

Company Summary

March 18, 2010

Aerocast Inc. (A : CNSX)

Current Price : \$0.185Coverage Initiated:
\$0.13 (December 8, 2009)

Highlights:

- competitive advantage with low labour rates, limited competition and high barriers to entry
- signed significant long-term agreements in mid-2009
- high-growth industry with demand significantly outstripping supply
- experienced management team

DISCUSSION:

Incorporated in February 2006, Aerocast operates a high-growth sand-casting foundry that produces complex aluminum and magnesium castings primarily for the aerospace industry. The company has a highly experienced senior management team with over 130 years of combined experience in the aerospace foundry industry. Aerocast's shares trade on the Canadian National Stock Exchange (CNSX) under the symbol "A" as well as on the Frankfurt Exchange under the symbol "OAE".



Despite its relatively recent entry into the industry, Aerocast's customers already include some of the world's largest aerospace contractors with the likes of Honeywell Aerospace, Hamilton Sundstrand, Sikorsky Aircraft and Shimadzu Precision Instruments. These contractors manufacture components such as automatic transmission units, fuel pumps, generator housings, and engines for aircraft manufacturers such as Airbus and Boeing.

Aerocast presently produces castings from its 20,000 sq ft foundry in Nogales, Mexico which has the potential to accommodate up to about 150 workers and can be expanded if necessary. Currently, there are only seven other aerospace sand-casting foundries in North America that are capable of producing the high-complexity castings made by Aerocast, of which only four are direct competitors. There are also high barriers of entry into the industry as independent certification is required. In 2008, Aerocast's quality system was certified based on the requirements of AS 9100 Rev B and ISO 9001:2000.

Unprecedented customer demand has resulted in industry-wide delays averaging 6 to 12 months for ordered castings. A report issued by the Aerospace Industries Association (AIA) entitled *2008 Year End Review and 2009 Forecast*, projects aerospace industry growth of 4.8% from 2008. The forecast states that U.S. aerospace industry sales are estimated at US\$204.4 billion, with an industry order backlog at a record US\$404.5 billion.



Aircraft components have limited life spans and once the limit is reached, the component must be replaced. Since Aerocast is the only low-cost source of high-end aerospace sand castings, demand is expected to increase for its castings in the replacement market along with increasing demand for new aircraft components. According to Airbus and Boeing, new aircraft sales over the next 20 years are forecasted to reach US\$2.8 to US\$3.2 trillion.



Since March 2008, Aerocast has received purchase orders for tooling equipment and castings totaling in excess of \$2.5 million. Furthermore, these fulfilled orders are expected to generate ongoing castings sales in excess of \$2 million annually. The company currently has over 25 different casting parts in production and Aerocast is working to increase its casting parts and quantities to satisfy customer demand.

In late 2008, Aerocast was added to Honeywell's list of approved suppliers for aerospace-quality casting parts. In April 2009, Aerocast entered into a long-term agreement with Hamilton Sundstrand to supply certain parts for a five year period. Furthermore, in July 2009, Aerocast entered into a multi-million dollar

agreement with Sikorsky Aircraft (a division of United Technologies Corporation) to furnish certain parts to Sikorsky for a ten year period. In August 2009, Aerocast received Nadcap (the National Aerospace and Defense Contractors Accreditation Program) certification for welding.

On October 20, 2009, Aerocast closed the initial portion of a \$0.20 per unit financing consisting of 4,505,453 units at \$0.20 per unit for gross proceeds of \$901,090. Each unit consists of one common share and one common share purchase warrant exercisable at \$0.20 per share for a two year period. In addition, Aerocast has recently settled debts totaling \$301,036 via the issuance of 1,505,180 shares at a deemed price of \$0.20 per share.



For the nine months ended December 31, 2009, Aerocast generated revenues of \$1.75 million, an increase of 112% over the same period in f2009. A little more than 50% of year-to-date revenues were generated in the third quarter. The stronger revenues can be attributed to a significant increase in the production and sale of castings as well as revenue recognition from the sale of tooling equipment.

The aerospace industry is currently growing at record rates and aerospace foundries such as Aerocast are facing unprecedented demand for their products and services. This is a very high margin, high quality, and high barrier to entry industry with an averaging casting using about \$5 worth of aluminum and selling for almost \$300. Because of its accessibility to lower labour rates, Aerocast focuses on labour intensive complex castings which can have especially high margins. Present industry demand is expected to lead to a continued increase in year-over-year sales for Aerocast which should lead to short-term positive cash flow and EBITDA as production thresholds are met.

FISCAL YEAR SUMMARY (Years ending March 31)

	f2007	f2008	f2009
Revenues	nil	\$ 10,330	\$ 1,437,777
Gross Profit	-	-	488,235
Cash Flow	(258,597)	(790,296)	(1,569,834)
Net Loss	(258,597)	(800,915)	(1,952,452)
per share	(\$ 0.03)	(\$ 0.13)	(\$ 0.08)

BALANCE SHEET

(As at December 31, 2009)

Current Assets	\$ 868,624
Total Assets	1,072,035
Current Liabilities	1,749,773
Long-Term Debt	nil
Shareholders' Deficiency	(677,738)

LATEST FINANCIAL RESULTS

	3 Months Ended Dec 31		9 Months Ended Dec 31	
	2009	2008	2009	2008
Revenues	\$ 885,837	\$ 802,131	\$ 1,746,429	\$ 821,531
Cost of Goods Sold	495,262	577,680	1,166,335	621,553
Gross Margin	390,575	224,451	580,094	199,978
Foundry Expenses	105,400	321,390	739,596	704,128
G&A Expenses	314,911	423,423	989,472	957,571
Net Loss	(34,853)	(520,362)	(1,156,029)	(1,461,721)
per share	(0.002)	(0.035)	(0.067)	(0.100)

SHARE STRUCTURE

(As at March 1, 2010)

Basic	22,059,602*
Options	3,270,000
Warrants	4,873,273
Fully-diluted	30,202,875

* officers and directors own approximately 23-25% of the basic shares issued and outstanding

MANAGEMENT & DIRECTORS:

Robert Jamieson, President

Raynard von Hahn, CEO

Robert Jamieson Jr., CFO

Kenneth Hromada, Executive Vice President

Ivan Lezaja, Quality Manager

Carol Ernst, Production Control Manager

Galen Luth, Tooling Manager

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