

AEROMECHANICAL SERVICES LTD.

Price (December 15) **\$0.53**
52-Week Range **\$0.70-\$0.105**
Shares O/S **82.5 million**
Market Cap **\$43.7 million**
50-day Average Volume **300,100**
200-day Average Volume **182,700**
Year-End **December 31**
Symbol **TSX-V: AMA**
Website **www.amscanada.com**

Financial Data

Selected Balance Sheet	At Sep 30/09	At Dec 31/08
Cash (& Equivalents)	\$0	\$801,404
Other Assets	\$4,293,568	\$5,158,441
Total Debt	\$398,074	\$318,577
Shareholders' Equity	(\$1,166,111)	\$1,848,960
Total Assets	\$4,293,568	\$5,959,845
Working Capital	(\$303,458)	\$1,335,314
Working Capital Ratio	0.91x	1.45x
Selected Income/Cash Flow	12 Mo. (Sep/09)	Year (Dec/08)
Revenues	\$4,099,830	\$3,176,995
Net Loss	(\$5,260,400)	(\$8,523,228)
Cash Flow (CF) From Operations	(\$3,397,461)	(\$7,418,419)
Key Ratios		
Monthly Operating Costs ("Burn")	(\$367,999)	(\$432,805)
Monthly R&D Expenses	(\$67,231)	(\$62,109)
Monthly Capex	(\$103,441)	(\$56,444)
Cash Burn (months)	0	2
Per Share Statistics		
Earnings (Loss) Per Share	(\$0.06)	(\$0.10)
Cash Per Share	\$0.00	\$0.02
Shareholders' Equity Per Share	(\$0.01)	\$0.02
Multiples		
Price Cash	-	12.36x
Price Shareholders' Equity	-	8.92x

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Note: Report prepared with public information only.



Source: www.bigcharts.com

PROFILE

AeroMechanical Services Ltd. ("AeroMechanical" or the "Company") is a provider of real time data communications for the aerospace industry. The Company is headquartered in Calgary, Alberta and has service locations in the United States, China and Switzerland. AeroMechanical was founded in 1998 and has been publicly traded on the Toronto Venture Exchange since March 2003. The Company, whose solutions and services are primarily sold under the FLYHT brand name, currently serves customers in over 10 countries.

CORPORATE STRATEGY

AeroMechanical's strategy is to achieve growth through the design, development and service provision of patented innovative solutions to the global aerospace business. These solutions are focused on increasing the safety, communication capabilities, and efficiency of a variety of airplanes, and are designed to improve the productivity and profitability of AeroMechanical's customers' assets.

The Company continues to: (a) improve and expand its products and services; (b) make a long-term investment in marketing and relationship building; and (c) improve its delivery capacity and productivity in order to secure a strong pipeline of clients and prospective clients around the globe. AeroMechanical also continues to target and secure both government (military) and private company clients.

INVESTMENT CONSIDERATIONS

Strengths

- AeroMechanical is on a solid financial footing, with adequate working capital to meet current requirements. A recent private placement raised a net \$7.36 million.
- The Company has diversified its product line and has developed an extensive list of certifications for various types of aircraft, which include Boeing, Airbus, and Bombardier.
- A diversified geographic reach reduces reliance on any one country's airlines and economy.

Challenges

- Airlines and air cargo operators have experienced a significant reduction in utilization during the current global recession and have curtailed their expenditures accordingly.
- AeroMechanical is still a junior company and ultimately dependent on its ability to continue to raise money through the equity markets.
- There is always a risk that a new technology and market success could result in increased competition.

PRODUCT LINES

Highlights of the Company's product lines are as follows:

(1) Automatic Flight Information Reporting System (afirs™)

The Company's premier product is the system known as the Automated Flight Information Reporting System (afirs™). The system is an avionics component that is placed in the aircraft and takes information being recorded on the black boxes, compresses it and transmits it to ground stations via Iridium satellite at pre-set intervals. The system increases safety through accurate and timely monitoring and reporting of the aircraft systems.

afirs™ tracks how an aircraft is being operated and may deliver 3%-4% fuel savings to an aircraft by identifying ways to cut fuel use in real time. It also reduces fuel costs through its own weight savings, as the afirs™ hardware is up to 15 times lighter than the major competing system. Reduced fuel consumption is also less environmentally damaging.

Continually monitoring information from the engines can reduce unscheduled maintenance and the associated downtime through early detection of potential problems. Delays can be reduced as a result of enhanced logistics-planning capabilities; the system helps to reduce fleet underutilization, and eliminates discrepancies with log books. All of these features are highly attractive to the airline industry, which is vulnerable and highly sensitive to fuel, maintenance and downtime costs.

In the event of an emergency, real-time streaming of black box data can be initiated automatically by the pilot or ground crew. This results in sufficient information to provide a post-flight analysis in the event of an accident investigation, even if the physical black box is not recoverable.

This product is marketed under the brand name FLYHT.

(2) aeroQ™

The aeroQ™ Cabin Cleaning System is designed to reduce the risk of infection from surfaces in passenger aircraft, and tests have proven it to be highly effective against a large number of pathogenic organisms, including those that cause a variety of gastrointestinal infections, tuberculosis, and other respiratory infections. It might also have a role in reducing the spread of diseases such as pandemic influenza and avian flu. Currently, the solutions used in the aeroQ™ Cabin Cleaning System are being tested in Boeing labs to ensure their safe use on Boeing aircraft.

FINANCIAL

Key financial results at September 30, 2009:

Revenues: Despite the unprecedented drop in air transport demand from Q4/2008 to Q4/2009 and the challenges AeroMechanical faced in booking new orders (as airlines slashed capital spending until their revenues and cash flows improved), the Company has seen a significant upward trend in overall revenues. This was driven specifically by increases in afirs™ UpTime™ revenues, as a result of increased monthly recurring revenue and recognition of sales-type agreements. Revenues increased 92.6% (Q3/09 over Q3/08); 130% (9M/2009 over 9M/2008); and 59.7% (FY 2008 over FY 2007).

Cost of Sales and Gross Margin: The percentage of cost of sales for Q3/2009 was 54.4% (33.0% in Q3/2008), and the gross margin was 45.6% (67% in Q3/2008). The percentage of cost of sales fell to 46.1% for the first nine months of 2009 compared with 73.6% in the same period of 2008, as a result of increased afirs™ UpTime™ revenue during the latest nine-month period, and the ability of the Company to keep costs relatively constant while revenues increased. The gross margin has more than doubled from 26.4% in the first nine months of 2008 to 53.9% in the first nine months of 2009.

COMMENT: *The increase in the cost of sales in Q3/2009 over the same period in 2008 was due to a timing difference in the quarters in the mix of revenues from installations with associated costs. As the Company moves forward with more clients and the corresponding recurring revenues, we can expect to see the cost of sales continue to decline and margins increase.*

Net Loss: The net loss for Q3/2009 was \$717, 058 (Q3/2008: \$1,814,010) and \$3,350,273 for the nine months ended September 30, 2009, as compared with \$6,610,759 for the same period in 2008. The decrease is due primarily to the increase in sales plus decreased expenses. Although salaries decreased \$538,000 9M/2009 over 9M/2008 (14.7%), they continue to be the main cost of doing business for the Company at 56% of total expenditures for the nine-month period. The Company provides sophisticated products and services, and a highly qualified and motivated staff is required to meet the need of the expanding customer base for dependable and timely support of their fleets.

COMMENT: *The Company provides sophisticated products and services and a highly qualified and motivated staff is required to meet the need of the expanding customer base for dependable and timely support of their fleets. A significant infrastructure is now in place to service increasing revenues and we do not expect an increase in the cost structure commensurate with increasing revenues; therefore, the expectation is that the loss will continue to decrease as revenues increase.*

Cash and Working Capital: Although there was no cash on the balance sheet as at September 30, 2009 and the Company was \$130, 738 into its operating line of credit, the ongoing revenue stream and the completion of the recent private placement (\$7.36 million) give the Company sufficient cash to meet its current requirements. The working capital ratio as at September 30, 2009 was 0.91x (September 30, 2008: 1.45x)

COMMENT: *When considering the Company's income statements and working capital ratio, and assessing its ability to meet its current obligations, it is important to note that AeroMechanical collects cash from customers when the afirs™ kit is shipped. However, the revenue is not recorded until the afirs™ kit is installed by the customer and is fully operational (in accordance with GAAP). Customers understand that the payments which are received before shipment are final and non-refundable. If the working capital ratio is adjusted to account for the timing issue described above, it becomes 2.37x.*

RECENT DEVELOPMENTS

The Company recently announced a teaming and reseller agreement with L-3 Communications, currently the world's largest producer of aircraft flight data recorders (black boxes), to offer aircraft manufacturers and civil aviation users a bundled total solution consisting of L-3's leading line of flight data recorders and AeroMechanical's afirs™ system.

AeroMechanical has also received activation approval from both the European Aviation Safety Agency and Transport Canada, which applies to a variety of Hawker Beechcraft models. These approvals are a key milestone in AeroMechanical's long-term strategy to expand its customer base into the business aviation market.

The Company has recently completed a brokered private placement of 16 million units, each unit consisting of one common share plus one half of one common share purchase warrant. The financing raised gross proceeds of \$8 million (\$7.36 net of commissions). The proceeds will be used to support the integration of AeroMechanical's products with L-3's products for the teaming agreement described above, plus the completion of the next generation afirs™ 228 product.

MANAGEMENT AND DIRECTORS

Bill Tempany, Chairman of the Board, CEO
Richard Hayden, President
Thomas French, CFO
Michael Fang, Vice President China Operations
Matt Bradley, Vice President Operations
Doug Marlin, Director
Jack Olcott, Director
Paul Takalo, Director
Mike Brown, Director

SHARE STRUCTURE

Common Shares:	82,500,219
Options:	3,808,998
Warrants:	<u>2,572,500</u>
Fully Diluted:	88,881,717

CORPORATE INFORMATION

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LOGO



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