FIRST QUARTER 2012

AEROMECHANICAL SERVICES LTD.

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LETTER TO SHAREHOLDERS

The first quarter of 2012 has been eventful for AeroMechanical Services Ltd. (“AMA” or the “Company”), with the announcement of a major milestone, two groundbreaking contracts and more progress on the next generation product’s development.

On March 9, 2012, the Company achieved an impressive milestone. The Automated Flight Information Reporting System (“AFIRS”) 220 reached a total of one million flight hours on customers’ aircraft. The one million hours represent time AFIRS has been monitoring aircraft systems and providing analyzed data to ground personnel to be used to increase efficiency in airline operations. The measure of operational flight hours is a milestone respected in the aviation industry and proves a product is mature and recognized by the industry. One million operational flight hours equate to 152 years of flying on a commercial jet and 800 million kilometers. It is also equivalent to flying a commercial aircraft around the world 20,000 times. It took seven years for AFIRS to hit the million-hour mark and the device is now used by 38 operators in 20 countries around the world. With the AFIRS 228 release and the increased use of AFIRS 220 by current customers, we believe the next million hours will arrive more quickly than the first.

The first contract of the year was with the Company’s largest Canadian customer for 19 aircraft, comprised of seven AFIRS 220 and 12 AFIRS 228 units. The engineering team has been conducting surveys and testing units on the customer’s ATR-42 aircraft to prepare for the upcoming test flight to receive the full Supplemental Type Certificate (“STC”). It is anticipated the airline will install all units before the end of the year.

The second contract represents an acceptance of the AFIRS 228 by the business jet community, with the signing of NetJets Europe for 30 AFIRS 228. This contract was especially rewarding, as the Company has worked with and demonstrated AFIRS to NetJets over the past two years. We’ve already shipped seven units to them and they are eager to start utilizing AFIRS services upon receipt of the STC. This is anticipated to occur on or around June 15th, 2012.

In the quarter, we continued development work on the AFIRS 228S and received several certifications for the AFIRS 228B. We received a Transport Canada Civil Aviation (“TCCA”) STC for the CRJ-900 Series aircraft and the Hawker Beechcraft 750, 800XP, 850XP, 900XP aircraft. The CRJ certification allowed us to install the AFIRS 228 on a customer’s aircraft and we’re receiving revenue from that business. The Hawker STC is for NetJets Europe and we’re still awaiting the European certification in order to begin installations on NetJets’ fleet. In addition, work is continuing on the Boeing 737NG, 747, 767, 777, Airbus A320 and Embraer 135/145 certifications. Other development certifications, such as the safety services certification, for the AFIRS 228S are scheduled to begin in the second quarter of this year.

Another contract was signed in April for two AFIRS 228B units with a Canadian charter operator. We also announced that we will establish a Safety Management System Dashboard for our partners at the Nigerian Civil Aviation Authority (“NCAA”) in Lagos to expand on the flight following operations centre we built last year. Our relationships in Nigeria remain strong. We attended an African Aviation Association (“AFRAA”) conference in Kenya in March and are optimistic about the business opportunities to expand the use of AFIRS and operations centres in Africa.

We are excited to announce another milestone in our Company’s history. Hopefully, around the same time this report is released, the Company will change its name from AeroMechanical Services Ltd. to FLYHT Aerospace Solutions Ltd. This must be approved by shareholders and the vote will take place at the Annual General Meeting on May 9th.

The FLYHT brand name has been used by our sales team since 2007. We started to utilize it more in other areas of the business in 2011, such as with our new website and new logo. The name FLYHT makes more sense to our customers, as it more appropriately represents our business in the aviation industry. The use of the name in other parts of the business will help to maintain a common image and consistency. We will also match our new name with a new ticker symbol on the TSX Venture Exchange, FLY. We are excited about this change and feel it is a positive step for the business.

Moving to financial results, while revenues were flat quarter to quarter this year over last, it was due to the timing of sales mentioned above and should show improvement as the year progresses. The Research and Development ("R&D") increase from $782,487 in 2011 to $1,213,159 in 2012 is partially connected to the transition from the Sierra Nevada Corporation ("SNC") development last year. We moved the AFIRS 228 development in-house at the end of the first quarter of 2011, so during the quarter we were not recording costs to SNC and had not yet ramped up our in-house team that was fully functional in Q1 2012.

The majority of the contractors employed to develop the AFIRS 228 were released at the end of April 2012 and the final three contractors will be released by the end of Q2. All work is now being completed by in-house staff. The resultant savings should be apparent for the rest of the year. Our net loss in the period is reflective of those consultants finalizing the development of the AFIRS 228, along with the delayed revenue from the large contracts we signed in the quarter. The net loss without R&D numbers of $961,742 in 2012 compared to $702,805 in 2011 reflects an accurate portrait of the performance of the business and as the R&D spend continues to decline, will show the performance improvements of the business.

We shipped a total of seven AFIRS units in the first quarter.

Moving into the second quarter, we are very excited about the pace at which both the Canadian customers and NetJets are installing our products. Both want to have their full contracted fleet installed by the end of 2012. This is much more rapid than previous installations have occurred and bodes well for a good year for our Company.

We appreciate the patience of our investors, the dedication of our staff and the loyalty of our customers while we complete the expansion from our AFIRS 220 business to our new AFIRS 228 product line and are very pleased to see the adoption of the new product and the positive attention it is receiving in the marketplace. We see many great opportunities in the future for FLYHT and look forward to reporting progressively more positive news to our shareholders in the quarters to come.

Bill Tempany, President and Chief Executive Officer

MANAGEMENT DISCUSSION & ANALYSIS

This management discussion and analysis ("MD&A") is as of May 9, 2012 and should be read in conjunction with the condensed consolidated interim financial statements of AeroMechanical Services Ltd. ("AMA" or the "Company") for the three months ended March 31, 2012 and the accompanying notes. Additional information with respect to AMA can be found on SEDAR at www.sedar.com. The Company has prepared its March 31, 2012 condensed consolidated interim financial statements in accordance with International Financial Reporting Standards ("IFRS" or "GAAP") and IAS 34 Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). The Company's accounting policies are provided in note 3 to the condensed consolidated interim financial statements.

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 forward-looking statements. The forward-looking statements contained herein are current only as of the date of this document. The Company disclaims any intentions or obligation to update or revise any forward-looking statements or comments as a result of any new information, future event or otherwise, unless such disclosure is required by law.

Overview

AMA is a designer, developer and service provider of innovative solutions to the global aerospace industry and markets and sells 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 and 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.

Trends and Economic Factors

In the first quarter of 2012, the commercial aviation industry continued on its steady growth pattern that was evident in the 2011 numbers. The Revenue Passenger Kilometers ("RPK") of combined domestic and international travel grew 7.4% in the quarter.[1] The numbers shifted each month in the quarter and it is hard to narrow down a regional summary for the entire quarter. North American growth remains slow, but steady. Where the largest growth is taking place is in Latin America and the Middle East, though much of the growth in the Middle East is said to be because of the weakness in travel last year due to the Arab Spring. AMA has agents in the growing regions of the Middle East and Latin America and will continue to introduce AFIRS capabilities to airlines in those regions.

The International Air Transport Association ("IATA") notes that Freight Tonne Kilometers ("FTK") were down 0.7% so far over last year, though a decrease in FTK in January was balanced out by increases in February and March. Overall, the freight numbers remain fairly steady and are where they are expected to be based on the world economic conditions.

It is interesting to note how world events affect the traffic numbers. In regards to the RPK measurement, Brazilian Carnival is said to be the reason for increased numbers in the month of February. The timing of Chinese New Year this year compared to last has been pinpointed as the cause for shifting freight

[1] http://www.iata.org/pressroom/pr/Pages/2012-05-02-01.aspx

numbers. The global nature of the industry leads to its turbulence. IATA also points to the 8% increase in jet fuel since January as a cost that affects airlines.[2]

The industry responded positively to AMA's marketing efforts with two new contracts in the first quarter of 2012. The two contracts add a total of 49 AFIRS 220 and 228 units to be shipped to the customers within the year.

AMA received customer payment and shipped seven AFIRS units compared to six in the first quarter of 2011. While this does not appear to be a significant increase, it was from a combination of new and existing customers compared to 2011, which were additions to existing customer fleets only.

The weakening of the Canadian dollar relative to the U.S. dollar during the first quarter of 2012 versus the same quarter of 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. It is the standard of the aviation industry to conduct business in U.S. dollars. While an amount of the Company's costs are denominated in Canadian dollars, a significant portion of the cost of sales, marketing and component costs are U.S. dollar denominated, and therefore create a natural hedge against fluctuations of the Canadian dollar.

Contracts and Achievements of Q1 2012

AeroMechanical Services Ltd. signed two contracts in the first quarter of 2012 for a total of 49 aircraft. In January, the Company signed its first contract of the year with what will become its largest Canadian customer for seven AFIRS 220 and 12 AFIRS 228B. The customer is eager to begin installations as soon as the STCs are received and complete them before the end of the year.

In March 2012, the Company received its first STC for the AFIRS 228B for a CRJ-900 Series aircraft. This allowed a customer to install AFIRS on its aircraft and as of May 9, 2012 all three aircraft have AFIRS 228 onboard.

On March 12, 2012 AMA announced that AFIRS units reached one million flight hours of real-time flight analysis on customers' aircraft. This is an important milestone for the Company and its customers and further establishes AMA's credibility in the industry.

On March 27, 2012 the Company signed a contract with NetJets Europe to install AFIRS 228 on 30 of the customer's Hawker Beechcraft 750/800XP aircraft. We have received the Transport Canada STC and can begin installations upon receipt of the EASA STC.

[2] http://www.iata.org/pressroom/pr/Pages/2012-05-02-01.aspx

RESULTS OF OPERATIONS – THREE MONTHS ENDED MARCH 31, 2012

Revenue

Overall, total revenue decreased 0.60% from $1,121,452 in the first quarter of 2011 to $1,115,169 in the same period of 2012. AFIRS Uptime sales increased by 0.6%, AFIRS Uptime usage increased by 5.6% and Parts revenue increased by 18.3%. These were offset by a decrease in Services of 57.7%.

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 March 31, 2012, there was one customer with a rental type contract (2011: 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 for last eight quarters

	AFIRS UpTime sales	AFIRS UpTime usage	Parts	Services	Total
Q1 2012	$ 264,148	$ 760,392	$ 49,523	$ 41,106	$ 1,115,169
Q4 2011	714,476	756,554	90,659	42,952	1,604,641
Q3 2011	369,604	734,964	5,829	329,798	1,440,195
Q2 2011	377,607	740,471	62,849	119,984	1,300,911
Q1 2011	262,655	719,773	41,871	97,153	1,121,452
Q4 2010	287,589	705,366	38,240	389,850	1,421,045
Q3 2010	226,187	674,572	43,712	65,496	1,009,967
Q2 2010	520,148	639,477	12,625	39,978	1,212,228

Revenue sources

	Q1 2012	Q1 2011	Variance	Explanation
AFIRS UpTime sales	$ 264,148	$ 262,655	$ 1,493	Installation kit revenue slightly increased in 2012 from the same period in 2011.
AFIRS UpTime usage	760,392	719,773	40,619	Increased phone and data usage, an increase of 6.0% in the number of aircraft billing, 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 12.3% decrease in flight hours from 2011 resulting specifically from customers in the U.S. who saw a decrease in airlifts in support of military operations.
Parts	49,523	41,871	7,652	An increased demand for spare kits and the associated parts totaled $16,163 and was partially offset by a decrease in sales of Underfloor Stowage Units totaling $8,511.
Services	41,106	97,153	(56,047)	The decrease is due to the completion of the operations centre in Nigeria in the first quarter of 2011, which was not repeated in 2012. There was also a reduction in installation support and non-warranty repairs for existing customers.
Total	**$ 1,115,169**	**$ 1,121,452**	**$ (6,283)**	

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 next table. Approximately 68.2% of the Company's revenue in the first quarter of 2012 was recurring, compared to 64.2% in the first quarter of 2011. 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.

	Q1 2012	Percent	Q1 2011	Percent
North America	$ 597,457	53.5%	$ 550,496	49.1%
South/Central America	103,833	9.3%	137,202	12.2%
Africa/Middle East	198,098	17.8%	310,596	27.7%
Europe	112,148	10.1%	15,354	1.4%
Australasia	97,628	8.8%	104,568	9.3%
Asia	6,005	0.5%	3,236	0.3%
Total	**$ 1,115,169**	**100.0%**	**$ 1,121,452**	**100.0%**

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.

	2012	2011	Variance
Balance, January 1	$ 980,955	$ 527,457	$ 453,498
Payments received from customers	694,522	281,302	413,220
Moved to unearned revenue	(301,973)	(227,974)	(73,999)
Balance, March 31	**$ 1,373,504**	**$ 580,785**	**$ 792,719**

Unearned revenue

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

	2012	2011	Variance
Balance, January 1	$ 1,897,204	$ 2,831,878	$ (934,674)
AFIRS UpTime sales: shipped, not accepted	301,973	227,974	73,999
AFIRS UpTime usage: prepaid	89,588	24,355	65,233
AFIRS UpTime sales: revenue recognized	(264,149)	(286,200)	22,051
AFIRS UpTime usage: revenue recognized	(42,092)	(31,719)	(10,373)
License fees: revenue recognized	(64,380)	(64,380)	-
Balance, March 31	**$ 1,918,144**	**$ 2,701,908**	**$ (783,764)**

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 first quarter of 2012 was 45.2% compared to 44.0% in 2011. This increase was due to a difference in the mix of revenue sources. Gross margin will fluctuate quarter over quarter depending on customer needs.

Gross margin for the last eight quarters was:

Period	Gross Margin
Q1 2012	54.8%
Q4 2011	40.2%
Q3 2011	62.7%
Q2 2011	59.8%
Q1 2011	56.0%
Q4 2010	66.7%
Q3 2010	50.4%
Q2 2010	55.9%

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 20.

Distribution expenses

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

Major Category	Q1 2012	Q1 2011	Variance	Explanation
Salaries and benefits	$ 476,707	$ 464,354	$ 12,353	Salaries and related benefits increased as the result of staffing requirements to meet ongoing needs of existing and future customers. A portion of the increase was allocated to the AFIRS 228 project and thus R&D expenses resulting in a net increase in distribution salaries and benefit expense increase of $12,353.
Share based compensation	15,473	-	15,473	This amount is the recognition of the vesting of the stock options issued on January 1, 2012 which did not have a similar expense in 2011.
Contract labour	179,843	149,754	30,089	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 branding of FLYHT.
Office	99,003	76,591	22,412	The first quarter of 2012 saw an increase of $6,804 in postage and courier costs, part of a new marketing campaign. An increase in subscriptions and dues of $5,304 was due to the addition of membership fees for industry groups that AMA has become involved in. An increase in training expense of $2,792, $2,100 for income tax consulting relating to FLYHT Inc, and an increased allocation of rent expenses of $5,412 round out the variance.
Travel	103,145	53,296	49,849	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	7,020	25,358	(18,338)	Decreased due to costs associated with the movement of the UpTime hosting centre in early 2011 that was not repeated in 2012.
Depreciation	13,281	-	13,281	Increased due to allocation between cost centres, not due to an overall expense increase.
Marketing	16,314	6,228	10,086	Increased due to attendance at an additional trade show in the first quarter of 2012 that was not attended in 2011, along with the creation of marketing materials to promote the functionality related to the AFIRS 228.
Other	58,182	(7,709)	65,891	Increased due to an increase in bad debt expense of $65,891.
Total	**$ 968,968**	**$ 767,872**	**$ 201,096**	

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	Q1 2012	Q1 2011	Variance	Explanation
Salaries and benefits	$ 332,508	$ 302,853	$ 29,655	Costs increased from 2011 due to increased number of employees in the later portion of 2011 in the operations group to meet increased customer support requirements.
Share based compensation	-	658	(658)	Vesting of stock options to investor relations consultants in 2011 that were fully vested at the end of 2011.
Contract labour	14,020	30,365	(16,345)	Decreased due to a reduction in consulting related to the conversion to IFRS, plus contract labour relating to the rebuild of the AMA website in the first quarter of 2011, which was not repeated in 2012.
Office	84,579	81,870	2,709	Increase due to an increase in communication services costs.
Legal fees	45,965	1,636	44,329	There was an increase in legal fees due to additional legal services required with regards to research on international business processes and the implementation of the appropriate policies and documentation, as well as the legal documentation to prepare for AMA's proposed name change.
Audit and accounting	25,000	36,114	(11,114)	Decreased due to a combination of reduced audit fees and reduced costs associated with conversion to IFRS in early 2011.
Investor relations	10,917	26,729	(15,812)	Decreased due to the disengagement of IR consultants used in 2011 and the focus on the use of internal resources to obtain better shareholder value.
Brokerage, stock exchange and transfer agent fees	9,162	11,934	(2,772)	Decrease is the result of reduced stock exchange fees during 2012.
Travel	17,295	18,856	(1,561)	There was a minor decrease in travel related to investor relations activities as the Company continued to focus 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	12,584	11,920	664	Increase is the result of the requirement for an increased level of maintenance on administrative-related equipment.
Depreciation	7,391	32,639	(25,248)	Decreased by $18,597 due to an allocation between cost centres. The overall expense decrease was $6,651 due to a number of capital assets that have been fully depreciated over the past year and a reduction in the need to acquire capital equipment.
Other	3,018	4,445	(1,427)	The reduction in other administrative costs resulted from a 2011 staff event that was not repeated in 2012.
Total	**$ 562,439**	**$ 560,019**	**$ 2,420**	

Research and development expenses

As announced in the first quarter of 2011, the Company signed an agreement with the Canadian government under the Strategic Aerospace and Defence Initiative ("SADI") program whereby the Company will receive a repayable contribution of 30% of eligible AFIRS 228 development costs to a maximum of $1.96 million. The contribution will be repayable over 15 years commencing April 30, 2014. During the first quarter of 2012, the Company received payment for one claim totaling $92,851. It was determined that the repayable contribution was below market interest rates and therefore the payment has been accounted for in accordance with International Accounting Standard 20. This resulted in $28,714 being accounted for as a loan payable at fair value assuming a discount rate of 18%, and the remainder of $64,137 being accounted for as a grant. The grant portion is considered 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	Q1 2012	Q1 2011	Variance	Explanation
Salaries and benefits	$ 394,864	$ 197,432	$ 197,432	Increased due to utilizing Company staff to replace Sierra Nevada Corporation and other contractors.
Contract labour	610,526	633,417	(22,891)	Decreased contract labour was the result of the combination of the repatriation of core software development to Calgary and reduced utilization of consultants on hardware development. The goal of these initiatives is to build a team around the existing resources of the Company's Calgary based staff.
Office	153,062	12,111	140,951	The increase was the result of increased costs associated with patent applications relating to the AFIRS 228 and other initiatives as well as legal fees associated with the SNC legal action.
Travel	6,007	22,202	(16,195)	Decreased travel expense was the result of bringing the AFIRS 228 development fully in-house and the reduction in the need to travel to contractors' facilities.
Equipment & maintenance	11,804	1,676	10,128	The increase is due to the requirement to purchase equipment directly related to the AFIRS 228 development.
Components	95,717	5,620	90,097	Increase is the result of materials purchased to build AFIRS 228 prototypes for testing.
Government grants	(64,137)	(90,031)	25,894	$64,137 was received in 2012 from the SADI grant, compared to $90,031 received in 2011 from the IRAP program.
Depreciation	5,316	-	5,316	Increased due to allocation between cost centres, not due to an overall expense increase.
Other	-	60	(60)	
Total	**$ 1,213,159**	**$ 782,487**	**$ 430,672**	

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	Q1 2012	Q1 2011	Variance	Explanation
Interest income	$ 72	$ 11,525	$ (11,453)	Decreased average cash balances during the first quarter of 2012 decreased the amount of interest income earned.
Net foreign exchange gain	28,666	36,844	(8,178)	Weakening of the Canadian dollar in relation to the U.S. dollar created net foreign exchange gains in both periods, although less so in 2012.
Bank service charges	5,750	5,744	6	
Interest expense	2,415	1,727	688	An increase in the number of leases for equipment increased the related interest expense.
Government grant interest expense	11,254	-	11,254	This amount is the recognition of the interest component of the SADI grant which did not occur in 2011.
Debenture interest expense	96,042	88,722	7,320	The increase was the result of the increased interest accretion on the debentures issued in December 2010.
Debenture cost amortization	19,529	19,314	215	
Net finance costs	**$ 106,252**	**$ 67,138**	**$ 39,114**	

Net loss

	Q1 2012	Q1 2011	Change	Explanation
Net loss	$ 2,174,901	$ 1,485,292	46.4%	This increase is due to decreased gross profit of $16,307 together with increased distribution expenses of $201,096, increased administrative expenses of $2,420, increased R&D of $430,672, decreased finance income of $19,631, and increased finance costs of $19,483.
Net loss without R&D	$ 961,742	$ 702,805	36.8%	

Quarterly Results

	Q1 2012	Q4 2011	Q3 2011	Q2 2011
Revenue	$ 1,115,169	$ 1,604,641	$ 1,440,195	$ 1,300,911
Loss	2,174,901	2,083,371	1,576,944	1,397,442
Loss (before R&D)	961,742	1,213,147	458,777	841,827
Loss per share (basic & fully diluted)	0.02	0.02	0.01	0.02
Assets	3,817,825	5,509,709	7,492,613	7,866,382
Long term financial liabilities	$ 2,645,062	$ 2,519,337	$ 2,775,586	$ 2,598,381

	Q1 2011	Q4 2010	Q3 2010	Q2 2010
Revenue	$ 1,121,452	$ 1,421,045	$ 1,009,967	$ 1,212,228
Loss	1,485,292	1,753,251	2,601,005	2,559,634
Loss (before R&D)	702,805	210,917	855,723	1,122,382
Loss per share (basic & fully diluted)	0.01	0.02	0.03	0.02
Assets	9,390,199	11,023,681	5,937,150	8,051,911
Long term financial liabilities	$ 2,498,468	$ 2,414,001	$ 155,001	$ 219,392

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 Q1 2012, over 98% of the Company's gross sales were made in U.S. dollars, unchanged from the first quarter of 2011. 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.

Transactions with Related Parties

During the first quarter of 2012, the Company's transactions with a company owned by a director to supply consulting services and travel expenses totaled $22,412, compared to $22,120 in the first quarter of 2011. 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 the first quarter of 2012 with a company owned by another director to supply consulting services, totaling $17,984 (2011: 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. 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.

Liquidity and Capital Resource

During the first quarter of 2012 a total of 6,000 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 $0.25, resulting in cash proceeds of $1,500.

At March 31, 2012, the Company had negative working capital of $4,955,123 compared to $2,947,863 as of December 31, 2011, a decrease of $2,007,260. The decrease in working capital is primarily attributable to a reduction in cash of $1,516,052. The Company funded 2012 first quarter operations primarily through cash received from sales and the proceeds of the private placement and debenture issued at the end of 2010. Additional factors included a reduction of accounts receivable of $102,083 as a result of the Company's efforts to maintain accounts receivable days outstanding at a maximum average of 45 days. Prepaid expenses and deposits increased by $61,568 due to insurance premiums and license fees paid in the first quarter of 2012 that relate to the full year. The reduction in current inventory of $29,656 from December 31, 2011 was the result of the continued initiative of reducing inventory levels, moving towards just in time inventory management whenever lead times allow. Trade payables and accrued liabilities increased $345,468 largely due to an increase in non-refundable customer deposits of $392,549, offset by a decrease in trade payables of $47,081. These deposits are for shipments scheduled in future periods and are non-refundable. If the resources associated with R&D were factored out, the decrease in cash would have been $3,629,386.

Neither customer deposits nor the current portion of unearned revenue are refundable, and if those two items are not included in the working capital calculation, the resulting modified working capital at March 31, 2012 would be negative $1,824,180 compared to $278,509 at December 31, 2011.

As well, as of March 31, 2012, the Company had outstanding accounts payable to SNC of $1,791,307 relating to their involvement with the development of the AFIRS 228. If this amount was removed from the working capital it would be negative $3,163,816 at March 31, 2012 versus negative $1,115,898 at December 31, 2011. As well the modified working capital would be negative $32,873 versus positive $1,553,456 at December 31, 2011. 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 a 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 $1,791,307 is presently under dispute in the courts. See the Contingency section on page 20 for further clarification.

The Company’s net cash decreased in 2012 to $412,013 from $1,928,065 at December 31, 2011. The Company has an available operating line of $250,000 that was undrawn at March 31, 2012. 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.

During April 2012 the Company received the initial deposit from NetJets Europe totaling $629,200. See the Subsequent event section on page 20 for further clarification.

As at May 9, 2012, AMA’s issued and outstanding share capital was 118,636,466.

Contractual Obligations

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

March 31, 2012	< 2 months	2-12 months	1-2 years	2-5 years	> 5 years	Total
Accounts payable	$ 1,169,185	$ 24,669	$ -	$ 1,791,307	$ -	$ 2,985,161
Compensation and statutory deductions	60,284	371,014	-	-	-	431,298
Finance lease liabilities	14,279	25,134	24,349	7,941	-	71,703
Accrued liabilities	219,186	179,179	23,894	-	-	422,259
Loans and borrowings	19,112	353,941	295,596	3,530,183	186,267	4,385,099
Total	$ 1,482,046	$ 953,937	$ 343,839	$ 5,329,431	$ 186,267	$ 8,295,520

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 March 31, 2012 was $116,024 compared to $179,817 at March 31, 2011. 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 March 31, 2012, which was unchanged from 2011. 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. The repayment period commenced January 1, 2005.

Under SADI, the Company has, at March 31, 2012, an outstanding repayable balance of $983,753. 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 the first quarters of both 2012 and 2011, AMA did not enter into any new lease agreements. Minimum lease payments are as follows for existing capital leases:

Year	Total
2012	$ 33,325
2013	24,350
2014	14,029
Total	**$ 71,704**

The imputed interest included in the payments is $10,791 (2011 - $2,799) leaving a total obligation of $60,913 (2011 - $93,384).

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 condensed consolidated interim financial statements, as management intends to vigorously defend the matter and believes the outcome will be in its favour. On November 7, 2007, the Company filed a Statement of Defense and a counterclaim against three parties for their interference with legally binding contracts, disrupted business, attacks on the Company's reputation and costs. During 2012, 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 $1,791,307, 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. 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 Event

In April 2012 the Company received an initial payment from NetJets Transportes Aereos, S.A. of $629,200 U.S. dollars. This payment was for the shipment of the first AFIRS installation kits per the Services Agreement that was signed in March 2012.

Recent Accounting Pronouncements

All accounting standards effective for periods beginning on or after January 1, 2012 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 / IAS 32– Offsetting Financial Assets and Liabilities clarifies that an entity currency 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 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.

Auditors’ Involvement

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

The auditors of AeroMechanical Services Ltd. have not performed a review of the condensed consolidated interim financial statements for the three month periods ended March 31, 2012 and March 31, 2011.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (unaudited)

		March 31, 2012		December 31, 2011
Assets				
Current assets				
Cash and cash equivalents	$	412,013	$	1,928,065
Restricted cash		250,000		250,000
Trade and other receivables		578,803		680,886
Deposits and prepaid expenses		260,644		199,076
Inventory		945,642		975,298
Total current assets		2,447,102		4,033,325
Non-current assets				
Property and equipment		315,827		336,660
Rental assets		116,910		127,867
Intangible assets		166,568		201,217
Inventory		771,418		810,640
Total non-current assets		1,370,723		1,476,384
Total assets	$	3,817,825	$	5,509,709
Liabilities				
Current liabilities				
Trade payables and accrued liabilities	$	5,249,005	$	4,903,537
Unearned revenue		1,725,004		1,639,684
Loans and borrowings		391,443		384,815
Finance lease obligations		32,435		48,715
Current tax liabilities		4,338		4,437
Total current liabilities		7,402,225		6,981,188
Non-current liabilities				
Unearned revenue		193,140		257,520
Loans and borrowings		2,616,584		2,486,199
Finance lease obligations		28,478		33,138
Provisions		30,591		47,027
Total non-current liabilities		2,868,793		2,823,884
Total liabilities		10,271,018		9,805,072
Equity (deficiency)				
Share capital		36,743,670		36,741,492
Convertible debenture – equity feature		231,318		231,318
Warrants		2,499,778		2,499,778
Contributed surplus		6,637,401		6,622,606
Accumulated other comprehensive income (loss)		98		-
Deficit		(52,565,458)		(50,390,557)
Total equity (deficiency)		(6,453,193)		(4,295,363)
Total liabilities and equity (deficiency)	$	3,817,825	$	5,509,709

See accompanying notes to condensed consolidated interim financial statements.
Going concern (note 2e)
Contingencies (note 7)

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	For the three months ended March 31	
	2012	**2011**
Revenue (note 5)	$ 1,115,169	$ 1,121,452
Cost of sales	503,632	493,608
Gross profit	611,537	627,844
Other income	64,380	64,380
Distribution expenses	968,968	767,872
Administration expenses	562,439	560,019
Research and development expenses (note 6)	1,213,159	782,487
Results from operating activities	(2,068,649)	(1,418,154)
Finance income	28,738	48,369
Finance costs	134,990	115,507
Net finance costs	(106,252)	(67,138)
Loss for the period	(2,174,901)	(1,485,292)
Foreign currency translation differences	98	(49)
Total comprehensive loss for the period	$ (2,174,803)	$ (1,485,341)
Earnings (loss) per share		
Basic and diluted loss per share (note 4)	$ (0.02)	$ (0.01)

See accompanying notes to condensed consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY (DEFICIENCY) (unaudited)

For the three months ended March 31, 2012 and 2011

	Share Capital	Convertible Debenture	Warrants	Contributed Surplus	Foreign Currency Translation Reserve*	Deficit	Total Equity (Deficit)
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	-	-	-	-	-	(1,485,292)	(1,485,292)
Foreign currency translation differences	-	-	-	-	(49)	-	(49)
Total comprehensive loss for the period	-	-	-	-	(49)	(1,485,292)	(1,485,341)
Contributions by and distributions to owners							
Share issue cost recovery	3,914	-	-	-	-	-	3,914
Share-based payment transactions	-	-	-	658	-	-	658
Total contributions by and distributions to owners	3,914	-	-	658	-	-	4,572
Balance, March 31, 2011	$ 36,734,758	$ 231,318	$ 5,134,018	$ 3,750,772	$ (49)	$ (45,332,800)	$ 518,017
Balance at January 1, 2012	$ 36,741,492	$ 231,318	$ 2,499,778	$ 6,622,606	$ -	$ (50,390,557)	$ (4,295,363)
Loss for the period	-	-	-	-	-	(2,174,901)	(2,174,901)
Foreign currency translation differences	-	-	-	-	98	-	98
Total comprehensive loss for the period	-	-	-	-	98	(2,174,901)	(2,174,803)
Contributions by and distributions to owners							
Share-based payment transactions	-	-	-	15,473	-	-	15,473
Share options exercised	2,178	-	-	(678)	-	-	1,500
Total contributions by and distributions to owners	2,178	-	-	14,795	-	-	16,973
Balance, March 31, 2012	$ 36,743,670	$ 231,318	$ 2,499,778	$ 6,637,401	$ 98	$ (52,565,458)	$ (6,453,193)

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

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (unaudited)

	For the period ended March 31	
	2012	2011
Cash flows from operating activities		
Loss for the period	$ (2,174,901)	$ (1,485,292)
Adjustments for:		
Depreciation	25,988	32,638
Depreciation of rental assets	160	13,425
Amortization of intangible assets	34,648	34,648
Convertible debenture accretion	96,042	88,722
Amortization of debenture issue costs	19,529	19,314
Government grant accretion	11,254	-
Government grant	(64,137)	-
Equity-settled share-based payment transactions	15,473	658
Change in inventories	68,878	23,790
Change in trade and other receivable	115,684	10,058
Change in deposits and prepaid expenses	(61,568)	(64,998)
Change in trade and other payables	392,393	(33,817)
Change in provisions	(16,436)	(3,089)
Change in unearned revenue	20,940	(129,971)
Unrealized foreign exchange	(30,032)	(35,995)
Interest income	(72)	(11,525)
Interest expense	2,415	1,727
Net cash used in operating activities	(1,543,742)	(1,539,707)
Cash flows from investing activities		
Acquisitions of property and equipment	(5,155)	(1,599)
Disposal of rental assets	10,797	(871)
Interest received	72	11,525
Net cash from investing activities	5,714	9,055
Cash flows from financing activities		
Share issue cost recovery	-	3,914
Proceeds from exercise of share options and warrants	1,500	-
Proceeds from government grant	92,851	-
Repayment of loans and borrowings	(18,526)	(16,560)
Payment of finance lease liabilities	(20,940)	(24,763)
Interest paid	(2,415)	(1,727)
Net cash from (used in) financing activities	52,470	(39,136)
Net decrease in cash and cash equivalents	(1,485,558)	(1,569,788)
Cash and cash equivalents at January 1	1,928,065	6,617,852
Effect of exchange rate fluctuations on cash held	(30,494)	(22,305)
Cash and cash equivalents	$ 412,013	$ 5,025,759

See accompanying notes to condensed consolidated interim financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2012 and 2011 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 condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting and do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements were approved by the Board of Directors on May 9, 2012.

(b) Basis of measurement

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

(d) Use of estimates and judgments

The preparation of the condensed consolidated interim financial statements in conformity with International Financial Reporting Standards (“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.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company’s accounting policies and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2011.

2. Basis of preparation (continued)

(e) Going concern

These condensed consolidated interim financial statements have been prepared on the basis that the Company will continue to realize its assets and meet its obligations in the ordinary course of business. At March 31, 2012, the Company had negative working capital of $4,955,123, a deficit of $52,565,458, a net loss of $2,174,901 and negative cash flow from operations of $1,543,742.

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 condensed consolidated interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid, such as revaluation to liquidation values and reclassification of statement of financial position items. 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 in AMA's December 31, 2011 consolidated financial statements have been applied consistently to all periods presented in these condensed consolidated interim financial statements, unless otherwise indicated. These accounting policies have also been applied consistently by AMA's subsidiaries.

4. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at March 31, 2012 was based on a weighted average number of common shares outstanding of 118,634,224 (2011: 118,615,466).

Loss attributable to common shareholders

	For the three months ended March 31			
		2012		2011
Profit (loss) attributable to common shareholders	$	(2,174,901)	$	(1,485,292)
Basic and diluted loss per share	$	(0.02)	$	(0.01)

5. Operating segments

The Company has one operating segment.

Geographical Information

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

	For the three months ended March 31	
	2012	2011
North America	$ 597,457	$ 550,496
South / Central America	103,833	137,202
Africa / Middle East	198,098	310,596
Europe	112,148	15,354
Australasia	97,628	104,568
Asia	6,005	3,236
Total	$ 1,115,169	$ 1,121,452

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

Major customers

Revenues from the three largest customers represent approximately 25.7% of the Company's total revenues for the three months ended March 31, 2012 (2011: 28.0%).

6. Research and development expenses

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

In the first quarter of 2012, AMA received payment for one claim totaling $92,851 (2011: 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 $28,714 and a grant of $64,137. 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 an 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.

7. 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 2012, there has been no substantial progress on a resolution to the action. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

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

7. Contingency (continued)

(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 $1,791,307, 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.

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.

8. Related parties

During the first quarter of 2012, the Company's transactions with a company owned by a director to supply consulting services and travel expenses totaled $22,412, compared to $22,120 in the first quarter of 2011. 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 the first quarter of 2012 with a company owned by another director to supply consulting services, totaling $17,984 (2011: 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. 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.

9. Subsequent Event

In April 2012 the Company received an initial payment from NetJets Transportes Aereos, S.A. of $629,200 USD. This payment was for the shipment of the first AFIRS installation kits per the Services Agreement that was signed in March 2012.

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Mike Brown	Partner, Geselbracht Brown
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