

LETTER TO THE Shareholders

Dear Shareholders,

The third quarter was an exciting quarter for AMS on all sides. While the performance for the quarter met the expectations of management, the breather in the installation pace helped us get ready for the blitz of installations that are planned for the 4th quarter, which is anticipated to be the busiest quarter for installations in the company's history. That along with the rollout of our in-house afirs assembly capabilities in addition to the implementation of our delivery roadmap has kept the team very busy.

We had a couple of less pleasant surprises as well. The deliveries for our Chinese customers slipped from August to what has promised to be no later than February 2008. This was caused by a shift in the department responsible for satellite communications in China. When we signed our contract with our partner in China, ADCC, in September of 2006, a group called China Spacecom was responsible for the radio frequency bandwidth used by satellite communications and ADCC had agreements with them to allow for the transmissions from our afirs unit in place. We had only to get our STCs approved in China and we were ready to roll. That approval occurred in June of 2007, and we expected to be rolling full speed ahead by end of summer. Unbeknownst to AMS, there had been a change in China in early 2007 whereby China Spacecom was no longer responsible for the licensing and the Chinese Military had taken over that responsibility. Our customers in China have been working very hard with the new authorities and have assured us that the approvals for commercial aviation will be in place no later than February 2008, at which time installation of our products on the contracted fleets can commence.

Also in Q3, we were served with notice that a product development stage company, Star Navigation Group, has requested that our patent be re-examined by the United States Patent and Trademark Office ("USPTO"). AMS was informed by its Washington, DC lawyers that the request for re-examination was not filed correctly and that USPTO, therefore, didn't recognize the request. Star has now refilled the paperwork correctly for the reexamination and now feedback from the USPTO is expected by the end of February 2008. Star Navigation has named us as a defendant in their counterclaim to a wrongful dismissal suit filed by their former President, and have filed documents with the Court of Northern California claiming we have infringed a patent to which they hold a license to use the patent. Our legal team has filed a response to the counterclaim listing damages, and the owner of the patent as defendant to our claim. Our legal team has also reviewed the merits of the California claim and we expect they will be filing appropriate motions in the very near future to clear up this matter. Management is frustrated by the actions taken by these people and we are confident that we will succeed in winning the battles, but want to focus the business and our resources on winning more business and increasing our shareholders' value by doing good business in the marketplace rather than consuming time and effort associated with this case. As a point of interest, we are applying to the courts in Ontario to have both parties post bonds for legal costs and we are hopeful that at the very least, we will be able to recover our Canadian legal bills via this method as the development stage company in their latest financial statements provided on SEDAR are not in a liquid position to fund the activities they have commenced.

On a much more positive note, we received STCs from the European Aviation Safety Agency (EASA) for both the A320 and Boeing 757 family of aircraft. These approvals pave the path to closing some long anticipated sales in Europe. While there are no contracts signed at the time of this report, there are 2 airlines with a total of 35 aircraft that have verbally committed to our solution. They are currently working towards getting contracts approved and their operating procedures amended and accepted so our solutions can be implemented. This is a normal course of events in the airline industry approval to change their operating manuals is required by the regulators prior to turning the system on. The process is a formality and will likely take a small step in Europe, as it is setting new ground for some airline operators in that region.

We continue to expand our marketing efforts and have attended shows in the US, South America, Europe and the Middle East. Knowledge of and exposure to our company, solutions, and relationships continues to grow, and the capabilities of our solutions grow monthly. The staff has a drive on to enable installed customers the ability to use all contracted features by the end of this year. That is a very aggressive target, because we have added many new customers, many new aircraft types, many new staff, and many new features this year. Our customers keep telling us how much value they are getting from their systems and all have been great about providing references to new companies wishing to use our solutions. We are looking forward to a great Q4. Thanks to all of our staff, shareholders and customers for your support through a very interesting quarter.

Yours truly,



Bill Tempany
CEO



Darryl Jacobs
President and Founder

Financial Statements

CONSOLIDATED BALANCE SHEET
(UNAUDITED)

	September 30 2007	December 31 2006
	(Unaudited)	(Audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 3,635,151	\$ 2,688,389
Restricted cash	284,500	284,500
Accounts receivable	396,902	291,603
Prepaid expenses	180,795	233,040
Inventory	1,397,797	428,886
	<u>5,895,145</u>	<u>3,926,418</u>
CAPITAL ASSETS – Note 2	271,003	224,644
RENTAL ASSETS – Note 3	954,058	768,696
INTANGIBLE ASSET – Note 4	34,992	34,992
	<u>\$ 7,155,198</u>	<u>\$ 4,954,750</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 1,126,477	\$ 497,531
Current Portion unearned revenue - Note 5	150,483	101,774
Current portion of deferred lease inducement – Note 6	13,687	13,687
Current portion of loans payable – Note 7	53,028	120,742
Current portion of obligation under capital lease – Note 8	23,725	16,105
	<u>1,367,400</u>	<u>749,839</u>
UNEARNED REVENUE – Note 5	518,729	292,920
DEFERRED LEASE INDUCEMENT – Note 6	5,703	15,968
LOANS PAYABLE- Note 7	385,931	351,959
OBLIGATION UNDER CAPITAL LEASE – Note 8	23,822	27,028
WARRANTY	12,029	12,016
	<u>2,313,614</u>	<u>1,449,730</u>
SHAREHOLDERS' EQUITY		
SHARE CAPITAL – Note 9	22,460,607	17,052,282
CONTRIBUTED SURPLUS – Note 9	1,788,714	1,379,323
DEFICIT	(19,407,737)	(14,926,585)
	<u>4,841,584</u>	<u>3,505,020</u>
	<u>\$ 7,155,198</u>	<u>\$ 4,954,750</u>

Financial Statements

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT
(UNAUDITED)

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006	For the three months ended September 30, 2007	For the three months ended September 30, 2006
REVENUE				
Rental revenue	\$ 619,766	\$ 368,602	\$ 256,710	\$ 134,397
Sales revenue	1,003,959	407,391	55,974	124,416
	1,623,725	775,993	312,684	258,813
COST OF SALES				
	741,205	561,830	184,176	193,194
GROSS MARGIN				
	882,520	214,163	128,508	65,619
EXPENSES				
Salaries and benefits	2,888,912	1,435,078	1,003,665	489,848
Marketing	801,179	403,910	357,078	168,694
Stock based compensation	525,252	420,252	26,417	14,650
Research and development	150,828	217,296	72,374	108,562
Office	279,980	207,204	113,756	94,212
Professional fees	147,162	279,454	46,928	209,261
Rent	139,720	143,238	55,227	49,398
Computer services	139,104	88,625	68,100	33,225
Consulting fees	113,546	147,434	37,560	52,430
Insurance	48,129	39,561	12,904	13,177
Depreciation	64,146	29,116	25,473	13,120
Interest and bank charges	15,241	25,129	4,678	(9,123)
Foreign exchange currency loss	30,731	12,036	(5,168)	2,853
Stock exchange fees	19,742	10,694	2,774	1,425
	5,363,672	3,522,027	1,821,766	1,241,732
NET LOSS FOR THE PERIOD				
	\$ (4,481,152)	\$ (3,307,864)	\$ (1,693,258)	\$ (1,176,113)
DEFICIT – Beginning of the year				
	\$ (14,926,585)	\$ (10,386,879)	\$ (17,714,479)	\$ (12,518,630)
NET LOSS				
	(4,481,152)	(3,307,864)	(1,693,258)	(1,176,113)
DEFICIT- END OF THE PERIOD				
	\$ (19,407,737)	\$ (13,694,473)	\$ (19,407,737)	\$ (13,694,743)
NET LOSS PER SHARE – Basic and Diluted – Note 9				
	\$ (0.07)	\$ (0.08)	\$ (0.03)	\$ (0.03)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES				
	62,264,940	40,598,304	62,264,940	40,598,304

Financial Statements

CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	For the nine months ended September 30, 2007	For the nine months ended September 30, 2006	For the three months ended September 30, 2007	For the three months ended September 30, 2006
OPERATING ACTIVITIES				
Net loss	\$ (4,481,152)	\$ (3,307,864)	\$ (1,693,258)	\$ (1,176,113)
Add items not affecting cash				
Depreciation	64,146	54,708	25,473	26,521
Amortization	64,335		24,290	
Stock based compensation	525,252	420,252	26,417	14,650
Warranty expense	12	-	1,110	(540)
Non-cash expenses	26,232	1,735,477	13,609	149,425
	(3,801,175)	(1,083,958)	(1,602,359)	(986,057)
Net change in non-cash working capital balances	(128,766)	(1,605,205)	(50,969)	(1,024,992)
	(3,929,941)	(2,689,163)	(1,653,328)	(2,011,049)
FINANCING ACTIVITIES				
Issuance of common shares	5,406,259	8,630,804	2,232,070	6,260,035
Repayment of capital lease	(12,728)	-	(4,897)	-
Repayment of convertible debenture		(400,000)		-
Short term loan repayment		(990,000)		-
Share issue costs	(122,884)	(517,567)	-	(263,816)
IRAP and TCP loan repayment	(33,742)	(10,438)	(2,286)	(222)
	5,236,905	6,712,799	2,224,887	5,995,997
INVESTING ACTIVITIES				
Capital assets	(110,505)	(54,042)	(65,451)	(56,274)
Rental assets	(249,697)	-	-	47,240
	(360,202)	(54,042)	(65,451)	(9,034)
CHANGE IN CASH AND CASH EQUIVALENTS	946,762	3,969,594	506,108	3,975,914
CASH AND CASH EQUIVALENTS - Beginning of the period	2,688,389	84,009	3,129,043	77,689
CASH AND CASH EQUIVALENTS - End of the period	\$ 3,635,151	\$ 4,053,603	\$ 3,635,151	\$ 4,053,603

Financial Statements

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 (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, 2006 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, 2006.

Effective January 1, 2007, the Company adopted the new recommendation of the Canadian Institute of Chartered Accountants (CICA) under CICA Handbook Section 1530 Comprehensive Income, Section 3251 Equity, Section 3855 Financial Instruments – Recognition and Measurement, and Section 3861 Financial Instruments – Disclosure and Presentation. These new Handbook sections, which apply to fiscal years beginning on or after January 1, 2007, provide requirements for the recognition and measurement of financial instruments. Section 1530 establishes standards for reporting and presenting comprehensive income, which is defined as the change in equity from transaction and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but are excluded from net income calculated in accordance with Canadian Generally Accepted Accounting Principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments are measured in the balance sheet either at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification, as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

The adoption of these new standards had no impact on the Company's accounts and deficit position as at January 1, 2007. As a result of the adoption of those 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 and notes payable are classified as other liabilities all of which are measured at amortized cost.

Carry value and fair value of financial assets and liabilities are summarized as follows:

	<u>Carrying Value</u>	<u>Fair Value</u>
Held for trading	\$ 3,919,651	\$ 3,919,651
Loans and receivables	396,902	396,902
Held-to-maturity	-	-
Available-for-sale	-	-
Other liabilities	<u>1,612,983</u>	<u>1,612,983</u>

NOTE 2 CAPITAL ASSETS

	Cost	Accumulated Amortization	Sept 30 2007	Dec 31 2006
Computers	\$ 325,235	\$ 184,482	\$ 140,753	\$ 102,936
Equipment	153,376	52,729	100,647	73,363
Leasehold Improvements	79,369	49,766	29,603	48,345
	<u>\$ 557,980</u>	<u>\$ 286,977</u>	<u>\$ 271,003</u>	<u>\$ 224,644</u>

Financial Statements

NOTE 3 RENTAL ASSETS

	Cost	Accumulated Amortization	Sept 30 2007	Dec 31 2006
Asset available for Lease	\$ 501,549	\$ -	\$ 501,549	\$ 457,633
Leased assets	601,441	148,932	452,509	311,063
	<u>\$ 1,102,990</u>	<u>\$ 148,932</u>	<u>\$ 954,058</u>	<u>\$ 768,696</u>

NOTE 4 INTANGIBLE ASSETS

	Sept 30 2007	Dec 31 2006
Licensing Agreement – indefinite life	<u>\$ 34,992</u>	<u>\$ 34,992</u>

NOTE 5 UNEARNED REVENUE

Balance December 31, 2006	\$ 385,574
Installation access fees	83,731
Earned revenues	(28,294)
Balance March 31, 2007	441,011
Installation access fees	123,100
Earned revenues	(39,373)
Balance June 30, 2007	524,738
Installation access fees	186,463
Earned revenues	(41,989)
Balance September 30, 2007	669,212
Less current portion	(150,483)
	<u>\$ 518,729</u>

NOTE 6 DEFERRED LEASEHOLD INDUCEMENTS

Balance December 31, 2006	\$ 29,655
Amortization	(3,421)
Balance March 31, 2007	26,234
Amortization	(3,422)
Balance June 30, 2007	22,812
Amortization	(3,422)
Balance September 30, 2007	19,390
Less current portion	(13,687)
	<u>\$ 5,703</u>

Financial Statements

NOTE 7 LOANS PAYABLE

	Sept 30 2007	Dec 31 2006
The industrial Research Assistance Program "IRAP" loan is non-interest bearing and is repaid annually, based on 1.11% of gross revenues, commencing October 2006. 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.	\$ 334,436	\$ 349,066
The Technology Partnerships Canada "TCP" loan is non-interest bearing. 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.	104,523	123,635
	438,959	472,701
Less: Current portion	(53,028)	(120,742)
	\$ 385,931	\$ 351,959

NOTE 8 OBLIGATION UNDER CAPITAL LEASE

The Company is party to various capital leases for computer hardware and software that expire in 2010. Future minimum lease payments under the capital leases are as follows:

2007	\$ 8,029
2008	29,400
2009	16,276
2010	4,003
	57,708
Less: imputed interest	(10,161)
Less: current portion	(23,725)
	\$ 23,822

Financial Statements

NOTE 9 SHARE CAPITAL

Authorized:
 Unlimited number of:
 Common shares
 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, 2006	58,488,823	\$	17,052,282
Issued for cash	6,519,467		2,929,180
Exercise of employee options	204,000		106,707
Exercise of warrants	4,419,599		2,486,232
Share subscription receivable			9,090
Share issue costs			(122,884)
			<hr/>
Balance September 30, 2007	69,631,889	\$	22,460,607

b) Stock Option Plan

	Number of Shares		Weighted Average Exercise Price
Outstanding December 31, 2006	2,426,995	\$	0.33
Options granted	989,000		0.66
Options exercised	(204,000)		0.30
Outstanding September 30, 2007	3,211,995	\$	0.44

c) Contributed Surplus

Balance December 31, 2007	\$ 1,379,322
Share based compensation	525,252
Finder fee warrants exercised	(70,993)
Employee share options exercised	(44,867)
Balance September 30, 2007	<hr/> \$ 1,788,714 <hr/>

d) Warrants

	Number of Warrants		Weighted Average Exercised Price
Balance December 31, 2006	17,136,016	\$	0.51
Warrants granted			
Warrants expired	(593,750)		(0.50)
Warrants exercised	(4,419,599)		(0.56)
Outstanding September 30, 2007	12,122,667	\$	0.49

The calculation of basic loss per share is based on the weighted-average number of common shares outstanding during the nine months ending September 30, 2007 of 62,264,940 (2006 – 40,598,304).

Financial Statements

NOTE 10 CONTINGENCIES

The Company is defending itself in actions instigated by the same plaintiff and the Company believes that, as the amount of liability is undermined 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. Subsequent to September 30, 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. Any amounts awarded as a result of these actions will be reflected in the year the amounts become reasonably estimable.

