



AeroMechanical Services Ltd.

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2009 3rd Quarter Report

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AMA on TSX

LETTER TO THE Shareholders

Dear Shareholders,

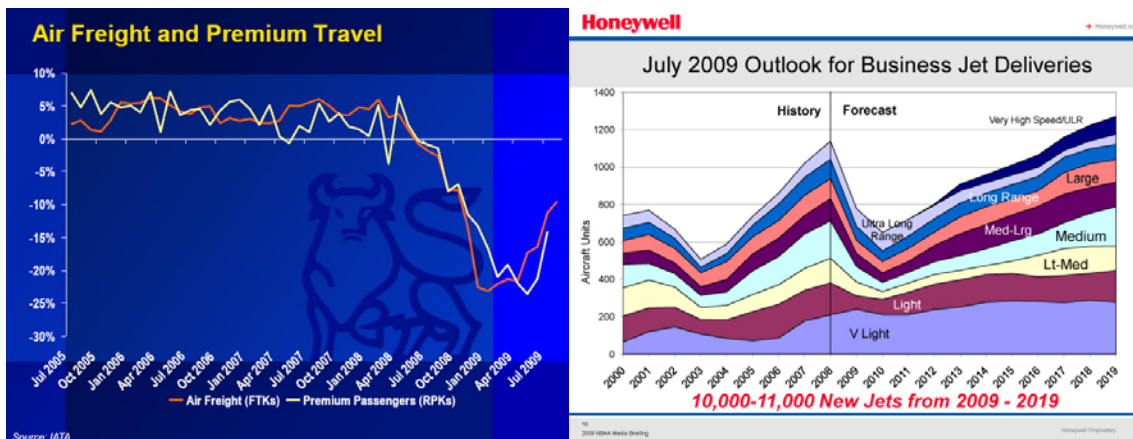
With this letter, I can reflect on a full year of having had the privilege of leading AeroMechanical Services Ltd. (“AMA”), and provide some insight into what lies ahead.

Simply put, the past year has been an exciting and challenging period that has seen AMA establish itself as a clear global leader in the emerging field of aircraft-to-end-user communication of timely information that improves operational efficiencies, reduces costs, and contributes to safety enhancements. We have accomplished this in several ways:

- Focus on our customers’ needs by delivering on our promises
- Process improvements and cost containment
- Leadership improvements
- Strategic partnerships with Sierra Nevada Corporation (“SNC”), L-3 Communications (“L-3”), and GuestLogix Inc.
- Investment in a unique fuel management capability that operators are demanding

While our current results are not where we want them, we are managing through the global economic downturn and remaining committed to executing the key elements of a strategy that will move us from the “startup” / early stage framework toward being a major factor with larger fleet operators, OEMs (aircraft manufacturers), and the military.

As you consider this report, it is relevant to understand the market environment that we have been operating in for the past year.



The figure on the left shows the month-to-month change in two leading indicators of demand for the services of our primary customer base - the airline, charter, and freight operators. The unprecedented drop in air transport demand from Q4 2008 through Q3 2009 is directly correlated to the challenges we have had in booking new orders as operators have effectively shut off capital spending until their revenues and cash recover. The good news is that the trend has now turned back toward an industry recovery, and we have positioned ourselves to close business with numerous operators when their spending environments improve. The chart on the right shows the dramatic impact of the recession as felt by the business aviation manufacturing segment. In 2008, new aircraft deliveries were at an all time high, spurred by corporate profits and the increasing globalization of the economy with the attendant need for executive travel. The combination of the global recession and the unfortunate adverse publicity generated when US auto executives flew their corporate aircraft to Washington to seek taxpayer bailouts of their companies have combined to cause delivery cancellations or delays that will take years to recover. However, we are seeing that demand for business aircraft travel remains high and we are engaged with two of the largest fleet operators in the world, including an in-service evaluation that we believe will lead to a significant fleet order in the future. The regulatory requirements on business aviation are increasing and we are well positioned to be the pioneer in business aircraft global information, tracking, and communications.

Turning to some specifics of Q3 2009, the 3rd quarter is historically slow and was made worse by our expected shipments to a Mid-East airline customer being delayed by a local certification process, while 2 new orders expected from Africa were delayed by different local issues. All of these situations are recoverable in the very near future. We did book and ship to a US charter carrier and several current customers added afirs to their fleets. We obtained our first supplemental type certificate (“STC”) on a business aircraft and are beginning an in-service evaluation with a key customer, and we received an IRAP grant approval from the Canadian National Research Council to support the development of our fuel management products. We responded to the tragic events of Air France 447 by investing in a highly successful demonstration of our unique data streaming technology on customer in-service aircraft, which then led directly to meetings with key manufacturers and became a major contributor to the closing of our strategic partnership with L-3, the largest “black box” provider in the world. Another unplanned event that we also responded to was the Chapter 7 bankruptcy of a former competitor, Wingspeed Corporation, which occurred in August. We successfully bid to acquire the assets of Wingspeed, which included contracts with 5 airlines for up to 161



LETTER TO THE Shareholders

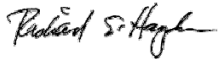
installations (51 actually in service) and some advanced technology that we expect to incorporate into future products. This unique opportunity to grow our customer base during difficult times was seen by Management as critical, despite increasing the short-term demand on our financial and human resources. The L-3 agreement, which actually closed in Q4, is very significant as it aligns us with the world's leading provider of aircraft data recorders (black boxes) and provides us access to a global sales force and a substantial customer base, most notably the original equipment manufacturers (OEMs) who specify all mandatory and optional equipment to be included on their production of new aircraft. Finally, our partnership with Sierra Nevada Corporation is progressing in the areas of product development, to which SNC has contributed a significant amount of human and financial resources, and in the military marketing arena, where programs with major US military customers are being formulated and advanced through the review and funding processes.

No review would be complete without a note on China. First, China's aviation industry has not escaped the effects of the global recession, as demand there has been down to a degree similar to the global industry averages. However, we believe that we see a positive change in the nature of the dialogue with individual Chinese airlines and the Civil Aviation Authority of China has granted AMA another verified supplemental type certificate ("VSTC") for the Boeing 757, thus allowing the many airlines who operate the 757 to select afirs™UpTime™. It was also specific interest from a Chinese airline that led to the culmination of our strategic partnering agreement with GuestLogix to use afirs UpTime to support the validation of in flight credit card transactions. Finally, we note that L-3 has a significant presence with several key Chinese airlines. AMA is still where it was last quarter in terms of actual deliveries, but remains committed to and cautiously optimistic about this significant emerging market.

Since the end of the third quarter, AMA has been successful in raising \$9,676,000 through two placements. The first placement of \$1,676,000 was completed to fund the purchase of the Wingspeed assets and the second, \$8,000,000, placement will be used to complete the development of AMA's follow on product, the afirs 228. This product is key to delivering the tools that AMA's customers need to meet the changing air traffic control rules as well as allowing for increased inputs and outputs than the current version. The enhanced product will take full advantage of all the software and majority of the hardware design in the current afirs 220 but will have improved computing power, increased communications capabilities and will meet the needs of the aviation industry for the next several decades. AMA has customers committed to using this enhanced technology and know that AMA will be the leader in this technology for many years to come.

Thank you for your support and loyalty during challenging times. Our team is committed to managing through the rough waters and delivering on the promise of AMA.

Yours truly,



Richard Hayden, President



Management Discussion and Analysis

This management discussion and analysis (“MD&A”) is as of November 25, 2009 and should be read in conjunction with the unaudited interim consolidated financial statements of AeroMechanical Services Ltd. (“AMA or the Company”) for the three and nine months ended September 30, 2009 and the accompanying notes. Additional information with respect to AMA can be found on SEDAR at www.sedar.com which is supplemental to the unaudited interim consolidated financial statements and notes for the three and nine month periods ended September 30, 2009.

Overview

AMA is a designer, developer and service provider of patented innovative solutions to the global aerospace business. The Company's solutions are designed to improve the productivity and profitability of our customers' assets.

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

Non-GAAP Financial Measures

The Company reports its financial results in accordance with generally accepted accounting principles (GAAP). It also occasionally uses certain non-GAAP financial measures, such as working capital, modified working capital and cash revenue. AMA defines working capital as current assets less current liabilities. The Company defines modified working capital as current assets less current liabilities not including customer deposits or the current portion of unearned revenue. AMA defines cash revenue as financial statement revenue plus arrangement consideration received during the period that has not yet been recognized as revenue in the period due to the required revenue recognition criteria not yet being satisfied. These non-GAAP financial measures are always clearly indicated. The Company believes that these non-GAAP financial measures provide investors and analysts with useful information so they can better understand the financial results and perform a better analysis of the Company's growth and profitability potential. Since non-GAAP financial measures do not have a standardized definition, they may differ from the non-GAAP financial measures used by other companies. The Company strongly encourages investors to review its financial statements and other publicly filed reports in their entirety and not rely on a single non-GAAP measure.

Looking Forward

The Company continues to improve and expand its products and services, develop its sales network around the world, and improve its delivery capacity and productivity.

During the third quarter, the Company experienced the seasonal reduction in the ability of customers to complete installation due to the summer demand on aircraft fleets coupled with a local certification issue with a middle eastern customer. This resulted in customer payment or shipment for 5 kits during the quarter.

In addition, the Company is introducing value-added information products and specialty services that can build customer value and AMA revenues from the existing installations as well as new ones. Three areas of concentration have been the addition of essential flight data recorder data streaming, fuel management program and related product enhancements, and fee-for-service consulting services. The Company views these initiatives as enhancing the value added to the industry and strengthens the monthly recurring revenue base.

Various strategic relationships with leading organizations leverage our marketing capability world wide. These organizations have completed their due diligence on AMA's product and service capabilities. The teaming and seller agreement with L-3 Communications (“L-3”) gives AMA access to the sales network of the industry leading manufacturer of flight data recorders (black boxes). The L-3 agreement will allow AMA and L-3 to market and sell a bundled solution to the airline industry and AMA will be the exclusive provider to L-3 of Iridium based real time solutions. The license and manufacturing agreement with Sierra Nevada Corporation (“SNC”) gives SNC the right to manufacture the Company's afirs product and market the afirs UpTime technology and products to the global military market. These agreements, in addition to AMA's continuing strategic relationship with Meggitt plc (MGGT:L), provides AMA with a higher standard of credibility within the global aviation community and access to prime contracts and airframe manufacturers.

The acquisition of the assets of a competitor, Wingspeed Corporation (“Wingspeed”), on October 26th, 2009 and the assumption of 5 customer contracts with an installation base of 51 aircraft should increase the monthly recurring revenue base once those customers' service is restored. AMA does not expect to initially experience the same level of monthly recurring revenue as existing AMA customers since the Wingspeed serviced customers have contracted for a considerably lower level of deliverables. The Company does see the potential to sell value added services to the existing Wingspeed customers.



Management Discussion and Analysis

Results of Operations – Three Months Ended September 30, 2009

Revenue

The afirs and UpTime revenue as well as other revenue which consists of consulting services, license fees, and interest revenue are producing the results forecasted. The Company's long term investment in marketing and relationship building has given the Company a strong pipeline of prospective clients around the world. The ongoing revenue streams from our existing client base will continue to expand throughout this and future years. The installation delays associated with customers' decisions to install afirs during heavy maintenance continue to delay revenue recognition but represents captive long term recurring revenue.

The Company has two revenue streams: (1) leases and (2) sales depending on the type of service agreements. In accordance with the Company's revenue recognition policy for lease type agreements, the arrangement consideration is deferred as unearned revenue and revenue is recognized over the initial term of the contracts. In the early stages of the Company's growth this will result in less recognized revenue than cash received. For sales type agreements, afirs fees are deferred as unearned revenue and corresponding expenses are recorded as work in progress. When the system is fully functional and the customer has accepted the system, the deferred amount is fully recognized in revenue along with the work in progress as cost of sales. For the SNC license fee, the amount received is deferred as unearned revenue and revenue will be recognized over the initial 5 year term of the agreement. The amounts recorded in unearned revenue are non-refundable.

The effect in the quarter is that AMA received \$1,133,796 in cash revenues with \$1,521,894 reported as revenue and a reduction in unearned revenue of \$388,097, which compares to \$1,498,481 in cash revenue in the third quarter of 2008 with \$789,993 reported as revenue and \$708,488 being added to unearned revenue.

Revenue increased \$731,900 in the third quarter compared to the third quarter of last year. afirs Uptime revenues increased by \$905,500 over the third quarter of 2008 as the result of increased monthly recurring revenue and recognition of sales type agreements. Product sales revenue increased by \$23,550 as a result of increased sales of Under Floor Stowage Units when compared to the third quarter of 2008. Services revenue and interest decreased \$197,150 over the third quarter of 2008 due to reduced level of billable engineering services especially two large projects in the third quarter of 2008 which totaled \$119,481.

Revenue is expected to continue to grow at a higher rate than costs because the Company has the infrastructure, sales people, and support organization in place to support the continued revenue growth. The industry recognition of the afirs UpTime product innovation has allowed AMA to continue to be active at several leading industry events. This shows that AMA's products and services are being recognized as leading edge in this industry. In addition, the Company continues to grow its service offerings such as essential flight data recorder data streaming and fuel management which will increase both monthly recurring and one-time services revenue.

Cost of Sales and Gross Margins

AMA's cost of product sales includes the direct cost of the afirs kit, installation, and training support labour as well as associated travel and shipping expenses. Installations on aircraft are performed by third parties at the customers' expense. Fuel management consulting costs are primarily labour and travel related. The percentage cost of sales in the third quarter of 2009 is 54.4% compared to 33.0% in 2008. This increase is due to the fluctuation between quarters in the mix of revenue from installations with a higher percentage of costs to revenue to license and engineering fees with no directly related costs. As we move forward with more clients and the corresponding recurring revenue streams, we will see the cost of sales continue to decline and our margins increase as well as become more stable.

The gross margin comparison for the past eight quarters is 45.6% for Q3 2009 compared to 65.8% for Q2 2009, 51.5% for Q1 2009, 38.17% for Q4 2008, 67.0% for Q3 2008, negative gross margin of 19.5% for Q2 2008, 14.7% for Q1 2008 and 41.1% for Q1 2007.

Net Loss, General Administrative and Marketing Expenses

The net loss in the quarter ending September 30, 2009 was \$717,268 compared to a loss of \$1,814,010 in the same quarter of 2008, which is a decreased loss of \$1,096,742. This decrease is primarily due to increased sales of \$731,900 coupled with increased cost of sales of \$566,501, decreased salaries and benefits of \$235,070, decreased general and administration of \$118,957, decreased marketing expenses of \$147,553, decreased research and development of \$333,949, decreased stock based compensation of \$72,933, decreased foreign exchange loss of \$48,645 and increased bad debts of \$26,759.

Marketing expenses decreased by \$147,553 to \$92,622 over the third quarter in 2008. These figures do not include salaries, and are indicative of the focus of the sales and marketing team on the use of technology to meet the needs of potential customers while minimizing the costs associated with marketing to the global aviation industry. Further, the addition of agents in key markets has reduced the need for North American based sales personnel to travel as extensively. We expect that expenses in marketing will increase into the future as the Company's focus is on generating new customers. Our plans are to continue to attend trade shows globally that focus on marketplaces that we want our products and services to penetrate. As our products and services are very specialized, attendance at these shows is mandatory as traditional advertising by itself does not yield significant results. The costs of these shows are relatively high because of the specific nature of these shows that are consistently held in distant locations that require long distance travel. In addition, promotion of the product line to potential customers benefits from face to face meetings to build the confidence of, and the relationship with, future customers. This creates the need for travel of senior staff to close the agreement.

Salaries continue to be the main cost of doing business for AMA. We provide sophisticated technical products and services that our customers rely on for timely support of their fleets. A highly-qualified and motivated staff, scaled to the size of the customer base, is essential in meeting these expectations and achieving a reputation of dependability in the industry to facilitate our growth. The Company maintains staffing levels to meet these objectives. As a result of consolidation of functions and operational efficiencies, salaries and benefits decreased from \$1,237,355 in the third quarter of 2008 to \$1,002,285 in the third quarter of 2009.

Stock based compensation in the third quarter of 2009 was \$18,733 versus \$91,666 in the corresponding period of 2008 due to 100,000



Management Discussion and Analysis

options being granted at a fair value of \$0.19 versus 250,000 at a fair value of \$0.36 in the third quarter of 2008.

General and administrative expenses decreased \$118,957 in the third quarter of 2009 to \$222,634 compared to \$341,591 in the same quarter of 2008. The decrease was primarily the result of a reduction in legal fees related to the patent actions that AMA was defending.

All other expenses are tracking to budget as planned.

Research and Development

Research and development costs are being expensed as incurred. The third quarter development costs for 2009 were \$10,521 as compared to \$344,470 in 2008, a decrease of \$333,949, which is a result of decreased direct research and development activities in the quarter versus the previous year. The quarterly fluctuation is related to the Company's ongoing design, testing, and certification of afirs, and the design and testing UpTime, FIRST, Fuel MI, and FLYHTStream. There are also minor expenses being incurred in the preliminary phases of AeroQ™. These quarterly fluctuations will continue as AMA adjusts its research and development activities to both industry requirements and internal resources.

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. The strength of the Canadian dollar and the fact that a majority of the Company's accounts receivable are denominated in United States dollars would have resulted in foreign exchange losses but purchases of U.S. dollar denominated services and supplies offsets these losses resulting in a foreign exchange gain of \$23,696 in the third quarter of 2009 as compared to a foreign exchange loss of \$24,949 for the same period in 2008.

Summary of Quarterly Results

	Q4-07	Q1-08	Q2-08	Q3-08	Q4-08	Q1-09	Q2-09	Q3-09
Revenue (cash)	\$ 640,941	\$ 608,842	\$ 1,210,833	\$ 1,498,481	\$ 1,934,462	\$ 2,828,469	\$ 2,783,947	\$ 1,133,796
Revenue (GAAP)	365,680	398,067	596,263	789,994	1,392,671	1,253,932	1,324,004	1,521,894
Loss	2,387,162	2,087,512	2,709,237	1,814,010	1,912,469	1,299,036	1,333,969	717,268
Loss/Share	\$ 0.04	\$ 0.03	\$ 0.03	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.01

Results of Operations – Nine Months Ended September 30, 2009

Revenue

Revenues increased by \$2,315,507 in the first nine months compared to the same period of 2008. afirs Uptime revenues increased by \$2,365,645 over the same nine month period of 2008. Product sales revenues decreased by \$7,923 and license fees and interest decreased by \$42,215 compared to the corresponding nine month period of 2008. Cash revenue for the first nine months of 2009 was \$6,746,212 compared to \$3,318,156 in the same period of 2008, an increase of \$3,428,056.

Cost of Sales and Gross Margins

Percentage Cost of Sales in the first nine months of 2009 is 46.1% of sales compared to 73.6% in the same period of 2008. This decreased cost of sales is due to increased afirs Uptime revenue during the nine month period and the ability of AMA to keep costs relatively constant while revenues increase. This has resulted in a gross margin in the first nine months of 2009 of 53.9% versus 26.4% in the same period of 2008.

Net Loss, General Administrative and Marketing Expenses

The net loss in the nine month period ending September 30, 2009 was \$3,350,273 compared to a loss of \$6,610,759 in the nine month period of 2008, which is a decreased loss of \$3,260,486. This decrease is primarily due to the increased in revenue in 2009 coupled with decreased salaries and benefits of \$537,999, decreased marketing expenses of \$496,812, decreased stock-based compensation of \$344,019, decreased general and administration expenses of \$136,762, decreased research and development of \$46,097, increased bad debts of \$60,626, and increased foreign exchange currency loss of \$6,329. The overall decrease in expenses during the first nine months ended September 30, 2009 versus the corresponding nine month period of 2008 is the result of initiatives begun in 2008 to reduce the overall costs while increasing revenue. The decrease in salaries and benefits as well as marketing is the result of initiatives begun in 2008. The decrease in general and administration is the result of the initiatives begun in 2008 and the reduction of legal expenses related to legal actions that AMA was defending. Stock based compensation decreased due to an increased number of options being granted at reduced average fair market values. The increase in bad debts is the result of management's assessment of the collectability of accounts in excess of 90 days. While no customers have indicated that payment will not be forwarded, AMA determined that an allowance was warranted. The increase in foreign exchange loss during the nine month period is the result of fluctuations in the exchange rate between the Canadian and US dollars.



Management Discussion and Analysis

Research and Development

Research and development costs for 2009 were \$441,052 as compared to \$487,149 in 2008, a decrease of \$46,097, which is a result of a consistent level of direct research and development activities during the first nine months of the year versus the previous year. There will be fluctuations related to the Company's ongoing design, testing, and certification of afirs, the design and testing of UpTime to add aircraft types to its approved installation list and the addition of service offerings such as FIRST, Fuel MI and FLYHTStream. Fluctuations will continue as the research and development activities are adjusted to meet contractual obligations and the ongoing needs of the aviation industry. There are also minor expenses being incurred in the preliminary phases of AeroQ.

Foreign Exchange

During the nine month period ended September 30, 2009, the foreign exchange loss was \$42,824 versus a foreign exchange loss of \$36,495 during the same nine month period of 2008. This difference is the result of fluctuations of the exchange rate between the Canadian and US dollars during the first nine months of 2009 versus the same period of 2008.

Liquidity and Capital Resources

At September 30, 2009 the Company had a working capital deficit of \$303,458 compared to a positive working capital of \$3,975,473 in the same period of 2008, a decrease of \$4,278,624. The decrease in the working capital is attributed primarily to a decrease in cash of \$2,166,319, decreased accounts receivable of \$178,434, decreased prepaid expenses of \$23,144 decreased inventory of \$111,001, increased accounts payable of \$653,350, increased current portion of unearned revenue of \$1,078,145 and an increase in the current portion of obligation under capital leases of \$74,711. The remaining increase in working capital of \$6,480 is the result of changes in other working capital components during the quarter.

The increased payables is due to customer deposits at September 30, 2009 totaling \$695,457 compared to \$268,050 in the same period of 2008, an increase of \$427,407. As well, the current portion of unearned revenue increased \$1,078,145 to \$1,426,695 at September 30, 2009. Neither the customer deposits nor current portion of unearned revenue are refundable and if they were not included in the working capital calculation, the resulting modified working capital at September 30, 2009 would be \$1,818,694 compared to \$4,591,766 in the same period of 2008.

The Company's ability to continue is dependent upon attaining and sustaining profitable operations and obtaining additional financing in order to fund its working capital requirements and on-going operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors, including its ability to acquire new customer contracts, the success of management's continued cost controls and general economic conditions.

The Company currently has no bank debt and has an operating line of \$250,000 which as at September 30, 2009 had a balance outstanding of \$130,738. 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.

Subsequent Events

On October 8, 2009 the Company completed a non-brokered private placement of 4,175,000 shares at \$0.40 per share for net proceeds of \$1,670,000.

The Company purchased the assets of Wingspeed Corporation on October 26, 2009 for a purchase price of USD \$250,000. The purchase included but was not limited to the assumption of 5 customer contracts, all intellectual property, tangible personal property, inventory, licenses and permits, product documentation, files, FAA Part 145 repair station status, and title and interest to intellectual property and technology.

On November 2, 2009 the board of directors approved the grant of 330,000 stock options at \$0.50 per option under the terms of the Stock Option Plan approved by the shareholders on May 22, 2009. The options vest immediately and expire one-third per year until December 31, 2012. The options were issued to non-officer employees effective November 2, 2009.

The Company entered into an agreement on November 4, 2009 with the Aviation Recorders division of L-3 Communications to sell the Company's real-time data communications and Internet data delivery solutions. The agreement provides for a reselling and teaming arrangement under which L-3 will bundle a total system solution and AMA will be the exclusive provider to L-3 of Iridium-based real time data communications and Internet data delivery.

On November 6, 2009 the board of directors approved the grant of 25,000 stock options at \$0.54 per option under the terms of the Stock Option Plan approved by the shareholders on May 22, 2009. The options vest immediately and expire one-third per year until December 31, 2012. The options were issued to an employee effective November 23, 2009.

On November 20, 2009 a private placement was completed. The private placement consisted of 16,000,000 units of AMA at a price of \$0.50 per unit with gross proceeds of \$8,000,000 and net proceeds of \$7,360,000. Each unit comprises of one (1) Common Share and one half (1/2) Common Share purchase warrant. Each whole Warrant will entitle the holder to purchase one (1) Common Share until May 20, 2011 at a price of \$0.75.

Management Discussion and Analysis

Contingencies

The Company is defending itself in an action for which the Company believes the amount of liability is undetermined at this time. No liability has been accrued for claim on this action.

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 has been included in these consolidated interim statements, as management intends to vigorously defend the matter and believes the outcome will be in its favour. On November 7, 2007 the Company filed a Statement of Defense and a counterclaim against three parties for their interference with legally binding contracts, disrupted business, attacks on the Company's reputation, and costs. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable. The Company's legal counsel has been unsuccessful in attempts to complete the discovery process.

Commitments

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

	Premises	Equipment	Total
2009	\$ 102,190	\$ 30,058	\$ 132,248
2010	419,619	114,674	534,293
2011	432,652	85,838	518,490
2012	445,685	29,700	475,385
2013	458,718		458,718
2014	76,815		76,815
	<u>\$ 1,935,679</u>	<u>\$ 260,270</u>	<u>\$ 2,195,949</u>

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 outstanding \$263,027, 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 outstanding \$66,298 to be repaid over a ten year period commencing in April 2006.

Changes in Accounting Policies

Effective January 1, 2009, the Company adopted the newly issued accounting standard related to goodwill and intangible assets. The adoption of this standard had no effect on the Company's consolidated financial statements.

IFRS Changeover Plans

CSA Notice 52-320 requires that progress on IFRS changeover plans be disclosed. The Company has not yet developed a formal changeover plan but is actively educating key personnel on IFRS and the differences with Canadian GAAP. The Company engaged external advisors to assist in the initial scoping and identification of differences between IFRS and Canadian GAAP which was completed during the second quarter. The Company, using the gap analysis, is developing a formal plan for changeover which will be completed by the end of November 2009 and submitted to the Audit Committee for review.

Forward-Looking Statements

Information which is contained herein contains estimates and assumptions which the Company is required to make concerning future events, and may constitute "forward-looking statements" under applicable securities laws. The forward-looking information and statements include plans, expectations, estimates, forecasts and other comments that are not statements of fact. Although such expectations are viewed as reasonable by the Company, no assurance can be given that such expectations will be realized. Such forward-looking statements are subject to risks and uncertainties and may be based on assumption that may cause actual results to differ materially from those implied herein, and therefore are expressly qualified in their entirety by this cautionary statement.

The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Such information and statements involve known and unknown risks, uncertainties and other factors that may cause actual results to differ materially from those anticipated in such forward-looking information and statements including, without limitation: market prices; foreign exchange rates; general economic, market or business conditions in the aviation industry or any effect those may have on our customer base; changes in commodity prices; changes in the demand for or supply of the Company's products and services; unanticipated operating results; changes in tax laws or other regulatory matters; limited, unfavourable or a lack of access to capital markets; increased costs; and certain other risks detailed from time to time in the Company's public disclosure documents. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A. The Company assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable laws.



AUDITORS' INVOLVEMENT

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

The auditors of AeroMechanical Services Ltd. have not performed a review of the unaudited interim financial statements for the three and nine month periods ended September 30, 2009 and 2008.

2009 THIRD QUARTER REPORT

Financial Statements

**CONSOLIDATED BALANCE SHEET
(UNAUDITED)**

	September 30, 2009	December 31, 2008
ASSETS		
CURRENT		
Cash and cash equivalents	\$ -	\$ 801,404
Restricted cash	250,000	250,000
Accounts receivable	680,131	1,163,420
Prepaid expenses	189,996	312,379
Inventory	1,863,813	1,787,811
	<u>2,983,940</u>	<u>4,315,014</u>
PROPERTY AND EQUIPMENT	501,425	262,331
RENTAL ASSETS	773,211	1,347,508
INTANGIBLE ASSETS	34,992	34,992
	<u>\$ 4,293,568</u>	<u>\$ 5,959,845</u>
LIABILITIES		
CURRENT		
Operating line of credit	\$ 130,738	\$ -
Accounts payable and accrued liabilities	1,560,287	1,558,594
Current portion unearned revenue - Note 3	1,426,695	1,289,466
Current portion of deferred lease inducement	-	2,281
Current portion of loans payable	68,032	105,068
Current portion of obligation under capital lease – Note 4	101,646	24,291
	<u>3,287,398</u>	<u>2,979,700</u>
UNEARNED REVENUE – Note 3	1,774,207	812,608
LOANS PAYABLE	261,293	287,443
OBLIGATION UNDER CAPITAL LEASE – Note 4	136,781	31,134
	<u>2,172,281</u>	<u>1,131,185</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
SHARE CAPITAL – Note 5	28,994,049	28,982,059
WARRANTS – Note 5	1,717,678	1,717,678
CONTRIBUTED SURPLUS – Note 5	1,790,444	1,467,350
ACCUMULATED OTHER COMPREHENSIVE INCOME	118	-
DEFICIT	<u>(33,668,400)</u>	<u>(30,318,127)</u>
	<u>(1,166,111)</u>	<u>1,848,960</u>
Going concern (note 2)		
Subsequent event (note 8)		
Contingencies (note 9)		
	<u>\$ 4,293,568</u>	<u>\$ 5,959,845</u>

Financial Statements

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(UNAUDITED)

	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
REVENUE				
afirs™ UpTime™ revenue	\$ 1,346,088	\$ 440,588	\$ 3,402,514	\$ 1,036,869
Product sales revenue	86,622	63,072	341,908	349,831
Services revenue	89,184	286,334	355,408	397,623
	1,521,894	789,994	4,099,830	1,784,323
COST OF SALES	827,333	260,832	1,888,004	1,312,667
GROSS MARGIN	694,561	529,162	2,211,826	471,656
EXPENSES				
Salaries and benefits	1,002,285	1,237,355	3,118,475	3,656,474
General and administrative	222,634	341,591	1,135,980	1,272,742
Stock based compensation	18,733	91,666	326,083	670,102
Research and development	10,521	344,470	441,052	487,149
Marketing	92,622	240,175	288,375	785,187
Foreign exchange currency loss (gain)	(23,696)	24,949	42,824	36,495
Amortization	50,720	53,155	117,063	131,504
Bad debts	26,759	-	60,626	-
Interest and bank charges	11,041	9,811	29,279	33,214
Loss on asset disposal	-	-	-	9,548
	1,411,619	2,343,172	5,559,757	7,082,415
NET LOSS FOR THE PERIOD BEFORE INCOME TAXES	(717,058)	(1,814,010)	(3,347,931)	(6,610,759)
Current income taxes	210	-	2,342	-
NET LOSS FOR THE PERIOD	\$ (717,268)	\$ (1,814,010)	\$ (3,350,273)	\$ (6,610,759)
DEFICIT – Beginning of the period	\$ (32,951,132)	\$ (26,591,648)	\$ (30,318,127)	\$ (21,794,899)
NET LOSS	(717,268)	(1,814,010)	(3,350,273)	(6,610,759)
DEFICIT- END OF THE PERIOD	\$ (33,668,400)	\$ (28,405,658)	\$ (33,668,400)	\$ (28,405,658)
NET LOSS PER SHARE – Basic and Diluted – Note 5	\$ (0.01)	\$ (0.02)	\$ (0.04)	\$ (0.08)

Financial Statements

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
AND ACCUMULATED OTHER COMPREHENSIVE INCOME
(UNAUDITED)**

	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Net loss	(717,268)	-	\$ (3,350,273)	-
Unrealized gain on translation of US subsidiary	349	-	118	-
Comprehensive loss	\$ (716,919)	\$ -	\$ (3,350,155)	\$ -
Accumulated other comprehensive loss – Beginning of period	\$ (231)	\$ -	\$ -	\$ -
Unrealized gain on translation of US subsidiary	349	-	118	-
Accumulated other comprehensive loss – End of period	\$ 118	\$ -	\$ 118	\$ -

Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
CASH PROVIDED BY (USED IN):				
OPERATING ACTIVITIES				
Net loss	\$ (717,268)	\$ (1,814,010)	\$ (3,350,273)	\$ (6,610,759)
Add items not affecting cash:				
Amortization	50,720	53,155	117,063	131,504
Amortization of rental assets	18,903	30,197	77,794	92,098
Loss on disposal of property and equipment	-	-	-	9,548
Write down of rental assets	76,089	-	83,289	-
Stock based compensation	18,733	91,666	326,083	670,102
Warranty expense	-	264	-	483
Unrealized foreign exchange (gain) loss	(8,169)	-	118,575	-
	(560,992)	(1,638,728)	(2,627,469)	(5,707,024)
Net change in non-cash working capital balances – Note 6	(704,450)	(236,360)	1,509,453	568,050
	(1,265,442)	(1,875,088)	(1,118,016)	(5,138,974)
FINANCING ACTIVITIES				
Issuance of common shares and warrants	9,000	111,680	9,000	6,522,642
Repayment of capital leases	(27,312)	(8,422)	(48,420)	(26,260)
Share issue costs	-	-	-	(487,089)
Operating loan proceeds	130,738	-	130,738	-
Loan repayment	(14,697)	(6,618)	(63,186)	(34,469)
	97,729	96,640	28,132	5,974,823
INVESTMENT ACTIVITIES				
Restricted cash	-	-	-	34,500
Purchase of property and equipment	(5,637)	(52,312)	(124,734)	(146,548)
Proceeds on disposal of property and equipment	-	-	-	1,500
Purchase of rental assets	(67,800)	(253,896)	(288,658)	(635,407)
Proceeds on sale of rental assets	465,335	-	701,872	-
	391,898	(306,208)	288,480	(745,955)
Change in cash and cash equivalents	(775,815)	(2,084,656)	(801,404)	89,894
Cash and cash equivalents - beginning of period	775,815	4,120,237	801,404	1,945,687
	\$ -	\$ 2,035,581	\$ -	\$ 2,035,581
SUPPLEMENTAL INFORMATION				
Taxes paid	\$ 210	\$ -	\$ 2,342	\$ -
Interest earned	1,443	24,444	1,713	52,323
Cash and Cash Equivalents				
Cash in bank	\$ -	\$ (414,419)	\$ -	\$ (414,419)
Guaranteed investment certificates	-	2,450,000	-	2,450,000
	\$ -	\$ 2,035,581	\$ -	\$ 2,035,581

Financial Statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED SEPTEMBER 30, 2009 AND 2008
(UNAUDITED)**

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

These unaudited interim consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles (GAAP) on a basis consistent with those followed in the most recent audited annual financial statements for the year ended December 31, 2008, except as noted below. These unaudited interim consolidated financial statements do not include all note disclosures required by GAAP for annual consolidated financial statements. Accordingly, these statements should be read in conjunction with the Company's annual audited financial statements for the year ended December 31, 2008.

Effective January 1, 2009, the Company adopted the newly issued accounting standard for goodwill and intangible assets, relating to the method of accounting for goodwill and intangible assets and the related disclosures. The adoption of these standards had no effect on the Company's consolidated financial statements.

NOTE 2 GOING CONCERN

At September 30, 2009, the Company had a working capital deficit of \$303,458 (2008 - positive \$3,975,473) a deficit of \$33,668,400 (2008 - \$28,405,658), had incurred a loss from operations for the nine month period ended of \$3,350,273 (2008 - \$6,610,759) and negative cash flow from operations of \$1,118,016 (2008 - \$5,138,974).

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 ongoing operations. The Company's ability to attain profitable operations and positive cash flow in the future is dependent upon various factors including its ability to acquire new customer contracts, the success of management's continued cost containments and general economic conditions. As outlined in Note 8 the Company has been successful in obtaining additional financing to fund ongoing operations.

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 interim financial statements do not reflect adjustments that would otherwise be necessary if the going concern assumption was not valid such as revaluation to liquidation values and reclassification of balance sheet items.

NOTE 3 UNEARNED REVENUE

Balance December 31, 2008	\$ 2,102,074
Installation access fees	1,634,913
License fees	1,287,600
Earned revenues	(1,823,685)
Balance September 30, 2009	3,200,902
Less current portion	(1,426,695)
	\$ 1,774,207

NOTE 4 OBLIGATIONS UNDER CAPITAL LEASE

During the nine month period the Company acquired property and equipment totaling \$233,444 which was financed with a capital lease in the amount of \$231,422.

Financial Statements

NOTE 5 SHARE CAPITAL

Authorized: Unlimited number of: Common shares and Class 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 of each series.

ISSUED:

a) Common shares

	Number of Shares		Value
Balance December 31, 2008	82,500,219	\$	28,982,059
Exercise of employee options	45,000		9,000
Contributed surplus from the exercise of employee options	-		2,990
Balance September 30, 2009	82,545,219	\$	28,994,049

b) Stock Option Plan

	Number of Shares		Weighted Average Exercise Price
Balance December 31, 2008	2,308,998	\$	0.52
Options granted	1,600,000		0.27
Options exercise	(45,000)		
Outstanding September 30, 2009	3,863,998	\$	0.42
Exercisable September 30, 2009	3,680,664	\$	0.44

The weighted average fair market value of the options granted was \$0.20 per option which was estimated using the Black-Scholes option pricing model with the following weighted average assumptions: risk free interest rate of 1.26%, expected life of 2.6 years, volatility of 185% and dividend yield rate of nil.

c) Contributed Surplus

Balance December 31, 2008	1,467,350
Stock based compensation	326,083
Employee stock options exercised	(2,990)
Balance September 30, 2009	\$ 1,790,444

d) Warrants

	Number of Warrants		Weighted Average Exercise Price
Outstanding and Exercisable September 30, 2009 and December 31, 2008	2,572,500	\$	1.31

The calculation of basic loss per share is based on the weighted-average number of common shares outstanding during the three and nine month periods ending September 30, 2009 of 82,504,096 and 82,501,505, respectively (2008 – 82,320,643 and 80,522,706, respectively).

Financial Statements

NOTE 6 SUPPLEMENTAL CASH FLOW INFORMATION

Change in Non-Cash Working Capital

	For the three months ended September 30, 2009	For the three months ended September 30, 2008	For the nine months ended September 30, 2009	For the nine months ended September 30, 2008
Accounts receivable	\$ (138,080)	\$ (210,726)	\$ 364,832	\$ (236,839)
Prepaid expenses	(48,221)	2,986	122,383	136,514
Inventory	13,360	(164,902)	(76,002)	(164,331)
Accounts payable and accrued liabilities	(497,291)	(385,891)	1,693	(313,040)
Deferred lease inducement	-	(3,422)	(2,281)	(10,265)
Unearned revenue	(34,218)	525,595	1,098,828	1,156,011
	<u>\$ (704,450)</u>	<u>\$ (236,360)</u>	<u>\$ 1,509,453</u>	<u>\$ 568,050</u>

NOTE 7 FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of these instruments. The fair value of the loans payable could not be determined as the timing of the repayments are difficult to estimate as they are dependent on future revenues.

The nature of these instruments and the Company's operations expose the Company to the following risks:

Credit Risk

Credit risk reflects the risk that the Company may be unable to collect amounts due to the Company from customers for its services, products, or other transactions that may be entered into by the Company. The extent of the risk depends on the credit quality of the party from which the amount is due.

The Company employs established credit approval and monitoring practices to mitigate this risk, including evaluating the creditworthiness of new customers and monitoring customer payment performance. The Company also has the ability to receive payments in advance for both services and product in its contracts with customers as well as the ability to suspend services and ongoing support. The Company establishes an allowance for doubtful accounts that corresponds to the credit risk of its customers, historical trends and economic circumstances.

During the nine month period ended September 30, 2009, the Company recorded a bad debt expense of \$60,626 to reflect accounts that the Company has determined may not be collectible and has a total reserve against receivables totaling \$60,626.

The aging of the accounts receivable as at September 30, 2009 is as follows:

Current , 1 – 30 days	\$ 444,205
31 – 60 days	123,207
61 – 90 days	55,955
Greater than 90 days	56,764
	<u>\$ 680,131</u>

Financial Statements

NOTE 8 SUBSEQUENT EVENTS

On October 8, 2009 the Company completed a non-brokered private placement of 4,175,000 shares at \$0.40 per share for net proceeds of \$1,670,000.

The Company purchased the assets of Wingspeed Corporation on October 26, 2009 for a purchase price of USD \$250,000. The purchase included but was not limited to the assumption of 5 customer contracts, all intellectual property, tangible personal property, inventory, licenses and permits, product documentation, files, FAA Part 145 repair station status, and title and interest to know-how and technology.

On November 2, 2009 the board of directors approved the grant of 330,000 stock options at \$0.50 per option under the terms of the Stock Option Plan approved by the shareholders on May 22, 2009. The options vest immediately and expire one-third per year until December 31, 2012. The options were issued to non-officer employees effective November 2, 2009.

The Company entered into an agreement on November 4, 2009 with the Aviation Recorders division of L-3 Communications to sell the Company's real-time data communications and Internet data delivery solutions. The agreement provides for a reselling and teaming arrangement under which L-3 will bundle a total system solution and AMA will be the exclusive provider to L-3 of Iridium-based real time data communications and Internet data delivery.

On November 6, 2009 the board of directors approved the grant of 25,000 stock options at \$0.54 per option under the terms of the Stock Option Plan approved by the shareholders on May 22, 2009. The options vest immediately and expire one-third per year until December 31, 2012. The options were issued to an employee effective November 23, 2009.

On November 20, 2009 a private placement was completed. The private placement consisted of 16,000,000 units at a price of \$0.50 per unit with gross proceeds of \$8,000,000 and net proceeds of \$7,360,000. Each unit comprises of one (1) Common Share and one half (1/2) Common Share purchase warrant. Each whole Warrant will entitle the holder to purchase one (1) Common Share until May 20, 2011 at a price of \$0.75.

NOTE 9 CONTINGENCIES

The Company is defending itself in an action for which the Company believes the amount of liability is undetermined at this time. No liability has been accrued for claim on this action.

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. 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, if any, will be reflected in the year the amounts become reasonably estimable.