REINFORCING THE FOUNDATION

AEROMECHANICAL SERVICES LTD.
ANNUAL REPORT 2011

THE FUTURE OF CONNECTIVITY

Cover page photo taken by Mark McWhirter. Profile shots taken by Carl Wong Photography.

TABLE OF CONTENTS

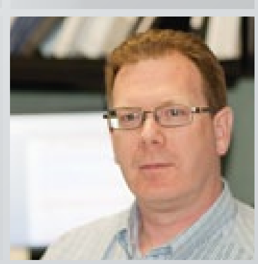
COMPANY PROFILE

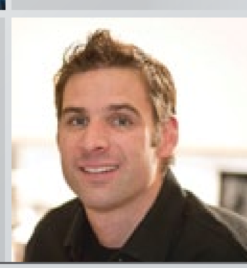
AEROMECHANICAL SERVICES LTD. ("AMA" OR THE "COMPANY") (TSX-V:AMA) DESIGNED AND DEVELOPED THE AUTOMATED FLIGHT INFORMATION REPORTING SYSTEM ("AFIRS™") WHICH IS INSTALLED ON AIRCRAFT, COLLECTS AND SENDS DATA TO AIRLINES IN REAL TIME.

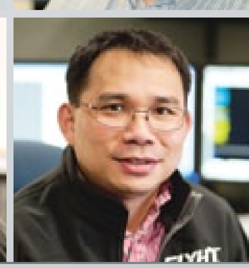
The Company's patented suite of technologies, enabled by AFIRS, enhance safety, efficiency and profitability of airline operations by providing real-time communication. AeroMechanical Services Ltd. is based in Calgary, Canada and has service locations around the world for its global customer base. The Company operates under the FLYHT™ brand name.

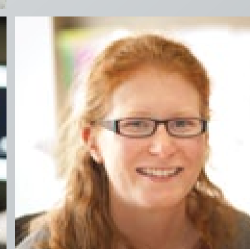
2011 SNAPSHOT

- Completed development and environmental certification of AFIRS 228B - the next generation product - and installed the first unit on customer's aircraft.
- Awarded $1.96 million repayable investment fro the Strategic Aerospace and Defence Initiative ("SADI").
- Receipt of Chinese and European Patents for the Aircraft Flight Data Management System, covering the Company's signature product, AFIRS.
- Continued to build business in Nigeria: sold a total of 11 AFIRS 220 units to two airlines and established two operations centres.
- Named a top exporter at the Albert Export Awards.
- Grew revenues by 16.7% from 2010.







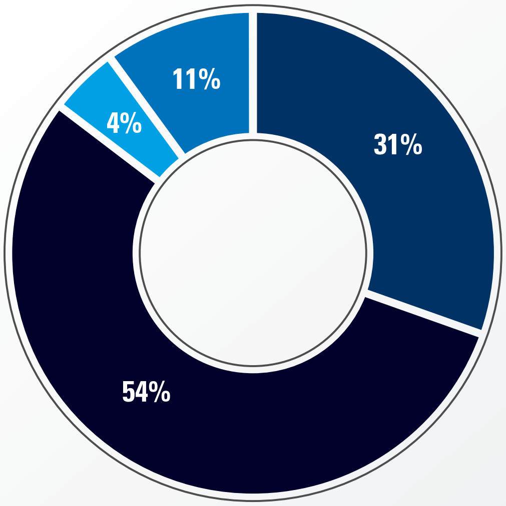


2012 FLYHT PLAN

- Complete the development and Technical Standing Order ("TSO") certification of the safety services version of the AFIRS 228S.
- Launch ACARS over Iridium and FANS over Iridium service.
- Continue to expand Supplemental Type Certificate growth for our products.
- Participate in Iridium Satellite Communications ("Iridium") Air Traffic Services Voice Trials.
- Expand Nigerian Civil Aviation Association services offerings.
- Leverage our success in Nigeria - as a member of AFRAA Airlines Association - and expand our model into other African countries.

INVESTMENT HIGHLIGHTS

- Unique line of patented products and services.
- AFIRS key industry differentiator moving to next generation.
- Strategic alliances with industry sector leaders.
- Increasing customer growth in flights, hours and aircraft types.
- Recurring long term revenue stream from installed base.
- High regulatory barriers to entry.

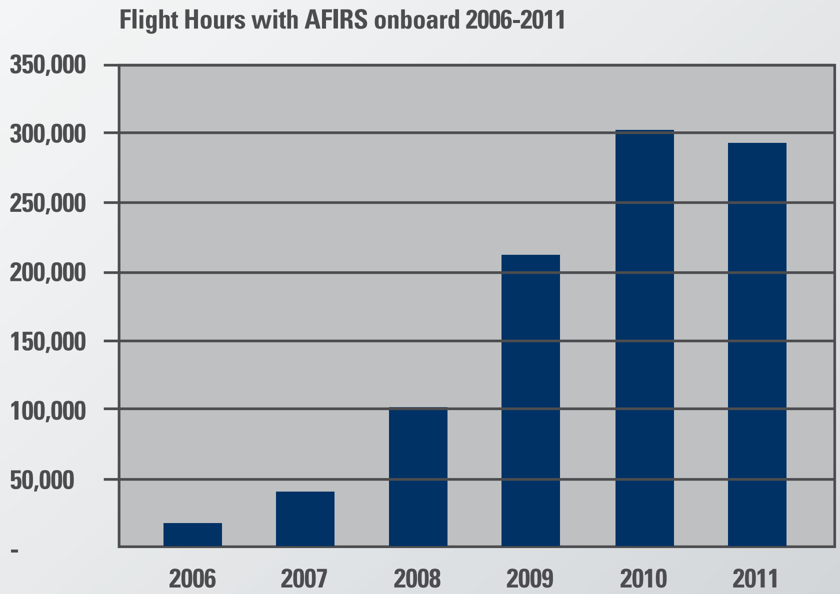


2011 REVENUE SOURCES

- AFIRS UpTime usage: Revenue from use of services such as voice and data fees
- AFIRS UpTime sales: AFIRS UpTime lease and sales type contracts
- Services: Technical, repair and installation support services
- Parts: AFIRS parts and Underfloor Stowage Units

* For yearend December 31, 2011. Dollar amounts available on pg.20 of 2011 Annual Report

CUSTOMER GROWTH IN FLIGHT HOURS



The Company's customers logged 288,000 hours in 2011 with AFIRS onboard their aircraft. Flight hours decreased in the year over 2010 specifically for customers in the United States because there was a decrease in airlifts related to U.S. military operations. This was not a great concern to the Company as recurring revenues (pg.20) still increased over 2010.

On March 9, 2012 the Company reached its one millionth flight hour with AFIRS onboard customer aircraft.

PERCENTAGE OF CUSTOMER REVENUE BASED ON LOCATION IN 2011

* For yearend December 31, 2011. Dollar amounts available on pg.22 of 2011 Annual Report

PROPOSED NAME CHANGE

AeroMechanical Services Ltd. is proposing to change its name to FLYHT Aerospace Solutions Ltd., subject to shareholder approval at its next annual meeting May 9. The name change has been under consideration by the Company for some time and there are a number of reasons and recommendations for this change.

AeroMechanical Services has been the Company name since its inception in 1998. The Company has seen many years of growth and its focus and business has changed and evolved. The Company initially sold parts, maintenance, and certification services for aircraft, such as ice shields to protect the fuselage from chunks of ice, or rock guards to protect the lower strobe lights of aircraft on remote gravel runways. When the Company recognized aircraft operators needed to be better connected with their aircraft, it shifted its focus to providing real-time data and satellite communications.

As part of this shift in business focus, the Company introduced its FLYHT brand in 2007. The brand was designed to stand out in the marketplace and to create a new image for the Company, to move away from being labeled as "just" a certification services provider. The origin of the FLYHT name comes from the old English spelling of the word flight. FLYHT was chosen as a fitting, yet unique, title for a Company in the aerospace industry.

In the years since its introduction, the Company has been using the FLYHT brand name to establish its reputation in the aviation marketplace. For legal reasons it has had to maintain the use of AeroMechanical Services on the TSX Venture Exchange and in day-to-day business transactions. The use of both names can potentially cause some confusion in the industry, as the connection between the two names is not always clear. For that reason, the Company has taken steps to use the FLYHT name in all its external communications and created a single website, www.flyht.com. With the proliferation of the FLYHT name, it makes sense to brand the company with one name and unite industry and investor communications.

With this ultimate plan in mind, the Company also introduced its new FLYHT logo in the fall of 2011. A series of marketing initiatives commenced in the year, which will enable the Company to continue its business growth momentum.

Assuming the shareholders approve the name change, AeroMechanical Services Ltd., or AMA as it is known on the TSX Venture Exchange, will become FLYHT Aerospace Solutions Ltd. Under the new name, the Company will continue to adhere to the same operating standards it has in the past; no organizational changes will occur. A detailed communication plan is in place to ensure all stakeholder groups are aware of the change and the necessary legal requirements fulfilled. The Company will also ensure shareholders are made aware of the new ticker symbol and registration information.

AFIRS 228 PROGRESS REPORT

IN THE 2010 ANNUAL REPORT AMA INTRODUCED ITS NEXT GENERATION TECHNOLOGY, THE AFIRS 228. THIS NEW TECHNOLOGY OFFERS AN ENHANCEMENT IN PROCESSING CAPACITY, DATA TRANSMISSION AND PROGRAMMABILITY WHEN COMPARED WITH THE AFIRS 220.

The AFIRS 228 ("228") has undergone an incredible transformation throughout 2011. In January 2011, the Company brought the development of the 228 in-house. Under AMA's direct supervision the project progressed significantly. The 228 went from a product outline in January to a fully functioning unit that was installed and demonstrated on a Hawker Beechcraft 750 in Chester, United Kingdom in May 2011.

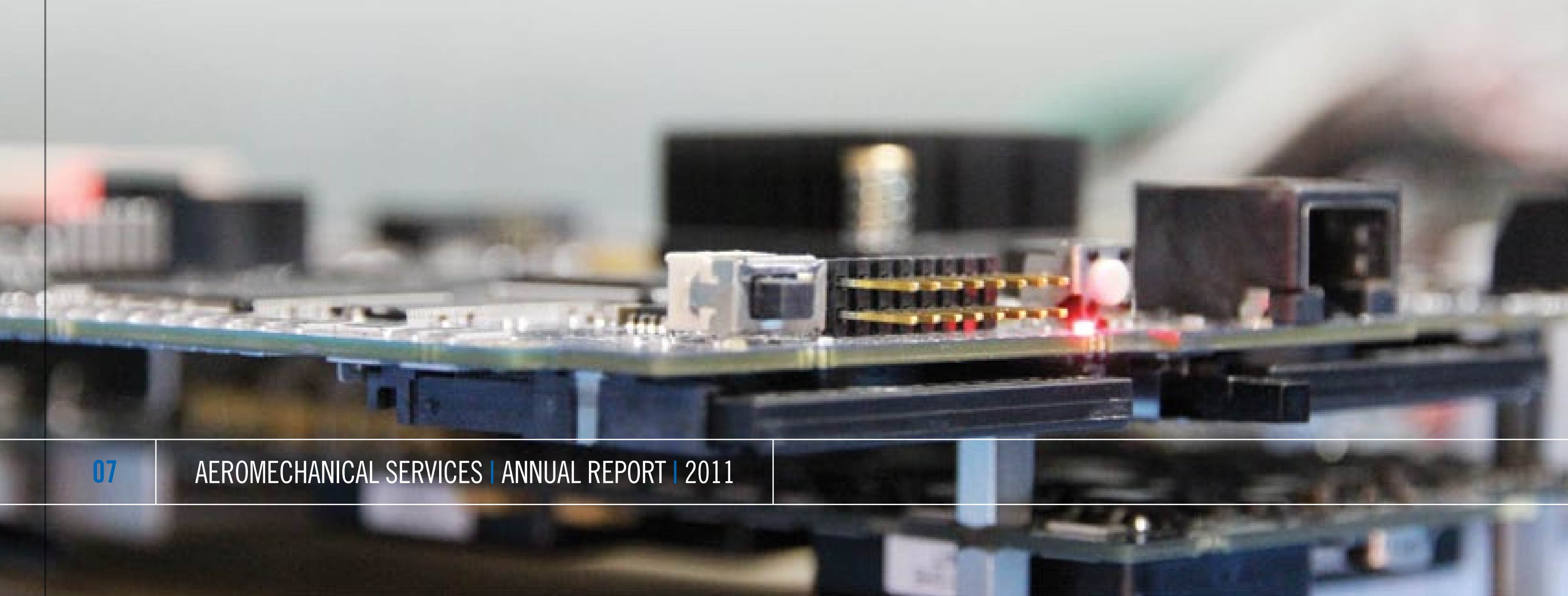
The hardware and software successfully transmitted all data on the flight and met all of the potential client's specifications for the system. The 228 also displayed the full emergency data-streaming capabilities of the FLYHTStream™ program during the flight.

The Company now has an activation Supplemental Type Certificate ("STC") for AFIRS 228 on the Bombardier CRJ 900 and Hawker 987 series and provisions-only STCs on Boeing 777, and will complete STCs for other aircraft types (see page 17 of the MD&A for a full list).

In the fourth quarter, the Company completed the DO-160F Environmental Certification testing of the AFIRS 228B, a requirement in the product certification process. The tests were conducted on production standard AFIRS 228 units manufactured by AMA to determine their performance characteristics in extreme environmental conditions, similar to those that may be encountered in airborne operation such as temperature, altitude, humidity, vibration, and electromagnetic interference. In total, AFIRS 228 units passed over 300 individual tests conducted to test different settings, voice and data modes and transmission frequencies to ensure AFIRS does not interfere with existing communication, navigation or flight control systems on any aircraft.

The AFIRS 228B is the first release of the 228 product line. The next version, AFIRS 228S, will be fully certified to provide safety services, voice, data, text and electronic flight bag ("EFB") integration, including support of Aircraft Communications Addressing and Reporting System ("ACARS") over Iridium. In order to achieve safety services status, the equipment must pass tests as part of the safety services equipment on the aircraft. The 228S will also be certified as a Future Air Navigation System ("FANS") 1/A + Satellite Data Unit Communications Link to fill a gap for operators who need to meet new regulations.

The Company anticipates that the AFIRS 228S will be available to customers by the end of 2012.



SALES AND MARKETING UPDATE

The Commercial Air Transport Sales and Marketing group at AeroMechanical Services Ltd., operating under the FLYHT brand name, had three key objectives in 2011. The first was to increase the customer base for the AFIRS 220, which required re-crafting FLYHT's unique sales propositions and marketing messages in order to better facilitate and advance the sales process. The second was to prime the target markets for the AFIRS 228 by creating marketing material to support its launch and build market demand for generating sales in 2012 onwards. The third was to leverage our strategic partners to approach the major Original Equipment Manufacturers ("OEM") with a stronger pitch in order to build measurable traction toward signing an OEM deal. We advanced on all fronts in 2011, and built the foundation for our strategic sales plan for 2012.

In the pursuit of its first objective, the sales department signed eight AFIRS contracts, six of them with new customers and added 31 new aircraft under contract for a cumulative value of $3.4 million. One particular area of growth was our strengthened position in Nigeria with the commissioning of the Nigerian Civil Aviation Authority's ("NCAA") Operations Centre in Lagos in April and installation of a second Operations Control Centre for $400,000.

In 2011, FLYHT took deliberate steps to deliver a clear message to the marketplace that reflects the Company's current solutions while also creating a unique brand position to support sales growth for the AFIRS 228 throughout 2012. FLYHT is well positioned to be the dominant provider of airline satcom connectivity since it is the only company to provide a solution that can claim to be Future Ready™. The AFIRS 228 is a modular, flexible solution designed to meet the growing requirements of each airline's unique operations.

Being Future Ready also means receiving the certifications required to support the installation of AFIRS on aircraft and being aware of future regulatory requirements. The Company will apply for a Technical Standing Order ("TSO"), the approval of design and manufacturing rights for the AFIRS 228S. The TSO proves the unit's design is acceptable and the applicant has demonstrated the ability to produce identical units of a high standard. Many OEMs look for TSO certification before purchasing a system. On the OEM front, we have been taking steady strides forward. L3 Communications Ltd. remains a strong committed partner, and has been instrumental in co-developing and executing our OEM strategy.

Along with TSO certification, the Company will need a STC for each unique aircraft type in order to install AFIRS. FLYHT is a Design Approval Organization ("DAO") which means that staff have been granted authority by Transport Canada to revise the design of an STC. DAO status speeds up the STC process by reducing waiting time, cost and reliance on external contractors.

Looking ahead, our goals for 2012 are to further entrench our position in key markets where we have already been successful and develop new markets for the 228S by approaching airlines looking for a solution to meet their regulatory requirements.

For the AFIRS 220 and 228B, our 2012 marketing plan defines five key customer groups characterized by operator type or geographical region where AFIRS has already proven its value. By clearly defining our key markets we developed a targeted direct mail/telephone "boots on ground" campaign to extend our reach to over 380 new leads. The direct mail campaign is further supported through e-mail and web analytics, leverages reporting through our customer relationship management system and is aligned with the Company's trade show and conference schedule.

Africa is a region of particular interest since we have seen continued acceptance of our products in 2011 and have a visible track record on the continent. In the coming year we will meet with airlines and organizations such as the NCAA and attend events with the African Aviation Association ("AFRAA"). AFIRS is perfectly suited to offer voice and rich data connectivity to the carriers in this region where ground-based communication infrastructure is limited yet the need for better connectivity is rising.

The introduction of the AFIRS 228S will enable the Company to pursue new sales opportunities. 2012 will see the certification of the AFIRS 228S for sending ACARS messages over Iridium. This will be a significant milestone since the majority of the top 100 largest airlines use ACARS messaging in their operations. ACARS over Iridium is FLYHT's solution for the larger operators.

Our partner, Iridium Satellite Communications ("Iridium"), is involved in another significant industry development that will impact the Company. Iridium will soon be certified for voice and data safety services messaging thus making the Iridium solution increasingly attractive to the major OEMs. We will participate in Iridium's Air Traffic Services voice trials, that once approved will pave the way for an AFIRS device to replace one of two high frequency radios. This will reduce an airline's equipment load and save on the cost of avionics while improving operations.

Last but not least, the 228S allows FLYHT to meet new air traffic regulations. FANS is currently implemented in the North Pacific and the South Atlantic and will be mandated in more trans-oceanic routes around the world in the coming years. AFIRS 228S addresses the demand for a system to support this new regulation. We intentionally included specific performance capabilities in the 228S because we anticipated new regulations and know airlines will require a smart, flexible solution.

In an ongoing effort to create market awareness of FLYHT and its products, FLYHT will attend 11 conferences, shows and industry events this year. These events offer a forum to connect with partners, customers and prospects while keeping an ear to the ground on important topics and changes in the industry.

The sales force has built a solid foundation in 2011 and is now working to capitalize on the focused, consistent and clear messaging that we have created in the past 12 months.

FLYHT's booth at the 2011 National Business Aviation Convention.

2011 MAJOR ANNOUNCEMENTS

Contracts: In 2011, AMA signed a total of eight new contracts with customers worldwide. 24 of the contracted aircraft were for the AFIRS 220 and seven were for the new AFIRS 228.

February 23: AMA announced it will receive a repayable investment of $1.96 million from the Canadian federal government's Straegic Aerospace and Defence Initiative ("SADI") program. The funds will assist with the development and certification of the company's next-generation AFIRS.

March 22: AMA launched its new website, under its brand name FLYHT at www.flyht.com. The Company also entered the social media world to open more communication channels with stakeholders. Join us online! www.facebook/flyht, www.twitter/flyhtcorp, www.slideshare/flyhtcorp and www.youtube/flyhtcorp.

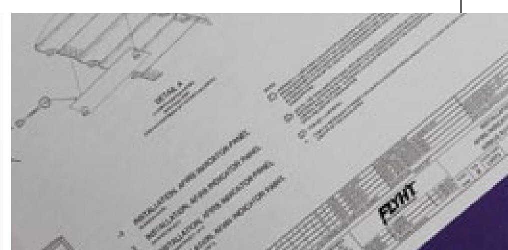
April 7: AMA and the Nigerian Civil Aviation Authority ("NCAA") officially commissioned the NCAA's new Flight Tracking Operations Command Centre in Lagos, Nigeria. "The NCAA now has an aircraft tracking system that will allow us to precisely monitor aircraft movements within our airspace. Safety is very important to us and our new Operations Command Centre will greatly enhance the security of Nigerian airspace." Dr. Harold Demuren, Director General of the NCAA

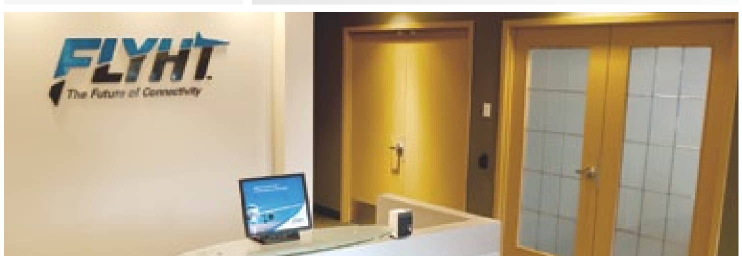
May 17: AMA announced the successful installation and demonstration of its AFIRS 228 on a Hawker Beechcraft 750 in Chester, United Kingdom.

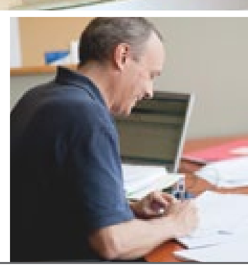
"The demonstration validates our team's efforts and highlights the 228's capabilities to our prospective and existing customers."
Bill Tempany, CEO.

June 1: AMA received a Certificate Invention Patent from China for the Aircraft Flight Data Management System, covering the Company's signature product, AFIRS.

June 27: Transport Canada Civil Aviation ("TCAA") expanded the delegated authority that allows AMA to approve the structural design aspects of an airworthiness certification for aircraft.







August 15: AMA announced the establishment of a second Operations Command Centre in Nigeria.

September 6: AMA unveiled a new identity, through its FLYHT™ brand name, to better reflect the Company's advancements in technology and its innovative spirit.

October 9: AeroMechanical Services' partner in China, SKYBLUE Technology Development Ltd., announced the receipt of an extension to the only Iridium frequency bandwidth approval for aviation satellite communications and AFIRS in China.

November 14: AMA shipped the first three production units of the AFIRS 228B to customers for implementation and integration testing.

"The first shipment of 228 units is a major accomplishment and milestone for AMA." Bill Tempany, CEO.

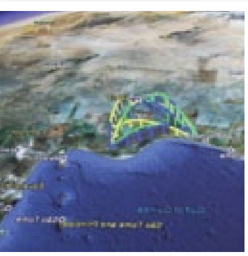
November 18: AMA announced it filed an application with the Court of Queen's Bench of Alberta against Sierra Nevada Corporation ("SNC") seeking the appointment of an arbitrator to resolve issues regarding outstanding accounts payable.

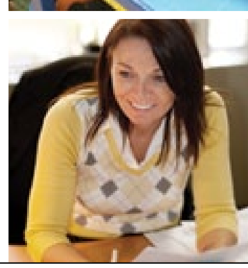
November 28: AMA won an Alberta Export Award in the Advancing Technologies category at a ceremony hosted by the Alberta division of the Canadian Manufacturers & Exporters.

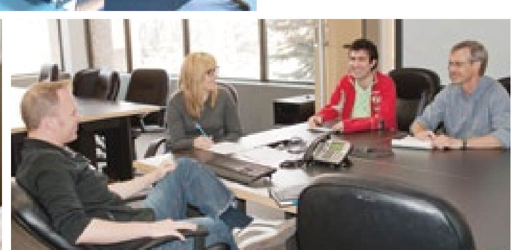
"The Alberta Export Awards recognize the very best in the province, highlighting the export industry's significant contribution to Alberta's economy – an increasingly diversified economy," said Brian McCready, vice-president of CME-Alberta. "All of the winning companies demonstrate the drive, innovation and competitiveness that is necessary to succeed in foreign markets around the world."

December 8: AMA received a patent from the European Patent Office for the Aircraft Flight Data Management System.

December 28: AMA announced that Richard Hayden resigned as President of the Company and as of December 31, 2011 will transition to a role focused on strategic business development. Mr. Hayden will continue as a director of AMA.







TO OUR SHAREHOLDERS

For AeroMechanical Services ("AMA" or the "Company"), 2011 was a period of building and achievement with the completion of our next generation Automated Flight Information Reporting System ("AFIRS™") 228B. This product's entry into the marketplace marks the beginning of a significant period for the Company. The AFIRS 228 is the Future of Connectivity™ for airborne assets. Its unique combination of industry-approved safety services capabilities along with flexible access for connection of crew devices, and maintenance data in real time, make this a truly one of a kind device.

AFIRS 228: The Future of Connectivity

AMA has responded to a demand in the market for a product that will meet future industry regulations while providing airlines with real-time data to improve their operations and save on their bottom line. We took the proven concepts of the AFIRS 220 and lessons we learned in a tough marketplace and have produced a product that will meet airlines' needs. The AFIRS 228 incorporates improvements in processing capacity, data transmission and programmability from our first-generation, AFIRS 220.

Early in 2011, the Company made major changes in the AFIRS 228 project, including repatriating the development from a partner who was over budget and behind schedule. We brought the project in-house and our team of expert staff exceeded all expectations and brought the development back on track in record time. Our efforts were rewarded in May 2011, when we demonstrated the AFIRS 228's ability to capture and report data from a potential customer's Hawker Beech aircraft in Chester, United Kingdom. Subsequent to the 2011 yearend, we converted the prospect into a customer. NetJets Europe, the largest business jet operator in Europe, will install AFIRS 228 on 30 Hawker Beechcraft. AMA will initially install AFIRS 228B units, which will be updated to AFIRS 228U units to comply with Europe's new air traffic control requirements, Controller Pilot Data Link Communication ("CPDLC").

The receipt of the DO-160F Environmental Certification in the fourth quarter and provisions-only Supplemental Type Certificates ("STC") throughout the year allowed for the first installation of an AFIRS 228B on a customer's aircraft in December. The unit has since been installed for full operation after the receipt of the full STC in March. AMA has also received cash payments for the 228. The Company is prepared for the installation of its other contracted AFIRS 228B and has produced 15 units available for shipment immediately.

Our primary focus in 2012 will be the certification of the safety services AFIRS 228S, meaning it is identified as a critical piece of equipment for flight operations. It is our plan to have the 228S out in the market by yearend, though the length of the certification process will ultimately determine when the product is ready. Many of the delays in the 228B development in 2011 were a result of the certification process. We are cautious that these delays could impact the 228S certification, and the timing rests largely out of our control, with the regulatory bodies. It is important to note that STCs we have for the 228 cover both the B and the S models, thus saving some time.

While the certification takes time to complete, we have done our research and are completing the appropriate certifications to provide a product that will meet the demands of the Original Equipment Manufacturers ("OEMs") and larger airlines.

International Sales Contracts

During 2011, AMA signed eight contracts with airlines in North America, Europe, Africa and the Middle East. Agreements included contracts for 24 AFIRS 220 and seven AFIRS 228. In addition to the 31 signed contracts, 19 of the 28 units shipped in 2011 went to current customers. These numbers highlight two important points; one, there is still a demand for our original product, AFIRS 220, and two, airlines are eager to implement AFIRS 228 into their fleets.

Nigeria continued to be a strong region for the Company and our relationships grew in 2011. We established two operations command centres in the country. Both of the centres will provide real-time weather forecasting tools and flight following. We also signed AFIRS 220 contracts with two airlines in Nigeria for a total of 11 aircraft. We will continue to assist Nigerian operators to receive real-time information from their aircraft as they aim to comply with regulations set out by the Nigerian Civil Aviation Authority.

Subsequent to the 2011 yearend, the Company has signed two major contracts in the first quarter of 2012. The first is with a Canadian operator for seven AFIRS 220 and 12 AFIRS 228B, for a total of 19 aircraft. The second is with NetJets Europe, the largest business jet operator in Europe for installation of the AFIRS 228 on 30 Hawker Beechcraft. AMA will initially install AFIRS 228B units, which will be updated to AFIRS 228U units to comply with Europe's new air traffic control requirements, Controller Pilot Data Link Communication ("CPDLC"). Both contracts demonstrate the market's interest in our new AFIRS 228 product

Recognition

The Company continues to receive recognition from important organizations in our business arena. For the third year in a row, we worked with the Bureau d'Enquetes et d'Analyses ("BEA") where we demonstrated our FLYHTStream™ system to an international consortium on a couple occasions. The Company was pleased to see the recommendations in the third Interim Report from the BEA on the loss of Air France flight 447. One recommendation was that the International Civil Aviation Organization ("ICAO") and the European Aviation Safety Agency ("EASA") require triggered data transmission from aircraft in flight in the near future. AMA is able to provide emergency data streaming services now, and will be ready if the regulation is implemented in the future.

In 2011, we received validation of our product's proprietary rights with the receipt of two patents. The first was a Certificate Invention Patent from China, and the second from the European Patent Office. These patents provide security for our products and enforce our rights to the technology.

We also received an extension, to the end of 2017, on our Iridium frequency bandwidth approval for satellite communications in China. We worked closely with our partner in China, SKYBLUE Technology Development Ltd. ("SKYBLUE"), to receive the necessary approvals. AMA is currently the only company with the approval to install an Iridium system on aircraft in China. Representatives from SKYBLUE joined us at the National Business Aviation Association ("NBAA") Convention in October. We are cautiously optimistic about our relationships in China. We received positive feedback and interest from the OEMs we met with at NBAA. We have made shipments to China and have received requests for information from two business aircraft OEMs which we hope will turn into orders.

The Company received approval for a repayable investment of $1.96 million in February 2011, from the Strategic Aerospace and Defence Initiative ("SADI"), an arm of the federal government. In 2011, we received $890,902 of the repayable investment for AFIRS 228 development, which helps offset the $3.3 million spent in Research and Development ("R&D") and the STC approval process.

In November, AMA was recognized for its innovation and contribution to the Alberta economy with an Alberta Export Award in the Advancing Technologies category. The ceremony was hosted by the Canadian Manufacturers and Exporters ("CME") and selection criteria was based on a number of factors including year-to-year percentage growth in export sales, the ability to overcome challenges and the use of innovative strategies to promote business growth.

Financial Position

In 2011, the worldwide aviation market started to move out of its slump. The Company continued to witness uncertainty on the economic front, though saw an increase in revenues from 2010 and increased interest in the AFIRS 228 product moving into the new year.

As you review our 2011 results please keep in mind that the Company transitioned to the International Financial Reporting Standards ("IFRS") as of January 1, 2010 and statements from 2010 have been prepared in accordance with IFRS for comparative purposes.

AMA product shipments totaled 28 in 2011, a minor increase over 2010. However, the net result was a 16.7% increase in revenues to $5.47 million in 2011 from $4.69 million in 2010. While there was a minor increase in shipments, this was augmented by a continued strengthening of the Company's recurring revenue and recognition of installation kit revenue.

The gross margin as a percent of sales in 2011 was 54.0%, down from the 58.0% we achieved in 2010. AMA's gross margins tend to fluctuate year over year as our sources of revenue shift with industry demand, and each revenue source influences the cost of business.

We are very pleased with our ability to manage our R&D expenses in 2011. Despite 2011 being the biggest development year of the AFIRS 228 so far, we managed to decrease our spending. This decrease was partly due to receipt of funds from SADI in a financing arrangement repayable at a rate less than market rates, and partly because of the shift to manage the product development in-house. As mentioned above, R&D expenses totaled $3.3 million in 2011, a 42.3% decrease from the $5.8 million spent in 2010. The Company also received $890,902 as a loan from SADI in 2011 that partially offset development costs. Even though we will complete development of the AFIRS 228S in 2012, we anticipate R&D costs will continue to decline.

If R&D expenses are removed for both years, the loss for 2011 would be equal to 2010's loss. With all expenses included, the loss in 2011 was $6.54 million, or $0.06 per share, compared to a net loss of $8.98 million in 2010 or $0.09 per share. Through our cost-cutting measures and increased sales revenue the net loss has decreased through 2011 which should continue moving into 2012.

One important note about our balance sheet is that we have recorded more than $1.8 million in our books for payment to Sierra Nevada Corporation ("SNC"), and are currently engaged in lawsuits in both Alberta and Utah to determine what, if any, of that amount has to be paid to them. We don't want the legal action with SNC to overshadow the great strides we have made in preparing the AFIRS 228 for the market with 15 units produced, the completed DO160 certification, along with many STCs at various stages of completion, and the completion of successful test flights for two customers.

In Summary

We will continue to build on 2011's momentum in the coming year. We have taken the right steps in our marketing plan to identify our target markets, including further penetration of the markets we have already achieved success, reaching new markets with the AFIRS 228S, and meeting airline's regulatory requirements.

Our 2012 FLYHT Plan includes the completion of a Technical Standard Order ("TSO") certification, an approval for the design and manufacturing of our product. We will also complete the safety services approval for the 228S, enabling ACARS over Iridium capabilities. This functionality, along with the completion of Air Traffic Services voice trials with our partner, Iridium Satellite Communications ("Iridium"), will make the Iridium solution increasingly attractive to OEMs. STCs continue to be an important part of our strategy, and we will continue to grow our STC list.

2011 was a year of building for the Company on other fronts besides the AFIRS 228. We had a quiet year in terms of investor relations road trips and being out in front of investors. However, we made progress in other areas of our IR program, including revamping our investor communications such as the website, fact sheet and presentation.

The Company underwent a management change at the end of 2011. Richard Hayden, President of the Company since August 2008, resigned and will refocus his attention on closing three major deals while remaining on the Company's board of directors. These changes added President to my duties along with CEO. Doug Marlin, a founding board member, has taken the role of Chairman of the board.

We must recognize our team of highly talented staff for their efforts over the past year. The work we did in 2011 will lay the foundation to continue our growth in future years. The engineering team delivered support and STCs for our AFIRS 220 customers and prepared many packages for the AFIRS 228 while supporting test flights for certifications. The hardware and software teams completed the 228B hardware and the DO160 tests to allow for activation on an aircraft. The customer satisfaction group grew recurring revenues and worked to improve relationships with our current customers. The sales department closed eight new contracts, rebuilt their marketing materials with the FLYHT™ brand name, and have many contracts pending for deployment of the 228B and 228S models. The finance group and balance of our operations staff managed spending and inventory while delivering 28 aircraft kits to customers in the year. Steady growth and recurring revenue continue to be the focus of the Company.

We look back at 2011 as a year of building our foundations, solidifying our delivery capabilities and completing a product that is a paradigm shift for the industry. We welcome 2012 with great excitement and we are confident we are ready to take on the challenges that face us with renewed products, competent staff and access to markets from years of investing in relationships. We plan to have an increased presence in the IR community, continued expansion of our sales efforts, and excellence in our engineering, development and product support areas that will translate into a stronger company for our shareholders as we bring ground-breaking certified technologies to the marketplace.

In closing, we would like to thank our customers, our employees, our board members and our shareholders who continue to support the Company and believe in our products as much as we do.

Bill Tempany, President and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of April 10, 2012 and 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, 2011 and 2010 and the accompanying notes. Additional information with respect to AMA can be found on SEDAR at www.sedar.com. The Company has prepared its December 31, 2011 consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS" or "GAAP"), as issued by the International Accounting Standards Board ("IASB"). Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("C-GAAP"). The adoption of IFRS has not had a material impact on the Company's operations, strategic decisions, cash flow or capital expenditures. The Company's accounting policies are provided in note 3 to the consolidated financial statements. In addition, note 30 to the consolidated financial statements presents reconciliations between the Company's 2010 C-GAAP and 2010 IFRS results. The reconciliations include the Reconciliation of Equity as at January 1 and December 31, 2010, and the Reconciliation of Comprehensive Income (Loss) for the period ended December 31, 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 loss before research and development ("R&D"). 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 nonrefundable. Loss before R&D is defined as the net loss minus the direct costs associated with R&D. 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, R&D 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, R&D (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 but are not limited to production rates, timing for product deliveries and installations, Canadian, U.S., and foreign government activities, volatility of the aviation market for AMA'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 the Company's 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 forwardlooking 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 its products under the FLYHT™ brand name. The Company's solutions are designed to improve the productivity and profitability of its customers and enable communication between pilots and ground support. AMA's tools deliver data from the aircraft to operations groups on the ground, on demand. The Company's products are available for commercial, business and military aircraft. AMA's emergency data streaming program, FLYHTStream™, can stream position reports and data from an aircraft in flight to the airline in real time.

AMA's products and services, featured below, are marketed globally by a team of employees and agents based in Canada, the United States, China, the United Kingdom, Ireland, Abu Dhabi, and Argentina.

AFIRS™ UpTime™

AMA's Automated Flight Information Reporting System ("AFIRS") is a device installed on aircraft that monitors hundreds of essential functions from the plane and the black box. AFIRS sends the information to the UpTime server on the ground, which stores and relays the data to the airline in real time. Airlines can use this information to increase passenger safety, improve productivity, maximize efficiency and enhance profitability. In addition to its data monitoring functions, AFIRS provides voice and text messaging capabilities that give pilots the ability to communicate with ground support. AMA offers global satellite coverage, providing service to whoever needs it, when they need it, anywhere on the planet. FLYHTStream and the FLYHT Fuel Management System are software programs enabled by the AFIRS hardware.

The AFIRS 220 has been AMA's signature product since 2004. The unit has received regulatory certification for installation in approximately 30 widely used commercial aircraft brands and models.

In the fourth quarter of 2011, the Company completed the first installation of its next generation product, the AFIRS 228B on a customer's aircraft. The 228 incorporates improvements over the 220 in several important areas: processing capacity, data transmission characteristics and programmability. The 228's features cater to the evolving needs of airlines by providing a flexible product that is programmed for the information they need. The next version, the 228S, will be safety services certified to work with safety critical equipment on aircraft, and is scheduled to be released in 2012. AFIRS 228 is an addition to AMA's product line, not a replacement for the 220. The Company will continue to sell its AFIRS 220.

FLYHTStream

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

FLYHT Fuel Management System

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

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 stand-alone module from the FLYHT Fuel Management System. It uses real-time flight data acquired from the aircraft's onboard systems, and presents the data to operations personnel in an easy to read dashboard. The dashboard compares how pilots are operating the aircraft to how they could be flying in order to maximize efficiency and fuel savings. Where compliance has not been met, associated costs are shown. The tool is de-identified to meet pilot union requirements, but can be filtered to display performance by pilot if desired.

Underfloor Stowage Unit

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

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 Civil Aviation ("TCCA"), 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.

AMA's expertise in airworthiness certification enabled it to join a select group of Canadian companies in October 2008 who are approved by TCCA as a Design Approval Organization ("DAO"). Very few organizations achieve DAO status because of the time and expertise required to meet TCCA standards. AMA's DAO status, along with the delegations it has received, allows the Company to obtain and revise its own STCs with minimal TCCA oversight. This speeds up the process by lessening waiting time, cost and reliance on contractors.

In addition to its DAO status, the Company also has three engineers on staff with delegated authority, allowing them to approve electrical and structural design aspects of an airworthiness certification. If an issue is encountered during the STC process, the delegated staff have the authority to approve necessary changes and continue the process without the involvement of an external party.

The process to receive a STC takes some time to complete, but always starts with an application for the STC through any one of TCCA, FAA or EASA. Generally, AMA starts the process with TCCA by opening an application with the regulator, after which an STC data package is created. The data package consists of the engineering documents that outline how the AFIRS equipment will be installed on the aircraft. Once the data package and first stage of approvals are granted by the regulator, ground and flight tests takes place. To fulfill the flight test requirement, AMA must have access to the appropriate type and model of aircraft. This is done in cooperation with an existing or potential customer. Once these tests are completed, AMA submits an activation data package to TCCA that enables the AFIRS unit to be integrated with the aircraft systems. If TCCA approves the submission, an STC is issued.

To obtain an STC from another regulator, AMA prepares an application, which is sent through TCCA to the regulator such as FAA, EASA or CAAC along with the STC package previously approved by TCCA. The regulator reviews the package and issues the STC.

The time required for the approval process through TCCA varies depending on the aircraft and workloads. A general rule of thumb is about three months, with a minimum of another 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:

- Bombardier CRJ-700, 900
- Hawker Beech 750, 850XP, 900XP, 950XP

AMA has received provisions-only STC approvals for AFIRS 228 on the following aircraft and expects full STCs in 2012:

- Boeing B777

AMA has STC applications in process for AFIRS 220 or 228, expected to be submitted in 2012, depending on market requirements, for the following aircraft:

- Airbus A320
- ATR-42, 72
- Boeing 737NG
- Boeing 747-200,400
- Embraer EMB – 135/145 (includes Legacy)

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 committed by Industry Canada in February 2011 under the Strategic Aerospace and Defence Initiative ("SADI") program.

TRENDS AND ECONOMIC FACTORS

While the airline industry saw increased growth in Revenue Passenger Kilometers ("RPK") of 5.9% in 2011 compared to 2010[1], freight traffic measured in Freight Tonne Kilometers ("FTK") dropped 0.7% in 2011. RPK and FTK measure passenger and freight contributions to airline revenue. These are significant measures to determine the health of the industry because the larger the increase, the more people are flying, suggesting growth in the industry. In 2011, the difference in the percentages of passenger and freight traffic shows a shifting industry, and because of this instability there is still some hesitation on airlines' part to commit to capital projects.

Large commercial aircraft manufacturers recorded solid numbers for deliveries and new orders in 2011. Airbus delivered 534 commercial aircraft, an increase of 5% from 2010, and recorded 1,419 orders, which passes the previous record set in 2007[2]. Boeing delivered 477 aircraft in 2011, a 3% increase from the previous year[3]. Embraer delivered 105 commercial jets in 2011, a 5% increase from 2010[4]. Bombardier was the only Original Equipment Manufacturer ("OEM") that saw a decrease in commercial aircraft deliveries to 78 from 97 the previous fiscal year.[5] An increase in new orders with the majority of the OEMs is a positive sign of recovery in the industry, as airlines expand to prepare for the future.

On the business jet front, shipments were down 6.3% from 2010, though billings improved slightly and the mid-size sector grew.[6] Embraer's business jet sales decreased with 99 deliveries in 2011 from 144 in 2010.[7] While Bombardier's commercial aircraft deliveries were down, their business aircraft deliveries increased to 163 from 155 the previous fiscal year. The OEM also recorded 84 more orders than in 2010, a 78% increase.[8]

AMA continues to meet the needs of the aviation industry through the introduction of value-added information products and specialty services that build customer value and AMA revenues from existing and new installations. Key areas of concentration for the year are the certification of the AFIRS 228 in order to complete ACARS over Iridium functionality; as well, the Company will work with Iridium Satellite Communications ("Iridium") on their voice trials for voice and data safety services messaging. The Company views these initiatives as enhancements to the industry and are steps to strengthen revenue as we sell AFIRS 228 units and start to collect its recurring revenues.

The slight weakening of the Canadian dollar relative to the U.S. dollar in 2011 had a positive impact on the Company's revenue and income. As a result of these movements, the Company's Canadian dollar revenues, which are substantially all denominated in U.S. dollars, were higher than they would have been had the foreign exchange rates not changed. While an amount of the Company's costs are denominated in Canadian dollars, a significant portion of marketing and component costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

1. http://www.iata.org/pressroom/pr/Pages/2012-02-01-01.aspx
2. http://www.airbus.com/newsevents/news-events-single/detail/airbus-marks-2011-with-record-order-and-delivery-numbers/
3. http://boeing.mediaroom.com/index.php?s=43&item=2112
4. http://www.embraer.com/Documents/noticias/004-Embraer%20Deliveries%204Q10-Ins-VPF-I-11-rev2.pdf
5. http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d801da495
6. http://www.gama.aero/media-center/press-releases/content/worldwide-ga-shipments-and-billings-mixed-2011
7. http://www.embraer.com/en-US/ImprensaEventos/Press-releases/noticias/Documents/001-Embraer%20Deliveries%204Q11-Ins-VPF-I-12-rev2.pdf
8. http://bombardier.com/en/corporate/media-centre/press-releases/details?docID=0901260d801da495

Contracts and achievements of fiscal 2011

AeroMechanical Services Ltd. signed a total of eight contracts in 2011 for a total of 31 aircraft, as well as a contract for a second operations control centre in Nigeria that will provide real-time weather forecasting and flight following. 24 of the contracted aircraft will receive AFIRS 220, and the other seven, the next generation AFIRS 228.

In June, the Company announced that an existing customer would be expanding its fleet with four AFIRS 220. Following that announcement the Company signed its first AFIRS 228 contract of the year for two units with a North American CRJ operator.

In July, AMA announced another AFIRS 228 contract for three Boeing 737 aircraft operated by a French charter airline. A Middle Eastern airline signed on in August to install two AFIRS 220 on Boeing 737-300 aircraft.

The largest AFIRS 220 sale of the year came in mid-September when an international charter airline based in the United States signed a contract for seven units.

The Company also continued to receive acceptance from Nigerian operators, signing with two airlines in the country, one for five AFIRS 220 and the other for six.

Another long-time AFIRS 220 customer signed a contract that will add two AFIRS 228 to its fleet on Boeing 777-200 aircraft.

The Company shipped a total of 28 AFIRS units in 2011, an increase from 27 in 2010, of which 19 were to existing customers.

Achievements

- AMA announced it will receive a repayable investment of $1.96 million from the Canadian federal government's SADI program for development of the next generation AFIRS 228.

- In April, AMA and the Nigerian Civil Aviation Authority ("NCAA") officially commissioned the new Flight Tracking Operations Command Centre in Lagos, Nigeria.

- AMA announced the successful installation and test flight of its first AFIRS 228 unit on a Hawker Beechcraft 750 in Chester, United Kingdom.

- AMA received two patents for the Aircraft Flight Data Management System, covering the AFIRS product, from China and Europe.

- AMA received expanded delegated authority from TCCA that allows the Company to approve the structural design aspects of an airworthiness certification for aircraft.

- AMA unveiled a new identity, through its FLYHT™ brand name, to better reflect the Company's advancements in technology and its innovative spirit.

- AMA received an Alberta Export Award in the Advancing Technologies category at a ceremony hosted by the Alberta division of the Canadian Manufacturers & Exporters.

RESULTS OF OPERATIONS – YEAR ENDED DECEMBER 31, 2011

REVENUE

Overall, total revenue increased 16.7% from $4,685,123 in 2010 to $5,467,199 in 2011. The increase was seen across all revenue sources with the significant increase in the core revenues of AFIRS UpTime sales and AFIRS UpTime usage. These increases were 34.9% and 6.2% respectively. The AFIRS UpTime sales increase was a result of an increased recognition of installation kit revenue for units shipped in previous years accepted by customers throughout 2011. AFIRS UpTime usage revenue also increased as these kits began to generate revenue from voice and data usage.

The Company has two types of revenue streams relating to AFIRS equipment, depending on the type of service agreement: rental and sales. 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. At December 31, 2011, there was one customer with a rental type contract (2010: two customers). For sales type agreements, AFIRS fees are deferred as unearned revenue and corresponding expenses are recorded as work in progress. When the system is fully functional and the customer has accepted the system, the deferred amount is fully recognized in revenue along with the work in progress as cost of sales. Under both forms of agreement, UpTime usage fees are recognized as the service is provided based on actual customer usage each month. The amounts recorded in unearned revenue are nonrefundable.

Summary of quarterly revenue results

	2011					2010				
	AFIRS UpTime sales	AFIRS UpTime usage	Parts	Services	Total	AFIRS UpTime sales	AFIRS UpTime usage	Parts	Service s	Total
Q1	$ 262,655	$ 719,773	$ 41,871	$ 97,153	$ 1,121,452	$ 243,984	$ 759,499	$ 27,097	$ 11,303	$ 1,041,883
Q2	377,607	740,471	62,849	119,984	1,300,911	520,148	639,477	12,625	39,978	1,212,228
Q3	369,604	734,964	5,829	329,798	1,440,195	226,187	674,572	43,712	65,496	1,009,967
Q4	714,476	756,554	90,659	42,952	1,604,641	287,589	705,366	38,240	389,850	1,421,045
Total	**$ 1,724,342**	**$ 2,951,762**	**$201,208**	**$ 589,887**	**$ 5,467,199**	**$1,277,908**	**$ 2,778,914**	**$ 121,674**	**$ 506,627**	**$ 4,685,123**

Revenue sources

	2011	2010	Variance	Explanation
AFIRS UpTime sales	$ 1,724,342	$ 1,277,908	$ 446,434	Increased recognition of installation kit revenue as kits previously shipped were installed and became fully functional.
AFIRS UpTime usage	2,951,762	2,778,914	172,848	Increased phone and data usage, the weakening of the Canadian dollar in relation to the U.S. dollar, and an increased number of contracts based on fixed recurring monthly amounts contributed to the increase in recurring voice and data revenue. The increase in those factors was somewhat offset by a 4.1% decrease in flight hours from 2010 resulting specifically from customers in the US who saw a decrease in airlifts in support of military operations. .
Parts	201,208	121,674	79,534	An increased demand for spare kits and the associated parts totaled $56,034. Sales of Underfloor Stowage Units increased $23,320.
Services	589,887	506,627	83,260	The increase is due to the completion of a second operations centre in Nigeria. The increase was partially offset by a reduction in installation support for existing customers.
Total	**$ 5,467,199**	**$ 4,685,123**	**$ 782,076**	

For the revenue categories above, AFIRS Uptime sales include the income from the AFIRS hardware sale as well as the parts required to install the unit. AFIRS Uptime usage is the recurring revenue from customers' usage of data they receive from AFIRS and use of functions such as the satellite phone. Parts revenue includes the sale of spare AFIRS units, spare installation parts, and Underfloor Stowage Units. Services revenue comes from technical services, repairs and expertise the Company offers such as the installation of operations control centres, such as the two AMA set up in Nigeria.

The Company's long-term investment in marketing and relationship building has created a strong pipeline of prospective clients around the world. The revenue breakdown based on geographical location is displayed in the table below. Approximately 54.0% of the Company's revenue in 2011 is recurring, compared to 59.3% in 2010. The recurring revenue from AMA's existing client base is expected to continue to expand throughout 2012 and future years.

Geographical sources of revenue

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

	2011	Percent	2010	Percent
North America	$ 2,469,888	45.2%	$ 2,790,279	59.6%
South/Central America	452,334	8.3%	475,575	10.1%
Africa/Middle East	1,787,817	32.7%	734,067	15.7%
Europe	133,246	2.4%	55,967	1.2%
Australasia	440,408	8.1%	535,167	11.4%
Asia	183,506	3.3%	94,068	2.0%
Total	**$ 5,467,199**	**100%**	**$ 4,685,123**	**100%**

Customer deposits

Customer deposits are amounts received for AFIRS UpTime sales and parts that have not yet been shipped to the customer, and services that have not yet been completed. These deposits are nonrefundable, and are included on the Statement of Financial Position ("SFP") in trade payables and accrued liabilities.

Customers are required to prepay for installation kits approximately 45 days prior to the planned shipment date. This prepayment is recorded as a deposit. Upon shipment of an installation kit, the customer deposit is moved to unearned revenue, where it will remain until the AFIRS UpTime solution has been installed and accepted by the customer, at which point the value of the installation kit is recognized as AFIRS UpTime sales revenue.

When customers order spare parts or Underfloor Stowage Units, a prepayment is required which is recorded as a customer deposit. When the shipment of the ordered part or unit occurs, the customer deposits are recognized as revenue.

The chart below outlines the movement in the Company's customer deposits.

	2011	2010	Variance
Balance, January 1	$ 527,457	$ 623,984	$ (96,527)
Payments received from customers	1,592,786	1,196,973	395,813
Moved to unearned revenue	(1,139,288)	(1,293,500)	(154,212)
Balance, December 31	**$ 980,955**	**$ 527,457**	**$ 453,498**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue.

	2011	2010	Variance
Balance, January 1	$ 2,831,878	$ 3,123,842	$ (291,964)
AFIRS UpTime sales: shipped, not accepted	1,139,288	1,293,500	(154,212)
AFIRS UpTime usage: prepaid	113,752	168,218	(54,466)
AFIRS UpTime sales: revenue recognized	(1,810,540)	(1,374,641)	(435,899)
AFIRS UpTime usage: revenue recognized	(119,654)	(121,521)	1,867
License fees: revenue recognized	(257,520)	(257,520)	-
Balance, December 31	**$ 1,897,204**	**$ 2,831,878**	**$ (934,674)**

GROSS MARGIN AND COST OF SALES

AMA's cost of sales include the direct costs associated with specific revenue types, including: the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel's onsite installation support. The Company assists with the first AFIRS installation, subsequent installations are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in 2011 was 46.0% compared to 41.9% in 2010. Gross margin was 54.0% in 2011 compared to 58.1% in 2010. This change was due to the mix of revenue sources, in particular, fluctuations in cost of sales related to part sales and services revenue.

OPERATING ACTIVITIES

Other income

Other income consists of the recognition of the Sierra Nevada Corporation ("SNC") license fee that was deferred as unearned revenue when received, and is being recognized over the initial five-year term of the agreement. See Contingency section on page 41.

Distribution expenses

Consist of overhead expenses associated with the delivery of products and services to customers, sales and marketing.

Major Category	2011	2010	Variance	Explanation
Salaries and benefits	$ 1,790,460	$ 2,156,836	$ (366,376)	Salaries and benefits decreased mainly due to operations staff's increased involvement in R&D activities associated with the AFIRS 228 and the allocation related to R&D.
Share based compensation	84,815	25,447	59,368	Increased due to higher level of option grants to a wider base of staff which was offset by a decrease in the calculated fair value per share.
Contract labour	770,297	569,126	201,171	Increased as the result of the addition of a marketing consultant who is developing sales material collateral specifically related to the AFIRS 228 and the rebranding of the FLYHT logo. As well, there was an addition of contract programmers who are focused on enhancing existing product functionality.
Office	335,959	302,558	33,401	Increased due to an allocation between cost centers and not due to an increase in the overall expense.
Travel	260,500	232,204	28,296	An increase in travel expenses was largely the result of increased travel and meals associated with marketing activities including trade show attendance.
Equipment and maintenance	55,931	31,467	24,464	Increased due to costs associated with the movement of the UpTime hosting centre earlier in the year to accommodate growth in the installation base.
Marketing	102,104	57,321	44,783	Increased due to an increased presence at the premier business aviation show as well as the creation of marketing materials to promote the functionality related to the AFIRS 228.
Other	94,863	139,709	(44,846)	Decreased due to decreased bad debt expense of $36,830 together with a $8,436 decrease in non-recurring relocation expenses in 2010.
Total	**$ 3,494,929**	**$ 3,514,668**	**$ (19,739)**	

Administration expenses

Consist of expenses associated with the general operations of the Company that are not directly associated with delivery of services or sales.

Major Category	2011	2010	Variance	Explanation
Salaries and benefits	$ 1,208,138	$ 1,047,615	$ 160,523	Costs increased from 2010 due to hiring more staff in the operations group to meet increased customer support requirements.
Share based compensation	149,343	240,766	(91,423)	Decreased due a decrease in the calculated fair value per share.
Contract labour	77,525	160,347	(82,822)	Decreased due to a reduction in consulting related to the conversion to IFRS, which occurred in 2010, plus a general reduction in the requirement for contract labour related to administrative activities.
Office	312,217	355,368	(43,151)	Decrease primarily due to the allocation of office space rental to cost centres and not to an overall reduction in rental costs.
Legal fees	173,895	286,889	(112,994)	There was a reduction in legal fees due to reduced legal services required and specifically the legal proceedings by a Toronto based company. As well, legal fees related to patents were allocated to the R&D cost centre in 2011.
Audit and accounting	129,086	176,642	(47,556)	Decreased due to a combination of reduced audit fees and reduced costs associated with conversion to IFRS in 2010.
Investor relations	135,443	102,067	33,376	Increased due to costs associated with the engagement of an IR firm that was in addition to the existing supplier. As well, the Company increased use of multimedia services for investor relations communications.
Brokerage, stock exchange and transfer agent fees	29,174	32,311	(3,137)	Decrease is the result of reduced stock exchange fees during 2011.
Travel	74,713	145,717	(71,004)	There was a decrease in travel related to investor relations activities as the Company was focused on building for the future. This reduction is not expected to continue. As the AFIRS 228 is rolled out investor relations activity is expected to increase.
Equipment and maintenance	60,960	51,563	9,397	Increase is the result of the requirement for an increased level of maintenance on administrative-related equipment during 2011.
Depreciation	144,137	220,325	(76,188)	Decreased due to a number of capital assets that have been fully depreciated over the past year and reduction in the need to acquire capital equipment.
Other	22,880	18,748	4,132	The reduction in other administrative costs resulted from a decrease in insurance costs due to negotiated reductions in premiums, decreases in staff training costs, telephone expenses, subscriptions expenses, postage and courier expenses. These reductions were partially offset by an increase in stationery and supplies expenses.
Total	**$ 2,517,511**	**$ 2,838,358**	**$ (320,847)**	

Research and development expenses

As announced in the first quarter of 2011, the Company signed an agreement with the Canadian government under the SADI program whereby the Company will receive a repayable contribution of 30% of eligible AFIRS 228 development costs to a maximum of $1.96 million. The contribution will be repayable over 15 years commencing April 30, 2014. During 2011, the Company received payment for three claims totaling $890,902. It was determined that the repayable contribution was below market interest rates and accounted for the payments in accordance with International Accounting Standard 20. This resulted in $259,250 being accounted for as a loan payable and the remainder of $631,652 as a grant. The grant portion was a reimbursement of a portion of the Company's costs related to the development of the AFIRS 228 and was classified as related to income and therefore a reduction in R&D expenses.

Major Category	2011	2010	Variance	Explanation
Salaries and benefits	$ 1,333,410	$ 869,947	$ 463,463	Increased due to utilizing Company staff to replace Sierra Nevada Corporation and other contractors.
Share based compensation	6,780	-	6,780	Increased option grants to a wider base of staff which was offset by a decrease in the calculated fair value per share.
Contract labour	2,373,009	4,714,255	(2,341,246)	Decreased contract labour was the result of changes to repatriate the core software development to Calgary and build a team around the existing resources of the Company's Calgary based staff and contractors.
Office	101,826	60,546	41,280	The increase was the result of the allocation of legal expenses related to patents to the R&D cost centre in 2011.
Travel	78,940	189,222	(110,282)	Decreased travel expense was the result of bringing the 228 development fully in-house and the reduction in the need to travel to contractors' facilities.
Equipment & maintenance	147,314	8,924	138,390	The increase is due to the requirement to purchase equipment directly related to the AFIRS 228 development.
Components	354,693	234,910	119,783	Increase was the result of materials purchased to build AFIRS 228 prototypes for testing.
Government grants	(721,683)	(118,556)	(603,127)	$631,652 from the SADI grant was received in 2011 in addition to grants from the IRAP program that were received in 2010 and 2011.
SRED tax credit	(355,982)	(198,725)	(157,257)	Increase in the Scientific Research and Experimental Development ("SRED") grant received from the Alberta government as part of their R&D tax refundable credit program. This credit will fluctuate yearly as the R&D activities of the company fluctuate.
Other	8,186	1,750	6,436	Increase is the result of moving allowances for staff recruited during the year.
Total	**$ 3,326,493**	**$ 5,762,273**	**$ (2,435,780)**	

Net finance costs

Net finance costs consist of interest revenue, realized and unrealized foreign exchange gains and losses, bank service charges, interest expense, accretion of debenture interest, and amortization of the debenture issue costs.

Major Category	2011	2010	Variance	Explanation
Interest income	$ 22,412	$ 16,611	$ 5,801	Increased average cash balances during 2011 increased the amount of interest income earned.
Net foreign exchange gain	66,406	26,848	39,558	Weakening of the Canadian dollar in relation to the U.S. dollar created net foreign exchange gains during 2011.
Bank service charges	21,328	23,999	(2,671)	The Company moved to improved online banking services primarily related to wire transfers, which reduced banking costs.
Interest expense	8,662	14,021	(5,359)	Reduction in the number of leases for equipment reduced the interest expenses related to those leases.
Government grant interest expense	5,512	-	5,512	This amount is the recognition of the interest component of the SADI grant.
Debenture interest expense	379,479	8,741	370,738	The debentures were issued in late December 2010.
Debenture cost amortization	78,331	1,931	76,400	The debentures were issued in late December 2010.
Net finance costs	**$ 404,494**	**$ 5,233**	**$ 399,261**	

Net loss

	2011	2010	Percent Change	Explanation
Net loss	$ 6,543,049	$ 8,977,504	(27.1%)	This decrease is primarily due to increased gross profit of $229,699 coupled with decreased distribution expenses of $19,739, decreased administrative expenses of $320,847, decreased R&D of $2,435,780 and increased finance income of $45,359, which was offset by increased finance costs of $444,620.
Net loss without R&D	$ 3,216,556	$ 3,215,231	0.0%	If the loss in 2011 was adjusted by removing R&D, including the extensive development of the next generation AFIRS 228, the loss would have increased slightly.

QUARTERLY RESULTS

2011				
	Q1	Q2	Q3	Q4
Revenue	$ 1,121,452	$ 1,300,911	$ 1,440,195	$ 1,604,641
Loss	1,485,292	1,397,442	1,576,944	2,083,371
Loss (before R&D)	702,805	841,827	458,777	1,213,147
Loss per share (basic & fully diluted)	0.01	0.02	0.01	0.02
Assets	9,390,199	7,866,382	7,492,613	5,509,709
Long term financial liabilities	$ 2,498,468	$ 2,598,381	$ 2,775,586	$ 2,519,337

2010				
	Q1	Q2	Q3	Q4
Revenue	$ 1,041,883	$ 1,212,228	$ 1,009,967	$ 1,421,045
Loss	2,063,614	2,559,634	2,601,005	1,753,251
Loss (before R&D)	1,026,209	1,122,382	855,723	210,917
Loss per share (basic & fully diluted)	0.02	0.02	0.03	0.02
Assets	10,206,469	8,051,911	5,937,150	11,023,681
Long term financial liabilities	$ 273,512	$ 219,392	$ 155,001	$ 2,414,001

FOREIGN EXCHANGE

All international and a majority of domestic sales of the Company's products and services are denominated in U.S. dollars. Accordingly, the Company is susceptible to foreign exchange fluctuations. In 2011, over 98% of the Company's gross sales were made in U.S. dollars, unchanged from 2010. The Company expects this to continue since the aviation industry conducts the majority of its transactions in U.S. dollars, thus limiting the opportunity for sales in Canadian dollars or other major currencies. The Company also contracts in U.S. dollars for services and products related to cost of sales, which creates a natural hedge. The Company will continue to look for opportunities to denominate agreements in other currencies dependant on the agreements' ability to assist in the reduction of the net exposure to U.S. dollar fluctuations.

TRANSACTIONS WITH RELATED PARTIES

During the year, the Company completed transactions with a company owned by a director for consulting services and travel expenses totaling $88,784 compared to $92,944 for the same contractor in 2010. All of the transaction amounts 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 business jet initiatives of the Company. These transactions included reimbursement 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.

The Company also completed transactions with a company owned by another director to supply consulting services totaling $41,596 compared to nil in 2010. All of the transactions were amounts agreed upon by the parties and approximated fair market value. The related party provides business development services such as market analysis and corporate introductions related to commercial aviation initiatives of the Company.

All other transactions with related parties were normal course business transactions related to their positions with the Company.

As well, on December 31, 2011 the President of the Company, who is also a director, resigned and entered into an employment agreement for a period of 16 months commencing January 1, 2012. The terms of that agreement include a salary equal to his previous salary, commissions on sales to three key accounts for a period of 48 months and the grant of 1,000,000 stock options at an exercise price of $0.20 per share. The options vest based on the receipt of agreed cash payment targets from three key accounts and expire December 31, 2013

LIQUIDITY AND CAPITAL RESOURCES

During 2011, the Company issued a minor amount of common stock through the exercise of stock options. The Company's net assets decreased during the year primarily due to the level of resources dedicated to the development of the next generation product, AFIRS 228. The Company offset some of the investment in the AFIRS 228 by securing a repayable grant from Industry Canada under the SADI program, submitting a SRED tax credit claim, and repatriating the development work from a contractor in-house to reduce the costs and improve the timeliness of the project deliverables. The level of incoming cash flow from customer advance payments for equipment, monthly UpTime revenue, SADI reimbursements, SRED refundable tax payments and the management of expense levels including R&D created sufficient capital to continue to operate and sustain capital for inventory to be deployed in order to grow the Company's customer base and services.

During 2011 a total of 15,000 common shares were issued to directors, officers, employees, and consultants on the exercise of options. The weighted average issue price of these common shares was $0.27, resulting in cash proceeds of $4,050.

At December 31, 2011, the Company had negative working capital of $2,947,863 compared to positive working capital of $3,523,997 in 2010, a decrease of $6,471,860. The decrease in working capital is primarily attributable to a reduction in cash of $4,689,787. At the end of 2010 the cash position of the Company was augmented by the combination of a brokered private placement and a convertible secured subordinate debenture which was not repeated during 2011. Therefore, the Company funded 2011 operations primarily through cash received from sales and the proceeds of the private placement and debenture. Additional factors were a reduction of accounts receivable of $202,009 as a result of the Company's efforts to maintain accounts receivable days outstanding at a maximum average of 45 days. The reduction in current inventory of $480,834 from December 31, 2010 was result of the continued initiative of reducing inventory levels, moving towards just in time inventory management whenever lead times allow. Current unearned revenue decreased $465,725 primarily due to customers installing previously shipped equipment, followed by the Company's ability to reach full functionality and obtain customer acceptance of the equipment, resulting in recognition of the corresponding revenue. The current portion of loans and borrowings increased by $298,258, mainly due to the addition of the debenture interest due in late 2012. Trade payables and accrued liabilities increased $1,358,435 largely due to an increase in non-refundable customer deposits of $453,498. These deposits are for shipments scheduled in future periods and are non-refundable. There was also an increase in accrued variable compensation of $303,125 that was due to employees for meeting their 2011 individual goals. The remainder of the increase was trade payables of $601,812 as the result of goods and services received in late 2011 that had not been paid for by December 31, 2011. If the resources associated with R&D were factored out, the decrease in cash would have been $1,293,704.

Neither customer deposits nor the current portion of unearned revenue are refundable, and if those two items are not included in the working capital calculation, the resulting modified working capital at December 31, 2011 would be negative $278,509 compared to a positive $6,242,981 in 2010.

As well, in 2011, the Company had outstanding accounts payable to SNC of $1,831,965 relating to their involvement with the development of the AFIRS 228. As reported in the 2010 Annual Report the development effort for the AFIRS 228 program was split into four general modules: (1) hardware, (2) board support software (both developed by a Calgary contractor), (3) Embedded Logic Applications ("ELA") (developed by AMA staff in Calgary), and (4) core software (the responsibility of SNC). Late in 2010, it was recognized by management that progress on the AFIRS 228 program was on track for year end delivery for the hardware, board support software and ELA. However, time estimates to complete the core software continued to slip and costs had escalated. In the first quarter of 2011, management of AMA reviewed the state of the core software development with SNC in order to develop a plan and prepare for the transition from an SNC deliverable to AMA maintained software. It was determined by management that the best course of action to successfully complete the 228 in a timely fashion was to repatriate the core software development to Calgary and build a team around the existing resources of AMA's Calgary based contractors and staff. The transition occurred in February 2011, and as anticipated, the first customer test flight was completed before the end of 2011. Full certification will commence mid-2012 to meet the timelines required by our current customers and prospects. The current accounts payable amount outstanding of $1,831,965 as at December 31, 2011 is presently under dispute in the courts. See the Contingency section on page 41 for further clarification.

The Company's net cash decreased in 2011 to $1,928,065 from $6,617,852 in 2010. The Company has an available operating line of $250,000 that was undrawn at December 31, 2011. The operating line bears an interest rate of Canadian chartered bank prime plus 1.5%, and is secured by assignment of cash collateral and a general security agreement.

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through its continued marketing drive to clients around the world. Management believes that the Company's installation momentum, conversion of installations to recurring revenue, new revenue streams, and ongoing sales will be sufficient to meet standard liquidity requirements going forward. To continue as a going concern, the Company will need to attain profitability and/or obtain additional financing to fund ongoing operations. If general economic conditions or the financial condition of a major customer deteriorates, then the Company may have to scale back operations to create positive cash flow from existing revenue and/or raise the necessary financing in the capital markets. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities, the Company may meet those needs via the capital markets. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

As at April 10, 2012, AMA's issued and outstanding share capital was 118,636,466.

RISKS AND UNCERTAINTIES

AMA operates in the aviation industry and part of the business involves risks and uncertainties. The Company takes steps to manage these risks, though it is important to identify risks that could have a material effect on business or results of operations. Such risks are listed below. The areas defined are not inclusive.

Installations at c-checks

The Company's product, AFIRS 220, can take approximately 200 person-hours or more to install on an aircraft, depending on the aircraft type and crew. Since the box needs a longer period to be installed, the installation is usually scheduled when the aircraft is undergoing its routine c-check or scheduled maintenance. The timing of c-checks depends on how many segments the aircraft has flown and is based on the manufacturer's guidelines, though it can take as long as two or three years before an aircraft is out of service for an extended period. Waiting for a c-check for AFIRS installation is a risk to the Company because it results in a delay in initial revenue from the sale of the box and the Company does not receive recurring revenue connected with the monthly service offerings until the device is installed and running.

The Company takes steps to mitigate this risk by encouraging customers to install AFIRS at their aircraft's earliest availability and works with them to provide the box at the right time for installation, preferably while the aircraft is down for normal service. The goal is to reduce aircraft downtime and save the customer as much money as possible. Another risk mitigation tool used by the Company is to offer special discounts to airlines that pay for all units up front. This discount decreases AMA's gross margin slightly, but allows the Company to bring in cash immediately after signing an agreement. As well, the terms of the Company's standard agreement states that payment is due a minimum of 45 days prior to the shipment of kits.

Foreign currency fluctuations

The Company does a majority of its business in U.S. dollars so there is a risk of currency fluctuation. The majority of the Company's costs are denominated in Canadian dollars, though a significant portion of costs of goods sold and distribution costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

General economic and financial market conditions

In an industry, such as the aviation industry, finances are tied to global trends and patterns. Since the economic recession in 2008, all sectors including the commercial sector have slowed down. As an airline's spending is tied to their income, they may be unwilling or unable to spend money, particularly on a value-added product such as AFIRS.

In order to address this risk, the sales team has developed a number of strategies. One strategy the Company has achieved is a global sales presence. AMA has established sales agents on every continent. While some economies of the world may be in a bit of a slump or downturn, there is a place for AMA in growing markets. AMA also demonstrates to potential customers its impressive return on investment model, how quickly potential customers can improve operational efficiency, and ultimately how much money AFIRS will save them.

Dependence on key personnel and consultants

AeroMechanical Services' ability to maintain its competency in the industry is dependent on maintaining a specially skilled workforce. The Company's Design Approval Organization status, delegated by TCCA, enables a smooth implementation of STCs, required to install AFIRS on aircraft. Key staff, with TCCA delegation status, enable the Company to complete STCs in a timely and cost efficient manner. The Company has worked hard over the past few years to distribute the specified knowledge among a number of key individuals. This reduces risk and ensures the Company can still function effectively were it to lose specialized staff.

Dependence on new products

Over the past few years, the Company has been in the R&D stage of its next generation product, AFIRS 228. AMA is confident all the right information has been gathered and that the product does fill a gap in the industry. The Company has already closed a number of AFIRS 228 sales. However, the Company's success will ultimately depend on the success of the product, once the final version of the product has been released to the market.

Availability of key supplies

AMA produces and builds all AFIRS units in-house. The Company relies on partners, suppliers and special parts to build the units. Certain parts can be delayed in shipping or availability, which can cause a delay in building the AFIRS box. AMA aims to avoid the risk of not having the necessary supplies by managing inventories and storing extra key parts. Additionally, the Company maintains close communication with its partners and suppliers to ensure all key components for the AFIRS device will be available into the future.

Proprietary protection

Patent rights are extremely important to the continuation of the Company because the AFIRS technology is the Company's primary revenue source. The Company relies on contract, copyright and trademark laws and has received patents from the United States, China and European patent offices. These patents are generally respected in other international jurisdictions as well. The risks involved with proprietary protection lie in other companies claiming patent infringement, though the Company has defended patent claims in court and been successful. AMA conducted due diligence on its technology and the conditions of its patent before applying and maintains that it holds unique characteristics from other technologies in the marketplace and does not infringe on the rights of any third parties.

CONTRACTUAL OBLIGATIONS

The following table details the contractual maturities of financial liabilities, including estimated interest payments.

December 31, 2011	< 2 months	2-12 months	1-2 years	2-5 years	> 5 years	Total
Accounts payable	$ 1,441,147	$ 99,120	$ -	$ 1,831,965	$ -	$ 3,372,232
Compensation and statutory deductions	54,226	368,550	-	-	-	422,776
Finance lease liabilities	14,082	42,587	24,350	14,029	-	95,048
Accrued liabilities	10,200	89,136	23,894	4,344	-	127,574
Loans and borrowings	-	384,815	293,400	3,527,963	157,480	4,363,658
Total	**$ 1,519,655**	**$ 984,208**	**$ 341,644**	**$ 5,378,301**	**$ 157,480**	**$ 8,381,288**

In addition, the Company has repayment obligations related to three Government of Canada loan programs.

Under the Industrial Research Assistance Program ("IRAP"), the outstanding balance at December 31, 2011 was $134,550 compared to $196,377 at December 31, 2010. The initial amount was to be repaid as a percentage of gross revenues over a 5 to 10 year period commencing October 2005.

Under the Technology Partnerships Canada ("TPC") program, the Company has an outstanding balance of $47,186 at December 31, 2011, which was unchanged from 2010. The initial amount was 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 gross revenue that was set in fiscal 2004 of $556,127. Repayment was not required in 2011 as the fluctuation in revenue from 2009 to 2010 did not meet the increased gross revenue threshold. The repayment period commenced January 1, 2005.

Under SADI the Company has, at December 31, 2011, an outstanding repayable balance of $890,902. The amount is repayable over 15 years on a stepped basis commencing April 30, 2014. The initial payment on April 30, 2014 is 3.5% of the total contribution received and increases yearly by 15% until April 30, 2028 when the final payment is 24.5% of the total contribution received.

During 2011, AMA entered into new lease agreements for computer equipment totaling $56,922 compared to nil in 2010. The equipment leased is accounted for as capital leases that expire in various years until 2014. Minimum lease payments are as follows for these and other capital leases:

Year	Total
2012	$ 56,669
2013	24,350
2014	14,029
Total	**$ 95,048**

The imputed interest included in the payments is $13,195 (2010 - $4,500) leaving a total obligation of $81,853 (2010 - $118,147).

RESULTS OF OPERATIONS – THREE MONTHS ENDED DECEMBER 31, 2011 AND 2010

Revenue

	2011	2010	Variance	Explanation
AFIRS UpTime sales	$ 714,476	$ 287,589	$ 426,887	There was an increased recognition of unearned revenue due to an increased number of aircraft systems accepted during the quarter versus the same quarter of 2010.
AFIRS Uptime usage	756,554	705,366	51,188	Increased phone and data usage was partially offset by a decrease in flight hours from the same quarter in 2010 resulting specifically from customers in the US who saw a decrease in airlifts in support of military operations. .
Parts	90,659	38,240	52,419	Increased due to an increase in customer requirements for spare or replacement parts during the quarter.
Services	42,952	389,850	(346,898)	The decrease is the result of the recognition of revenue for the first Nigerian command centre in the fourth quarter of 2010.
Total	**$ 1,604,641**	**$ 1,421,045**	**$ 183,596**	

Customer deposits

	2011	2010	Variance
Balance, October 1	$ 1,252,490	$ 622,693	$ 629,797
Payments received from customers	288,793	275,858	12,935
Moved to unearned revenue	(560,328)	(371,094)	(189,234)
Balance, December 31	**$ 980,955**	**$ 527,457**	**$ 453,498**

Unearned revenue

The chart below outlines the movement in the Company's unearned revenue throughout the fourth quarter of 2011 and 2010.

	2011	2010	Variance
Balance, October 1	$ 2,166,725	$ 2,795,453	$ (628,728)
AFIRS UpTime sales: shipped, not accepted	560,328	371,094	189,234
AFIRS UpTime usage: prepaid	40,795	46,697	(5,902)
AFIRS UpTime sales: revenue recognized	(777,128)	(287,589)	(489,539)
AFIRS UpTime usage: revenue recognized	(29,136)	(29,397)	261
License fees: revenue recognized	(64,380)	(64,380)	-
Balance, December 31	**$ 1,897,204**	**$ 2,831,878**	**$ (934,674)**

GROSS MARGIN AND COST OF SALES

AMA's cost of sales include the direct costs associated with specific revenue types, including: the AFIRS unit, installation kits, training and installation support, as well as associated shipping expenses and travel expenses for the Company's engineering personnel's on-site installation support. Installations on aircraft are performed by third parties at the customer's expense. Cost of sales as a percentage of revenue in the fourth quarter of 2011 was 40.2% compared to 66.7% in 2010. This decrease was due to a write-down of inventories in 2011 resulting from a complete review of slow-moving parts during the fourth quarter of 2011 and the subsequent recognition of an allowance for slow moving parts, which lowered the gross margin on AFIRS UpTime sales to 9.8% from 31.3% in the same quarter of 2010. The margin on AFIRS Uptime usage remained relatively consistent at 68.5% in 2011 compared to 69.9% in the fourth quarter of 2010. The gross margin for both part sales and services will fluctuate quarter over quarter depending on customer needs.

Gross margin for the last eight quarters was:

	Q1	Q2	Q3	Q4
2011	56.0%	59.8%	62.7%	40.2%
2010	56.5%	55.9%	50.4%	66.7%

OPERATING ACTIVITIES

Other income

Other income consists of the recognition of the Sierra Nevada Corporation ("SNC") license fee that was deferred as unearned revenue when received and is being recognized over the initial five-year term of the agreement. See Contingency section on page 41.

Distribution expenses

Consist of overhead expenses associated with the delivery of services to customers, sales and marketing.

Major Category	2011	2010	Variance	Explanation
Salaries and benefits	$ 538,331	$ 456,594	$ 81,737	Salaries and benefits increased mainly due to the addition of programming staff that support existing customers.
Share based compensation	1,082	3,688	(2,606)	Options granted during the quarter of 2011 totalling $1,082 that did not occur in 2010. The 2010 was the net of IFRS adjustments of $3,688. The combination of these created a net decrease of $2,606.
Contract labour	196,474	111,325	85,149	Increased as the result of the addition of a marketing consultant who is developing sales material and programmers who are focused on existing product functionality.
Office	92,513	72,707	19,806	Increased due to an allocation between cost centers and not due to an increase in the overall expense.
Travel	87,955	85,428	2,527	Increase in travel expenses in the fourth quarter of 2011 versus the same quarter last year was largely the result of increased travel and meals associated with marketing activities including attendance at the premier business aviation trade show.
Equipment and maintenance	9,314	16,639	(7,325)	Decreased due to the decrease in equipment maintenance as the result of the replacement of network hosting servers during the year and the reduced cost of their associated maintenance contracts.
Marketing	44,572	15,529	29,043	Increase due to the creation of marketing materials to promote functionality related to the AFIRS 228.
Other	102,422	3,874	98,548	Increased due to an increased bad debt reserve of $98,259 against December 31, 2011 outstanding invoices as the result of the Chapter 11 steps taken by two related customers in February 2012.
Total	**$ 1,072,663**	**$ 765,784**	**$ 306,879**	

Administration expenses

Consist of overhead expenses associated with the general operations of the Company that are not directly associated with delivery of services or sales.

Major Category	2011	2010	Variance	Explanation
Salaries and benefits	$ 403,627	$ 238,749	$ 164,878	Increased due to the accrual of variable compensation earned in 2011 of $180,000 above 2010 and a reduction in the allocation of labour costs to projects and R&D.
Share based compensation	673	5,432	(4,759)	Reduced fair value of vested options in 2011.
Contract labour	15,126	44,363	(29,237)	Decreased due to a reduction in consulting related to the conversion to IFRS, which occurred in 2010, plus a general reduction in the requirement for contract labour related to administrative activities.
Office	71,965	89,065	(17,100)	Decreased primarily due to the allocation of office space rental to cost centres and not to an overall reduction in rental costs. In addition, the negotiation of the premium on insurance coverage increased the coverage at lower premium levels.
Legal fees	76,863	79,891	(3,028)	There was a reduction in legal fees due to an overall reduction in legal services and specifically the legal proceedings by a Toronto based company and the allocation of patent related legal fees to the R&D cost centre.
Audit and accounting	27,549	14,199	13,350	Increase was the result of an accrual reversal of $47,740 that occurred in the fourth quarter of 2010 that was not repeated in 2011. If this reversal was taken out, the fourth quarter of 2011 would be $34,390 less than 2010. This is due to a combination of reduced audit fees and reduced costs associated with conversion to IFRS.
Investor relations	25,845	27,110	(1,265)	There will be minor quarterly variations in this category.
Brokerage, stock exchange and transfer agent fees	1,464	1,598	(134)	There will be minor quarterly variations in this category.
Travel	25,401	23,715	1,686	There will be minor quarterly variations in this category.
Equipment and maintenance	24,220	19,472	4,748	Increase is due to the increase of small equipment purchases and the requirement for an increased level of maintenance on administrative-related equipment.
Depreciation	39,769	63,985	(24,216)	The decrease is due to a number of capital assets that have been fully depreciated over the past year.
Other	10,157	7,563	2,594	Increased costs related to staff team building and education through various functions.
Total	**$ 722,659**	**$ 615,142**	**$ 107,517**	

Research and development expenses

As announced in the first quarter of 2011, the Company signed an agreement with the Canadian government under the SADI program whereby the Company will receive a repayable contribution of 30% of eligible AFIRS 228 development costs to a maximum of $1.96 million. The contribution will be repayable over 15 years commencing April 30, 2014. In the fourth quarter of 2011, payment of $667,869 was received which was accounted for as a loan payable of $178,584 and a grant of $489,285 in accordance with International Accounting Standard 20. The grant portion was a reimbursement of a portion of the Company's costs related to the development of the AFIRS 228 and was classified as related to income and therefore a reduction in R&D expenses.

Major Category	2011	2010	Variance	Explanation
Salaries and benefits	$ 376,053	$ 224,779	$ 151,274	Increased due to utilizing AMA staff instead of SNC and contractors as per the contract labour category below.
Contract labour	682,396	1,451,728	(769,332)	Decrease of contract labour was the result of changes to the AFIRS 228 program in early 2011 when it was decided to repatriate the core software development to Calgary and build a team around the existing resources of the Company's Calgary based staff and contractors.
Office	64,423	9,751	54,672	The increase is the result of the allocation of legal fees related to R&D activities including actions with SNC, which totaled $52,300 during the fourth quarter of 2011. The remaining increase is due to a general increase in telephone, postage, courier and other office related expenses directly attributed to R&D activities.
Travel	8,714	32,146	(23,432)	Decrease in travel expense from the fourth quarter of 2010 was also the result of bringing the 228 development fully in-house
Equipment & maintenance	17,831	1,603	16,228	This increase is the result of equipment requirements directly related to the AFIRS 228 development.
Components	204,076	105,429	98,647	Increase was the result of materials purchased to build AFIRS 228 prototypes for testing.
Government grants	(489,285)	(84,405)	(404,880)	The 2011 amount is the receipt of the repayable grant under the SADI program, while the 2010 grant received was through the IRAP program.
SRED tax credit	-	(198,725)	198,725	Decrease was the result of quarterly timing difference in 2011. The SRED funds were received in Q3 of 2011.
Other	6,016	28	5,988	The increase is the result of moving allowance for engineering staff recruited in the fourth quarter of 2011.
Total	**$ 870,224**	**$ 1,542,334**	**$ (672,110)**	

Net finance costs

Net finance costs consist of interest revenue, realized and unrealized foreign exchange gains and losses, bank service charges, interest expense, accretion of debenture interest, and amortization of the debenture issue costs.

Major Category	2011	2010	Variance	Explanation
Interest income	$ 21	$ 2,191	$ (2,170)	Decreased average cash balances during the fourth quarter of 2011 decreased the amount of interest income earned.
Net foreign exchange gain	11,329	12,173	(844)	The fluctuations in the exchange rate between the Canadian and U.S. dollars during the respective quarters and the relative holdings of U.S. cash, receivables and payables resulted in a minor decrease.
Bank service charges	5,340	6,076	(736)	The Company moved to improved online banking services primarily related to wire transfers, which reduced banking costs.
Interest expense	2,274	2,366	(92)	Reduction in the number of leases for equipment reduces the interest expense related to those leases.
Government grant interest expense	5,512	-	5,512	The recognition of the interest component of the SADI grant.
Debenture interest expense	100,688	8,741	91,947	The debenture was obtained December 2010, which resulted in interest being recognized for, less than the entire fourth quarter of 2010.
Debenture cost amortization	19,744	1,931	17,813	The debenture was obtained December 2010, which resulted in interest being recognized for, less than the entire fourth quarter of 2010.
Net finance costs	**$ 122,208**	**$ 4,750**	**$ 117,458**	

Net loss

	2011	2010	Change	Explanation
Net loss	$2,083,371	$1,753,251	18.8%	This increased loss is the result of lower gross margin during the quarter of $303,868 coupled with higher distribution expenses of $306,879, administrative expenses of $107,517 and reduced R&D expenses of $672,110 during the fourth quarter of 2011 compared to 2010. These changes were also augmented by an increase in net finance costs of $117,458 and decreased deferred income tax expense related mainly to the debenture in 2010 of $157,792.
Net loss without R&D	$1,213,147	$210,917	475.2%	If the loss in the fourth quarter of 2012 was adjusted by removing R&D there would be an increased loss. This increase is due to the reduction in R&D expenses in the fourth quarter of 2011 versus 2010 of $672,110.

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.

3. The Company evaluates its deferred tax assets at each reporting date and recognizes deferred tax assets to the extent that it is probable that future taxable profits will be available against which they can be utilized. At December 31, 2011, no deferred tax assets were recognized.

4. The Company records amounts for warranty based on historical warranty data and are recognized upon shipment of the underlying products.

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 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.

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.

   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 included in trade payables and accrued liabilities on the SFP, 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's cash flow 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 product is shipped to the customer. The Company assesses the financial risk of a customer and based on that analysis may 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 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 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 their interference with legally binding contracts, disrupted business, attacks on the Company's reputation and costs. During 2011, there has been no substantial progress on a resolution to the action. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

In November 2011, the Company took action against Sierra Nevada Corporation ("SNC") and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,831,965, which represents the total amount of invoices received. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour. The Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration. SNC subsequently filed an action in Utah alleging that AMA failed to pay $2,042,000 USD. The Company filed a motion in December 2011 to the Utah courts to uphold the jurisdiction of the Alberta courts per the agreement. Any amounts awarded as a result of these actions will be offset against the accrued liability and will be reflected in the year the amounts become reasonably estimable.

SUBSEQUENT EVENTS

In January 2012, the Company signed a services agreement with a Canadian operator. The agreement calls for the provision of both AFIRS 220 on seven aircraft and AFIRS 228 on 12 aircraft for a total of 19 aircraft plus ongoing services for a period of five years.

In February 2012, the Company was advised that two related customers had filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court. As the results of the proceedings are not clear at this time, the Company recorded an allowance for doubtful accounts totaling $102,079, which represented the total amounts outstanding at December 31, 2011.

In March 2012, the Company signed a services agreement with NetJets Transportes Aereos, S.A. The agreement calls for the provision of AFIRS 228 equipment and services for 30 Hawker Beechcraft 750/800XP aircraft for a period of five years.

RECENT ACCOUNTING PRONOUNCEMENTS

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

As of January 1, 2015, the Company will be required to adopt IFRS 9, Financial Instruments, which is the result of the first phase of the International Accounting Standards Board's ("IASB") project to replace IAS 39, Financial Instruments: Recognition and Measurement. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value. It is anticipated that the adoption of this standard will not likely have a material impact on the Company's financial statements.

All of the following new or revised standards permit early adoption with transitional arrangements depending upon the date of initial application:

IFRS 7 – Disclosures, Transfer of Financial Assets requires additional disclosures regarding the relationship between transferred financial assets not derecognized in their entirety and their associated liabilities (January 1, 2012).

IFRS 7 / IAS 32– Offsetting Financial Assets and Liabilities clarifies that an entity currencty has a legally enforceable right to set-off if it is not contingent on a future event, situations under which it is enforceable, and defines related disclosure requirements (January 1, 2013 / January 1, 2014).

IFRS 9 – Financial Instruments addresses the classification and measurement of financial assets (January 1, 2015).

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within consolidated financial statements of the parent company (January 1, 2013).

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled (January 1, 2013).

IFRS 12 – Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities (January 1, 2013).

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards (January 1, 2013).

IAS 1 – Presentation of Financial Statements requires that an entity present separately the items of OCI that may be reclassified to profit and loss in the future from those that would never be reclassified (annual periods beginning on or after July 1, 2012).

IAS 12 – Deferred Tax: Recovery of Underlying Assets introduces an exception to the measurement principles for deferred tax assets and liabilities related to the depreciable component of investment properties measured at fair value and to the depreciable component of investment properties acquired in a business combination that will subsequently be measured using the fair value model (January 1, 2012).

IAS 28 - Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out requirements for application of the equity method when accounting for investments in associates and joint ventures (January 1, 2013).

The Company has not completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

MANAGEMENT'S REPORT

To the Shareholders of
AeroMechanical Services Ltd.

The accompanying consolidated financial statements of AeroMechanical Services Ltd. and all of the information in its annual report are the responsibility of Management and have been approved by the Board of Directors.

Management has prepared the consolidated financial statements in accordance with Canadian generally accepted accounting principles and where alternative accounting methods exist, Management has chosen those that it deems most appropriate.

Financial statements are not precise since they include amounts based on estimates and judgments. Such amounts have been determined on a reasonable basis to ensure the financial statements are presented fairly in all material aspects. Management has prepared the financial information in this annual report and has ensured it is consistent with the consolidated statements.

The AeroMechanical Board of Directors is responsible for ensuring Management fulfills its responsibilities for financial reporting and for reviewing and approving the financial statements. This is carried out principally through the Audit Committee. AMA's auditors have access to the audit committee.

The Audit Committee of the Board of Directors, consisting of a majority of independent members, meets regularly with management, as well as external auditors, to discuss auditing, internal controls, accounting policy, and financial reporting matters. The Committee reviews the financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board.

William Tempany
Chief Executive Officer
April 10, 2012

Thomas R. French, CGA
Chief Financial Officer
April 10, 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AeroMechanical Services Ltd.

We have audited the accompanying consolidated financial statements of AeroMechanical Services Ltd., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income (loss), changes in equity (deficiency) and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of AeroMechanical Services Ltd. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 2 (e) in the consolidated financial statements, which indicates that AeroMechanical Services Ltd. has a net loss and negative cash flows from operating activities for the year ended December 31, 2011 and, as at that date, its current liabilities exceeded its current assets. These conditions, along with other matters as set forth in Note 2 (e) in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about AeroMechanical Services Ltd's ability to continue as a going concern.

KPMG LLP

Chartered Accountants
Calgary, Canada
April 10, 2012

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Dec. 31, 2011	Dec. 31, 2010 (note 30)	Jan. 1, 2010 (note 30)
Assets			
Current assets			
Cash and cash equivalents (note 6)	$ 1,928,065	$ 6,617,852	$ 7,161,427
Restricted cash (note 13)	250,000	250,000	250,000
Trade and other receivables (note 7)	680,886	882,895	524,138
Deposits and prepaid expenses	199,076	140,304	293,408
Inventory (note 8)	975,298	1,456,132	1,572,017
Total current assets	4,033,325	9,347,183	9,800,990
Non-current assets			
Property and equipment (note 9)	336,660	402,535	478,968
Rental assets	127,867	155,101	143,538
Intangible assets (note 10)	201,217	339,810	478,403
Inventory (note 8)	810,640	779,052	846,860
Total non-current assets	1,476,384	1,676,498	1,947,769
Total assets	$ 5,509,709	$ 11,023,681	$ 11,748,759
Liabilities			
Current liabilities			
Trade payables and accrued liabilities (note 11)	$ 4,903,537	$ 3,545,102	$ 1,270,750
Unearned revenue (note 12)	1,639,684	2,105,409	1,589,313
Loans and borrowings (note 13)	384,815	86,557	109,536
Finance lease obligations	48,715	86,118	105,804
Current tax liabilities (note 25)	4,437	-	-
Total current liabilities	6,981,188	5,823,186	3,075,403
Non-current liabilities			
Unearned revenue (note 12)	257,520	726,469	1,534,529
Loans and borrowings (note 13)	2,486,199	2,381,972	202,896
Finance lease obligations	33,138	32,029	118,147
Provisions (note 15)	47,027	61,239	-
Total non-current liabilities	2,823,884	3,201,709	1,855,572
Total liabilities	9,805,072	9,024,895	4,930,975
Equity (deficiency)			
Share capital (note 16)	36,741,492	36,730,844	35,550,028
Convertible debenture – equity feature (note 13)	231,318	231,318	-
Warrants (note 16)	2,499,778	5,134,018	4,181,685
Contributed surplus (note 16)	6,622,606	3,750,114	1,956,075
Accumulated other comprehensive income (loss)	-	-	-
Deficit	(50,390,557)	(43,847,508)	(34,870,004)
Total equity (deficiency)	(4,295,363)	1,998,786	6,817,784
Total liabilities and equity (deficiency)	$ 5,509,709	$ 11,023,681	$ 11,748,759

See accompanying notes to consolidated financial statements. Going concern (note 2e), Contingencies (note 27)

On behalf of the board Director – Douglas Marlin Director – Paul Takalo

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

	For the year ended December 31	
	2011	**2010 (note 30)**
Revenue (note 18)	$ 5,467,199	$ 4,685,123
Cost of sales	2,514,122	1,961,745
Gross profit	2,953,077	2,723,378
Other income (note 19)	257,520	266,127
Distribution expenses (note 21)	3,494,929	3,514,668
Administration expenses (note 22)	2,517,511	2,838,358
Research and development expenses (note 23)	3,326,493	5,762,273
Results from operating activities	(6,128,336)	(9,125,794)
Finance income (note 24)	88,818	43,459
Finance costs (note 24)	493,312	48,692
Net finance costs	(404,494)	(5,233)
Loss for the period before income tax	(6,532,830)	(9,131,027)
Income tax expense (recovery) (note 25)	10,219	(153,523)
Total comprehensive loss for the period	$ (6,543,049)	$ (8,977,504)
Earnings (loss) per share		
Basic and diluted loss per share (note 17)	$ (0.06)	$ (0.09)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (DEFICIENCY)

For the years ended December 31, 2011 and 2010

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Foreign Currency Translation Reserve*	Deficit	Total Equity (Deficit)
Balance at January 1, 2010	$ 35,550,028	$ -	$ 4,181,685	$ 1,956,075	$ -	$ (34,870,004)	$ 6,817,784
Loss for the period	-	-	-	-	-	(8,977,504)	(8,977,504)
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(8,977,504)	(8,977,504)
Contributions by and distributions to owners							
Issue of common shares	3,746,270	-		-	-	-	3,746,270
Share issue costs	(535,498)	-	253,081	-	-	-	(282,417)
Bifurcation of warrants issued	(2,082,926)	-	2,082,926	-	-	-	-
Issues of debentures, net of tax	-	231,318	-	-	-	-	231,318
Share-based payment transactions	-	-	-	266,214	-	-	266,214
Share options exercised	52,970	-	-	(19,620)	-	-	33,350
Warrants issued	-	-	163,771	-	-	-	163,771
Warrants expired	-	-	(1,547,445)	1,547,445	-	-	-
Total contributions by and distributions to owners	1,180,816	231,318	952,333	1,794,039	-	-	4,158,506
Balance at December 31, 2010	$ 36,730,844	$ 231,318	$ 5,134,018	$ 3,750,114	$ -	(43,847,508)	$ 1,998,786
Balance at January 1, 2011	$ 36,730,844	$ 231,318	$ 5,134,018	$ 3,750,114	$ -	$ (43,847,508)	$ 1,998,786
Loss for the period	-	-	-	-	-	(6,543,049)	(6,453,049)
Foreign currency translation differences	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	-	(6,543,049)	(6,543,049)
Contributions by and distributions to owners							
Share issue cost recovery	3,913	-	-	-	-	-	3,913
Share-based payment transactions	-	-	-	240,937	-	-	240,937
Share options exercised	6,735	-	-	(2,685)	-	-	4,050
Warrants expired	-	-	(2,634,240)	2,634,240	-	-	-
Total contributions by and distributions to owners	10,648	-	(2,634,240)	2,872,492	-	-	248,900
Balance at December 31, 2011	$ 36,741,492	$ 231,318	$ 2,499,778	$ 6,622,606	$ -	$ (50,390,557)	$ (4,295,363)

*Accumulated other comprehensive income (loss) - See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	For the year ended December 31	
Cash flows from operating activities	**2011**	**2010 (note 30)**
Loss for the period	$ (6,543,049)	$ (8,977,504)
Adjustments for:		
Depreciation	144,137	220,325
Depreciation of rental assets	43,811	35,460
Amortization of intangible assets	138,593	138,593
Convertible debenture accretion	379,479	8,741
Payment of debenture interest	(258,259)	-
Amortization of debenture issue costs	78,331	1,931
Government grant accretion	5,512	-
Government grant (note 3g)	(631,652)	-
Loss on disposal of property and equipment	9,930	-
Equity-settled share-based payment transactions	240,937	266,214
Income tax expense (recovery)	10,219	(153,523)
Change in inventories	449,246	183,693
Change in trade and other receivable	166,959	(327,080)
Change in prepayments	(58,772)	153,104
Change in trade and other payables	1,323,136	2,313,521
Change in provisions	(14,212)	61,239
Change in unearned revenue	(934,674)	(291,964)
Unrealized foreign exchange	(70,446)	(42,285)
Interest income	(22,412)	(16,611)
Interest expense	8,662	14,021
Income tax paid	(5,782)	(4,269)
Net cash used in operating activities	(5,540,306)	(6,416,394)
Cash flows from investing activities		
Acquisitions of property and equipment	(88,192)	(143,892)
Acquisitions of rental assets	(16,577)	(47,022)
Interest received	22,412	16,611
Net cash used in investing activities	(82,357)	(174,303)
Cash flows from financing activities		
Share issue cost recovery	3,913	-
Proceeds from issue of shares and warrants	-	3,376,506
Proceeds from issue of debenture	-	2,854,522
Proceeds from exercise of share options and warrants	4,050	33,350
Proceeds from government grant	890,902	-
Repayment of loans and borrowings	(61,827)	(68,869)
Payment of finance lease liabilities	(36,294)	(105,804)
Interest paid	(8,662)	(14,021)
Net cash from financing activities	792,082	6,075,684
Net decrease in cash and cash equivalents	(4,830,581)	(515,013)
Cash and cash equivalents at January 1	6,617,852	7,161,427
Effect of exchange rate fluctuations on cash held	140,794	(28,562)
Cash and cash equivalents	$ 1,928,065	$ 6,617,852

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

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

The consolidated financial statements of the Company as at and for the years ended December 31, 2011 and 2010 consist of the Company and its subsidiaries.

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

The consolidated financial statements of the Company as at and for the year ended December 31, 2011 are available upon request from the Company's registered office or at www.flyht.com.

2. BASIS OF PREPARATION

(a) Statement of compliance

These consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). These are the Company's first annual consolidated financial statements using IFRS, and IFRS 1: First-time Adoption of IFRS has been applied.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of AMA is provided in note 30. This note includes reconciliations of equity and total comprehensive income for comparative periods reported under previous Canadian GAAP to those reported for those periods under IFRS.

The consolidated financial statements were authorized for issue by the Board of Directors on April 10, 2012.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

2. BASIS OF PREPARATION (CONTINUED)

(d) Use of estimates and judgments (continued)

Critical judgments in applying accounting policies and key estimates having the most significant effect on the amounts recognized in the consolidated financial statements include:

- Property and equipment and intangible assets: estimated useful life, residual value and depreciation method (notes 3d, 3f, 9, 10)
- Inventories: determination of amounts classified as non-current, impairment (notes 3c, 3j, 8)
- Trade and other receivables: collectability, impairment (notes 3j, 7)
- Revenue recognition: definition of the point when a system is fully functional, definition of customer acceptance (notes 3k, 12, 18)
- Warranty provision: estimate to what extent past warranty repair requirements will continue with similar trend (notes 3k, 15)
- Recognition of deferred tax asset: determining the probability that future profits will be available against which they can be utilized (notes 3p, 25)

(e) Going concern

These consolidated financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. At December 31, 2011, the Company had negative working capital of $2,947,863 (2010: positive working capital $3,523,997), a deficit of $50,390,557 (2010: $43,847,508), a net loss of $6,543,049 (2010: 8,977,504) and negative cash flow from operations of $5,540,306 (2010: 6,416,394).

The Company has incurred significant operating losses and negative cash flows from operations over the past years. The Company's ability to continue as a going concern is dependent upon attaining profitable operations and/or obtaining additional financing to fund its ongoing operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management's continued cost containment strategy, the completion of research and development ("R&D") projects, and general economic conditions. It is the Company's intention to continue to fund operations by adding revenue and its resulting cash flow as well as continue to manage outgoing cash flows. If the need arises due to market opportunities the Company may meet those needs via the capital markets.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

(a) Basis of consolidation

(i) Business combinations

Acquisitions on or after January 1, 2010

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

The Company will elect on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination will be expensed as incurred.

To date, there have been no acquisitions since the purchase of Wingspeed Corp in fiscal year 2009.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, AMA elected not to restate the Wingspeed Corp. business combination that occurred in October 2009 (note 30).

(ii) Subsidiaries

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

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

(iii) Transactions eliminated on consolidation

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

(b) Financial instruments

(i) Non-derivative financial assets

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Financial instruments (continued)

(ii) Non-derivative financial liabilities

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

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

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

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

(iii) Share capital

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

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

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

(iv) Compound financial instruments

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

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

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

Interest relating to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Inventories

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

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

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

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

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

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

(d) Property and equipment

(i) Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment. Net gains (losses) are recognized in profit or loss.

(ii) Subsequent costs

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

(iii) Depreciation

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Property and equipment (continued)

The depreciation rates are as follows:

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

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

(iv) Research and development

Expenditure on research activities is expensed as incurred.

R&D costs consist primarily of consulting expenses and parts related to the design, testing, and manufacture of Automated Flight Information reporting System ("AFIRS™") and the design and testing of UpTime, FIRST, FLYHTStream, and FLYHT Fuel Management System. Other R&D costs include testing and certification.

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

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

(v) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are recognized in profit or loss as incurred.

(vi) Amortization

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

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

The license with Bombardier that allows AMA access to technical documents has an indefinite life and is not amortized. The Company presently has dealings with Bombardier and sees no end to that relationship.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Leased assets

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

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

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

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

(f) Intangible assets

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

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

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

(g) Government assistance

(i) Government grants

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

(ii) Government loans

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

(h) Lease payments

(i) Operating lease payments

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

(ii) Finance lease payments

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Provisions

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

Warranties

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

(j) Impairment

(i) Financial assets (including receivables)

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

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

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

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

(ii) Non-financial assets

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Impairment (continued)

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

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

(k) Revenue

(i) Installation kits

(a) Sales type agreements

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

(b) Lease type agreements

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

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

(ii) Voice and data

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

(iii) Parts

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

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

(iv) Technical services

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

(v) Other income - licensing revenue

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits

(i) Short-term employee benefits

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

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

(ii) Share-based payment transactions

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

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

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

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

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

(i) Stock options granted to consultants

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

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

(ii) Agent warrants

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Finance income and finance costs

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

Finance costs comprise interest expense on borrowings, and unwinding of the discount on provisions and are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis, as either finance income or finance costs.

(o) Foreign currency

(i) Foreign currency transactions

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

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate in effect on the date of the transaction. Foreign currency differences arising on retranslation are recognized in profit or loss.

(ii) Foreign operations

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

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

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

(p) Income tax

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (continued)

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

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

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

(q) Earnings per share

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

4. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards, amendments, and interpretations are effective for annual periods beginning after January 1, 2012 have not been applied in preparing these consolidated financial statements. The Company has not completed its evaluation of the effect of adopting these new standards on its consolidated financial statements.

As of January 1, 2015, the Company will be required to adopt IFRS 9, Financial Instruments, which is the result of the first phase of the International Accounting Standards Board's ("IASB") project to replace IAS 39, Financial Instruments: Recognition and Measurement. It is anticipated that the adoption of this standard will not likely have a material impact on the Company's financial statements.

5. DETERMINATION OF FAIR VALUES

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information regarding the assumptions can be found in Note 3 and in notes specific to that asset or liability.

(a) Trade and other receivables: estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date

(b) Trade payables and accrued liabilities: estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date

(c) Share based payment transactions: measured using the Black-Scholes option pricing model

(d) Loans and borrowings: fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of liability component of convertible debenture, the market rate of interest is determined by reference to similar liabilities that do not have a conversion feature.

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of bank deposits.

7. TRADE AND OTHER RECEIVABLES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade receivables	$ 586,855	$ 757,458	$ 494,805
Non-trade receivables and accrued receivables	94,031	125,437	29,333
Total	$ 680,886	$ 882,895	$ 524,138

Non-trade receivables consist of earned interest income, input tax credits, and government grants receivable.
The Company's exposure to credit and currency risks is disclosed in note 26.

8. INVENTORIES

	December 31, 2011	December 31, 2010	January 1, 2010
AFIRS raw materials	$ 998,529	$ 1,077,722	$ 1,140,318
AFIRS finished goods	187,747	479,078	561,268
Installations in progress	599,662	678,384	717,291
Balance	1,785,938	2,235,184	2,418,877
Less current portion	975,298	1,456,132	1,572,017
Non-current portion	$ 810,640	$ 779,052	$ 846,860

In 2011, AFIRS materials and changes in AFIRS units and installations in progress recognized as cost of sales amounted to $1,199,011 (2010: $771,796). Included in this amount was a write-down of inventories in 2011 amounting to $409,887 (2010: nil) resulting from a complete review of slow moving inventory parts. All inventories are pledged as security for the bank loan and debentures.

9. PROPERTY AND EQUIPMENT

2011	Computers	Software	Equipment	Leasehold improvements	Total
Cost					
Balance at January 1	$ 565,547	$ 285,663	$ 235,349	$ 126,592	$ 1,213,15
Additions	77,875	4,058	-	6,259	88,192
Disposals	(47,063)	-	(5,052)	-	(52,115)
Balance at December 31	596,359	289,721	230,297	132,851	1,249,228
Depreciation					
Balance at January 1	389,611	258,481	120,495	42,029	810,616
Depreciation for the year	62,520	30,902	22,971	27,744	144,137
Disposals	(37,960)	-	(4,225)	-	(42,185)
Balance at December 31	414,171	289,383	139,241	69,773	912,568
Carrying Amounts					
At January 1	175,936	27,182	114,854	84,563	402,535
At December 31	$ 182,188	$ 338	$ 91,056	$ 63,078	$ 336,660

9. PROPERTY AND EQUIPMENT (CONTINUED)

2010	Computers	Software	Equipment	Leasehold improvements	Total
Cost					
Balance at January 1	$ 539,853	$ 228,120	$ 197,436	$ 103,850	$ 1,069,259
Additions	25,694	57,543	37,913	22,742	143,892
Balance at December 31	565,547	285,663	235,349	126,592	1,213,151
Depreciation					
Balance at January 1	319,509	158,073	95,401	17,308	590,291
Depreciation for the year	70,102	100,408	25,094	24,721	220,325
Balance at December 31	389,611	258,481	120,495	42,029	810,616
Carrying Amounts					
At January 1	220,344	70,047	102,035	86,542	478,968
At December 31	$ 175,936	$ 27,182	$ 114,854	$ 84,563	$ 402,535

Property and equipment amortization is included in the statement of comprehensive income as part of administration expenses. The Company leases equipment under several finance lease agreements. Some leases provide AMA with the option to purchase the equipment at the end of the lease term. At December 31, 2011, the net carrying amount of leased property and equipment was $84,937 (2010: $102,678).

As of December 31, 2011, all property and equipment are pledged as security for the bank loan and debentures (note 13).

There were no contractual commitments for the acquisition of property or equipment as of December 31, 2011.

10. INTANGIBLE ASSETS

2011	License	Customer contracts	Total
Cost			
Balance at January 1	$ 34,992	$ 466,510	$ 501,502
Balance at December 31	34,992	466,510	501,502
Amortization			
Balance at January 1	-	161,692	161,692
Amortization for the year	-	138,593	138,593
Balance at December 31	-	300,285	300,285
Carrying amounts			
At January 1	34,992	304,818	339,810
At December 31	$ 34,992	$ 166,225	$ 201,217

10. INTANGIBLE ASSETS (CONTINUED)

2010	License	Customer contracts	Total
Cost			
Balance at January 1	$ 34,992	$ 466,510	$ 501,502
Balance at December 31	34,992	466,510	501,502
Amortization			
Balance at January 1	-	23,099	23,099
Amortization for the year	-	138,593	138,593
Balance at December 31	-	161,692	161,692
Carrying amounts			
At January 1	34,992	443,411	478,403
At December 31	$ 34,992	$ 304,818	$ 339,810

The license with Bombardier allows AMA access to technical documents. It has an indefinite life and is not amortized. The Company presently has dealings with Bombardier and sees no end to that relationship.

AMA provides the contracted customers with UpTime data services. The fair value of the contracts acquired is being amortized over the remainder of the contract period.

Amortization of intangibles is included in the statement of comprehensive income as cost of sales. All intangible assets are pledged as security for the bank loan and debentures.

11. TRADE PAYABLES AND ACCRUED LIABILITIES

	December 31, 2011	December 31, 2010	January 1, 2010
Trade payables	$ 3,372,232	$ 2,783,782	$ 444,337
Non-refundable customer deposits	980,955	527,457	623,984
Compensation and statutory deductions	422,776	102,436	140,829
Accrued liabilities	127,574	131,427	61,600
Total	$ 4,903,537	$ 3,545,102	$ 1,270,750

Compensation and statutory deductions include accrued vacation pay, variable compensation, and statutory payroll deductions.

12. UNEARNED REVENUE

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

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

The license and manufacturing agreement with SNC gives SNC the right to manufacture the Company's AFIRS product and market the AFIRS UpTime technology and products to the global military market. This license fee is deferred as unearned revenue and revenue is recognized on a straight-line basis over the five year term of the agreement. See note 19.

12. UNEARNED REVENUE (CONTINUED)

All amounts recorded in unearned revenue are non-refundable.

	2011	2010
Balance, beginning of year	$ 2,831,878	$ 3,123,842
Installation access fees	1,253,040	1,461,719
License fees	(257,520)	(257,520)
Earned revenues	(1,930,194)	(1,496,163)
Balance at December 31	1,897,204	2,831,878
Less current portion	1,639,684	2,105,409
Non-current portion	$ 257,520	$ 726,469

13. LOANS AND BORROWINGS

Bank loan

The Company currently has no bank debt and has available to it an operating demand loan up to a maximum of $250,000 (2010 - $250,000). The operating loan bears interest at Canadian chartered bank prime plus 1.5%. The operating demand loan is secured by an assignment of cash collateral in the amount of $250,000 and a general security agreement including a first ranking security interest in all personal property. The amount of the cash collateral has been disclosed as restricted cash. As at December 31, 2011 and 2010, the facility had not been drawn.

Government loans

The Industrial Research Assistance Program ("IRAP") loan is non-interest bearing and is repaid annually, based on 1.11% of gross revenues, commencing October 2005 and is unsecured. The current portion is calculated based on the actual gross revenues in the previous quarter plus the Company's revenue projections for the next nine months.

The Technology Partnerships Canada ("TPC") loan is non-interest bearing and unsecured. The loan is repayable annually, based on 15% of the initial contribution when the Company has achieved more than 10% growth in gross revenues above the previous year's gross revenue and the gross revenue for the year is greater than the base amount. The base amount is defined as the Company's gross revenue in fiscal 2004, which was at $556,127.

On February 23, 2011, the Company signed a contribution agreement with Industry Canada under the Strategic Aerospace and Defence Initiative ("SADI") for the development of the next generation product, AFIRS 228. Under the terms of the agreement, SADI will make a repayable unsecured contribution to the Company of the lesser of 30% of the eligible project costs to December 30, 2012 or $1,967,507. The amount is repayable over 15 years commencing April 30, 2014. The payments are on a stepped basis starting April 30, 2014. Payments comprise 3.5% of the contribution and increase 15% yearly until April 30, 2028, when the final payment is 24.5% of the contribution. The amount to be repaid is 165% of the original contribution. At December 31, 2011, the Company had received $890,902.

Convertible debentures

The debentures mature on December 23, 2014 and bear interest at a rate of 8% per annum, accrued and paid annually in arrears commencing December 31, 2011. The debentures are convertible into common shares at a conversion rate of $0.40 per share at any time prior to maturity. The debentures are secured against all personal property of the Company, with the exception of the Company's intellectual property, and are subordinated in right of payment to all existing and future bank and/or governmental indebtedness of the Company. The fair value of the conversion feature was determined at the time of issue as the difference between the principal value of the debentures and the discounted cash flows assuming a 15% rate. The conversion feature is classified as equity and amounts to $231,318 as at December 31, 2011 (2010: $231,318). If the debentures are converted to shares, a portion of the value of the conversion feature recognized in shareholders' equity will be classified to share capital along with the conversion price paid.

13. LOANS AND BORROWINGS (CONTINUED)

	2011	2010	January 1, 2010
IRAP	$ 134,550	$ 196,377	$ 246,134
TPC	47,186	47,186	66,298
SADI	264,762	-	-
Debenture payable	2,424,516	2,224,966	-
Balance at December 31	2,871,014	2,468,529	312,432
Less current portion	384,815	86,557	109,536
Non-current portion	$ 2,486,199	$ 2,381,972	$ 202,896

14. OPERATING LEASES

The Company has entered into a lease for its operating premises. Operating lease rentals are payable as follows:

	Premises
2012	$ 445,685
2013	458,718
2014	76,815
Total	$ 981,218

Operating lease payments made in 2011 totaled $449,370 (2010: $418,718).

15. PROVISIONS

Product warranty - non-current provision	2011	2010	January 1, 2010
Balance at January 1	$ 61,239	$ -	$ -
Provision made during the period	12,624	155,774	-
Provision used during the period	(26,836)	(94,535)	-
Balance at December 31	$ 47,027	$ 61,239	$ -

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data. Product warranty is classified as non-current as the timing of the liability is not estimable.

16. CAPITAL AND OTHER COMPONENTS OF EQUITY

Share capital

Authorized:

Unlimited numbers of common shares, and classes A, B and C preferred shares, issuable in series and have no par value.

The preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series and to determine the designation, rights, privileges, restrictions and conditions attached to the shares in each series.

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

Issued and outstanding:

Common shares:	Number of shares	Value
Balance at January 1, 2010	103,498,386	$ 35,550,028
Issued for cash	14,985,080	3,746,270
Share issue costs	-	(535,498)
Bifurcation of warrants	-	(2,082,926)
Exercise of employee options	132,000	33,350
Contributed surplus from exercise of employee options	-	19,620
Balance at December 31, 2010	118,615,466	$ 36,730,844
Share issue cost recovery		3,913
Exercise of employee options	15,000	4,050
Contributed surplus from exercise of employee options		2,685
Balance at December 31, 2011	118,630,466	$ 36,741,492

Stock option plan

The Company grants stock options to its directors, officers, employees and consultants. The Company has a policy of reserving up to 10% of the outstanding common shares for issuance to eligible participants. As at December 31, 2011, there were 11,863,047 (2010: 11,861,547) common shares reserved for this purpose. All outstanding options issued to date vest immediately at the grant date with the exception of 1,000,000 options granted to an employee effective January 1, 2012, which was recognized during 2011, which have not yet vested (2010: 75,000). The options are granted at an exercise price not less than fair market value of the stock on the date of issuance. A summary of the Company's outstanding and exercisable stock options as at December 31, 2011 and 2010 and changes during these years is presented below.

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	2,498,977	$ 0.39	2,784,496	$ 0.42
Options granted	3,099,000	0.23	975,000	0.41
Options exercised	(15,000)	0.27	(132,000)	0.25
Options expired	(1,096,986)	0.41	(1,128,519)	0.51
Outstanding, end of year	4,485,991	$ 0.28	2,498,977	$ 0.39
Exercisable, end of year	3,485,991	$ 0.30	2,423,977	$ 0.39

Weighted average life remaining for the options outstanding and exercisable is 2.5 years. The exercise prices for options outstanding at December 31, 2011 were as follows:

	All options		Exercisable options	
Exercise price:	Number	Weighted average remaining contractual life (years)	Number	Weighted average remaining contractual life (years)
$0.20	1,000,000	2.0	-	-
$0.25	2,051,000	3.0	2,051,000	3.0
$0.27	428,331	1.0	428,331	1.0
$0.41	790,000	2.0	790,000	2.0
$0.41	150,000	1.0	150,000	1.0
$0.50	66,660	1.0	66,660	1.0
Total	4,485,991	2.4	3,485,991	2.5

16. CAPITAL AND OTHER COMPONENTS OF EQUITY (CONTINUED)

The weighted average fair value of the options granted during the year was $0.09 (2010: $0.27). The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2011	2010
Risk-free interest rate	1.63%	2.18%
Expected life (years)	2.58	3.40
Volatility in the price of the Company's common shares	94%	124%
Dividend yield rate	0.00%	0.00%

Warrants

	Number of warrants	Weighted average exercise price	Value
Outstanding January 1, 2010	11,377,499	$ 0.84	$ 4,181,685
Issued on private placement	14,985,080	0.40	2,082,926
Issued on debenture	3,948,750	0.75	163,771
Warrants expired	(2,100,000)	1.30	(1,448,291)
Agent warrants granted	1,601,780	0.40	253,081
Agent warrants expired	(157,500)	1.30	(99,154)
Outstanding December 31, 2010	29,655,609	$ 0.73	$ 5,134,018
Warrants expired	(9,119,999)	0.72	(2,634,240)
Outstanding December 31, 2011	20,535,610	$ 0.47	$ 2,499,778

17. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic and diluted earnings per share for the year ended December 31, 2011 was based on a weighted average number of common shares outstanding of 118,626,151 (2010: 103,932,637).

18. REVENUE

	2011	2010
AFIRS Uptime sales	$ 1,724,342	$ 1,277,908
AFIRS Uptime usage	2,951,762	2,778,914
Parts sales	201,208	121,674
Services	589,887	506,627
Total	$ 5,467,199	$ 4,685,123

AFIRS Uptime sales includes revenue for both lease and sales type contracts. AFIRS Uptime usage includes UpTime monthly voice and data usage fees. Parts sales includes spare AFIRS units, spare installation kit parts and Underfloor Stowage Units. Services include technical, repair, and installation support services.

19. OTHER INCOME

Other income consists of the recognition of the SNC license fee that was deferred as unearned revenue when received and is being recognized over the initial five year term of the agreement (note 12).

20. OPERATING SEGMENTS

The Company has one operating segment.

Geographical Information

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

	For the year ended December 31	
	2011	**2010**
North America	$ 2,469,888	$ 2,790,279
South / Central America	452,334	475,575
Africa / Middle East	1,787,817	734,067
Europe	133,246	55,967
Australasia	440,408	535,167
Asia	183,506	94,068
Total	$ 5,467,199	$ 4,685,123

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

Major customers

Revenues from the three largest customers represent approximately 26.1% of the Company's total revenues for the year ended December 31, 2011 (2010: 29.5%).

21. DISTRIBUTION EXPENSES

	For the year ended December 31	
	2011	**2010**
Salaries and benefits	$ 1,790,460	$ 2,156,836
Stock based compensation	84,815	25,447
Contract labour	770,297	569,126
Office	335,959	302,558
Travel	260,500	232,204
Equipment & maintenance	55,931	31,467
Marketing	102,104	57,321
Other	94,863	139,709
Total	$ 3,494,929	$ 3,514,668

22. ADMINISTRATION EXPENSES

	For the year ended December 31	
	2011	2010
Salaries and benefits	$ 1,208,138	$ 1,047,616
Stock based compensation	149,343	240,766
Contract labour	77,525	160,347
Office	312,217	355,368
Legal fees	173,895	286,889
Audit and accounting	129,086	176,642
Investor relations	135,443	102,067
Brokerage, stock exchange, and transfer agent fees	29,174	32,311
Travel	74,713	145,717
Equipment and maintenance	60,960	51,563
Depreciation	144,137	220,325
Other	22,880	18,748
Total	$ 2,517,511	$ 2,838,358

23. RESEARCH AND DEVELOPMENT EXPENSES

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

AMA received funding from the IRAP government grant through the National Research Council of Canada from August 17, 2009 to March 31, 2011. In 2011, the Company received $90,031 (2010: $145,026) to develop the FLYHT Fuel Management System. The grant reimbursed a portion of AMA's salary and contractor costs. This grant was classified as related to income. AMA used the net presentation approach by reducing compensation expense relating to R&D.

In 2011, AMA also received payment for three claims totaling $890,902 (2010: nil) from SADI which is a repayable contribution. It was determined that the repayable contribution is at below market interest rates and therefore the payments were accounted for as a loan payable of $259,250 and a grant of $631,652. The grant portion was determined at the time of installment receipt as the difference between the principal value of the installment and the discounted cash flows assuming a 18% rate. The grant portion reimbursed a portion of AMA's costs related to the development of the AFIRS 228. This grant was classified as related to income. AMA used the net presentation approach by reducing R&D expenses.

	For the year ended December 31	
	2011	2010
Salaries and benefits	$ 1,333,410	$ 869,947
Stock based compensation	6,780	-
Contract labour	2,373,009	4,714,255
Office	101,826	60,546
Travel	78,940	189,222
Equipment and maintenance	147,314	8,924
Components	354,693	234,910
Government grants	(721,683)	(118,556)
SRED tax credit	(355,982)	(198,725)
Other	8,186	1,750
Total	$ 3,326,493	$ 5,762,273

24. FINANCE INCOME AND FINANCE COSTS

Recognized in profit or loss:

	For the year ended December 31	
	2011	**2010**
Interest income on bank deposits	$ 22,412	$ 16,611
Net foreign exchange gain	66,406	26,848
Finance income	$ 88,818	$ 43,459
Bank service charges	$ 21,328	$ 23,999
Interest expense	8,662	14,021
Government grant interest expense	5,512	-
Debenture interest expense	379,479	8,741
Debenture cost amortization	78,331	1,931
Finance costs	$ 493,312	$ 48,692

25. INCOME TAX EXPENSE

	2011	**2010**
Current income tax expense	$ 10,219	$ 4,269
Deferred income tax expense	-	(157,792)
	$ 10,219	$ (153,523)

Deferred Tax Expense

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect to the following items:

	2011	**2010**
Capital assets	$ 143,520	$ 94,157
Intangibles	86,829	52,218
Inventory	7,676	7,681
Non-capital loss carry-forwards	8,400,861	8,611,716
Share issue costs	198,982	301,329
Scientific research and experimental development expenditures	5,525,055	3,053,254
	$ 14,362,923	$ 12,120,355

25. INCOME TAX EXPENSE (CONTINUED)

The Company has non-capital losses for income tax purposes of approximately $33,848,712 which are available to be applied against future year's taxable income. The benefit of these non-capital losses has not been recognized in the consolidated financial statements because it is not probable that future taxable profit will be available against which AMA can use the benefits. These losses will expire as follows:

Year	Amount
2014	$ 2,570,288
2015	2,461,959
2026	3,390,309
2027	5,596,948
2028	6,997,140
2029	2,791,748
2030	6,442,039
2031	3,598,281
Total	$ 33,848,712

Income tax recognized directly in equity

In 2011 there was nil (2010 - $157,792) recognized in equity.

Reconciliation of effective tax rate

	2011	2010
Profit (Loss) for the period	$ (6,543,049)	$ (8,977,504)
Total income tax expense (recovery)	10,219	(153,523)
Profit (Loss) excluding income tax	(6,532,830)	(9,131,027)
Tax Rate	26.5%	28.0%
Expected income tax expense (recovery)	(1,731,200)	(2,556,688)
Change in tax rate and other	(586,097)	(1,047,451)
Non-deductible expenses	10,881	17,337
Stock based compensation	63,849	70,587
Change in unrecognized temporary differences	2,252,786	3,362,692
	$ 10,219	$ (153,523)

26. FINANCIAL RISK MANAGEMENT

The Company's operating activities expose it to a variety of financial risks, including credit, liquidity and market risks associated with the Company's financial assets and liabilities. AMA has established procedures and policies to minimize its exposure to these risks, and continually monitors its exposure to all significant risks to assess the impact on its operating activities. The following details the Company's exposure to credit, liquidity, currency, and other market risks.

Credit risk

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Management considers the demographics of the Company's customer base, including the default risk of the industry and country in which customers operate. Approximately 10.6% (2010: 11.2%) of the Company's revenue is attributable to transactions with a single customer; however, geographically there is no concentration of credit risk.

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Each new customer is analyzed individually for creditworthiness before the Company's standard payment and delivery terms and conditions are offered. Customers that fail to meet the Company's benchmark creditworthiness may transact with AMA only on a prepayment basis. The AFIRS solution is subject to a retention of title clause, so that in the event of non-payment the Company may have a secured claim. To further minimize credit exposure, the sale of most AFIRS solutions requires payment in advance of any product shipment. At each reporting date, the Company establishes an allowance for impairment that represents its estimate of incurred losses.

The aging of receivables at the reporting date was:

December 31, 2011	0-30 days	31-60 days	61-90 days	91+ days	Total
Accounts receivable	$ 335,723	$ 174,268	$ 132,855	$ 140,119	$ 782,965
Impairment	(54,577)	(33,547)	(13,355)	(600)	(102,079)
Net receivable	$ 281,146	$ 140,721	$ 119,500	$ 139,519	$ 680,886

December 31, 2010	0-30 days	31-60 days	61-90 days	91+ days	Total
Accounts receivable	$ 593,317	$ 188,754	$ 90,014	$ 14,628	$ 886,713
Impairment	-	-	-	(3,818)	(3,818)
Net receivable	$ 593,317	$ 188,754	$ 90,014	$ 10,810	$ 882,895

The Company believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on historic payment behavior.

The movement in the allowance for impairment in respect of trade and other receivables for the years ended December 31, 2011 and 2010 was:

	2011	2010
Balance, January 1	$ 3,818	$ 40,407
Provision	196,447	131,199
Amounts written off	(94,368)	(167,788)
Impairments recovered	(3,818)	-
Balance, December 31	$ 102,079	$ 3,818

Liquidity risk

The Company's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. The Company manages its liquidity risks by having cash available, by maintaining a conservative capital structure, by prudently managing its credit risks, and by maintaining its relationship with the capital markets to meet any near-term liquidity requirements.

The following table details the contractual maturities of financial liabilities, including estimated interest payments.

December 31, 2011	< 2 months	2-12 months	1-2 years	2-5 years	> 5 years	Total
Accounts payable	$ 1,441,147	$ 99,120	$ -	$ 1,831,965	$ -	$ 3,372,232
Compensation and statutory deductions	54,226	368,550	-	-	-	422,776
Finance lease liabilities	14,082	42,587	24,350	14,029	-	95,048
Accrued liabilities	10,200	89,136	23,894	4,344	-	127,574
Loans and borrowings	-	384,815	293,400	3,527,963	157,480	4,363,658
Total	$ 1,519,655	$ 984,208	$ 341,644	$ 5,378,301	$ 157,480	$ 8,381,288

26. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

A significant portion of the Company's revenues and a portion of its expenses are denominated in U.S. dollars. Management estimates that a 1% weakening of the Canadian dollar relative to the U.S. dollar would increase net earnings by approximately $51,938 (2010: $47,553) and a strengthening of the Canadian dollar would decrease net earnings by approximately $51,938 (2010: $47,553).

The Company mitigates its cash flow exposures by the international nature of the business where a significant portion of its cost of goods sold are in currencies that naturally hedge a portion of U.S. dollar revenue. The Company has not engaged in activities to manage its cash flow foreign currency exposure through the use of financial instruments.

The Company has exposure to foreign exchange risk for working capital items denominated in U.S. dollars. At December 31, 2011, negative working capital denominated in U.S. dollars was approximately $1,483,550 (2010: negative $569,793). As a result a 1% weakening of the Canadian dollar would decrease net earnings by approximately $14,836 (2010: $5,698) and a strengthening of the Canadian dollar would increase net earnings by approximately $14,836 (2010: $5,698).

The Company mitigates its working capital exposure by managing its U.S. dollar denominated working capital items to limit the requirement to convert either to or from U.S. dollars to fulfill working capital payment requirements.

Although there are limited expenses under contracts denominated in EUR, GBP and CHF, fluctuations in these currencies would result in insignificant foreign exchange variances. In respect of other monetary assets and liabilities denominated in foreign currencies, the Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

Interest rate risk

Borrowings issued at variable rates result in exposure to interest rate risk, which would affect future cash flows if interest rates were to rise. Fluctuations in the prime interest rate could result in exposure for the Company with regards to the bank credit facility, which bears interest at Canadian chartered bank prime plus 1.5%. The Company's exposure to interest rate risk as at December 31, 2011 and 2010 was minimal as the credit facility had not been drawn.

Fair values versus carrying amounts

The fair values of financial assets and liabilities approximate carrying values.

Capital management

AMA's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, and manage capital that will maintain compliance with its financial covenants. In order to maintain or adjust the capital structure, the Company may issue new debt, sell assets to reduce debt, or issue new shares. There were no changes in the Company's approach to capital management during the year.

27. CONTINGENCY

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

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

27. CONTINGENCY (CONTINUED)

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

(b) The Company took action against Sierra Nevada Corporation ("SNC") and is defending itself against an action by SNC related to the development of the AFIRS 228. The Company has accrued a liability of $1,831,965, which represents the total amount of invoices received from SNC. The Company maintains that the claims are without merit and that the services invoiced were not provided. Management intends to vigorously defend the matter and believes the outcome will be in its favour.

In November 2011, the Company formally notified SNC that they were in material breach of the License and Manufacturing Agreement that was entered into between the two parties on December 28, 2008. The Company demanded payment of $1,329,976 USD and $2,650,000 CDN and terminated the agreement. As well, the Company applied to the Alberta courts for arbitration under the provisions of the agreement. The courts granted the request for arbitration on November 29, 2011. Subsequent to the grant, SNC refused to recognize the jurisdiction of the court and has contested the cancellation of the agreement and the arbitration.

In November 2011, SNC filed an action in Utah alleging that AMA failed to pay $2,042,000 USD. The Company filed a motion in December 2011 to the Utah courts to uphold the jurisdiction of the Alberta courts per the agreement.

Based on legal advice and the accrual of the total amounts of invoices presented to the Company to date by SNC, management does not expect the outcome to have a material effect on the Company's financial position.

28. RELATED PARTIES

During 2011, the Company's transactions with a company owned by a director to supply consulting services and travel expenses totaled $88,784 (2010: $92,944). The related party provides business development services such as trade show attendance and corporate introductions related to the business jet initiatives of the Company. The Company also engaged in transactions in 2011 with a company owned by another director to supply consulting services, totaling $41,596 (2010: nil). The related party provides business development services such as market analysis and corporate introductions related to the commercial aviation initiatives of the Company. All of the transactions with these related parties were amounts that were agreed upon by the parties and approximated fair value.

Transactions with key management personnel

Key management personnel includes all persons with direct or indirect authority and responsibility for planning, directing and controlling the activities of the Company, and includes directors and the AMA's executive team.

In addition to salary and variable compensation, the Company also provides non-cash benefits to key management personnel. Certain executive officers are entitled to a mutual term of notice of six months.

Compensation for this group comprised:

	2011	**2010**
Salary	$ 824,136	$ 803,627
Director fees	34,952	19,562
Variable compensation	215,640	211,211
Share-based payments	91,482	177,510
Termination benefits	-	50,000
Short-term employee benefits	67,134	62,014
Total	$ 1,233,344	$ 1,323,924

28. RELATED PARTIES (CONTINUED)

Directors of the Company control 5.5% (2010: 5.5%) of the voting shares of the Company.

Upon the resignation of AMA's president on December 31, 2011, he entered into an employment contract at his then existing annual salary of $192,000 USD for a period of 16 months commencing January 1, 2012 and will receive commissions on sales for the three key accounts for a period of up to 48 months. As part of the change, AMA has granted incentive stock options effective January 1, 2012 for 1,000,000 common shares at an exercise price of $0.20 per share, subject to regulatory approval under the stock option plan approved at the Annual and Special Meeting on June 2, 2011. The stock options' vesting terms are based on the successful receipt by the Company of agreed upon cash payment amounts from the three key customer accounts he is responsible for and have an expiration date of December 31, 2013. The underlying shares are subject to a four-month hold period expiring May 2, 2012.

All other transactions with related parties were normal business transactions related to their positions within 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.

Subsidiaries

	Country of Incorporation	Ownership interest
FLYHT Inc.	United States	100%
AeroMechanical Services USA Inc.	United States	100%
FLYHT Corp.	Canada	100%
FLYHT India Corp.	Canada	100%
TFM Inc.	Canada	100%

29. SUBSEQUENT EVENTS

In January 2012, the Company signed a services agreement with a Canadian operator. The agreement calls for the provision of AFIRS 220 on seven aircraft and AFIRS 228 on 12 aircraft for a total of 19 aircraft plus ongoing services for a period of five years.

In February 2012, the Company was advised that two related customers had filed voluntary Chapter 11 petitions in the U.S. Bankruptcy Court. As the results of the proceedings are not clear at this time, the Company recorded an allowance for doubtful accounts totaling $102,079, which represented the total amounts outstanding at December 31, 2011.

In March 2012, the Company signed a Services Agreement with NetJets Transportes Aereos, S.A. The agreement calls for the provision of AFIRS 228 equipment and services for 30 Hawker Beechcraft 750/800XP aircraft for a period of five years.

30. EXPLANATION OF TRANSITION TO IFRS

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

The accounting policies set out in note 3 have been applied in preparing the consolidated annual financial statements for the year ended December 31, 2011, the comparative information presented in the consolidated annual financial statements for the year ended December 31, 2010 and in the preparation of the opening IFRS statement of financial position at January 1, 2010 (the Company's date of transition).

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

As part of its transition to IFRS, AMA elected under IFRS1 not to restate the Wingspeed Corp. business combination that occurred in October 2009.

30. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

Reconciliation of equity as at January 1, 2010

	Canadian GAAP	Effect of transition	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 7,161,427	$ -	$ 7,161,427
Restricted cash	250,000	-	250,000
Trade and other receivables	524,138	-	524,138
Deposits and prepaid expenses	293,408	-	293,408
Inventory (note 30b)	2,418,877	(846,860)	1,572,017
Total current assets	10,647,850	(846,860)	9,800,990
Non-current assets			
Property and equipment	478,968	-	478,968
Rental assets	143,538	-	143,538
Intangible assets	478,403	-	478,403
Inventory (note 30b)	-	846,860	846,860
Total non-current assets	1,100,909	846,860	1,947,769
Total assets	$ 11,748,759	$ -	$ 11,748,759
Liabilities			
Current liabilities			
Trade and other payables (note 30d)	$ 1,270,750	$ -	$ 1,270,750
Unearned revenue	1,589,313	-	1,589,313
Loans and borrowings (note 30d)	109,536	-	109,536
Finance lease obligations	105,804	-	105,804
Total current liabilities	3,075,403	-	3,075,403
Unearned revenue	1,534,529	-	1,534,529
Loans and borrowings	202,896	-	202,896
Finance lease obligations	118,147		118,147
Provisions	-	-	-
Total non-current liabilities	1,855,572	-	1,855,572
Total liabilities	4,930,975	-	4,930,975
Equity (deficit)			
Share capital	35,550,028	-	35,550,028
Convertible debenture	-	-	-
Warrants	4,181,685	-	4,181,685
Contributed surplus (note 30a)	1,943,917	12,158	1,956,075
Accumulated other comprehensive Income (loss)	-	-	-
Deficit (note 30a)	(34,857,846)	(12,158)	(34,870,004)
Total equity (deficit)	6,817,784	-	6,817,784
Total liabilities and equity (deficit)	$ 11,748,759	$ -	$ 11,748,759

30. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

Reconciliation of equity as at December 31, 2010

	Canadian GAAP	Effect of transition	IFRS
Assets			
Current assets			
Cash and cash equivalents	$ 6,617,852	$ -	$ 6,617,852
Restricted cash	250,000	-	250,000
Trade and other receivables	882,895	-	882,895
Deposits and prepaid expenses	140,304	-	140,304
Inventory (note 30b)	2,235,184	(779,052)	1,456,132
Total current assets	10,126,235	(779,052)	9,347,183
Non-current assets			
Property and equipment	402,535	-	402,535
Rental assets	155,101	-	155,101
Intangible assets	339,810	-	339,810
Inventory (note 30b)	-	779,052	779,052
Total non-current assets	897,446	779,052	1,676,498
Total assets	$ 11,023,681	$ -	$ 11,023,681
Liabilities			
Current liabilities			
Trade and other payables (note 30d)	$ 3,545,102	$ -	$ 3,545,102
Unearned revenue	2,105,409	-	2,105,409
Loans and borrowings (note 30d)	86,557	-	86,557
Finance lease obligations	86,118	-	86,118
Total current liabilities	5,823,186	-	5,823,186
Unearned revenue	726,469	-	726,469
Loans and borrowings	2,381,972	-	2,381,972
Finance lease obligations	32,029		32,029
Provisions	61,239	-	61,239
Total non-current liabilities	3,201,709	-	3,201,709
Total liabilities	$ 9,024,895	-	$ 9,024,895
Equity (deficit)			
Share capital	$ 36,730,844	-	$ 36,730,844
Convertible debenture (note 30c)	389,110	(157,792)	231,318
Warrants	5,134,018	-	5,134,018
Contributed surplus (note 30a)	3,723,840	26,274	3,750,114
Accumulated other comprehensive Income (loss)	-	-	-
Deficit (note 30c)	(43,979,026)	131,518	(43,847,508)
Total equity (deficit)	1,998,786	-	1,998,786
Total liabilities and equity (deficit)	$ 11,023,681	$ -	$ 11,023,681

30. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

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

	Canadian GAAP	Effect of transition	IFRS
Revenue			
AFIRS UpTime sales	$ 1,277,909	$ -	$ 1,277,909
AFIRS UpTime usage	2,778,913	-	2,778,913
Part sales	121,674	-	121,674
Services (note 30d)	506,627	-	506,627
Total revenue	4,685,123	-	4,685,123
Cost of sales	1,961,745	-	1,961,745
Gross profit	2,723,378	-	2,723,378
Other income (note 30d)	266,127	-	266,127
Distribution expenses (notes 30a, 30d)	3,522,035	(7,367)	3,514,668
Administrative expenses (notes 30a, 30d)	2,816,876	21,482	2,838,358
Research and development expenses (note 30d)	5,762,273	-	5,762,273
Results from operating activities	(9,111,679)	(14,115)	(9,125,794)
Finance income (note 30d)	43,459	-	43,459
Finance costs (note 30d)	48,692	-	48,692
Net finance costs	(5,233)	-	(5,233)
Loss for the period before income tax (note 30a)	(9,116,912)	(14,115)	(9,131,027)
Income tax expense (recovery) (note 30c)	4,269	(157,792)	(153,523)
Net income (loss) for the period	(9,121,181)	143,677	(8,977,504)
Total comprehensive income (loss) for the period	$ (9,121,181)	$ 143,677	$ (8,977,504)
Earnings (loss) per share			
Basic and diluted earnings (loss) per share	$ (0.09)	$ -	$ (0.09)

Material adjustments to the statement of cash flows for 2010

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

30. EXPLANATION OF TRANSITION TO IFRS (CONTINUED)

Notes to the reconciliations

(a) Share-based payments

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

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

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

As a result, as at December 31, 2010 the deficit increased by $26,274, and contributed surplus increased by an equal amount (January 1, 2010: $12,158).

(b) Inventories

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

(c) Deferred income taxes

Per IAS 12 AMA is required to recognize a taxable temporary difference from the initial recognition of the equity component separately from the liability component for the debenture issued in December 2010. The deferred tax was charged to the equity component and was offset by the recognition of outstanding deferred tax assets. The asset was immediately reduced to nil through the statement of comprehensive income. As these deferred tax assets do not meet the probable threshold criteria of being offset against taxable income, as a result, as at December 31, 2010 both the deficit and income tax expense decreased by $157,792, and the equity component of the convertible debenture decreased by an equal amount.

(d) Presentation

Changes in the presentation of several financial statement items occurred as part of the transition from Canadian GAAP to IFRS. Details are shown in the following table:

Canadian GAAP	**IFRS**
Obligation under rental lease	Trade and other payables
Convertible debenture – debt component	Loans and borrowings
Services revenue and interest	Revenue (services), Other income and Finance income
Salaries and benefits	Split by function between Distribution, Administration and Research and development expenses
Marketing	Distribution expenses
Stock based compensation	Split by function between Distribution, Administration and Research and development expenses
Amortization	Administrative expenses
Bad debts	Distribution expenses
Foreign exchange (gain)	Net foreign exchange gain included in Finance income
Foreign exchange loss	Net foreign exchange loss included in Finance costs

CORPORATE INFORMATION

ANNUAL GENERAL MEETING

The Annual General Meeting of the Shareholders will be held on Wednesday, May 9, 2012 at 2 PM MDT at the Four Points Sheraton, 2875 Sunridge Way NE, Calgary, Alberta, Canada.

REGISTRAR AND TRANSFER AGENT

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

SHARE LISTING

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

INVESTOR RELATIONS

Email: investors@flyht.com
Telephone: 1-403-250-9956
Toll free: 1-866-250-9956
www.flyht.com

DIRECTORS

Bill Tempany	President & CEO, AeroMechanical Services Ltd.
Richard Hayden	Director, AeroMechanical Services Ltd.
Doug Marlin	Chairman, AeroMechanical Services Ltd. & President, Marlin Ventures Ltd.
Mike Brown	Partner, Geselbracht Brown
Paul Takalo, CA	Vice-President, Standen's Limited
Jacques Kavafian	Vice President, Toll Cross Securities Inc.
Jack Olcott	President, General Aviation Company
Charles Pollard	President, Stellwagen Company, LLC

OFFICERS

Bill Tempany	President & CEO
Thomas French, CGA	VP Finance and CFO
Matt Bradley	VP Business Development
Jeff Brunner	VP Operations

AUDITOR

KPMG LLP	Calgary, Alberta

LEGAL COUNSEL

Chris Croteau	Tingle Merrett LLP

HEAD OFFICE

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

SHARE DATA

As of December 31, 2011 the share data for AeroMechanical Services were as follows:

Shares issued and outstanding:	118.6 million
Warrants outstanding:	20.5 million
Options outstanding:	4.5 million
Shares fully diluted:	143.6 million
Share price:	$0.225
Market cap:	$26.7 million

FLYHT™ The Future of Connectivity

The Future of Connectivity

200W, 1144 – 29 Ave NE
Calgary, AB, T2E 7P1
Canada

Phone: 1.866.250.9956
Fax: 1.403.291.9717

www.flyht.com