
THE WALL STREET TRANSCRIPT

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TWST: What is AeroMechanical Services?

Mr. Tempany: AeroMechanical was started in 1998 by three fellows that have tons of aviation background. One of them is still with us - Daryl Jacobs, the founder and visionary behind the product. The company originally started as an aviation engineering company and has evolved into a product specific company. The main two product today are AFIRS and UpTime, though they could be used independently, they comprise a comprehensive total solution for our airline and general aviation companies. AFIRS is a hardware device that is installed on the aircraft and integrated into all the data buses that collect the information as it is going to the black box or other instruments on the aircraft which produce data on the data

buses. We have a processor in the AFIRS unit which interrogates that data, finds information that the customer is interested in, and transmit the data via satellite to our UpTime service, which is a ground-based application.

The UpTime software then converts the data into information that is provided automatically to the airline in FTP or Email format or notifies airline employees via cell phone or pager for certain condition codes. The UpTime application is written using IBM tools, hosted by IBM in their data center in Toronto, Canada and that data center which provides physical as well as network security for our applications and data. The airlines use that to improve efficiency in their airline for getting maintenance done and doing repairs on their aircraft, as well as monitoring their fleet for hours flown and so on for maintenance programs. Those two products are the main products that we have focused on for the last three years in the business.

The development was completed in August of 2003 and the first commercial installation happened then. We have grown the business from that point to where we now have 11 airlines signed as customers. Those 11 airlines have in excess of 100 aircraft that will be installed with the AFIRS unit within the next few months, and we have over 70,000 hours of flight time and never had a failure on our device or data loss that was supposed to be transmitted to our customers. So we are quite pleased to have moved

from a research and development company into a full-blown sales and marketing organization. Our company has shifted from being 10 people building a product to 25 people delivering, selling, and installing a product, including six people in sales and marketing.

TWST: What does the customer space look like today and how is that changing or evolving? What are its dynamics?

Mr. Tempany: We've always focused on the low cost carriers and the regional airlines for a number of reasons. Number one is they don't have any entrenched systems today that we are competing with like the majors do. The majors have all had different ways of collecting and using this information over the years. Changing systems in those large organizations is costly and takes a lot of time including negotiations with unions, integration of data sources, changes in manuals and procedures, etc so we have not focused our sales efforts on the majors.

That has changed recently because we have signed a contract with the Chinese government to provide the Chinese airlines with our services. This is something that we are very happy with. The first shipments actually go to China this week for the first five aircraft, and we see it growing into probably 2000+ aircraft over the next two to three years. If the company is going to expand, we need more people to help support that, grow the business, and have people on the ground in China to work with our Chinese customers. But we are still focused on the regional and low-cost carriers

around the world.

We have an active program in Southeast Asia and Australia. We are currently looking at representation in South America. We have a very strong presence in the Caribbean, and some very good leads in the US. We are working with the regional carriers in Canada. We've been successful with Hawk Air and Canadian North as well as couple of other companies like that in Canada

The unique thing about our product is they are not only data collection and transmission devices, but you can use satellite phones through our products. We have text messaging to the cockpits, so they can have electronics flight bags in the cockpit. We can get information to them where nobody else could; it was very important to Canadian North because they wanted to get current weather reports for their flights that go very far north, and there was no way to get them until our product came along. Our products are very useful to aviation companies that fly outside of the normal flight paths of commercial aviation. We also have aircrafts flying in Africa now, and they were also in areas where there was no reliable way to communicate. They have our phones and our text messaging, and they can communicate with their aircraft in some of the most remote places on earth.

TWST: From the customer's perspective, is it simply the unavailability of alternatives that drives their relationship with you?

Mr. Tempany: The unavailability of alternatives is an aspect in parts of the world. I think the main thing that our customers see is that we are the sole source for everything they need, from the instruments that creates the data, to their system on the ground. We provide the data extraction on the aircraft, the communication to the ground, and the communication to their systems, and the integration into their in-house systems – all within our company. There is nobody else out there that does that today, and that is a big help for a company that is trying to keep their G&A expenses low, like all of the airlines are. We can provide it in a format that they can use immediately without having a bunch of people handling the data.

TWST: Is the aero industry the only target? Can AeroMechanical take advantage of other opportunities?

Mr. Tempany: We have actually talked to shipping companies and railway companies about what they do, and there is a demand there. However, our people are very aviation focused and aviation trained. Aviation is an unique industry because of the regulation on things that have to be done to get our equipment on an aircraft. To try and move those people into other industries would be a disservice to both our customers and to our shareholders because it is like taking a hammer to swat a fly to tell an aviation engineer, "Let's put this on a truck or train."

TWST: What are the priorities for the next 12 months? What

would make that time frame a success?

Mr. Tempany: The China contract has our attention for the next 12 months. We have several things that need to be done, and we're just trying to meet the demand because it is such a huge market. It is going to be the test for us this year. Growing the business with the right people to make it successful is a very important thing, and that's what we are going to be focused on. We just finished a tour with the government authorities CAAC, which is similar to the FAA or Transport Canada in Canada, and took them through our facilities and our suppliers and got their approval to go forward with the program. So now we have to deliver.

TWST: As you look at the balance sheet and P&L, what are the items that you warrant for priority? What needs improvement?

Mr. Tempany: We are in the process of closing a private placement for \$1.5 million, which will make our balance sheet very strong. We have no debt, we have good inventories, and we will have good revenue coming from those inventories when they are deployed over the next three or four months. So, as soon as we get the private placement that is currently out there closed, I think we will be on solid footing and moving forward. Our deal with China is on a Letter of Credit basis, so I don't think we will have receivables issues or anything.

TWST: Introduce us to two or three of the key individuals in your top-level management team today.

Mr. Tempany: One of the key individuals is definitely Darryl Jacobs. He is the President, and a year and a half ago, he was the sole marketing person out there. Today he has a team of five people working with him. Daryl started in aviation when he was two years old, because his family developed the Jaycopter, which was the first helicopter simulator in the world, and he was out in the backyard with his dad and his uncle while they were building that. Kent Jacobs, no relation to Darryl, is our product specialist for AFIRS. Kent is a commercial pilot with an IT degree, and he is the one that makes sure that we are getting the data we should be getting from the aircraft and getting it to the format that we need it in to get to the ground.

TWST: What historically has been the investor base with AeroMechanical? Has that base itself undergone any changes or transitions?

Mr. Tempany: I got involved in the business through a capital pool corporation, which by definition is a friends and family kind of public entity. In Canada, with a capital pool corporation, you have to find 300 shareholders and raise \$0.5 to \$2 million and then find a company to roll into it. The first \$1.5 million was raised by friends and family. In each of the subsequent raises we have done there are a lot of friends and family involved. So there is a fairly closely held number of shares through those offerings. The last offering, and the one a year ago, was much more broadly held.

In our annual meeting last year, I think we mailed 800 packages and we have probably 1000 shareholders today. One of the things we are trying to do with the current offering is expand the coverage, expand the number of people with the shares, and start getting the story out there.

TWST: What have been the perceptions that you get as you discuss the company with the investment community? Are there any misperceptions or disconnects you encounter?

Mr. Tempany: The biggest problem that we have had is that it has taken us longer to get to a cash flow positive point of view than the market expected. I think that is something we have to prove, and that's what we are going to do this year. Because I didn't come from aviation, I didn't really understand the issues of getting approvals from the various government bodies. That took longer than we had hoped or expected.

We are to a point where those things are in place; we have them for the main aircraft that we need for moving supply to our customers. And we believe that things will start rolling out faster than they have in the past. So I think that's the main misconception that I have to get over this year.

TWST: What role can M&A play? Are there ways to add to your growth for bringing other relationships into your company? Where do you fit into the overall consolidation or growth strategies of other companies?

Mr. Tempany: There is really no company out there today that has technologies that we haven't built ourselves and have the patents and IP for. There are a couple of companies who have offered to buy us out already, but from a shareholder point of view, you don't sell out the day after you get your R&D done. You want to show the revenue path and get the value up to where it should be. And there are some big players out there that are very interested in what we are doing because nobody else has ever accomplished what we have accomplished in the aviation business. So it is something that we keep an eye on, and that's not something that we are 100% against. But we are certainly not interested in any kind of sell out until we get to a point where we've got the revenue picture brightly painted, so that people are looking at the upside, instead of the bargain they might get.

TWST: What is it that investors should focus on as they decide to include AMA not only in their current portfolio, but also as part of their longer-term investment strategy?

Mr. Tempany: Over the last three years, AMA has proven that we can put a product to the market that the market needs in a fashion that the market is willing to pay for and accept. The fact that we have 11 customers signed and working and that the product is there and working is an indication that we have the base for the business to grow rapidly and successfully over the next two to five years. The infrastructure that we have put in place during these three

years includes all of the government requirements for quality assurance programs, quality assurance managers, and information technology systems to do trace ability on a component level for our products.

We have FAA and Transport Canada approval for various aircraft types. We have a manufacturing approval from Transport Canada where we can ship our own products under the auspices of Transport Canada, which has bilateral agreements with most of the countries in the world. We have the people in engineering aircraft technology and the IT world necessary for UpTime, so we can grow to be as big as we need to be to support our customers over the short and long term. And the customer references that we get back say that they are extremely happy with what we are doing.

We signed a contract on September 14 with LIAT Aviation in the Caribbean. Their first aircraft went live in December, and on the first four flights, they got warning messages, so they went and verified meters and checked the instrumentation to make sure that it was accurate. That will save them several hundred thousand dollars in this year because of information they got off our box in the first four flights that it made. And when the customer sees that kind of savings, they speed up the program and get this moved because it will save our customers money in the long term.

TWST: What is it that altered some of those expectations over the past three years? How might some of those types of events or activities come into play over the short term for the company as

you set goals and expectations today?

Mr. Tempany: We continue to learn that things aren't being done today in aviation that should be done. We have on the drawing boards another generation of our AFIRS unit, which isn't a new technology so much as an expansion of our current technologies, where we can read more data buses and handle more data off the aircraft, and are able to transmit on the ground, as well as in the aircraft. It is only in the last two years that that activity has been available at a lot of the airports in the world. So when we built the original AFIRS unit, we didn't put that type of technology in. It is very easy to do; it is not a big technology change but that is something that we are looking at doing in the next generation box.

The original AFIRS unit that we put into service two and a half years ago had an Orbcomm modem unit, which works perfectly for the Continental US, but when you start going international, the delay times become significant, so we switched to the Iridium network. We are a long-term partner with Iridium and I don't expect that to change, but if there was a new satellite provider next week, we can change our technology in a matter of two or three months to take advantage of that.

TWST: Are there any thoughts or issues to include that we should address?

Mr. Tempany: I think the thing that sets AMS apart from

everybody else in the world is the fact that we are an end-to-end solution provider for our customers. They don't have to talk to multiple people to get the job done on collecting and getting data into their ground based systems. We have aircraft flying on four quadrants of the earth and are getting one to three second response times from those aircraft to get the information to the customers that need it. And there is nobody else out there that can make that claim. I don't believe that they have the aircrafts in the air providing data the way they are supposed to be.

TWST: Thank you. (DWA)