Management System out to customers. For the year ended December 31, 2010, expenses were \$12,123,028 compared with \$7,399,269 for 2009. If direct expenses related to the research and development activities carried out during the year, including the extensive development of the next generation AFIRS 228, were removed, expenses for 2010 would be \$7,265,533 compared with \$6,824,825 for 2009.

Major Expense Categories	2010	2009	Variance	Explanation
<b>Salaries and benefits, third party consulting, and share compensation</b>	\$ 4,930,400	\$ 4,554,823	\$ 375,577	Staff levels in technical positions increased in 2010 causing salaries to increase \$232,122 over 2009, and related statutory payments and benefits increased \$57,854. Technical staffing levels were increased to meet the needs of the AFIRS 228 project and to increase the senior level technical depth of AMA. To continue to attract and retain industry leading professionals, variable compensation was further instituted in 2010 resulting in increased variable compensation payments of \$96,692. Variable compensation was 7.2% of salaries in 2010 versus 4.7% in 2009. The use of third party consultants increased in 2010 resulting in an increase in consulting costs of \$146,678. Share based compensation decreased by \$155,722 over 2009. Other staffing related expenses decreased by \$2,047.
<b>Research and development costs</b>	4,857,495	574,444	4,283,051	The increase in research and development is the result of increased direct research and development activities related to the next generation AFRS 228 hardware which will meet the requirements of regulatory changes in the aviation industry.
<b>Office, computer services, insurance, depreciation, stock exchange fees and bad debts</b>	693,844	739,297	(45,453)	Office costs decreased \$45,453 primarily due to overall costs containment initiatives that began during 2009. The significant changes were a reduction in miscellaneous expenses of \$108,151 as the result of the fact that in 2009 this expense category included the relocation of the corporate offices. Insurance expense decreased \$20,042 due to an aggressive marketing of the Company to insurance underwriters resulting in increased coverage at a lower premium. Bad debt expense increased by \$90,110 due to two customers declaring bankruptcy as compared to one in 2009. Telephone expense increased \$9,456 due to the increased activity with customers and potential customers in various ares of the world. Equipment expenses relating to the maintenance of computer equipment increased \$20,048. Foreign exchange loss decreased \$69,616 from 2009 as the result of the strengthening of the Canadian dollar during 2010. Amortization increased \$33,658 due to the additional of equipment and leasehold improvements during the later part of 2009 and into 2010. Other office related expenses tracked either at the same level or lower than 2009.

Major Expense Categories	2010	2009	Variance	Explanation
<b>Interest and bank charges</b>	48,692	41,319	7,373	Bank charges increased in 2010 due to interest on the debenture issued in December 2010 of \$8,741 and the amortization of debt issue costs of \$1,931 which was partially offset by a reduction in capital lease interest of \$4,226.
<b>Rent</b>	471,758	400,784	70,974	Rent expense increased in 2010 as the result of the recognition of contracted increase in lease rates over the five year rental period.
<b>Marketing</b>	460,163	415,795	44,368	The increase in marketing expenses is primarily related to increased travel and associated travel expenses of \$57,888. The Company expects the expenses in marketing to increase over the next year, as the industry continues to rebound and AMA continues to target global markets with its solutions. Expenditures on advertising and trade shows decreased \$6,608 which was the result of a the adoption of a targeted approach to trade show attendance based on the success data from previous years. Expenses related to marketing supplies and materials reduced \$6,912 from 2009 as there were adequate levels of inventory to meet the 2010 needs. The Company expects expenditures on marketing supplies materials to increase in 2011 as supplies are updated to reflect new product offerings. Marketing costs do not include salaries.
<b>Investor relations</b>	102,067	85,656	16,411	Investor relations costs increased \$16,411 due to the increased emphasis on maintaining a presence in the capital markets by presenting the Company to institutional investors, retail brokers, and retail investors via one on one meetings. As well the Company believes that one on one meetings are the most effective use of funds and anticipates that costs will increase in future years. As well during the latter part of 2010 the Company invested in the preparation of a social media launch during early 2011.
<b>Professional fees</b>	558,609	587,151	(28,542)	Legal fees were lower in 2010 by \$34,387 because of the decreased need for legal representation relating to an action by a Toronto based company and a reduction of \$28,017 in general legal costs. These reductions are partially offset by increased legal fees of \$17,906 relating to intellectual property protection in 2010 and increased costs of \$50,777 related to work with the Federal Aviation Administration on behalf of customers. Consulting fees were \$95,077 in 2010 compared to \$144,211 in 2009, a decrease of \$49,134. This decrease is primarily due to consulting related to the operations of Wingspeed of \$33,461. Audit and accounting related expenses increased from \$121,664 in 2009 to \$176,642 in 2010 or \$54,978 due to increased audit expenses, IFRS consulting to prepare for the January 1, 2011 implementation, and the increased audit work associated with the increased complexity of the business.
<b>Total</b>	<b>\$12,123,028</b>	<b>\$7,399,269</b>	<b>\$4,723,759</b>	

## Quarterly Results

2010				
	Q4	Q3	Q2	Q1
<b>Revenue (GAAP)</b>	\$1,491,909	\$1,081,929	\$1,281,147	\$1,112,876
<b>Revenue (cash)</b>	1,644,702	1,361,860	1,704,791	1,338,670
<b>Loss</b>	1,907,360	2,596,646	2,548,584	2,068,591
<b>Loss (before R &amp; D)</b>	590,595	1,135,458	1,370,475	1,259,988
<b>Loss/Share (basic &amp; fully diluted)</b>	0.02	0.03	0.02	0.02
<b>Assets</b>	11,023,683	5,937,150	8,051,911	10,206,469
<b>Long Term Financial Liabilities</b>	2,414,001	155,001	219,392	273,512

2009				
	Q4	Q3	Q2	Q1
<b>Revenue (GAAP)</b>	\$1,006,664	\$1,521,894	\$1,324,004	\$1,253,932
<b>Revenue (cash)</b>	725,565	1,133,796	2,783,947	2,828,469
<b>Loss</b>	1,189,445	717,268	1,333,969	1,299,036
<b>Loss (before R &amp; D)</b>	1,056,053	706,747	1,103,034	1,099,440
<b>Loss/Share (basic &amp; fully diluted)</b>	0.01	0.01	0.02	0.02
<b>Assets</b>	11,748,758	4,293,568	5,284,262	6,023,170
<b>Long Term Financial Liabilities</b>	321,043	398,074	335,399	307,060

2008				
	Q4	Q3	Q2	Q1
<b>Revenue (GAAP)</b>	\$1,392,671	\$789,994	\$596,263	\$398,067
<b>Revenue (cash)</b>	1,934,462	1,498,481	1,210,833	608,842
<b>Loss</b>	1,912,469	1,814,010	2,709,237	2,087,512
<b>Loss (before R &amp; D)</b>	1,654,311	1,803,489	2,478,302	1,887,916
<b>Loss/Share (basic &amp; fully diluted)</b>	0.02	0.02	0.03	0.03
<b>Assets</b>	5,959,845	7,196,256	8,685,414	9,748,505
<b>Long Term Financial Liabilities</b>	318,577	368,314	375,476	400,471

UpTime recurring fees should increase over time as more aircraft are installed with AFIRS and existing customers contract for additional services such as FIRST, FLYHT Fuel Management System and technical consulting.

## 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 2010 R&D efforts on the development of the next generation AFIRS known as AFIRS 228 moved into the full development stage resulting in R&D expense for 2010 of \$4,857,495 versus \$574,444 which is an increase of \$4,283,051. As mentioned in Liquidity and Capital Resources, the costs related to the work undertaken by SNC totaling \$1,821,601 are currently being renegotiated.

While this initiative is significant, this next generation product is important to any air carrier if it is to meet the global regulatory changes to air traffic control systems. Subsequent to the end of 2010, the Company received federal government repayable funding of up to \$1,967,507 to offset some of the R&D expenses related to the AFIRS 228.

## 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 2010, over 98% of the Company’s gross sales were made in U.S. dollars, unchanged from 2009. 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 \$92,944 compared to \$113,101 in 2009. All of the transactions were amounts that were agreed upon by the parties and approximated fair market value. The related party provides business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company. All other transactions with related parties were normal business transactions related to their positions with the Company. These transactions included 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 2010, the Company issued common shares through a brokered private placement and the exercise of stock options. The Company also issued unsecured convertible debentures. This has improved the financial position of the Company, especially when coupled with the decrease in cash revenue which is the result of a lower level of AFIRS installation kit shipments during the year.

On December 23, 2010, the Company issued 14,985,080 share units pursuant to a brokered private placement at \$0.25 per share unit resulting in gross proceeds of \$3,746,270. Each share unit consists of one common share and one common share purchase warrant (each, a “Share Unit Warrant”). Each Share Unit Warrant entitles the holder thereof to acquire once common share at a price of \$0.40 until December 23, 2013, subject to adjustment in certain events; provided that

in the event that the 20-day moving average trading price of the common shares on the TSX Venture Exchange equals or exceeds \$1.00, AMA shall be entitled to accelerate the exercise period of the Share Unit Warrants to a period ending at least 30 days from the date notice of such acceleration is provided to the holders of the Share Unit Warrants. The net cash proceeds after issuance costs of the brokered private placement totaled \$3,484,031.

Concurrent with the share unit offering, on December 23, 2010, the Company issued 3,159 debenture units pursuant to a brokered private placement at \$1,000 per debenture unit resulting in gross proceeds of \$3,159,000. Each debenture unit consists of one \$1,000 convertible secured subordinate debenture of the Company ("Debenture") and 1,250 common share purchase warrants (each, a "Debenture Warrant"). The Debentures will mature on December 23, 2014 (if not otherwise converted or redeemed in accordance with their terms) and bear interest at a rate of 8% per annum, which shall be accrued and paid annually in arrears commencing December 23, 2011. The Debentures convertible into common shares at a conversion price of \$0.40 per share at any time prior to maturity, subject to adjustment in certain events. Each whole Debenture Warrant entitles the holder thereof to acquire one common share at a price of \$0.75 until December 23, 2014, subject to adjustment in certain events; provided that in the event that the 20-day moving average trading price of the common shares of the TSX Venture Exchange equals or exceeds \$1.00, AMA shall be entitled to accelerate the exercise period of the Debenture Warrants to a period ending at least 30 days from the date notice of acceleration is provided to the holders of the Debenture Warrants. The Debentures are secured against all personal property of the Company, with the exception of the Company's intellectual property, and are subordinated in the right of payment to all existing and future bank and/or government indebtedness of the Company. The Company may, at its option, subject to providing no more than 60 and no less than 30 days' prior notice, redeem the Debentures, in whole or, from time to time, in part, at any time prior to December 23, 2013 at a redemption price equal to 125% of the principal amount of the Debentures then outstanding plus accrued and unpaid interest and, during the period from December 23, 2013 until maturity date, at a redemption price equal to the principal amount of the Debentures then outstanding plus accrued and unpaid interest; provided that in the event that the weighted average trading price of the common shares on the TSX Venture Exchange during the 20 consecutive trading days ending five trading days preceding the date on which the notice of redemption is given is less than \$0.40, the exercise price of the Debenture Warrants shall be adjusted immediately following any such redemption and become \$0.50 per share. The net cash proceeds after issuance costs of the Debentures totaled \$2,937,870.

A further 132,000 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 \$0.25, resulting in cash proceeds of \$33,350.

The concurrent private placements were arranged through a syndicate of agents (collectively, the "Agents"). In consideration for their services, the Agents were paid an aggregate cash commission of \$483,369 (equal to 7% of the gross proceeds raised under both offerings). In addition, the Agents were issued agents' warrants ("Agent Warrants") to acquire up to 1,601,780 common shares (equal to 7% of the aggregate number of common shares underlying the Debentures (on an "as converted" basis) and 7% of the number of share units sold pursuant to the share offering). Each Agents' Warrant is exercisable to acquire one common share at a price of \$0.40 per share, subject to adjustment, in certain events, until December 23, 2014; provided that in the event that the 20-day moving average trading price of the common shares on the TSX Venture Exchange equals or exceeds \$1.00. AMA shall be entitled to accelerate the exercise period of the Agents' Warrants to a period ending at least 30 days from the date notice of such acceleration is provided to the Agents.

The successful equity and debenture offerings combined with the level of cash based revenue and expenses before research and development throughout the year created sufficient capital to continue to operate and to provide capital for inventory to be deployed in order to continue the efforts to expand our customer base.

Working capital at December 31, 2010 was \$4,339,976 compared to \$7,572,447 in 2009, a decrease of \$3,232,471. The decrease in working capital is primarily attributed to the net funds generated from the issuance of share units and debenture units of \$6,421,901 less the operating loss for the year of \$9,121,181; the remaining decrease of \$533,191 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, 2010 would be \$6,972,842 compared to \$9,785,744 in 2009. As well, at December 31, 2010 the Company had outstanding accounts payable to Sierra Nevada Corporation ("SNC") of \$1,821,601 relating to their involvement with the development of the AFIRS 228. The development effort for the AFIRS 228 program was split into four general modules: (1) hardware and (2) board support software (both developed by a Calgary contractor), (3) Embedded Logic Applications ("ELA") (which were developed by AMA staff in Calgary), (4) core software (which was the responsibility of SNC). Late in 2010, it was recognized by management that the progress on the AFIRS 228 program was on track for year end delivery for the hardware, board support software and ELA. However, estimates to complete the core software continued to slip in time and costs had escalated. In early 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 timeliness required by our current customers and prospects. The current accounts payable amount of \$1,821,601 as at December 31, 2010 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 currently has an available operating line of \$250,000 that had not been drawn at December 31, 2010. 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 on going operations. If general economic conditions or the financial condition of a major customer deteriorates, 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 April 6, 2011, AMA's issued and outstanding share capital was 118,615,466 common shares.

## 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
2011	\$ 432,652	\$ 90,328	\$ 522,980
2012	445,685	32,319	478,004
2013	458,718	-	458,718
2014	76,815	-	76,815
<b>Total</b>	<b>\$ 1,413,870</b>	<b>\$ 122,647</b>	<b>\$ 1,536,517</b>

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 \$196,377 (2009 - \$246,134), which is to be repaid as a percentage of gross revenues, over a five to 10-year period commencing in October 2005. Under the Technology Partnerships Canada ("TPC") program, the Company has an outstanding balance of \$47,186 (2009 - \$66,298) 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 1, 2005.

During 2010, AMA did not enter into new lease agreements for computer equipment (2009 - \$245,810). The equipment leased in previous years was accounted for as capital leases that expire in various years to 2012. The minimum lease payments are as follows:

Year	Total
2011	\$ 90,328
2012	32,319
<b>Total</b>	<b>\$ 122,647</b>

The imputed interest is \$4,500 (2009 - \$17,861), leaving a total obligation of \$118,147 (2009 - \$223,951).

## RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2010

### Revenues

During the fourth quarter \$1,644,702 (2009 - \$725,565) was received in cash revenue which is calculated as \$1,491,910 (2009 - \$1,006,664) reported as financial statement revenue plus \$149,972 (2009 - \$293,460) being cash received for arrangement consideration less the portion of cash recognized during the quarter that is included in financial statement revenue of \$2,820 (2009 - \$574,560). There were five shipments during the fourth quarter compared to seven during the same quarter of 2009.

Revenue increased \$485,246 in the fourth quarter compared to the fourth quarter of last year, and AFIRS UpTime revenues increased by \$136,381 over the fourth quarter of 2009. Product sales revenue decreased \$6,542 and services revenue, license fees and interest increased \$355,407 over the same quarter of the previous year. The increase in AFIRS UpTime revenue is the result of the decreased number of shipments during the quarter compared to the same quarter of 2009 which was offset by an increase in recurring revenue. This decrease in shipments can be directly attributed to the reduction in capital spending in the aviation industry which was somewhat offset by increased per kit pricing. The offset was an increase of 21.8% in recurring revenue in the quarter versus the same quarter of 2009 to \$705,366 from \$579,248, which indicates that the initiatives to maximize the revenue from installed equipment continues to be successful. The decrease in product sales revenue can be directly attributed to the limited sale of Underfloor Stowage Units in the fourth quarter of 2010. Product sales revenue has historically and will continue to fluctuate between quarters. The services revenue increase was the result of consulting undertaken in the fourth quarter of 2010 for a major airline to assist them with Federal Aviation Administration dealings and the completion of an operations command centre installation for an African aviation authority.

### Gross Margin and Cost of Sales

Cost of sales in the fourth quarter of 2010 was \$472,835 compared to \$356,597 in 2009, an increase of \$116,238. The gross margin for the fourth quarter of 2010 was 68.3% versus 64.6% for the same period of 2009. Included in cost of sales are costs of non-routable parts and travel expenses for our engineers on initial installations of aircraft. 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. As well, the gross margin on the consulting and operations centre revenue was a factor in the increased gross margin.

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

The net loss for the quarter ended December 31, 2010 was \$1,907,360 (2009 - \$1,189,445). Marketing costs are included in general and administrative expenses. Marketing expenses increased by \$1,793 to \$129,213 over the fourth quarter of 2009. The Company's focus is on generating new customers and as such will continue to engage resources in marketing; as a result, initiatives commenced in 2009 continue as 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 demand for the Company's products

and services increases marketing costs are expected to increase. As well, the Company will require updated collateral marketing material to meet a changing market focus and this will result in increased marketing expenses.

Office expenses decreased by \$62,039 in the fourth quarter over the same period of 2009, primarily due to the continued expense containment initiatives which saw general office expenses such as stationary, etc. decrease \$56,909 over the fourth quarter of 2009. Insurance expense decreased \$4,792 and consulting expense decreased \$19,439. The expense related to equipment increased \$17,837 due to the Company's investment in non capital system upgrades during 2010. The remainder was an increase of \$1,195 in investor relations and stock exchange costs.

Salaries, the main cost of doing business, increased to \$1,056,015 for the quarter versus \$1,028,532 for the fourth quarter of 2009, a \$27,483 increase. This increase is the result of the requirement to add technical expertise to meet the needs of the AFIRS 228 project as well as bolster the senior level technical capabilities of the Company. The Company continues to hire qualified personnel to meet the demands of the growing customer base and to ensure resources are in place to meet the requirements of our strategic business alliances. As these opportunities are solidified, it is expected that salaries will increase to meet the demands of the marketplace.

Stock-based compensation was \$5,432 in the fourth quarter of 2010 compared to \$81,737 in the same period of 2009. The decrease was due to no option grants being recognized. However, the Company recognized the vesting of options grants made in May 2009 and May 2010 to consultants.

## Research and Development

R&D costs are being expensed as incurred. The fourth quarter development costs for 2010 were \$1,316,763 as compared to \$133,392 in the same quarter of 2009. The increase during the quarter is the direct result of the development of the next generation AFIRS known as AFIRS 228 which moved into the full development stage in 2010, which was not the case in the fourth quarter of 2009. While this initiative had a significant impact on the financial results for the quarter this next generation product is important to any air carrier if it is to meet the global regulatory changes to air traffic control systems. The majority of R&D costs are comprised of consulting expenses, testing and certification, and other expenses. These research and development costs will continue during the first quarters of 2011. As mentioned in Liquidity and Capital Resources the costs related to the work undertaken by SNC is currently being renegotiated. The total SNC costs in the quarter were \$843,590.

## 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, 2010, valuation allowances are provided for the full amount of future tax assets.
4. The Company records amounts for warranty based on historical warranty data and are recognized when the underlying products or services are sold.
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 rental type agreements as agreement consideration, which is recorded as unearned revenue and recognized into revenue over the term of the rental 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.

Revenue from the sale of Underfloor Stowage Units is recognized when the unit is shipped, title is transferred, and collection is reasonably assured. Certain customers have prepaid for products or services not yet delivered. These amounts are recorded as accounts payable and accrued liabilities on the balance sheet, and are recorded as revenue in the period in which such products or services are delivered.

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

## 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. The convertible secured subordinate debenture has a fixed rate of interest and therefore does not expose the Company to interest rate changes.

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.

## 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. During 2010 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.

## Subsequent Event

The Company signed a contribution agreement with Industry Canada under the Strategic Aerospace & 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 eligible project costs from June 18, 2010 to December 31, 2012 or \$1,967,507. The amount is repayable over 15 years commencing April 30, 2014 and the yearly repayment amounts are calculated on a stepped basis starting at 3.5% of the contribution amount and increasing yearly until April 30, 2028 when the final payment is 24.5% of the amount contributed by SADI. The contribution is paid to the Company based on the quarterly submissions of eligible project costs to SADI. The eligible project costs prior to January 31, 2011 are limited to 20% of the estimated eligible costs of the program or \$1,311,671.

## International Financial Reporting Standards Changeover Plans

International Financial Reporting Standards ("IFRS") are to be implemented by the Company on January 1, 2011 and CSA Notice 52-320 requires that progress on IFRS changeover plans be disclosed. AMA has completed the white papers on areas of significant difference, calculated the differences, and prepared the initial adjustments and opening Balance Sheet. This work has been reviewed by the Audit Committee and is in the process of being reviewed by the Company's external auditors. Note that the below noted discussion on IFRS differences is subject to final audit, adjustments anticipated by management to date are expected to be:

## 1. Stock Based Compensation

Stock options issued to an employee at the service commencement date but before the legal grant date are required to be initially recognized under IFRS at the estimated fair value upon commencement of service and subsequently adjusted to actual fair value upon the legal grant date. At the transition date AMA had two employees for which this occurred and the transition adjustment results in an increase in Contributed Surplus and an increase in the Deficit of approximately \$12,000, subject to final review during the 2011 fiscal year audit.

## 2. Inventory Disclosure

IFRS requires the disclosure of the amount of inventories that are to be expected to be recovered after more than twelve months from the balance sheet date. Based on the nature of AMA's inventory and purchasing requirements as at the transition date it has been determined that a portion of the inventory is not expected to turnover in the 12 month period subsequent to the transition date. The disclosure adjustment at transition date is expected to be between \$800,000 and \$1,000,000.

AMA previously identified the following areas where differences may occur and based on updated analysis believes the potential impact on its financial statements is as below:

## 3. Property Plant & Equipment

The decision to adopt the cost model instead of revaluation was made. Management assessed the IFRS requirement to componentize property, plant and equipment into material individual components for which different depreciation methods or rates are appropriate and determined that no further componentization is required. Current depreciation rates have been reviewed and deemed appropriate for all property, plant and equipment. First time adopters may use an optional exemption to use fair value as deemed cost upon date of transition. When this exemption is used, the deemed cost becomes the new IFRS cost basis and any accumulated depreciation recognized under Canadian GAAP prior to transition is set to zero. AMA expects not to elect to use this exemption. Subject to final audit the company believes there will be no adjustment to property, plant and equipment values.

## 4. Impairment

IFRS results in increased exposure to impairment writedowns. The Company has determined that it has two cash generating units ("CGU") related to the production of AFIRS units and Underfloor Stowage Units respectively. At each reporting period date, the Company will assess whether there is an indication of impairment. If an indication exists, the asset's or CGU's recoverable amount will be estimated and compared to the carrying amount. An impairment loss is recognized if an asset's (CGU's) carrying amount exceeds its recoverable amount. At each reporting date, the Company will assess whether there is an indication that a previously recognized impairment loss has reversed. Although subject to final audit, the Company believes there will be no impairment adjustment at transition.

## 5. Leases

Subject to final audit, the Company has determined that there will be no changes in the classification of capital versus operating leases from both a lessor and lessee perspective and therefore no adjustment to opening balances.



200W, 1144 - 29 Avenue NE, Calgary, AB, T2E 7P1, Canada  
Phone 1.403.250.9956 | Fax 1.403.291.9717  
Office 1-866-250-9956 | [www.flyht.com](http://www.flyht.com)

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