

AeroMechanical Services Ltd.

2007 Annual Report



TSX.V: AMA

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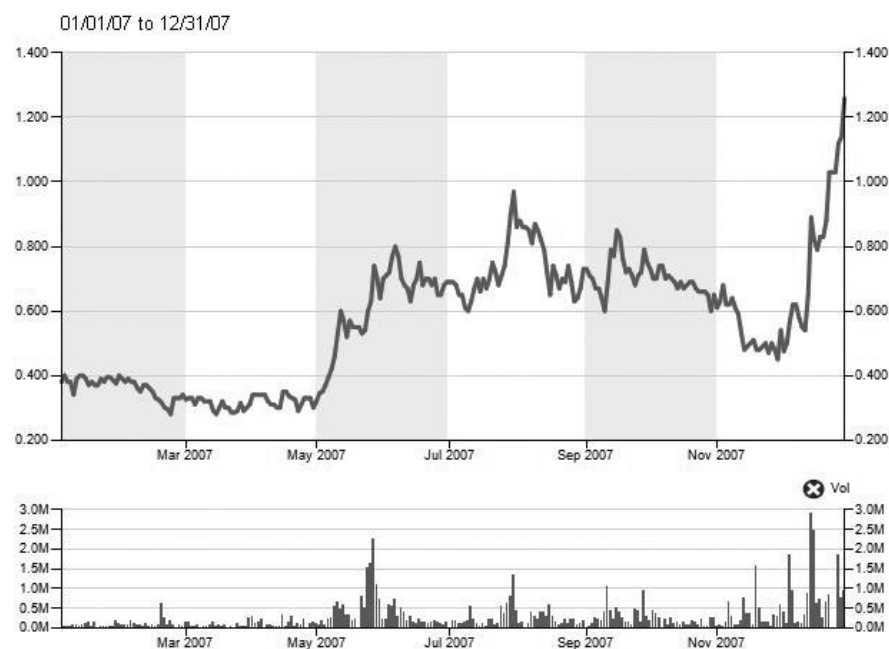
AeroMechanical Services Ltd. is one of the world's leading providers of real-time data communications for the aerospace industry. AeroMechanical is based in Calgary, Alberta, Canada with a corporate office that houses 50+ people. The Company also has service locations in the United States and Switzerland. AeroMechanical proudly serves a global list of clients from over ten different countries.

AeroMechanical was founded in 1998 and has been publicly traded on the Toronto Venture Exchange (TSX.V: AMA) since March 2003. The Company's solutions and services are primarily sold under the FLYHT brand name.



Letter to the Shareholders

We have once again put a very interesting year behind us. It was a year of good news as well as not so good news from a shareholder perspective. We believe we have moved one step up in the food chain in the capital markets. While we did experience some additional dilution both during the year and subsequent to the year end, we emerged a much stronger company than at the start of the year. The addition of several funds, including significant ownership in Northern Rivers Funds, has changed our shareholder base from a largely friends, family and retail following to one of significant shareholders helping support our loyal base of shareholders.



From the introduction of funds into our stock in March of 2007, there has been a noted increase in both volume and prices. The run up in December on the announcement of several orders is indicative of a new and excited base of shareholders in our company. Management has been much more active in investor relations activities over the last year, and we intend to keep the pressure on in this arena. The addition of Research Capital's report by Jacques Kavafian is a milestone for AeroMechanical, and we have enjoyed a close working relationship with Research Capital and have made several marketing trips with them to institutional investors. We are excited about the opportunity to work with these world class investors.

We think that the business is maturing in its ability to deal with our customers as well as the public markets. Our products are stable and working well for our customers, our strategic plan is well defined and understood by our staff and customers, and the markets we are attempting to address are aware of our presence and benefits. We have increased the depth and strength of our staff to better address the needs of our clients, and will continue to add services to our suite of offerings to increase our revenues through adding value to our clients.

One continued exciting part of our business is the opportunity in China. We have been working diligently with our client in China to commence installs there, and were told in early March that this will occur sometime around the summer of 2008. The opportunity in China is large and we have been assured by our customers that it will occur soon; however, it is important to point out that China represents about 2% of the global airline fleet.

Our relationship with Meggitt PLC continues to evolve and we are working with several OEMs around the world to get our products factory installed on aircraft being delivered to our clients.

On a less positive note, we have been embroiled in two frivolous lawsuits by a Toronto organization that have implied that we helped a former employee breach his employment contract as well as infringed on a patent for which they purport to have a license. Both actions are being vigorously defended, and our lawyers advise that we have excellent chances of being successful in defending both suits. It is noteworthy that while we are combatants in these lawsuits, we have yet to run into them in the marketplace and we therefore question whether they have a product to sell or not. We will continue to defend ourselves against these actions and would like to remind our shareholders that we still have a patent for our technologies and that we are providing services covered by those patents to our clients.

We are all excited about 2008 and are looking for good things from our traditional base of clients as well as some new business opportunities that are developing for AeroMechanical. We want to thank our customers, staff, and shareholders for their continued support of our efforts to provide superior solutions to our global customers.

Yours truly,

Bill Tempany
CEO



Message from the President

2007 was a significant turning point for the company, in the sense that we have gone from proving that there is market interest for our solutions to proving that we can maintain the rate of installations and delivery of services. We finished 2006 with 50 installed afirs systems from 15 airlines from across the globe. We finished 2007 with 94 installed afirs systems for 26 airlines.

This vote of confidence from the industry for AeroMechanical's aircraft data solutions continues to build a solid foundation for the company to ultimately become a dominant player in the real-time aircraft data solutions marketplace.

FLYHT

In the latter half of 2007, AeroMechanical Services Ltd. made a minor change to its plan in response to the need to re-brand itself into a world-leading product and solution provider. As of January 2008, afirs UpTime products and services will be sold under the FLYHT brand name.

From this point forward, AeroMechanical will be synonymous with the FLYHT brand. The Company and AMA remains the same; AeroMechanical felt that to better serve its industry stakeholders, it was necessary to create a strong international sales and marketing brand and a corporate identity that better reflects what we have to offer the aerospace industry.

The sales and marketing identity does not change the ownership of any assets, intellectual property, patents, and Supplemental Type Certificates (STCs). And most importantly, it does not in any way change the context for AeroMechanical shareholders.

Our Staff is our core asset in running this 24 by 7 business

As our client list grows and their needs become more diverse in type of aircraft, our talent base inside the company must also keep pace. Our staff, as our chief asset, is comprised of dedicated, hard working, and uniquely skilled individuals managing our unique solutions.

The afirs UpTime team has not only had to learn new and unique methods of programming of the afirs units and

UpTime support centre, but has also created those methods in the first place. Our certification engineering crew helps to set us apart from our competitors by supplying in-house airworthiness engineering and certification services that are rapidly gaining delegation from Transport Canada. Bringing in afirs unit production provides the challenge that keeps the afirs production team jumping into work every morning. The Customer Satisfaction Manager (CSM) team and planning department are on the front lines managing the individual airline accounts in order to ensure that our clients remain fully satisfied through the lifetime of the contract. When it comes to giving this whole crew something to do, our sales team is out working to keep the hoppers full in a conservative and demanding marketplace. This is all rounded out by dedicated administration, finance, and quality assurance staff that keeps everyone moving and supported both inside and outside the office.

Operations

The year saw significant progress in the organization and processing of our core work, but took a bit of a slowdown with the loss of our COO, Gino Ferronato, to another passion that overtook his desire to stay with AeroMechanical. Fortunately, John Brom, a long term user of afirs UpTime, became available to step in as COO towards the end of the year to continue the momentum of organizing the operations group in the company.

Our CSMs have been steadily increasing their profile with their clients; managing the installation process, getting aircraft on-line, ensuring that the aircraft are properly reporting the contracted requirements, and making sure reported information is getting from UpTime to the appropriate person or system in the client's domain.

afirs final assembly and testing was brought in-house under our existing Transport Canada Manufacturing approval in late 2007 in order to better manage demand, decrease production costs, and especially to allow AeroMechanical to develop a higher standard of depot level repair capabilities and re-certification of modified or repaired afirs units. Certification for repair in the form of a Transport Canada Approved Maintenance Organization (AMO) is underway and expected sometime in Q2-2008.

The year saw our engineering crew develop and implement new STCs for the Airbus A319/A320/A321, Boeing



B757 and B767, and the Bombardier CRJ fleet of aircraft. The certifications were also sent for equivalent approvals to the FAA in the US, EASA in Europe, and the Chinese CAAC. Jeff Brunner, our Engineering Certification manager, initiated a process to develop and produce our Transport Canada Approved Design Organization manual. This manual, when approved by Transport Canada, will allow AeroMechanical through delegated individuals within the Company, to sign off on Limited Supplemental Type Certificates (LSTCs) and certain requirements pertaining to STCs on behalf of Transport Canada. AeroMechanical expects that this delegation, when received, will allow us take on more responsibility from Transport Canada in order to speed up the process of certifying modifications or putting afirs on an aircraft type not previously certified.

Sales penetration

In order to continue to increase our backlog, we added additional sales capabilities to our fold. Since sales to the airline industry are meticulous, technical, and typically take 6 to 18 months, we expect to see the results of the additions to really take effect in 2008.

AeroMechanical also expanded it's footprint in the emerging airline marketplace. We attended conferences in Europe, the US, Canada, and South America in the areas of Maintenance, Operations, Flight Safety, and particular operator's conferences. AeroMechanical also attended the Paris Airshow and the National Business Aircraft Association Conference in consort with Meggitt PLC. These efforts allowed AeroMechanical and Meggitt to promote our joint solution potential to a number of OEMs and major players in a very economical way. In August we added Pat Sandall Vice President of Sales and Marketing, to better focus the team on the ongoing shift to solution based selling from product based selling. It also allows the president to turn some of his attention from Sales and Marketing to managing the business for the growth ahead.

Research and Development

The Company received a contract from The Meteorological Service Of Canada of Environment Canada for the prototype development of a meteorological probe and data collection unit for small and medium aircraft where the appropriate data does not exist through an existing databus on the aircraft or where existing sensors are not accurate enough. The program is a 3 year initiative that involves the University of Calgary, Environment Canada, and the Company.

Work has also been commencing in the area of updating our existing line of afirs and UpTime products. We expect

2008 to be a year in which we have the opportunity to advance our products well ahead of market requirements that are expected to crop up over the next 4 to 5 years.

With regards to the business as a whole, the executive management team is committed to maintaining our established lead in the marketplace. In order to keep that lead and accelerate it, we have taken several initiatives to better structure the business and solidify our business systems.

By the time you read this document, we will have incorporated our new accounting system and be well into working with our client management system, which will also be integrated to the accounting and Customer Resource Management (CRM) system. Stringent controls, policies, and procedures are all part of the continuous improvement program that the Company is headed into, including higher levels of software quality assurance for future products, a Design Approval Organization to assist in our STC approval process, an Approved Maintenance Organization to assist in modification and repair of our afirs systems, and a management system that will allow for better planning of resources, deliverables, and client forecasting.

It has been a very interesting 2007 all in all. With our eyes on the target to improve on sales, installation rates maximize productivity, and increase shareholder value, 2008 will be our best year yet.

Sincerely,

Darryl Jacobs
President

Industry Trends and News

The Industry

Airlines and aircraft operators generally operate on extremely tight margins and focus their energy on the areas of safety, compliance, and operations. The major current issues are with their airborne to ground communication processes, and outdated aircraft equipment. Old communication protocols and outdated datalink technology create an opportunity for AeroMechanical to penetrate the market place to provide communication and data anywhere, anytime, in-real time through the Iridium satellite system.

Iridium is the sole provider of 100% worldwide satellite voice and data communications coverage. The Iridium service covers the entire planet including oceans, airways, and the North and South Poles. Currently there are 13,000 planes operating globally utilizing an Iridium service¹. This number is expected to grow as new protocols, initiatives, and regulations come into place. AeroMechanical is well situated to capitalize globally on the increase in Iridium service.

The Industry Segments and Demographics

We have continued to see an increase in the growth of the low-cost airline segment. This segment is expanding globally as we are seeing many airlines adopt the low-cost business model. The afirs UpTime system fits perfectly with low-cost airlines, as they can receive the benefits of data communication for a fraction of the cost of traditional data systems.

Industry Segments		
Airlines	General Aviation	Government
Legacy Lines Regional Carriers International Carriers Cargo Operators Low Cost Carriers Charter Operators Travel/Vacation Operators	Business Aircrafts Fractional Ownerships Air Taxis Hobbyists/Special Programs	Military Personnel Transport Special Operations

1 .SITA Iridium Conference, Presentations, Atlanta, USA, October 23-24, 2007

With the expansion of the European Union and growth of low-cost airlines in Europe, we will see European domestic airline traffic overtake the North American domestic market in the near term. Over the next eighteen years Europe is expected to receive 25 percent of market value of new planes delivered². AeroMechanical is positioned to support the growth of this market through our expanding list of European Supplement Type Certificates, as well as our new European customers over the past year added by our sales office in Switzerland.

We are also seeing a growth in the cargo segment. In 2007 cargo traffic increased 3 percent³, with cargo traffic expected to have a 6.1 percent growth rate over the next eighteen years compared to a 5.0 percent growth rate for airline traffic⁴. AeroMechanical is well positioned to assist in the growth of the cargo segment as the Company's solutions and services can be very beneficial to their operations. Our afirs UpTime solution will be able to provide assistance in improving the efficiency and operational effectiveness of their operations.

Another region we are witnessing growth in is Asia-Pacific, as it is expected the world airline fleet will move substantially toward this region. It is stated that the Asia-Pacific region will receive more than one third of the value of new airplanes delivered over the next eighteen years. We are already seeing this growth as the largest share of the 6.8 billion airline customers globally now travel to or within the Asia-Pacific area⁵.

A significant contributor to the growth in Asia-Pacific is China. China leads in long-term growth in domestic air travel markets, as well as has a capacity growth rate of 8.1 percent and is increasing load factors⁶. With the Chinese GDP growth at 10.4 percent, China has jumped from being the seventh largest world economy to the third⁷. This in turn is increasing the average household spending on transportation, making it one of the fastest growing categories.

The growth in air travel will only increase as poor road conditions in China combined with large land mass makes air transportation the most efficient means of transportation. Ground transportation infrastructure takes time and money to develop, making air transportation the cheapest way to commute⁸. AeroMechanical will continue to fulfill our contracts within China as well as continue to support business development projects within the region. AeroMechanical is very supportive of our relationships within the region and believe we are well situated to capitalize on the air travel growth within China, and to further expand into the Asia-Pacific region.

2 Boeing Market Outlook, www.boeing.com, accessed March 2008

3 Rolls-Royce Market Outlook, www.rolls-royce.com, accessed March 2008

4 Boeing Market Outlook, www.boeing.com, accessed March 2008

5 Ibid.

6 Ibid.

7 Airbus Market Outlook, www.airbus.com, accessed March 2008

8 Ibid.

Our Solutions & Services



AeroMechanical Services Ltd.

AeroMechanical's solutions and services are proudly marketed and sold under the FLYHT brand name. We provide innovative value added data solutions to improve profitability and efficiency within the aerospace industry.

The solutions focus on five major areas:

1. Safety Enhancements
2. Compliance Standards
3. Operational Effectiveness
4. Profit Realization
5. Efficient Culture

Monitor Data – afirs Unit

Safety	Compliance	Operations	Profit	Efficiency
Immediate Identification Search & Rescue	Two-way Communication	Data Reports Real-time	Fuel Management Programs	Improve Dispatch /Mission
FOQA/FDM Resource	Flight Following	Integrated EFB	Increase Time On Wing (P)OOOI	Increase Aircraft Reliability
Pilot Training Applications	FOQA/FDM Resource	Supports Flight Driven Cost Centers	Reduce CASM	Accurate Data to Drive Change
PAN-PAN/ MAY DAY Immediate	CAA Initiatives based on ICAO & TAR		Operational cost avoidance	

Measure Results – KPIs

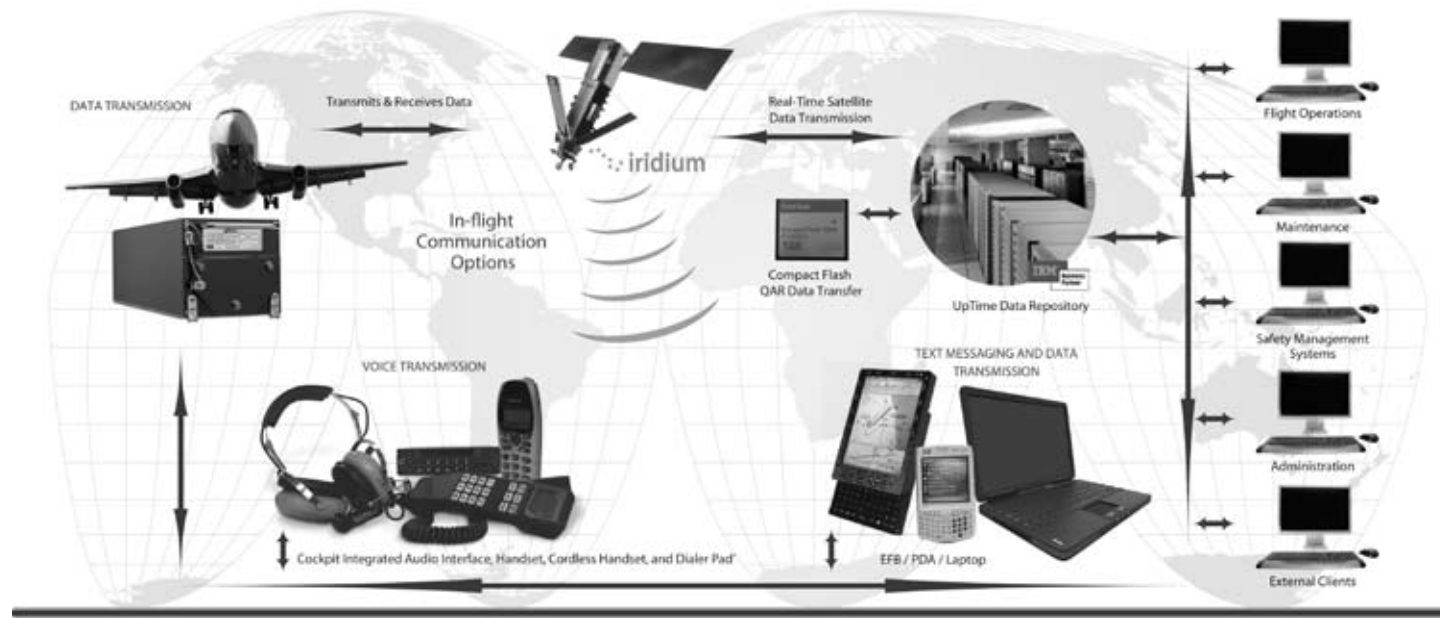
Make Decisions – Executive Dashboard

The primary solution, which FLYHT markets and sells, is **afirs UpTime**. **afirs UpTime** is a satellite-based Automated Flight Information Reporting System (afirs) that allows aircraft operators to manage and monitor aircraft operations anywhere, anytime, in real-time. **afirs UpTime** gathers, stores, and transmits data, and delivers real-time information to our customers via Iridium satellite.

afirs UpTime monitors the incoming data for predefined events and triggers, providing accurate operational and performance data to Flight Operations, Dispatch, Safety, and/or Maintenance recipients of the operators or their delegates.

UpTime, the client web interface, allows for easy data retrieval, reporting, and real-time communication capabilities for instantaneous in-flight contact. Users of **afirs UpTime** can now actually see how the aircraft and its components are performing (altitude, speed, temperature etc.) at any given moment.

Solutions Map



OOOI tracking

afirs OOOI tracking accurately informs aircraft operators of their Out of the gate, Off the runway, On the runway, and In the gate times (OOOI times). By receiving accurate Out, Off, On, and In times in real-time, operators can reduce flight hour costs resulting from OOOI time errors. UpTime is a secure, ground-based facility that automatically delivers this data as key client-defined reports to authorized customer subscribers via email or ftp. This information is available over the web in real-time or as historical data.

global following

afirs global following allows aircraft operators to understand the whereabouts, status, and condition of their aircraft; anywhere, anytime, in real-time. Operators can benefit from accurate real-time monitoring of their fleet. The visual display of flight following allows Operations Control Centers to have a constant awareness of asset location, on-time operations, and late operations. This is essential for managing hub operations and reduces the impact that a single delay may cause to a flight schedule.

engine trends

afirs Engine Trends permit operators to improve aircraft health performance by having relevant engine performance data, including throttle management and engine trending data. The increase in accurate data improves the predictability of an operator's fleet, thereby improving overall asset management.

engine/airframe exceedance

afirs Engine/Airframe Exceedance automatically sends exceedance reports to key defined aircraft personnel's PDA's or personal computers via email. Reports such as Over-torque (the pilot over throttles the aircraft) are sent anywhere, anytime, in real-time. This allows operators to efficiently and effectively monitor the health performance of their aircraft.

afirs global voice

afirs Global Voice enables uninterrupted, two-way satellite voice communications between the flight deck, aircraft cabin, and ground personnel anywhere, anytime, in real-time. This helps operators exceed their communications compliance requirements between crew and ground personnel.



afirs global text

afirs Global Text enables uninterrupted, two-way satellite text messaging between the flight deck and ground personnel anywhere, anytime, in real-time. This helps the operators have more reliable communication between the flight crew and ground operations.



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

This MD&A is dated April 9, 2008.

Forward-Looking Statements

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

Overview

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

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

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

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

Trends and Economic Factors

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

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

System Approvals

afirs is currently STC approved on the following aircraft:

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

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

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

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

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

Results of Operations – Year Ended December 31, 2007

Revenues

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

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

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

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

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

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

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

Gross Margin and Cost of Sales

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

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

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

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

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

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

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

Net Loss, General and Administrative and Marketing Expenses

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

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

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

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

Comments on Quarterly Results

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

Research and Development

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

Foreign Exchange

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

Transactions with Related Parties

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

Liquidity and Capital Resources

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

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

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

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

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

The achievement of positive earnings before interest and amortization is necessary before the Company can improve liquidity. The Company has continued to expand its cash flow potential through the its continued marketing drive to clients around the world.

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

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

Contractual Obligations

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

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

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

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

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

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

Results of Operations – Three Months Ended December 31, 2007

Revenues

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

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

Gross Margin and Cost of Sales

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

Net Loss, General and Administrative and Marketing Expenses

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

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

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

Research and Development

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

Critical Accounting Policies and Estimates

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

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

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

Financial Instruments

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

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

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

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

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

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

Subsequent Events

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

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

Contingencies

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

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

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

Managements' 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 Company maintains internal accounting and administrative controls designed to provide reasonable assurance that the financial information is relevant, reliable, and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

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. AeroMechanical'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.

Signed ("William Tempany")

Chief Executive Officer
Calgary, Alberta
April 9, 2008

Signed ("Thomas R. French")

Chief Financial Officer
Calgary, Alberta
April 9, 2008

Auditors' Report

To the Shareholders of

AeroMechanical Services Ltd.

We have audited the consolidated balance sheet of AeroMechanical Services Ltd. as at December 31, 2007 and the consolidated statements of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated statements as at December 31, 2006 and for the year then ended were audited by other auditors, who expressed an opinion without reservation on those statements in their report dated April 9, 2007.

Chartered Accountants

Calgary, Alberta

April 9, 2008

Consolidated Balance Sheets As at December 31,

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,945,687	\$ 2,688,389
Restricted cash – Note 7	284,500	284,500
Accounts receivable	621,726	291,603
Prepaid expenses	349,924	233,040
Inventory	1,810,483	428,886
	5,012,320	3,926,418
Property and equipment – Note 3	252,826	224,644
Rental assets – Note 4	981,414	768,696
Intangible assets	34,992	34,992
	\$ 6,281,552	\$ 4,954,750
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 1,219,977	\$ 497,531
Current portion unearned revenue	232,805	101,774
Current portion of deferred leasehold inducements – Note 5	13,687	13,687
Current portion of loans payable – Note 6	52,810	120,742
Current portion of obligation under capital lease – Note 8	23,681	16,105
	1,542,960	749,839
Unearned revenue	689,861	292,920
Deferred leasehold inducements – Note 5	2,281	15,968
Loans payable – Note 6	382,679	351,959
Obligation under capital lease – Note 8	18,150	27,028
Warranty	13,842	12,016
	2,649,773	1,449,730
SHAREHOLDERS' EQUITY		
Share capital – Note 9	23,992,644	17,052,282
Contributed surplus – Note 9	1,434,034	1,379,323
Deficit	(21,794,899)	(14,926,585)
	3,631,779	3,505,020
	\$ 6,281,552	\$ 4,954,750

Going concern – Note 1, Commitments – Note 10, Subsequent event – Note 15, Contingencies – Note 16

See accompanying notes to the consolidated financial statements

On behalf of the board

Signed (“William Tempany”)
Director

Signed (“Douglas Marlin”)
Director

Consolidated Statements of Loss and Deficit Years Ended December 31,

	2007	2006
REVENUE		
Rental revenue	\$ 709,191	\$ 607,864
Sales revenue	386,363	290,810
License fees and interest	893,850	195,792
	1,989,404	1,094,466
Cost of sales	1,351,395	861,147
Gross margin	638,009	233,319
EXPENSES		
Salaries and benefits	4,098,886	2,226,301
General and administrative	1,400,126	1,104,486
Marketing	1,079,353	618,508
Stock based compensation	525,252	455,985
Research and development	253,236	248,902
Amortization	89,038	62,170
Foreign exchange loss	36,338	22,795
Interest and bank charges	24,094	33,878
	7,506,323	4,773,023
Net loss and comprehensive loss	\$ (6,868,314)	\$ (4,539,706)
Deficit, beginning of year	\$ (14,926,585)	\$ (10,386,879)
Deficit, end of year	\$ (21,794,899)	\$ (14,926,585)
NET LOSS PER SHARE		
Basic and diluted – Note 2 (n)	\$ (0.11)	\$ (0.10)

See accompanying notes to the consolidated financial statements

Consolidated Statements of Cash Flows
Years Ended December 31,

Notes to Consolidated Financial Statements
Years Ended December 31, 2007 and 2006

	2007	2006
CASH PROVIDED BY (USED IN):		
OPERATING ACTIVITIES		
Net loss	\$ (6,868,314)	\$ (4,539,706)
Add items not affecting cash		
Amortization	89,038	62,170
Amortization of rental assets	82,749	53,198
Stock based compensation	525,252	455,985
Write down of rental assets	122,400	-
Warranty expense	1,825	(224)
Unrealized foreign exchange loss (gain)	26,232	(5,237)
	(6,020,818)	(3,973,814)
Net change in non-cash working capital balances – Note 14	(591,873)	(869,922)
	(6,612,691)	(4,843,736)
FINANCING		
Issuance of common shares	6,583,616	8,845,723
Repayment on capital leases	(18,444)	(4,521)
Share issue costs	(122,884)	(786,462)
Loan repayment	(37,213)	(13,310)
	6,405,075	8,041,430
INVESTMENTS		
Restricted cash	-	(284,500)
Purchase of property and equipment	(117,220)	(121,229)
Purchase of intangible assets	-	(34,992)
Purchase of rental assets	(417,866)	(152,593)
	(535,086)	(593,314)
Change in cash and cash equivalents	(742,702)	2,604,380
Cash and cash equivalents, beginning of year	2,688,389	84,009
Cash and cash equivalents, end of year	\$ 1,945,687	\$ 2,688,389

See accompanying notes to the consolidated financial statements

AeroMechanical Services Ltd. (the "Company") is a public company incorporated under the Canada Business Corporations Act. The Company is listed on the Toronto Venture Stock Exchange, trading under the symbol "AMA".

The Company is a designer, developer and service provider to the global aerospace industry. The major products are the Automated Flight Information Reporting System ("afirs™"), UpTime™, AeroQ™ and Underfloor Stowage Units.

NOTE 1 GOING CONCERN

At December 31, 2007, the Company had working capital of \$3,469,360 (2006 – \$3,176,579), a deficit of \$21,794,899 (2006 – \$14,926,585), a loss from operations of \$6,868,314 (2006 – \$4,539,706) and negative cash flow from operations of \$6,612,692 (2006 – \$4,843,736).

The Company's ability to continue as a going concern is dependent upon attaining and sustaining profitable operations and/or obtaining additional financing in order to fund its on-going operations (note 15). 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 containments and general economic conditions.

There is no assurance that the Company will be successful in attaining and sustaining profitable operations and cash flows 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 could be adversely affected.

These consolidated financial statements have been prepared on the basis that the Company will continue to meet its obligations in the ordinary course of business and 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 balance sheet items.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of the Company have been prepared in accordance with Canadian generally accepted accounting principles within the framework of the accounting policies as summarized below.

(a) Basis of Presentation

These financial statements consolidate the accounts of the Company and its wholly-owned subsidiary, AeroMechanical Services USA Inc, Flyht Corp. and Flyht India Corp. These subsidiaries were inactive for the reporting period and currently remain inactive.

(b) Measurement Uncertainty

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from and affect the results reported in these consolidated financial statements as future confirming events occur.

Amounts recorded for stock-based compensation are based on management's estimates of share price volatility and the expected life of the options. By their nature, these estimates are subject to uncertainty and the impact on the consolidated financial statements of future periods could be material.

Amounts recorded for warranty are based on management's estimates of the costs associated with the afirs™ rental assets. Costs of technology up-upgrades and replacing components that are not functioning plus associated costs of travel and staff time have been included in the estimates. By their nature, these estimates are subject to uncertainty and the impact on the consolidated financial statements of future periods could be material.

Amounts recorded for provisions for obsolete inventory are based on management's estimates which consider a variety of factors that may affect the carrying values of inventories. These factors include, but are not limited to, market demand, technology changes and design changes.

(c) Revenue Recognition

The Company's main revenue sources are derived from the rental of afirs™ units and related UpTime™ usage fees and the sale of under floor storage boxes. Revenue from afirs™ is derived from an upfront fee which is recorded as unearned revenue and recognized into revenue over the term of the agreement. 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 under floor storage boxes is recognized when the unit is shipped, title is transferred and collection is reasonably assured.

Certain customers have prepaid for product services not yet delivered. These amounts are recorded as unearned revenue on the balance sheet and are recorded as revenue in the period in which such product or services are delivered.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES Continued

(d) Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided annually at rates calculated to write-off assets over their estimated useful lives as follows:

Computers	30% declining balance
Equipment	20% declining balance
Leasehold improvements	60 months straight-line

(e) Rental Assets

Rental assets are recorded at cost and consist of afirs™ units that are in use in customer aircraft, spare units held by airlines and units available for lease. Amortization is provided for those units that are leased on a straight line basis over 6 years.

(f) Future Income Taxes

The Company uses the liability method to account for income taxes. Future income taxes are calculated based on temporary differences arising between the financial statement carrying values and tax bases of assets and liabilities. Future income tax assets and liabilities are measured using substantively enacted income tax rates expected to apply in the years in which temporary differences are expected to be recovered or settled. Changes in income tax rates that are substantively enacted are reflected in the accumulated future tax balances in the period the change occurs. A valuation amount is recorded against any future income tax assets that substantially consists of non-capital loss carry forwards, if it is more likely than not the asset will not be realized.

(g) Foreign Currency Translation

Transactions denominated in US dollars have been translated into Canadian dollars at the approximate rate of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies have been translated into Canadian dollars at the year end exchange rates. The operations of the Company's foreign subsidiary are considered integrated and therefore its accounts are translated into Canadian dollars under the temporal method of accounting whereby monetary items are translated at exchange rates in effect at the balance sheet date and non-monetary items translated at rates of exchange in effect when assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Exchange gains and losses are included in the consolidated statement of loss and deficit.

(h) Research and Development Costs

Research costs are expensed as incurred. Development costs incurred in the design and development of new products are capitalized if certain defined criteria are met. The criteria for capitalization of development costs is met when the product is clearly identified, the technical feasibility has been established, management has indicated its intention to market the product, the future market is identified and adequate resources exist or are expected to be available to complete the project. Upon commercial production or use of the product, deferred costs will be amortized over the estimated useful life of the product. If the criteria are no longer met, costs for a specific product are charged against earnings. To date, all development costs have been expensed as incurred.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES Continued

(i) Financial Instruments

The Company adopted as of January 1, 2007 the new standards issued by the Canadian Institute of Chartered Accountants ("CICA") regarding the recognition, measurement, disclosure and presentation of financial instruments. Under these standards, financial instruments must be classified into one of five categories: (i) held-for-trading, (ii) held-to-maturity, (iii) loans and receivables, (iv) available-for-sale, and (v) other financial liabilities. The new standards require that all financial instruments within the scope of the standards, including all derivative instruments be recognized on the balance sheet initially at fair value. Subsequent measurement of all financial assets and liabilities – except those in the held-for-trading and available-for-sale categories – must be determined at amortized cost using the effective interest rate method. Held-for-trading financial instruments are measured at fair value with changes in fair value recognized in earnings. Available-for-sale financial instruments are measured at fair value with changes in fair value recognized in comprehensive income until the investment is derecognized or impaired at which time the amounts would be recorded in net earnings.

The adoption of these new standards had no impact on the Company's accounts and deficit position as at December 31, 2007. As a result of the adoption of these new standards, the Company has classified its cash and cash equivalents as held-for-trading, accounts receivable are classified as loans and receivables. Accounts payable and certain accrued liabilities are classified as other liabilities all of which are measured at amortized cost. Carrying values approximate the fair values due to the short term nature of the instruments. The fair value of the loans payable could not be determined as the timing of the repayment are difficult to estimate as they are dependent on future revenues.

(j) Comprehensive Income

The Company also adopted as of January 1, 2007 new standards with respect to comprehensive income. The new standards require a statement of comprehensive income, if there are items that give rise to comprehensive income or loss. The Company did not identify any such items giving rise to comprehensive income or loss in the year ended December 31, 2007, or that would result in an adjustment to opening balances for accumulated other comprehensive income or loss.

(k) Inventory

Inventory is stated at the lower of cost and net realizable value. Management evaluates inventory for obsolescence and charges obsolescence to cost of goods sold. Cost is determined using the first in first out method. Inventories include under floor storage units and general parts which are held pending installation and sale to the customer.

(l) Cash and Cash Equivalents

Cash and cash equivalents consists of deposits in banks, redeemable deposits, Guaranteed Investment Certificates, and short-term investments with initial maturities of three months or less.

(m) Warranty

Provisions for estimated expenses related to product warranties are made at the time products are leased. These estimates are established using historical information relating to the nature, frequency, and average cost of warranty claims.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES Continued

(n) Per Share Amounts

The treasury stock method is used to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money instruments are used to repurchase common shares at the average market price for the period.

The weighted average number of shares outstanding during the year was 64,304,464 (2006 – 45,085,226).

(o) Stock-based Compensation

The Company has an executive stock compensation plan and a stock option plan for directors, officers, employees and consultants of the Company. The executive stock compensation plan provides for direct grants of stock to the Company's officers. Under the terms of the stock option plan, the options shall be granted at an exercise price not less than market price of the stock on the date of issuance, less a discount up to a percentage permitted by the rules and policies of the stock exchange.

The Company records compensation expense in the consolidated statement of loss and deficit for stock options using the fair value method. Compensation costs are recognized over the vesting are determined using the Black-Scholes option pricing model.

(p) Intangible Assets

Intangible assets are stated at cost and are comprised of a license. The license has an indefinite life. Intangible assets are subject to an annual impairment test or more frequent if events or changes in circumstances indicate that the carrying value may not be recoverable.

(q) Deferred Leasehold Inducements

Leasehold inducements are deferred and amortized against rent expense on a straight-line basis over the term of the lease. When a lease interest is abandoned, the balance of the leasehold inducement is offset against the lease buyout cost or rent expense during the applicable period.

(r) New Accounting Standards Effective January 1, 2008

The Company will adopt new accounting standards relating to inventory and disclosure and presentation of financial instruments. Management does not anticipate that these new standards will have a material impact on the Company's financial statements.

(s) Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

NOTE 3 PROPERTY AND EQUIPMENT

	Cost	Accumulated Depreciation	Net Book Value
2007			
Computer	\$ 331,950	\$ 197,578	\$ 134,372
Equipment	153,376	57,469	95,907
Leasehold improvements	79,369	56,822	22,547
	\$ 564,695	\$ 311,869	\$ 252,826
2006			
Computer	\$ 256,072	\$ 153,136	\$ 102,936
Equipment	113,714	40,351	73,363
Leasehold improvements	77,689	29,344	48,345
	\$ 447,475	\$ 222,831	\$ 224,644

Included in computer and equipment are capital leases with a net book value of \$39,627 (2006 – \$38,213).

NOTE 4 RENTAL ASSETS

	Cost	Accumulated Depreciation	Net Book Value
2007			
Leased assets	\$ 705,942	\$ 172,246	\$ 533,696
Assets available for lease	591,118	143,400	447,718
	\$ 1,297,060	\$ 315,646	\$ 981,414
2006			
Leased assets	\$ 400,560	\$ 89,497	\$ 311,063
Assets available for lease	479,233	21,600	457,633
	\$ 879,793	\$ 111,097	\$ 768,696

In 2007, it was determined that certain rental assets in the amount of \$122,400 (2006 – nil) were obsolete. These rental assets have been charged against income on the consolidated statements of loss and deficit.

NOTE 5 DEFERRED LEASEHOLD INDUCEMENTS

	2007	2006
Balance, beginning of year	\$ 29,655	\$ -
Additions		37,640
Amortization	(13,687)	(7,985)
Balance, end of year	15,968	29,655
Less: current portion	(13,687)	(13,687)
	\$ 2,281	\$ 15,968

NOTE 6 LOANS PAYABLE

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.

	2007	2006
	\$ 330,966	\$ 349,066

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.

	2007	2006
	104,523	123,635
	\$ 435,489	\$ 472,701
Less: current portion	(52,810)	(120,742)
	\$ 382,679	\$ 351,959

NOTE 7 BANK LOAN

Operating demand loan is available to the Company up to a maximum of \$250,000 (2006 – \$250,000). The operating demand bears interest at Canadian chartered bank prime plus 1.0%. The operating demand loan and other revolving credit facilities are secured by an assignment of cash collateral in the amount of \$284,500 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, 2007, the facility has not been drawn.

NOTE 8 OBLIGATIONS UNDER CAPITAL LEASE

The Company is party to various capital leases for computer hardware and software that expire in 2009. Future minimum lease payments under the capital leases are as follows:

	2007	2006
2008	\$ 29,400	\$ 23,202
2009	16,275	21,801
2010	4,003	8,780
	49,678	53,873
Less: imputed interest	(7,847)	(10,650)
Less: current portion	(23,681)	(16,105)
	<u>\$ 18,150</u>	<u>\$ 27,028</u>

NOTE 9 SHARE CAPITAL

a) Authorized

Unlimited numbers of:

Common shares

Classes A, B and C preferred shares, issuable in series

The preferred shares may be issued in one or more series and 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.

b) Issued and Outstanding

	Number of Shares	Value
Common Shares		
Balance December 31, 2005	\$ 27,849,007	\$ 7,975,377
Issued for cash	24,868,959	8,751,430
Issued on settlement of debt	5,450,227	1,672,793
Exercise of employee options	320,630	103,383
Contributed surplus from exercise of employee options	-	18,347
Share subscription receivable	-	(9,090)
Share issue costs	-	(1,459,958)
Balance December 31, 2006	58,488,823	17,052,282
Issued for cash	6,519,467	2,929,180
Exercise of employee options	1,259,993	430,966
Contributed surplus from exercise of employee options	-	290,632
Exercise of warrants	6,452,339	3,223,470
Contributed surplus from exercise of warrants	-	179,908
Share subscription receivable	-	9,090
Share issue costs	-	(122,884)
Balance December 31, 2007	<u>\$ 72,720,622</u>	<u>\$ 23,992,644</u>

NOTE 9 SHARE CAPITAL Continued

(b) Issued and Outstanding (continued)

- (i) In 2006, the Company issued 8,543,959 units at \$0.26 per unit for cash proceeds of \$2,221,430 and net cash proceeds, net of all issuance costs, of \$1,993,437. Each unit consists of one common share and one-half of one purchase warrant. One whole warrant may be exercised into one common share at a price of \$0.40 and the warrants expire on February 9, 2008. The warrants are subject to an acceleration clause whereby if the Company's common share price is equal to or greater than \$0.50 for a period of 10 consecutive trading days, the Company may notify all warrant holders and issue a press release causing the warrants to be exercised within 30 days of the date of the press release, failing which the warrants expire.
- (ii) In 2006, the Company issued 16,250,000 units at \$0.40 per unit for cash proceeds of \$6,500,000 and net cash proceeds, net of all issuance costs, of \$5,942,031. Each unit consists of one common share and one-half of one purchase warrant. One whole warrant may be exercised into one common share at a price of \$0.60 if exercised on or before September 1, 2007 and at a price of \$0.75 if exercised prior to September 1, 2008.

(c) Stock Option Plan

The Company grants stock options to its directors, officers 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, 2007, there were 7,272,062 (2006 – 5,848,882) common shares reserved for this purpose. All options vest immediately at the grant date with the exception of 150,000 performance options granted to employees during the year. 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 option grants, as at December 31, 2007 and December 31, 2006 and changes during the years are presented below:

	2007		2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	2,426,995	\$ 0.33	1,333,720	\$ 0.42
Granted	1,139,000	0.65	1,580,000	0.28
Exercised	(1,259,993)	0.34	(320,630)	0.29
Cancelled/expired	(70,334)	\$ 0.57	(166,095)	\$ 0.55
Outstanding, end of year	<u>2,235,668</u>	<u>\$ 0.50</u>	<u>2,426,995</u>	<u>\$ 0.33</u>
Exercisable, end of year	<u>2,119,002</u>	<u>\$ 0.48</u>	<u>2,426,995</u>	<u>\$ 0.33</u>

Of the options outstanding 116,666 are not vested or exercisable at December 31, 2007 since performance conditions had not yet been met.

NOTE 9 SHARE CAPITAL Continued

Range of Exercise Price	Options Outstanding		
	Number Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price
\$0.21 to \$0.70	2,235,668	2.2	\$ 0.50

Range of Exercise Price	Options Exercisable		
	Number Outstanding	Weighted Average Contractual Life (years)	Weighted Average Exercise Price
\$0.21 to \$0.70	2,119,002	2.2	\$ 0.50

The weighted average fair market value of the options granted during the year was \$0.65 (2006 – \$0.28) per option. The fair value of the options granted was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2007	2006
Risk-free interest rate	4.6%	3.9%
Expected life (years)	2.6	2.9
Volatility in the price of the Company's common shares	190%	197%
Dividend yield rate	0.00%	0.00%

(d) Contributed Surplus

	2007	2006
Balance, beginning of year	\$ 1,379,322	\$ 268,187
Finder fee warrants exercised	(179,908)	673,497
Employee stock options exercised	(290,632)	(18,347)
Stock based compensation	525,252	455,985
Balance, end of year	<u>\$ 1,434,034</u>	<u>\$ 1,379,322</u>

NOTE 9 SHARE CAPITAL Continued

(e) Warrants

A summary of the Company's outstanding warrants and changes during the years are presented below:

	2007		2006	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding, beginning of year	17,136,376	\$ 0.51	3,046,497	\$ 0.45
Finder fee granted	-	-	780,681	0.26
Granted	-	-	4,271,982	0.40
Granted	-	-	8,125,000	0.60
Finder fee granted	-	-	1,304,396	0.60
Exercised	(6,452,339)	0.49	(75,000)	0.40
Expired	(1,148,077)	0.45	(317,140)	0.65
Outstanding, end of year	<u>9,535,960</u>	<u>\$ 0.52</u>	<u>17,136,376</u>	<u>\$ 0.51</u>

The 14,482,059 warrants issued in 2006 entitle the holder to acquire one common share of the Company at prices ranging from \$0.40 to \$0.75. Of the issued warrants 9,429,396 were issued with escalating exercise price of \$0.60 until September 1, 2007 and \$0.75 until September 1, 2008. Of the remaining warrants, 2,521,500 warrants expire February 9, 2008, 2,531,163 warrants expire March 7, 2008, the 9,429,396 expire on September 1, 2008.

The fair value of these warrants were \$3,951,389 or \$0.32 per warrant. The fair value of these warrants were estimated using the Black-Scholes option pricing model with average risk-free interest rate of 3.9%, expected life of 1.7 years, volatility in the price of the Company's common shares of 202% and dividend yield of 0.00%. The fair value attributed to the warrants has not been bifurcated from the value of the units issued. As such, the full value of the units issued has been allocated to share capital.

Finder fee warrants are accounted for as a charge to share issuance costs and a credit to contributed surplus (Note 9 (e)). The fair value of the finder fee warrants were estimated using the Black-Scholes option pricing model with a weighted average risk-free interest rate of 3.9%, expected life of 1.7 years, volatility in the price of the Company's common shares of 202%, and a dividend yield rate of 0.00%.

NOTE 10 COMMITMENTS

The Company is party to various leases for its operating premises and equipment. Future minimum annual payments under these operating leases are as follows:

2008	\$ 240,205
2009	68,481
2010	13,896
2011	11,580
	<u>\$ 334,162</u>

NOTE 11 RELATED PARTY TRANSACTIONS

During the year, the Company had normal course business transactions with related parties, all of which were measured at the exchange amounts, that being the amount of consideration established and agreed upon by the related parties and approximates fair market value.

During 2006 the Company had the following transactions with related parties, all of which were measured at the exchange amounts, that being the amount of consideration established and agreed upon by the related parties and approximates fair market value.

- (a) The Company issued 3,532,899 common shares to officers and directors of the Company at \$0.30 per share in settlement of debt of \$1,059,870.
- (b) The Company issued 617,500 units to officers and directors of the Company at \$0.26 per unit for cash proceeds of \$160,550. Each unit consists of one common share and one-half of one purchase warrant. Each whole warrant may be exercised into one common share at a price of \$0.40 and the warrants expire on February 9, 2008. The warrants are subject to an acceleration clause whereby if the Company's common share price is equal to or greater than \$0.50 for a period of 10 consecutive trading days, the Company may notify all warrant holders and issue a press release causing the warrants to be exercised within 30 days of the date of the press release, failing which the warrants expire.

NOTE 12 INCOME TAXES

- (a) The income tax expense differs from the amounts which would be obtained by applying the expected Federal and provincial income tax rate of 32.12% (2006 – 32.49%) as follows:

	2007	2006
Computed "expected" tax (recovery)	\$ (2,206,102)	\$ (1,474,950)
Non-deductible expenses	20,676	11,397
Stock-based compensation	168,711	148,150
Rate change and other	823,123	645,403
Valuation allowance and other	1,193,592	670,000
	<u>\$ -</u>	<u>\$ -</u>

NOTE 12 INCOME TAXES Continued

- (b) The components of the Company's future income tax assets are as follows:

	2007	2006
Capital assets	\$ 148,108	\$ 92,012
Intangibles	51	56
Warranty liability	3,607	3,485
Non-capital loss carry-forwards	4,709,586	3,874,612
Share issue costs	192,018	255,857
Scientific research and experimental development expenditures	648,953	283,437
Other	4,161	(2,316)
Valuation allowance	(5,706,484)	(4,507,143)
	<u>\$ -</u>	<u>\$ -</u>

- (c) The Company has non-capital losses for income tax purposes of approximately \$18,072,288 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. These losses will expire as follows:

2008	211,463
2009	561,577
2010	1,715,370
2014	2,570,288
2015	2,419,758
2026	4,258,514
2027	6,335,318
	<u>\$ 18,072,288</u>

NOTE 13 FINANCIAL INSTRUMENTS

(a) Foreign Currency Risk

The Company is exposed to fluctuations in the exchange rates between the Canadian dollar, and other currencies with respect to assets, sales and purchase. The fluctuations are expensed as incurred. The Company monitors fluctuations and takes action, if deemed necessary, to mitigate its risks.

(b) Credit Risk

Accounts receivable include amounts receivable for normal terms and extended terms, which are generally made to credit worthy purchasers. The Company is exposed to losses in the event of non-performance by counter-parties to these financial instruments.



NOTE 14 SUPPLEMENTAL CASH FLOW INFORMATION

	2007	2006
Change in Non-Cash Working Capital		
Accounts receivable	\$ (330,123)	\$ (76,731)
Prepaid expenses	(116,884)	(180,732)
Inventory	(1,381,597)	(145,001)
Accounts payable and accrued liabilities	722,446	(611,693)
Unearned revenue	527,972	144,235
Deferred lease inducement	(13,687)	-
	\$ (591,873)	\$ (869,922)
Taxes paid	-	-
Interest earned	\$ 85,132	\$ 4,798
Cash and Cash Equivalents		
Cash in bank	\$ 430,187	\$ 122,889
Guaranteed investment certificates	1,515,500	2,565,500
	\$ 1,945,687	\$ 2,688,389

NOTE 15 SUBSEQUENT EVENT

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

Since December 31, 2007 the Company issued 4,476,597 common shares on the exercise of warrants for cash proceeds of \$ 1,767,411 and 481,000 common shares on the exercise of stock options for cash proceeds of \$135,360.

NOTE 16 CONTINGENCIES

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

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

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

Directors

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

Officers

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

Auditor

KPMG LLP	Calgary, Alberta
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Legal Counsel

Chris Croteau	Tingle Merrett LLP
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Offices

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US Office	Suite 130-310, 2951 Marina Bay Drive League City, TX 77573

Members of Audit Committee

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

Members of Compensation Committee

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



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235.27	-7.93	(3.12%)
928.10	+3.03	(0.32%)
38.23	+0.34	(0.89%)
4.23	+0.00	(0.00%)
46.02	-3.23	(-7.02%)
47.38	+3.98	(8.41%)
74.32	-3.21	(-4.31%)
2,494.87	-0.32	(-0.01%)
2.48	+9.73	(392.34%)
332.45	+2.09	(0.63%)
86.39	+3.03	(3.51%)
4.21	+0.34	(8.08%)
132.09	+0.00	(0.00%)
33.83	+2.23	(6.60%)
57.92	-2.23	(-3.85%)
23.33	-2.21	(-9.47%)
832.98	+3.98	(0.48%)
73.12	0.00	(0.00%)
833.22	0.00	(0.00%)
8,212.30	0.00	(0.00%)
3.00	+9.73	(326.33%)
83.12	+2.00	(2.41%)
63.98	+9.73	(15.36%)
234.22	+0.32	(0.14%)
2.32	-0.21	(-9.05%)
24.13	+3.33	(13.79%)
74.75	+0.32	(0.43%)
89.43	+4.10	(4.58%)
92.42	+0.43	(0.46%)
9329.32	+3.03	(0.03%)
23.32	+0.34	(1.46%)
928.10	+0.00	(0.00%)
38.23	+3.23	(8.45%)

